

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC JOINT APPLICATION OF)
LARUE COUNTY WATER DISTRICT NO.)
1 AND THE CITY OF NEW HAVEN FOR)
AN ORDER APPROVING THE TRANSFER)
OF OWNERSHIP OF THE CITY OF NEW)
HAVEN’S WATER SYSTEM AND) **CASE NO. 2022-00207**
APPROVING LARUE COUNTY WATER)
DISTRICT NO. 1’S ASSUMPTION OF)
CERTAIN DEBT OBLIGATIONS OF THE)
CITY OF NEW HAVEN PURSUANT TO)
THE PROVISIONS OF KRS 278.020, KRS)
278.300, AND 807 KAR 5:001)

JOINT APPLICATION

LaRue County Water District No. 1 (“LaRue District”) and the City of New Haven, Kentucky (the “City”) (collectively, the “Joint Applicants”), file this Petition, pursuant to KRS 278.020, KRS 278.300, 807 KAR 5:001, and all other applicable laws and regulations, and request the Kentucky Public Service Commission (the “Commission”) to enter an Order: (i) authorizing LaRue District to acquire the City’s Water System pursuant to the Asset Purchase Agreement (the “Agreement”); (ii) approving the Agreement between LaRue District and the City; and (iii) authorizing LaRue District to assume the City’s outstanding Rural Development (“RD”) debt obligations.

In support of the Joint Application, and in compliance with the rules and regulations of the Commission, the Joint Applicants state as follows:¹

GENERAL INFORMATION

1. The full name and post office address of LaRue District is: LaRue County Water District No. 1, 6215 North L&N Turnpike, Buffalo, Kentucky 42716. Its email address is tim@laruecountywater.com.
2. The full name and post office address of the City is: City of New Haven, Kentucky, 302 Center Street, P.O. Box 98, New Haven, Kentucky 40051. Its email address is joanienewhaven@roadrunner.com.
3. LaRue District is a water district organized pursuant to the provisions of KRS Chapter 74. LaRue District is also a governmental agency within the meaning of KRS 82.083(4)(a). LaRue District is now, and has been since its inception, regulated by the Commission. All records and proceedings of the Commission with reference to LaRue District are incorporated in this Joint Application by reference.
4. LaRue District is not a corporation, limited liability company, or

¹ To facilitate the Public Service Commission's initial review of this Joint Application, LaRue District has attached to this Joint Application two "Filings Requirements Lists," one regarding the proposed asset transfer from the City to LaRue District (**Exhibit 1**) and the other regarding LaRue District's assumption of the City's debt regarding its Water System (**Exhibit 2**). The Filings Requirements Lists set forth each relevant statutory and regulatory requirement and identifies the exhibit or paragraph of the Joint Application that satisfies the requirement. In the electronic version of this Joint Application, the listed exhibit or paragraph is linked to the page location or exhibit and can be immediately accessed and viewed by clicking on the listed page or exhibit number.

limited partnership. It has no articles of incorporation or partnership agreements.

5. The governing body of LaRue District is its Board of Commissioners. The Board of Commissioners is a public body corporate, with power to make contracts in furtherance of its lawful and proper purposes as provided in KRS 74.070 and all other applicable laws.

6. A general description of LaRue District's water system property, together with a statement of the original cost, is contained in LaRue District's Annual Report for 2021 which is on file with the Commission. The Annual Report is incorporated herein by reference.

7. The City is a duly organized and existing municipal corporation and a city of the home rule class of the Commonwealth of Kentucky.

8. The governing body of the City is its City Commission.

9. A general description of the City's water system assets is contained in paragraphs 2 and 4 of the Agreement.

10. Pursuant to 807 KAR 5:001, Section 4(8), copies of all orders, pleadings, and other communications related to this proceeding should be directed to:²

² On July 6, 2022, the Joint Applicants' Notice of Election of Use of Electronic Filing Procedures, pursuant to 807 KAR 5:001, Section 8, was filed on the Commission's website.

LaRue County Water District No. 1

Tim Bartley, General Manager
6215 North L&N Turnpike
Buffalo, Kentucky 42716
Phone: (270) 325-3242
Fax: (270) 325-3243
tim@laruecountywater.com

Damon R. Talley
Stoll Keenon Ogden PLLC
P.O. Box 150
Hodgenville, Kentucky 42748
Phone: (270) 358-3187
Fax: (270) 358-9560
damon.talley@skofirm.com

City of New Haven, Kentucky

Joanie Corbin, City Clerk
302 Center Street
P.O. Box 98
New Haven, Kentucky 40051
Phone: (502) 549-3177
Fax: (502) 549-1002
joanienewhaven@roadrunner.com

Kyle W. Williamson
The Law Offices of Kyle W. Williamson, PLLC
1380 Plouvier Road
Hodgenville, Kentucky 42748
Phone: (270) 734-0789
Fax: (270) 358-4011
kylewilliamson24@gmail.com

BACKGROUND

11. LaRue District currently owns and operates water distribution facilities (“LaRue District’s System”). It is engaged in the distribution and sale of water in LaRue County, and small portions of Nelson County, Kentucky. As of December 31, 2020, LaRue District provided retail water service to approximately 3,767 customers.³

12. As of December 31, 2021, LaRue District provided retail water service to approximately 3,784 customers.

13. The City currently owns and operates water distribution facilities (the “City’s Water System”) as well as wastewater collection and treatment facilities and is engaged in the distribution and sale of water in Nelson County, Kentucky. As of December 31, 2021, the City provided retail water service to approximately 591 customers in Nelson County, Kentucky.

14. LaRue District’s System is adjacent to the City’s Water System and surrounds it on three (3) sides.

15. A map depicting the respective service areas of LaRue District and the City is attached hereto and incorporated herein by reference as **Exhibit 3**.

16. Both LaRue District’s Board of Commissioners and the City Commission of New Haven have determined that combining and consolidating

³ Annual Report at 27.

the City's Water System with LaRue District's System will result in economies of scale, and it will enable LaRue District to manage, operate, and maintain the combined system in a more cost-effective manner.

17. On March 17, 2022, LaRue District and the City executed a Statement of Intent, pursuant to which LaRue District expressed its intent to acquire the City's Water System and the City expressed its intent to transfer and convey its Water System to LaRue District. A copy of the Statement of Intent is attached hereto and incorporated herein by reference as **Exhibit 4**.

18. On May 19, 2022, LaRue District and the City entered into an Asset Purchase Agreement (the "Agreement") whereby the City will transfer and convey certain water system assets to LaRue District in exchange for the assumption by LaRue District of certain debt obligations incurred by the City for the purpose of constructing extensions and improvements to the City's Water System and its wastewater system. A copy of the Agreement is attached hereto and incorporated herein by reference as **Exhibit 5**.

19. On May 9, 2022, LaRue District adopted Resolution No. 2022-05-01 authorizing the acquisition of the City's Water System and approving the Agreement. A copy of LaRue District's Resolution is attached hereto and incorporated herein by reference as **Exhibit 6**.

20. On May 19, 2022, the City enacted Ordinance No. 497, Series 2022, authorizing the transfer of its Water System to LaRue District and

approving the Agreement. A copy of the City's Ordinance is attached hereto and incorporated herein by reference as **Exhibit 7**.

21. Pursuant to the Commission's Order dated June 19, 2020, in Bluegrass Water Utility Operating Company (PSC Case No. 2020-00028), the Commission has jurisdiction to approve the proposed acquisition of the City's Water System by LaRue District.

22. Furthermore, LaRue District cannot assume the City's long-term debt obligations without Commission approval pursuant to KRS 278.300.

THE PROPOSED TRANSACTION

23. The Agreement provides that the City shall transfer and convey to LaRue District its Water System and related assets.⁴ The assets being transferred to LaRue District ("the City's Water System Assets") include, but are not limited to the following:

A. The 209,000 gallon water storage tank designated as the Indian Hills Tank, altitude valve, appurtenances, and the parcel of real estate on which the tank is located (See Deed Book 458, Page 330 and Deed Book 482, Page 247 of record in the Office of the Nelson County Clerk);

B. The 150,000 gallon water storage tank designated as

⁴ Asset Purchase Agreement ("Agreement") at 3-5, paragraph 2.

the Vittitow Tank, altitude valve, appurtenances, and the parcel of real estate on which the tank is located (See Deed Book 340, Page 418 of record in the Office of the Nelson County Clerk);

C. All other real estate easements and the improvements thereon, licenses, encroachment permits, rights-of-way, or other interests in real estate owned by the City and used in the operation of the City's Water System;

D. The City's entire Water System including, but not limited to, the following: all transmission mains, distribution lines, valves, meter vaults, meters, fire hydrants, flush hydrants, tap installations, fittings, spare parts, and all other tools, equipment, and inventory presently owned by the City and utilized in the operation of the City's Water System;

E. The Sensus Automated Meter Reading ("AMR") System and Equipment, which includes, but is not limited to, the following: one (1) laptop computer; two (2) radio receivers; two (2) antennas with coaxial cables; two (2) large cases for storage; and the AMR software system;

F. All maps, drawings, operating manuals, engineering reports and "As Built" plans pertaining to the City's Water System;

G. All business records pertaining to the City's Water

System, including, but not limited to, all customer records and customer agreements;

H. Any and all other tangible and intangible rights, permits, licenses or authorizations owned by the City and utilized in the operation of its Water System; and

I. Miscellaneous inventory of water meters, tools, equipment, and other miscellaneous items of personal property, if any, used specifically for the City's Water System.

24. The only asset excluded from the transfer⁵ is:

2017 Kubota 4WD M62 Tractor with loader and backhoe and with a Premium Curtis Cab (Serial # 50576).

25. As consideration for the transfer of the City's Water System Assets, LaRue District shall pay to the City at the time of closing the sum of **\$550,000**. This sum shall be paid in cash or by a combination of cash and assumption of certain debt obligations incurred by the City for the purpose of constructing extensions and improvements to its water system and wastewater system.⁶ These debt obligations are evidenced by two (2) different series of revenue bonds issued by the City, purchased by U.S.D.A., Rural Development ("RD"), and still held by RD (the "RD Bonds"). These RD Bonds are identified as the 1999A Bonds (RD Loan 92-02) and the 1999B Bonds (RD

⁵ Agreement at 6, paragraph 4.

⁶ Agreement at 5-6, paragraph 3.

Loan 92-4). Together, these RD Bonds have an outstanding principal balance of **\$209,900. Exhibit 8**, which is attached hereto and incorporated herein by reference, contains a description and amounts of the debt obligations LaRue District has agreed to assume. LaRue District is not assuming nor paying any of the City's other liabilities or debts, except for the RD Bonds listed in **Exhibit 8**.

26. LaRue District's current General Manager is intimately familiar with the condition of the City's Water System since he worked there for more than 30 years before he was hired by LaRue District in 2017.

FINANCIAL INFORMATION

27. LaRue District has the financial, technical, and managerial abilities to provide reasonable water service for the existing water customers of the City without placing a financial burden on those customers or LaRue District's existing customers or adversely affecting the quality of service presently afforded the existing customers of LaRue District or the City.

28. The financial schedules and other information necessary for the Financial Exhibit required by 807 KAR 5:001, Section 12, and the other information required by 807 KAR 5:001, Section 18, are contained in the 2021 Annual Report which is on file with the Commission. The Annual Report is incorporated herein by reference.

29. LaRue District had gross annual operating revenues of \$1,866,676

during the 2021 calendar year.⁷ Consequently, the provisions of 807 KAR 5:001, Section 12(1)(b) are applicable.

30. There have been no negative material changes to LaRue District's financial condition since the end of the twelve (12) month period contained in its most recent Annual Report on file with the Commission. There has been a positive change, however. On March 18, 2022, in Case No. 2021-00285, the Commission granted LaRue District an 8.13% rate adjustment. This rate adjustment will increase LaRue District's revenues by approximately \$141,234 per year.

31. Pursuant to KAR 5:001, Section 12, LaRue District hereby states as follows:

- A. **Section 12(2)(a) Stock Authorized:** None. LaRue District is a Water District. Therefore, this provision is not applicable;
- B. **Section 12(2)(b) Stock Issued & Outstanding:** None. LaRue District is a Water District. Therefore, this provision is not applicable;
- C. **Section 12(2)(c) Preferred Stock Preference:** None. LaRue District is a Water District. Therefore, this provision is not applicable;
- D. **Section 12(2)(d) Mortgages:** None. LaRue District does not have any mortgages or trust deeds in effect as of the date hereof;
- E. **Section 12(2)(e) Bonds:** A schedule setting forth all bonds which have been authorized and issued by LaRue District and

⁷ Annual Report at 27.

which are still outstanding is set forth as **Exhibit 9**. LaRue District is the public entity which issued these revenue bonds (the “Bonds”). The Bonds are all secured by a pledge of LaRue District’s water system revenues. The total amount of interest paid by LaRue District during the calendar year 2021 was \$170,747. **Exhibit 9** also itemizes the amount of interest paid on each separate Bond issue;

F. **Section 12(2)(f) Notes Outstanding:** LaRue District does not have any notes outstanding as of the date hereof;

G. **Section 12(2)(g) Other Indebtedness:** None;

H. **Section 12(2)(h) Dividends:** None. LaRue District is a Water District. Therefore, this provision is not applicable; and

I. **Section 12(2)(i) Income Statement & Balance Sheet:** LaRue District’s detailed Income Statement for the twelve (12) month period ending on December 31, 2021 and LaRue District’s Balance Sheet, as of December 31, 2021, are attached hereto and incorporated herein by reference as **Exhibits 10** and **11** respectively.

32. A copy of LaRue District's audited financial statements for the years ended December 31, 2020 and 2019 is attached hereto and incorporated herein by reference as **Exhibit 12**.

33. As a result of the proposed acquisition, LaRue District will incur an additional debt of only \$209,900. (see **Exhibit 8**). When the new debt is combined with LaRue District’s existing debt of \$4,703,334 (see **Exhibit 9**), it results in a combined debt of only \$4,913,234. **Exhibit 13**, which is attached hereto, displays LaRue District’s existing debt, the new debt it will be assuming from the City, the combined debt after the proposed acquisition, and the debt

per customer. LaRue District's debt per customer will only be \$1,123 following the acquisition. This is an exceptionally low debt per customer.

34. Pursuant to KAR 5:001, Section 18, LaRue District hereby states as follows:

- A. **Section 18(1)(b) Applicant's Property:** A general description of LaRue District's water system property, together with a statement of the original cost, is contained in LaRue District's Annual Report for 2021 which is on file with the Commission. The Annual Report is incorporated herein by reference.
- B. **Section 18(1)(c) Stock to be Issued:** None. LaRue District does not propose to issue any stock.
- C. **Section 18(1)(d) Use of Proceeds:** As further explained in paragraph 25 and set out in **Exhibit 8**, LaRue District proposes to assume the debt obligations incurred by the City for the purpose of constructing extensions and improvements to its water system and its wastewater system. All of the City's bonds being assumed by LaRue District will be used to acquire the City's Water System Assets. None of the bonds being assumed will be used for the construction, completion, extension, or improvement of facilities, the improvement of service, the maintenance of service, or the discharge or refunding of obligations.
- D. **Section 18(1)(e) Property to be Acquired:** LaRue District is acquiring the City's Water System Assets. A detailed description of the property being acquired is set forth in the Agreement (see paragraphs 2 and 4 of the Agreement). The book value of the property being acquired is \$616,843. A schedule itemizing the book value of each of the major components of the City's Water System Assets is set forth in **Exhibit 14**;
- E. **Section 18(1)(f):** This sub-section is not applicable because no portion of the bonds being assumed by LaRue District will be

used to discharge or refund the obligations of the City.

- F. **Section 18(1)(g) State Local Debt Officer Notification:** Attached as **Exhibit 15** is LaRue District's letter dated June 1, 2022, to the State Local Debt Officer. This letter, together with the attachments, constitute LaRue District's written notification to the State Local Debt Officer and compliance with KRS 65.117;
- G. **Section 18(2)(a) Financial Exhibit:** See paragraph 34 of this Joint Application for LaRue District's Financial Exhibit;
- H. **Section 18(2)(b) Trust Deeds or Mortgages:** None. LaRue District does not have any mortgages or trust deeds in effect as of the date hereof;
- I. **Section 18(2)(b) Bond Ordinance:** The City's 1999A and 1999B Bonds are the City's most recently issued bonds, which the City issued pursuant to its Bond Ordinance enacted on June 30, 1999. A copy of this Bond Ordinance is attached hereto and incorporated herein by reference as **Exhibit 16**. This Bond Ordinance supersedes, or incorporates by reference, all the City's prior Bond Authorizing Ordinances. Therefore, the 1999 Bond Ordinance is the only Bond Ordinance that needs to be filed with the Commission;
- J. **Section 18(2)(c) Map:** The Map, which is attached hereto and incorporated herein by reference as **Exhibit 17**, depicts the location of the major properties (e.g. water storage tanks) that LaRue District will be acquiring from the City; and
- K. **Section 18(2)(c) USOA Account Number:** This provision is not applicable because LaRue District is not proposing to construct any new facilities. **Exhibit 14** sets forth the book value of each of the major components of the City's Water System Assets which are being acquired by LaRue District.

35. LaRue District believes that the financial information submitted with this Joint Application is sufficient to enable the Commission to adequately,

effectively, and efficiently review this Joint Application.

36. No rate adjustment for LaRue District's existing customers will be necessary. The proposed acquisition will generate a substantial, positive cash flow, which will enable LaRue District to pay all operational and maintenance expenses incurred for the City's Water System, to make bond payments, and to set aside additional reserves.

RATES

37. LaRue District will be acquiring assets with a Book Value of \$616,843 (see **Exhibit 14**) while only paying \$550,000. This will strengthen LaRue District's Balance Sheet by over \$86,843.

38. No new employees will need to be hired by LaRue District to operate the City's Water Assets. Furthermore, LaRue District is not contractually obligated under the Agreement to hire any of the City's current employees.

39. The District employs a total of four (4) operators who hold valid water certification licenses issued by the Kentucky Board of Certification of Water System Operators. All four (4) are certified as Water Distribution System Operators. A list of the names, qualifications, and license numbers of LaRue District's Certified Water Operators is attached as **Exhibit 18** to this Joint Application.

40. Following the Closing, the rates to be charged by LaRue District to

all its water customers, including those currently served by the City, shall be the same. **Exhibit 19** sets forth the City’s current water rates. It should be noted that the City’s existing “Outside City” rates are substantially higher than its “Inside City” rates. Approximately one-third (1/3) of the City’s water customers live outside the City’s corporate limits and pay the higher water rates. Once the proposed acquisition is finalized, these “Outside City” customers will realize a very substantial decrease in their monthly water bills.

41. **Exhibit 20** sets forth LaRue District’s current rates, which the Commission approved by Order dated July 1, 2022 in Case No. 2022-00184.

42. The current water rates for each declining block tier of usage for the City and LaRue District are combined in a side-by-side comparison in **Exhibit 21**. The information in **Exhibit 21** was used to calculate a monthly water bill comparison for different usage amounts. This water bill comparison is depicted in **Exhibit 22**. All City customers who pay a minimum bill (2,000 gallons or less per month) will experience a **decrease** in rates once they become customers of LaRue District.

43. The “Outside City” customers who use 1,000 gallons or less per month will experience a **decrease of \$9.98 per month (35%)**. “Outside City” customers who use 1,500 gallons per month will see a **decrease of \$5.67 per month (20%)**. “Outside City” customers who use 2,000 gallons per month will experience a **decrease of \$1.36 per month (5%)**.

BENEFITS OF CONSOLIDATION

44. The public policy of the Commonwealth, as declared in KRS 224A.300(1) and KRS 74.361(1) and (10) is to encourage regionalization, consolidation, and merger of water utilities wherever feasible. LaRue District's proposed acquisition of the City's Water System is consistent with, and in furtherance of, this public policy.

45. Combining and consolidating the City's Water System with LaRue District's Water System will result in economies of scale and will allow the combined systems to be managed, operated, and maintained in a more cost-effective manner.

46. LaRue District, pursuant to KRS 74.100 and other applicable laws, is authorized to expand its existing water system by acquiring the City's Water System.

47. Both the New Haven City Commission and LaRue District's Board of Commissioners have determined that it is economically feasible, desirable, and beneficial and in the best interests of the City's customers, LaRue District's customers, and the general public for the proposed transfer of assets to take place.

48. LaRue District has the financial, technical, and managerial abilities to provide reasonable water service to the City's existing customers without causing a financial burden on LaRue District's existing customers or adversely

affecting the quality of service presently afforded the existing customers of LaRue District or the City.

49. The assumption of the City’s debt obligations will **not** be a burden on LaRue District’s existing customers. Following the acquisition, LaRue District will owe \$4,913,234 and will have 4,375 customers. This equates to a debt of \$1,123 per customer, which is an exceptionally low debt per customer. Currently, LaRue District has a debt of \$1,243 per customer.

50. The Table set forth below illustrates the favorable impact of the proposed acquisition on LaRue District’s existing customers.

Impact of Acquisition Upon Customers

	Before Acquisition	After Acquisition
Debt	\$ 4,703,334	\$ 4,913,234
Number of Customers	3,784	4,375
Amount of Debt Per Customer	\$ 1,243	\$ 1,123

51. LaRue District’s proposed acquisition of the City’s Water System will not adversely impact LaRue District’s ability to provide adequate, reasonable, and reliable service to its existing customers. Indeed, just the opposite is true. The proposed acquisition will enhance LaRue District’s financial strength.

52. The closing of the proposed acquisition of the City's Water System will take place when all requirements set forth in paragraph 17 of the Agreement have been satisfied. **The Joint Applicants have scheduled a Tentative Closing Date for December 15, 2022.**

53. No rate adjustment will be necessary for LaRue District's existing customers.

54. All the Exhibits which are attached hereto are hereby incorporated herein by reference.

WHEREFORE, the Joint Applicants respectfully request that the Commission take the following actions:

1. Place this Joint Application to issue securities by LaRue District at the head of the docket as provided by KRS 278.300(2);
2. Authorize LaRue District to acquire the City's Water System pursuant to the Asset Purchase Agreement;
3. Approve the Asset Purchase Agreement between LaRue District and the City;
4. Authorize LaRue District to assume the City's outstanding Rural Development ("RD") debt obligations; and
5. Grant LaRue District any and all other appropriate relief.

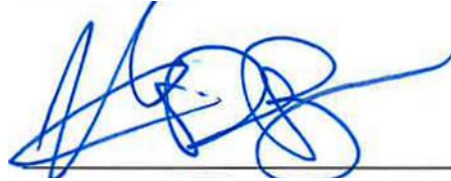
Dated: July 14, 2022

Respectfully submitted,



Damon R. Talley
Stoll Keenon Ogden PLLC
P.O. Box 150
Hodgenville, KY 42748-
0150 Telephone: (270) 358-
3187 Fax: (270) 358-9560
damon.talley@skofirm.com

*Counsel for LaRue County Water
District No. 1*



Kyle W. Williamson
Kyle W. Williamson, PLLC
1380 Plouvier Road
Hodgenville, Kentucky 42748
Phone: (270) 734-0789 Fax:
(270) 358-4011
kylewilliamson24@gmail.com

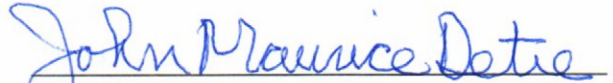
*Counsel for the City of New Haven,
Kentucky*

LARUE DISTRICT'S VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS
COUNTY OF LARUE)

The undersigned, John Maurice Detre, being duly sworn, deposes and states that he is the Chairman of LaRue County Water District No. 1, one of the Joint Applicants in the above proceeding; that he has read this Verified Joint Application and has noted its contents; that the same is true of his own knowledge, except as to those matters which are therein stated on information or belief, and as to those matters, he believes same to be true.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on this 13 day of July 2022.


John Maurice Detre, Chairman
LaRue County Water District No. 1

Subscribed and sworn to before me, a Notary Public in and for said County and State, by John Maurice Detre, in his capacity as Chairman of LaRue County Water District No. 1, on this 13 day of July 2022.


Notary Public, State at Large

Notary ID: KyWP 3493

My Commission expires: 2/24/2024

THE CITY'S VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS
COUNTY OF NELSON)

The undersigned, Tessie R. Cecil, being duly sworn, deposes and states that she is the Mayor of the City of New Haven, Kentucky, one of the Joint Applicants in the above proceeding; that she has read this Verified Joint Application and has noted its contents; that the same is true of her own knowledge, except as to those matters which are therein stated on information or belief, and as to those matters, she believes same to be true.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on this 14 day of July 2022.

Tessie R. Cecil
Tessie R. Cecil, Mayor
City of New Haven, Kentucky

Subscribed and sworn to before me, a Notary Public in and for said County and State, by Tessie R. Cecil, in her capacity as Mayor of the City of New Haven, Kentucky, on this 14 day of July 2022.

Christopher Kyle Bryan Christopher Kyle Bryan
Notary Public, State at Large

Notary ID: KYNP 23315

My Commission expires: 2-8-25

CHRISTOPHER KYLE BRYAN
NOTARY PUBLIC
STATE AT LARGE
KENTUCKY
ID# KYNP23315
MY COMMISSION EXPIRES FEBRUARY 8, 2025

CERTIFICATE OF SERVICE

In accordance with the Commission's Order of July 22, 2021 in Case No. 2020-00085 (Electronic Emergency Docket Related to the Novel Coronavirus COVID-19), this is to certify that the electronic filing has been transmitted to the Commission on July 14, 2022; and that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means.


