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APPLICATION FOR RATE ADJUSTMENT
BEFORE THE PUBLIC SERVICE COMMISSION

For Small Utilities Pursuant to 807 KAR 5:076
(Alternative Rate Filing)

Letcher County Water and Sewer District

(Name of Utility)

3443 US 119 N.

(Business Mailing Address - Number and Street, or P.O. Box)

Mayking, Kentucky 41837

(Business Mailing Address - City, State, and Zip)

606-633-8050

(Telephone Number)

BASIC INFORMATION

NAME, TITLE, ADDRESS, TELEPHONE NUMBER and E-MAIL ADDRESS of the person to whom correspondence or communications concerning this application should be directed:

Mark Lewis

(Name)

3443 US 119 N.

(Address - Number and Street or P.O. Box)

Mayking, Kentucky 41837

(Address - City, State, Zip)

606-633-8050

(Telephone Number)

marklws21@gmail.com

(Email Address)

(For each statement below, the Applicant should check either "YES", "NO", or "NOT APPLICABLE" (N/A))

- | | YES | NO | N/A |
|---|-------------------------------------|-------------------------------------|-----|
| 1. a. In its immediate past calendar year of operation, Applicant had \$5,000,000 or less in gross annual revenue. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| b. Applicant operates two or more divisions that provide different types of utility service. In its immediate past calendar year of operation, Applicant had \$5,000,000 or less in gross annual revenue from the division for which a rate adjustment is sought. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | |
| 2. a. Applicant has filed an annual report with the Public Service Commission for the past year. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| b. Applicant has filed an annual report with the Public Service Commission for the two previous years. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| 3. Applicant's records are kept separate from other commonly-owned enterprises. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |

YES NO N/A

4. a. Applicant is a corporation that is organized under the laws of the state of _____, is authorized to operate in, and is in good standing in the state of Kentucky.
- b. Applicant is a limited liability company that is organized under the laws of the state of _____, is authorized to operate in, and is in good standing in the state of Kentucky.
- c. Applicant is a limited partnership that is organized under the laws of the state of _____, is authorized to operate in, and is in good standing in the state of Kentucky.
- d. Applicant is a sole proprietorship or partnership.
- e. Applicant is a water district organized pursuant to KRS Chapter 74.
- f. Applicant is a water association organized pursuant to KRS Chapter 273.
5. a. A paper copy of this application has been mailed to Office of Rate Intervention, Office of Attorney General, 1024 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601-8204.
- b. An electronic copy of this application has been electronically mailed to Office of Rate Intervention, Office of Attorney General at rateintervention@ag.ky.gov.
6. a. Applicant has 20 or fewer customers and has mailed written notice of the proposed rate adjustment to each of its customers no later than the date this application was filed with the Public Service Commission. A copy of this notice is attached to this application. **(Attach a copy of customer notice.)**
- b. Applicant has more than 20 customers and has included written notice of the proposed rate adjustment with customer bills that were mailed by the date on which the application was filed. A copy of this notice is attached to this application. **(Attach a copy of customer notice.)**
- c. Applicant has more than 20 customers and has made arrangements to publish notice once a week for three (3) consecutive weeks in a prominent manner in a newspaper of general circulation in its service area, the first publication having been made by the date on which this Application was filed. A copy of this notice is attached to this application. **(Attach a copy of customer notice.)**
7. Applicant requires a rate adjustment for the reasons set forth in the attachment entitled "Reasons for Application." **(Attach completed "Reasons for Application" Attachment.)**

YES NO N/A

8. Applicant proposes to charge the rates that are set forth in the attachment entitled "Current and Proposed Rates." **(Attach completed "Current and Proposed Rates" Attachment.)**
9. Applicant proposes to use its annual report for the immediate past year as the test period to determine the reasonableness of its proposed rates. This annual report is for the 12 months ending December 31, 2021.
10. Applicant has reason to believe that some of the revenue and expense items set forth in its most recent annual report have or will change and proposes to adjust the test period amount of these items to reflect these changes. A statement of the test period amount, expected changes, and reasons for each expected change is set forth in the attachment "Statement of Adjusted Operations." **(Attach a completed copy of appropriate "Statement of Adjusted Operations" Attachment and any invoices, letters, contracts, receipts or other documents that support the expected change in costs.)**
11. Based upon test period operations, and considering any known and measurable adjustments, Applicant requires additional revenues of \$ \$581,729 and total revenues from service rates of \$ \$2,216,573. The manner in which these amounts were calculated is set forth in "Revenue Requirement Calculation" Attachment. **(Attach a completed "Revenue Requirement Calculation" Attachment.)**
12. As of the **date of the filing of this application**, Applicant had 3,110 +/- customers.
13. A billing analysis of Applicant's current and proposed rates is attached to this application. **(Attach a completed "Billing Analysis" Attachment.)**
14. Applicant's depreciation schedule of utility plant in service is attached. **(Attach a schedule that shows per account group: the asset's original cost, accumulated depreciation balance as of the end of the test period, the useful lives assigned to each asset and resulting depreciation expense.)**
15. a. Applicant has outstanding evidences of indebtedness, such as mortgage agreements, promissory notes, or bonds.
- b. Applicant has attached to this application a copy of each outstanding evidence of indebtedness (e.g., mortgage agreement, promissory note, bond resolution).
- c. Applicant has attached an amortization schedule for each outstanding evidence of indebtedness.

- | | YES | NO | N/A |
|---|-------------------------------------|-------------------------------------|-------------------------------------|
| 16. a. Applicant is not required to file state and federal tax returns. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| b. Applicant is required to file state and federal tax returns. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | |
| c. Applicant's most recent state and federal tax returns are attached to this Application.
(Attach a copy of returns.) | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| 17. Approximately _____ ⁰ (Insert dollar amount or percentage of total utility plant) of Applicant's total utility plant was recovered through the sale of real estate lots or other contributions. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| 18. Applicant has attached a completed Statement of Disclosure of Related Party Transactions for each person who 807 KAR 5:076, §4(h) requires to complete such form. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |

By submitting this application, the Applicant consents to the procedures set forth in 807 KAR 5:076 and waives any right to place its proposed rates into effect earlier than six months from the date on which the application is accepted by the Public Service Commission for filing.

I am authorized by the Applicant to sign and file this application on the Applicant's behalf, have read and completed this application, and to the best of my knowledge all the information contained in this application and its attachments is true and correct.

Signed Mark Lewis
Officer of the Company/Authorized Representative

Title General manager

Date 12-20-22

COMMONWEALTH OF KENTUCKY

COUNTY OF etcher

Before me appeared Mark Lewis, who after being duly sworn, stated that he/she had read and completed this application, that he/she is authorized to sign and file this application on behalf of the Applicant, and that to the best of his/her knowledge all the information contained in this application and its attachments is true and correct.

Stephanie Bolling
Notary Public

My commission expires: August 12, 2023

LIST OF ATTACHMENTS
(Indicate all documents submitted by checking box)

- Customer Notice of Proposed Rate Adjustment
- "Reasons for Application" Attachment"
- Current and Proposed Rates" Attachment
- "Statement of Adjusted Operations" Attachment
- "Revenue Requirements Calculation" Attachment
- Attachment Billing Analysis" Attachment
- Depreciation Schedules
- Outstanding Debt Instruments (i.e., Bond Resolutions, Mortgages, Promissory Notes, Amortization Schedules.)
- State Tax Return
- Federal Tax Return
- Statement of Disclosure of Related Party Transactions - ARF Form 3

LIST OF ATTACHMENTS
LETCHER COUNTY WATER AND
SEWER DISTRICT

1. Customer Notice of Proposed Rates Adjustments.
2. Reasons for Application (Attachment SR – Reasons for Application).
3. Current and Proposed Rates.
4. Statement of Adjusted Operations (Attachment SAO-W – Schedule of Adjusted Operations).
5. Revenue Requirements Calculation (Attachment RR-DC – Revenue Requirement Calculation Form – Debt Coverage).
6. Billing Analysis (Attachment BA_DB – Billing Analysis Form – Declining Block Rates).
7. Depreciation Schedule.
8. Outstanding Debt Instruments
9. Statement of Disclosure of Related Party Transactions (ARF FORM-3).
10. Board Resolution.

Attachment #1

CUSTOMER NOTICE

Notice is hereby given that the Letcher County Water and Sewer District expects to file an application with the Kentucky Public Service Commission on or about December 21, 2022, seeking approval of a proposed adjustment to its water rates. The proposed rates shall not become effective until the Public Service Commission has issued an order approving these rates.

MONTHLY WATER RATES

Minimum Bills Based on Meter Size

<u>Meter</u>	<u>Gallons Incl'd in Minimum</u>	<u>Charge per 1,000 Gals.</u>		<u>Dollar Increase</u>	<u>Percent Change</u>
		<u>Current</u>	<u>Proposed</u>		
5/8" x 3/4"	2,000 Gallons	\$ 28.08	\$ 38.07	\$ 9.99	35.58%

Rates for Water Usage in Addition to Minimum

<u>5/8" x 3/4" Meter</u>	<u>Current Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
First 2,000 gallons	\$ 28.08 Minimum Bill	\$ 38.07	\$ 9.99	35.58%
Over 2,000 gallons	7.79 per 1,000 gallons	\$ 10.56	\$ 2.77	35.58%

If the Public Service Commission approves the proposed water rates, then the monthly bill for a residential customer using an average of 3,500 gallons per month will increase from \$39.77 to \$53.91. This is an increase of \$14.15 or 35.58%.

The rates contained in this notice are the rates proposed by Letcher County Water and Sewer District. However, the Public Service Commission may order rates to be charged that differ from the proposed rates. Such action may result in rates for consumers other than the rates shown in this notice.

Letcher County Water and Sewer District has available for inspection at its office the application which it submitted to the Public Service Commission. A person may examine this application at the Districts office located at 3443 Highway 119 N. Mayking, Ky 41837. You may contact the office at 606-633-8550.

A person may also examine the application at the Public Service Commission's offices located at 211 Sower Boulevard, Frankfort, Ky, 40601, Monday through Friday, 8:00 a.m. to 4:30 p.m., or through the Public Service Commission's website at <http://psc.ky.gov>. Comments regarding the application may be submitted to the Public Service Commission through its website or by mail to Public Service Commission, PO Box 615, Frankfort, Kentucky, 40602. You may contact the Public Service Commission at 502-564-3940.

A person may submit a timely written request for intervention to the Public Service Commission, PO Box 615, Frankfort, Ky, 40602, establishing the grounds for the request including the status and interest of the party. If the Public Service Commission does not

receive a written request for intervention within thirty (30) days of the initial publication of this notice, the Public Service Commission may take final action on the application.

WHOLESALE CUSTOMER NOTICE

Notice is hereby given that the Letcher County Water and Sewer District expects to file an application with the Kentucky Public Service Commission on or about December 21, 2022, seeking approval of a proposed adjustment to its water rates. The proposed rates shall not become effective until the Public Service Commission has issued an order approving these rates.

MONTHLY WATER RATES

Wholesale Rates for Wholesale Customers

	<u>Charge per 1,000 Gals.</u>		<u>Dollar</u>	<u>Percent</u>
	<u>Current</u>	<u>Proposed</u>	<u>Increase</u>	<u>Change</u>
For All Water Purchased	\$3.89	\$5.27	\$1.38	35.58%

If the Public Service Commission approves the proposed water rates, then the monthly bill for a wholesale customer will increase from \$3.89 to \$5.27 for each 1,000 gallons purchased. This is an increase of \$1.38 or 35.58%.

The rates contained in this notice are the rates proposed by Letcher County Water and Sewer District. However, the Public Service Commission may order rates to be charged that differ from the proposed rates. Such action may result in rates for consumers other than the rates shown in this notice.

Letcher County Water and Sewer District has available for inspection at its office the application which it submitted to the Public Service Commission. A person may examine this application at the Districts office located at 3443 Highway 119 N. Mayking, Ky 41837. You may contact the office at 606-633-8550.

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Attachment #2

REASONS FOR APPLICATION

(In the space below list all reasons why the Applicant requires a rate adjustment. Describe any event or occurrence of significance that may affect the Applicant's present or future financial condition, including but not limited to excessive water line losses, regulatory changes, major repairs, planned construction, and increases in wholesale water costs.)

Letcher County Water and Sewer District files this application to comply with the Public Service Commission's Order of June 21, 2022 in Case No. 2022-00081, which directed it to file an application for a rate adjustment in six months.

Attachment #3

CURRENT AND PROPOSED RATES
Letcher County Water and Sewer District

<u>Current Rates</u>				<u>Proposed Rates</u>			
<u>5/8" x 3/4" Meter</u>				<u>5/8" x 3/4" Meter</u>			
First	2,000	\$ 28.08	Minimum Bill	First	2,000	\$ 38.07	Minimum Bill
Over	2,000	7.79	per 1,000 gallons	Over	2,000	\$ 10.56	per 1,000 gallons
<u>Wholesale Rates</u>				<u>Wholesale Rates</u>			
All Water Purchased		\$3.89	per 1,000 gallons	All Water Purchased		\$5.27	per 1,000 gallons

Attachment #4

SCHEDULE OF ADJUSTED OPERATIONS - WATER UTILITY

TYE 12/31/20 21

	Test Year	Adjustment	Ref.	Pro Forma
Operating Revenues				
Sales of Water				
Unmetered Water Sales				0.00
Metered Water Sales	1,647,291.00	-83,843.00	A	1,563,448.00
Bulk Loading Stations				0.00
Fire Protection Revenue				0.00
Sales for Resale				0.00
Total Sales of Water	1,647,291.00	-83,843.00		1,563,448.00
Other Water Revenues				
Forfeited Discounts				0.00
Miscellaneous Service Revenues		71,396.00	B	71,396.00
Rents from Water Property				0.00
Other Water Revenues				0.00
Total Other Water Revenues	0.00	71,396.00		71,396.00
Total Operating Revenues	1,647,291.00	-12,447.00		1,634,844.00
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	232,126.00			232,126.00
Salaries and Wages - Officers				0.00
Employee Pensions and Benefits	125,324.00	-40,440.00	C	84,884.00
Purchased Water	786,357.00	-78,466.00	D	707,891.00
Purchased Power	51,000.00	-5,089.00	E	45,911.00
Fuel for Power Production				0.00
Chemicals				0.00
Materials and Supplies	45,593.00			45,593.00
Contractual Services	66,657.00			66,657.00
Water Testing				0.00
Rents	1,560.00			1,560.00
Transportation Expenses	35,854.00			35,854.00
Insurance	45,814.00			45,814.00
Regulatory Commission Expenses				0.00
Bad Debt Expense				0.00

Miscellaneous Expenses	110,602.00			110,602.00
Total Operation and Maintenance Expenses	1,500,887.00	-123,995.00		1,376,892.00
Depreciation Expense	804,887.00	-215,181.00	F	589,706.00
Amortization Expense	15,910.00	-3,978.00	G	11,932.00
Taxes Other Than Income	111,926.00			111,926.00
Income Tax Expense				0.00
Total Operating Expenses	2,433,610.00	-343,154.00		2,090,456.00
Utility Operating Income	-786,319.00	330,707.00		-455,612.00

References

(A) Metered Water Sales

The amount of metered water sales was incorrectly reported in the 2021 annual report. As a result, an adjustment of \$(83,843) is necessary.

(B) Miscellaneous Service Revenues

Test Year miscellaneous revenues were increased by \$71,396 as a result of adjustment (A).

(C) The District pays 100 percent of its employees' health insurance premiums. The PSC requires that expenses associated with this level of employer-funded premiums be adjusted to be consistent with the Bureau of Labor Statistics' national average for an employer's share of health insurance premiums. Average employer shares from BLS are currently 79 percent for single coverage. Applying those percentages to premiums paid in the current year results in a deduction from 2020 benefits expense of \$40,440.

(D) & (E) During the year Letcher County Water and Sewer reported unaccounted for water loss of 17.51%. While performing the billing analysis an error in the billing system was discovered that was incorrectly reporting total water sold. This error reduced water sold by 17,472,300 gallons for the test year. Actual water sold during the test year was 160,944,700 gallons resulting in an actual unaccounted-for water loss of 24.98%. This resulted in an adjustment in purchased water expense of \$78,466 and an adjustment of Purchased Power Expense of \$5,089.

(F) & (G) Test year depreciation and amortization expense was reduced by \$215,181 and \$3,978 respectively. This adjustment was made to bring asset lives to the recommended range based on common PSC practices.

Adjustment Calculations

(A) & (B)

Metered Water Sales from 2021 PSC Annual Report		\$ 1,647,291
Less Miscellaneous Service Revenues:		
Late Fees	(34,306)	
Tap Fees	(23,281)	
Returned Check Adjustments	(2,117)	
Misc. Adjustments	(6,585)	
Reconnect Fee	(5,106)	
Total Miscellaneous Service Revenues		(71,396)
Less: Customer Deposits		(12,447)
Metered Water Sales		<u>\$ 1,563,448</u>
Total Adjustment to Metered Water Sales		<u><u>\$ (83,843)</u></u>

(C)

Type of Premium	Current Monthly Premium	Times: Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	\$ 4,320	22%	\$ (951)	<u>\$ 3,370</u>
Total Pro Forma Monthly Premium				\$ 3,370
Times: 12 Months				<u>12</u>
Total Annual Pro Forma Premium				40,440
Less: Test Year				<u>0</u>
Adjustment				<u><u>\$ 40,440</u></u>

(D) & (E)

	Reported	Actual
Water Purchased during the Test Year	233,859,000	233,859,000
Less: Water Sold:	178,417,000	160,944,700
Less: Accounted for Water Loss	14,500,000	14,500,000
Unaccounted for Water Loss	40,942,000	58,414,300
Water Loss Percentage	17.51%	24.98%
Allowable Water Loss:	15%	15%
Excess Water Loss	2.51%	9.98%

Purchased Water Expense	\$ 786,357
Water Loss Not Allowed	<u>9.98%</u>
Adjustment	<u><u>\$ 78,466</u></u>

Purchased Power Expense	\$ 51,000
Water Loss Not Allowed	<u>9.98%</u>
Adjustment	<u><u>\$ 5,089</u></u>

Attachment #5

REVENUE REQUIREMENT CALCULATION - DEBT COVERAGE METHOD

(This method is used commonly by non-profits that have long-term debts outstanding.)

Pro forma Operating Expenses	\$2,090,456.00
Plus: Average Annual Debt Principal and Interest Payments*	165,859.00
Debt Coverage Requirement**	33,172.00
Total Revenue Requirement	2,289,487.00
Less: Other Operating Revenue	
Non-operating Revenue	-71,396.00
Interest Income	-1,518.00
Revenue Required from Rates	2,216,573.00
Less: Revenue from Sales at Present Rates	-1,634,844.00
Required Revenue Increase	\$581,729.00

Required Revenue Increase stated as a Percentage of Revenue at Present Rates	<u>35.58%</u>
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* This should be a 3 year average calculated using the debt principal and interest payments for the three years following the test year.