Damon R. Talley

TABLE OF EXHIBITS

Exhibit No.	Description
1.	Filing Requirements Checklist – Transfer of Assets
2.	Filing Requirements Checklist – Assumption of Debt
3.	Map – City and LaRue District’s Service Areas
4.	Statement of Intent
5.	Asset Purchase Agreement
6.	Resolution of LaRue District Approving Asset Purchase Agreement
7.	Ordinance of City Approving Asset Purchase Agreement
8.	Schedule of City’s Water Revenue Bonds to be Assumed by LaRue District
9.	Schedule of LaRue District’s Outstanding Bonds
10.	Income Statement of LaRue District for Calendar Year Ending 12-31-21
11.	Balance Sheet of LaRue District for Calendar Year Ending 12-31-21
12.	Audit Report of LaRue District for Calendar Years Ending 12-31-20 and 12-31-19
13.	Total LaRue District Debt After Acquisition
14.	Book Value of Property Being Acquired Using USoA Account Numbers
15.	Notification to State Local Debt Officer

16. Ordinance of New Haven Authorizing Bonds
17. Map – City’s Assets
18. Schedule of Certified Operators
19. Schedule of City’s Water Rates
20. Schedule of LaRue District’s Current Water Rates
21. Schedule of City’s and LaRue District’s Current Water Rates
22. Bill Comparison Using City’s and LaRue District’s Current Water Rates

EXHIBIT 1

**FILING REQUIREMENTS LIST FOR AN APPLICATION FOR
AUTHORITY TO TRANSFER OWNERSHIP OR CONTROL**

Source Authority	Requirement	Location
807 KAR 5:001 § 14(1)	Applicant’s name, mailing address, and e-mail address	Page 2, Paras 1 and 2
807 KAR 5:001 § 14(1)	Statutory reference – KRS 278.020(5) or (6)	Page 1
807 KAR 5:001 § 4(3)	Signature of Applicant’s attorney	Page 20
807 KAR 5:001 § 4(3)	Name, address, telephone number, fax number, and e-mail address of Applicant’s attorney	Page 20
807 KAR 5:001 § 14(2)	If Applicant is corporation: State and date of incorporation, attestation of good standing in state of incorporation, statement regarding authorization to transact business in Kentucky	Page 2, Paras 3-5 Page 3, Paras 7-8 Not Applicable
807 KAR 5:001 § 14(3)	If Applicant is a limited liability company: State and date of organization, attestation of good standing in state of incorporation, statement regarding authorization to transact business in Kentucky	Page 2, Paras 3-5 Page 3, Paras 7-8 Not Applicable
807 KAR 5:001 § 14(4)	If the Applicant is a limited partnership: a certified copy of limited partnership agreement and all amendments or statement identifying prior Commission proceedings in which limited partnership agreement and all amendments filed	Page 2, Paras 3-5 Page 3, Paras 7-8 Not Applicable
Not required but recommended	Signed Purchase/Sale Agreement, or other writing memorializing the terms of transfer	Exhibit 5
KRS 278.020(5)	The names and qualifications of operating personnel, and any other evidence to show new owners have financial, technical, and managerial abilities to operate system, e.g. income tax records, financial statements, etc.	Page 10, Paras 26-28 Page 15, Para 39 Exhibits 10, 11, 12, 13, and 18
KRS 278.020(6)	Application verified by oath or affirmation.	Pages S-1 and S-2

EXHIBIT 2

**FILING REQUIREMENTS LIST FOR AN APPLICATION FOR
AUTHORITY TO ISSUE SECURITIES OR EVIDENCES OF INDEBTEDNESS**

Source Authority	Requirement	Location
807 KAR 5:001 § 14(1)	Applicant’s name, mailing address, and e-mail address	Page 2, Paras 1 and 2
807 KAR 5:001 § 14(1)	Statutory reference – KRS 278.300	Page 1
807 KAR 5:001 § 4(3)	Signature of Applicant’s attorney	Page 20
807 KAR 5:001 § 4(3)	Name, address, telephone number, fax number, and e-mail address of Applicant’s attorney	Page 20
807 KAR 5:001 § 14(2)	If Applicant is corporation: State and date of incorporation, attestation of good standing in state of incorporation, statement regarding authorization to transact business in Kentucky	Page 2, Paras 3-5 Page 3, Paras 7-8 Not Applicable
807 KAR 5:001 § 14(3)	If Applicant is a limited liability company: State and date of organization, attestation of good standing in state of incorporation, statement regarding authorization to transact business in Kentucky	Page 2, Paras 3-5 Page 3, Paras 7-8 Not Applicable
807 KAR 5:001 § 14(4)	If the Applicant is a limited partnership: a certified copy of limited partnership agreement and all amendments or statement identifying prior Commission proceedings in which limited partnership agreement and all amendments filed	Page 2, Paras 3-5 Page 3, Paras 7-8 Not Applicable
KRS 278.300(2)	Application is made under oath and signed on utility’s behalf by its president, or by a vice president, auditor, comptroller or other executive officer having knowledge of the matters set forth and duly designated by the utility	Pages S-1 and S-2
807 KAR 5:001 § 18(1)(a)	Information required by 807 KAR 5:001 §14	See above
807 KAR 5:001 § 18(1)(b)	Description of Applicant’s property and the field of its operation	Page 3, Paras 6 and 9 Exhibits 3 and 17

Source Authority	Requirement	Location
807 KAR 5:001 § 18(1)(b)	Statement of original cost of Applicant's property and the cost to the Applicant, if different	Page 3, Paras 6 and 9 Exhibit 14
807 KAR 5:001 § 18(1)(c)	Description of amount and kinds of stock to be issued	Page 13, Para 34(B) Not Applicable
807 KAR 5:001 § 18(1)(c)	Description of amount, terms and interest rate of bond or note	Page 12, Para 33 Exhibits 8, 9, 13
807 KAR 5:001 § 18(1)(c)	Description of how bond or note will be secured	Page 12, Para 33
807 KAR 5:001 § 18(1)(d)	Statement of how proceeds are to be used	Page 13, Para 34(C) Exhibit 8
807 KAR 5:001 § 18(1)(e)	If proceeds will be used to acquire, construct, improve, or extend property: a detailed description of property and all contracts	Page 13, Para 34(D) Exhibit 14
807 KAR 5:001, § 18(1)(f)	(If proceeds are to refund outstanding obligations) Statement of nature and description of obligation	Pages 13-14, Para 34(E) Not Applicable
807 KAR 5:001 § 18(1)(f)	(If proceeds are to refund outstanding obligations) Statement of par value of original obligations	Pages 13-14, Para 34(E) Not Applicable
807 KAR 5:001 § 18(1)(f)	(If proceeds are to refund outstanding obligations) Statement of the amount for which original obligation sold	Pages 13-14, Para 34(E) Not Applicable
807 KAR 5:001 § 18(1)(f)	(If proceeds are to refund outstanding obligations) Statement of associated expenses	Pages 13-14, Para 34(E) Not Applicable
807 KAR 5:001 § 18(1)(f)	(If proceeds are to refund outstanding obligations) Statement of the application of proceeds from the sale	Pages 13-14, Para 34(E) Not Applicable
807 KAR 5:001 § 18(1)(f)	(If proceeds are to refund outstanding notes) Time the original obligation held	Page 13-14, Para 34(E) Not Applicable

Source Authority	Requirement	Location
807 KAR 5:001 § 18(1)(f)	(If proceeds are to refund outstanding notes) Interest rate of original obligation	Pages 13-14, Para 34(E) Not Applicable
807 KAR 5:001 § 18(1)(f)	(If proceeds are to refund outstanding notes) Payee	Pages 13-14, Para 34(E) Not Applicable
807 KAR 5:001 § 18(1)(g)	Applicant’s written notification to state local debt officer regarding proposed issuance	Page 14, Para 34(F) Exhibit 15
807 KAR 5:001 § 18(2)(a) 807 KAR 5:001 § 12(1)	Financial Exhibit	Pages 11-12, Para 31
807 KAR 5:001 § 18(2)(a) 807 KAR 5:001 § 12(2)(a)-(c)	Financial Exhibit – Information regarding stock	Page 11, Paras 31(A) – 31(C) Not Applicable
807 KAR 5:001 § 18(2)(a) 807 KAR 5:001 § 12(2)(d)	Financial Exhibit – Description of mortgage	Page 11, Para 31(D)
807 KAR 5:001 § 18(2)(a) 807 KAR 5:001 § 12(2)(e)	Financial Exhibit – Description of bonds	Pages 11-12, Para 31(E) Exhibit 9
807 KAR 5:001 § 18(2)(a) 807 KAR 5:001 § 12(2)(f)	Financial Exhibit – Statement regarding outstanding notes	Page 12, Para 31(F)
807 KAR 5:001 § 18(2)(a) 807 KAR 5:001 § 12(2)(g)	Financial Exhibit – Statement regarding other indebtedness	Page 12, Para 31(G)
807 KAR 5:001 § 18(2)(a) 807 KAR 5:001 § 12(2)(h)	Financial Exhibit – Statement regarding dividends	Page 12, Para 31(H) Not Applicable
807 KAR 5:001 § 18(2)(a) 807 KAR 5:001 § 12(2)(i)	Financial Exhibit – Detailed income statement and balance sheet	Page 12, Para 31(I) Exhibits 10 and 11
807 KAR 5:001 § 18(2)(b)	Copies of trust deeds or mortgages	Page 14, Para 34(H) Not Applicable
807 KAR 5:001 § 18(2)(c)	If property acquired: maps and plans of property	Page 14, Para 34(J) Exhibit 17
807 KAR 5:001 § 18(2)(c)	If property acquired: detailed estimates by USOA account number	Page 14, Para 34(K) Exhibit 14

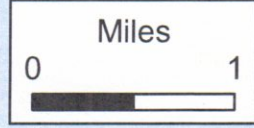
EXHIBIT 3

NEW HAVEN

Surrounding Water Systems

Lincoln Trail ADD with the cooperation of utilities.
Copyright 2022 LTADD

This map is created for general planning purposes ONLY. This map is not legally recorded, surveyed, or intended to be used for purposes other than for generalized planning. Nor does it show all aspects or features of this particular area which may have changed over the years. For questions contact us at (270) 769-2393.



Purchase Source Seller	Waterline >6"	Water Assessment Area
BARDSTOWN	BARDSTOWN	BARDSTOWN
LARUE CWD	LARUE CWD	LARUE CWD
NEW HAVEN	NEW HAVEN	NEW HAVEN
		MARION CWD

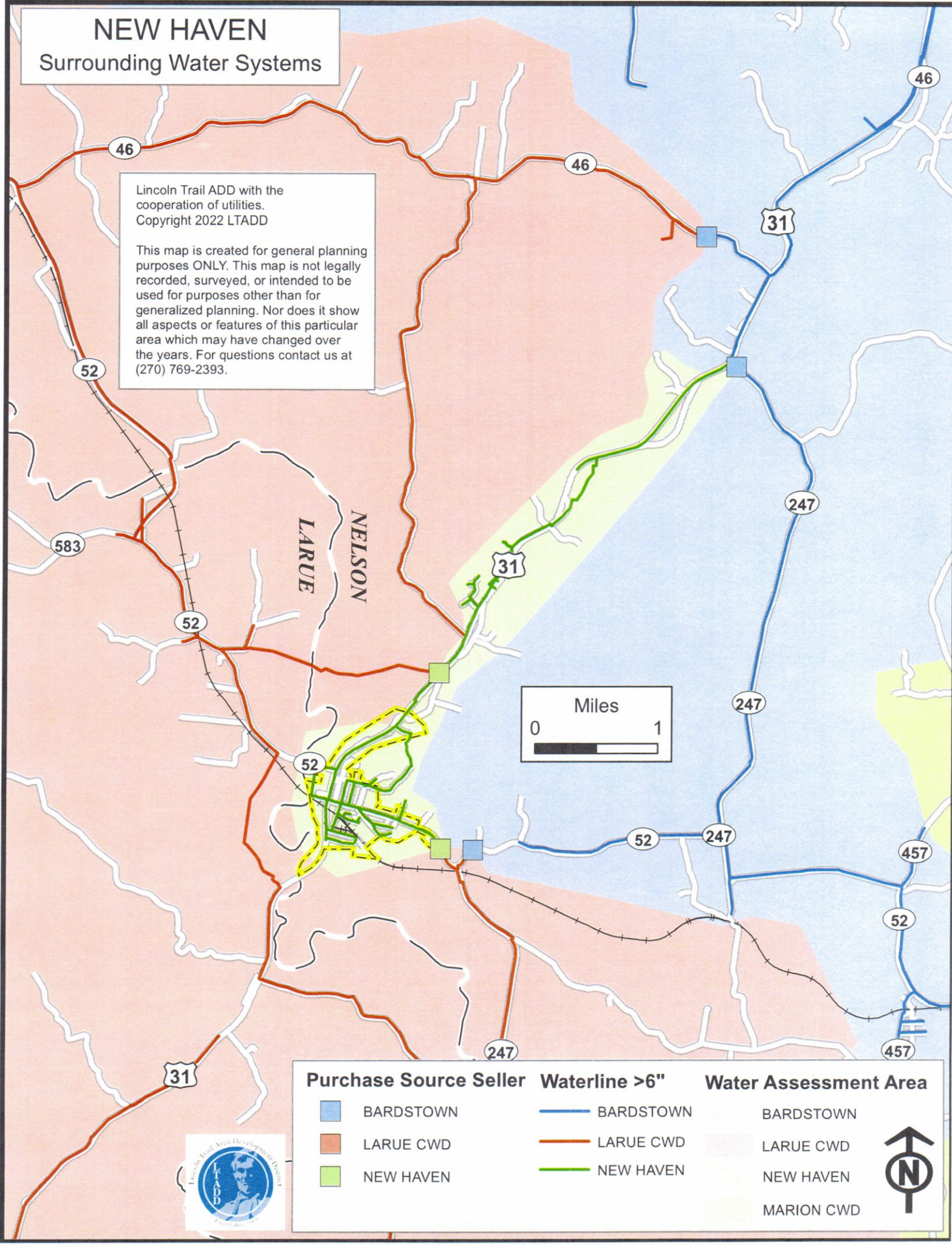


EXHIBIT 4

STATEMENT OF INTENT

This Statement of Intent, having an effective date of March 17, 2022, is made and entered into by and between the **CITY OF NEW HAVEN, KENTUCKY** (“New Haven”) and the **LARUE COUNTY WATER DISTRICT NO. 1** (the “District”) (collectively, the “Parties”):

WITNESSETH

WHEREAS, New Haven is a municipal corporation and a city of the home rule class of the Commonwealth of Kentucky;

WHEREAS, New Haven currently owns and operates water distribution facilities (the “New Haven Water System”) as well as wastewater collection and treatment facilities (the “New Haven Wastewater System”);

WHEREAS, the District is a water district organized under the provisions of KRS Chapter 74 and is also a governmental agency within the meaning of KRS 82.083(4)(a);

WHEREAS, the District currently owns and operates water distribution facilities (the “District’s System”);

WHEREAS, the District’s System is adjacent to the New Haven Water System;

WHEREAS, it appears that combining and consolidating the New Haven Water System with the District’s System will result in economies of scale.

Furthermore, it will enable the District to manage, operate, and maintain the combined system in a more cost-effective manner;

WHEREAS, it appears that the District has the financial, technical, and managerial abilities to provide adequate and reliable water service to New Haven's existing water customers without adversely affecting the quality of service presently afforded the District's existing customers;

WHEREAS, certain representatives of New Haven and certain representatives of the District have negotiated the preliminary terms of a Statement of Intent whereby New Haven expresses its intent to transfer and convey its Water System to the District and the District expresses its intent to acquire the New Haven Water System, subject to the approval and execution of the Statement of Intent by the governing bodies of New Haven and the District; and

WHEREAS, New Haven desires to state its intention to transfer and convey its Water System to the District, and the District desires to state its intention to acquire the New Haven Water System, subject to the terms, conditions, and provisions hereinafter set forth.

NOW, THEREFORE, FOR AND IN CONSIDERATION of the mutual benefits to be derived from combining and consolidating the New Haven Water System with the District's System, New Haven and the District state as follows:

1. **Agreement.** New Haven and the District formally declare and state their intent to negotiate the terms of, and enter into, an Asset Purchase Agreement (the “Agreement”). The Agreement will contain the detailed provisions for the transfer of the New Haven Water System and its related assets to the District.

2. **Transfer of Assets.** Subject to the terms and conditions of the Agreement, New Haven hereby states its intent to transfer and convey to the District and the District hereby states its intent to acquire from New Haven, the Water System owned and operated by New Haven. The New Haven Wastewater System will **not** be transferred to the District.

3. **Excluded Assets.** The Parties acknowledge and agree that some of the New Haven Water System assets will either not be needed by the District or are not deemed to be a critical Water System asset, and, therefore, will be retained by New Haven and excluded from the proposed transaction. These **excluded** assets are listed below:

2017 Kubota 4WD M62 Tractor with loader and backhoe and with a Premium Curtis Cab (Serial # 50576).

4. **Consideration.** As consideration for the transfer of the New Haven Water System and its related assets, the District states its intent to pay at the time of the closing the sum of **\$550,000**. This sum shall be paid in cash or by a combination of cash and assumption of certain debt obligations incurred by New Haven for the

purpose of constructing extensions and improvements to its Water System and its Wastewater System. These debt obligations are evidenced by two (2) different series of revenue bonds issued by New Haven, purchased by U.S.D.A., Rural Development (“RD”), and still held by RD (the “RD Bonds”). These RD Bonds are identified as the 1999A Bonds (RD Loan 92-02) and the 1999B Bonds (RD Loan 92-4). Together these RD Bonds have an approximate outstanding principal balance of \$209,900.

5. **Exclusive Negotiations.** New Haven and the District agree to engage in good faith negotiations exclusively with each other, and that neither New Haven nor the district shall engage in talks, discussions, communications, or the like with any other water utility or entity concerning the proposed transfer of the New Haven Water System.

6. **Cooperation.** New Haven and the District agree: (a) to cooperate and assist each other with engineering studies and any other evaluations of the New Haven Water System that the District may need to conduct, but such cooperation does not require any financial obligation by New Haven; (b) to facilitate and expedite negotiations which are intended to result in a mutually advantageous Agreement and the ultimate transfer of the New Haven Water System and its related assets to the District as contemplated by this Statement of Intent; (c) to exchange information; and (d) to promptly take all other necessary actions.

IN TESTIMONY WHEREOF, this Statement of Intent has been approved by the City Commission of New Haven and the Board of Commissioners of the District. It has been executed by the duly authorized officers of both parties.

CITY OF NEW HAVEN

By: Mayor Tessie R. Cecil
Tessie R. Cecil, Mayor

Date: March 17, 2022

Attest:

Joanie Corbin
Joanie Corbin, City Clerk

LARUE COUNTY WATER DISTRICT NO. 1

By: John Maurice Detre
John Maurice Detre, Chairman

Date: 3-14-22

Attest:

Pat Eastridge
Pat Eastridge, Secretary

EXHIBIT 5

ASSET PURCHASE AGREEMENT

BETWEEN

CITY OF NEW HAVEN,

KENTUCKY

AND

LARUE COUNTY WATER

DISTRICT NO. 1

May 19, 2022

TABLE OF CONTENTS

City of New Haven, Kentucky – Larue County Water District No. 1

1. TRANSFER OF CERTAIN ASSETS.....	3
2. ASSETS BEING TRANSFERRED	3
3. CONSIDERATION.....	5
4. EXCLUDED ASSETS.	6
5. LIABILITIES EXCLUDED.....	6
6. CUSTOMER DEPOSITS.....	6
7. EASEMENT.....	7
8. UNIFORM RATES	7
9. CONTINUED OPERATION OF SYSTEM.	7
10. PRE-PAID CONNECTIONS	8
11. REGULATORY AGENCY APPROVALS.....	8
12. SELLER’S REPRESENTATIONS AND WARRANTIES	8
13. BUYER’S REPRESENTATIONS AND WARRANTIES	14
14. CLOSING.....	15
15. ACCESS TO BOOKS.....	15
16. FINAL BILLING.	15
17. CLOSING REQUIREMENTS.....	16
18. CONVEYANCE AND TRANSFERS	17
19. DUE AT CLOSING	18
20. SURVIVAL OF REPRESENTATIONS AND WARRANTIES.....	21
21. RESPONSIBLE PARTIES	21
22. ENTIRE AGREEMENT.....	22

EXHIBIT 1 RD BONDS

EXHIBIT 2 CURRENT WATER RATES

EXHIBIT 3 WATER BILL COMPARISON

ASSET PURCHASE AGREEMENT

This is an Asset Purchase Agreement (“Agreement”), to be effective as of May 19, 2022, made and entered into by and between the **CITY OF NEW HAVEN, KENTUCKY**, a municipal corporation, 302 Center Street, New Haven, Kentucky 40051, hereinafter referred to as the “SELLER” and the **LARUE COUNTY WATER DISTRICT NO. 1**, 6215 North L&N Turnpike, Buffalo, KY 42716, hereinafter referred to as the “BUYER” (collectively, the “Parties”).

WITNESSETH

WHEREAS, the SELLER is a duly organized and existing municipal corporation and city of the home rule class of the Commonwealth of Kentucky;

WHEREAS, the SELLER currently owns and operates water distribution facilities (the “SELLER’s Water System”) as well as wastewater collection and treatment facilities (the “SELLER’s Wastewater System”);

WHEREAS, the BUYER is a water district organized under the provisions of KRS Chapter 74 and is also a governmental agency within the meaning of KRS 82.083(4)(a);

WHEREAS, the BUYER currently owns and operates water distribution facilities (the “BUYER’s Water System”);

WHEREAS, the BUYER’s Water System is adjacent to the SELLER’s Water System;

WHEREAS, it appears that combining and consolidating the SELLER’s Water System with the BUYER’s Water System will result in economies of scale and will enable the BUYER to manage, operate, and maintain the combined system in a more cost-effective manner;

WHEREAS, the BUYER has the financial, technical, and managerial abilities to provide adequate and reliable water service to the SELLER’s existing customers without adversely affecting the quality of service presently afforded the BUYER’s existing customers; and

WHEREAS, the SELLER desires to transfer and convey and the BUYER desires to acquire, subject to the terms, conditions, and provisions hereinafter set forth, the SELLER’s Water System.

NOW, THEREFORE, FOR AND IN CONSIDERATION of the mutual promises, covenants, and conditions contained herein, it is agreed by and between the Parties as follows:

1. **TRANSFER OF CERTAIN ASSETS.** Subject to the terms and conditions of this Agreement, the SELLER hereby agrees to transfer and convey to the BUYER and the BUYER hereby agrees to acquire from the SELLER those assets described in paragraph 2 of this Agreement for the consideration set forth in paragraph 3 of this Agreement.

2. **ASSETS BEING TRANSFERRED.** At the Closing, the SELLER shall transfer to the BUYER its Water System and related assets except for the excluded assets listed in paragraph 4 of this Agreement. The SELLER's Wastewater System shall **not** be transferred to the BUYER. The assets being transferred to the BUYER (the "Assets") include, but are not limited to, the following:

A. The 209,000 gallon water storage tank designated as the Indian Hills Tank, altitude valve, appurtenances, and the parcel of real estate on which the tank is located (See Deed Book 458, Page 330 and Deed Book 482, Page 247 of record in the Office of the Nelson County Clerk);

B. Easements or other means of ingress and egress to the Indian Hills Tank;

C. The 150,000 gallon water storage tank designated as the Vittitow Tank, altitude valve, appurtenances, and the parcel of real

estate on which the tank is located (See Deed Book 340, Page 418 of record in the Office of the Nelson County Clerk);

D. All other real estate easements and the improvements thereon, licenses, encroachment permits, rights-of-way, or other interests in real estate owned by the SELLER and used in the operation of the SELLER's Water System;

E. The SELLER's entire Water System including, but not limited to, the following: all transmission mains, distribution lines, valves, meter vaults, meters, fire hydrants, flush hydrants, tap installations, fittings, spare parts, and all other tools, equipment, and inventory presently owned by the SELLER and utilized in the operation of the SELLER's Water System;

F. The Sensus Automated Meter Reading ("AMR") System and Equipment, which includes, but is not limited to, the following: one (1) laptop computer; two (2) radio receivers; two (2) antennas with coaxial cables; two (2) large cases for storage; and the AMR software system;

G. All maps, drawings, operating manuals, engineering reports and "As Built" plans pertaining to the SELLER's Water

System;

H. All business records pertaining to the SELLER's Water System, including, but not limited to, all customer records and customer agreements;

I. Any and all other tangible and intangible rights, permits, licenses or authorizations owned by the SELLER and utilized in the operation of its Water System; and

J. Miscellaneous inventory of water meters, tools, equipment, and other miscellaneous items of personal property, if any, used specifically for the SELLER's Water System.

3. **CONSIDERATION.** As consideration for the transfer of the SELLER's Water System and related Assets, the BUYER shall pay to the SELLER at the time of the closing the sum of **\$550,000**. This sum shall be paid in cash or by a combination of cash and assumption of certain debt obligations incurred by the SELLER for the purpose of constructing extensions and improvements to its Water System and its Wastewater System. These debt obligations are evidenced by two (2) different series of revenue bonds issued by the SELLER, purchased by U.S.D.A., Rural Development ("RD"), and still held by RD (the "RD Bonds"). These RD Bonds are identified as the 1999A Bonds (RD Loan 92-02) and the 1999B Bonds

(RD Loan 92-4). Together these RD Bonds have an approximate outstanding principal balance of \$209,900, as depicted in **Exhibit 1**.

4. **EXCLUDED ASSETS.** The Parties acknowledge and agree that some of the SELLER's Water System assets will either not be needed by the BUYER or are not deemed to be a critical Water System asset, and, therefore, will be retained by the SELLER and excluded from the proposed transaction. These **excluded** assets are listed below:

2017 Kubota 4WD M62 Tractor with loader and backhoe and with a Premium Curtis Cab (Serial # 50576).

5. **LIABILITIES EXCLUDED.** The BUYER is not assuming nor paying Loan A-16-076 in the original principal amount of \$251,000 owed by the SELLER to the Kentucky Infrastructure Authority ("KIA"), which Loan has a current unpaid principal balance of \$172,043.48, nor any of the SELLER's other liabilities or debts, except for the RD Bonds listed in **Exhibit 1**.

6. **CUSTOMER DEPOSITS.** The SELLER represents that on April 18, 2022, it was holding customer deposits for its New Haven water customers in the amount of \$18,000.00. Prior to Closing, the SELLER shall furnish the BUYER a current list which shows the name, address, account number, and amount still on deposit for each New Haven water customer. At the Closing, the SELLER shall

transfer to the BUYER a sum of money equal to the principal amount of customer deposits attributable to the New Haven water customers held by the SELLER at the time of Closing plus any accrued, but unpaid, interest owed on the customer deposits. Thereafter, the BUYER shall be responsible for refunding customer deposits.

7. **EASEMENT.** At the Closing, the SELLER shall execute and deliver to the BUYER an easement granting the BUYER the right to repair, maintain, replace, and remove water pipelines, and related appurtenances under, across, along, and through city streets, roads, sidewalks, and other city property, including the right to cut or bore under said streets, roads, and sidewalks as directed by the SELLER; but subject to any and all of the SELLER's ordinances, rules, and regulations regarding obtaining permits before cutting or boring under streets and sidewalks.

8. **UNIFORM RATES.** Following the Closing, the rates to be charged by the BUYER to all its water customers, including those currently served by the SELLER, shall be the same. **Exhibit 2** sets forth both the SELLER's and the BUYER's current water rates.

9. **CONTINUED OPERATION OF SYSTEM.** Until the time of the Closing, the SELLER shall continue to operate and maintain its Water System in compliance with all applicable federal and state laws and regulations. Immediately following the Closing, the BUYER shall commence operating and maintaining the

Water System.

10. **PRE-PAID CONNECTIONS.** In the event the SELLER collects any water connection fees prior to the Closing but has not installed all the meters for which payment has been received (the “Pre-paid Connection Fees”), then at the Closing the SELLER shall transfer to the BUYER a sum of money equal to the amount of the Pre-paid Connection Fees.

11. **REGULATORY AGENCY APPROVALS.** The BUYER shall be responsible for the following: (a) obtaining all the necessary approvals from regulatory agencies, including the PSC and the Division of Water; (b) obtaining the transfer of all other necessary permits and licenses from the SELLER to the BUYER; and (c) taking other necessary actions to facilitate the transfer of the SELLER’s Water System to the BUYER. The BUYER shall initiate all the proceedings to obtain these necessary approvals and transfers. The SELLER pledges its full cooperation and assistance to expedite these matters and to ensure a smooth transition.

12. **SELLER’S REPRESENTATIONS AND WARRANTIES.** The SELLER represents and warrants to the BUYER as follows:

A. The SELLER is a duly organized and validly existing municipal corporation and city of the home rule class of the

Commonwealth of Kentucky. It has the requisite right, power, and authority: (1) to carry on its utility business as it is now being conducted; and (2) to own and operate its facilities which it currently owns and operates. The SELLER has, and at all relevant times has had, full power and authority to own its facilities, including the Assets, and to conduct its utility business.

B. The SELLER has full capacity, right, power, and authority to enter into, deliver, and perform this Agreement. This Agreement has been approved by its City Commission. All other consents, approvals, authorizations, or other requirements prescribed by law, rule, or regulation which must be obtained or satisfied by the SELLER and which are necessary in order for the SELLER to enter into and perform this Agreement have been satisfied. This Agreement has been duly executed and delivered by the SELLER and constitutes a legal, valid, and binding obligation, enforceable against the SELLER in accordance with its terms.

C. The execution, delivery, performance, and the consummation of the transactions contemplated in this Agreement do not and will not: (1) conflict with or result in a violation or breach of

any of the terms, conditions, or provisions of or constitute a default of any instrument, agreement, mortgage, judgment, order, writ, award, decree, or other restriction to which either the SELLER is a Party, or to which any of the SELLER's Assets are subject, or by which the SELLER is bound, or any statute or regulatory provision affecting the SELLER; (2) require the approval, consent, or authorization of any federal, state, or local court, governmental authority, or regulatory body or of any creditor of the SELLER or of any other person or entity, except for RD; nor (3) give any Party with rights under any instrument, agreement, mortgage, judgment, order, writ, award, decree, or other restriction the right to terminate, modify, or otherwise change the SELLER's rights or obligations thereunder.

D. The SELLER has complied with all existing laws, rules, regulations, ordinances, orders, judgments, and decrees now or hereafter applicable to the SELLER's Assets. The SELLER is not aware of any proposed laws, rules, regulations, ordinances, orders, judgments, decrees, governmental takings, condemnations, or other proceedings which would be applicable to the SELLER's Assets or which might adversely affect the SELLER's Assets either before or

after the date of this Agreement.

E. The SELLER has not received any notice or notification from any court or governmental agency, authority, or body that it is in violation of, or not in compliance with, any federal, state, or local law, statute, ordinance, rule, regulation, decree, order, or permit relating to its Water System or that upon the passage of time it will be in violation of any of the foregoing.

F. The SELLER is the true and lawful owner of the Assets and has good, marketable, and insurable title to all of the Assets. None of the Assets will, after Closing, be subject to any mortgage, pledge, lien, charge, security interest, encumbrance, restriction, lease, license, easement, liability, or adverse claim of any nature whatsoever, direct or indirect, whether accrued, absolute, contingent, or otherwise. All of the Assets are in good operating condition and repair and are suitable for the purposes used.

G. Upon execution and delivery of the necessary deeds, bills of sale, easements, assignments, and other instruments of transfer by the SELLER pursuant to this Agreement, the BUYER shall acquire good and valid title to the Assets, free and clear of all claims, liens,

security interests, agreements, restrictions, charges, and encumbrances of any nature whatsoever.

H. No other person or entity, except for the BUYER, now has, nor at any time prior to the Closing will have, the right to purchase, own, use, or sell any of the Assets.

I. The SELLER is not insolvent as of the date of this Agreement. The SELLER is able to meet all business obligations as they become due and will not be insolvent or unable to meet its business obligations as a result of completing the transactions described herein.

J. There is no claim, legal action, suit, arbitration, governmental investigation, or other legal or administrative proceeding, nor any order, decree, or judgment in progress, pending or in effect, or threatened, against or relating to the SELLER, its officers, commissioners, employees, or utility business, the Assets, or the transactions contemplated by this Agreement, and the SELLER neither knows nor has reason to be aware of any basis for the same.

K. Prior to the Closing, the SELLER shall not, without the BUYER's prior written approval, lower its rates or charges, institute any new methods of accounting or operation or engage in any

transaction or activity, nor shall the SELLER enter into any agreement or make any commitment with respect to its Water System, except in the ordinary course of business and consistent with past practice.

L. Prior to the Closing, the SELLER shall not permit any of the Assets to be subjected to a mortgage, pledge, lien, or encumbrance, without notice to, and approval of, the BUYER, and further shall not dispose of any of the Assets.

M. The SELLER shall maintain until the Closing the insurance policies presently in effect on the Assets.

N. The SELLER's current rates for water service are set forth in **Exhibit 2**.

O. The SELLER shall not perform any act or omit to perform any act or permit any act or omission that will cause a breach or default in this Agreement.

P. No representation or warranty by the SELLER in this Agreement, nor any statement or certificate furnished or to be furnished by it to the BUYER or its representatives in connection herewith or pursuant hereto, contains or will contain any untrue statement of material fact or will omit a statement of any material fact required to

make the statements herein or therein contained not misleading. The SELLER has disclosed to the BUYER in writing all material adverse facts known to it relating to the SELLER, its Water System, or the Assets. The SELLER is not aware of any circumstances or facts which could be detrimental to its Water System other than those disclosed to the BUYER in writing.

Q. All minute books, books and records, and other documents maintained by the SELLER with respect to the Assets are true, complete, and accurate.

R. All representations and warranties of the SELLER contained in this Agreement or in any certificate or other writing delivered pursuant hereto or in connection herewith shall be true as of the Closing as well as of the date of this Agreement.

13. BUYER'S REPRESENTATIONS AND WARRANTIES. The BUYER represents and warrants to the SELLER as follows:

A. That it is a duly organized and existing water district.

B. That the execution and delivery of this Agreement and the consummation of the transactions herein contemplated have been duly authorized by its Board of Commissioners.

C. That it has the financial, technical, and managerial abilities to provide reasonable water service to the SELLER's existing customers.

D. That its current rates for water service are set forth in **Exhibit 2**.

E. That a comparison of water bills for the SELLER's existing customers (both inside and outside City customers) and the BUYER's existing customers for various levels of water usage are shown in **Exhibit 3**.

14. **CLOSING.** The closing of this transaction (the "Closing") shall take place at a mutually convenient date, time, and place once all the Closing Requirements set forth in paragraph 17 of this Agreement are satisfied.

15. **ACCESS TO BOOKS.** Between the date of this Agreement and the Closing, the BUYER and its authorized representatives shall have the right to examine and to obtain copies of any and all pertinent books, plats, maps, plans, and records of the SELLER upon reasonable notice and at mutually convenient times.

16. **FINAL BILLING.** No later than two (2) weeks prior to the Closing, the SELLER shall provide the BUYER with a current list of all names, addresses, meter identification numbers, and account numbers of the SELLER's water

customers. At Closing, the SELLER shall also provide the BUYER with the last meter reading for each water customer. The SELLER shall bill all its customers for water services rendered prior to the Closing. The SELLER shall be entitled to all revenue derived from the final bill it sends its customers. The BUYER shall be entitled to all revenue derived from water services rendered on and after the date of the Closing.

17. **CLOSING REQUIREMENTS.** The obligations of the Parties are expressly conditioned on the following, each of which is a condition precedent to the validity and enforcement of this Agreement:

A. The representations and warranties of each of the Parties shall be true and correct as of the Closing, as though such representations and warranties were made at, and as of, the Closing.

B. Each of the Parties to this Agreement shall have performed and complied in all material respects with all of its respective obligations under this Agreement which are due to be performed or complied with by such Party prior to or at the Closing.

C. At and as of the Closing, no litigation, proceedings, investigations, or inquiries shall be pending or threatened by any person, firm, corporation, governmental agency, or governmental

official to enjoin or prevent the consummation of this transaction.

D. The PSC shall have entered a final order: (1) approving the transfer of the SELLER's Water System to the BUYER without the addition of any requirement or condition which the SELLER or the BUYER deems objectionable; and (2) authorizing the BUYER to assume payment of the RD Bonds of the SELLER as itemized in **Exhibit 1**.

E. RD shall have issued a Letter of Conditions authorizing the BUYER to assume payment of the RD Bonds of the SELLER as itemized in **Exhibit 1**.

F. The Nelson County Judge/Executive shall have entered an Order expanding the territorial boundaries of the BUYER to include all territory within the SELLER's corporate limits and its water service area outside its corporate limits.

18. **CONVEYANCE AND TRANSFERS.** The SELLER shall not convey, lease, or in any other way dispose of the Assets until the Closing. At the Closing, the SELLER shall execute and deliver to the BUYER such deeds, assignments, bills of sale, easements, and other instruments of transfer as are necessary or requested by the BUYER to vest the BUYER with good and

marketable, unencumbered title to the Assets, without the need for further approval or consent by any other person or entity.

19. DUE AT CLOSING.

A. DUE FROM SELLER TO BUYER: Unless the BUYER provides a written waiver of any item listed herein, the SELLER shall deliver to the BUYER at Closing the following:

- (1) General warranty deeds and an Assignment of Easements conveying SELLER's ownership interests in the real property described in paragraph 2 of this Agreement;
- (2) Such bills of sale, assignments, and other instruments of transfer, all dated as of the Closing Date, as shall be necessary or requested by the BUYER to vest the BUYER with good and marketable, unencumbered title to the Assets;
- (3) A schedule which contains a current listing of the name, address, account number, meter identification number, meter reading, and amount still on deposit for each water customer;
- (4) An easement granting the BUYER the right to repair, maintain, replace, and remove water pipelines and related appurtenances under, across, along and through city streets, roads, sidewalks, and other city property, including the right to cut or bore under said streets, roads, and sidewalks as directed by the SELLER; but subject to any and all of the SELLER's ordinances, rules, and regulations regarding obtaining permits before cutting or boring under streets and sidewalks;

- (5) Duly certified copy of the Ordinance of the City Commission authorizing the execution, delivery, and performance of this Agreement by the SELLER, which Ordinance shall be in full force and effect at, and as of, the Closing;
- (6) An opinion from the SELLER's counsel, dated as of the Closing Date and in a form satisfactory to the BUYER, as to the representations, warranties, and other matters set forth in paragraph 12 of this Agreement;
- (7) A certificate, signed by the Mayor of the SELLER and dated as of the Closing Date, representing and warranting to the BUYER (i) that the representations, warranties, and other matters set forth in paragraph 12 of this Agreement are true and correct as of the Closing, as though such representations and warranties were made at, and as of, the Closing, and (ii) that the Closing Requirements set forth in paragraph 17 of this Agreement have been fully satisfied;
- (8) All records for the water customers;
- (9) Possession of the Assets;
- (10) A certified or cashier's check for the amount of customer deposits due to be paid to the BUYER pursuant to paragraph 6 of this Agreement, plus any accrued, but unpaid, interest owed on the customer deposits, held by the SELLER;
- (11) A certified or cashier's check for the amount of any Pre-paid Connection Fees held by the SELLER;
- (12) A certified or cashier's check for the portion of the Bond Sinking Fund account due to be paid to the BUYER; and

- (13) Such other documents as may be necessary to effectuate the transactions contemplated by this Agreement.

B. DUE FROM BUYER TO SELLER: Unless the SELLER provides a written waiver of any item listed herein, the BUYER shall deliver to the SELLER at Closing the following:

- (1) Proof that the BUYER has assumed the RD Bonds described in paragraph 3 and set forth in **Exhibit 1** of this Agreement;
- (2) A certified or cashier's check for the difference between the amount of the purchase price (\$550,000.00) and the principal amount of the RD Bonds assumed or paid by the BUYER;
- (3) A certified copy of the BUYER's resolution approving this Agreement, authorizing the Chairman to execute and deliver this Agreement, and further authorizing the appropriate officials to take all actions necessary to consummate the transactions contemplated by this Agreement;
- (4) An opinion from Stoll Keenon Ogden, PLLC, special counsel to the BUYER, dated as of the Closing Date and in a form satisfactory to the SELLER, as to the representations, warranties, and other matters set forth in paragraph 13 of this Agreement; and
- (5) Such receipts as may be reasonably requested by the SELLER and such other documents as may be necessary to effectuate the transactions contemplated by this Agreement.

20. SURVIVAL OF REPRESENTATIONS AND WARRANTIES.

The representations, warranties, and agreements of the Parties contained in this Agreement, or in any certificate or other writing delivered pursuant hereto, shall survive the making of this Agreement and the Closing.

21. RESPONSIBLE PARTIES. The SELLER shall be solely responsible for any loss, claim, action, suit, proceeding, deficiency, or expense, including reasonable attorneys' fees, relating to or arising from or in connection with (a) any misrepresentation, breach of representation, warranty or obligation, covenant or agreement or default by the SELLER under this Agreement, including the exhibits, or any documents delivered to the BUYER in connection with this Agreement; (b) any claims of negligence or strict liability arising from the operation of the Water System prior to the Closing; and (c) all contingent liabilities relating to the SELLER, its Water System or the Assets with respect to any state of facts or occurrences existing at or prior to the Closing.

The BUYER shall be solely responsible for any loss, claim, action, suit, proceeding, deficiency, or expense, including reasonable attorneys' fees, relating to or arising from or in connection with (a) any misrepresentation, breach of representation, warranty or obligation, covenant or agreement or default by the BUYER under this Agreement, including the exhibits, or any documents delivered

to the SELLER in connection with this Agreement, and (b) any claims of negligence or strict liability arising from the operation of the Water System after the Closing.

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

[Signature Page to Follow]

IN TESTIMONY WHEREOF, this Agreement has been executed in multiple counterparts, each of which is deemed to be an original, by the duly authorized officers of the Parties, as of the effective date of this Agreement.

SELLER:

CITY OF NEW HAVEN, KENTUCKY

By: 
Tessie R. Cecil, Mayor

Date: May 19, 2022

Attest: 
Joanie Corbin, City Clerk

BUYER:

LARUE COUNTY WATER DISTRICT NO. 1

By: 
John Maurice Detre, Chairman

Date: 5-9-2022


Attest: 
Pat Eastridge, Secretary

EXHIBIT LIST

ASSET PURCHASE AGREEMENT BETWEEN CITY OF NEW HAVEN, KENTUCKY, AND LARUE COUNTY WATER DISTRICT NO. 1

1. Water Revenue Bonds Owed by the SELLER to Rural Development and to be Assumed by the BUYER
2. Current Water Rates
3. Water Bill Comparison

EXHIBIT 1

WATER REVENUE BONDS

OWED BY THE CITY OF NEW HAVEN TO RURAL DEVELOPMENT
AND TO BE ASSUMED BY THE LARUE COUNTY WATER DISTRICT NO. 1

	BOND ISSUE	RD LOAN NUMBER	ORIGINAL PRINCIPAL AMOUNT	MATURITY	INTEREST RATE	OUTSTANDING PRINCIPAL BALANCE
1	1999A	92-02	\$ 237,000	1-1-2040	5.125%	\$ 158,000
2	1999B	92-04	\$ 79,000	1-1-2040	4.750%	\$ 51,900
	NOTE: Outstanding Principal Balances as of April 1, 2022				TOTAL	\$ 209,900

EXHIBIT 2

CURRENT WATER RATES

Usage (Gallons)	New Haven		LaRue County Water District No. 1
	In City	Out of City	
0 to 1,000	\$ 25.62 Minimum Bill	\$ 27.06 Minimum Bill	\$ 18.57 Minimum Bill
1,001 to 2,000			\$ 8.60 per 1,000 gallons
2,001 to 5,000	\$ 6.73 per 1,000 gallons	\$ 7.45 per 1,000 gallons	\$ 8.60 per 1,000 gallons
5,001 to 10,000	\$ 5.90 per 1,000 gallons	\$ 7.03 per 1,000 gallons	\$ 7.68 per 1,000 gallons
Over 10,000	\$ 5.53 per 1,000 gallons	\$ 6.89 per 1,000 gallons	\$ 6.27 per 1,000 gallons

- Notes:
1. New Haven's minimum bill is for 2,000 gallons.
 2. LaRue County Water District No. 1's minimum bill is for 1,000 gallons.
 3. The current rates shown for LaRue County Water District No. 1 are the rates approved by the Kentucky Public Service Commission in Case No. 2021-00285 by Order dated March 18, 2022.

EXHIBIT 3

WATER BILL COMPARISON

Usage (Gallons)	New Haven		LaRue County
	In City	Out of City	Water District No. 1
1,000	\$ 25.62	\$ 27.06	\$ 18.57
1,500	\$ 25.62	\$ 27.06	\$ 22.87
2,000	\$ 25.62	\$ 27.06	\$ 27.17
2,500	\$ 28.99	\$ 30.79	\$ 31.47
3,000	\$ 32.35	\$ 34.51	\$ 35.77
4,000	\$ 39.08	\$ 41.96	\$ 44.37
5,000	\$ 45.81	\$ 49.41	\$ 52.97
6,000	\$ 51.71	\$ 56.44	\$ 60.65
10,000	\$ 75.31	\$ 84.56	\$ 91.37

Notes: 1. New Haven's minimum bill is for 2,000 gallons.

2. LaRue County Water District No. 1's minimum bill is for 1,000 gallons.

EXHIBIT 6

RESOLUTION 2022-05-01

RESOLUTION OF THE LARUE COUNTY WATER DISTRICT NO. 1 AUTHORIZING THE ACQUISITION OF THE CITY OF NEW HAVEN'S WATER SYSTEM; APPROVING THE ASSET PURCHASE AGREEMENT BETWEEN THE CITY OF NEW HAVEN, AS SELLER, AND THE LARUE COUNTY WATER DISTRICT NO. 1, AS BUYER; AND AUTHORIZING THE CHAIRMAN TO EXECUTE THE ASSET PURCHASE AGREEMENT AND OTHER DOCUMENTS NECESSARY TO CONSUMMATE THE ACQUISITION

WHEREAS, LaRue County Water District No. 1 (the "District") is a water district organized under the provisions of KRS Chapter 74 and is also a governmental agency within the meaning of KRS 82.083(4)(a);

WHEREAS, the District currently owns and operates water distribution facilities (the "District's System");

WHEREAS, the City of New Haven, Kentucky ("New Haven") is a municipal corporation and a city of the home rule class of the Commonwealth of Kentucky;

WHEREAS, New Haven currently owns and operates water distribution facilities (the "New Haven Water System") as well as wastewater collection and treatment facilities (the "New Haven Wastewater System");

WHEREAS, the District’s System is adjacent to the New Haven Water System;

WHEREAS, it appears that combining and consolidating the New Haven Water System with the District’s System will result in economies of scale. Furthermore, it will enable the District to manage, operate, and maintain the combined system in a more cost-effective manner;

WHEREAS, it appears that the District has the financial, technical, and managerial abilities to provide adequate and reliable water service to New Haven’s existing water customers without adversely affecting the quality of service presently afforded the District’s existing customers;

WHEREAS, the District has the authority, pursuant to KRS Chapters 74 and 106 and other applicable laws, to acquire the New Haven Water System;

WHEREAS, the District and New Haven have executed a Statement of Intent dated March 17, 2022 in which the District expresses its intent to acquire the New Haven Water System and New Haven expresses its intent to transfer and convey its Water System to the District;

WHEREAS, certain representatives of the District and certain representatives of New Haven have negotiated the detailed terms of an Asset Purchase Agreement (the “Agreement”) whereby New Haven will transfer and convey to the District and

the District will acquire from New Haven certain assets as set forth in the Agreement, subject to the approval and execution of the Agreement by the District, the approval and execution of the Agreement by New Haven, and the approval by the Kentucky Public Service Commission (the “PSC”); and

WHEREAS, the District desires to approve the Agreement.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF THE LARUE COUNTY WATER DISTRICT NO. 1 AS FOLLOWS:

Section 1. The facts, recitals, and statements contained in the foregoing preamble of this Resolution are true and correct and are hereby affirmed and incorporated as a part of this Resolution.

Section 2. It is hereby determined and declared to be in the public interest for the District to acquire the New Haven Water System. The Agreement, in substantially the form submitted to the District with such minor modifications as the Chairman may subsequently approve, as evidenced by his signature thereon, is hereby approved, and the Chairman is authorized and directed to execute the Agreement for and on behalf of the District.

Section 3. The Chairman is also hereby authorized and directed to file an application with the PSC: (a) requesting approval of the Agreement; and (b) requesting authorization for the District to assume certain Outstanding Water Bonds

and other debts associated with New Haven's Water System as more particularly described in the Agreement.

Section 4. The Chairman, General Manager, and all other appropriate officers, officials, employees, or representatives of the District are hereby authorized and directed to take any further actions and to execute and deliver all documents as may be reasonably necessary to effectuate the acquisition and consummation of the transactions contemplated by the Agreement.

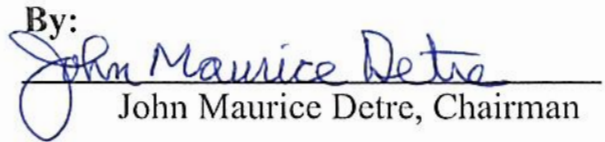
Section 5. Following the Closing of the New Haven Water System acquisition, the District shall incorporate the New Haven Water System assets into the District's System. Thereafter, the District shall operate such combined facilities as a combined and consolidated utility system.

Section 6. This Resolution shall take effect upon its adoption.

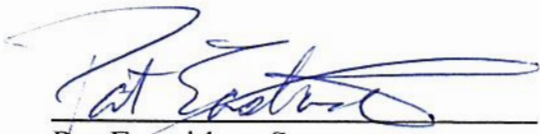
[Remainder of page intentionally left blank]

Adopted by the Board of Commissioners of LaRue County Water District No. 1 at a meeting held on May 9, 2022, signed by the Chairman, and attested by the Secretary.

LARUE COUNTY WATER
DISTRICT NO. 1

By: 
John Maurice Detre, Chairman

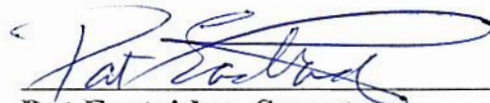
ATTEST:


Pat Eastridge, Secretary

CERTIFICATION

The undersigned Secretary of LaRue County Water District No. 1 (the "District") does hereby certify that the foregoing is a true copy of a Resolution duly adopted by the District's Board of Commissioners at a meeting properly held on May 9, 2022, signed by the Chairman of the Board of Commissioners, attested by the Secretary of the Board of Commissioners, and is now in full force and effect.

WITNESS my hand this 9th day of May 2021.



Pat Eastridge, Secretary

EXHIBIT 7

ORDINANCE NO. 497 SERIES 2022

AN ORDINANCE OF THE CITY OF NEW HAVEN, KENTUCKY AUTHORIZING THE TRANSFER OF ITS WATER SYSTEM TO THE LARUE COUNTY WATER DISTRICT NO. 1; APPROVING THE ASSET PURCHASE AGREEMENT BETWEEN THE CITY OF NEW HAVEN, AS SELLER, AND THE LARUE COUNTY WATER DISTRICT NO. 1, AS BUYER; AND AUTHORIZING THE MAYOR TO EXECUTE THE ASSET PURCHASE AGREEMENT AND OTHER DOCUMENTS NECESSARY TO CONSUMMATE THE TRANSFER

WHEREAS, the City of New Haven, Kentucky (“New Haven”) is a municipal corporation and a city of the home rule class of the Commonwealth of Kentucky;

WHEREAS, New Haven currently owns and operates water distribution facilities (the “New Haven Water System”) as well as wastewater collection and treatment facilities (the “New Haven Wastewater System”);

WHEREAS, LaRue County Water District No. 1 (the “District”) is a water district organized under the provisions of KRS Chapter 74 and is also a governmental agency within the meaning of KRS 82.083(4)(a);

WHEREAS, the District currently owns and operates water distribution facilities (the “District’s System”);

WHEREAS, the District's System is adjacent to the New Haven Water System;

WHEREAS, it appears that combining and consolidating the New Haven Water System with the District's System will result in economies of scale. Furthermore, it will enable the District to manage, operate, and maintain the combined system in a more cost-effective manner;

WHEREAS, it appears that the District has the financial, technical, and managerial abilities to provide reasonable water service to New Haven's existing customers without adversely affecting the quality of service presently afforded the District's existing customers;

WHEREAS, the District has the authority, pursuant to KRS Chapters 74 and 106 and other applicable laws, to acquire the New Haven Water System;

WHEREAS, New Haven has the authority, pursuant to KRS Chapters 82, 96, and 106 and other applicable law, to transfer the New Haven Water System to another governmental agency (i.e. the District);

WHEREAS, New Haven and the District have executed a Statement of Intent dated March 17, 2022 in which New Haven expresses its intent to transfer and convey its Water System to the District and the District expresses its intent to acquire the New Haven Water System;

WHEREAS, certain representatives of New Haven and certain representatives of the District have negotiated the detailed terms of an Asset Purchase Agreement (the “Agreement”) whereby New Haven will transfer and convey to the District and the District will acquire from New Haven certain assets as set forth in the Agreement, subject to the approval and execution of the Agreement by New Haven, the approval and execution of the Agreement by the District, and the approval by the Kentucky Public Service Commission (the “PSC”); and

WHEREAS, New Haven desires to approve the Agreement.

NOW, THEREFORE, THE CITY COMMISSION OF NEW HAVEN, KENTUCKY DOES HEREBY ORDAIN AS FOLLOWS:

Section 1. The facts, recitals and statements contained in the foregoing preamble of this Ordinance are true and correct and are hereby affirmed and incorporated as a part of this Ordinance.

Section 2. It is hereby determined and declared to be necessary, desirable, and in the public interest for the City of New Haven, Kentucky to transfer its Water System to the LaRue County Water District No. 1 pursuant to the terms, conditions, and provisions contained in the Agreement. The Agreement, in substantially the form submitted to the City Commission, with such modifications as the Mayor, upon advice of counsel, may subsequently approve, as evidenced by his signature thereon, is hereby approved, and the Mayor is authorized and directed to execute and deliver

the Agreement for and on behalf of the City of New Haven, Kentucky.

Section 3. The Mayor is also hereby authorized and directed to file an application with the PSC requesting approval of the Agreement.

Section 4. BE IT FURTHER ORDAINED that the Mayor of the City of New Haven, Kentucky and/or her designate be and she is authorized and directed to take all steps necessary to perfect this Ordinance.

Section 5. This Ordinance shall take effect forthwith upon its passage, approval, and publication as provided by law. This Ordinance may be published in summary.

[Rest of page intentionally left blank]

FIRST READING:

April 21, 2022

**SECOND READING,
ADOPTION & APPROVAL:**

May 19, 2022

CITY OF NEW HAVEN, KENTUCKY


TESSIE R. CECIL, MAYOR

ATTEST:


JOANIE CORBIN, CITY CLERK

EXHIBIT 8

WATER REVENUE BONDS

OWED BY THE CITY OF NEW HAVEN TO RURAL DEVELOPMENT AND
TO BE ASSUMED BY THE LARUE COUNTY WATER DISTRICT NO. 1

	BOND ISSUE	RD LOAN NUMBER	ORIGINAL PRINCIPAL AMOUNT	MATURITY	INTEREST RATE	OUTSTANDING PRINCIPAL BALANCE
1	1999A	92-02	\$ 237,000	1-1-2040	5.125%	\$ 158,000
2	1999B	92-04	\$ 79,000	1-1-2040	4.750%	\$ 51,900
	NOTE: Outstanding Principal Balances as of July 1, 2022				TOTAL	\$ 209,900

EXHIBIT 9

**LARUE COUNTY WATER DISTRICT NO. 1
EXISTING LONG TERM DEBT**

	DESCRIPTION OF DEBT	LENDING AGENCY	ORIGINAL PRINCIPAL AMOUNT	MATURITY	INTEREST RATE	OUTSTANDING PRINCIPAL BALANCE	
1	Series 2012 F Note	KRWFC	\$ 2,680,000	1-1-2040	2.925% to 3.925%	\$ 1,903,334	
2	Series 2020 Bond	RD	\$ 2,800,000	10-1-2060	1.750%	\$ 2,800,000	
	NOTE: Outstanding Principal Balances as of July 1, 2022					TOTAL	\$ 4,703,334

EXHIBIT 10

24000 Larue County Water District #1 01/01/2021 - 12/31/2021

Comparative Operating Statement (Ref Page: 11)

	Previous Year	Current Year
UTILITY OPERATING INCOME		
Operating Revenues (400)	\$1,652,900.00	\$1,866,676.00
Operating Expenses (401)	\$1,140,517.00	\$1,200,266.00
Depreciation Expenses (403)	\$396,507.00	\$402,618.00
Amortization of Utility Plant Acquisition Adjustment (406)		
Amortization Expense (407)		
Taxes Other Than Income (408.10-408.13)	\$27,561.00	\$28,996.00
Utility Operating Expenses	\$1,564,585.00	\$1,631,880.00
Utility Operating Income	\$88,315.00	\$234,796.00
Income From Utility Plant Leased to Others (413)		
Gains (Losses) from Disposition of Utility Property (414)		
Total Utility Operating Income	\$88,315.00	\$234,796.00
OTHER INCOME AND DEDUCTIONS		
Revenues From Merchandising, Jobbing and contract work (415)		
Costs and Expenses of Merchandising, Jobbing and Contract Work (416)		
Interest and Dividend Income (419)	\$26,109.00	\$9,352.00
Allowance for funds Used During Constructions (420)		
Nonutility Income (421)		
Miscellaneous Nonutility Expenses (426)		
Total Other Income and Deductions	\$26,109.00	\$9,352.00
TAXES APPLICABLE TO OTHER INCOME		
Taxes Other Than Income (408.20)		
Total Taxes Applic. to Other Income		
INTEREST EXPENSE		
Interest Expense (427)	\$87,791.00	\$170,747.00
Amortization of Debt Discount and Exp. (428)		
Amortization of Premium on Debt (429)		(\$811.00)
Total Interest Expense	\$87,791.00	\$169,936.00
EXTRAORDINARY ITEMS		
Extraordinary Income (433)		
Extraordinary Deductions (434)		

24000 Larue County Water District #1 01/01/2021 - 12/31/2021

Comparative Operating Statement (Ref Page: 11)

	Previous Year	Current Year
Total Extraordinary Items		
NET INCOME BEFORE CONTRIBUTIONS	\$26,633.00	\$74,212.00

EXHIBIT 11

24000 Larue County Water District #1 01/01/2021 - 12/31/2021

Balance Sheet - Assets and Other Debits (Ref Page: 7)

	Previous Year	Current Year
UTILITY PLANT		
Utility Plant (101-106)	\$16,287,388.00	\$18,366,077.00
Less: Accumulated Depreciation and Amortization (108-110)	\$7,408,952.00	\$7,811,571.00
Net Plant	\$8,878,436.00	\$10,554,506.00
Utility Plant Acquisition Adjustments (Net) (114-115)		
Other Utility Plant Adjustments (116)		
Total Net Utility Plant	\$8,878,436.00	\$10,554,506.00
OTHER PROPERTY AND INVESTMENTS		
Nonutility Property (121)		
Less: Accumulated Depreciation and Amortization (122)		
Net Nonutility Property		
Investment in Associated Companies (123)		
Utility and Other Investments (124-125)		\$1,625,842.00
Sinking Funds (126)		\$172,581.00
Other Special Funds (127)		\$162,482.00
Total Other Property and Investments		\$1,960,905.00
CURRENT AND ACCRUED ASSETS		
Cash (131)	\$2,074,926.00	\$429,969.00
Special Deposits (132)		
Other Special Deposits (133)		
Working Funds (134)		
Temporary Cash Investments (135)		
Accounts and Notes Receivable, Less Accumulated Provision for Uncollectible Accounts (141-144)	\$204,699.00	\$203,232.00
Accounts Receivable from Associated Companies (145)		
Notes Receivable from Associated Companies (146)		
Materials and Supplies (151-153)	\$12,440.00	\$20,741.00
Stores Expense (161)		
Prepayments (162)	\$38,258.00	\$32,276.00
Accrued Interest and Dividends Receivable (171)		
Rents Receivable (172)		
Accrued Utility Revenues (173)		

24000 Larue County Water District #1 01/01/2021 - 12/31/2021

Balance Sheet - Assets and Other Debits (Ref Page: 7)

	Previous Year	Current Year
Misc. Current and Accrued Assets (174)		
Total Current and Accrued Assets	\$2,330,323.00	\$686,218.00
DEFERRED DEBITS		
Unamortized Debt Discount and Expense (181)		
Extraordinary Property Losses (182)		
Preliminary Survey and Investigation Charges (183)		
Clearing Accounts (184)		
Temporary Facilities (185)		
Misc. Deferred Debits (186)	\$1,108,284.00	\$1,037,324.00
Research and Development Expenditure (187)		
Total Deffered Debits	\$1,108,284.00	\$1,037,324.00
TOTAL ASSETS AND OTHER DEBITS	\$12,317,043.00	\$14,238,953.00

24000 Larue County Water District #1 01/01/2021 - 12/31/2021

Balance Sheet - Equity Capital and Liabilities (Ref Page: 9)

	Previous Year	Current Year
EQUITY CAPITAL		
Appropriated Retained Earnings (214)		
Retained Earnings From Income before contributions (215.1)	(\$1,523,077.00)	(\$1,448,865.00)
Donated Capital (215.2)	\$9,381,586.00	\$9,461,749.00
Total Equity Capital	\$7,858,509.00	\$8,012,884.00
LONG-TERM DEBT		
Bonds (221)	\$219,000.00	\$2,800,000.00
Reaquired Bonds (222)		
Advances from Associated Companies (223)		
Other Long-Term Debt (224)	\$2,003,334.00	\$1,903,334.00
Total Long Term Debt	\$2,222,334.00	\$4,703,334.00
CURRENT AND ACCRUED LIABILITIES		
Accounts Payable (231)	\$248,222.00	\$250,662.00
Notes Payable (232)		
Accounts Payable to Associated Co. (233)		
Notes Payable to Associated Co (234)		
Customer Deposits (235)	\$146,932.00	\$154,401.00
Accrued Taxes (236)	\$6,415.00	\$15,662.00
Accrued Interest (237)	\$283.00	\$283.00
Matured Long-Term Debt (239)		
Matured Interest (240)		
Tax Collections Payable (241)		
Misc. Current and Accrued Liabilities (242)	\$58,227.00	\$55,222.00
Total Current and Accrued Liabilities	\$460,079.00	\$476,230.00
DEFFERRED CREDITS		
Unamortized Premium on Debt (251)	\$9,992.00	\$9,181.00
Advances for Construction (252)	\$657,845.00	
Other Deferred Credits (253)	\$1,108,284.00	\$1,037,324.00
Total Deferred Credits	\$1,776,121.00	\$1,046,505.00
OPERATING RESERVES		
Accumulated Provision For:		
Property Insurance (261)		

24000 Larue County Water District #1 01/01/2021 - 12/31/2021

Balance Sheet - Equity Capital and Liabilities (Ref Page: 9)

	Previous Year	Current Year
Injuries and Damages (262)		
Pensions and Benefits (263)		
Miscellaneous Operating Reserves (265)		
Total Operating Reserves		
Total Equity Capital and Liabilities	\$12,317,043.00	\$14,238,953.00

EXHIBIT 12

LARUE COUNTY WATER DISTRICT NO. 1

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL
STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2020 AND 2019

LARUE COUNTY WATER DISTRICT NO. 1

CONTENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>Pages</u>
Independent Auditor's Report	1-3
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion and Analysis	4-8
FINANCIAL STATEMENTS:	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Fund Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12-31
REQUIRED SUPPLEMENTARY INFORMATION:	
CERS Pension Schedules and Notes to Schedules	
Schedule of the District's Proportionate Share of the CERS Net Pension Liability	32
Schedule of the District's Proportionate Share of the CERS Net OPEB Liability	33
Schedule of Contributions to CERS Pension	34
Schedule of Contributions to CERS OPEB	35
Notes to Required Supplementary Information	36
SUPPLEMENTARY INFORMATION:	
Schedule I - Bond and Interest Requirements	37
Schedule II - General and Administrative Expenses	38
Schedule III - Organization Data	39
INTERNAL CONTROL AND FISCAL COMPLIANCE:	
Schedule of Expenditures of Federal Awards	40
Notes to the Schedule of Expenditures of Federal Awards	41
Schedule of Findings and Questioned Costs	42-44

LARUE COUNTY WATER DISTRICT NO. 1

CONTENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

Summary Schedule of Prior Year Audit Findings	45
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	46-47
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	48-49



HCA

Heartland CPAs and Advisors PLLC

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Larue County Water District No. 1
Buffalo, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Larue County Water District No. 1 as of and for the years ended December 31, 2020 and 2019, and the related notes to the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 respective financial position of Larue County Water District No. 1, as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Adoption of Accounting Standards

As discussed in Note 1 to the financial statements, during the year ended December 31, 2020, the District adopted Governmental Accounting Standards Board Statement 95, Postponement of the Effective Dates of Certain Authoritative Guidance. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 8, schedule of proportionate share of the net pension and OPEB liabilities on pages 32 and 33 and schedule of contributions on pages 34 and 35 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Larue County Water District No. 1's basic financial statements. Schedules I and II 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 the 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 required as part of the basic financial statements.