** This amount is calculated by multiplying the average annual debt principal and interest payments by the debt service requirement of the utility's lending agency.

Attachment #6

Billing Analysis

Letcher County Water and Sewer District

Test Period January – December 2021

Usage Table

	Bills	Gallons	First 2,000	Over 2,000	Total
First 2,000 Minimum Bill	13,050	14,952,700	14,952,700		14,952,700
Over 2,000 Gallons	19,306	145,992,000	38,612,000	107,380,000	145,992,000
Totals	32,356	160,944,700	53,564,700	107,380,000	160,944,700

Revenue Table – Current Rates

	Bills	Gallons	Rates	Revenue
First 2,000 Minimum Bill	32,356	53,564,700	\$ 28.08	\$ 908,556
Over 2,000 Gallons		107,380,000	\$ 7.79	\$ 836,490
Totals	32,356	160,944,700		\$ 1,745,047

Revenue Table – Proposed Rates

	Bills	Gallons	Rates	Revenue
First 2,000 Minimum Bill	32,356	53,564,700	\$ 38.07	\$ 1,231,793
Over 2,000 Gallons		107,380,000	\$ 10.56	\$ 1,133,933
Totals	32,356	160,944,700		\$ 2,365,726

Wholesale - Current Rates

	Usage	Bills	Gallons	Rate	Revenue
First	1,320,000	6		\$ 3.89	\$ 5,135
Over					
Totals		6	0		\$ 5,134.80

Wholesale - Proposed Rates

	Usage	Bills	Gallons	Rate	Revenue
First	1,320,000	6		\$ 5.27	\$ 6,956
Over					
Totals		6	0		\$ 6,956.40

Attachment #7

Tax Asset Detail 1/01/20 - 12/31/20

FYE: 12/31/2020

Asset	d t	Property Description	Date In Service	Tax Cost	Sec 179 Exp Current = c	Tax Bonus Amt	Tax Prior Depreciation	Tax Current Depreciation	Tax End Depr	Tax Net Book Value	Tax Method	Tax Period
Division: Allocation												
1		Property plant and equipment	12/31/01	499,454.15	0.00	0.00	252,224.27	12,486.35	264,710.62	234,743.53	S/L	40.00
2		PP&E	12/31/01	84,136.12	0.00	0.00	42,488.70	2,103.40	44,592.10	39,544.02	S/L	40.00
3		PP&E	12/31/02	25,122.30	0.00	0.00	12,033.05	628.06	12,661.11	12,461.19	S/L	40.00
4		PP&E	12/31/02	508,760.26	0.00	0.00	241,661.17	12,719.01	254,380.18	254,380.08	S/L	40.00
5		PP&E	12/31/03	6,025.00	0.00	0.00	2,681.18	150.63	2,831.81	3,193.19	S/L	40.00
6		PP&E	12/31/03	653,210.80	0.00	0.00	290,678.80	16,330.27	307,009.07	346,201.73	S/L	40.00
7		PP&E	12/31/04	7,818.39	0.00	0.00	3,244.63	195.46	3,440.09	4,378.30	S/L	40.00
8		PP&E	12/31/04	86,336.63	0.00	0.00	35,829.74	2,158.42	37,988.16	48,348.47	S/L	40.00
26		Jeremiah-Isom Project	12/31/05	546,649.76	0.00	0.00	202,260.38	13,666.24	215,926.62	330,723.14	S/L	40.00
27		Jeremiah-Isom Project	12/31/07	8,289.90	0.00	0.00	2,590.62	207.25	2,797.87	5,492.03	S/L	40.00
28		Isom-Jeremiah Phase I	12/31/07	1,616.18	0.00	0.00	549.45	40.40	589.85	1,026.33	S/L	40.00
29		Blackey Water plant	6/30/06	2,857,535.00	0.00	0.00	1,464,386.50	71,438.38	1,535,824.88	1,321,710.12	S/L	40.00
30		Isom Jeremiah Phase2	12/01/06	926,687.40	0.00	0.00	315,073.77	23,167.19	338,240.96	588,446.44	S/L	40.00
31		Isom Jeremiah Phase 2	12/31/07	5,557.00	0.00	0.00	2,361.78	138.93	2,500.71	3,056.29	S/L	40.00
32		Isom Jeremiah Project	12/31/07	60,316.47	0.00	0.00	20,507.59	1,507.91	22,015.50	38,300.97	S/L	40.00
33		Isom Jeremiah project	12/31/07	5,208.33	0.00	0.00	2,213.55	130.21	2,343.76	2,864.57	S/L	40.00
34		Isom Jeremiah Phase 2	12/31/07	1,156,824.93	0.00	0.00	393,320.43	28,920.62	422,241.05	734,583.88	S/L	40.00
35		Dryfork Uz Project	12/31/08	253,779.24	0.00	0.00	72,961.52	6,344.48	79,306.00	174,473.24	S/L	40.00
36		Crafts Colley Phase I	12/31/08	756,868.63	0.00	0.00	217,599.77	18,921.72	236,521.49	520,347.14	S/L	40.00
37		Crafts Colley Phase I	12/31/09	236,184.12	0.00	0.00	61,998.30	5,904.60	67,902.90	168,281.22	S/L	40.00
39		Little Cowan	12/31/09	809,702.07	0.00	0.00	202,425.51	20,242.55	222,668.06	587,034.01	S/L	40.00
40		Little Cowan	12/31/10	13,900.00	0.00	0.00	3,301.25	347.50	3,648.75	10,251.25	S/L	40.00
42		Blackey to Whitesburg connector	12/31/09	70,105.74	0.00	0.00	18,402.72	1,752.64	20,155.36	49,950.38	S/L	40.00
45		Sandlick project	12/31/09	2,616,962.62	0.00	0.00	686,952.73	65,424.07	752,376.80	1,864,585.82	S/L	40.00
46		Smoot Creek Project	12/31/09	273.03	0.00	0.00	273.03	0.00	273.03	0.00	S/L	5.00
47		Camp Branch Little Dryfork	12/31/09	2,328,255.22	0.00	0.00	611,166.99	58,206.38	669,373.37	1,658,881.85	S/L	40.00
48		Amortization of Blackey WTP	6/30/06	477,312.02	0.00	0.00	206,835.20	15,910.40	222,745.60	254,566.42	Amort	30.00
49		Pine Creek cip	12/31/13	75,459.76	0.00	0.00	11,318.94	1,886.49	13,205.43	62,254.33	S/L	40.00
51		Blackey Sewer Project-did not com	12/31/11	61,528.63	0.00	0.00	12,305.76	1,538.22	13,843.98	47,684.65	S/L	40.00
52		Thornton Water	12/31/11	451,742.90	0.00	0.00	90,348.56	11,293.57	101,642.13	350,100.77	S/L	40.00
53		Wilder Branch cip	12/31/11	22,358.11	0.00	0.00	4,471.60	558.95	5,030.55	17,327.56	S/L	40.00
54		Payne Gap cip	12/31/13	119,268.80	0.00	0.00	17,890.32	2,981.72	20,872.04	98,396.76	S/L	40.00
55		Deane	12/31/11	37,327.52	0.00	0.00	7,465.52	933.19	8,398.71	28,928.81	S/L	40.00
56		Red Star	12/31/11	197,598.67	0.00	0.00	39,519.76	4,939.97	44,459.73	153,138.94	S/L	40.00
58		Knott Co connector	12/31/11	228,586.36	0.00	0.00	45,717.28	5,714.66	51,431.94	177,154.42	S/L	40.00
63		Knott County Interconnect	12/31/11	753,547.81	0.00	0.00	150,709.60	18,838.70	169,548.30	583,999.51	S/L	40.00
64		Red Star	12/31/11	1,088,974.63	0.00	0.00	217,794.96	27,224.37	245,019.33	843,955.30	S/L	40.00
65		Thornton Water	12/31/11	390,442.05	0.00	0.00	78,088.40	9,761.05	87,849.45	302,592.60	S/L	40.00
66		Premium project	12/31/12	444,409.74	0.00	0.00	77,771.68	11,110.24	88,881.92	355,527.82	S/L	40.00
68		Payne Gap CIP	12/31/13	6,419.25	0.00	0.00	962.88	160.48	1,123.36	5,295.89	S/L	40.00
69		Knott County Interconnect	12/31/11	180,219.45	0.00	0.00	36,043.92	4,505.49	40,549.41	139,670.04	S/L	40.00
71		Isom Jeremiah 2	12/31/11	18,562.43	0.00	0.00	3,712.48	464.06	4,176.54	14,385.89	S/L	40.00
72		Deane	12/31/11	23,538.72	0.00	0.00	4,707.76	588.47	5,296.23	18,242.49	S/L	40.00
73		Pine Cram Creek CIP	12/31/13	146,027.68	0.00	0.00	21,904.14	3,650.69	25,554.83	120,472.85	S/L	40.00
74		Smoot Creek project	12/31/12	56,349.48	0.00	0.00	9,861.18	1,408.74	11,269.92	45,079.56	S/L	40.00
76		Crafts Colley	12/31/11	38,581.80	0.00	0.00	7,716.40	964.55	8,680.95	29,900.85	S/L	40.00
77		Little Cowan	12/31/11	165,704.33	0.00	0.00	33,140.88	4,142.61	37,283.49	128,420.84	S/L	40.00
78		Red Star/Hallie project	12/31/12	133,315.51	0.00	0.00	23,330.23	3,332.89	26,663.12	106,652.39	S/L	40.00
79		Thornton	12/31/14	595,119.53	0.00	0.00	74,389.95	14,877.99	89,267.94	505,851.59	S/L	40.00

Tax Asset Detail 1/01/20 - 12/31/20

FYE: 12/31/2020

Asset	d t	Property Description	Date In Service	Tax Cost	Sec 179 Exp Current = c	Tax Bonus Amt	Tax Prior Depreciation	Tax Current Depreciation	Tax End Depr	Tax Net Book Value	Tax Method	Tax Period
Division: Allocation (continued)												
80		Premium project	12/31/13	23,521.27	0.00	0.00	3,528.18	588.03	4,116.21	19,405.06	S/L	40.00
81		Millstone water project	12/31/13	63,236.25	0.00	0.00	9,485.46	1,580.91	11,066.37	52,169.88	S/L	40.00
83		Payne Gap project	12/31/13	609,171.47	0.00	0.00	91,375.74	15,229.29	106,605.03	502,566.44	S/L	40.00
84		Knott Co Connector	12/31/12	56,668.20	0.00	0.00	9,916.97	1,416.71	11,333.68	45,334.52	S/L	40.00
85		Little Cowan project	12/31/12	5,455.25	0.00	0.00	954.66	136.38	1,091.04	4,364.21	S/L	40.00
86		Pine, Pert and Cram Creek	12/31/13	1,832,770.38	0.00	0.00	274,915.56	45,819.26	320,734.82	1,512,035.56	S/L	40.00
87		Deane Water	12/31/13	830,636.05	0.00	0.00	124,595.40	20,765.90	145,361.30	685,274.75	S/L	40.00
88		Thornton project	12/31/14	11,490.41	0.00	0.00	1,436.30	287.26	1,723.56	9,766.85	S/L	40.00
92		Premium Phase II	12/31/13	464,362.82	0.00	0.00	69,654.42	11,609.07	81,263.49	383,099.33	S/L	40.00
93		Deane I	12/31/13	179,403.12	0.00	0.00	26,910.48	4,485.08	31,395.56	148,007.56	S/L	40.00
94		Deane II	12/31/14	167,238.03	0.00	0.00	20,904.75	4,180.95	25,085.70	142,152.33	S/L	40.00
95		Thornton	12/31/14	23,371.41	0.00	0.00	2,921.45	584.29	3,505.74	19,865.67	S/L	40.00
98		Pine Pert Cram	12/31/13	805,669.36	0.00	0.00	120,850.38	20,141.73	140,992.11	664,677.25	S/L	40.00
101		Race Track Hollow Line Relocate	9/02/14	12,730.18	0.00	0.00	1,697.33	318.25	2,015.58	10,714.60	S/L	40.00
102		Premium Phase II	2/05/14	79,142.56	0.00	0.00	11,706.48	1,978.56	13,685.04	65,457.52	S/L	40.00
103		Deane Improvement	12/19/14	1,171,211.78	0.00	0.00	146,401.45	29,280.29	175,681.74	995,530.04	S/L	40.00
104		Thornton	1/09/14	58,111.06	0.00	0.00	8,716.68	1,452.78	10,169.46	47,941.60	S/L	40.00
105		Premium	4/21/14	5,296.44	0.00	0.00	750.32	132.41	882.73	4,413.71	S/L	40.00
106		Millstone	11/17/14	398,708.49	0.00	0.00	50,669.19	9,967.71	60,636.90	338,071.59	S/L	40.00
107		Deane	11/17/14	11,312.02	0.00	0.00	1,437.57	282.80	1,720.37	9,591.65	S/L	40.00
108		Thornton	11/17/14	74,986.63	0.00	0.00	9,529.57	1,874.67	11,404.24	63,582.39	S/L	40.00
111		Radio Read Conversion Impr	9/25/14	200,000.00	0.00	0.00	26,250.00	5,000.00	31,250.00	168,750.00	S/L	40.00
112		Letcher Interconnect	7/14/15	35,500.00	0.00	0.00	3,993.75	887.50	4,881.25	30,618.75	S/L	40.00
113		Race Track Hollow	5/29/15	159,038.82	0.00	0.00	18,223.20	3,975.97	22,199.17	136,839.65	S/L	40.00
114		Deane Water	5/04/15	69,022.51	0.00	0.00	8,052.62	1,725.56	9,778.18	59,244.33	S/L	40.00
115		Pine Creek Water	6/22/15	1,800,578.14	0.00	0.00	202,565.03	45,014.45	247,579.48	1,552,998.66	S/L	40.00
116		Premium Water	2/06/15	9,365.14	0.00	0.00	1,151.14	234.13	1,385.27	7,979.87	S/L	40.00
117		Red Star	4/20/15	67,984.58	0.00	0.00	7,931.52	1,699.61	9,631.13	58,353.45	S/L	40.00
118		Millstone Project	4/20/15	4,724.72	0.00	0.00	551.23	118.12	669.35	4,055.37	S/L	40.00
119		Loggy Hollow	4/20/15	105,000.00	0.00	0.00	12,250.00	2,625.00	14,875.00	90,125.00	S/L	40.00
120		Cumberland River	11/16/15	136,180.91	0.00	0.00	13,901.79	3,404.52	17,306.31	118,874.60	S/L	40.00
121		Thornton	4/20/15	7,249.31	0.00	0.00	845.74	181.23	1,026.97	6,222.34	S/L	40.00
122		Bull Elk Carcassone	12/31/15	249,436.04	0.00	0.00	24,943.60	6,235.90	31,179.50	218,256.54	S/L	40.00
123		Haymond Kona	12/31/15	64,089.01	0.00	0.00	6,408.92	1,602.23	8,011.15	56,077.86	S/L	40.00
124		Knott Co Interconnect	12/31/15	7,673.10	0.00	0.00	767.32	191.83	959.15	6,713.95	S/L	40.00
125		Little Cowan	12/31/15	150,977.35	0.00	0.00	15,097.72	3,774.43	18,872.15	132,105.20	S/L	40.00
126		Smoot Creek	12/31/15	15,487.58	0.00	0.00	1,548.76	387.19	1,935.95	13,551.63	S/L	40.00
131		HWY 15 LETCHER INTERCONN	8/19/16	412,848.85	0.00	0.00	34,404.07	10,321.22	44,725.29	368,123.56	S/L	40.00
132		REDSTAR PHASE II	8/19/16	152,673.13	0.00	0.00	12,722.77	3,816.83	16,539.60	136,133.53	S/L	40.00
133		Elk Creek Phase II	7/31/17	316,393.63	0.00	0.00	19,115.45	7,909.84	27,025.29	289,368.34	S/L	40.00
134		Hwy 15 Letcher Co Interconnect	2/17/17	14,398.00	0.00	0.00	1,019.86	359.95	1,379.81	13,018.19	S/L	40.00
135		Cumberland River Project	9/18/17	15,000.00	0.00	0.00	843.75	375.00	1,218.75	13,781.25	S/L	40.00
136		Hallie/Turkey Creek Phase II	10/26/18	760,157.70	0.00	0.00	22,171.26	19,003.94	41,175.20	718,982.50	S/L	40.00
141		CUMBERLAND RIVER WATERI	5/21/18	187,385.65	0.00	0.00	7,417.35	4,684.64	12,101.99	175,283.66	S/L	40.00
145		Deane Water Project settlement	12/31/18	32,500.00	0.00	0.00	812.50	812.50	1,625.00	30,875.00	S/L	40.00
Allocation				32,096,131.82	0.00c	0.00	7,766,542.52	806,374.09	8,572,916.61	23,523,215.21		