Schedules I and II, 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, Schedules I and II, 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.

Schedule III has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2021, on our consideration of Laure County Water District No. 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Larue County Water District No.1's internal control over financial reporting and compliance.

Heartland CPAs and Advisors PLLC

Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
March 26, 2021

**LARUE COUNTY WATER DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED DECEMBER 31, 2020**

The discussion and analysis of Larue County Water District's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2020. The intent of this discussion and analysis is to review the District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- The ending cash and investment balance for the District was \$2.07 million. The balance at December 31, 2019, was \$1.80 million. This reflects a \$.27 million increase in cash and investments during the year.
- The District invested approximately \$947 thousand in capital assets during the year.

USING THIS ANNUAL REPORT

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

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

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

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

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

ENTITY-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$7.86 million and \$7.78 million as of December 31, 2020 and 2020.

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

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

(Table 1)
Summary of Net Position
as of December 31, 2020 and 2019

	2020	2019
Assets		
Current and Other Assets	\$ 3,277,967	\$ 2,974,027
Capital Assets	8,878,436	8,333,865
Total Assets	<u>12,156,403</u>	<u>11,307,892</u>
Deferred Outflows of Resources	<u>151,712</u>	<u>151,712</u>
Liabilities		
Long-term Liabilities	2,890,170	2,336,720
Other Liabilities	1,372,185	1,067,096
Total Liabilities	<u>4,262,355</u>	<u>3,403,816</u>
Deferred Inflows of Resources	<u>196,179</u>	<u>279,771</u>
Net Position		
Net investment in capital assets	5,988,266	5,997,145
Restricted	1,496,910	1,258,824
Unrestricted	373,333	520,048
Total Net Position	<u>\$ 7,858,509</u>	<u>\$ 7,776,017</u>

Unrestricted net position, the portion of net position that can be used to finance day-to-day operations (without constraints established by debt covenants, enabling legislation or other legal requirements), decreased \$147 thousand at December 31, 2020. Restricted net position increased \$238 thousand. Net investment in capital assets decreased \$9 thousand.

(Table 2)
Changes in Net Position
Years Ending December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES:		
Water sales	\$ 1,641,676	\$ 1,510,679
Other operating income	11,224	29,855
TOTAL OPERATING REVENUES	<u>1,652,900</u>	<u>1,540,534</u>
OPERATING EXPENSES:		
Water purchased	469,310	425,409
Power purchased	27,299	28,882
Meter labor and expense	312,302	298,810
Bad debt	4,136	4,184
Repairs and maintenance	56,963	108,448
General and administrative expenses	298,068	306,539
Depreciation	396,507	384,291
TOTAL OPERATING EXPENSES	<u>1,564,585</u>	<u>1,556,563</u>
OPERATING LOSS	88,315	(16,029)
NON-OPERATING REVENUES (EXPENSES):		
Interest income	26,109	25,256
Interest expense on long-term debt	<u>(87,791)</u>	<u>(90,088)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(61,682)	(64,832)
CAPITAL CONTRIBUTIONS	<u>55,859</u>	<u>68,273</u>
CHANGE IN NET POSITION	82,492	(12,588)
NET POSITION, beginning of year	<u>7,776,017</u>	<u>7,788,605</u>
NET POSITION, end of year	<u>\$ 7,858,509</u>	<u>\$ 7,776,017</u>

Operating revenue increased 7.3% as compared to the prior year as new customers were added. Total operating expenses decreased less than .1%. Interest expense on long-term debt declined 2.5%. The District continues to receive capital contributions from customers.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2020 and 2019, the District had \$8.9 million and \$8.3 million invested in a variety of capital assets, as reflected in the following tables:

(Table 3)
Capital Assets (Net of Depreciation)
as of December 31, 2020 and 2019

	2020	2019
Non-Depreciable Assets:		
Land and land rights	\$ 301,361	\$ 300,861
Construction in progress	871,145	-
Depreciable Assets:		
Structures and improvements	77,490	88,217
Electric pumping equipment	106,170	119,306
Standpipes and tanks	1,581,200	1,636,702
Transmission and distribution mains	5,154,752	5,355,578
Services	264,631	292,258
Hydrants	80,148	82,414
Office furniture and fixtures	9,769	13,010
Transportation equipment	66,885	63,673
Tool and shop equipment	8,121	46
Meters & installation	356,764	381,800
Capital Assets, net of accumulated depreciation	<u>\$ 8,878,436</u>	<u>\$ 8,333,865</u>

(Table 4)
Changes in Capital Assets
Years Ended December 31, 2020 and 2019

	2020	2019
Beginning Balance	\$ 8,333,865	\$ 8,320,102
Additions	941,080	398,054
Retirements	-	-
Depreciation	(396,509)	(384,291)
Ending Balance	<u>\$ 8,878,436</u>	<u>\$ 8,333,865</u>

Debt

At December 31, 2020 and 2019, the District had \$219 thousand and \$223 thousand, in revenue bonds outstanding and \$2.0 million and \$2.1 million of notes payable. A total of \$103 thousand is due within the calendar year 2021. During the year ended December 31, 2020 the District received a grant for construction that will convert to permanent financing. As of year end \$657 thousand had been drawn on the loan.

(Table 5)
Outstanding Debt
as of December 31, 2020 and 2019

	2020	2019
Revenue bonds	\$ 219,000	\$ 223,000
Notes payable	2,003,334	2,102,917
Construction loan payable	657,845	-
Unamortized discount premium	9,991	10,803
Total	<u>\$ 2,890,170</u>	<u>\$ 2,336,720</u>

District Challenges for the Future

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

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

Contacting the District's Financial Management

This financial report is designed to provide our customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Tim Bartley, General Manager, 6215 North L&N Turnpike, Buffalo, Kentucky 42716, (270) 325-3242.

LARUE COUNTY WATER DISTRICT NO. 1STATEMENTS OF NET POSITIONDECEMBER 31, 2020 AND 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 360,214	\$ 325,644
Unrestricted investments	217,802	211,895
Accounts receivable, net	128,019	102,936
Unbilled receivables	76,680	62,007
Prepaid loan payment	14,532	14,532
Prepaid expenses	23,726	23,726
Materials and supplies	12,440	21,912
TOTAL CURRENT ASSETS	833,413	762,652
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	497,337	278,819
Restricted investments	999,573	980,005
Regulatory asset- CERS Pension	720,019	725,069
Regulatory asset- CERS OPEB	227,625	227,482
Non-depreciable capital assets	1,172,506	300,861
Depreciable capital assets, net of accumulated depreciation	7,705,930	8,033,004
TOTAL NONCURRENT ASSETS	11,322,990	10,545,240
TOTAL ASSETS	12,156,403	11,307,892
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
CERS Pension	74,461	103,586
CERS OPEB	86,179	48,126
TOTAL DEFERRED OUTFLOWS OF RESOURCES	160,640	151,712
<u>LIABILITIES</u>		
CURRENT LIABILITIES:		
Accounts payable	34,922	28,977
Construction costs payable	213,300	-
Payroll and other accrued liabilities	6,415	23,897
Accrued vacation	58,227	51,842
Accrued interest	284	284
Customer deposits	22,040	20,641
Note and bond payable	104,000	103,583
TOTAL CURRENT LIABILITIES	439,188	229,224
NONCURRENT LIABILITIES:		
Customer deposits	124,892	116,963
Net pension liability- CERS Pension	693,744	665,396
Net pension liability- CERS OPEB	218,361	159,096
Construction loan payable	657,845	-
Note and bond payable	2,128,325	2,233,137
TOTAL NONCURRENT LIABILITIES	3,823,167	3,174,592
TOTAL LIABILITIES	4,262,355	3,403,816
<u>DEFERRED INFLOWS OF RESOURCES</u>		
CERS Pension	100,736	163,259
CERS OPEB	95,443	116,512
TOTAL DEFERRED INFLOWS OF RESOURCES	196,179	279,771
<u>NET POSITION</u>		
Net investment in capital assets	5,988,266	5,997,145
Restricted net position	1,496,910	1,258,824
Unrestricted	373,333	520,048
TOTAL NET POSITION	\$ 7,858,509	\$ 7,776,017

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

LARUE COUNTY WATER DISTRICT NO. 1STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITIONYEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES:		
Water sales	\$ 1,641,676	\$ 1,510,679
Other operating income	11,224	29,855
	<u>1,652,900</u>	<u>1,540,534</u>
TOTAL OPERATING REVENUES	1,652,900	1,540,534
OPERATING EXPENSES:		
Water purchased	469,310	425,409
Power purchased	27,299	28,882
Meter labor and expense	312,302	298,810
Bad debt	4,136	4,184
Repairs and maintenance	56,963	108,448
General and administrative expenses	298,068	306,539
Depreciation	396,507	384,291
	<u>1,564,585</u>	<u>1,556,563</u>
TOTAL OPERATING EXPENSES	1,564,585	1,556,563
OPERATING INCOME (LOSS)	88,315	(16,029)
NON-OPERATING REVENUES (EXPENSES):		
Interest income	26,109	25,256
Interest expense on long-term debt	(87,791)	(90,088)
	<u>(61,682)</u>	<u>(64,832)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(61,682)	(64,832)
CAPITAL CONTRIBUTIONS	<u>55,859</u>	<u>68,273</u>
CHANGE IN NET POSITION	82,492	(12,588)
NET POSITION, beginning of year	<u>7,776,017</u>	<u>7,788,605</u>
NET POSITION, end of year	<u>\$ 7,858,509</u>	<u>\$ 7,776,017</u>

The accompanying notes are integral part of these financial statements.

LARUE COUNTY WATER DISTRICT NO. 1STATEMENTS OF CASH FLOWSYEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,613,144	\$ 1,537,736
Payments to suppliers	(827,500)	(734,253)
Payments to employees	(322,344)	(410,303)
	<u>463,300</u>	<u>393,180</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on debt	(103,583)	(98,583)
Acquisition and construction of capital assets	(971,954)	(398,054)
Capital contributions	55,859	15,352
Capital grant	657,845	-
Construction costs payable	213,300	-
Interest on long-term debt	(87,791)	(90,088)
	<u>(236,324)</u>	<u>(571,373)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income	26,112	25,256
	<u>26,112</u>	<u>25,256</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	253,088	(152,937)
CASH AND RESTRICTED CASH AND EQUIVALENTS, beginning of year	604,463	757,400
CASH AND RESTRICTED CASH AND EQUIVALENTS, end of year	<u>\$ 857,551</u>	<u>\$ 604,463</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ 88,315	\$ (16,029)
Adjustments to reconcile net operating loss to net cash provided by operating activities:		
Depreciation	396,507	384,291
Provision for bad debts	4,136	4,181
(Decrease) in accounts receivable	(25,083)	(2,798)
Increase in unbilled receivables	(14,673)	(6,213)
(Decrease) in prepaid insurance	-	(6,219)
(Decrease) in materials and supplies	9,472	17,965
Increase in accounts payable	5,945	-
Increase in customer deposits	9,328	7,637
Increase (decrease) increase in accrued taxes payable	(17,482)	2,754
Increase in accrued vacation	6,835	7,611
	<u>463,300</u>	<u>393,180</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 463,300</u>	<u>\$ 393,180</u>

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

NOTES TO FINANCIAL STATEMENTS

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brief history - The Larue County Water District No. 1 was organized pursuant to the provisions of Kentucky Revised Statutes KRS 74.010 and KRS 44.020 in order to provide a water supply for the residents of Larue County, Kentucky.

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements set forth by the National Association of Regulatory Utility Commissioners and the guidance provided by the American Water Works Association in *Water Utility Accounting* and is regulated by the Kentucky Public Service Commission. The more significant accounting policies established in GAAP and used by the District are discussed below.

A. REPORTING ENTITY

These financial statements present the District's financial activities. As defined by GASB No. 14, *The Financial Reporting Entity*, as amended by GASB No. 39, *Determining Whether Certain Organizations Are Component Units* the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, the District does not include any component units in its reporting entity.

B. BASIC FINANCIAL STATEMENTS

All activities of the District are accounted for within a single proprietary (enterprise) fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The GAAP applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

C. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The proprietary fund financial statements are presented on the accrual basis of accounting. Nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. FINANCIAL STATEMENT AMOUNTS

1. Accounts Receivable - The allowance method is used to record uncollectible accounts. At December 31, 2020 and 2019, accounts receivable was stated net of an allowance for uncollectible accounts of \$10,500 and \$10,500. Bad debt expense for each of the years ended December 31, 2020 and 2019 was \$4,136 and \$4,184. The District does not believe there is any credit risk associated with these receivables due to the large customer base and small individual account balances.
2. Materials and Supplies – Materials and supplies are composed of items used for the construction of capital projects.
3. Restricted Assets – Restricted assets consist of demand deposit savings accounts and certificates of deposit plus accrued interest.
4. Capital assets – Capital assets in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if available, or at engineers' estimated fair market value or cost to construct at the date of the contribution. Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred. The District does not have a capitalization policy.

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

	<u>Years</u>
Source of supply equipment	15-50
Water treatment plant	10-40
Transmission and distribution systems	10-50
Equipment	3-20
Structures and improvements, including buildings	10-50
Office furniture, equipment and vehicles	3-20
Meters and installation	10-30

5. Amortization – Bond discounts and premiums are being amortized using the straight-line method over the life of each respective bond issue.
6. Cash Equivalents – For purposes of the statements of cash flows, the District considers all highly liquid debt instruments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.
7. Compensation for Future Absences – Accumulated vacation to be paid to employees is recorded as an expense as the benefit is used and a liability as the benefit is earned.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Claims and Judgments – These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.
9. Revenues and Rate Structure – Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.
10. Capital Contributions – Contributions are recognized in the Statements of Revenues, Expenses and Changes in Fund Net Position when earned. Contributions include capacity fees, capital grants, and other supplemental support by other utilities and industrial customers and federal, state and local grants in support of system improvements.
11. Long-term obligations are reported at face value, net of applicable premiums and discounts.
12. Defining Operating Revenues and Expenses – The District distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.
13. Use of Restricted Resources – When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is first apply the expense toward restricted resources and then toward unrestricted resources.
14. Net Position – Net position is divided into three components:
 - a. Net investment in capital assets – consists of the historical cost of capital assets less accumulated depreciated and less any debt that remains outstanding that was used to finance those assets.
 - b. Restricted net position – consists of assets that are restricted by the District's creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.
 - c. Unrestricted – all other net position is reported in this category.
15. Use of 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 reported amounts of assets, deferred outflows, liabilities, deferred inflows, designated net position, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16. Pensions and OPEB – For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS except that CERS's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The District's rates are regulated by the Kentucky Public Service Commission. In accordance with GASB Statement No. 62, Paragraphs 476-500, Regulated Operations, which requires that the effects of the rate-making process be recorded in the financial statements, the District has elected to record a regulatory asset for the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions. Accordingly, the District recognizes the actuarially determined contribution as the current year pension and OPEB expense.

17. Impact Of Recently Issued Accounting Principles

Recently Issued And Adopted Accounting Principles

In May 2020, the GASB issued Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This statement was effective upon issuance. For the postponement dates, see individual standard descriptions below.

Recently Issued Accounting Pronouncements

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. This statement was effective for periods beginning after December 15, 2018, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2017, the GASB issued Statement 87, *Leases*. This statement is effective for periods beginning after December 15, 2019, but was delayed by eighteen months with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2018, the GASB issued Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement is effective for periods beginning after December 15, 2019, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. This statement is effective for periods beginning after December 15, 2018, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In May 2019, the GASB issued Statement 91, *Conduit Debt Obligations*. This statement is effective for periods beginning after December 15, 2020, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2020, the GASB Issued Statement 92, *Omnibus 2020*. This statement is effective for periods beginning after June 15, 2020, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2020, the GASB issued Statement 93, *Replacement of Interbank Offered Rates*. This statement is effective, except for paragraphs 11b, 13, and 14 for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021. These dates were delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2020, the GASB issued Statement 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This statement is effective for periods beginning after June 15, 2022. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2020, the GASB issued Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans— an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The requirements in (1) paragraph 4 of the Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of the Statement are effective immediately. The requirements in paragraphs 6–9 of the Statement are effective for fiscal years beginning after June 15, 2021. All other requirements of the Statement are effective for reporting periods beginning after June 15, 2021. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 2 – DEPOSITS

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned or that the District will not be able to recover collateral securities in the possession of an outside party. As of December 31, 2020 and 2019, \$1,135,429 and \$842,101 of the District's bank balance of \$2,117,875 and \$1,830,902 was exposed to custodial credit risk. At December 31, 2020 and 2019, \$0- and \$228,298 of the amount exposed to custodial risk were not collateralized.

NOTE 3 – RESTRICTED CASH AND CASH EQUIVALENTS AND INVESTMENTS

The District has restricted cash and certificates of deposit for debt service and construction. The following schedule represents restricted cash at December 31, 2020 and 2019:

Restricted For	December 31, 2020	December 31, 2019
Debt Service	\$ 156,194	\$ 135,123
Reserve & Depreciation	1,340,716	1,123,701
	\$ 1,496,910	\$ 1,258,824

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 4 – CAPITAL ASSETS

Capital assets are recorded at cost. Capital asset costs and accumulated depreciation at December 31, 2020, is summarized as follows:

	Balance 12/31/2019	Additions	Retirements	Balance 12/31/2020
Non-Depreciable Assets:				
Land and land rights	\$ 300,861	\$ 500	\$ -	\$ 301,361
Construction in progress	-	871,145	-	871,145
Total Non-Depreciable assets	300,861	871,645	-	1,172,506
Depreciable Assets:				
Total capital assets being depreciated	15,045,447	69,435	-	15,114,882
Total accumulated depreciation	(7,012,443)	(396,509)	-	(7,408,952)
Total capital assets being depreciated, net	8,033,004	(327,074)	-	7,705,930
Capital assets, net	<u>\$ 8,333,865</u>	<u>\$ 544,571</u>	<u>\$ -</u>	<u>\$ 8,878,436</u>

Capital assets are recorded at cost. Capital asset costs and accumulated depreciation at December 31, 2019, is summarized as follows:

	Balance 12/31/2018	Additions	Retirements	Balance 12/31/2019
Non-Depreciable Assets:				
Land and land rights	\$ 66,580	\$ 234,281	\$ -	\$ 300,861
Depreciable Assets:				
Total capital assets being depreciated	14,881,674	163,773	-	15,045,447
Total accumulated depreciation	(6,628,152)	(384,291)	-	(7,012,443)
Total capital assets being depreciated, net	8,253,522	(220,518)	-	8,033,004
Capital assets, net	<u>\$ 8,320,102</u>	<u>\$ 13,763</u>	<u>\$ -</u>	<u>\$ 8,333,865</u>

During the years ended December 31, 2020 and 2019, the District capitalized \$-0- and \$-0- of interest.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 5 – LONG-TERM OBLIGATIONS

The construction cost of the District's water facilities have been financed by issuance of revenue bonds and notes payable authorized under Kentucky Revised Statutes. All assets of the District are pledged as collateral for these bonds. Bond maturities and Sinking Fund requirements in each of the next five years and in subsequent five year increments are as follows:

Year	Note and Bond Payable		Sinking Fund Requirements
	Principal	Interest	
2021	104,000	83,685	187,685
2022	109,083	79,274	188,357
2023	114,083	75,977	190,060
2024	119,083	72,522	191,605
2025	124,583	68,903	193,486
2026 - 2030	641,917	262,550	904,467
2031 - 2035	659,332	134,283	793,615
2036 - 2040	247,753	35,304	283,057
2041 - 2045	42,500	11,840	54,340
2046 - 2050	50,000	5,584	55,584
2051	10,000	275	10,275
Total	<u>\$ 2,222,334</u>	<u>\$ 830,197</u>	<u>\$ 3,052,531</u>

Changes in long-term obligations during the year ended December 31, 2020 were:

	Balance 12/31/2019	Additions	Reductions	Balance 12/31/2020	Due Within One Year
Bonds and notes payable:					
Revenue Bonds Payable	\$ 223,000	\$ -	\$ (4,000)	\$ 219,000	\$ 4,000
Note Payable	2,102,917	-	(99,583)	2,003,334	100,000
Unamortized Premium	10,803	-	(811)	9,992	-
Total	<u>2,336,720</u>	<u>-</u>	<u>(104,394)</u>	<u>2,232,326</u>	<u>104,000</u>
Other Liabilities:					
Customer Deposits	<u>137,604</u>	<u>9,328</u>	<u>-</u>	<u>146,932</u>	<u>22,040</u>
Long-Term Liabilities	<u>\$ 2,474,324</u>	<u>\$ 9,328</u>	<u>\$ (104,394)</u>	<u>\$ 2,379,258</u>	<u>\$ 126,040</u>

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

Changes in long-term obligations during the year ended December 31, 2019 were:

	Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019	Due Within One Year
Bonds and notes payable:					
Revenue Bonds Payable	\$ 227,000	\$ -	\$ (4,000)	\$ 223,000	\$ 4,000
Note Payable	2,197,500	-	(94,583)	2,102,917	99,583
Unamortized Premium	11,614	-	(811)	10,803	-
Total	<u>2,436,114</u>	<u>-</u>	<u>(99,394)</u>	<u>2,336,720</u>	<u>103,583</u>
Other Liabilities:					
Customer Deposits	<u>129,967</u>	<u>7,637</u>	<u>-</u>	<u>137,604</u>	<u>20,641</u>
Long-Term Liabilities	<u>\$ 2,566,081</u>	<u>\$ 7,637</u>	<u>\$ (99,394)</u>	<u>\$ 2,474,324</u>	<u>\$ 124,224</u>

Information relating to the outstanding bond and notes is summarized below:

Date of Issue	Interest Rate	Original Amount of Each Issue	Bonds and Notes Payable Outstanding December 31,	
			2020	2019
2012 Bond Series A	2.75%	\$ 245,000	\$ 219,000	\$ 223,000
2012 Note Series A	2.0 - 3.625	2,680,000	2,003,334	2,102,917

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

Revenue Fund

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

Bond Reserve Fund

This fund shall receive \$1,605, a monthly rental, until an amount of \$204,300 is reached. This fund is to be used in the event of a deficiency in the Bond and Interest Redemption Fund. This account was fully funded at December 31, 2020 and 2019. The bond and interest redemption funds and bond reserve fund are maintained together in a single bank account and certificates of deposit.

Operation and Maintenance Fund

This fund receives, on a monthly basis, 90 percent of the remaining balance in the Revenue Fund after the above transfers have been made. This fund is used to pay operating expenditures. This account is funded until it reaches 2 months of forecasted operating expenses. Any surplus left may be added to the Reserve Fund.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)Depreciation Fund

This fund receives, on a monthly basis, 10 percent of the remaining balance in the Revenue Fund after the above transfers have been made and the proceeds from the sale of any property or equipment. This fund may be used to purchase new or replacement property and equipment. This account is funded until it reaches a balance of \$25,500. This account was fully funded at December 31, 2020 and 2019.

Full-time employees of the District are entitled to paid vacation and paid personal days depending upon length of service. Personal days must be used within the period earned. Vacation days may be carried forward.

NOTE 6 - RETIREMENT PLANPlan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which is a cost-sharing multiple-employer defined benefit plan. CERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The CERS issues a publicly available financial report that includes financial statements, required supplementary information and detailed information about CERS. CERS' report may be obtained at www.kyret.ky.gov.

Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly has the authority to increase, suspend or reduce COLAs. Senate Bill 2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA. No COLA has been granted since July 1, 2011.

Contributions

For the calendar year ended December 31, 2020, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were 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 preceding 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 bases adopted by the Board.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 6 - RETIREMENT PLAN (CONTINUED)

The District's contractually required contribution rate for the calendar year ended December 31, 2020, was 19.30 percent of creditable compensation. The District's contractually required contribution rate for the calendar year ended December 31, 2019, was 16.22 percent of creditable compensation from January 1 to June 30 and 19.30 percent of creditable compensation from July 1 to December 31. Contributions to the pension plan for the years ended December 31, 2020 and 2019 from the District were \$57,499 and \$51,786.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2020, the District reported a liability of \$693,744 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 using standard roll-forward techniques. 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, actuarially determined. At June 30, 2020, the District's proportion was 0.009045 percent, which was a decrease of .000415 percent from its proportion measured as of June 30, 2019.

For the years ended December 31, 2020 and 2019, the District recognized pension expense of \$57,499 and \$51,786. At December 31, 2020 and 2019, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2020</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 17,300	\$ -
Changes in actuarial assumptions	27,090	-
Difference between projected and actual investment earnings	30,071	12,711
Changes in proportionate and proportionate share of contributions	-	88,025
	<u>\$ 74,461</u>	<u>\$ 100,736</u>
	<u>2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 16,990	\$ 2,811
Changes in actuarial assumptions	67,346	-
Difference between projected and actual investment earnings	12,773	23,499
Changes in proportionate and proportionate share of contributions	6,477	136,949
	<u>\$ 103,586</u>	<u>\$ 163,259</u>

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 6 - RETIREMENT PLAN (CONTINUED)

The total pension liability in the June 30, 2020 actuarial valuation using standard roll-forward techniques was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	6.25 percent
Inflation	2.30 percent
Salary increases	3.05 percent, to 10.30, including inflation
Investment rate of return	6.25 percent, net of pension 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 2020. The mortality table used for the disabled member 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 2020.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2018.

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 table below.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 6 - RETIREMENT PLAN (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	18.75%	4.30%
Non- U.S. Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/ High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Cash	1.00%	20.00%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. 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 (closed) amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	\$ 855,537	\$ 693,744	\$ 559,773

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 6 - RETIREMENT PLAN (CONTINUED)Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLANPlan Description

The District participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky and is a cost-sharing multiple-employer defined benefit plan. CERS provides other post-employment benefits to plan members and beneficiaries. The Board of Trustees of Kentucky Retirement Systems (KERS) administers CERS. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained at www.kyret.ky.gov. The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

Benefits Provided

For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003, and before September 1, 2008, are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO.1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)Contributions

For the fiscal year ended June 30, 2019, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were 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 preceding 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 bases adopted by the Board.

The District's contractually required contribution rate for the calendar year ended December 31, 2020, was 4.76 percent of creditable compensation for the entire calendar year. The District's contractually required contribution rate for the calendar year ended December 31, 2019, was 4.76 percent of creditable compensation from January 1 to June 30 and 5.26 percent of creditable compensation from July 1 to December 31. Contributions to the OPEB plan from the District were \$14,805 for the period ended December 31, 2020 and \$14,530 for the year ended December 31, 2019.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At December 31, 2020, the District reported a liability of \$218,361 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. 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 districts, actuarially determined. At June 30, 2020, the District's proportion was 0.009043 percent, which was a decrease of .000416 percent from its proportion measured as of June 30, 2019.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO.1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)

For the years ended December 31, 2020 and 2019, the District recognized OPEB expense of \$14,805 and \$14,530. At December 31, 2020 and 2019, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>2020</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 36,512	\$ 36,484
Changes in actuarial assumptions	231	37,982
Difference between projected and actual investment earnings	4,456	11,713
Changes in proportionate and proportionate share of contributions	54,244	-
	<u>\$ 95,443</u>	<u>\$ 86,179</u>
	<u>2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 48,003
Changes in actuarial assumptions	47,078	315
Difference between projected and actual investment earnings	1,048	8,114
Changes in proportionate and proportionate share of contributions	-	60,080
	<u>\$ 48,126</u>	<u>\$ 116,512</u>

(Continued next page)

LARUE COUNTY WATER DISTRICT NO.1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)Actuarial assumptions

The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.05% to 10.30%, including inflation
Inflation rate	2.30%
Real Wage Growth	2.00%
Healthcare Trend Rate:	
Pre-65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post-65	Initial trend starting at 2.90% starting at January 1, 2022, and gradually increasing to an ultimate trend rate of 4.05% over a period of 14 years.
Municipal Bond Index Rate	2.45%
Discount Rate	5.34%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2013 — June 30, 2018.

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 table below.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019NOTE 7 – OTHER POST EMPLOYMENT BENEFITS PLAN (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	18.75%	4.30%
Non- U.S. Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/ High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Cash	1.00%	20.00%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
Total	<u>100.00%</u>	

The projection of cash flows used to determine the discount rate of 5.68% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 years (closed) amortization period of the unfunded actuarial accrued liability. 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" as of June 28, 2019. 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. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Sensitivity Of The District's Proportionate Share Of The Net OPEB Liability To Changes In The Discount Rate

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.34%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.34%) or 1-percentage-point higher (6.%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	\$ 280,530	\$ 218,361	\$ 167,300

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2020 AND 2019Sensitivity Of The District's Proportionate Share Of The Collective Net OPEB Liability To Changes In The Healthcare Cost Trend Rates

The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	\$ 169,066	\$ 218,361	\$ 278,182

OPEB plan fiduciary net position

Detailed information about the OPEB plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

NOTE 8 - MAJOR SUPPLIERS

The District purchases water for resale from approximately six suppliers with Hodgenville Waterworks, Bardstown Water District and Green River Valley Water District accounting for approximately ninety percent of the water supplied. Inability to obtain water from any of these suppliers could have a materially adverse effect on the District.

NOTE 9 – CAPITAL CONTRIBUTIONS

The following schedule details the sources of capital contributions for the years ended December 31, 2020 and 2019:

<u>Source</u>	<u>2020</u>	<u>2019</u>
Tap fees	\$ 55,859	\$ 68,273
	<u>\$ 55,859</u>	<u>\$ 68,273</u>

NOTE 10 – RISK MANAGEMENT

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

NOTE 11 – ECONOMIC DEPENDENCY

The District obtains a majority of its revenues from customer in Larue County, Kentucky. An economic downturn in the area could have a negative impact on the financial condition of the District.

(Continued next page)

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 12 – ACCOUNTING FOR THE EFFECTS OF RATE REGULATION

The District is subject to the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement recognizes the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulating entities. Accordingly, the District records these future economic benefits and obligations as regulatory assets and regulatory liabilities.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the ratemaking process.

In order for rate-regulated entity to continue to apply the provisions of GASB Statement No. 62, it must continue to meet the following three criteria:

1. The entities' rates for regulated services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers;
2. The regulated rates must be designed to recover the specific entities cost of providing the regulated services;
3. In view of the demand for the regulated services and the level of competition, it is reasonable to assume that the rates set at levels that will recover the entities' cost can be charged to and collected from customers.

Based on the District's management evaluation of the three criteria discussed above in relation to its operations, and the effects of competition on its ability to recover its costs, the District believes that GASB Statement No. 62 continues to apply.

REQUIRED SUPPLEMENTARY INFORMATION

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY

December 31, 2020

Last 10 Years *

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the net pension liability	0.009405%	0.009461%	0.012219%
Proportionate share of the net pension liability	\$ 693,744	\$ 665,396	\$ 744,174
Covered payroll	\$ 281,829	\$ 242,312	\$ 327,296
Proportionate share of the net pension liability as percentage of covered payroll	246.16%	274.60%	227.37%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.45%	53.54%
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.013774%	0.012709%	0.012228%
Proportionate share of the net pension liability	\$ 806,235	\$ 625,744	\$ 525,737
Covered payroll	\$ 344,813	\$ 317,292	\$ 302,077
Proportionate share of the net pension liability as percentage of covered payroll	233.8%	197.2%	174.0%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%

* Calendar year 2015 was the first year of implementation, therefore, only six years are shown.

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET OPEB LIABILITY

December 31, 2020

Last 10 Years *

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the net OPEB liability	0.009043%	0.945900%	0.012218%
Proportionate share of the net OPEB liability	\$ 218,361	\$ 159,096	\$ 216,928
Covered payroll	\$ 281,829	\$ 242,312	\$ 327,296
Proportionate share of the net OPEB liability as percentage of covered payroll	77.5%	65.7%	66.3%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	60.44%	57.62%

* Calendar year 2018 was the first year of implementation, therefore, only three years are shown.

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE OF CONTRIBUTIONS TO CERS PENSION

December 31, 2020

Last 10 Years *

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 57,499	\$ 51,786	\$ 52,128
Contribution in relation to the actuarially determined contributions	<u>57,499</u>	<u>51,786</u>	<u>52,128</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 296,100	\$ 290,560	\$ 329,796
Contributions as a percentage of covered payroll	19.3%	17.8%	15.8%
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 46,106	\$ 38,490	\$ 29,948
Contribution in relation to the actuarially determined contributions	<u>46,106</u>	<u>38,490</u>	<u>29,948</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 324,007	\$ 290,717	\$ 282,008
Contributions as a percentage of covered payroll	14.2%	13.2%	10.6%

* Calendar year 2015 was the first year of implementation, therefore, only six years are shown.

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE OF CONTRIBUTIONS TO CERS OPEB

December 31, 2020

Last 10 Years *

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 14,805	\$ 14,530	\$ 16,475
Contribution in relation to the actuarially determined contributions	<u>14,805</u>	<u>14,530</u>	<u>16,475</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 296,100	\$ 290,560	\$ 329,796
Contributions as a percentage of covered payroll	5.00%	5.00%	5.00%

* Calendar year 2018 was the first year of implementation, therefore, only three years are shown.

LARUE COUNTY WATER DISTRICT NO. 1

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2020

CERS PENSION

Changes of benefit terms. There were no changes in benefit terms from 2015 through 2020.

Changes of assumptions (as of June 30 of the year measurement date):

2015 – The assumed investment rate of return was decreased from 7.75% to 7.50%. The assumed rate of inflation was reduced from 3.50% to 3.25%. The assumed rate of wage inflation was reduced from 1.00% to 0.75%. Payroll growth assumption was reduced from 4.50% to 4.00%. The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

2016 and 2017 – No changes.

2018 – The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

2019 – Annual salary increases and annual rates of retirement, disability, withdrawal and mortality were updated based on the 2018 experience study and the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members.

2020 – No changes.

CERS OPEB

Changes of benefit terms. There were no changes in benefit terms for 2018 through 2020.

Changes of assumptions (as of June 30 of the year measurement date):

2018 – The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

2019 – The discount rate was changed from 5.85% to 5.68% . Annual salary increases and annual rates of retirement, disability, withdrawal and mortality were updated based on the 2018 experience study and the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members.

2020 – The discount rate used to calculate the total OPEB liability decreased from 5.68% to 5.34%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. Also, the June 30, 2020 actuarial information reflects the anticipated savings from the repeal of the “Cadillac Tax” and “Health Insurer Fee”, which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee.

SUPPLEMENTARY INFORMATION

LARUE COUNTY WATER DISTRICT NO. 1SCHEDULE I - PRINCIPAL AND INTEREST REQUIREMENTSDECEMBER 31, 2020

	2012 SERIES A BOND PAYABLE		2012 SERIES F NOTE PAYABLE	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2021	4,000	6,023	100,000	77,662
2022	4,500	5,912	104,583	73,362
2023	4,500	5,789	109,583	70,188
2024	4,500	5,665	114,583	66,857
2025	5,000	5,541	119,583	63,362
2026	5,000	5,404	124,583	58,340
2027	5,000	5,266	129,583	52,983
2028	5,500	5,129	139,167	47,411
2029	5,500	4,978	107,917	41,427
2030	5,500	4,826	114,167	36,786
2031	6,000	4,675	119,583	31,877
2032	6,000	4,428	120,000	26,735
2033	6,000	4,345	124,583	22,537
2034	6,500	4,180	129,583	18,127
2035	6,500	4,001	134,583	13,378
2036	7,000	3,823	89,167	8,278
2037	7,000	3,630	39,167	4,792
2038	7,500	3,438	39,586	3,255
2039	7,500	3,231	40,000	1,701
2040	7,500	3,025	3,333	131
2041	8,000	2,819		
2042	8,000	2,599		
2043	8,500	2,379		
2044	9,000	2,145		
2045	9,000	1,898		
2046	9,500	1,650		
2047	9,500	1,389		
2048	10,000	1,128		
2049	10,500	853		
2050	10,500	564		
2051	10,000	275		
	<u>\$ 219,000</u>	<u>\$ 111,008</u>	<u>\$ 2,003,334</u>	<u>\$ 719,189</u>

LARUE COUNTY WATER DISTRICT NO. 1SCHEDULE II - GENERAL AND ADMINISTRATIVE EXPENSES

	YEARS ENDED DECEMBER 31,	
	<u>2020</u>	<u>2019</u>
Retirement expense	\$ 72,304	\$ 66,316
Insurance - health	27,738	45,177
Auto expense	22,851	27,065
Office supplies and postage	45,618	31,147
Payroll expense	21,801	20,718
Other general and administrative	30,870	25,915
Insurance - general liability	20,923	17,003
Professional fees	19,790	39,715
Insurance - workmens' compensation	17,533	13,970
Commissioners' salaries	10,800	10,800
Regulatory commission expense & other taxes	5,760	7,043
Training	2,080	1,670
	<u>\$ 298,068</u>	<u>\$ 306,539</u>

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE III - ORGANIZATION DATA

DECEMBER 31, 2020

WATER COMMISSIONERS

John Detre – Chairman
Pat Eastridge – Secretary/Treasurer
Bobby Garrison – Member

APPROVING BOND COUNSEL

Rubin & Hays - Louisville, Kentucky

CALENDAR YEAR

January 1 to December 31

INTERNAL CONTROL AND FISCAL COMPLIANCE

LARUE COUNTY WATER DISTRICT NO. 1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2020

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH ENTITY'S IDENTIFYING NUMBER</u>	<u>PAID TO SUBRECIPIENTS</u>	<u>TOTAL FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u> Waste and Waste Disposal Systems for Rural Communities	10.760	N/A		<u>\$ 871,145</u>
TOTAL U.S. DEPT. OF AGRICULTURE				<u>871,145</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ -</u>	<u>\$ 871,145</u>

The accompanying notes are an integral part of this schedule.

LARUE COUNTY WATER DISTRICT NO.1

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2020

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Larue County Water District No. 1 under programs of the federal government for the year ended December 31, 2020. The information in this schedule is presented in accordance with the 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). Because the schedule presents only a selected portion of the operations of Meade County Water District, it is not intended to and does not present the financial position, changes in net position or cash flows of Larue County Water District No. 1.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C – INDIRECT COST RATE

The District has elected to not use the 10 percent de minimum indirect cost rate allowed under the Uniform Guidance.

LARUE COUNTY WATER DISTRICT NO.1
 Schedule of Findings and Questioned Costs
 For the Year Ended December 31, 2020

Section I- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unmodified):

Internal control over financial reporting:

- Material weakness(es) identified? yes none reported
- Significant deficiency(ies) 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 weakness(es) identified? yes no
- Significant deficiency(ies) identified
that are not considered to be material
weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are
required to be reported in accordance
with 2 CFR 200.516(a)? yes no

Identification of major programs:

CFDA	
Number	Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish
Between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes no

Section II – Financial Statement Findings

REFERENCE NUMBER 2020-001 PREPARATION OF FINANCIAL STATEMENTS

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

Condition: The District does not have sufficient controls over the preparation of the financial statements, including footnotes disclosures.

Cause: The District has financial personnel with limited financial reporting experience.

Effect: The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

Recommendation: We recommend District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements.

Views of Responsible Officials: The District has made strides in this area and is continuously working to obtain the goal of current personnel being able to adequately prepare the financial statements.

REFERENCE NUMBER 2020-002 FINANCIAL STATEMENT PRESENTATION

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

Condition: As part of the audit we noted that generally accepted accounting principles were not always applied and that material adjustments were not identified by the District's internal control.

Cause: The District has a limited number of personnel with limited financial reporting experience.

Effect: The design of the internal controls over financial reporting limits the ability of the District to provide accurate financial information.

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

Views of Responsible Officials: It would be beneficial to have financial training.

REFERENCE NUMBER 2020-003 SEGREGATION OF DUTIES

Criteria: The District's management is responsible for establishing and maintaining proper segregation of duties. In order to maintain proper segregation of duties District requires two signatures on checks for certain disbursements. Due to the limited number of personnel the District requires the signature of a commissioner on said checks along with the District's management.

Condition: As part of the audit we noted there were blank checks signed by a commissioner kept at the District. The checks contained only the signature of the commissioner.

Cause: The District had blank checks signed by commissioner so that items could be paid in the commissioner's absence.

Effect: The signature policy was not followed which could result in unapproved disbursements.

Recommendation: We recommend that checks be signed by the commissioner after the date; amount and vendor fields have been completed. Additionally, the invoice that supports the check should be present with the check at the time the commissioner signs the check.

Views of Responsible Officials: Management will bring this item before the board for further review.

Section III – Federal Award Findings and Questioned Costs**REFERENCE NUMBER 2020-004****Waste and Waste Disposal Systems for Rural Communities – CFDA 10.760****Significant Deficiency – Written Procedures**

Criteria: Part 200 of Title 2 of the U.S. Code of Federal Regulations titled, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, requires written procedures for payments, procurement, allowability of costs, compensation and travel costs when using federal funds.

Condition: The District's policies and procedures were not in accordance with federal requirements.

Questioned Costs: None.

Context: This was noted during a review of procedures.

Effect: The District could have not followed the Uniform Administrative Guidance

Cause: The District had not updated its procedures for the requirements.

Recommendation: The District should adopt the required procedures.

Views of Responsible Officials and Planned Corrective Actions: The District will implement the procedures.

LARUE COUNTY WATER DISTRICT NO. 1
SUMMARY OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2020

REFERENCE NUMBER 2019-001 PREPARATION OF FINANCIAL STATEMENTS

Condition: The District does not have sufficient controls over the preparation of the financial statements, including footnotes disclosures.

Recommendation: We recommended the District management and financial personnel continue to increase their awareness and knowledge of all procedures and processes involved in preparing financial statements.

Resolution: Repeated

REFERENCE NUMBER 2019-002 FINANCIAL STATEMENT PRESENTATION

Condition: As part of the audit we noted that generally accepted accounting principles were not always applied and that material adjustments were not identified by the District's internal control.

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

Resolution: Repeated

REFERENCE NUMBER 2019-003 SEGREGATION OF DUTIES

Condition: As part of the audit we noted there were blank checks signed by a commissioner kept at the District. The checks contained only the signature of the commissioner.

Recommendation: We recommended that checks be signed by the commissioner after the date; amount and vendor fields have been completed. Additionally, the invoice that supports the check should be present with the check at the time the commissioner signs the check.

Resolution: Repeated

REFERENCE NUMBER 2019-004 INADEQUATE COLLATERAL OF DEPOSITS

Condition: As part of the audit of the audit we noted deposits at a certain financial institution that exceeded the FDIC statutory amounts but the remaining amounts were not collateralized.

Recommendation: We recommended the District diversify deposits to more financial institutions in a manner that prevents deposits from exceeding FDIC insurance limits or obtain third-party collateral for the amount of deposits in excess of FDIC insurance limits.

Resolution: Not repeated



HCA

Heartland CPAs and Advisors PLLC

INDEPENDENT AUDITOR'S 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

Board of Commissioners
Larue County Water District No. 1
Buffalo, 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 Larue County Water District No. 1, as of and for the year ended December 31, 2020, and have issued our report thereon dated March 26, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Larue County Water District No. 1'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 Larue County Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Larue County Water 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 by 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 identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2020-001, 2020-002, and 2020-003 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Larue County Water District No. 1's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect of 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.

Larue County Water District No.1's Responses to Findings

Larue County Water District No. 1's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. Larue County Water 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

This report is intended 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 District'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.

Heartland CPAs and Advisors PLLC

Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
March 26, 2021



HCA

Heartland CPAs and Advisors PLLC

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

Larue County Water District
Buffalo, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Larue County Water District No.1'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 Larue County Water District No.1 's major federal programs for the year ended December 31, 2020. Larue County Water District No.1 's major federal program is 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 the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Larue County Water District No.1 '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; 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 Larue County Water District No.1'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 Larue County Water District No.1 's compliance.

Opinion on Each Major Federal Program

In our opinion, Larue County Water District No.1 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended Larue County Water District No.1.

Report on Internal Control Over Compliance

Management of Larue County Water District No.1 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 Larue County Water District No.1's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major 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 Larue County Water District No.1'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-004 that we consider to be a significant deficiency.

Larue County Water District No.1's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Larue County Water District No.1'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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Heintland CPAs and Advisors PLLC

Elizabethtown, Kentucky
March 26, 2021

EXHIBIT 13

**TOTAL LARUE DISTRICT
DEBT AFTER ACQUISITION**

Description	Amount
Existing LaRue District Debt	\$ 4,703,334
Debt Assumed From New Haven	\$ 209,900
Total	\$ 4,913,234

Debt Per Customer After Acquisition	\$ 1,123
--	-----------------

Note: $\$4,913,234 / 4,375$ customers = \$1,123 debt per customer.

EXHIBIT 14

**BOOK VALUE OF PROPERTY BEING
ACQUIRED FROM NEW HAVEN**

USoA	Description	Total
304	Structures & Improvements	\$ 211,145
331	Transmission & Distribution Mains	\$ 333,675
333	Services	\$ 56,233
335	Hydrants	\$ 15,790
347	Communication Equipment	\$ 0
Grand Total		\$ 616,843

EXHIBIT 15

Myers, Cameron

From: Wuetcher, Gerald
Sent: Wednesday, June 1, 2022 10:50 AM
To: lisa.dale@ky.gov
Cc: Talley, Damon; Myers, Cameron
Subject: Notification of Issuance of Debt - LaRue County Water District
Attachments: LaRue County Water District_Notification Of Intent To Finance.pdf

Ms. Dale:

Good morning.

Attached is LaRue County Water District's Notice to the State Local Debt Officer of its intent to assume certain debt obligations of the City of New Haven. LaRue County Water District and the city of New Haven have entered an agreement under which the City of New Haven will transfer its water distribution assets to LaRue County Water District in return for LaRue County Water District's assumption of debt issued to finance various improvements to that distribution system. The city of New Haven currently has approximately \$209,900 in outstanding revenue bonds related to those improvements. These bonds are held by Rural Development on behalf of the U.S. Department of Agriculture. The proposed transaction will occur upon the Public Service Commission's approval of the transaction and LaRue County Water District's assumption of this indebtedness.

Please acknowledge receipt of this message by e-mail. Please contact me at (859) 231-3017 or Damon Talley at (270) 358-3187 if there are any questions regarding this transaction.

Thank you for your attention to this matter.

Sincerely,

Gerald Wuetcher



Gerald E. Wuetcher
Counsel to the Firm
859-231-3017 Direct
859-550-3894 Mobile
300 W. Vine Street, Ste. 2100
Lexington, KY 40507-1801

The following message, and any documents or previous e-mails attached to it, may contain confidential information protected by the attorney-client privilege. If it was sent to you in error, do not read it. Please inform the sender that you received it and then delete it. Thank you.

Page 1

NOTIFICATION OF INTENT TO FINANCE AND APPLICATION FOR DEBT APPROVAL

Form # SLDO-1
Revised 1/1/2011

For DLG staff use only:

File # _____
Received _____

Completion and delivery of this form to the address below shall satisfy the requirements of KRS 65.117, which prohibits any city, county, urban-county, consolidated local government, charter county, special district, or taxing district from entering into any financing obligation of any nature, except leases under \$200,000, without first notifying the state local debt officer in writing. This form shall also serve as application for approval of debt issuance when applicable. An electronic version of the form is available at www.dlg.ky.gov.

✓ **Type of debt to be issued (must check one):** **SLDO Approval Required** **Complete Sections**

<input type="checkbox"/> Short Term Borrowing - KRS 65.7701 et seq.	No	A, B, C
<input type="checkbox"/> Lease from \$200,000 - \$500,000 - KRS 65.940 et seq.	No	A, B, D
<input type="checkbox"/> Lease exceeding \$500,000 - KRS 65.940 et seq.	Yes (Counties only)	A, B, D
<input type="checkbox"/> General Obligation Bond - KRS Chapter 66	Yes (Counties only)	A, B, E
<input type="checkbox"/> Public Project Rev. Bond - KRS Chapter 58	No	A, B, E
<input type="checkbox"/> Public Project Rev. Bond w/Lease - KRS 66.310(2)	Yes (Counties only)	A, B, D, E
<input type="checkbox"/> Industrial Revenue Bond - KRS Chapter 103	Yes (All Borrowers)	A, B, F
<input type="checkbox"/> Other Bonds (True Revenue, Utility Assessment, TIF)	No	A, B, E

X Assumption of Bonded Debt of the City of New Haven

Section A - Borrower Information

Agency Name	LaRue County Water District		
Governing Body	LaRue County Water District Board of Commissioners		
Street Address	6215 North L&N Turnpike		
P.O. Box #	City	Buffalo	
County	LaRue	Zip	42716
Authorized Official	John M. Detre, Chair, Board of Commissioners		

Section B - Terms of Financial Obligation

Please provide all relevant information. Fields in **bold** are mandatory.

Principle Amount:	\$209,500	Date of Issue:	01/01/2023
Maturity Date(s):	Various Dates	Payment Schedule:	(must attach schedule)
Term:	Various Terms	Number of Renewal Periods:	0
Interest Rate(s):		Type of Interest (fixed or variable):	Fixed
Retirement Method:	Annual Principal Payment & Semi-Annual Interest Payments		
Lender's Name:	US Department of Agriculture acting through Rural Development		
Lender's Address:	771 Corporate Drive, Suite 200, Lexington, KY 40503		
Right of Termination:	None		
Termination Penalties:	None		
Prepayment Provisions:	District may prepay without penalty		
Trustee or Paying Agent:	None		
AOC Funded Percentage:	0.00		

Page 2

NOTIFICATION OF INTENT TO FINANCE AND APPLICATION FOR DEBT APPROVAL

Form # SLDO-1
Revised 1/1/2011

Section C - Note (Loan) Information/Documentation

Purpose - Briefly explain the documented need that necessitates this note (loan) and the public purpose it is intended to address. (Attach additional information if necessary):

LaRue County Water District is acquiring the City of New Haven's water distribution facilities. Under the transaction, LaRue District assumes New Haven's outstanding bonded indebtedness currently held by the U.S. Department of Agriculture. The consolidation of the two systems will result in greater economies of scale and produce more efficient delivery of water services .The Bonds were originally issued by New Haven to finance waterworks improvements

Pledge of Taxes/Description:

Pledge of Revenue/Description: Revenues from water operations pledged as security; Rates must produce 1.2X debt service plus O&M expenses (excluding depreciation).

Pledge of Project Revenues (Attach documentation which substantiates the revenue projections): **Attached is report of PSC**

Staff on proposed rate adjustment. Proposed rates will produce sufficient revenues to meet debt service on assumed bonds. A copy of the PSC Order approving the Staff recommended rates is also attached.

Have bids been sought by the local governments to determine the financial and programmatic competitiveness of the note (loan) proposal? Yes No

If No, explain what steps were taken to ensure adequate competition.

LaRue District is assuming obligation to pay bonds as part of acquisition of New Haven's water distribution assets. Bids were obtain for the original issuance of bonds by New Haven.

Required Attachments

- 1. Certification from local government attesting to the ability to meet additional financial commitments necessitated by the note and statement as to taxes and revenues to be collected during the term of the note.

Section D - Lease Information/Documentation

Describe the real or personal property to be acquired or constructed:

Type of Lease : General Obligation Revenue

Is Lease Annually Renewable? Yes No

Does Agency seek approval without a hearing? Yes No Justification: Revenue Refunding

If yes, must attach certification from counsel regarding county obligation.

Does this lease refund a prior lease? Yes No

If yes, please state the name, date and principal amount of original issue(s) being refunded:

Required Attachments (If lease requires SLDO approval)

- 1. Minutes from the local public hearing
- 2. Affidavit of publication of SLDO hearing (if hearing is required) and newspaper advertisement tear sheet
- 3. Copy of lease
- 4. Executed copy of ordinance/resolution of fiscal court authorizing the lease
- 5. Certification from local government attesting to the ability to meet additional financial commitments necessitated by the lease and statement as to taxes and revenues to be collected during the term of the lease.

Page 3

NOTIFICATION OF INTENT TO FINANCE AND APPLICATION FOR DEBT APPROVAL

Form # SLDO-1
Revised 1/1/2011

Section E - Bond Information/Documentation

Please provide all relevant information. Fields in **bold** are mandatory.

Describe the purpose of the bond:

Bond Counsel:

Counsel Address:

Financial Advisor:

Advisor Address:

Bond Series:

Call Date:

Does this bond refund a prior bond? Yes No

If yes, please state the name, date and principal amount of original issue(s) being refunded:

Required Attachments (If SLDO Approval is Required)

1. Minutes from the local public hearing
2. Affidavit of publication of SLDO hearing and newspaper advertisement tear sheet
3. Executed copy of ordinance/resolution of fiscal court authorizing financial plan for the issuance of the bonds
4. Proposed plan of financing
5. Preliminary official statement (if applicable)
6. Sources and uses table

Additional Required Attachments for KRS Chapter 103 Bonds

1. Documentation in an appropriate form substantiating the project's eligibility under KRS 103.2101(1)(a)-(c).
2. If the project requires approval of the reduction in property taxes, attach any documentation provided to agency responsible for approval.

By signing below, the Authorized Official certifies that the foregoing is true and accurate to the best of his or her knowledge.

Name (please print) John M. Detre	Date: 06-01-2022
Title: Chair, Board of Commissioners	Signature: John M Detre

Mail to:
 Department for Local Government
 Attn: State Local Debt Officer
 1024 Capital Center Drive, Suite 340
 Frankfort, KY 40601

Fax to: 502-573-3712

**BONDED DEBT OF THE CITY OF NEW HAVEN TO RURAL DEVELOPMENT
TO BE ASSUMED BY LARUE COUNTY WATER DISTRICT**

	Bond Issue	RD Loan Number	Original Principal Amount	Maturity Date	Interest Rate (%)	Outstanding Principal Balance*
1	1999A	92-02	\$ 237,000	1-1-2040	5.125	\$ 158,000
2	1999B	92-04	\$ 79,000	1-1-2040	4.750	\$ 51,900
	TOTAL					\$ 209,900

*Notes:

1. Outstanding principal balances are as of April 1, 2022
2. Transfer of the City of New Haven's water distribution facilities to LaRue County Water District is not expected to occur until January 1, 2023. City of New Haven has agreed to make debt service payments scheduled on January 1, 2023. Principal balances at the time of transfer will differ from those reflected above.

AMORTIZATION SCHEDULES FOR ASSUMED BONDED DEBT

City of New Haven
 Repayment Schedules

	1999A SERIES BOND PAYABLE			1999B SERIES F BOND PAYABLE			ANNUAL			
	PRINCIPAL	INTEREST	BALANCE	PRINCIPAL	INTEREST	BALANCE	PRINCIPAL	INTEREST	BALANCE	DEBT SERVICE
			152,000			49,900			201,900	
2024	6,500	7,790	145,500	2,200	2,557	47,700	8,700	10,347	193,200	19,047
2025	7,000	7,457	138,500	2,200	2,445	45,500	9,200	9,902	184,000	19,102
2026	7,000	7,098	131,500	2,400	2,332	43,100	9,400	9,430	174,600	18,830
2027	7,500	6,739	124,000	2,500	2,209	40,600	10,000	8,948	164,600	18,948
2028	8,000	6,355	116,000	2,600	2,081	38,000	10,600	8,436	154,000	19,036
2029	8,500	5,945	107,500	2,700	1,948	35,300	11,200	7,893	142,800	19,093
2030	8,500	5,509	99,000	2,900	1,809	32,400	11,400	7,318	131,400	18,718
2031	9,500	5,074	89,500	3,000	1,661	29,400	12,500	6,735	118,900	19,235
2032	9,500	4,587	80,000	3,100	1,507	26,300	12,600	6,094	106,300	18,694
2033	10,000	4,100	70,000	3,300	1,348	23,000	13,300	5,448	93,000	18,748
2034	10,000	3,588	60,000	3,400	1,179	19,600	13,400	4,767	79,600	18,167
2035	11,000	3,075	49,000	3,600	1,005	16,000	14,600	4,080	65,000	18,680
2036	11,000	2,511	38,000	3,800	820	12,200	14,800	3,331	50,200	18,131
2037	12,000	1,948	26,000	3,900	625	8,300	15,900	2,573	34,300	18,473
2038	12,500	1,333	13,500	4,200	425	4,100	16,700	1,758	17,600	18,458
2039	13,500	692	0	4,100	210	0	17,600	902	0	18,502
2040			-							
	<u>\$152,000</u>	<u>\$73,801</u>		<u>\$49,900</u>	<u>\$24,161</u>		<u>201,900</u>	<u>\$97,962</u>		

PURPOSE: To present repayment schedule
 SOURCE: Bond agreements

REVENUE PROJECTIONS

NOTE

On July 21, 2021, LaRue County Water District (“LaRue District”) applied to the Kentucky Public Service Commission (“KPSC”) for an adjustment of its rates for water service. As part of its application, LaRue District performed an analysis of its revenues based upon its operations for the calendar year 2020 and projected its revenues if the proposed rates were implemented.

Pursuant to the KPSC’s Order of August 17, 2021, KPSC Staff reviewed the application and issued a report of its findings and recommendations on the proposed rate adjustment. KPSC Staff recommended rates that differ slightly from those LaRue District proposed. This report includes a projection of revenues if the recommended rates are adopted. A copy of the report is attached. LaRue District has accepted the recommendations and requested that the KPSC issue an order adopting the KPSC Staff’s recommendations. A copy of the KPSC’s Order of March 18, 2022 approving the KPSC Staff’s recommendations is also attached.

According to the KPSC Staff’s findings, with the recommended rates in effect, LaRue District’s annual revenues will be \$1,904,458. After considering cash expenses and debt service payments, the recommended rates will produce annual working capital of \$394,942 (estimated working capital of \$57,867 plus annual depreciation expense of \$337,075). This level of working capital will allow LaRue District to meet the additional annual debt service payments associated with the bonded debt acquired from the City of New Haven, which are not expected to exceed \$19,235.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LARUE COUNTY)	CASE NO.
WATER DISTRICT NO. 1 FOR A RATE)	2021-00285
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of August 17, 2021, the attached report containing the findings of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's August 17, 2021 Order, LaRue County Water District No. 1 is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of this report. The Commission directs LaRue County District No. 1 to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.