Tax Asset Detail 1/01/20 - 12/31/20

FYE: 12/31/2020

Asset	d t	Property Description	Date In Service	Tax Cost	Sec 179 Exp Current = c	Tax Bonus Amt	Tax Prior Depreciation	Tax Current Depreciation	Tax End Depr	Tax Net Book Value	Tax Method	Tax Period
Division: Building												
140		Office building Standard Lab	5/23/18	70,000.00	0.00	0.00	3,694.44	2,333.33	6,027.77	63,972.23	S/L	30.00
142		HVAC system for new office	10/11/18	9,000.00	0.00	0.00	750.00	600.00	1,350.00	7,650.00	S/L	15.00
143		Building renovation Standard Lab	12/20/18	77,129.10	0.00	0.00	2,570.97	2,570.97	5,141.94	71,987.16	S/L	30.00
148		HVAC 3 ton split unit	9/18/20	2,150.00	0.00c	0.00	0.00	35.83	35.83	2,114.17	S/L	15.00
		Building		158,279.10	0.00c	0.00	7,015.41	5,540.13	12,555.54	145,723.56		
Division: Land												
25		Easements	12/31/05	7,300.00	0.00	0.00	0.00	0.00	0.00	7,300.00	Land	0.00
38		Little Cowan land	12/31/07	8,554.50	0.00	0.00	0.00	0.00	0.00	8,554.50	Land	0.00
41		Land Blackey Connector	1/30/08	5,000.00	0.00	0.00	0.00	0.00	0.00	5,000.00	Land	0.00
139		Land - Standard Lab Bldg	5/23/18	10,000.00	0.00	0.00	0.00	0.00	0.00	10,000.00	Land	0.00
		Land		30,854.50	0.00c	0.00	0.00	0.00	0.00	30,854.50		
Division: Office furn and equip												
17		Computer	12/30/08	1,195.89	0.00	0.00	1,195.89	0.00	1,195.89	0.00	S/L	5.00
18		Computer	12/30/08	104.00	0.00	0.00	104.00	0.00	104.00	0.00	S/L	5.00
89		Billing software	4/04/12	19,900.00	0.00	0.00	15,422.50	1,990.00	17,412.50	2,487.50	S/L	10.00
109		Copier, monitor, office equipment	1/29/14	5,272.70	0.00	0.00	4,456.67	753.24	5,209.91	62.79	S/L	7.00
144		Office furniture(various chairs, tabl	12/31/18	4,149.67	0.00	0.00	592.81	592.81	1,185.62	2,964.05	S/L	7.00
		Office furn and equip		30,622.26	0.00c	0.00	21,771.87	3,336.05	25,107.92	5,514.34		
Division: Other tangible equipment												
11		1994 john deere backhoe	8/01/06	11,500.00	0.00	0.00	11,500.00	0.00	11,500.00	0.00	S/L	5.00
12		1994 john deere backhoe	8/01/06	1,000.00	0.00	0.00	1,000.00	0.00	1,000.00	0.00	S/L	5.00
13		Telemetry equipment	12/28/06	39,900.64	0.00	0.00	39,900.64	0.00	39,900.64	0.00	S/L	10.00
14		Telemetry equipment	12/28/06	3,451.36	0.00	0.00	3,451.36	0.00	3,451.36	0.00	S/L	10.00
19		Hand held meter reading equip	2/21/08	7,069.76	0.00	0.00	7,069.76	0.00	7,069.76	0.00	S/L	10.00
20		Hand held meter reading equip	2/21/08	614.77	0.00	0.00	614.77	0.00	614.77	0.00	S/L	10.00
43		Water treatment equipment	12/18/07	4,612.41	0.00	0.00	4,612.41	0.00	4,612.41	0.00	S/L	10.00
44		Static mixer	3/06/08	750.00	0.00	0.00	750.00	0.00	750.00	0.00	S/L	5.00
110		Equipment meter reading	3/20/14	2,038.00	0.00	0.00	1,674.06	291.14	1,965.20	72.80	S/L	7.00
127		CASE CX36B EXCAVATOR	6/28/16	49,950.00	0.00	0.00	24,974.99	7,135.71	32,110.70	17,839.30	S/L	7.00
128		GOLDEN UT 18 H TRAILER	6/28/16	5,650.00	0.00	0.00	2,824.99	807.14	3,632.13	2,017.87	S/L	7.00
138		2000 Powerhorse generator	2/07/18	1,019.98	0.00	0.00	279.28	145.71	424.99	594.99	S/L	7.00
147		Portable Flow Meter	5/16/19	2,636.00	0.00	0.00	219.67	376.57	596.24	2,039.76	S/L	7.00
149		Handler 210MVP Welder	7/24/20	1,240.18	0.00c	0.00	0.00	73.82	73.82	1,166.36	S/L	7.00
		Other tangible equipment		131,433.10	0.00c	0.00	98,871.93	8,830.09	107,702.02	23,731.08		
Division: Transportation equipment												
15		1999 Cherokee ka9484	5/23/07	2,852.00	0.00	0.00	1,996.40	0.00	1,996.40	855.60	S/L	5.00
16		1999 Cherokee ka9484	5/23/07	248.00	0.00	0.00	173.60	0.00	173.60	74.40	S/L	5.00
21		2009 Sierra 1500	9/01/09	20,937.80	0.00	0.00	20,937.80	0.00	20,937.80	0.00	S/L	5.00

Tax Asset Detail 1/01/20 - 12/31/20

FYE: 12/31/2020

Asset Id	Property Description	Date In Service	Tax Cost	Sec 179 Exp Current = c	Tax Bonus Amt	Tax Prior Depreciation	Tax Current Depreciation	Tax End Depr	Tax Net Book Value	Tax Method	Tax Period
Division: Transportation equipment (continued)											
22	2009 Sierra 1500	9/01/09	1,820.68	0.00	0.00	1,820.68	0.00	1,820.68	0.00	S/L	5.00
61	2011 Ford Ranger	9/23/11	15,655.01	0.00	0.00	15,655.01	0.00	15,655.01	0.00	S/L	5.00
62	2011 Ford Ranger	9/23/11	1,361.31	0.00	0.00	1,361.31	0.00	1,361.31	0.00	S/L	5.00
99	2013 Dodge Ram	6/17/13	2,169.84	0.00	0.00	2,169.84	0.00	2,169.84	0.00	S/L	5.00
100	2013 Dodge Ram	6/17/13	24,953.16	0.00	0.00	24,953.16	0.00	24,953.16	0.00	S/L	5.00
130	1988 FORD 350	4/08/16	2,000.00	0.00	0.00	1,500.00	400.00	1,900.00	100.00	S/L	5.00
137	2018 FORD F150 Crew Cab	9/21/18	26,605.00	0.00	0.00	6,651.25	5,321.00	11,972.25	14,632.75	S/L	5.00
146	2008 Ford F150	6/18/19	10,800.00	0.00	0.00	1,080.00	2,160.00	3,240.00	7,560.00	S/L	5.00
	Transportation equipment		<u>109,402.80</u>	<u>0.00</u>	<u>0.00</u>	<u>78,299.05</u>	<u>7,881.00</u>	<u>86,180.05</u>	<u>23,222.75</u>		
	Grand Total		<u>32,556,723.58</u>	<u>0.00</u>	<u>0.00</u>	<u>7,972,500.78</u>	<u>831,961.36</u>	<u>8,804,462.14</u>	<u>23,752,261.44</u>		

Attachment #8

BOND RESOLUTION

LETCHER COUNTY WATER AND SEWER DISTRICT

AUTHORIZING

LETCHER COUNTY WATER AND SEWER DISTRICT

WATERWORKS REVENUE BONDS, SERIES 2007

IN THE PRINCIPAL AMOUNT OF

\$1,000,000

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BOND RESOLUTION

RESOLUTION OF THE LETCHER COUNTY WATER AND SEWER DISTRICT OF LETCHER COUNTY, KENTUCKY, AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$1,000,000 PRINCIPAL AMOUNT OF LETCHER COUNTY WATER AND SEWER DISTRICT WATERWORKS REVENUE BONDS, SERIES 2007 FOR THE PURPOSE OF FINANCING THE COST (NOT OTHERWISE PROVIDED) OF THE CONSTRUCTION OF EXTENSIONS, ADDITIONS AND IMPROVEMENTS TO THE EXISTING WATERWORKS SYSTEM OF SAID DISTRICT; SETTING FORTH TERMS AND CONDITIONS UPON WHICH SAID BONDS MAY BE ISSUED AND OUTSTANDING; PROVIDING FOR THE COLLECTION, SEGREGATION AND DISTRIBUTION OF THE REVENUES OF SAID WATERWORKS SYSTEM; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF SAID BONDS.

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

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

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

WHEREAS, it is the desire and intent of the District at this time to authorize and provide for the issuance of revenue bonds in the principal amount of \$1,000,000 (the "Current Bonds"), for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the System of the District, in accordance with plans and specifications prepared by Howard K. Bell Consulting Engineers, Inc. and to prescribe the covenants of the District, the rights of Bondowners and the details of the issuance and sale of the proposed Current Bonds, and

WHEREAS, the District desires and intends that the Current Bonds be issued so as to rank on a parity basis with the Prior Bonds, and

WHEREAS, the Prior Bonds were issued to and are now held by the Rural Development of the Department of Agriculture of the United States of America (the "RD"), and

WHEREAS, the RD, as the Owner of the Prior Bonds, has consented to the issuance by the District of the Current Bonds, and

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

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

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

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

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

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

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

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

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

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

"Bonds of 2005" or "Series 2005 Bonds" refer to the outstanding Letcher County Water and Sewer District Waterworks Revenue Bonds, Series 2005, dated December 16, 2005, in the original authorized principal amount of \$830,000.

"Bond Resolution of 2005" or "2005 Bond Resolution" refer to the Resolution authorizing the Bonds of 2005, duly adopted by the Board of Commissioners of the District on July 21, 2005.

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

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

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

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

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

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

"Current Bonds" refers to the \$1,000,000 of Letcher County Water and Sewer District Waterworks Revenue Bonds, Series 2007 authorized by this Resolution, to be dated as of the date of issuance thereof.

"Depository Bank" refers to the bank, which shall be a member of the FDIC, which shall be designated by the District, or its successor.

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

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

"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 Howard K. Bell Consulting Engineers, Inc., 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 Resolution.

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

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

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

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

"Grant Proceeds" refers to the proceeds of the RD Grant.

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

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

"Local Counsel" refers to an attorney or firm of attorneys to be designated by the District.

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

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

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

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

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

"Prior Bonds" refers to the Series 2005 Bonds.

"Prior Bond Resolution" refers to the 2005 Bond Resolution.

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 103. Construction Award Approved; Work Authorized. The Commission hereby authorizes, approves, ratifies and confirms its previous action in advertising for and taking steps toward awarding the contracts for the construction of the Project to the lowest and best bidders, and further approves the action of the District officials in entering into formal contracts with said bidders, subject to the necessary approvals being obtained. Authority is hereby given for undertaking the construction of the Project according to the plans and specifications heretofore prepared by the Engineers for the District, after all necessary approvals have been obtained.

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

Section 105. Authorization of Bonds. The District has heretofore determined that the total cost of the Project, including preliminary expenses, land and rights-of-way, engineering expense, capitalized interest during construction, legal and administrative costs, publication costs, initial deposits required and all incidental expenses, will not exceed \$1,800,000. Therefore, it is hereby determined to be necessary in order for the District to finance the cost (not otherwise provided) of the Project that the District issue a total of \$1,000,000 of Current Bonds, based on the following calculation:

Total cost of Project		\$1,800,000
Less:		
RD Grant	<u>\$800,000</u>	
Total Non-Bond Funds:		<u>(800,000)</u>
Balance to be financed by Current Bonds		\$1,000,000

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 \$1,000,000 principal amount of Letcher County Water and Sewer District Waterworks Revenue Bonds, Series 2007.

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

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

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

Section 107. Current Bonds Shall be Payable on Out of Gross Revenues. The Current Bonds and any additional Parity Bonds that may be issued under the conditions and restrictions hereinafter set forth, shall be payable solely out of the gross revenues of the System, on a parity with 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 District pertaining to the System, enforceable by assignment to any receiver or other operator proceeding by authority of any court.

ARTICLE 2. THE BONDS; BOND FORM; PREPAYMENT.

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

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

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

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

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

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

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

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

Section 301. Construction Account; Application of Proceeds of Bonds; Other Transfers and Deposits. The Treasurer, or such other District official as shall be designated by the Commission, shall be the custodian of all funds belonging to and associated with the System. All moneys in excess of the amount insured by the FDIC in the Construction Account shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The officials of the District entrusted with the receipt and disbursement of revenues of the System and the custody of valuable property shall be covered by a fidelity bond in the amount of not less than \$131,000 (the "Fidelity Bond"), or such larger amount as the RD may require, which Fidelity Bond shall be effective and secured by a surety company approved by the RD so long as it is owner of any of the Current Bonds. The RD and the District shall be named co-obligees in such Fidelity Bond and the amount thereof shall not be reduced without the written consent of the RD. Whenever sums in the Funds shall exceed \$131,000, the Fidelity Bond shall be increased accordingly as requested by and with the approval of the RD.

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

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

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

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

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

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

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

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

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

(4) Transfer of Capitalized Interest to Sinking Fund. There shall be transferred from the Construction Account an amount sufficient to provide for capitalized interest (initially estimated at \$50,000) during the construction of the Project, as approved by the Engineers and by the RD. If and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project, such amount so transferred from the Construction Account shall be deposited in the Sinking Fund.

(5) Investment of Funds in Construction Account. Pending disbursement of amounts on deposit in the Construction Account, all such funds, or such portion of said amounts on deposit in said Construction Account as is designated by the Commission, shall be invested for the benefit of such Construction Account in Certificates of Deposit, savings accounts or U.S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for costs of the Project (as determined by the Engineers, the Chairman and the RD), provided that to the extent that any amounts on deposit in said Depository Bank shall cause the total deposits of the District in said Depository Bank to exceed the amount insured by the FDIC, the same shall be continuously secured by a valid pledge of U.S. Obligations, having an equivalent market value, in conformity with Section 66.480 of the Kentucky Revised Statutes. Investments in Certificates of Deposit may be made only if a separate RD Form 402-4

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

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

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

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

Section 302. Interim Financing Authorization.

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

The borrowing of up to the aggregate sum of \$1,000,000 from the Interim Lender is hereby authorized; and the Chairman is hereby authorized to execute the Note in the name and on behalf of the District. Each advance under the Note shall evidence a loan by the Interim Lender to the District for services rendered and/or materials supplied in connection with the Project, as evidenced by a Requisition Certificate.

Interim financing shall be disbursed as follows:

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

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

The aggregate of the principal amount of all Notes shall not exceed \$1,000,000. Each Note which is renewed or superseded shall be simultaneously cancelled by the Interim Lender and transmitted to the Treasurer. The rate of interest applicable to each Note shall not exceed a reasonable rate, which rate is subject to the approval of the RD.

The total authorized interim financing of \$1,000,000 shall be the maximum indebtedness which the District may owe at any one time to the Interim Lender for the purpose of providing temporary construction financing for the Project; provided, however, that the District may reduce the amount owed by the District to the Interim Lender from time to time as and when funds are available to the District, whether derived from the proceeds of the Grant Proceeds, the proceeds of the sale of the Current Bonds or otherwise, and may reborrow from the Interim Lender additional amounts in anticipation of the further receipt by the District of additional proceeds from the Current Bonds and/or Grant Proceeds.

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

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

It is understood that the foregoing constitutes an alternative method of obtaining interim financing, and does not preclude the authorization and sale, by public advertisement or otherwise, of bond anticipation notes and/or grant anticipation notes to the most favorable bidder on the open market, by concurrent or subsequent proceedings of the District.

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

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

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

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

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

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

Prior to or at the time of delivery of the Current Bonds, the Chairman and/or the Treasurer (who are jointly and severally charged with the responsibility for the issuance of the Current Bonds) are authorized to execute such certifications as shall be required by Bond Counsel, setting out all known and contemplated facts concerning the anticipated construction, expenditures and investments, including the execution of necessary and/or desirable certifications of the type contemplated by Section 148 of the Code in order to assure that interest on the Current Bonds shall

be excludable from gross income for federal income tax purposes and that the Current Bonds will not be treated as "arbitrage bonds".

ARTICLE 4. FLOW OF FUNDS.

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

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

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

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

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

B. Sinking Fund. It is hereby recognized that the District is obligated upon the issuance of the Current Bonds to provide for additional debt service requirements of the Current Bonds.

At or after the delivery of the Current Bonds, there shall be transferred from the Construction Account to the Sinking Fund an amount sufficient to provide for capitalized interest (initially estimated at \$50,000) on the Current Bonds 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.

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

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

If the District for any reason shall fail to make any monthly deposit as required, then an amount equal to the deficiency shall be set apart and deposited into the Sinking Fund out of the first available revenues in the ensuing months, which amount shall be in addition to the monthly deposit otherwise required during such succeeding months. Whenever there shall accumulate in the Sinking Fund amounts in excess of the requirements during the next twelve months for paying the principal of and interest due on the Outstanding Bonds, as same fall due, such excess may be used for redemption or prepayment of any Outstanding Bonds, subject to the terms and conditions set forth therein, prior to maturity.

C. Depreciation Fund. Pursuant to the provisions of the Prior Bond Resolution which requires that an adjustment be made in the Depreciation Fund upon the issuance of bonds ranking on a parity with the Prior Bonds, 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 \$440 each month which shall be deposited into the Depreciation Fund until there is accumulated in such Depreciation Fund the sum of at least \$52,800, which amount shall be maintained, and when necessary, restored to said sum of \$52,800, so long as any of the Bonds are outstanding and unpaid. These deposits are in addition to the deposits required by the Prior Bond Resolution.

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

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

D. Operation and Maintenance Fund. There shall next be transferred monthly from the Revenue Fund and deposited into said Operation and Maintenance Fund, sums sufficient to meet the current expenses of operating and maintaining the System. The balance maintained in

said Operation and Maintenance Fund shall not be in excess of the amount required to cover anticipated System expenditures for a two-month period pursuant to the District's annual budget.

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

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

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

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

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

All monies held in any of the Funds shall be kept apart from all other District funds and shall be deposited in the Depository Bank, and all such deposits which cause the aggregate of all deposits of the District therein to be in excess of the amount secured by FDIC, shall (unless invested as herein authorized) be secured by a surety bond or bonds or by a pledge of U.S. Obligations, having a market value equivalent to such deposit.

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

Section 403. Current Bonds on a Parity with Prior Bonds. It is hereby certified and declared that prior to the issuance of any of the Current Bonds, there will have been procured and filed with the District (i) a letter from the RD to the effect that the RD agrees to the issuance of the Current Bonds ranking on a parity as to security and source of payment with the Prior Bonds, all of which are owned by the RD, together with (ii) a certification signed by the RD to the effect that a legend has been typed, stamped or otherwise affixed on each of the Prior Bonds held by the RD, evidencing the agreement of the RD as the then Owner of the Prior Bonds, to the issuance of the Current Bonds so as to rank on a parity with the Prior Bonds, such legend to be in substantially the following form:

The holder of this Bond has consented to the issuance of \$1,000,000 of Letcher County Water and Sewer District Waterworks Revenue Bonds, Series 2007 ranking on a parity as to security and source of payment with this Bond.

Accordingly, it is hereby found and declared that the Current Bonds shall rank and be payable on a parity with said outstanding Prior Bonds from the gross income and revenues of the System.

ARTICLE 5. COVENANTS OF DISTRICT

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

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

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

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

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

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

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

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

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

The District covenants that annually before the first day of the Fiscal Year, the annual budget for the upcoming Fiscal Year will be adopted substantially in accordance with the Proposed Budget, and that no expenditures for operation and maintenance expenses of the System in excess of the budgeted amount shall be made during such Fiscal Year unless directed by said District by a specific resolution duly adopted.