Linda C. Bridwell, PE
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED NOV 18 2021

cc: Parties of Record

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

STAFF REPORT
ON
LARUE COUNTY WATER DISTRICT NO. 1
CASE NO. 2021-00285

LaRue County Water District No. 1 (LaRue District No. 1) is a water utility company that owns and operates a water distribution system through which it provides retail water service to approximately 3,767 retail customers that reside in LaRue County, Kentucky.¹ On July 21, 2021, LaRue District No. 1 filed an application with the Commission requesting to adjust its water rates pursuant to the alternative rate adjustment procedure for small utilities as set out in 807 KAR 5:076, and it was determined to be deficient. The deficiency was cured on July 23, 2021, and was considered filed. To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated August 17, 2021.

To comply with the requirements of 807 KAR 5:076, Section 9,² LaRue District No. 1 based the justification for its requested rates on a historical test period ended December 31, 2020. Using its pro forma test-year operations, LaRue District No. 1 provided evidence that it could justify a revenue increase of up to \$223,378, or 12.86 percent, to its retail water customers as shown in the table below.³ LaRue District No. 1 proposed a 12.00 percent across-the-board increase to its current water rates for

¹ Application, ARF Form 1 at 3.

² The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

³ Application, ARF-Revenue_Requirements.pdf.

all meter sizes. The proposed changes to LaRue District No. 1’s water rates amount to a \$4.62, or a 11.96 percent increase,⁴ on a typical residential customer monthly bill using 3,700 gallons per month.

	LaRue District
Pro Forma Operating Expenses	\$ 1,629,554
Plus: Average Annual Principal and Interest Payments	306,893
Additional Working Capital	<u>61,379</u>
Overall Revenue Requirement	1,997,826
Less: Other Operating Revenue	(11,224)
Interest Income	<u>(26,109)</u>
Revenue Required from Rates	1,960,493
Less: Pro Forma Present Rate Service Revenues	<u>(1,737,115)</u>
Required Revenue Increase	<u>\$ 223,378</u>
Percentage Increase	<u>12.86%</u>

To determine the reasonableness of the revenue requirement above and the sufficiency of the rates requested by LaRue District No. 1, Staff performed a limited financial review of LaRue District No. 1’s test-year operations. The scope of Staff’s review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable changes to test-year operations were identified and adjustments made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

⁴ Application, LCWD_-_Customer_Notice-1.pdf.

This report summarizes Staff's findings. Ariel Miller reviewed the calculation of LaRue District No. 1's Overall Revenue Requirement. Sam Reid reviewed LaRue District No. 1's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying a Debt Service Coverage (DSC) method, as generally accepted by the Commission, Staff found that LaRue District No. 1's Overall Revenue Requirement is \$1,898,769, and that a \$129,352 revenue increase, or 7.45 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Water Service Rates. LaRue District No. 1 proposed to increase its monthly retail water service rates evenly across the board by approximately 12 percent. LaRue District No. 1 has not performed a cost of service study (COSS). In response to Commission Staff's First Request for Information (Staff's First Request), LaRue District No. 1 stated that it did not complete a COSS at this time and further stated that the majority of its customers are residential and the fairest means to increase the monthly water rates is by an across-the-board percentage increase.⁵

The Commission has previously found that the allocation of a revenue increase evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Staff followed the method proposed by LaRue District No. 1 and allocated the \$129,352 revenue increase

⁵ LaRue District No. 1's Response to Staff's First Request (filed Sept. 14, 2021), Item 6.

determined by Staff an approximate 7.45 percent increase across the board to LaRue District No. 1's monthly retail water service rates.

The rates set forth in Appendix A to this Staff Report are based upon the revenue requirement, as calculated by Staff, and will produce sufficient revenues from water sales to recover the \$1,866,467 Revenue Required from Rates, an approximate 7.45 percent increase. These rates will increase a typical residential customer's monthly water bill from \$38.64 to \$41.51, an increase of \$2.87, or approximately 7.43 percent.⁶

3. Rate Case Expense. Staff notes that LaRue District No. 1 did not make a pro forma adjustment to amortize any costs attributable to the preparation of its application for rate adjustment. In its response to the Staff Report, LaRue District No. 1 should identify any additional costs that were incurred in preparation for this case.

PRO FORMA OPERATING STATEMENT

LaRue District No. 1's Pro Forma Operating Statement for the test year ended December 31, 2020, as determined by Staff, appears below.

⁶ The typical residential customer uses approximately 3,700 gallons per month.

	Test Year	Adjustment	(Ref.)	Pro Forma
Operating Revenues				
Sales of Water	\$ 1,641,676	\$ 95,439	(A)	\$ 1,737,115
Other Water Revenues	11,224	(5,031)	(B)	6,193
Total Operating Revenues	1,652,900	90,408		1,743,308
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	312,302			312,302
Salaries and Wages - Commissioners	10,800			10,800
Employee Pensions and Benefits	100,042	11,861	(C)	
		(3,630)	(D)	108,273
Purchased Water	469,310	53,108	(E)	522,418
Purchased Power for Pumping	27,299			27,299
Chemicals				-
Materials and Supplies	102,581	(14,925)	(F)	87,656
Contractual Services	19,790			19,790
Rent				-
Transportation Expense	22,851			22,851
Insurance	38,456			38,456
Regulatory Commission Expense	5,760			5,760
Bad Debt Expense	4,136			4,136
Miscellaneous Expense	54,751			54,751
Total Operation and Maintenance Expenses	1,168,078	46,414		1,214,492
Depreciation	396,507	(59,432)	(G)	337,075
Total Operating Expenses	1,564,585	(13,017)		1,551,568
Net Operating Income	88,315	103,425		191,740
Interest Income	26,109			26,109
Income Available to Service Debt	\$ 114,424	\$ 103,425		\$ 217,849

(A) Billing Analysis Adjustment. LaRue District No. 1 proposed to increase reported metered water sales by \$95,439 to normalize annual water sales to reflect the increase in rates approved in Case No. 2021-00194.⁷ Staff finds that LaRue District No. 1's adjustment is appropriate and accepts LaRue District No. 1's adjustment.

(B) Non-recurring Charges. Following the Commission's recent decisions Hyden-Leslie Water District's (Hyden-Leslie District) and Ohio County Water District's

⁷ Case No. 2020-00194, *Electronic Purchased Water Adjustment Filing of LaRue County Water District No. 1* (Ky. PSC July 2, 2020).

recent Alternative Rate Filing (ARF),⁸ Staff has reviewed LaRue District No. 1's Non-recurring Charges. The Commission found that as personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Non-recurring Charges should be eliminated from the charges. Staff has reviewed the cost justification information provided in LaRue District No. 1's response to Staff's First Request and has adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs.⁹ Staff also adjusted the mileage rate to the current allowable rate by the Internal Revenue Service (IRS) of \$0.56 per mile.¹⁰ Such adjustments result in the following revised Non-recurring Charges:

Non-recurring Charges	
Disconnection Charge	\$ 10.08
Reconnection Charge	\$ 10.08
Returned Payment Charge	\$ 15.00
Service Call/Investigation Charge	\$ 10.08
Meter Test	\$ 57.48

Staff reviewed Non-recurring charges that occur after normal business hours, following Case No. 2020-00141 and 2020-00167, Staff removed the office/clerk labor costs and adjusted the mileage rate to the current allowable rate by the IRS. LaRue District No. 1 provided updated wage data for 2020 showing an increase in the hourly wages for employees.¹¹ Staff revised the Field Labor Costs with the updated information. The net adjustments result in no change to the current after hours Non-recurring Charges.

⁸ Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020) and Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020).

⁹ LaRue District No. 1's Response to Staff's First Request (filed Sept. 14, 2021), Item 9.

¹⁰ <https://www.irs.gov/tax-professionals/standard-mileage-rates>

¹¹ LaRue District No. 1's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Oct. 26, 2021), Item 3.

The calculation for Staff's adjustment to pro forma Other Water Revenues is shown below.

WATER_NON-RECURRING CHARGES 2020	Occurrences	Current Charge (Tariff)	Current Revenue	Revised NRC Rates	Revenue at Revised Rates	Net Adj. to Revenue
Disconnection Charge	90	\$ 40	\$ 3,600	\$ 10.08	\$ 907	\$ (2,693)
Reconnection Charge	89	\$ 40	\$ 3,560	\$ 10.08	\$ 897	\$ (2,663)
Reconnection Charge (After Hours)		\$ 90	\$ -	\$ 90.00	\$ -	\$ -
Returned Payment Charge	3	\$ 15	\$ 45	\$ 15.00	\$ 45	\$ -
Service Call/Investigation Charge	21	\$ 40	\$ 840	\$ 10.08	\$ 212	\$ (628)
Service Call/Investigation Charge (After Hours)	3	\$ 90	\$ 270	\$ 90.00	\$ 270	\$ -
Meter Test		\$ 100	\$ -	\$ 57.48	\$ -	\$ -
Damage to Meter Setting			\$ -			
Meter Relocate	1		\$ 500		\$ -	\$ (500)
Late Payment Penalty		10%	\$ 3,862		\$ 3,862	
TOTAL			\$ 12,677		\$ 6,193	\$ (6,484)
LaRue District Other Operating Revenue adjustments						
Other Operating Revenue	\$ 11,224					
		\$ (6,484)	Reduction to NRC charges			
		\$ 1,453	Adjustment for unadjusted trail balance			
		\$ (5,031)	Net Adjustments			
	\$ 6,193					

(C) Retirement Expense. In its application, LaRue District No. 1 proposed to increase Employee Pensions and Benefits expense by \$11,861 to reflect an increase to the County Employee Retirement System's (CERS) contribution rate from 24.06 percent to 26.95 percent which became effective July 1, 2021.¹² Staff confirmed the increase to the contribution rate via the Kentucky Public Pensions Authority website,¹³ and believes the adjustment fairly represents the increased costs to LaRue District No. 1. Accordingly, Staff increased Employee Pensions and Benefits expense by \$11,861.

(D) Employer Sponsored Insurance Benefits. LaRue District No. 1 currently provides health, dental, vision, and life insurance for employees of the District. As part of

¹² Application, ARF-SAO.pdf at 1.

¹³ <https://kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>

this provision, LaRue District No. 1 pays 100 percent of the premiums for single coverage for all insurance policies. Staff notes that the Commission has consistently made ratemaking adjustments to reduce the cost of employer sponsored healthcare paid by some utilities when certain aspects of those benefit packages were found to be unreasonable based on a review of total salaries and fringe benefits. With these adjustments, the Commission continues to place greater emphasis on evaluating employees' total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate. The Commission has found that, in most cases, 100 percent of employer-funded health care does not meet those criteria.¹⁴

Consistent with Commission precedent on this issue, Staff reduced LaRue District No. 1's single health insurance premiums by 22 percent,¹⁵ and dental insurance premiums by 60 percent¹⁶ as shown in the calculation below. Accordingly, Staff decreased Salaries and Wages expense by \$3,630.

¹⁴ Case 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 2, 2020). Case 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

¹⁵ Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

¹⁶ Willis Benefits Benchmarking Survey, 2015. ([https://www.willis.com/documents/publications/Services/Employee Benefits/Willis Survey_011216_R1.pdf](https://www.willis.com/documents/publications/Services/Employee%20Benefits/Willis%20Survey_011216_R1.pdf)).

Type of Premium	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	\$ 2,356	22%	\$ (518)	\$ 1,838
Dental Insurance	90	60%	(54)	36
Vision and Life Insurance	135			<u>135</u>
Total Pro Forma Monthly Premium				2,009
Times: 12 Months				<u>12</u>
Total Annual Pro Forma Premium				24,108
Less: Test Year				<u>(27,738)</u>
Adjustment				<u>\$ (3,630)</u>

(E) Purchased Water Adjustment. In its application, LaRue District No. 1 proposed a \$53,108 increase to its test-year purchased water expense.¹⁷ LaRue District No. 1 purchases water from the city of Campbellsville, Green-Taylor Water District, the city of Bardstown, the city of New Haven, Green River Valley Water District, and the city of Hodgenville. LaRue District No. 1's most recent Purchased Water Adjustments (PWA) were in Case Nos. 2020-00194 and 2021-00221, and LaRue District No. 1 wherein purchased water adjustment factors were approved for \$0.01/kgal and \$0.02/kgal, respectively.¹⁸ LaRue District No. 1's 2020 test year expenses do not fully reflect the wholesale water rate increases by its suppliers, and therefore, purchased water expenses must be adjusted upward to reflect the district's current costs. After reviewing the adjustment proposed by LaRue District No. 1, Commission Staff finds this adjustment to be appropriate and reflected an increase of \$53,108 to pro forma operations.

¹⁷ Application, ARF-Form 1, Attachment SAO-W (filed July 21, 2021)

¹⁸ Case No. 2020-00194, *Electronic Purchased Water Adjustment Filing of LaRue County Water District No. 1* (Ky. PSC July 2, 2020); Case No. 2021-00221, *Electronic Purchased Water Adjustment Filing of LaRue County Water District No. 1* (Ky. PSC June 18, 2021).

(F) Billing Software Upgrade. In its 2020 general ledger, LaRue District No. 1 coded an \$18,656 expense to Account 6220, Office Supplies, on March 5, 2020.¹⁹ The expense was to Ampstun Corporation for new billing software for the district and is a non-recurring cost.²⁰ LaRue District No. 1 proposed no adjustment to its test-year Material and Supplies expense to account for this non-recurring cost. As a non-recurring item, Staff believes this item is more appropriately capitalized and amortized over a period that aligns with the time the software is reasonably expected to be used and useful. The Financial Accounting Standards Board (FASB) issued ASC 350-40, which related specifically to the accounting treatment of internal-use software, and determined that it should be capitalized and amortized. As a quasi-governmental entity, a water district is not subject to the provisions of FASB, but Staff believes that the standard that has been set for the capitalization of internal-use software by the FASB is the most appropriate treatment for this intangible asset. More specifically, ASC 350-40-35-5 states that:

In determining and periodically reassessing the estimated useful life over which the costs incurred for internal-use computer software will be amortized, entities shall consider the effects of all of the following:

- a. Obsolescence
- b. Technology
- c. Competition
- d. Other economic factors
- e. Rapid changes that may be occurring in development of software products, software operating system, or computer hardware and whether management intends to replace any technologically inferior software or hardware.

Given the history of rapid changes in technology, software often has a relatively short useful life.²¹

¹⁹ LaRue District No. 1's Response to Staff's First Request, Item 1.

²⁰ LaRue District No. 1's Response to Staff's Second Request, Item 1.

²¹ <https://asc.fasb.org/section&trid-2144521>.

Staff believes that due to the issues raised above, the proper amortization period for the billing software should be five years, which considers obsolescence and rapid changes that may be occurring in software and computer hardware development. Therefore, Staff reduced LaRue District No. 1’s test-year Material and Supplies expense by \$14,925 to reflect the amortization of the billing software.²²

(G) Depreciation Expense. In its application, LaRue District No. 1 reported a test-year Depreciation expense of \$396,507. To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study). When no evidence exists to support a specific life that is outside the NARUC Study ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate water utility plant. Upon examination, Staff found several assets that were outside the accepted ranges of the NARUC Study. In this proceeding, Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Upon review of LaRue District No. 1’s plant ledger, Staff decreased Depreciation expense by \$59,432. Staff’s calculations are attached as Appendix B to this report.

22

Cost to Purchase Billing Software	\$	18,656
Amortize by: 5 Years		<u>5</u>
Annual Amortization Expense		3,731
Less: Test Period Expense		<u>(18,656)</u>
Decrease to Expense	\$	<u>(14,925)</u>

OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

By applying a DSC method, Staff determined LaRue District No. 1's Overall Revenue Requirement to be \$1,898,769. Staff calculated a revenue increase of \$129,352, or 7.45 percent, to base rate revenue is necessary to generate the Overall Revenue Requirement. A comparison of LaRue District No. 1's and Staff's calculation of the Overall Revenue Requirement and the Required Revenue Increase using a DSC method is shown below.

	LaRue District	Staff	
Pro Forma Operating Expenses	\$ 1,629,554	\$ 1,551,568	
Plus: Average Annual Principal and Interest Payments	306,893	289,334	(1)
Additional Working Capital	61,379	57,867	(2)
	<hr/>	<hr/>	
Overall Revenue Requirement	1,997,826	1,898,769	
Less: Other Operating Revenue	(11,224)	(6,193)	
Interest Income	(26,109)	(26,109)	
	<hr/>	<hr/>	
Revenue Required from Rates	1,960,493	1,866,467	
Less: Pro Forma Present Rate Service Revenues	(1,737,115)	(1,737,115)	
	<hr/>	<hr/>	
Required Revenue Increase	\$ 223,378	\$ 129,352	
Percentage Increase	<u>12.86%</u>	<u>7.45%</u>	

(1) In its application, LaRue District No. 1 proposed to include in its revenue requirement the three-year average of its annual principal and interest payments on its bond payable to the United States Department of Agriculture Rural Development (RD), for a loan payable to the Kentucky Rural Water Finance Corporation (KRWFC), and for its anticipated principal and interest payments at the time of the application for a future

bond payable to RD for a construction project approved in Case No. 2020-00234.²³ Staff examined LaRue District No. 1's supporting documentation in its application²⁴ and maturity schedule included in LaRue District No. 1's responses on the indebtedness approved in Case No. 2020-00234.²⁵ and recalculated the five-year average of LaRue District No. 1's bonds and loan payable summarized in the table below:

Year	Annual Debt Payment
2022	\$ 286,500
2023	287,827
2024	289,488
2025	291,468
2026	<u>291,390</u>
Total	1,446,672
Divide by: 5 years	<u>5</u>
Average Annual Principal and Interest Payment	<u><u>\$ 289,334</u></u>

(2) LaRue District No. 1 included in its calculation of the revenue requirement \$61,379 for a debt coverage requirement of 1.20 as required by RD.²⁶ The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are

²³ LaRue District No. 1's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Nov. 4, 2021), Item 2.a. Case No. 2020-00234, *Electronic Application of the LaRue County Water District #1 for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant to KRS 278.023* (Ky. PSC Aug. 26, 2020).

²⁴ Application, 2012_bonds_repayment_schedule.xlsx.

²⁵ LaRue District No. 1's Response to Staff's Third Request, Item 2.b., LCWD_-Maturity_Schedule.pdf

²⁶ Application, ARF-Revenue_Requirements.pdf.

above its average annual debt payments. RD requires that LaRue District No. 1 charge rates that produce net revenues that are at least 120 percent of its average annual debt payments. Following the Commission’s historic practice, Staff agrees with LaRue District No. 1’s proposal to include additional working capital on its current indebtedness but has recalculated the amount based on the average annual principal and interest payments calculated by Staff above. The calculation of LaRue District No. 1’s additional working capital is summarized below:

Average Annual Principal and Interest	\$ 289,334
Times: DSC Coverage Ratio	<u>120%</u>
Total Net Revenues Required	347,201
Less: Average Annual Principal and Interest Payments	<u>(289,334)</u>
Additional Working Capital	<u><u>\$ 57,867</u></u>

Signatures

/s/ Ariel Miller

Prepared by: Ariel Miller
Revenue Requirements Branch
Division of Financial Analysis

/s/ Sam Reid

Prepared by: Sam Reid
Rate Design Branch
Division of Financial Analysis

APPENDIX A

APPENDIX TO A STAFF REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00285 DATED NOV 18 2021

The following rates and charges are prescribed for the customers in the area served by Larue County Water District No 1. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	1,000	Gallons	\$	18.45	Minimum bill
Next	4,000	Gallons		0.00854	Per Gallon
Next	5,000	Gallons		0.00763	Per Gallon
All Over	10,000	Gallons		0.00624	Per Gallon

3/4-Inch Meter

First	3,000	Gallons	\$	35.49	Minimum bill
Next	2,000	Gallons		0.00854	Per Gallon
Next	5,000	Gallons		0.00763	Per Gallon
All Over	10,000	Gallons		0.00624	Per Gallon

1-Inch Meter

First	5,000	Gallons	\$	52.54	Minimum bill
Next	5,000	Gallons		0.00763	Per Gallon
All Over	10,000	Gallons		0.00624	Per Gallon

1 1/2-Inch Meter

First	10,000	Gallons	\$	90.61	Minimum bill
All Over	10,000	Gallons		0.00624	Per Gallon

2-Inch Meter

First	20,000	Gallons	\$	152.82	Minimum bill
All Over	20,000	Gallons		0.00624	Per Gallon

NON-RECURRING CHARGES

Disconnection Charge	\$	10.08
Reconnection Charge		10.08
Reconnection Charge (After Hours)		90.00
Return Payment Charge		15.00
Service Call/ Investigation		10.08
Service Call/ Investigation (After Hours)		90.00
Meter Test		57.48

APPENDIX B

APPENDIX TO A STAFF REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00285 DATED NOV 18 2021

Asset Number	Asset	Original Cost	Larue District Life	Current Depreciation	Staff Life	Adjusted Depreciation	Difference
Distribution Standpipes and Tanks							
16	New Standpipes	\$ 90,088	40	\$ 2,252	45	\$ 2,002	\$ (250)
97	Dist Standpipe Addition	45,431	50	909	45	1,010	101
107	Trans & Dist	136,736	50	2,735	45	3,039	304
114	Distribution Standpipes	260,815	50	5,216	45	5,796	580
138	Distr. Standpipes	276,849	50	5,537	45	6,152	615
162	Distribution Standpipes	324,543	50	6,491	45	7,212	721
180	Standpipes and Tanks	19,963	50	399	45	444	45
230	Standpipes and Tanks	251,766	50	5,035	45	5,595	560
237	Standpipes and Tanks	25,193	50	504	45	560	56
269	White City Tank Restoration	69,700	25	2,788	15	4,647	1,859
270	Atila Tank	380,529	40	9,513	45	8,456	(1,057)
271	Howardstown Tank	564,898	40	14,122	45	12,553	(1,569)
Hydrants							
7	Hydrants	4,856	5	-	N/A	-	-
19	Hydrants	11,069	20	-	N/A	-	-
76	Hydrants	1,000	20	-	N/A	-	-
95	Hydrants	2,071	40	52	50	41	(11)
130	Hydrants	1,755	40	44	50	35	(9)
205	Hydrants	3,284	40	82	50	66	(16)
48	Hydrants	83,541	40	2,089	50	1,671	(418)
Meters And Installations							
189	Meters and Installation	32,027	30	1,068	15	2,135	1,067
200	Meters	19,046	10	-	N/A	-	-
191	Meters and Installation	15,298	30	510	15	1,020	510
201	Meters	24,832	10	-	N/A	-	-
119	Meters	5,000	30	167	15	333	166
199	Meters and Installation	9,782	30	326	15	652	326
190	Meters and Installation	2,665	30	89	15	178	89
202	Meters	14,692	30	-	N/A	-	-
217	Meters	1,572	10	-	N/A	-	-
206	Meters	24,210	10	-	N/A	-	-
227	Meters	6,978	10	-	N/A	-	-
234	Meters	17,930	10	-	N/A	-	-
239	Meters	22,824	10	-	N/A	-	-
242	Meters	13,752	10	-	N/A	-	-
243	Meters	1,120	10	-	N/A	-	-
252	Meters	703	10	-	N/A	-	-
255	Meters	3,840	10	256	15	256	-
253	Meters	8,160	10	612	15	544	(68)
254	Meters	8,928	10	743	15	595	(148)
251	Meters	703	10	59	15	47	(12)
274	Meters	66,004	10	-	15	4,400	4,400
278	Meters	39,580	10	3,958	15	2,639	(1,319)
289	Meters	68,075	10	6,908	15	4,538	(2,370)
27	Meters	145,917	10	14,592	15	9,728	(4,864)
33	Meters	179,192	10	17,919	15	11,946	(5,973)
66	Meters	15,451	10	1,545	15	1,030	(515)
102	Meters	15,850	10	1,585	15	1,057	(528)
101	Meters	5,072	10	507	15	338	(169)
103	Meters	15,939	10	1,594	15	1,063	(531)
110	Meters	53,806	10	5,381	15	3,587	(1,794)
123	Meters and Installation	32,679	10	-	15	2,179	2,179
Office Furniture and Equipment							
77	Server	13,202	5	2,640	5	2,640	-
118	E-Z Reader Software	6,000	10	600	10	600	-

Asset Number	Asset	Original Cost	Larue District Life	Current Depreciation	Staff Life	Adjusted Depreciation	Difference
Pumping Equipment							
287	Electric Pumping Equipment	11,103	10	1,110	20	555	(555)
89	SCADA System	60,000	10	6,000	10	6,000	-
121	SCADA System	60,255	10	6,025	10	6,025	-
Services							
18	Services	66,778	40	1,669	40	1,669	-
21	Services	38,423	40	961	40	961	-
25	Services	7,425	40	186	40	186	-
29	Services	3,921	40	98	40	98	-
31	Services by Wise	14,850	40	371	40	371	-
94	Services	14,142	40	354	40	354	-
105	Services	28,633	30	954	40	716	(238)
109	Services	29,092	30	970	40	727	(243)
116	Services	114,915	30	3,831	40	2,873	(958)
140	Services	161,302	30	5,377	40	4,033	(1,344)
145	Services	35,538	30	1,185	40	888	(297)
153	Services	24,058	30	802	40	601	(201)
154	Services	49,703	30	1,657	40	1,243	(414)
157	Services	26,562	30	885	40	664	(221)
160	Services	180,643	30	6,021	40	4,516	(1,505)
204	Service Install	2,000	20	100	40	50	(50)
232	Service Install	4,800	20	240	40	120	(120)
275	Services Roadbore	15,000	10	1,500	40	375	(1,125)
36	Services	9,868	75	132	40	247	115
39	Clean Up Water Lines	4,500	75	60	40	113	53
53	Services	10,507	75	140	40	263	123
100	Services	10,146	75	135	40	254	119
Structures and Improvements							
15	Pumping Plant	60,590	40	1,515	40	1,515	-
91	Building	40,388	40	1,010	40	1,010	-
92	Building Improvements	5,043	40	126	40	126	-
98	Office Building Improvements	418	50	8	50	8	-
132	Structure	9,263	40	232	40	232	-
225	Improvement to Existing	40,057	20	2,003	20	2,003	-
229	Improvement to Existing	37,294	20	1,865	20	1,865	-
236	Road Bore at Elementary	12,843	20	642	20	642	-
248	Maintenance Building	1,380	10	23	10	-	(23)
249	Buffalo Water Tower	10,449	10	522	10	-	(522)
273	Fence	7,998	10	800	10	800	-
284	Roof Repair	9,390	20	470	20	470	-
285	Furance	6,500	10	650	10	650	-
23	Fence	2,155	10	215	10	216	-
20	King's Hill Pump House	8,800	20	440	20	440	-
87	Building Improvements	5,188	25	208	25	208	-
Tools and Shop Equipment							
125	61' Cut Scag Mower	8,500	5	425	5	1,700	1,275