Section 504. General Covenants. The District, through its Commission, hereby covenants and agrees with the Owners of the Bonds that:

- (1) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky;
- (2) It will make and collect reasonable and sufficient rates and charges for services and facilities rendered by the System;
- (3) It will segregate the revenues and income from the System and make application thereof consistent with and as provided by this Resolution;
- (4) Unless the written consent of the Owners of a majority of the principal amount of the Outstanding Bonds has been obtained, the District agrees not to sell, lease, mortgage or in any manner dispose of any integral part of the System, including any and all appurtenances thereto and extensions, additions and improvements that may be made thereto, until all of the

Outstanding Bonds shall have been paid or provided for in full, as provided herein; subject to the provisions of Section 607 hereof;

- (5) It will maintain in good condition and continuously operate the System and appurtenances thereto and will charge such rates and charges for the services rendered thereby so that the gross income and revenues will be sufficient at all times (i) to pay the interest on and principal of the Outstanding Bonds as same become due; (ii) to pay the cost of operating and maintaining the System; and (iii) to provide for an adequate depreciation account;
- (6) It will carry and maintain insurance on properties of the System subject to loss or damage in amounts and against hazards substantially in accordance with the practices of other districts, cities or corporations which own and maintain waterworks systems under similar conditions; and so long as the Government is the Owner of any of the Outstanding Bonds, the Government will be listed as co-beneficiary on any such policy; and the District shall further comply with the insurance requirements of Section 506 hereof (involving insurance on motors, tanks and structures); and
- (7) It will, pursuant to Section 96.394 of the Kentucky Revised Statutes and other applicable legal provisions, cause rates and charges for sewer services provided by the System to be billed simultaneously with rates and charges for water service furnished to sewer customers by the System, and will provide that water service will be discontinued to any premises where there is a failure to pay any part of the aggregate charges so billed, including such penalties and fees for disconnection and/or reconnection as be prescribed from time to time.

Section 505. Other Covenants Applicable So Long as RD Owns Any Bonds. So long as the RD shall own any of the Bonds, the District shall comply with such RD regulations, requirements and requests as shall be made by the RD, including the furnishing of operating and other financial statements, in such form and substance and for such periods as may be requested by the RD, the carrying of insurance of such types and in such amounts as the RD may specify, with insurance carriers acceptable to the RD and compliance with all of the terms and conditions of the Loan Resolution (RD Form 1780-27) adopted and executed by the District, which is hereby authorized, approved, ratified and confirmed.

Section 506. Insurance on Motors, Tanks and Structures. The District shall (a) immediately after the adoption of this Resolution and (b) at the time of final acceptance of the Project, insure all electric motors, elevated water storage tanks, pumping stations and major structures of the System in an amount recommended by the Engineers and approved by the RD, so long as the RD is the Owner of any of the Bonds, for the hazards usually covered in such area, and shall similarly insure same in an amount recommended by the Engineers, without the necessity of approval by the RD if and whenever the District has Outstanding Bonds against the System and none of such Outstanding Bonds are owned by the RD.

ARTICLE 6. INFERIOR BONDS AND PARITY BONDS

Section 601. Inferior Bonds. Except as hereinafter provided below in this Article, the District shall not, so long as any Bonds are outstanding, issue any additional bonds payable from the revenues of the System unless the security and/or pledge of the revenues to secure such additional bonds are made inferior and subordinate in all respects to the security of the Bonds.

The District expressly reserves the right at any time to issue its bonds or other obligations payable from the revenues of the System and not ranking on a parity basis with the Current Bonds, without any proof of previous earnings or net revenues, provided that the consent of the RD must be obtained prior to the issuance of any inferior bonds so long as the RD owns any of the Bonds, and provided further that, after the initial completion of the Project, such inferior bonds may be issued only for the purpose of providing for future extensions, additions and improvements to the System, and only in express recognition of the priorities, liens and rights created and existing for the security, source of payment and protection of the Outstanding Bonds; provided further, that nothing in this Section is intended to restrict or shall be construed as a restriction upon, the ordinary refunding all or a portion of the Outstanding Bonds.

Section 602. Parity Bonds to Complete the Project. The District hereby certifies, covenants and agrees that in the event that the cost of completion of the construction of the Project shall exceed the moneys available to the District from any and all sources, the District shall have the right, if necessary, to provide for such excess, and only such excess, through the issuance of Parity Bonds, provided the District has obtained a certification from the Engineers to the effect that it is necessary to issue the desired amount of Parity Bonds in order to enable the District to pay the cost (not otherwise provided) of the completion of the Project, and provided the District has complied with the provisions of Section 603 below or has obtained:

- (a) the consent of the RD if the Government is as the Owner of the Prior Bonds at that time or the consent of any other Owners of the Prior Bonds, and
- (b) the consent of (1) the RD if the Government is the purchaser of the Current Bonds; or (2) the Owners of at least 75% of the principal amount of the Current Bonds outstanding, if the Current Bonds have been issued, sold and delivered and are held by Owners other than the Government.

Section 603. Parity Bonds to Finance Future Improvements. The District reserved the right and privilege, and does hereby reserve the right and privilege, of issuing additional Parity Bonds, but only under the conditions specified in the Current Bond Resolution, which conditions are as follows:

The District further reserves the right to add new waterworks facilities and/or to finance future extensions, additions and improvements to the System by the issuance of one or more additional series of Parity Bonds to be secured by a parity lien on and ratably payable on a parity with the Current Bonds, from the revenues of the System, provided:

(a) The facilities to be constructed from the proceeds of the additional Parity Bonds are made a part of the System and their revenues are pledged as additional security for the additional Parity Bonds and for the Outstanding Bonds.

(b) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds.

(c) The annual net revenues (defined as gross revenues less operating expenses), of the then existing System for the Fiscal Year preceding the year in which such Parity Bonds are to be issued, adjusted as hereinafter provided, shall be certified by an independent Certified Public Accountant to be equal at least one hundred twenty percent (120%) of the average annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the System, plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued. The calculation of average annual debt service requirements of principal and interest on the additional Parity Bonds to be issued shall, regardless of whether such additional Parity Bonds are to be serial or term bonds, be determined on the basis of the principal of and interest on such Parity Bonds being payable in approximately equal annual installments.

(d) The annual net revenues referred to above may be adjusted for the purpose of the foregoing computations to reflect:

(1) any revisions in the System's schedule of rates or charges being imposed on or before the time of the issuance of any such additional Parity Bonds, and

(2) any increase in the annual net revenues to be realized from the proposed extensions, additions and improvements being financed (in whole or in part) by such additional Parity Bonds;

provided all such adjustments shall be based upon and included in a certification of an Independent Consulting Engineer.

(e) Compliance with Section 603(a) through (d) shall not be necessary for the issuance of Parity Bonds if the District has obtained (1) the written consent of the RD for the issuance of such Parity Bonds, if the Government is the Owner of any Bonds at the time of issuance of such Parity Bonds; and (2) the written consent of the Owners of all of the then outstanding Prior Bonds, and no other prerequisite need be complied with by the District in order to issue Parity Bonds.

Section 604. Covenants to be Complied with at Time of Issuance of Parity Bonds. The District hereby covenants and agrees that in the event any Parity Bonds are issued, the District shall:

(a) Adjust the monthly amount to be deposited into the Sinking Fund on the same basis as that prescribed in the provisions establishing such Sinking Fund, to reflect the average annual debt service requirements of the Parity Bonds;

(b) Adjust the minimum annual amount to be deposited monthly into the Depreciation Fund on the same basis as that prescribed in the provisions establishing such Depreciation Fund, taking into account the future debt service requirements of all Bonds which will then be outstanding against the System; and

(c) Make such Parity Bonds payable as to principal on January 1 of each year in which principal falls due and payable as to interest on January 1 and July 1 of each year until the final maturity of such Parity Bonds.

Section 605. Prepayment Provisions Applicable to Parity Bonds. If, in connection with any subsequently issued series of Parity Bonds, it is provided that excess revenues in the Revenue Fund shall be used to prepay Outstanding Bonds in advance of scheduled maturity, or if the District at its option undertakes to prepay Outstanding Bonds in advance of scheduled maturity, it is agreed and understood, for so long as the Government owns any of the Outstanding Bonds, that no such prepayment will be effected without the approval of the RD.

Section 606. Consent of the RD Regarding Future Bonds. Notwithstanding any other provisions of this Resolution, the District agrees that so long as the Government owns any Outstanding Bonds against and/or payable from the revenues of the System, the District will not issue any future bonds, notes or other obligations against, secured by or payable from the revenues of the System without the written consent of the RD.

Section 607. Priority of Lien; Permissible Disposition of Surplus or Obsolete Facilities. The District covenants and agrees that so long as any of the Prior Bonds and/or Bonds are outstanding, the District will not sell or otherwise dispose of any of the facilities of the System, or any part thereof, and, except as provided above, the District will not create or permit to be created any charge or lien on the revenues thereof ranking equal or prior to the charge or lien of the Outstanding Bonds. Notwithstanding the foregoing, the District may at any time permanently abandon the use of, or sell at fair market value, any part of the facilities of the System, provided that:

- (a) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds, and the required reserves for such Outstanding Bonds will have been accumulated;
- (b) The District will, in the event of any such sale, apply the proceeds to either (1) redemption of Outstanding Bonds in accordance with the provisions governing prepayment of bonds in advance of maturity; or (2) replacement of the facility so disposed of by another facility, the revenues of which shall be incorporated into the System, as hereinbefore provided;
- (c) The District certifies, in good faith, prior to any abandonment of use, that the facilities to be abandoned are no longer economically feasible of producing net revenues; and
- (d) The District certifies, in good faith, that the estimated net revenues of the remaining facilities of the System for the then next succeeding Fiscal Year, plus the estimated net revenues of the facilities, if any, to be added to the

System, comply with the earnings requirements hereinbefore provided in the provisions and conditions governing the issuance of Parity Bonds.

Notwithstanding any other provisions hereof, so long as any Bonds are held by the Government, the District shall not dispose of its title to the System or to any part thereof, without first obtaining the written consent of the RD.

ARTICLE 7. DEFAULT AND CONSEQUENCES

Section 701. Events of Default. The following items shall constitute an Event of Default on the part of the District:

- (a) The failure to pay principal of the Bonds as and when same shall become due and payable, either at maturity or by proceedings for redemption.
- (b) The failure to pay any installment of interest on the Bonds when the same shall become due and payable or, if any or all of the Outstanding Bonds are owned by the RD, within thirty (30) days thereafter.
- (c) The default by the District in the due or punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds, the Prior Bond Resolution or in this Resolution.
- (d) The failure to promptly repair, replace or reconstruct facilities of the System that have been damaged and/or destroyed.
- (e) The entering of any order or decree with the consent or the acquiescence of the District, appointing a receiver of all or any part of the System or any revenues thereof; or if such order or decree shall be entered without the acquiescence or consent of the District, its failure to have the order vacated, discharged or stayed on appeal within sixth (60) days after entry.

Section 702. Consequences of Event of Default. Any Owner of the Current Bonds may enforce and compel the performance of all duties and obligations of the District set forth herein. Upon the occurrence of an Event of Default, then upon the filing of a suit by any Owner of said the Current Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the District with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal of and interest on the Outstanding Bonds and to provide and apply the income and revenues in conformity with this Resolution and with the laws of the Commonwealth of Kentucky.

The District hereby agrees to transfer to any bona fide receiver or other subsequent operator of the System, pursuant to any valid court order in a proceeding brought to enforce collection or payment of the District's obligations, all contracts and other rights of the District pertaining to the System, conditionally, for such time only as such receiver or operator shall operate by authority of the court. Upon the occurrence of an Event of Default, the Owner of any of the Outstanding Bonds may require the governing body of the District by appropriate order to raise the rates a reasonable amount consistent with the requirements of this Resolution.

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

Section 801. Resolution Contractual with Bondowners. The provisions of this Resolution constitute a contract between the District and its Commission and the Owners of the Current Bonds as may be outstanding from time to time; and after the issuance of any of said Current Bonds, no change, alteration or variation of any kind of the provisions of this Resolution shall be made in any manner which will affect an Owner's rights except as herein provided or except with the written consent of all Bondowners until such time as all of the Current Bonds and the interest thereon have been paid in full or fully provided for; provided that the Commission may adopt any resolution for any purpose not inconsistent with the terms of this Resolution and which shall not impair the security of the Owners of the Current Bonds and/or for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provisions contained herein or in any resolution or other proceedings pertaining hereto.

It is further agreed that the Owners of 75% in principal amount of the Current Bonds at any time outstanding shall have the right to consent to and approve the adoption of resolutions or other proceedings, modifying or amending any of the terms or provisions contained in this Resolution, subject to the conditions that (a) this Resolution shall not be so modified in any manner that may adversely affect the rights of the Owners of any of the Prior Bonds, nor in any manner that may adversely affect the rights of any certain Owners of the Outstanding Bonds without similarly affecting the rights of all Owners of such Outstanding Bonds, or to reduce the percentage of the number of Owners whose consent is required to effect a further modification and (b) no such change may be effected without the consent of the RD so long as the RD owns any of the Outstanding Bonds.

Section 802. All Current Bonds are Equal. The Current Bonds authorized herein shall not be entitled to priority one over the other in the application of the income and revenues of the System, or with respect to the security for their payment, regardless of the time or times of their issuance, it being the intention that there shall be no priority among any of the Current Bonds regardless of the fact that they may be actually issued and delivered at different times.

Section 803. District Obligated to Refund Current Bonds Owned by Government Whenever Feasible; Defeasement Prohibited. So long as the Government is the Owner of any of the Current Bonds, if it appears to the Government that the District is able to refund such Current Bonds in whole or in part, by obtaining a loan for such purposes from responsible cooperative or private credit sources, or to sell bonds of the District in the open market, at reasonable rates and terms, for loans or bond issues for similar purposes and periods of time, the District will, upon request of the Government, obtain such loan and/or issue such bonds in sufficient amount to repay the Government and will take all such action as may be required in connection therewith.

In addition, so long as the Government is the Owner of any of the Current Bonds, the District shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating the lien of the Current Bonds without immediately prepaying all of the then outstanding Current Bonds.

Section 804. Approval and Acceptance of RD Grant Agreement. The RD has agreed to make a grant to the District in the amount of \$800,000 (the "RD Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the RD has requested the District to approve, accept and execute RD Form 1780-12 (the "RD Grant Agreement"), setting out the terms and conditions upon which said RD Grant will be made. Said RD Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said RD Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other RD Grants offered to the District in connection with the Project and to execute any and all RD Grant Agreements and any other documents as may be requested by the RD in connection with RD Grants which have been and/or which may hereafter be approved for such Project.

Section 805. Authorization, Ratification and Confirmation of Approval and Execution of Various Documents. The Commission hereby authorizes, approves, ratifies and confirms the previous action of the officers of the District in approving and executing various documents related to the financing of the Project, including the following:

- (a) Legal Services Agreement with Bond Counsel.
- (b) Legal Services Agreement with Local Counsel.
- (c) Letter of Intent to Meet Conditions of RD Letter of Conditions (RD Form 1942-46).
- (d) Loan Resolution (RD Form 1780-27).
- (e) Agreement for Engineering Services with the Engineers.

Section 806. 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 waterworks facility of the Project shall not be obtained through negotiation within ten (10) days after the date of adoption of this Resolution and in the event that (1) such waterworks lines cannot be located within the right-of-way of the State and/or County road involved; and/or (2) such waterworks facilities cannot be located on a site already owned by the District, Local Counsel is hereby authorized and directed to file condemnation actions to obtain such necessary rights-of-way and/or sites forthwith, without further authorization or direction from the District or the Commission. Local Counsel is further directed to follow the same condemnation procedure in the event that it becomes necessary, through change orders, line extensions and/or errors in the location of property lines and/or property owners, to obtain additional easements, rights-of-way and/or sites for completion of the Project and whenever the necessary deed is not obtained by negotiation at least ten (10) days prior to the date on which construction is contemplated in the respective easement, right-of-way and/or site.

The District further approves the payment from the funds available therefor allocated to the costs of the Project to pay any judgment award, or compromise, determined by Local Counsel with the acquiescence of the Commission, toward the costs of such easements, rights-of-way and/or sites;

provided, in each instance, that the payment of such funds to satisfy any judgment, award or compromise must first be approved by the RD; and the Commission further determines that if and to whatever extent the funds available from the proceeds of the financing contemplated by this Resolution shall be inadequate to pay any judgment, award or compromise amount for such easements, rights-of-way and/or sites, or if the District is unable to obtain the approval of the RD for any such payment, the Commission shall take all reasonably necessary actions, within the powers and authority of the Commission, to make such additional amount available from all other available District resources.

ARTICLE 9. SALE OF CURRENT BONDS

Section 901. Sale of Current Bonds. The Current Bonds shall be offered publicly for sale upon the basis of sealed, competitive bids at such time as the Commission shall designate.

A suggested form of "Notice of Bond Sale", a suggested form of "Official Notice of Sale of Bonds" and a suggested form of "Bid Form", having been prepared in advance by Bond Counsel, and all of such documents having been found to be in satisfactory form, a copy of each is hereby ordered to be filed in the records of the Secretary with the Minutes of the meeting at which this Resolution is adopted. The Notice of Bond Sale shall be signed by the Secretary and may be used for the purpose of publishing notice of the sale of the Current Bonds. Copies of such documents shall be furnished to any interested parties who may request same.

In the event that there is no bid or that all bids are rejected, the District may readvertise the sale pursuant to this Resolution.

Section 902. Adjustment in Maturities, Prepayment Provisions and Other Dates, with Consent of Purchaser if Delivery is Delayed. In the event that delivery of the Current Bonds authorized herein is delayed for any reason and the District, with the consent of the Purchaser of the Current Bonds, determines it is in the District's best interest to change the maturities, the applicable prepayment date or any other dates, the District may adjust the same by a Resolution of the Commission approving the adjustments.

ARTICLE 10. CONCLUDING PROVISIONS

Section 1001. Covenant of District to Take All Necessary Action To Assure Compliance with the Code. In order to assure the Owners of the Current Bonds that such Current Bonds shall continue to be legal and that interest thereon will continue to be excludable from gross income for federal income tax purposes and exempt from all Kentucky income taxation, the District covenants to and with the Owners of the Current Bonds to take the following action:

(a) The District will (1) take all actions necessary to comply with the provisions of the Code necessary to assure that interest on the Current Bonds will be excludable from gross income for federal income tax purposes; (2) will take no actions which will violate any of the provisions of the Code; and (3) not use the proceeds of the Current Bonds for any purpose which will cause interest on the Current Bonds or on interim financing obligations, including, but not limited to the Note, issued pursuant to Section 302 hereof to become includable in gross income for federal income tax purposes.

(b) The District hereby certifies that it does not reasonably anticipate that the total principal amount of "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code which the District, or any subordinate entity of the District, will issue during the calendar year during which the Current Bonds are issued, will exceed \$10,000,000; and therefore the District hereby designates the Current Bonds and all interim financing obligations, including, but not limited to the Note, issued pursuant to Section 302 hereof as "qualified tax-exempt obligations".