Asset Number	Asset	Original Cost	Larue District Life	Current Depreciation	Staff Life	Adjusted Depreciation	Difference
Transmission and Distribution Mains							
17	Transmission Lines	544,004	40	13,600	62.5	8,704	(4,896)
24	Transmission Lines	28,822	40	721	62.5	461	(260)
28	Transmission Lines	6,829	40	171	62.5	109	(62)
32	5190' New Lines	6,144	40	154	62.5	98	(56)
35	Distribution Mains	40,733	40	1,018	62.5	652	(366)
38	Expansion	3,092	40	77	62.5	49	(28)
41	Mains	23,637	40	591	62.5	378	(213)
42	Clifford Line	239	20	-	N/A	-	-
43	J W Skaggs Line	250	20	-	N/A	-	-
49	Meers Bridge Sys	33,000	40	825	62.5	528	(297)
51	Line 210 Lake Road	8,723	40	218	62.5	140	(78)
52	31E Bridge	10,894	40	272	62.5	174	(98)
50	Fire Station Bridge	24,247	40	606	62.5	388	(218)
56	Beaver Creek Proj	16,870	40	422	62.5	270	(152)
62	Plouvier Rd Prok	7,209	40	180	62.5	115	(65)
55	Par 1 Project	10,942	40	273	62.5	175	(98)
60	31E Bridge Areas	22,626	40	566	62.5	362	(204)
63	Lyons Station	442,209	40	11,055	62.5	7,075	(3,980)
64	Transmission Lines	1,299	40	32	62.5	21	(11)
69	Roanoke	20,099	40	502	62.5	322	(180)
71	Capitalized Inter	6,848	40	171	62.5	110	(61)
80	Athertonville	35,835	40	896	62.5	573	(323)
81	Salem Church	16,503	40	413	62.5	264	(149)
82	Baumgardner	2,988	40	75	62.5	48	(27)
83	Capitalized Inter	11,222	40	281	62.5	180	(101)
85	Dist Standpipes	180	40	5	62.5	3	(2)
86	Trans and Dist	1,989	40	50	62.5	32	(18)
90	Transmission and Dist	154,405	40	3,960	62.5	2,470	(1,490)
93	Trans and Dist	14,722	40	368	62.5	236	(132)
96	Trans and Dist	865,537	50	17,311	62.5	13,849	(3,462)
106	Trans and Dist	45,611	50	912	62.5	730	(182)
108	Trans and Dist	12,185	50	244	62.5	195	(49)
115	Trans and Distribution	742,333	50	14,847	62.5	11,877	(2,970)
139	Trans and Dist	792,175	50	15,844	62.5	12,675	(3,169)
143	Trans and Dist	22,788	50	456	62.5	365	(91)
151	Trans and Dist	101,749	50	2,035	62.5	1,628	(407)
150	Trans and Dist	6,190	50	124	62.5	99	(25)
152	Trans and Dist	37,394	50	1,348	62.5	598	(750)
156	Transmission and Distribution	411,225	50	8,225	62.5	6,580	(1,645)
163	Transmission and Distribution	2,597,600	50	51,952	62.5	41,562	(10,390)
167	Transmission and Distribution	347,106	50	6,942	62.5	5,554	(1,388)
188	Transmission and Distribution	73,990	30	2,466	62.5	1,184	(1,282)
179	Transmission and Distribution	64,663	50	1,293	62.5	1,035	(258)
182	Transmission and Distribution	39,963	50	799	62.5	639	(160)
181	Transmission and Distribution	19,456	50	389	62.5	311	(78)
185	Transmission and Distribution	254,793	50	5,096	62.5	4,077	(1,019)
183	Transmission and Distribution	236,218	50	4,724	62.5	3,779	(945)
195	Transmission and Distribution	24,180	50	484	62.5	387	(97)
197	Transmission and Distribution	20,976	50	420	62.5	336	(84)
207	Transmission and Distribution	4,000	50	80	62.5	64	(16)
208	Transmission and Distribution	45,189	50	904	62.5	723	(181)
209	Transmission and Distribution	6,335	50	127	62.5	101	(26)
210	Transmission and Distribution	49,778	50	996	62.5	796	(200)
211	Transmission and Distribution	14,537	50	291	62.5	233	(58)
212	Transmission and Distribution	104,410	50	2,088	62.5	1,671	(417)
213	Transmission and Distribution	22,260	50	445	62.5	356	(89)
214	Transmission and Distribution	110,239	50	2,205	62.5	1,764	(441)
215	Transmission and Distribution	14,292	50	286	62.5	229	(57)
216	Transmission and Distribution	21,549	50	431	62.5	345	(86)
224	Transmission and Distribution	87,254	30	2,908	62.5	1,396	(1,512)
226	Transmission and Distribution	46,421	30	1,547	62.5	743	(804)
231	Transmission and Distribution	40,144	50	803	62.5	642	(161)
233	Transmission and Distribution	25,582	30	853	62.5	409	(444)
238	Transmission and Distribution	24,746	30	825	62.5	396	(429)
241	Transmission and Distribution	14,358	30	479	62.5	230	(249)
244	Transmission and Distribution	1,268	50	25	62.5	20	(5)
245	Transmission and Distribution	2,738	50	55	62.5	44	(11)
246	Transmission and Distribution	1,144	50	23	62.5	18	(5)
250	Transmission and Distribution	18,196	30	607	62.5	291	(316)
262	Transmission and Distribution	21,788	30	726	62.5	349	(377)
272	Transmission and Distribution	340,643	50	6,813	62.5	5,450	(1,363)
277	Transmission and Distribution	65,551	50	1,311	62.5	1,049	(262)
288	Transmission and Distribution	92,110	50	1,842	62.5	1,474	(368)
30	Transmission and Distribution	19,621	50	392	62.5	314	(78)
117	Transmission and Distribution	22,715	50	454	62.5	363	(91)

Asset Number	Asset	Original Cost	Larue District Life	Current Depreciation	Staff Life	Adjusted Depreciation	Difference
Transportation							
58	Chevrolet Silverado 2017	23,621	5	4,724	5	4,724	-
59	Chevrolet Silverado 2017	23,621	5	4,724	5	4,724	-
54	2017 Dodge Ram 3500	52,260	5	10,452	5	10,452	-
120	2016 Ford Truck	21,000	5	4,200	5	4,200	-
124	2020 Chevy Crew 1500 Truck	28,256	5	842	5	5,651	<u>4,809</u>
Pro Forma Depreciation Adjustment							<u>\$ (59,432)</u>

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF LARUE)	CASE NO.
COUNTY WATER DISTRICT NO. 1 FOR A RATE)	2021-00285
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

ORDER

On July 21, 2021, LaRue County Water District No. 1 (LaRue District No. 1) tendered an application with the Commission, pursuant to 807 KAR 5:076, requesting to adjust its rates for water service. By letter dated July 22, 2021, the Commission notified LaRue District No. 1 that its application was rejected as deficient. LaRue District No. 1 cured its filing deficiencies, and its application was considered filed as of July 23, 2021. In its application, LaRue District No. 1 requested rates that would increase annual water sales revenues by \$202,422,¹ a 12.00 percent across-the-board increase to pro forma present rate water sales revenues.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated August 17, 2021, which, among other things, required the Commission Staff to file a report containing its findings regarding LaRue District No. 1's application.

Pursuant to the Procedural Order, on November 18, 2021, Commission Staff issued a report (Staff Report) summarizing its findings regarding LaRue District No. 1's requested

¹ Application, Billing Analysis, Total Annual Water Sales at Proposed Rates – Total Annual Water Sales at Present Rates (\$1,939,537 - \$1,737,115 = \$204,422).

rate adjustment. In the Staff Report, Commission Staff found that LaRue District No. 1's adjusted test-year operations support an overall revenue requirement of \$1,898,769 and that an annual revenue increase of \$129,352, or 7.45 percent to the retail base rate, is necessary to generate the overall revenue requirement. In addition, Commission Staff noted that LaRue District No. 1 did not make any pro forma adjustments to amortize any costs attributable to the preparation of its case and indicated that in LaRue District No. 1's response to the Staff Report, it should identify any additional expenses incurred.

On December 1, 2021, LaRue District No. 1 filed with the Commission its comments on the Staff Report in which it accepted all adjustments contained in Commission Staff's Report but indicated it did not agree with the removal of certain labor expenses from nonrecurring charges, nor did it agree with the adjustment to insurance premiums sponsored by LaRue District No. 1. Attached with its comments, LaRue District No. 1 provided invoices totaling \$17,066 associated with the preparation of this case and requested the Commission to amortize these expenses over three years and include a corresponding increase to Commission Staff's recommended rates. With its comments, LaRue District No. 1 did not request that a conference or hearing be held.²

On December 21, 2021, LaRue District No. 1 filed in Case No. 2021-00464³ an application requesting approval to refinance a portion of its current indebtedness with Kentucky Rural Water Finance Corporation. On January 10, 2022, the Commission issued an Order in the instant case explaining that the Commission would not issue a

² Letter from John M. Detre, Chairman of LaRue County Water District No. 1 (filed Dec. 1, 2021).

³ Case No. 2021-00464, *Electronic Application of Larue County Water District No. 1 to Issue Securities for the Purpose of Refinancing Certain Outstanding Obligations of the District Pursuant to the Provisions of KRS 278.300 AND 807 KAR 5:001* (Ky. PSC Jan. 11, 2022).

final Order in this matter until Case No. 2021-00464, an application containing a refinancing proposal, was resolved. On February 18, 2022, LaRue District No. 1 notified the Commission that it was no longer pursuing the refinancing in Case No. 2021-00464.⁴

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, LaRue District No. 1 is allowed to charge its customers "only fair, just and reasonable rates."⁵ Further, LaRue District No. 1 bears the burden of proof to show that the proposed rate increase is just a reasonable, under KRS 278.190(3).

BACKGROUND

LaRue District No. 1 is a water district organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 3,767 customers in LaRue County, Kentucky.⁶ LaRue District No. 1 does not produce any of its own water; rather, it purchases its water from the city of Campbellsville, Green-Taylor Water District, the city of Bardstown, the city of New Haven,

⁴ Case No. 2021-00464, *Larue County Water District No. 1* (filed Feb. 18, 2022), Letter from Tim Bartley, manager of LaRue County Water District No. 1.

⁵ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Pub. Serv. Comm'n v. Com. of Kentucky v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

⁶ *Annual Report of Larue District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (Annual Report) at 12 and 49.

Green River Valley Water District, and the city of Hodgenville. A review of the Commission's records indicated LaRue District No. 1 has not sought an adjustment of rates either by general rate adjustment or through the alternative rate filing procedure since at least 1985.

TEST PERIOD

The calendar year ended December 31, 2020, was used as the test year to determine the reasonableness of LaRue District No. 1's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Staff Report summarizes LaRue District No. 1's pro forma income statement as follows:

	<u>2020 Test Year</u>	<u>Pro Forma Adjustments</u>	<u>Staff Report Pro Forma</u>
Operating Revenues	\$ 1,652,900	\$ 90,408	\$ 1,743,308
Operating Expenses	<u>1,564,585</u>	<u>(13,017)</u>	<u>1,551,568</u>
Net Operating Income	88,315	103,425	191,740
Interest Income	<u>26,109</u>	<u> </u>	<u>26,109</u>
Income Available for Debt Service	<u>\$ 114,424</u>	<u>\$ 103,425</u>	<u>\$ 217,849</u>

MODIFICATIONS TO STAFF'S FINDINGS

LaRue District No. 1's proposed adjustments to revenues and expenses to reflect current and expected operating conditions. In the Staff Report, Commission Staff proposed additional adjustments. The Commission accepts the findings contained in the Staff Report.

Billing Analysis Adjustment. In the Staff Report, Commission Staff recommended an increase to LaRue District No. 1's test-year Water Sales Revenue by \$95,439⁷ to reflect the normalization of revenues from monthly water due to a Purchase Water Adjustment (PWA) that occurred during the test year. The Commission finds that this adjustment is a known and measurable change to Total Metered Sales, is reasonable, and is accepted.

Other Operating Revenue. In the Staff Report, Commission Staff discussed LaRue District No. 1's Nonrecurring Charges⁸ in which estimated labor costs, previously included in determining the amount of Nonrecurring Charges, are removed. The revised Nonrecurring Charges also included an updated mileage rate allowed by the Internal Revenue Service.⁹ Commission Staff recommended a reduction to LaRue District No. 1's test-year Other Water Revenues of \$5,031.¹⁰ In its response to the Staff Report, LaRue District No. 1 stated that it did not agree with the removal of certain nonrecurring charge labor expenses, but did not wish to contest the adjustments in this case.¹¹ The Commission finds that this adjustment is a known and measurable change to Other Water Revenues, is reasonable, and is accepted.

Retirement Expense. In the Staff Report, Commission Staff recommended an increase to LaRue District No. 1's test-year Employee Pensions and Benefits expense by

⁷ Staff Report at 5, Adjustment A.

⁸ *Id.* at 5–6.

⁹ Staff Report at 6.

¹⁰ *Id.* at 5–7, Adjustment B.

¹¹ LaRue District No. 1's Response to Staff Report.

\$11,861¹² to reflect an increase to the County Employee Retirement System's contribution rate of 24.06 percent to 26.95 percent, which became effective July 1, 2021. The Commission finds this adjustment is a known and measurable change to test year operations, is reasonable, and is accepted.

Employer Sponsored Insurance Benefits. In the Staff Report, Commission Staff recommended a decrease to LaRue District No. 1's test-year Employee Pensions and Benefits expense by \$3,630 to reduce employer sponsored health insurance premiums by 22 percent.¹³ The Commission finds that this adjustment is a known and measurable change to Employee Pensions and Benefits, is consistent with established Commission precedent, and is accepted.

Purchased Water Adjustment. In the Staff Report, Commission Staff recommended the Commission accept LaRue District No. 1's proposed increase of \$53,108 to Purchased Water expense to reflect purchased water adjustments factors approved in Case Nos. 2020-00194 and 2021-00221.¹⁴ The Commission finds that this adjustment is a known and measurable change to Purchased Water, is reasonable, and is accepted.

Billing Software Upgrade. In the Staff Report, Commission Staff recommended an adjustment to decrease Materials and Supplies expense by \$14,925¹⁵ to remove and amortize expenses associated with a billing software upgrade purchased in 2020. The

¹² Staff Report at 7, Adjustment C.

¹³ *Id.* at 7–9, Adjustment D.

¹⁴ *Id.* at 9, Adjustment E. Case No. 2020-00194, *Electronic Purchased Water Adjustment Filing of LaRue County Water District No. 1* (Ky. PSC July 2, 2020); Case No. 2021-00221, *Electronic Purchased Water Adjustment Filing of LaRue County Water District No. 1* (Ky. PSC June 18, 2021).

¹⁵ *Id.* at 10-11, Adjustment F.

Commission finds this adjustment is a known and measurable change to Materials and Supplies, is consistent with the guidance provided in the Financial Accounting Standards Board's ASC 350-40, is reasonable, and is accepted.

Depreciation Expense. In the Staff Report, Commission Staff recommended a decrease to LaRue District No. 1's test-year Depreciation Expense by \$59,432¹⁶ to reflect the adjustment of the useful life of capital assets to the midpoint of the National Association of Regulatory Utility Commissioners report published in 1979 titled *Depreciation Practices for Small Water Utilities* (NARUC Study). The Commission finds that this adjustment is a known and measurable change to Depreciation Expense, is consistent with Commission precedent regarding the NARUC Study, is reasonable, and is accepted.

Rate Case Expense. LaRue District No. 1 requested to amortize \$17,066 expended in the preparation of this case over three years. Commission Staff did not make an adjustment but did request that if any additional costs were incurred, to update the requested rate case expenses. LaRue District No. 1 did not request any changes in their response to the Staff Report. The Commission finds that this is a known and measurable change to the test period, is reasonable, and further adjusts the operating expenses calculated in the Staff Report by \$5,689.

Based on the Commission's findings discussed above, the following table summarizes LaRue District's adjusted pro forma operations:¹⁷

¹⁶ *Id.* at 11, Adjustment G.

¹⁷ See Appendix A for a complete pro forma.

	<u>Staff Report Pro Forma</u>	<u>Commission Adjustments</u>	<u>Final Pro Forma</u>
Operating Revenues	\$ 1,743,308		\$ 1,743,308
Operating Expenses	<u>1,551,568</u>	<u>\$ 5,689</u>	<u>1,557,257</u>
Net Operating Income	191,740	(5,689)	186,051
Interest Income	<u>26,109</u>		<u>26,109</u>
Income Available for Debt Service	<u>\$ 217,849</u>	<u>\$ (5,689)</u>	<u>\$ 212,160</u>

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, LaRue District No. 1 requires an increase in revenues of \$141,234, or 8.13 percent above pro forma present rate revenues, as shown below:

Pro Forma Operating Expenses	\$ 1,557,257
Plus: Average Annual Principal and Interest Paymen	289,334
Additional Working Capital	<u>57,867</u>
Overall Revenue Requirement	1,904,458
Less: Interest Income	<u>(26,109)</u>
Revenue Required from Rates	\$ 1,878,349
Less: Pro Forma Present Rate Service Revenues	<u>(1,737,115)</u>
Required Revenue Increase	<u>\$ 141,234</u>
Percentage Increase	<u>8.13%</u>

RATE DESIGN

LaRue District No. 1 proposed an across-the-board 12.0 percent increase to its monthly water rates. LaRue District No. 1 did not perform a cost of service study (COSS).

LaRue District No. 1 stated that the across-the-board increase is the fairest method for its customers to increase rates.¹⁸

The Commission finds that in the absence of a COSS, a proposed across-the-board method is an appropriate and equitable method to allocate the increased cost to LaRue District No. 1's customers. The monthly bill of a typical residential customer using 3,700 gallons of water will increase from \$38.64 to \$41.79, an increase of \$3.15, or 8.15 percent.

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that:

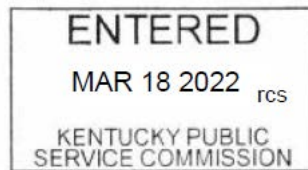
1. The findings contained in the Staff Report are supported by the evidence of record and are reasonable.
2. The Commission has historically used a Debt Service Coverage (DSC) method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Application of the Commission's DSC method to LaRue District No. 1's pro forma operations results in an Overall Revenue Requirement of \$1,904,458. A revenue increase of \$141,234 from water service rates is necessary to generate the overall revenue requirement.
3. The water service rates proposed by LaRue District No. 1 are denied.
4. The water service rates set forth in Appendix B to this Order are fair, just, and reasonable and are approved.

¹⁸ LaRue District No. 1's Response to Staff's First Request for Information (filed Sept. 14, 2021), Item 6.a.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.
2. The water service rates proposed by LaRue District No. 1 are denied.
3. The rates set forth in Appendix B to this Order are approved for services rendered by LaRue District No. 1 on and after the date of this Order.
4. Within 20 days of the date of entry of this Order, LaRue District No. 1 shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.
5. LaRue District No. 1 shall use the midpoint of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the application and agreed upon by Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in the accounting estimate.
6. This case is closed and removed from the Commission's docket.

By the Commission



ATTEST:

Nancy Vinsell for

Executive Director

Case No. 2021-00285

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00285 DATED MAR 18 2022

	Test Year	Staff Report Adjustment	Commission Adjustments	Final Pro Forma
Operating Revenues				
Sales of Water	\$ 1,641,676	\$ 95,439		\$ 1,737,115
Other Water Revenues	11,224	(5,031)		6,193
	<u>1,652,900</u>	<u>90,408</u>	<u>-</u>	<u>1,743,308</u>
Total Operating Revenues				
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	312,302			312,302
Salaries and Wages - Commissioners	10,800			10,800
Employee Pensions and Benefits	100,042	11,861		
		(3,630)		108,273
Purchased Water	469,310	53,108		522,418
Purchased Power for Pumping	27,299			27,299
Chemicals				-
Materials and Supplies	102,581	(14,925)		87,656
Contractual Services	19,790			19,790
Rent				-
Transportation Expense	22,851			22,851
Insurance	38,456			38,456
Regulatory Commission Expense	5,760			5,760
Bad Debt Expense	4,136			4,136
Miscellaneous Expense	54,751		5,689	60,440
	<u>1,168,078</u>	<u>46,414</u>	<u>5,689</u>	<u>1,220,181</u>
Total Operation and Maintenance Expenses				
Depreciation	396,507	(59,432)	-	337,075
	<u>1,564,585</u>	<u>(13,017)</u>	<u>5,689</u>	<u>1,557,257</u>
Total Operating Expenses				
Net Operating Income	88,315	103,425	(5,689)	186,051
Interest Income	26,109			26,109
	<u>\$ 114,424</u>	<u>\$ 103,425</u>	<u>\$ (5,689)</u>	<u>\$ 212,160</u>
Income Available to Service Debt				

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2021-00285 DATED MAR 18 2022

The following rates and charges are prescribed for the customers in the area served by LaRue County Water District No. 1. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	1,000	Gallons	\$ 18.57	Minimum bill
Next	4,000	Gallons	0.00860	per Gallon
Next	5,000	Gallons	0.00768	per Gallon
All Over	10,000	Gallons	0.00627	per Gallon

3/4-Inch Meter

First	3,000	Gallons	\$ 35.72	Minimum bill
Next	2,000	Gallons	0.00860	per Gallon
Next	5,000	Gallons	0.00768	per Gallon
All Over	10,000	Gallons	0.00627	per Gallon

1-Inch Meter

First	5,000	Gallons	\$ 52.88	Minimum bill
Next	5,000	Gallons	0.00768	per Gallon
All Over	10,000	Gallons	0.00627	per Gallon

1 1/2-Inch Meter

First	10,000	Gallons	\$ 91.19	Minimum bill
All Over	10,000	Gallons	0.00627	per Gallon

2-Inch Meter

First	20,000	Gallons	\$ 153.78	Minimum bill
All Over	20,000	Gallons	0.00627	per Gallon

NONRECURRING CHARGES

Disconnection Charge	10.08
Reconnection Charge	10.08
Reconnection Charge (After Hours)	90.00
Return Payment Charge	15.00
Service Call/ Investigation Charge	10.08
Service Call/ Investigation Charge (After Hours)	90.00
Meter Test	57.48

*Adam Scott

*Larue County Water District #1
6215 L & N Turnpike
Buffalo, KY 42716

*Tim Bartley
General Manager
Larue County Water District #1
6215 L & N Turnpike
Buffalo, KY 42716

EXHIBIT 16

BOND ORDINANCE

CITY OF NEW HAVEN, KENTUCKY

AUTHORIZING

CITY OF NEW HAVEN WATER AND SEWER REVENUE BONDS, SERIES 1999

IN THE AMOUNT OF

\$316,000

CONSISTING OF

\$237,000 OF SERIES A BONDS

AND

\$79,000 OF SERIES B BONDS

TABLE OF CONTENTS

**ARTICLE 1. DEFINITIONS; PURPOSE; AUTHORIZATION
 OF BONDS; SECURITY 3**

 Section 101. Definitions 3

 Section 102. Purpose 6

 Section 103. Construction Award Approved; Work Authorized 6

 Section 104. Declaration of Period of Usefulness 7

 Section 105. Authorization of Bonds 7

 Section 106. Recognition of Prior Bonds 8

 Section 107. Current Bonds Shall be Payable on Third Lien Basis Out of Gross
 Revenues 8

 Section 108. Lien on Contracts 8

ARTICLE 2. THE BONDS; BOND FORM; PREPAYMENT 9

 Section 201. Principal Payments 9

 Section 202. Issuance of Current Bonds; Bond Form 9

 Section 203. Place of Payment and Manner of Execution 9

 Section 204. Provisions as to Prepayment 9

**ARTICLE 3. CONSTRUCTION ACCOUNT; INTERIM FINANCING;
 APPLICATION OF PROCEEDS; ARBITRAGE LIMITATIONS 10**

 Section 301. Construction Account; Application of Proceeds
 of Bonds; Other Transfers and Deposits 10

 A. Covenants Applicable if RD Purchases Current Bonds 10

 B. Application of Proceeds of Current Bonds 10

 Section 302. Interim Financing Authorization 13

 A. Interim Financing 13

 B. Multiple Advances by RD 14

 Section 303. Arbitrage Limitations on Investment of Proceeds 15

ARTICLE 4. FLOW OF FUNDS 16

Section 401.	Funds	16
Section 402.	Flow of Funds	16
	A. Revenue Fund	16
	B. Prior Sinking Fund	16
	C. Current Sinking Fund	17
	D. Depreciation Fund	17
	E. Operation and Maintenance Fund	18
	F. Monthly Principal and Interest Payments if Requested by the RD	18
	G. Surplus Funds	18
	H. Investment and Miscellaneous Provisions	18
Section 403.	Current Bonds are Subordinate to the Prior Bonds	19
ARTICLE 5.	COVENANTS OF CITY	20
Section 501.	Rates and Charges	20
Section 502.	Books and Accounts; Audit	20
Section 503.	System to Continue to be Operated on Fiscal Year Basis; Annual Budget	20
Section 504.	General Covenants	21
Section 505.	Other Covenants Applicable So Long as RD Owns Any Bonds	22
Section 506.	Insurance on Motors, Tanks and Structures	23
ARTICLE 6.	INFERIOR BONDS AND PARITY BONDS	24
Section 601.	Inferior Bonds.	24
Section 602.	Parity Bonds to Complete the Project	24
Section 603.	Parity Bonds to Finance Future Improvements	24
Section 604.	Covenants to be Complied with at Time of Issuance of Parity Bonds	26
Section 605.	Prepayment Provisions Applicable to Parity Bonds	26
Section 606.	Consent of the RD Regarding Future Bonds	26
Section 607.	Priority of Lien; Permissible Disposition of Surplus or Obsolete Facilities	26

ARTICLE 7.	DEFAULT AND CONSEQUENCES	28
Section 701.	Events of Default	28
Section 702.	Consequences of Event of Default	28
ARTICLE 8.	CONTRACTUAL PROVISIONS; GRANT APPROVAL; MISCELLANEOUS PROVISIONS	29
Section 801.	Ordinance Contractual with Bondowners	29
Section 802.	All Current Bonds are Equal	29
Section 803.	City Obligated to Refund Current Bonds Owned by Government Whenever Feasible; Defeasement Prohibited	29
Section 804.	Approval and Acceptance of RD Grant Agreement	30
Section 805.	Sewer Connection Ordinance	30
Section 806.	Use of City Streets	30
Section 807.	Authorization, Ratification and Confirmation of Approval and Execution of Various Documents	30
Section 808.	Authorization of Condemnation to Acquire Easements and/or Sites ..	31
ARTICLE 9.	SALE OF CURRENT BONDS	32
Section 901.	Sale of Current Bonds	32
Section 902.	Adjustment in Maturities, Prepayment Provisions and Other Dates if Delivery is Delayed	32
ARTICLE 10.	CONCLUDING PROVISIONS	33
Section 1001.	Covenant of City to Take All Necessary Action To Assure Compliance with the Code	33
Section 1002.	Severability Clause	34
Section 1003.	All Provisions in Conflict Repealed	34
Section 1004.	Effective Date	34
CERTIFICATION		35
EXHIBIT A - Schedule of Principal Maturities		
EXHIBIT B - Form of Fully Registered Bond		
EXHIBIT C - Requisition Certificate		

BOND ORDINANCE

ORDINANCE OF THE CITY OF NEW HAVEN, KENTUCKY, AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$316,000 PRINCIPAL AMOUNT OF CITY OF NEW HAVEN WATER AND SEWER REVENUE BONDS, SERIES 1999, CONSISTING OF \$237,000 OF SERIES A BONDS AND \$79,000 OF SERIES B BONDS FOR THE PURPOSE OF FINANCING THE COST (NOT OTHERWISE PROVIDED) OF THE CONSTRUCTION OF EXTENSIONS, ADDITIONS AND IMPROVEMENTS TO THE EXISTING COMBINED AND CONSOLIDATED WATER AND SEWER SYSTEM OF SAID CITY; 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 WATER AND SEWER SYSTEM; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF SAID BONDS.

WHEREAS, the combined and consolidated water and sewer system (the "System") of the City of New Haven (the "City") is owned and operated by said City pursuant to Chapters 58 and 82 of the Kentucky Revised Statutes (the "Act"), and

WHEREAS, the City 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 Ordinance (as hereinafter defined) of the City, authorizing the Prior Bonds, and

WHEREAS, it is the desire and intent of the City at this time to authorize and provide for the issuance of revenue bonds in the principal amount of \$316,000, consisting of \$237,000 of Series A Bonds and \$79,000 of Series B Bonds (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 City, in accordance with plans and specifications prepared by PEH Engineers and to prescribe the covenants of the City, the rights of Bondowners and the details of the issuance and sale of the proposed Current Bonds, and

WHEREAS, the City desires and intends that the Current Bonds be issued as third lien bonds, subject to the vested rights and priorities in favor of the owners of the outstanding Prior Bonds, and

WHEREAS, the proceeds of the Current Bonds will be supplemented by Grant Proceeds (as hereinafter defined) in the amount of approximately \$347,600 to provide the total cost of such construction,

NOW, THEREFORE, BE IT ORDAINED BY THE CITY OF NEW HAVEN, KENTUCKY, AS FOLLOWS:

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

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

"Act" refers to Chapters 58 and 82 of the Kentucky Revised Statutes.

"Assistance Agreement" refers to the agreement between the Kentucky Infrastructure Authority and the City, dated June 1, 1974, pursuant to which the KIA Loan was made.

"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 the registered Owners of the Bonds at the time issued and outstanding hereunder.

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

"Bonds of 1973" or "Series 1973 Bonds" refer to the outstanding City of New Haven Water and Sewer Revenue Bonds of 1973, Series A and B, dated November 28, 1973, in the original authorized principal amount of \$355,000.

"Bond Ordinance of 1973" or "1973 Bond Ordinance" refer to the Ordinance authorizing the Bonds of 1973, duly enacted by the City Council of the City on May 8, 1973.

"City" refers to the City of New Haven, Kentucky.

"City Clerk" refers to the appointed City Clerk of the City.

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

"Construction Account" refers to the City of New Haven Water and Sewer Construction Account, created in Section 301(B) of this Current Bond Ordinance.

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

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

"Current Bonds" refers to the \$316,000 of City of New Haven Water and Sewer Revenue Bonds, Series 1999, consisting of \$237,000 of Series A Bonds and \$79,000 of Series B Bonds, authorized by this Ordinance, to be dated as of the date of issuance thereof.

"Current Sinking Fund" refers to the City of New Haven Water and Sewer Sinking Fund of 1999, created in Section 401 of this Ordinance.

"Depository Bank" refers to the bank, which shall be a member of the FDIC, which bank is Farmers Bank & Trust Company, New Haven, Kentucky, or its successor.

"Depreciation Fund" refers to the City of New Haven Water and Sewer Depreciation Reserve Fund, described in Section 401 of this Ordinance.

"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 PEH Engineers, or a member of said firm, or their successors.

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

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

"Fiscal Year" refers to the annual accounting period of the City, beginning on July 1 and ending on June 30 of each year.

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

"Governing Body" refers to the City Council of the City, or such other body as shall be the governing body of said City under the laws of Kentucky at any given time.

"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.

"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 water and sewer system engineering, and such definition includes the Engineers named above.

"Interim Lender" refers to Farmers Bank & Trust Company, New Haven, Kentucky, its successors or assigns; or any other financial institution or governmental agency approved by the City.

"KIA Loan" refers to the outstanding loan from the Kentucky Infrastructure Authority to the City, dated June 1, 1974, pursuant to the Assistance Agreement.

"Local Counsel" refers to Saltsman & Willett, P.S.C., Bardstown, Kentucky, or any other attorney or firm of attorneys designated by the City.

"Mayor" refers to the Mayor of the City.

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

"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 City evidencing the interim financing for the Project as prescribed in Section 302 of this Ordinance.

"Operation and Maintenance Fund" refers to the City of New Haven Water and Sewer Operation and Maintenance Fund described in Section 401 of this Ordinance.

"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 Ordinance, rank on a basis of parity with the outstanding Current 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 Current Bonds.

"Prior Bonds" refers collectively to the Series 1973 Bonds and KIA Loan.

"Prior Bond Ordinance" refers collectively to the 1973 Bond Ordinance and the Assistance Agreement.

"Project" refers specifically to the construction of the currently proposed extensions, additions and improvements to the System of the City, 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 Ordinance.

"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 Mayor, (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 City of New Haven Water and Sewer Revenue Fund, described in Section 401 of this Ordinance.