(c) The District further certifies that the Current Bonds and any and all interim financing obligations of the District are not "private activity bonds" within the meaning of the Code.

(d) The District covenants and agrees to comply with the rebate requirements on certain excess earnings imposed by Section 148 of the Code, and in the event it is determined by the District, upon the advice of Bond Counsel, that the Construction Account, or any other Fund established hereunder, is subject to said rebate requirements and does in fact generate earnings from "non-purpose investments" in excess of the amount which said investments would have earned at a rate equal to the "yield" on the Current Bonds, plus any income attributable to such excess, there shall be established a separate and special fund with the Depository Bank, which fund shall be designated the "Excess Earnings and Rebate Fund", which shall be utilized for the collection and payment of any excess generated from investments and the remittance thereof to the United States of America on or before the anniversary of the fifth (5th) year from the date of the Current Bonds, and once every five (5) years thereafter until the final retirement of the Current Bonds; the last installment, to the extent required, to be made no later than sixty (60) days following the date on which funds sufficient for the complete retirement of the Current Bonds are deposited with any escrow agent. The District further covenants to file any and all reports, if any, as may be required to be filed with the Government with regard to the liability or non-liability of the District as to any such rebate requirements and to maintain records in regard thereto for the period of time required by applicable Treasury regulations.

Section 1002. Severability Clause. If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Resolution, which shall continue in full force and effect.

Section 1003. All Provisions in Conflict Repealed. All motions, resolutions and orders, or parts thereof, in conflict with the provisions of this Resolution, are to the extent of such conflict hereby repealed. It is hereby specifically ordered and provided that any proceedings heretofore taken for the issuance of other bonds of the District payable or secured in any manner by all or any part of the income and revenues of said System or any part thereof, and which have not been heretofore issued and delivered, are hereby revoked and rescinded, and none of such other bonds shall be issued and delivered. The District covenants to correct by appropriate proceedings any required procedure previously taken invalidly.

Section 1004. Effective Immediately Upon Adoption. This Resolution shall take effect and be effective immediately upon its adoption.

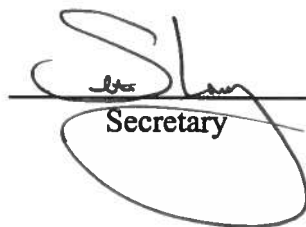
Adopted this March 22, 2007.

Letcher County Water and Sewer District


Chairman

(Seal of District)

Attest:



Secretary

CERTIFICATION

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Letcher County Water and Sewer District of Letcher County, Kentucky, and that the foregoing Resolution is a true copy of a Resolution duly adopted by the Board of Commissioners of said District, signed by the Chairman of said District and attested under Seal by me as Secretary, at a properly convened meeting of said Board of Commissioners held on March 22, 2007, as shown by the official records of said District in my custody and under my control.

I further certify that said meeting was duly held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825, that a quorum was present at said meeting, that said Resolution has not been modified, amended, revoked or repealed, and that same is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature as Secretary and the official Seal of the District this March 22, 2007.



Secretary

(Seal of District)

EXHIBIT A

Schedule of Principal Payments

<u>Payment Due</u> <u>January 1</u>	<u>Principal</u> <u>Payment</u>	<u>Payment Due</u> <u>January 1</u>	<u>Principal</u> <u>Payment</u>
2009	\$11,500	2028	\$24,500
2010	12,000	2029	25,500
2011	12,500	2030	26,500
2012	13,000	2031	27,500
2013	13,500	2032	28,500
2014	14,000	2033	30,000
2015	14,500	2034	31,000
2016	15,000	2035	32,500
2017	15,500	2036	34,000
2018	16,500	2037	35,000
2019	17,000	2038	36,500
2020	17,500	2039	38,000
2021	18,500	2040	39,500
2022	19,000	2041	41,500
2023	20,000	2042	43,000
2024	21,000	2043	45,000
2025	21,500	2044	46,500
2026	22,500	2045	48,500
2027	23,500	2046	48,000

EXHIBIT B

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
LETCHER COUNTY WATER AND SEWER DISTRICT
WATERWORKS REVENUE BONDS, SERIES 2007

No. R-_____ Interest Rate: _____ % \$_____

KNOW ALL PERSONS BY THESE PRESENTS:

That the Letcher County Water and Sewer District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Letcher County, Kentucky, for value received, hereby promises to pay to

the registered owner hereof, or to its registered assigns, solely from the fund hereinafter identified, the sum of

_____ DOLLARS (\$_____),

on the first day of January, in years and installments as follows:

Year Principal Year Principal Year Principal

[Here the printer of the Current Bond will print the maturities of the Current Bonds purchased by the registered Owner]

and in like manner, solely from said fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, at the Interest Rate specified above, semiannually on the first days of January and July in each year, beginning with the first January or July after the date of this Bond, until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable, without deduction for exchange or collection charges, in lawful money of the United States of America, at the address of the registered owner shown on the registration book of the District.

This Bond is issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 58 and 74 of the Kentucky Revised Statutes (collectively the "Act"), and pursuant to a duly adopted Bond Resolution of the District authorizing same (the "Current Bond Resolution"), to which Current Bond Resolution reference is

hereby made for a description of the nature and extent of the security thereby created, the rights and limitations of rights of the registered owner of this Bond, and the rights, obligations and duties of the District, for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing waterworks system of the District (said existing waterworks system, together with said extensions, additions and improvements, being hereinafter referred to as the "System").

This Bond ranks on a parity as to security and source of payment with certain outstanding Letcher County Water and Sewer District Waterworks Revenue Bonds, Series 2005, dated December 16, 2005 (the "Prior Bonds"), authorized by a Resolution adopted by the Commission of the District on July 21, 2005 (the "Prior Bond Resolution"). Accordingly, this Bond, together with any bonds ranking on a parity herewith, is payable from and secured by a pledge of the gross revenues to be derived from the operation of the System.

This Bond has been issued in full compliance with the Current Bond Resolution and the Prior Bond Resolution; and this Bond, and any bonds ranking on a parity therewith that may be issued and outstanding under the conditions and restrictions of the Current Bond Resolution and the Prior Bond Resolution, are and will continue to be payable from revenues which shall be set aside in a fund for that purpose and identified as the "Letcher County Water and Sewer District Waterworks Sinking Fund", created in the Prior Bond Resolution.

This Bond does not constitute an indebtedness of the District within the meaning of any constitutional or statutory provisions or limitations and is payable solely out of the revenues of the System. As provided in the Current Bond Resolution, the District covenants that so long as any of the Prior Bonds and/or this Bond, are outstanding, the System will be continuously owned and operated by the District as a revenue producing public undertaking within the meaning of the aforesaid Act for the security and source of payment of the Prior Bonds and of this Bond, and that the District will fix, and if necessary adjust, from time to time, such rates for the services and facilities of the System and will collect and account for the revenues therefrom sufficient to pay promptly the principal of and interest on the Prior Bonds, this Bond and all other bonds ranking on a parity therewith as may be outstanding from time to time, to pay the cost of operation and maintenance of the System and to provide for the depreciation thereof.

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with this Bond in order to complete the Project, and to finance future extensions, additions and improvements to the System, provided the necessary requirements of the Current Bond Resolution have been complied with by the District.

This Bond shall be registered as to principal and interest in the name of the owner hereof, after which it shall be transferable only upon presentation to the Secretary of the District as the Bond Registrar, with a written transfer duly acknowledged by the registered owner or its duly authorized attorney, which transfer shall be noted upon this Bond and upon the registration book of the District kept for that purpose.

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2016, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple

of One Hundred Dollars (\$100), as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or its assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States of America, or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$100, may be prepaid at any time in inverse chronological order of the installments due.

Upon default in the payment of any principal or interest payment on this Bond, or upon failure by the District to comply with any other provision of this Bond or with any provision of the Current Bond Resolution, the registered owner may, at its option, institute all rights and remedies provided by law or by said Current Bond Resolution.

It is hereby certified, recited and declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Bond, do exist, have happened and have been performed in due time, form and manner as required by law, and that the face amount of this Bond, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF said Letcher County Water and Sewer District, by its Board of Commissioners, has caused this Bond to be executed by its Chairman, its corporate seal to be hereunto affixed, and attested by its Secretary, on the date of this Bond, which is

Letcher County Water and Sewer District

By  _____
Chairman

Attest:



Secretary

(Seal of District)

PROVISION FOR REGISTRATION

This Bond shall be registered on the registration book of the District kept for that purpose by the Secretary, as Bond Registrar, upon presentation hereof to said Secretary, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered owner or its attorney, such transfer to be made on said book and endorsed hereon.

ASSIGNMENT

Date of Registration	Name of Registered Owner	Signature of Bond Registrar

For value received, this Bond is hereby assigned, without recourse and subject to all of its terms and conditions, unto _____, this ____ day of _____, _____.

By: _____

EXHIBIT C

REQUISITION CERTIFICATE

Re: Letcher County Water and Sewer District Waterworks Revenue Bonds, Series 2007, in the principal amount of \$1,000,000

The undersigned hereby certify as follows:

- 1. That they are the signatories required for construction and/or administrative draws pursuant to the Bond Resolution adopted by the Letcher County Water and Sewer District (the "District") of Letcher County, Kentucky.
- 2. That the named firms and/or persons set forth on Exhibit A attached hereto are now entitled to the aggregate sum of \$_____, itemized as set forth in said Exhibit A and as per approved invoices attached hereto:
- 3. That upon said amount being lent to said District and/or obtained by said District from the proceeds of the Current Bonds and/or other sources, the undersigned approve such expenditure and the payment of said amounts to said firms and/or persons, either directly or from amounts deposit in the "Letcher County Water and Sewer District Waterworks Construction Account".
- 4. That we hereby certify that we have carefully inspected the work and, as a result of our inspection and to the best of our knowledge and belief, the amounts shown in this Requisition Certificate are correct and the work has been performed in accordance with the agreements between the District and the parties requesting payment.

IN TESTIMONY WHEREOF, witness the signature of the undersigned, this ____ day of _____, 20____.

Letcher County Water and Sewer District

Howard K. Bell Consulting Engineers, Inc.

By [Signature]
Chairman

By [Signature]
Registered Professional Engineer
State of Kentucky No. 19888

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

BOND ORDINANCE

CITY OF BLACKKEY, KENTUCKY

AUTHORIZING

CITY OF BLACKKEY WATER REVENUE BONDS, SERIES 1998

IN THE AMOUNT OF

\$507,000

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BOND ORDINANCE

ORDINANCE OF THE CITY OF BLACKKEY, KENTUCKY, AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$507,000 PRINCIPAL AMOUNT OF CITY OF BLACKKEY WATER REVENUE BONDS, SERIES 1998 FOR THE PURPOSE OF FINANCING THE COST (NOT OTHERWISE PROVIDED) OF THE CONSTRUCTION OF A NEW WATER TREATMENT PLANT AND DISTRIBUTION SYSTEM FOR 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 WATER SYSTEM; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF SAID BONDS.

WHEREAS, it is the desire and intent of the City of Blackey (the "City") at this time to authorize and provide for the issuance of revenue bonds in the principal amount of \$507,000 (the "Current Bonds"), for the purpose of financing the cost (not otherwise provided) of the construction of a new water treatment plant and distribution system of the City, in accordance with plans and specifications prepared by Elrod-Dunson, Inc. 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 proceeds of the Current Bonds will be supplemented by Grant Proceeds (as hereinafter defined) in the amount of approximately \$2,350,000, and by connection charges in the amount of at least \$15,000, to provide the total cost of such construction,

NOW, THEREFORE, BE IT ORDAINED BY THE CITY OF BLACKKEY, 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.

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

"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 and Parity Bonds.

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

"City" refers to the City of Blackey, 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 Blackey Water 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 \$507,000 of City of Blackey Water Revenue Bonds, Series 1998 authorized by this Ordinance, to be dated as of the date of issuance thereof.

"Depository Bank" refers to the bank, which shall be a member of the FDIC, which bank is Community Trust Bank, Whitesburg, Kentucky, or its successor.

"Depreciation Fund" refers to the City of Blackey Water 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 Elrod-Dunson, Inc., 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 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, the ARC Grant and the CDBG Grant.

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

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

"Local Counsel" refers to Harold Bolling, Whitesburg, 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 Blackey Water 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.

"Project" refers specifically to the construction of the currently proposed new water treatment plant and distribution 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 Blackey Water Revenue Fund, described in Section 401 of this Ordinance.

"*Sinking Fund*" refers to the City of Blackey Water Sinking Fund, described in Section 401 of this Ordinance.

"*System*" refers to the new water treatment plant and distribution system of the City.

"*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, 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 \$2,872,000. 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 \$507,000 of Current Bonds, based on the following calculation:

Total cost of Project		\$2,872,000
Less:		
RD Grant	\$960,000	
ARC Grant	650,000	
CDBG Grant	740,000	
Connection Charges	<u>15,000</u>	
Total Non-Bond Funds:		<u>(2,365,000)</u>
Balance to be financed by Current Bonds		\$ 507,000

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 \$507,000 principal amount of City of Blackey Water Revenue Bonds, Series 1998.

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. Current Bonds Shall be Payable Out of Gross Revenues. The Current Bonds and any additional Parity Bonds that may be issued under the conditions and restrictions set forth hereinafter, shall be secured by and payable on a first lien basis from the gross revenues of the System.

Section 107. 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, 2008, shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2008, shall be subject to prepayment by the City on any interest payment date falling on and after January 1, 2007, 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 \$31,000 (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 \$31,000, 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 Blackey Water 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. Simultaneously with or prior to the delivery of the Current Bonds, there shall also be deposited in the Construction Account the proceeds of the connection charges in the minimum amount of \$15,000 (less any amounts theretofore used for authorized purposes), to supplement the proceeds of the Current Bonds and Grant Proceeds in order to assure completion of the Project.

(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 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 \$40,000) during the construction of the Project, as approved by the Engineers and by the RD. If and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project, such amount so transferred from the Construction Account shall be deposited in the 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 the new water treatment plant and distribution 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 Sinking Fund, whereupon said Construction Account shall be closed. Such remaining balance in the Construction Account so transferred to the 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 \$507,000 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 \$507,000. Each Note which is renewed or superseded shall be simultaneously cancelled by the Interim Lender and transmitted to the Treasurer. The rate of interest applicable to each Note shall not exceed a reasonable rate, which rate is subject to the approval of the RD.

The total authorized interim financing of \$507,000 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.

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

- (a) City of Blackey Water Revenue Fund.
- (b) City of Blackey Water Sinking Fund.
- (c) City of Blackey Water Depreciation Reserve Fund.
- (d) City of Blackey Water Operation and Maintenance Fund.

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

Section 402. Flow of Funds. A. Revenue Fund. The City covenants and agrees that it will deposit in the Revenue Fund, promptly as received from time to time, all revenues of the System, as same may be extended and improved from time to time. The moneys in the Revenue Fund shall be used, disbursed and applied by the City only for the purpose and in the manner and order of priorities specified in this Current Bond Ordinance, all as permitted by the Act, and in accordance with previous contractual commitments.

B. Sinking Fund. At or after the delivery of the Current Bonds, there shall be transferred from the Construction Account to the Sinking Fund an amount sufficient to provide for capitalized interest (initially estimated at \$40,000) on the Current Bonds 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.

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

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

If the City for any reason shall fail to make any monthly deposit as required, then an amount equal to the deficiency shall be set apart and deposited into the Sinking Fund out of the first available revenues in the ensuing months, which amount shall be in addition to the monthly deposit otherwise required during such succeeding months. Whenever there shall accumulate in the Sinking Fund amounts in excess of the requirements during the next twelve months for paying the principal of and interest due on the Bonds, as same fall due, such excess may be used for

redemption or prepayment of any Bonds, subject to the terms and conditions set forth therein, prior to maturity.

C. Depreciation Fund. It is hereby determined that upon the issuance of the Current Bonds, and upon completion of the Project, as certified by the Engineers and by the RD, there shall next be transferred from the Revenue Fund the sum of at least \$255 each month which shall be deposited into the Depreciation Fund until there is accumulated in such Depreciation Fund the sum of at least \$30,600, which amount shall be maintained, and when necessary, restored to said sum of \$30,600, so long as any of the Bonds are outstanding and unpaid.

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.

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

E. Monthly Principal and Interest Payments if Requested by the RD. So long as any of the Bonds are held or insured by the RD, the 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.

F. Surplus Funds. Subject to the provisions for the disposition of the income and revenues of the System as set forth hereinabove, which provisions are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall

be transferred, within sixty days after the end of each fiscal year, the balance of excess funds in the Revenue Fund on such date, to the Depreciation Fund for application in accordance with the terms of this Ordinance or to the Sinking Fund to be applied to the maximum extent feasible, to the prompt purchase or redemption of Bonds.

G. Investment and Miscellaneous Provisions. All monies in the Sinking Fund and the Depreciation Fund shall be deposited in the Depository Bank, or such portion thereof as is designated by the 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 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 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.

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 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 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 a new water treatment plant and distribution system 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 water 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).

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 a new water treatment plant and distribution system 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 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 water 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 a new water treatment plant and distribution system 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 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 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 \$960,000 (the "RD Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the RD has requested the 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. Approval and Acceptance of ARC Grant Agreement. The Appalachian Regional Commission (the "ARC") has agreed to make a grant to the City in the amount of \$650,000 (the "ARC Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the ARC has requested the City to approve, accept and execute a certain ARC Grant Agreement (the "ARC Grant Agreement"), setting out the terms and conditions upon which said ARC Grant will be made. Said ARC Grant Agreement is hereby approved, and the Mayor and the City Clerk are authorized to execute said ARC 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 ARC Grants offered to the City in connection with the Project and to execute any and all ARC Grant Agreements and any other documents as may be requested by the ARC in connection with ARC Grants which have been and/or which may hereafter be approved for such Project.

Section 806. Approval and Acceptance of CDBG Grant Agreement. The Department of Housing and Urban Development (the "HUD") has agreed to make a grant to the City in the amount of \$740,000 (the "CDBG Grant"), to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and HUD has requested the City to approve, accept and execute a certain CDBG Grant Agreement (the "CDBG Grant Agreement") setting out the terms and conditions upon which said CDBG Grant will be made. Said CDBG Grant Agreement is hereby approved, and the Mayor and the City Clerk are authorized to execute said CDBG 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 CDBG Grants offered to the City in connection with the Project and to execute any and all CDBG Grant Agreements and any other documents as may be requested by the HUD in connection with CDBG Grants which have been and/or which may hereafter be approved for such Project.

Section 807. 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 808. 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 809. Authorization of Condemnation to Acquire Easements and/or Sites. In the event that (a) any necessary deeds of easement to allow construction of the Project over the property of any property owner or (b) any necessary deed to the necessary site of any water 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 water lines cannot be located within the right-of-way of the State and/or County road involved, and/or (2) such water 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 October 21, 1997.