"Prior Sinking Fund" refers to the City of New Haven Water and Sewer Sinking Fund, described in Section 401 of this Ordinance.

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

"Treasurer" refers to the appointed Treasurer of the City.

"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 Ordinance.

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 City Council hereby declares the System of the City, 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 City 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 City Council 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 City 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 City, after all necessary approvals have been obtained.

Section 104. Declaration of Period of Usefulness. The City Council 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 City 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 \$663,600. Therefore, it is hereby determined to be necessary in order for the City to finance the cost (not otherwise provided) of the Project that the City issue a total of \$316,000 of Current Bonds, based on the following calculation:

Total cost of Project		\$663,600
Less:		
RD Grant	\$347,600	
Total Non-Bond Funds:		<u>(347,600)</u>
Balance to be financed by Current Bonds		\$316,000

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 \$316,000 principal amount of City of New Haven Water and Sewer Revenue Bonds, Series 1999, consisting of \$237,000 of Series A Bonds and \$79,000 of Series B Bonds.

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 City hereby expressly recognizes and acknowledges that the City has previously pledged, for the benefit and protection of the owners of the Prior Bonds, the gross revenues of the System, all as set forth in the Prior Bonds and in the Prior Bond Ordinance.

Section 107. Current Bonds Shall be Payable on Third Lien Basis Out of Gross Revenues. The Current Bonds and any additional Parity Bonds that may be issued under the conditions and restrictions set forth hereinafter, shall be secured by and payable on a third lien basis after providing only for the principal and interest requirements of the 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 City 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 Ordinance and incorporated herein by reference.

Section 202. Issuance of Current Bonds; Bond Form. The Purchaser of the Current Bonds at the public sale thereof 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 by reference, amounting in the aggregate to the principal amount of the Current Bonds authorized herein, maturing as to principal as set out in Section 201 above. The Current Bonds shall be numbered R-1 and consecutively upward thereafter. Such Current Bonds shall, upon appropriate execution on behalf of the City as prescribed herein, constitute the entire bond issue herein authorized, shall be negotiable (subject to registration requirements as to transferability), and payable as to principal and interest to 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 City by the manual or facsimile signature of the Mayor, with the Corporate Seal of the City affixed thereto and attested by the manual or facsimile signature of the City Clerk.

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, 2009, shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2009, shall be subject to prepayment by the City on any interest payment date falling on and after January 1, 2008, 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 payments 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 City official as shall be designated by the City Council, 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 City 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 \$36,000 (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 City 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 \$36,000, 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 City 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 "City of New Haven 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 City at the time of receipt of Grant Proceeds.

(3) Withdrawal of Funds From Construction Account. Prior to the expenditure by the City of any moneys from the Construction Account, the City 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 Mayor, the Treasurer (or by such other official of the City as may be authorized by the City Council), provided such official shall be covered by the Fidelity Bond required by Section 301 of this Ordinance, 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 Mayor (or by such other official of the City as may be authorized by the City Council), 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 City shall disburse Construction Account funds in a manner consistent with RD Instruction 1942-A.

The City shall prepare and submit any and all RD Forms required by the RD. Periodic audits of the City'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 from time to time, as needed, an amount sufficient to provide for capitalized interest (initially estimated at \$17,600) 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 City Council, 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 Mayor and the RD), provided that to the extent that any amounts on deposit in said Depository Bank shall cause the total deposits of the City 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 City will be required to provide the RD with statements from the Contractors, Engineers and attorneys for the City 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 1942-A.

(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 City 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 City 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 Current Bonds will be transferred to the Depreciation Fund.

Section 302. Interim Financing Authorization.

A. Interim Financing. The City 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 \$316,000 from the Interim Lender is hereby authorized; and the Mayor is hereby authorized to execute the Note in the name and on behalf of the City. Each advance under the Note shall evidence a loan by the Interim Lender to the City 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 City, 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 City, the Interim Lender shall deposit the proceeds of the Note in the Construction Account, in which event amounts of the City 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 \$316,000. Each Note which is renewed or superseded shall be simultaneously canceled 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 \$316,000 shall be the maximum indebtedness which the City 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 City may reduce the amount owed by the City to the Interim Lender from time to time as and when funds are available to the City, 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 City of additional proceeds from the Current Bonds and/or Grant Proceeds.

The City 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 City 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 City 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 City 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 City.

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

If the RD agrees to make Multiple Advances to the City pending the delivery of the Current Bonds, the Mayor is hereby authorized to execute in the name and on behalf of the City any number of Notes. Each such Note, evidencing an advance of funds by the RD to the City, 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 City 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 City 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 City covenants and certifies, in compliance with the Code, on the basis of known facts and reasonable expectations on the date of enactment of this Ordinance, 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 City covenants to the Owners of the Current Bonds that (1) the City 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 City 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 Current 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 Mayor 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 Ordinance the following funds and accounts:

- (a) City of New Haven Water and Sewer Revenue Fund
- (b) City of New Haven Water and Sewer Sinking Fund
- (c) City of New Haven Water and Sewer Depreciation Reserve Fund
- (d) City of New Haven Water and Sewer Operation and Maintenance Fund

There is hereby created and established in this Ordinance the following funds and accounts:

- (a) City of New Haven Water and Sewer Sinking Fund of 1999

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 Ordinance, 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 City 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 City only for the purpose and in the manner and order of priorities specified in the Prior Bond Ordinance, as hereinafter modified by this Ordinance, 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 January 1.

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 \$17,600) 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 \$160.00 each month which shall be deposited into the Depreciation Fund until the Current Bonds are paid in full.

As further security for the Bondowners and for the benefit of the City, 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 City, upon appropriate certification of the City Council, 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 City'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 City 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 Ordinance 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 City Council. 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 City on deposit in the Depository Bank shall cause the total deposits of the City 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 City funds and shall be deposited in the Depository Bank, and all such deposits which cause the aggregate of all deposits of the City 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 CITY.

Section 501. Rates and Charges. The City 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 City shall charge such rates and charges as shall be adequate to meet the requirements of Articles 4 and 5 hereof.

The City covenants that it will not reduce the rates and charges for the services rendered by the System without first filing with the City Clerk 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 City shall maintain proper records and accounts relating to the operation of the System and the City'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 years of operation after completion of the Project, and whenever and so long as the City is delinquent in any of the covenants set out in the Prior Bond Ordinance or this Current Bond Ordinance. 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 City 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 City covenants that the operating expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that the City 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 City 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 City 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 City 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 City Council 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 City 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 City by a specific resolution duly adopted.

Section 504. General Covenants. The City, through its City Council, 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 Ordinance;

- (4) Unless the written consent of the Owners of a majority of the principal amount of the Outstanding Bonds has been obtained, the City 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 water 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 City 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 96.930-96.943 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 may 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 City 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 1942-47) adopted and executed by the City, which is hereby authorized, approved, ratified and confirmed.

Section 506. Insurance on Motors, Tanks and Structures. The City shall (a) immediately after the enactment of this Ordinance and (b) at the time of final acceptance of the Project, insure all electric motors, 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 City 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 in this Article, the City 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 City 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 of all or a portion of the Outstanding Bonds.

Section 602. Parity Bonds to Complete the Project. The City 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 City from any and all sources, the City shall have the right, if necessary, to provide for such excess, and only such excess, through the issuance of Parity Bonds, provided the City 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 City to pay the cost (not otherwise provided) of the completion of the Project, and provided the City has complied with the provisions of Section 603 below or has obtained:

- (a) the consent of the RD if the Government is 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 City has 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 Ordinance, which conditions are as follows:

The City further reserves the right to add new combined and consolidated water 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 City 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 City has obtained (1) the written consent of the RD for the issuance of such Parity Bonds, if the Government is the Owner of any Outstanding Bonds at the time of issuance of such Parity Bonds and (2) the written consent of the Owners of all of the then Outstanding Bonds, and no other prerequisite need be complied with by the City in order to issue Parity Bonds.

Section 604. Covenants to be Complied with at Time of Issuance of Parity Bonds. The City hereby covenants and agrees that in the event any Parity Bonds are issued, the City 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 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 City 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 Ordinance, the City agrees that so long as the Government owns any Outstanding Bonds against and/or payable from the revenues of the System, the City 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 City covenants and agrees that so long as any of the Bonds are outstanding, the City will not sell or otherwise dispose of any of the facilities of the System, or any part thereof, and, except as provided above, the City 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 City 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 City 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 City 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 City 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 City 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 City 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 City:

- (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 30 days thereafter.
- (c) The default by the City in the due or punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds, the Prior Bond Ordinance or in this Ordinance.
- (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 City, 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 City, its failure to have the order vacated, discharged or stayed on appeal within 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 City set forth herein. Upon the occurrence of an Event of Default, then upon the filing of a suit by any Owner of the Current Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the City 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 Ordinance and with the laws of the Commonwealth of Kentucky.

The City 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 City's obligations, all contracts, and other rights of the City 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 City by appropriate order to raise the rates a reasonable amount consistent with the requirements of this Ordinance.

**ARTICLE 8. CONTRACTUAL PROVISIONS; GRANT APPROVAL;
MISCELLANEOUS PROVISIONS.**

Section 801. Ordinance Contractual with Bondowners. The provisions of this Ordinance constitute a contract between the City and its City Council 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 Ordinance 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 City Council may adopt any resolution for any purpose not inconsistent with the terms of this Ordinance 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 Ordinance, subject to the conditions that (a) this Ordinance 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. City 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 City is able to refund such Current Bonds in whole or in part, by obtaining a loan for such purposes from responsible commercial or private credit sources, or to sell bonds of the City in the open market, at reasonable rates and terms, the City 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 City 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 City in the amount of \$347,600 (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 City to approve, accept and execute RD Form 1942-31 (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 Mayor and the City Clerk are authorized to execute said RD Grant Agreement on behalf of the City. The Mayor and City Clerk are also authorized on behalf of the City to accept any and all other RD Grants offered to the City 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. Sewer Connection Ordinance. It is hereby represented that the City has heretofore enacted a Sewer Connection Ordinance (the "Sewer Connection Ordinance") requiring that all sources of flowable sewage within the City limits be connected to the System, if connection is available, or as soon as the same may be made available. The Sewer Connection Ordinance (i) declares that all unconnected sources of flowable sewage, where sewers are or may hereafter be made available, shall constitute a public nuisance which shall be abated; and (ii) establishes penalties and effective dates. The City hereby covenants that no changes shall be made in the requirements specified in the Sewer Connection Ordinance so long as any of the Bonds are outstanding.

Section 806. Use of City Streets. The use of all City streets, highways, alleys and public ways for the construction and maintenance of the Project is hereby authorized, without the necessity of further permits, licenses or other certifications from the City.

Section 807. Authorization, Ratification and Confirmation of Approval and Execution of Various Documents. The City Council hereby authorizes, approves, ratifies and confirms the previous action of the officers of the City 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 1942-47).
- (e) Agreement for Engineering Services with the Engineers.

Section 808. 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 water and sewer facility of the Project shall not be obtained through negotiation within 10 days after the date of enactment of this Ordinance and in the event that (1) such combined and consolidated water 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 water and sewer facilities cannot be located on a site already owned by the City, 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 City or the City Council. 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 10 days prior to the date on which construction is contemplated in the respective easement, right-of-way and/or site.

The City 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 City Council, 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 City Council further determines that if and to whatever extent the funds available from the proceeds of the financing contemplated by this Ordinance, shall be inadequate to pay any judgment, award or compromise amount for such easements, rights-of-way and/or sites, or if the City is unable to obtain the approval of the RD for any such payment, the City Council shall take all reasonably necessary actions, within the powers and authority of the City Council, to make such additional amount available from all other available City resources.

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 City Council 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 City Clerk with the Minutes of the meeting at which this Ordinance is enacted. The Notice of Bond Sale shall be signed by the City Clerk 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 City may readvertise the sale pursuant to this Ordinance.

Section 902. Adjustment in Maturities, Prepayment Provisions and Other Dates if Delivery is Delayed. In the event that delivery of the Current Bonds authorized herein is delayed for any reason and the City, with the consent of the Purchaser of the Current Bonds, determines it is in the City's best interest to change the maturities, the applicable prepayment date or any other dates, the City may adjust the same by an Order of the City Council approving the adjustments.

ARTICLE 10. CONCLUDING PROVISIONS.

Section 1001. Covenant of City 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 City covenants to and with the Owners of the Current Bonds to take the following action:

(a) The City 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 City 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 City, or any subordinate entity of the City, will issue during the calendar year during which the Current Bonds are issued, will exceed \$10,000,000; and therefore the City 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 City further certifies that the Current Bonds and any and all interim financing obligations of the City are not "private activity bonds" within the meaning of the Code.

(d) The City covenants and agrees that it will not issue, or cause any subordinate entity of the City to issue on the City's behalf, bonds or other obligations considered under the Code to be "tax-exempt obligations" (other than private activity bonds) in the aggregate principal amount in excess of \$5,000,000 during the calendar year in which the Bonds will be issued.

(e) The City 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 City, 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, the City covenants and agrees to rebate to the United States of America any such excess generated from such investments and remit such excess to the United States of America on or before five years from the date of issuance of the

Current Bonds, and once every five years thereafter until the final retirement of the Current Bonds; the last installment, to the extent required, to be made no later than sixty days following the date on which funds sufficient for the complete retirement of the Current Bonds are deposited with any escrow agent. The City 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 City 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 Ordinance shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Ordinance, which shall continue in full force and effect.

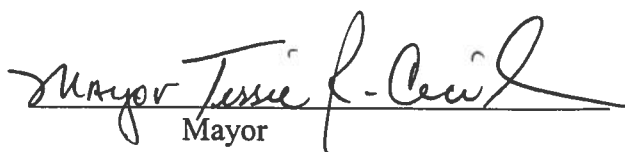
Section 1003. All Provisions in Conflict Repealed. All motions, resolutions and orders, or parts thereof, in conflict with the provisions of this Ordinance, are to the extent of such conflict hereby repealed. It is hereby specifically ordered and provided that any proceedings heretofore taken for the issuance of other bonds of the City 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 sold, are hereby revoked and rescinded, and none of such other bonds shall be issued and delivered. The City covenants to correct by appropriate proceedings any required procedure previously taken invalidly.

Section 1004. Effective Date. This Ordinance shall take effect upon its enactment and publication by title and summary, as provided by law.

Introduced and given first reading on June 23, 1999.

Given second reading and enacted on June 30, 1999.

City of New Haven, Kentucky


Mayor

(Seal of City)

Attest:


City Clerk

CERTIFICATION

I, Linda Mattingly, hereby certify that I am the duly qualified and acting City Clerk of the City of New Haven, Kentucky, and that the foregoing Ordinance is a true copy of an Ordinance duly enacted by the City Council of said City, signed by the Mayor of said City and attested under Seal by me as City Clerk, at a properly convened meeting of said City Council held on June 30, 1999, as shown by the official records of said City 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 Ordinance 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 City Clerk and the official Seal of the City this June 30, 1999.


City Clerk

(Seal of City)

EXHIBIT A

Schedule of Principal Payments - Series A

<u>Payment Due January 1,</u>	<u>Principal Payment</u>	<u>Payment Due January 1,</u>	<u>Principal Payment</u>
2002	\$2,000	2021	\$5,500
2003	2,500	2022	6,000
2004	2,500	2023	6,000
2005	2,500	2024	6,500
2006	2,500	2025	7,000
2007	3,000	2026	7,000
2008	3,000	2027	7,500
2009	3,000	2028	8,000
2010	3,000	2029	8,500
2011	3,500	2030	8,500
2012	3,500	2031	9,500
2013	4,000	2032	9,500
2014	4,000	2033	10,000
2015	4,000	2034	10,000
2016	4,500	2035	11,000
2017	4,500	2036	11,000
2018	5,000	2037	12,000
2019	5,000	2038	12,500
2020	5,500	2039	13,500

EXHIBIT A

Schedule of Principal Payments - Series B

<u>Payment Due January 1,</u>	<u>Principal Payment</u>	<u>Payment Due January 1,</u>	<u>Principal Payment</u>
2002	\$800	2021	\$1,900
2003	800	2022	2,000
2004	900	2023	2,000
2005	900	2024	2,200
2006	900	2025	2,200
2007	1,000	2026	2,400
2008	1,000	2027	2,500
2009	1,100	2028	2,600
2010	1,100	2029	2,700
2011	1,200	2030	2,900
2012	1,200	2031	3,000
2013	1,300	2032	3,100
2014	1,400	2033	3,300
2015	1,400	2034	3,400
2016	1,500	2035	3,600
2017	1,600	2036	3,800
2018	1,600	2037	3,900
2019	1,700	2038	4,200
2020	1,800	2039	4,100

EXHIBIT B

(BOND FORM)

**UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
CITY OF NEW HAVEN WATER AND SEWER REVENUE BONDS, SERIES 1998**

No. R- _____ Interest Rate: _____% \$ _____

KNOW ALL MEN BY THESE PRESENTS:

That the City of New Haven (the "City"), acting by and through its City Council (the "City Council"), a sixth class city in Nelson 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:

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
-------------	------------------	-------------	------------------	-------------	------------------

[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 City.

This Series _____ Bond is issued by the City as part of an issue in the aggregate principal amount of \$316,000, consisting of \$237,000 of Series A Bonds and \$79,000 of Series B Bonds, under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 58 and 82 of the Kentucky Revised Statutes (collectively the "Act"), and pursuant to a duly enacted Bond Ordinance of the City authorizing same (the "Current Bond Ordinance"), to

which Current Bond Ordinance 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 City, for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing combined and consolidated water and sewer system of the City (said existing combined and consolidated water 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) City of New Haven Water and Sewer Revenue Bonds of 1973, Series A and B, dated November 28, 1973 (the "Series 1973 Bonds"), authorized by an Ordinance enacted by the City Council of the City on May 8, 1973 (the "1973 Bond Ordinance") and (ii) Kentucky Infrastructure Authority Loan, dated June 1, 1974 (the "KIA Loan"), authorized by an Assistance Agreement between the Kentucky Infrastructure Authority and the City (the "Assistance Agreement") [hereinafter the Bonds of 1973 and the KIA Loan shall be collectively referred to as the "Prior Bonds", and the 1973 Bond Ordinance and the Assistance Agreement shall be collectively referred to as the "Prior Bond Ordinance"]. Accordingly, this Bond, together with any bonds ranking on a parity herewith, is payable from and secured on a third lien basis by a pledge of the gross revenues to be derived from the operation of the System, after providing for the requirements of the Prior Bonds and the requirements of the Prior Bond Ordinance.

This Bond has been issued in full compliance with the Current Bond Ordinance; 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 Ordinance, are and will continue to be payable from revenues which shall be set aside in a fund for that purpose and identified as the "City of New Haven Water and Sewer Sinking Fund of 1999", created in the Current Bond Ordinance.

This Bond does not constitute an indebtedness of the City 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 Ordinance, the City 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 City 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 City 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 City has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with this Bond, if necessary in order to complete the aforesaid extensions, additions and improvements to the System and to finance future extensions, additions and improvements to the System, provided the City has met the requirements of the Current Bond Ordinance.

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 City Clerk of the City 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 book of the City kept for that purpose.

The City, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2008, 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 City 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 certified mail to the registered owner of this Bond 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 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 City to comply with any other provision of this Bond or with any provision of the Current Bond Ordinance, the registered owner may, at his option, institute all rights and remedies provided by law or by said Current Bond Ordinance.

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 City, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF said City of New Haven, by its City Council, has caused this Bond to be executed by its Mayor, its corporate seal to be hereunto affixed, and attested by its City Clerk, on the date of this Bond, which is

CITY OF NEW HAVEN, KENTUCKY

By _____
Mayor

Attest:

City Clerk

(Seal of City)

PROVISION FOR REGISTRATION

This Bond shall be registered on the registration book of the City kept for that purpose by the City Clerk, as Bond Registrar, upon presentation hereof to said City Clerk, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered owner or its attorney, such transfer to be made on said book and endorsed hereon.

Date of Registration	Name of Registered Owner	Signature of Bond Registrar

ASSIGNMENT

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: City of New Haven Water and Sewer Revenue Bonds, Series 1999, in the amount of \$316,000

The undersigned hereby certify as follows:

1. That they are the signatories required for construction and/or administrative draws pursuant to the Bond Ordinance adopted by the Issuer, City of New Haven, Kentucky (the "City").
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 City and/or obtained by said City 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 on deposit in the "City of New Haven Water and Sewer Construction Account", at the Farmers Bank & Trust Company, New Haven, Kentucky.
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 City and the parties requesting payment.

IN TESTIMONY WHEREOF, witness the signature of the undersigned, this ____ day of _____, 19____.

NEW HAVEN, KENTUCKY

PEH ENGINEERS

By _____
Mayor

By _____
Registered Professional Engineer
State of Kentucky No. _____

Approved on _____

Approved on _____

RURAL DEVELOPMENT

Amount expended heretofore \$ _____

By _____
Authorized RD Official

Amount approved herein _____

Approved on _____

Total _____

EXHIBIT A TO REQUISITION CERTIFICATE

Name of Entity/Person

Amount

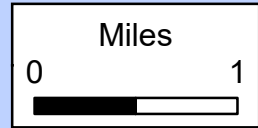
EXHIBIT 17

NEW HAVEN

Surrounding Water Systems

Lincoln Trail ADD with the cooperation of utilities.
Copyright 2022 LTADD

This map is created for general planning purposes ONLY. This map is not legally recorded, surveyed, or intended to be used for purposes other than for generalized planning. Nor does it show all aspects or features of this particular area which may have changed over the years. For questions contact us at (270) 769-2393.



Purchase Source Seller	Waterline >6"	Water Assessment Area
BARDSTOWN	BARDSTOWN	BARDSTOWN
LARUE CWD	LARUE CWD	LARUE CWD
NEW HAVEN	NEW HAVEN	NEW HAVEN
	Tank	MARION CWD

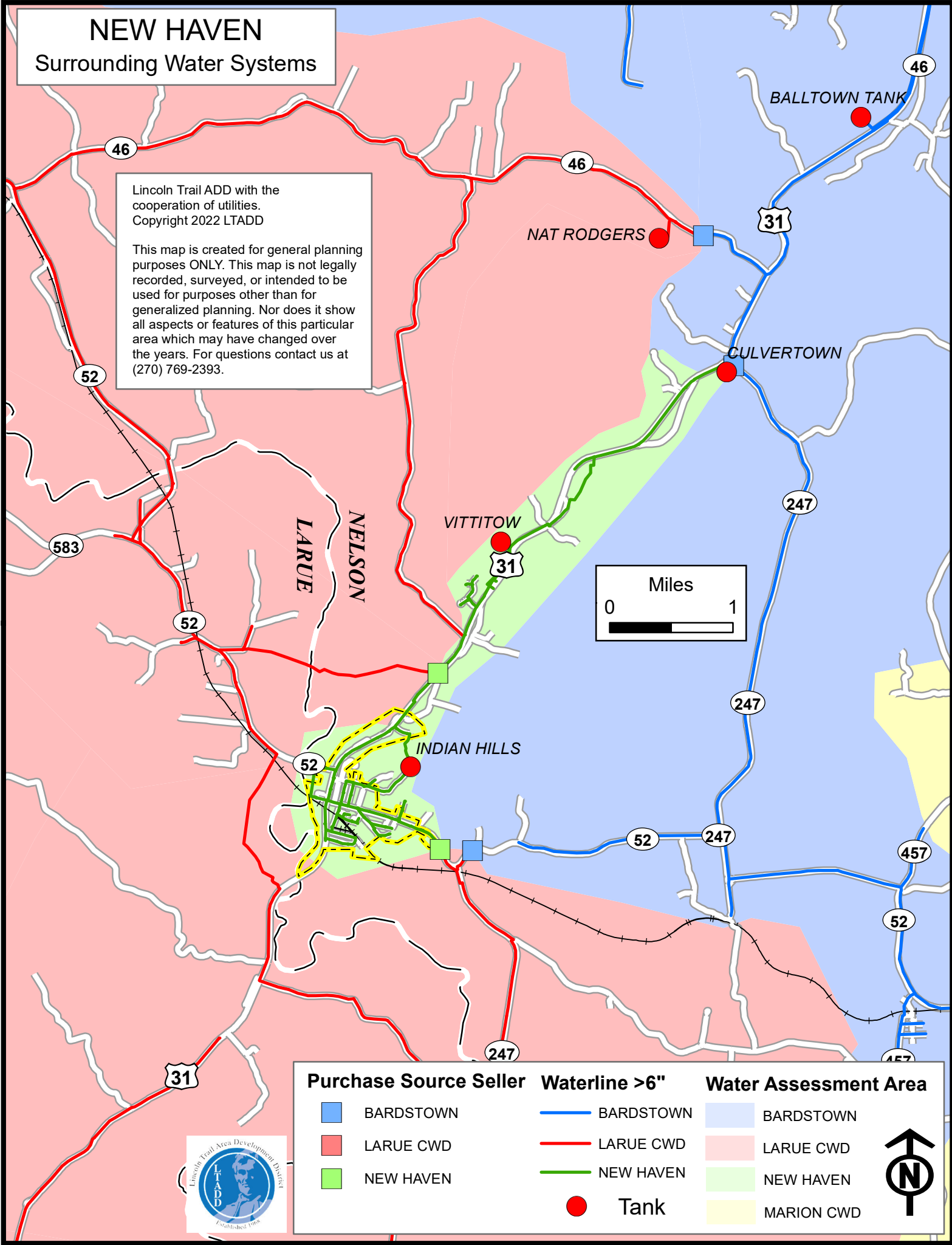


EXHIBIT 18

**LARUE COUNTY WATER DISTRICT NO. 1
CERTIFIED DRINKING WATER
DISTRIBUTION SYSTEM OPERATORS**

	DISTRIBUTION SYSTEM	
NAME	Level of Certification	License Number
Tim Bartley	Class II BD	04130
Keith Bartley	Class II D	02523
Weston Crain	Class II D	25384
Robert Crain	Class II D	18140
	Class	
	Class	
	Class	
	Class	

EXHIBIT 19

**NEW HAVEN'S
CURRENT WATER RATES**

Water Rates

Usage (Gallons)	Inside City	Outside City
First 2,000	\$ 27.06 Minimum Bill	\$ 28.57 Minimum Bill
Next 3,000	\$ 7.15 per 1,000 gallons	\$ 7.90 per 1,000 gallons
Next 5,000	\$ 6.28 per 1,000 gallons	\$ 7.46 per 1,000 gallons
All over 10,000	\$ 5.89 per 1,000 gallons	\$ 7.31 per 1,000 gallons

EXHIBIT 20

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00184 DATED JUL 01 2022

The following rates and charges are prescribed for the customers in the area served by LaRue County Water District No. 1. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	1,000 Gallons	\$18.59 Minimum Bill
Next	4,000 Gallons	.00862 per gallon
Next	5,000 Gallons	.00770 per gallon
Over	10,000 Gallons	.00629 per gallon

3/4-Inch Meter

First	3,000 Gallons	\$35.78 Minimum Bill
Next	2,000 Gallons	.00862 per gallon
Next	5,000 Gallons	.00770 per gallon
Over	10,000 Gallons	.00629 per gallon

1-Inch Meter

First	5,000 Gallons	\$52.98 Minimum Bill
Next	5,000 Gallons	.00770 per gallon
Over	10,000 Gallons	.00629 per gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$91.39 Minimum Bill
Over	10,000 Gallons	.00629 per gallon

2-Inch Meter

First	20,000 Gallons	\$154.18 Minimum Bill
Over	20,000 Gallons	.00629 per gallon

EXHIBIT 21

CURRENT WATER RATES

Usage (Gallons)	New Haven		LaRue County Water District No. 1
	In City	Out of City	
0 to 1,000	\$ 27.06 Minimum Bill	\$ 28.57 Minimum Bill	\$ 18.59 Minimum Bill
1,001 to 2,000	\$ 27.06 Minimum Bill	\$ 28.57 Minimum Bill	\$ 8.62 per 1,000 gallons
2,001 to 5,000	\$ 7.15 per 1,000 gallons	\$ 7.90 per 1,000 gallons	\$ 8.62 per 1,000 gallons
5,001 to 10,000	\$ 6.28 per 1,000 gallons	\$ 7.46 per 1,000 gallons	\$ 7.70 per 1,000 gallons
Over 10,000	\$ 5.89 per 1,000 gallons	\$ 7.31 per 1,000 gallons	\$ 6.29 per 1,000 gallons

- Notes:
1. New Haven's minimum bill is for 2,000 gallons.
 2. LaRue County Water District No. 1's minimum bill is for 1,000 gallons.
 3. The current rates shown for LaRue County Water District No. 1 are the rates approved by the Kentucky Public Service Commission in Case No. 2022-00184 by Order dated July 1, 2022.
 4. The current rates shown for New Haven became effective on July 1, 2022 pursuant to Ordinance No. 499, Series 2022, enacted by the City Commission of New Haven on June 16, 2022.

EXHIBIT 22

WATER BILL COMPARISON

Usage (Gallons)	New Haven		LaRue County
	In City	Out of City	Water District No. 1
1,000	\$ 27.06	\$ 28.57	\$ 18.59
1,500	\$ 27.06	\$ 28.57	\$ 22.90
2,000	\$ 27.06	\$ 28.57	\$ 27.21
2,500	\$ 30.64	\$ 32.52	\$ 31.52
3,000	\$ 34.21	\$ 36.47	\$ 35.83
4,000	\$ 41.36	\$ 44.37	\$ 44.45
5,000	\$ 48.51	\$ 52.27	\$ 53.07
6,000	\$ 54.79	\$ 59.73	\$ 60.77
10,000	\$ 79.91	\$ 89.57	\$ 91.57

Notes: 1. New Haven's minimum bill is for 2,000 gallons.

2. LaRue County Water District No. 1's minimum bill is for 1,000 gallons.