Given second reading and enacted on October 28, 1997.

CITY OF BLACKKEY, KENTUCKY



Mayor

(Seal of City)

Attest:



City Clerk

CERTIFICATION

I, the undersigned, hereby certify that I am the duly qualified and acting City Clerk of the City of Blackey, 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 October 28, 1997, 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 October 28, 1997.



City Clerk

(Seal of City)

EXHIBIT A

Schedule of Principal Payments

<u>Payment Due January 1,</u>	<u>Principal Payment</u>	<u>Payment Due January 1,</u>	<u>Principal Payment</u>
2000	\$5,000	2019	\$12,000
2001	5,000	2020	13,000
2002	5,000	2021	13,000
2003	6,000	2022	14,000
2004	6,000	2023	14,000
2005	6,000	2024	16,000
2006	6,000	2025	16,000
2007	7,000	2026	17,000
2008	7,000	2027	18,000
2009	7,000	2028	18,000
2010	8,000	2029	20,000
2011	8,000	2030	20,000
2012	9,000	2031	22,000
2013	9,000	2032	22,000
2014	9,000	2033	23,000
2015	10,000	2034	24,000
2016	10,000	2035	25,000
2017	11,000	2036	27,000
2018	11,000	2037	28,000

EXHIBIT B

(BOND FORM)

**UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
CITY OF BLACKKEY WATER REVENUE BONDS
SERIES 1998**

No. R- _____ Interest Rate: _____% \$ _____

KNOW ALL MEN BY THESE PRESENTS:

That the City of Blackey (the "City"), acting by and through its City Council (the "City Council"), a sixth class city in Letcher 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>
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[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 Bond is issued by the City 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 a new water treatment plant and distribution system to the existing water system of the City (the "System").

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 Blackey Water Sinking Fund", 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 Bonds, 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 Bonds, 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 Bonds, 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 a new water treatment plant and distribution system to the System and to finance future a new water treatment plant and distribution system 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, 2007, 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.

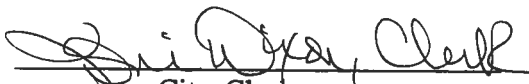
It is hereby certified, recited and declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Bond, do exist, have happened and have been performed in due time, form and manner as required by law, and that the face amount of this 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 Blackey, 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 BLACKKEY, 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 Blackey Water Revenue Bonds, Series 1998, in the amount of \$507,000

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, Blackey, 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 Blackey Water Construction Account", at the Community Trust Bank, Whitesburg, 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____.

CITY OF BLACKKEY, KENTUCKY

ELROD-DUNSON, INC.

By M. C. S. L.
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 _____

Total _____

Approved on _____

EXHIBIT A TO REQUISITION CERTIFICATE

Name of Entity/Person

Amount

BOND RESOLUTION

LETCHER COUNTY WATER AND SEWER DISTRICT

AUTHORIZING

LETCHER COUNTY WATER AND SEWER DISTRICT
WATERWORKS REVENUE BONDS, SERIES 2005

IN THE PRINCIPAL AMOUNT OF

\$830,000

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BOND RESOLUTION

RESOLUTION OF THE LETCHER COUNTY WATER AND SEWER DISTRICT OF LETCHER COUNTY, KENTUCKY, AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$830,000 PRINCIPAL AMOUNT OF LETCHER COUNTY WATER AND SEWER DISTRICT WATERWORKS REVENUE BONDS, SERIES 2005 FOR THE PURPOSE OF FINANCING THE COST (NOT OTHERWISE PROVIDED) OF THE CONSTRUCTION OF EXTENSIONS, ADDITIONS AND IMPROVEMENTS TO THE EXISTING WATERWORKS SYSTEM OF SAID DISTRICT; SETTING FORTH TERMS AND CONDITIONS UPON WHICH SAID BONDS MAY BE ISSUED AND OUTSTANDING; PROVIDING FOR THE COLLECTION, SEGREGATION AND DISTRIBUTION OF THE REVENUES OF SAID WATERWORKS SYSTEM; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF SAID BONDS.

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

WHEREAS, it is the desire and intent of the District at this time to authorize and provide for the issuance of revenue bonds in the principal amount of \$830,000 (the "Current Bonds"), for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the System of the District, in accordance with plans and specifications prepared by Howard K. Bell Consulting Engineers, Inc. and to prescribe the covenants of the District, the rights of Bondowners and the details of the issuance and sale of the proposed Current Bonds, and

WHEREAS, the District desires and intends that the Current Bonds be issued as first lien bonds, and

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

WHEREAS, the proceeds of the Current Bonds will be supplemented by Grant Proceeds (as hereinafter defined) in the amount of approximately \$3,299,000, to provide the total cost of such construction,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Current Bonds" refers to the \$830,000 of Letcher County Water and Sewer District Waterworks Revenue Bonds, Series 2005 authorized by this Resolution, to be dated as of the date of issuance thereof.

"Depository Bank" refers to the bank, which shall be a member of the FDIC, and which shall be designated by the District.

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

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

"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 Howard K. Bell Consulting Engineers, Inc., 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 Resolution.

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

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

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

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

"Grant Proceeds" refers to the proceeds of the RD Grant, the ARC Grant, the Abandoned Mine Land Grant and the CDBG Grant.

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

"Initial Operation and Maintenance Reserve Fund" refers to the Letcher County Water and Sewer District Waterworks Initial Operation and Maintenance Reserve Fund, described in Section 402 of this Resolution.

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

"Local Counsel" refers to Damon R. Talley, Esq., Hodgenville, Kentucky, or any other attorney or firm of attorneys designated by the District.

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

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

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

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

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

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

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

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

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

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

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

"Secretary" refers to the elected or appointed Secretary of the District.

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

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

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

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

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

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

Section 103. Construction Award Approved; Work Authorized. The Commission hereby authorizes, approves, ratifies and confirms its previous action in advertising for and taking steps toward awarding the contracts for the construction of the Project to the lowest and best bidders, and further approves the action of the District officials in entering into formal contracts with said bidders, subject to the necessary approvals being obtained. Authority is hereby given for undertaking the construction of the Project according to the plans and specifications heretofore prepared by the Engineers for the District, after all necessary approvals have been obtained.

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

Section 105. Authorization of Bonds. The District has heretofore determined that the total cost of the Project, including preliminary expenses, land and rights-of-way, engineering expense, capitalized interest during construction, legal and administrative costs, publication costs, initial deposits required and all incidental expenses, will not exceed \$4,129,000. Therefore, it is hereby determined to be necessary in order for the District to finance the cost (not otherwise provided) of the Project that the District issue a total of \$830,000 of Current Bonds, based on the following calculation:

Total cost of Project		\$4,129,000
Less:		
RD Grant	\$ 900,000	
ARC Grant	500,000	
Abandoned Mine Land Grant	960,000	
CDBG Grant	<u>939,000</u>	
Total Non-Bond Funds:		<u>(3,299,000)</u>
Balance to be financed by Current Bonds		\$830,000

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 \$830,000 principal amount of Letcher County Water and Sewer District Waterworks Revenue Bonds, Series 2005.

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. Current Bonds Shall be Payable on Out of Gross Revenues. The Current Bonds issued under the conditions and restrictions hereinafter set forth, shall be payable solely on a first lien basis out of the gross revenues of the System.

Section 107. Lien on Contracts. In addition to the revenue pledge securing the Bonds, a lien is hereby created and granted in favor of the Bondowners on all contracts, and on all other rights of the District pertaining to the System, enforceable by assignment to any receiver or other operator proceeding by authority of any court.

ARTICLE 2. THE BONDS; BOND FORM; PREPAYMENT.

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

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

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

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

Section 204. Provisions as to Prepayment. Except when all of the Current Bonds are held by the Government, principal maturities falling due prior to January 1, 2016, shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2016, shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 2015, at par plus accrued interest, without any prepayment penalty.

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

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

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

Section 301. Construction Account; Application of Proceeds of Bonds; Other Transfers and Deposits. The Treasurer, or such other District official as shall be designated by the Commission, shall be the custodian of all funds belonging to and associated with the System. All moneys in excess of the amount insured by the FDIC in the Construction Account shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The officials of the District entrusted with the receipt and disbursement of revenues of the System and the custody of valuable property shall be covered by a fidelity bond in the amount of not less than \$46,000 (the "Fidelity Bond"), or such larger amount as the RD may require, which Fidelity Bond shall be effective and secured by a surety company approved by the RD so long as it is owner of any of the Current Bonds. The RD and the District shall be named co-obligees in such Fidelity Bond and the amount thereof shall not be reduced without the written consent of the RD. Whenever sums in the Funds shall exceed \$46,000, the Fidelity Bond shall be increased accordingly as requested by and with the approval of the RD.

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

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

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

(2) Transfers to Operation and Maintenance Funds. There shall be deposited from the proceeds of the Current Bonds \$15,000 to establish a balance in the Initial Operation and Maintenance Reserve Fund. Monies in said funds shall be used in accordance with Section 402 of this Resolution.

(3) 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 "Letcher County Water and Sewer District Waterworks Construction Account" hereby created, which shall be established at the Depository Bank. There shall also be deposited in said Construction Account the Grant Proceeds, as and when received, or said Grant Proceeds may be applied, to the extent necessary, to liquidate or reduce any interim financing owed by the District at the time of receipt of Grant Proceeds.

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

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

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

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

(5) Transfer of Capitalized Interest to Sinking Fund. There shall be transferred from the Construction Account an amount sufficient to provide for capitalized interest (initially estimated at \$50,000) during the construction of the Project, as approved by the Engineers and by the RD. If and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project, such amount so transferred from the Construction Account shall be deposited in the Sinking Fund.

(6) Investment of Funds in Construction Account. Pending disbursement of amounts on deposit in the Construction Account, all such funds, or such portion of said amounts on deposit in said Construction Account as is designated by the Commission, shall be invested for the benefit of such Construction Account in Certificates of Deposit, savings accounts or U.S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for costs of the Project (as determined by the Engineers, the Chairman and the RD), provided that to the

extent that any amounts on deposit in said Depository Bank shall cause the total deposits of the District in said Depository Bank to exceed the amount insured by the FDIC, the same shall be continuously secured by a valid pledge of U.S. Obligations, having an equivalent market value, in conformity with Section 66.480 of the Kentucky Revised Statutes. Investments in Certificates of Deposit may be made only if a separate RD Form 402-4 Agreement is executed, if the RD has purchased any of the Bonds, and investments in Certificates of Deposit or savings accounts may be made only in such Certificates or accounts of an FDIC bank. Any such investments will be a part of the Construction Account, and income from such investments will be credited to the Construction Account. All such investments shall be subject to the limitations set out in Section 303 hereof.

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

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

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

Section 302. Interim Financing Authorization.

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

The borrowing of up to the aggregate sum of \$830,000 from the Interim Lender is hereby authorized; and the Chairman is hereby authorized to execute the Note in the name and on

behalf of the District. Each advance under the Note shall evidence a loan by the Interim Lender to the District for services rendered and/or materials supplied in connection with the Project, as evidenced by a Requisition Certificate.

Interim financing shall be disbursed as follows:

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

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

The aggregate of the principal amount of all Notes shall not exceed \$830,000. Each Note which is renewed or superseded shall be simultaneously cancelled by the Interim Lender and transmitted to the Treasurer. The rate of interest applicable to each Note shall not exceed a reasonable rate, which rate is subject to the approval of the RD.

The total authorized interim financing of \$830,000 shall be the maximum indebtedness which the District may owe at any one time to the Interim Lender for the purpose of providing temporary construction financing for the Project; provided, however, that the District may reduce the amount owed by the District to the Interim Lender from time to time as and when funds are available to the District, whether derived from the proceeds of the Grant Proceeds, the proceeds of the sale of the Current Bonds or otherwise, and may reborrow from the Interim Lender additional amounts in anticipation of the further receipt by the District of additional proceeds from the Current Bonds and/or Grant Proceeds.

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

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

financing, subject to the vested rights and priorities of the pledges securing the Outstanding Bonds.

It is understood that the foregoing constitutes an alternative method of obtaining interim financing, and does not preclude the authorization and sale, by public advertisement or otherwise, of bond anticipation notes and/or grant anticipation notes to the most favorable bidder on the open market, by concurrent or subsequent proceedings of the District.

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

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

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

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

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

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

Prior to or at the time of delivery of the Current Bonds, the Chairman and/or the Treasurer (who are jointly and severally charged with the responsibility for the issuance of the Current Bonds) are authorized to execute such certifications as shall be required by Bond Counsel, setting out all known and contemplated facts concerning the anticipated construction, expenditures and investments, including the execution of necessary and/or desirable certifications of the type contemplated by Section 148 of the Code in order to assure that interest on the Current Bonds shall be excludable from gross income for federal income tax purposes and that the Current Bonds will not be treated as "arbitrage bonds".

ARTICLE 4. FLOW OF FUNDS.

Section 401. Funds. There is hereby created the following funds and accounts:

- (a) Letcher County Water and Sewer District Waterworks Revenue Fund
- (b) Letcher County Water and Sewer District Waterworks Sinking Fund
- (c) Letcher County Water and Sewer District Waterworks Depreciation Reserve Fund
- (d) Letcher County Water and Sewer District Waterworks Operation and Maintenance Fund
- (e) Letcher County Water and Sewer District Waterworks Initial Operation and Maintenance Reserve Fund

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

Section 402. Flow of Funds. After the issuance of the Current Bonds, the income and revenues of the System shall be collected, segregated, accounted for and distributed as follows:

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

B. Sinking Fund. At or after the delivery of the Current Bonds, there shall be transferred from the Construction Account to the Sinking Fund an amount sufficient to provide for capitalized interest (initially estimated at \$50,000) on the Current Bonds 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.

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

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

If the District for any reason shall fail to make any monthly deposit as required, then an amount equal to the deficiency shall be set apart and deposited into the Sinking Fund out of the first available revenues in the ensuing months, which amount shall be in addition to the monthly deposit

otherwise required during such succeeding months. Whenever there shall accumulate in the Sinking Fund amounts in excess of the requirements during the next twelve months for paying the principal of and interest due on the Outstanding Bonds, as same fall due, such excess may be used for redemption or prepayment of any Outstanding Bonds, subject to the terms and conditions set forth therein, prior to maturity.

C. Depreciation Fund. It is hereby determined that upon the issuance of the Current Bonds, and upon completion of the Project, as certified by the Engineers and by the RD, there shall next be transferred from the Revenue Fund the sum of at least \$385 each month which shall be deposited into the Depreciation Fund until there is accumulated in such Depreciation Fund the sum of at least \$46,200, which amount shall be maintained, and when necessary, restored to said sum of \$46,200, so long as any of the Bonds are outstanding and unpaid.

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

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

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

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

F. Initial Operation and Maintenance Reserve Fund. At or prior to the delivery of the Bonds there shall be deposited into the "Initial Operation and Maintenance Reserve Fund" the sum of not less than \$15,000 derived from proceeds of the Current Bonds. Such Initial Operation Reserve Fund may be used by the District, proportionately over the first five years of

operation of the System after completion of the Project, upon appropriate certification by the Commission, when necessary, for the purpose of meeting the requirements of this Resolution for operation and maintenance of the System. Funds in the Initial Operation and Maintenance Reserve Fund may also be used, when necessary, for the purpose of making payments of principal and interest on the Current Bonds if moneys on deposit in the Sinking Fund are not sufficient to make such payments. At the end of such five year period, any sums remaining on deposit in such Initial Operation and Maintenance Reserve Fund shall be transferred into the Depreciation Fund and used for the same purposes as other sums in such Depreciation Fund.

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

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

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

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

All monies held in any of the Funds shall be kept apart from all other District funds and shall be deposited in the Depository Bank, and all such deposits which cause the aggregate of all deposits of the District therein to be in excess of the amount secured by FDIC, shall (unless invested as herein authorized) be secured by a surety bond or bonds or by a pledge of U.S. Obligations, having a market value equivalent to such deposit.

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

ARTICLE 5. COVENANTS OF DISTRICT

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

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

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

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

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

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

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

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

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

The District covenants that annually before the first day of the Fiscal Year, the annual budget for the upcoming Fiscal Year will be adopted substantially in accordance with the Proposed Budget, and that no expenditures for operation and maintenance expenses of the System in excess of the budgeted amount shall be made during such Fiscal Year unless directed by said District by a specific resolution duly adopted.

Section 504. General Covenants. The District, through its Commission, hereby covenants and agrees with the Owners of the Bonds that:

- (1) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky;
- (2) It will make and collect reasonable and sufficient rates and charges for services and facilities rendered by the System;
- (3) It will segregate the revenues and income from the System and make application thereof consistent with and as provided by this Resolution;
- (4) Unless the written consent of the Owners of a majority of the principal amount of the Outstanding Bonds has been obtained, the District agrees not to sell, lease, mortgage or in any manner dispose of any integral part of the System, including any and all appurtenances thereto 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; and
- (6) It will carry and maintain insurance on properties of the System subject to loss or damage in amounts and against hazards substantially in accordance with the practices of other districts, cities or corporations which own and maintain waterworks systems under similar conditions; and so long as the Government is the Owner of any of the Outstanding Bonds, the Government will be listed as co-beneficiary on any such policy; and the District shall further comply with the insurance requirements of Section 506 hereof (involving insurance on motors, tanks and structures).

Section 505. Other Covenants Applicable So Long as RD Owns Any Bonds. So long as the RD shall own any of the Bonds, the District shall comply with such RD regulations, requirements and requests as shall be made by the RD, including the furnishing of operating and other financial statements, in such form and substance and for such periods as may be requested by the RD, the carrying of insurance of such types and in such amounts as the RD may specify, with insurance carriers acceptable to the RD and compliance with all of the terms and conditions of the Loan Resolution (RD Form 1780-27) adopted and executed by the District, which is hereby authorized, approved, ratified and confirmed.

Section 506. Insurance on Motors, Tanks and Structures. The District shall (a) immediately after the adoption of this Resolution and (b) at the time of final acceptance of the Project, insure all electric motors, elevated water storage tanks, pumping stations and major structures of the System in an amount recommended by the Engineers and approved by the RD, so long as the RD is the Owner of any of the Bonds, for the hazards usually covered in such area, and shall similarly insure same in an amount recommended by the Engineers, without the necessity of approval by the RD if and whenever the District has Outstanding Bonds against the System and none of such Outstanding Bonds are owned by the RD.

ARTICLE 6. INFERIOR BONDS AND PARITY BONDS

Section 601. Inferior Bonds. Except as hereinafter provided below in this Article, the District shall not, so long as any Bonds are outstanding, issue any additional bonds payable from the revenues of the System unless the security and/or pledge of the revenues to secure such additional bonds are made inferior and subordinate in all respects to the security of the Bonds.

The District expressly reserves the right at any time to issue its bonds or other obligations payable from the revenues of the System and not ranking on a parity basis with the Current Bonds, without any proof of previous earnings or net revenues, provided that the consent of the RD must be obtained prior to the issuance of any inferior bonds so long as the RD owns any of the Bonds, and provided further that, after the initial completion of the Project, such inferior bonds may be issued only for the purpose of providing for future extensions, additions and improvements to the System, and only in express recognition of the priorities, liens and rights created and existing for the security, source of payment and protection of the Outstanding Bonds; provided further, that nothing in this Section is intended to restrict or shall be construed as a restriction upon, the ordinary refunding all or a portion of the Outstanding Bonds.

Section 602. Parity Bonds to Complete the Project. The District hereby certifies, covenants and agrees that in the event that the cost of completion of the construction of the Project shall exceed the moneys available to the District from any and all sources, the District shall have the right, if necessary, to provide for such excess, and only such excess, through the issuance of Parity Bonds, provided the District has obtained a certification from the Engineers to the effect that it is necessary to issue the desired amount of Parity Bonds in order to enable the District to pay the cost (not otherwise provided) of the completion of the Project, and provided the District has complied with the provisions of Section 603 below or has obtained the consent of (1) the RD if the Government is the purchaser of the Current Bonds; or (2) the Owners of at least 75% of the principal amount of the Current Bonds outstanding, if the Current Bonds have been issued, sold and delivered and are held by Owners other than the Government.

Section 603. Parity Bonds to Finance Future Improvements. The District reserved the right and privilege, and does hereby reserve the right and privilege, of issuing additional Parity Bonds, but only under the conditions specified in the Current Bond Resolution, which conditions are as follows:

The District further reserves the right to add new waterworks facilities and/or to finance future extensions, additions and improvements to the System by the issuance of one or more additional series of Parity Bonds to be secured by a parity lien on and ratably payable on a parity with the Current Bonds, from the revenues of the System, provided:

(a) The facilities to be constructed from the proceeds of the additional Parity Bonds are made a part of the System and their revenues are pledged as additional security for the additional Parity Bonds and for the Outstanding Bonds.

(b) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds.

(c) The annual net revenues (defined as gross revenues less operating expenses), of the then existing System for the Fiscal Year preceding the year in which such Parity Bonds are to be issued, adjusted as hereinafter provided, shall be certified by an independent Certified Public Accountant to be equal at least one hundred twenty percent (120%) of the average annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the System, plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued. The calculation of average annual debt service requirements of principal and interest on the additional Parity Bonds to be issued shall, regardless of whether such additional Parity Bonds are to be serial or term bonds, be determined on the basis of the principal of and interest on such Parity Bonds being payable in approximately equal annual installments.

(d) The annual net revenues referred to above may be adjusted for the purpose of the foregoing computations to reflect:

(1) any revisions in the System's schedule of rates or charges being imposed on or before the time of the issuance of any such additional Parity Bonds, and

(2) any increase in the annual net revenues to be realized from the proposed extensions, additions and improvements being financed (in whole or in part) by such additional Parity Bonds;

provided all such adjustments shall be based upon and included in a certification of an Independent Consulting Engineer.

(e) Compliance with Section 603(a) through (d) shall not be necessary for the issuance of Parity Bonds if the District has obtained (1) the written consent of the RD for the issuance of such Parity Bonds, if the Government is the Owner of any Bonds at the time of issuance of such Parity Bonds; and (2) the written consent of the Owners of all of the then outstanding Prior Bonds, and no other prerequisite need be complied with by the District in order to issue Parity Bonds.

Section 604. Covenants to be Complied with at Time of Issuance of Parity Bonds.

The District hereby covenants and agrees that in the event any Parity Bonds are issued, the District shall:

(a) Adjust the monthly amount to be deposited into the Sinking Fund on the same basis as that prescribed in the provisions establishing such Sinking Fund, to reflect the average annual debt service requirements of the Parity Bonds;

(b) Adjust the minimum annual amount to be deposited monthly into the Depreciation Fund on the same basis as that prescribed in the provisions establishing such Depreciation Fund, taking into account the future debt service requirements of all Bonds which will then be outstanding against the System; and

(c) Make such Parity Bonds payable as to principal on January 1 of each year in which principal falls due and payable as to interest on January 1 and July 1 of each year until the final maturity of such Parity Bonds.

Section 605. Prepayment Provisions Applicable to Parity Bonds. If, in connection with any subsequently issued series of Parity Bonds, it is provided that excess revenues in the Revenue Fund shall be used to prepay Outstanding Bonds in advance of scheduled maturity, or if the District at its option undertakes to prepay Outstanding Bonds in advance of scheduled maturity, it is agreed and understood, for so long as the Government owns any of the Outstanding Bonds, that no such prepayment will be effected without the approval of the RD.

Section 606. Consent of the RD Regarding Future Bonds. Notwithstanding any other provisions of this Resolution, the District agrees that so long as the Government owns any Outstanding Bonds against and/or payable from the revenues of the System, the District will not issue any future bonds, notes or other obligations against, secured by or payable from the revenues of the System without the written consent of the RD.

Section 607. Priority of Lien; Permissible Disposition of Surplus or Obsolete Facilities. The District covenants and agrees that so long as any of the Current Bonds are outstanding, the District will not sell or otherwise dispose of any of the facilities of the System, or any part thereof, and, except as provided above, the District will not create or permit to be created any charge or lien on the revenues thereof ranking equal or prior to the charge or lien of the Outstanding Bonds. Notwithstanding the foregoing, the District may at any time permanently abandon the use of, or sell at fair market value, any part of the facilities of the System, provided that:

- (a) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds, and the required reserves for such Outstanding Bonds will have been accumulated;
- (b) The District will, in the event of any such sale, apply the proceeds to either (1) redemption of Outstanding Bonds in accordance with the provisions governing prepayment of bonds in advance of maturity; or (2) replacement of the facility so disposed of by another facility, the revenues of which shall be incorporated into the System, as hereinbefore provided;
- (c) The District certifies, in good faith, prior to any abandonment of use, that the facilities to be abandoned are no longer economically feasible of producing net revenues; and
- (d) The District certifies, in good faith, that the estimated net revenues of the remaining facilities of the System for the then next succeeding Fiscal Year, plus the estimated net revenues of the facilities, if any, to be added to the System, comply with the earnings requirements hereinbefore provided in the provisions and conditions governing the issuance of Parity Bonds.

Notwithstanding any other provisions hereof, so long as any Bonds are held by the Government, the District shall not dispose of its title to the System or to any part thereof, without first obtaining the written consent of the RD.

ARTICLE 7. DEFAULT AND CONSEQUENCES

Section 701. Events of Default. The following items shall constitute an Event of Default on the part of the District:

- (a) The failure to pay principal of the Bonds as and when same shall become due and payable, either at maturity or by proceedings for redemption.
- (b) The failure to pay any installment of interest on the Bonds when the same shall become due and payable or, if any or all of the Outstanding Bonds are owned by the RD, within thirty (30) days thereafter.
- (c) The default by the District in the due or punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds or in this Resolution.
- (d) The failure to promptly repair, replace or reconstruct facilities of the System that have been damaged and/or destroyed.
- (e) The entering of any order or decree with the consent or the acquiescence of the District, appointing a receiver of all or any part of the System or any revenues thereof; or if such order or decree shall be entered without the acquiescence or consent of the District, its failure to have the order vacated, discharged or stayed on appeal within sixth (60) days after entry.

Section 702. Consequences of Event of Default. Any Owner of the Current Bonds may enforce and compel the performance of all duties and obligations of the District set forth herein. Upon the occurrence of an Event of Default, then upon the filing of a suit by any Owner of said the Current Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the District with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal of and interest on the Outstanding Bonds and to provide and apply the income and revenues in conformity with this Resolution and with the laws of the Commonwealth of Kentucky.

The District hereby agrees to transfer to any bona fide receiver or other subsequent operator of the System, pursuant to any valid court order in a proceeding brought to enforce collection or payment of the District's obligations, all contracts and other rights of the District pertaining to the System, conditionally, for such time only as such receiver or operator shall operate by authority of the court. Upon the occurrence of an Event of Default, the Owner of any of the Outstanding Bonds may require the governing body of the District by appropriate order to raise the rates a reasonable amount consistent with the requirements of this Resolution.

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

Section 801. Resolution Contractual with Bondowners. The provisions of this Resolution constitute a contract between the District and its Commission and the Owners of the Current Bonds as may be outstanding from time to time; and after the issuance of any of said Current Bonds, no change, alteration or variation of any kind of the provisions of this Resolution shall be made in any manner which will affect an Owner's rights except as herein provided or except with the written consent of all Bondowners until such time as all of the Current Bonds and the interest thereon have been paid in full or fully provided for; provided that the Commission may adopt any resolution for any purpose not inconsistent with the terms of this Resolution and which shall not impair the security of the Owners of the Current Bonds and/or for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provisions contained herein or in any resolution or other proceedings pertaining hereto.

It is further agreed that the Owners of 75% in principal amount of the Current Bonds at any time outstanding shall have the right to consent to and approve the adoption of resolutions or other proceedings, modifying or amending any of the terms or provisions contained in this Resolution, subject to the conditions that (a) this Resolution shall not be so modified in any manner that may adversely affect the rights of any certain Owners of the Outstanding Bonds without similarly affecting the rights of all Owners of such Outstanding Bonds, or to reduce the percentage of the number of Owners whose consent is required to effect a further modification and (b) no such change may be effected without the consent of the RD so long as the RD owns any of the Outstanding Bonds.

Section 802. All Current Bonds are Equal. The Current Bonds authorized herein shall not be entitled to priority one over the other in the application of the income and revenues of the System, or with respect to the security for their payment, regardless of the time or times of their issuance, it being the intention that there shall be no priority among any of the Current Bonds regardless of the fact that they may be actually issued and delivered at different times.

Section 803. District Obligated to Refund Current Bonds Owned by Government Whenever Feasible; Defeasement Prohibited. So long as the Government is the Owner of any of the Current Bonds, if it appears to the Government that the District is able to refund such Current Bonds in whole or in part, by obtaining a loan for such purposes from responsible cooperative or private credit sources, or to sell bonds of the District in the open market, at reasonable rates and terms, for loans or bond issues for similar purposes and periods of time, the District will, upon request of the Government, obtain such loan and/or issue such bonds in sufficient amount to repay the Government and will take all such action as may be required in connection therewith.

In addition, so long as the Government is the Owner of any of the Current Bonds, the District shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating the lien of the Current Bonds without immediately prepaying all of the then outstanding Current Bonds.

Section 804. Approval and Acceptance of RD Grant Agreement. The RD has agreed to make a grant to the District in the amount of \$900,000 (the "RD Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the RD has requested the District to approve, accept and execute RD Form 1780-12 (the "RD Grant Agreement"), setting out the terms and conditions upon which said RD Grant will be made. Said RD Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said RD Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other RD Grants offered to the District in connection with the Project and to execute any and all RD Grant Agreements and any other documents as may be requested by the RD in connection with RD Grants which have been and/or which may hereafter be approved for such Project.

Section 805. Approval and Acceptance of ARC Grant Agreement. The Appalachian Regional Commission (the "ARC") has agreed to make a grant to the District in the amount of \$500,000 (the "ARC Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the ARC has requested the District to approve, accept and execute a certain ARC Grant Agreement (the "ARC Grant Agreement"), setting out the terms and conditions upon which said ARC Grant will be made. Said ARC Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said ARC Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other ARC Grants offered to the District in connection with the Project and to execute any and all ARC Grant Agreements and any other documents as may be requested by the ARC in connection with ARC Grants which have been and/or which may hereafter be approved for such Project.

Section 806. Approval and Acceptance of CDBG Grant Agreement. The Department of Housing and Urban Development (the "HUD") has agreed to make a grant to the District in the amount of \$939,000 (the "CDBG Grant"), to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and HUD has requested the District to approve, accept and execute a certain CDBG Grant Agreement (the "CDBG Grant Agreement") setting out the terms and conditions upon which said CDBG Grant will be made. Said CDBG Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said CDBG Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other CDBG Grants offered to the District in connection with the Project and to execute any and all CDBG Grant Agreements and any other documents as may be requested by HUD in connection with CDBG Grants which have been and/or which may hereafter be approved for such Project.

Section 807. Authorization, Ratification and Confirmation of Approval and Execution of Various Documents. The Commission hereby authorizes, approves, ratifies and confirms the previous action of the officers of the District in approving and executing various documents related to the financing of the Project, including the following:

- (a) Legal Services Agreement with Bond Counsel.
- (b) Legal Services Agreement with Local Counsel.

- (c) Letter of Intent to Meet Conditions of RD Letter of Conditions (RD Form 1942-46).
- (d) Loan Resolution (RD Form 1780-27).
- (e) Agreement for Engineering Services with the Engineers.

Section 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 waterworks facility of the Project shall not be obtained through negotiation within ten (10) days after the date of adoption of this Resolution and in the event that (1) such waterworks lines cannot be located within the right-of-way of the State and/or County road involved; and/or (2) such waterworks facilities cannot be located on a site already owned by the District, Local Counsel is hereby authorized and directed to file condemnation actions to obtain such necessary rights-of-way and/or sites forthwith, without further authorization or direction from the District or the Commission. Local Counsel is further directed to follow the same condemnation procedure in the event that it becomes necessary, through change orders, line extensions and/or errors in the location of property lines and/or property owners, to obtain additional easements, rights-of-way and/or sites for completion of the Project and whenever the necessary deed is not obtained by negotiation at least ten (10) days prior to the date on which construction is contemplated in the respective easement, right-of-way and/or site.

The District further approves the payment from the funds available therefor allocated to the costs of the Project to pay any judgment award, or compromise, determined by Local Counsel with the acquiescence of the Commission, toward the costs of such easements, rights-of-way and/or sites; provided, in each instance, that the payment of such funds to satisfy any judgment, award or compromise must first be approved by the RD; and the Commission further determines that if and to whatever extent the funds available from the proceeds of the financing contemplated by this Resolution shall be inadequate to pay any judgment, award or compromise amount for such easements, rights-of-way and/or sites, or if the District is unable to obtain the approval of the RD for any such payment, the Commission shall take all reasonably necessary actions, within the powers and authority of the Commission, to make such additional amount available from all other available District resources.

ARTICLE 9. SALE OF CURRENT BONDS

Section 901. Sale of Current Bonds. The Current Bonds shall be offered publicly for sale upon the basis of sealed, competitive bids at such time as the Commission shall designate.

A suggested form of "Notice of Bond Sale", a suggested form of "Official Notice of Sale of Bonds" and a suggested form of "Bid Form", having been prepared in advance by Bond Counsel, and all of such documents having been found to be in satisfactory form, a copy of each is hereby ordered to be filed in the records of the Secretary with the Minutes of the meeting at which this Resolution is adopted. The Notice of Bond Sale shall be signed by the Secretary and may be used for the purpose of publishing notice of the sale of the Current Bonds. Copies of such documents shall be furnished to any interested parties who may request same.

In the event that there is no bid or that all bids are rejected, the District may readvertise the sale pursuant to this Resolution.

Section 902. Adjustment in Maturities, Prepayment Provisions and Other Dates, with Consent of Purchaser if Delivery is Delayed. In the event that delivery of the Current Bonds authorized herein is delayed for any reason and the District, with the consent of the Purchaser of the Current Bonds, determines it is in the District's best interest to change the maturities, the applicable prepayment date or any other dates, the District may adjust the same by a Resolution of the Commission approving the adjustments.

ARTICLE 10. CONCLUDING PROVISIONS

Section 1001. Covenant of District to Take All Necessary Action To Assure Compliance with the Code. In order to assure the Owners of the Current Bonds that such Current Bonds shall continue to be legal and that interest thereon will continue to be excludable from gross income for federal income tax purposes and exempt from all Kentucky income taxation, the District covenants to and with the Owners of the Current Bonds to take the following action:

(a) The District will (1) take all actions necessary to comply with the provisions of the Code necessary to assure that interest on the Current Bonds will be excludable from gross income for federal income tax purposes; (2) will take no actions which will violate any of the provisions of the Code; and (3) not use the proceeds of the Current Bonds for any purpose which will cause interest on the Current Bonds or on interim financing obligations, including, but not limited to the Note, issued pursuant to Section 302 hereof to become includable in gross income for federal income tax purposes.

(b) The District hereby certifies that it does not reasonably anticipate that the total principal amount of "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code which the District, or any subordinate entity of the District, will issue during the calendar year during which the Current Bonds are issued, will exceed \$10,000,000; and therefore the District hereby designates the Current Bonds and all interim financing obligations, including, but not limited to the Note, issued pursuant to Section 302 hereof as "qualified tax-exempt obligations".

(c) The District further certifies that the Current Bonds and any and all interim financing obligations of the District are not "private activity bonds" within the meaning of the Code.

(d) The District covenants and agrees to comply with the rebate requirements on certain excess earnings imposed by Section 148 of the Code, and in the event it is determined by the District, upon the advice of Bond Counsel, that the Construction Account, or any other Fund established hereunder, is subject to said rebate requirements and does in fact generate earnings from "non-purpose investments" in excess of the amount which said investments would have earned at a rate equal to the "yield" on the Current Bonds, plus any income attributable to such excess, there shall be established a separate and special fund with the Depository Bank, which fund shall be designated the "Excess Earnings and Rebate Fund", which shall be utilized for the collection and payment of any excess generated from investments and the remittance thereof to the United States of America on or before the anniversary of the fifth (5th) year from the date of the Current Bonds, and once every five (5) years thereafter until the final retirement of the Current Bonds; the last installment, to the extent required, to be made no later than sixty (60) days following the date on which funds sufficient for the complete retirement of the Current Bonds are deposited with any escrow agent. The District further covenants to file any and all reports, if any, as may be required to be filed with the Government with regard to the liability or non-liability of the District as to any such rebate requirements and to maintain records in regard thereto for the period of time required by applicable Treasury regulations.

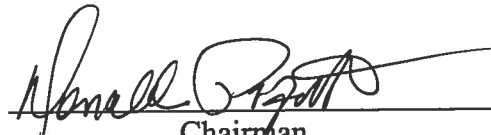
Section 1002. Severability Clause. If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Resolution, which shall continue in full force and effect.

Section 1003. All Provisions in Conflict Repealed. All motions, resolutions and orders, or parts thereof, in conflict with the provisions of this Resolution, are to the extent of such conflict hereby repealed. It is hereby specifically ordered and provided that any proceedings heretofore taken for the issuance of other bonds of the District payable or secured in any manner by all or any part of the income and revenues of said System or any part thereof, and which have not been heretofore issued and delivered, are hereby revoked and rescinded, and none of such other bonds shall be issued and delivered. The District covenants to correct by appropriate proceedings any required procedure previously taken invalidly.

Section 1004. Effective Immediately Upon Adoption. This Resolution shall take effect and be effective immediately upon its adoption.

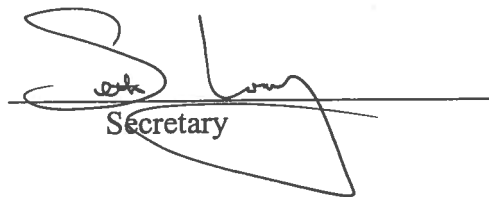
Adopted this July 21, 2005.

Letcher County Water and Sewer District


Chairman

(Seal of District)

Attest:

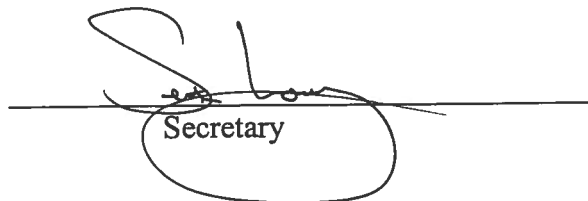

Secretary

CERTIFICATION

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Letcher County Water and Sewer District of Letcher County, Kentucky, and that the foregoing Resolution is a true copy of a Resolution duly adopted by the Board of Commissioners of said District, signed by the Chairman of said District and attested under Seal by me as Secretary, at a properly convened meeting of said Board of Commissioners held on July 21, 2005, as shown by the official records of said District in my custody and under my control.

I further certify that said meeting was duly held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825, that a quorum was present at said meeting, that said Resolution has not been modified, amended, revoked or repealed, and that same is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature as Secretary and the official Seal of the District this July 21, 2005.



Secretary

(Seal of District)

EXHIBIT A

Schedule of Principal Payments

<u>Payment Due</u> <u>January 1</u>	<u>Principal</u> <u>Payment</u>	<u>Payment Due</u> <u>January 1</u>	<u>Principal</u> <u>Payment</u>
2008	9,000	2027	20,000
2009	9,000	2028	21,000
2010	9,000	2029	22,000
2011	10,000	2030	23,000
2012	10,000	2031	24,000
2013	11,000	2032	25,000
2014	11,000	2033	26,000
2015	12,000	2034	27,000
2016	12,000	2035	28,000
2017	13,000	2036	30,000
2018	13,000	2037	31,000
2019	14,000	2038	32,000
2020	15,000	2039	34,000
2021	15,000	2040	35,000
2022	16,000	2041	37,000
2023	17,000	2042	39,000
2024	17,000	2043	40,000
2025	18,000	2044	42,000
2026	19,000	2045	44,000

EXHIBIT B

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
COUNTY OF LETCHER
LETCHER COUNTY WATER AND SEWER DISTRICT
WATERWORKS REVENUE BONDS, SERIES 2005

No. R- _____ Interest Rate: _____ % \$ _____

KNOW ALL PERSONS BY THESE PRESENTS:

That the Letcher County Water and Sewer District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Letcher County, Kentucky, for value received, hereby promises to pay to

the registered owner hereof, or to its registered assigns, solely from the fund hereinafter identified, the sum of

_____ DOLLARS (\$ _____),

on the first day of January, in years and installments as follows:

Year Principal Year Principal Year Principal

[Here the printer of the Current Bond will print the maturities of the Current Bonds purchased by the registered Owner]

and in like manner, solely from said fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, at the Interest Rate specified above, semiannually on the first days of January and July in each year, beginning with the first January or July after the date of this Bond, until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable, without deduction for exchange or collection charges, in lawful money of the United States of America, at the address of the registered owner shown on the registration book of the District.

This Bond is issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 58 and 74 of the Kentucky Revised Statutes (collectively the "Act"), and pursuant to a duly adopted Bond Resolution of the District authorizing same (the "Current Bond Resolution"), to which Current Bond Resolution reference is hereby made for a description of the nature and extent of the security thereby created, the rights and limitations of rights of the registered owner of this Bond, and the rights, obligations and duties of the District, for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the waterworks system of the District (said existing waterworks system, together with said extensions, additions and improvements, being hereinafter referred to as the "System").

This Bond has been issued in full compliance with the Current Bond Resolution; and this Bond, and any bonds ranking on a parity therewith that may be issued and outstanding under the conditions and restrictions of the Current Bond Resolution, are and will continue to be payable from revenues which shall be set aside in a fund for that purpose and identified as the "Letcher County Water and Sewer District Waterworks Sinking Fund", created in the Current Bond Resolution.

This Bond does not constitute an indebtedness of the District within the meaning of any constitutional or statutory provisions or limitations and is payable solely out of the revenues of the System. As provided in the Current Bond Resolution, the District covenants that so long as this Bond is outstanding, the System will be continuously owned and operated by the District as a revenue producing public undertaking within the meaning of the aforesaid Act for the security and source of payment of this Bond, and that the District will fix, and if necessary adjust, from time to time, such rates for the services and facilities of the System and will collect and account for the revenues therefrom sufficient to pay promptly the principal of and interest on this Bond and all other bonds ranking on a parity therewith as may be outstanding from time to time, to pay the cost of operation and maintenance of the System and to provide for the depreciation thereof.

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with this Bond in order to complete the Project, and to finance future extensions, additions and improvements to the System, provided the necessary requirements of the Current Bond Resolution have been complied with by the District.

This Bond shall be registered as to principal and interest in the name of the owner hereof, after which it shall be transferable only upon presentation to the Secretary of the District as the Bond Registrar, with a written transfer duly acknowledged by the registered owner or its duly authorized attorney, which transfer shall be noted upon this Bond and upon the registration book of the District kept for that purpose.

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2015, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple of One Hundred Dollars (\$100), as the District may determine, at a price in an amount equivalent

to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or its assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States of America, or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$100, may be prepaid at any time in inverse chronological order of the installments due.

Upon default in the payment of any principal or interest payment on this Bond, or upon failure by the District to comply with any other provision of this Bond or with any provision of the Current Bond Resolution, the registered owner may, at its option, institute all rights and remedies provided by law or by said Current Bond Resolution.

It is hereby certified, recited and declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Bond, do exist, have happened and have been performed in due time, form and manner as required by law, and that the face amount of this Bond, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF said Letcher County Water and Sewer District, by its Board of Commissioners, has caused this Bond to be executed by its Chairman, its corporate seal to be hereunto affixed, and attested by its Secretary, on the date of this Bond, which is

LETCHER COUNTY WATER AND SEWER DISTRICT

By _____
Chairman

Attest:

Secretary

(Seal of District)

PROVISION FOR REGISTRATION

This Bond shall be registered on the registration book of the District kept for that purpose by the Secretary, as Bond Registrar, upon presentation hereof to said Secretary, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered owner or its attorney, such transfer to be made on said book and endorsed hereon.

ASSIGNMENT

Date of Registration	Name of Registered Owner	Signature of Bond Registrar

For value received, this Bond is hereby assigned, without recourse and subject to all of its terms and conditions, unto _____, this ____ day of _____, _____.

By: _____

EXHIBIT C

REQUISITION CERTIFICATE

Re: Letcher County Water and Sewer District Waterworks Revenue Bonds, Series 2005, in the principal amount of \$830,000

The undersigned hereby certify as follows:

1. That they are the signatories required for construction and/or administrative draws pursuant to the Bond Resolution adopted by the Letcher County Water and Sewer District (the "District") of Letcher County, Kentucky.

2. That the named firms and/or persons set forth on Exhibit A attached hereto are now entitled to the aggregate sum of \$_____, itemized as set forth in said Exhibit A and as per approved invoices attached hereto:

3. That upon said amount being lent to said District and/or obtained by said District from the proceeds of the Current Bonds and/or other sources, the undersigned approve such expenditure and the payment of said amounts to said firms and/or persons, either directly or from amounts deposit in the "Letcher County Water and Sewer District Waterworks Construction Account".

4. That we hereby certify that we have carefully inspected the work and, as a result of our inspection and to the best of our knowledge and belief, the amounts shown in this Requisition Certificate are correct and the work has been performed in accordance with the agreements between the District and the parties requesting payment.

IN TESTIMONY WHEREOF, witness the signature of the undersigned, this ____ day of _____, 20____.

LETCHER COUNTY WATER AND SEWER DISTRICT

HOWARD K. BELL ENGINEERS

By _____ Chairman

By _____ Registered Professional Engineer State of Kentucky No. _____

Approved on _____

Approved on _____

RURAL DEVELOPMENT

Amount expended heretofore \$ _____

By _____ Authorized RD Official

Amount approved herein _____

Total _____

Approved on _____

EXHIBIT A TO REQUISITION CERTIFICATE

Name of Entity/Person

Amount

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
COUNTY OF LETCHER

REGISTERED



LETCHER COUNTY WATER AND SEWER DISTRICT
WATERWORKS REVENUE BONDS, SERIES 2007
INTEREST RATE: 4.125%

REGISTERED



KNOW ALL PERSONS BY THESE PRESENTS: That the Letcher County Water and Sewer District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Letcher County, Kentucky, for value received, hereby promises to pay to UNITED STATES OF AMERICA, acting by and through the U.S. DEPARTMENT OF AGRICULTURE, 771 Corporate Drive, Suite 200, Lexington, Kentucky 40503-5477, the Registered Owner hereof, or its registered assigns, solely from the fund hereinafter identified, the sum of

ONE MILLION DOLLARS (\$1,000,000)

on the first day of January, in years and installments as follows:

Payment Due January 1	Principal Payment	Payment Due January 1	Principal Payment	Payment Due January 1	Principal Payment
2009	\$11,500	2022	\$19,000	2035	\$32,500
2010	12,000	2023	20,000	2036	34,000
2011	12,500	2024	21,000	2037	35,000
2012	13,000	2025	21,500	2038	36,500
2013	13,500	2026	22,500	2039	38,000
2014	14,000	2027	23,500	2040	39,500
2015	14,500	2028	24,500	2041	41,500
2016	15,000	2029	25,500	2042	43,000
2017	15,500	2030	26,500	2043	45,000
2018	16,500	2031	27,500	2044	46,500
2019	17,000	2032	28,500	2045	48,500
2020	17,500	2033	29,500	2046	48,000
2021	18,500	2034	31,000		

and in like manner, solely from said fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, at the Interest Rate specified above, semiannually on the first days of January and July in each year, beginning with the first January or July after the date of this Bond, until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable, without deduction for exchange or collection charges, in lawful money of the United States of America, at the address of the registered owner shown on the registration book of the District.

This Bond is issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 58 and 74 of the Kentucky Revised Statutes (collectively the "Act"), and pursuant to a duly adopted Bond Resolution of the District authorizing same (the "Current Bond Resolution"), to which Current Bond Resolution reference is hereby made for a description of the nature and extent of the security thereby created, the rights and limitations of rights of the registered owner of this Bond, and the rights, obligations and duties of the District, for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing waterworks system of the District (said existing waterworks system, together with said extensions, additions and improvements, being hereinafter referred to as the "System").

This Bond ranks on a parity as to security and source of payment with certain outstanding Letcher County Water and Sewer District Waterworks Revenue Bonds, Series 2005, dated December 16, 2005 (the "Prior Bonds"), authorized by a Resolution adopted by the Commission of the District on July 21, 2005 (the "Prior Bond Resolution"). Accordingly, this Bond, together with any bonds ranking on a parity herewith, is payable from and secured by a pledge of the gross revenues to be derived from the operation of the System.

This Bond has been issued in full compliance with the Current Bond Resolution and the Prior Bond Resolution; and this Bond, and any bonds ranking on a parity therewith that may be issued and outstanding under the conditions and restrictions of the Current Bond Resolution and the Prior Bond Resolution, are and will continue to be payable from revenues which shall be set aside in a fund for that purpose and identified as the "Letcher County Water and Sewer District Waterworks Sinking Fund", created in the Prior Bond Resolution.

This Bond does not constitute an indebtedness of the District within the meaning of any constitutional or statutory provisions or limitations and is payable solely out of the revenues of the System. As provided in the Current Bond Resolution, the District covenants that so long as any of the Prior Bonds and/or this Bond, are outstanding, the System will be continuously owned and operated by the District as a revenue producing public undertaking within the meaning of the aforesaid Act for the security and source of payment of the Prior Bonds and of this Bond, and that the District will fix, and if necessary adjust, from time to time, such rates for the services and facilities of the System and will collect and account for the revenues therefrom sufficient to pay promptly the principal of and interest on the Prior Bonds, this Bond and all other bonds ranking on a parity therewith as may be outstanding from time to time, to pay the cost of operation and maintenance of the System and to provide for the depreciation thereof.

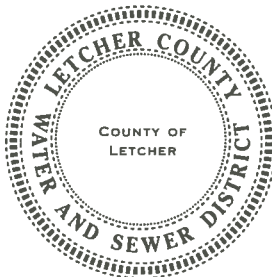
(FURTHER PROVISIONS OF THIS BOND ARE SET FORTH ON THE REVERSE HEREOF)

It is hereby certified, recited and declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Bond, do exist, have happened and have been performed in due time, form and manner as required by law, and that the face amount of this Bond, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF said Letcher County Water and Sewer District, by its Board of Commissioners, has caused this Bond to be executed by its Chairman, its corporate seal to be hereunto affixed, and attested by its Secretary, on the date of this Bond, which is **September 13, 2007.**

Attest:

Secretary



LETCHER COUNTY WATER AND SEWER DISTRICT
Letcher County, Kentucky

By:
Chairman

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with this Bond in order to complete the Project, and to finance future extensions, additions and improvements to the System, provided the necessary requirements of the Current Bond Resolution have been complied with by the District.

This Bond shall be registered as to principal and interest in the name of the owner hereof, after which it shall be transferable only upon presentation to the Secretary of the District as the Bond Registrar, with a written transfer duly acknowledged by the registered owner or its duly authorized attorney, which transfer shall be noted upon this Bond and upon the registration book of the District kept for that purpose.

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2016, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple of One Hundred Dollars (\$100), as the District may determine, at a price in an amount equivalent

to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or its assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States of America, or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$100, may be prepaid at any time in inverse chronological order of the installments due.

Upon default in the payment of any principal or interest payment on this Bond, or upon failure by the District to comply with any other provision of this Bond or with any provision of the Current Bond Resolution, the registered owner may, at its option, institute all rights and remedies provided by law or by said Current Bond Resolution.

LEGAL OPINION

Rubin & Hays

ATTORNEYS AT LAW

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202

Telephone (502) 569-7525 Telefax (502) 569-7555

Re: Letcher County Water and Sewer District Waterworks Revenue Bonds, Series 2007, in the principal amount of \$1,000,000

We have acted as Bond Counsel in connection with the issuance by the Letcher County Water and Sewer District of Letcher County, Kentucky (the "District") of \$1,000,000 of its Letcher County Water and Sewer District Waterworks Revenue Bonds, Series 2007 (the "Current Bonds"), dated as of the date of this Legal Opinion, bearing interest at the interest rate specified in the Current Bonds, payable semiannually on January 1 and July 1 of each year, with principal amounts falling due on January 1 in each of the respective years, 2009 through 2046, inclusive.

Said Current Bonds are issued pursuant to Chapters 58 and 74 of the Kentucky Revised Statutes and a Bond Resolution (the "Current Bond Resolution") duly adopted by the Commission of the District for the purpose of financing the cost of extensions, additions and improvements to the existing waterworks system (the "System") of the District.

We have examined the transcript of proceedings of the District in connection with the issuance of the Current Bonds and the executed single, fully registered bond, numbered R-1, representing the total authorized principal amount of said Current Bonds, as issued and delivered, and an executed counterpart of the Current Bond Resolution.

Based on such examination, we are of the opinion that the Current Bonds are valid and legally binding and enforceable upon the District according to the import thereof and rank on a parity as to security and source of payment with the outstanding Letcher County Water and Sewer District Waterworks Revenue Bonds, Series 2005, dated December 16, 2005 (the "Prior Bonds"), authorized by a Resolution adopted by the District on July 21, 2005 (the "Prior Bond Resolution"); and that the Current Bonds and the Prior Bonds are secured by and are payable from a pledge of the gross revenues of the System, and that a sufficient portion of said gross revenues has been ordered by the Commission to be set aside at least semiannually and pledged to the payment of the interest on and principal of the Prior Bonds and the Current Bonds as the same become due. We express no opinion concerning the sufficiency of such revenues for that purpose.

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with the Prior Bonds and the Current Bonds, if necessary in order to complete the aforesaid extensions, additions and improvements to the System. The District has also reserved the right to issue additional parity bonds to finance future extensions, additions

and/or improvements to the System, provided the necessary showings as to the earnings coverage required by the Prior Bond Resolution and Current Bond Resolution are in existence and properly certified.

Based on current rulings and official interpretations, and assuming that the District complies with certain covenants contained in the Current Bond Resolution made with respect to compliance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), including a covenant to comply with any and all requirements as to rebate (and reports with reference thereto) to the United States of America as to certain investment earnings on the proceeds of the Current Bonds, we are of the opinion that: (1) interest on the Current Bonds is excludable from gross income for federal income tax purposes; (2) the Current Bonds have been validly designated as "qualified tax-exempt obligations" by the District pursuant to the provisions of Section 265(b)(3) of the Code; (3) the Current Bonds are an issue of "state or local bonds" which are not "private activity bonds" within the meaning of Section 103 of the Code; (4) interest on the Current Bonds is not included as an item of tax preference in calculating the alternative minimum tax for individuals; (5) interest on the Current Bonds may be taken into account in the computation of certain taxes that may be imposed with respect to corporations, including, without limitation, the branch profits tax on foreign corporations, the effect on certain Subchapter S Corporations with excess passive income, and other tax consequences to certain insurance companies; (6) interest on the Current Bonds will be included in adjusted current earnings when calculating the alternative minimum taxable income of corporations; (7) an individual who owns any of the Current Bonds may be required to include in gross income a portion of his or her social security or railroad retirement payments; (8) any taxpayer (individuals or corporations) owning the Current Bonds may have collateral tax consequences if they are deemed to have incurred or have continued to incur indebtedness to purchase or carry tax-exempt obligations; (9) interest on the Current Bonds is exempt from Kentucky income taxes; and (10) the principal of the Current Bonds is exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions.

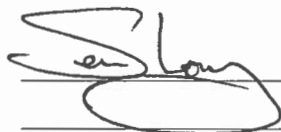
No opinion is expressed regarding other federal income tax consequences caused by the receipt of interest on the Current Bonds.

It is to be understood that the rights of the holders of the Current Bonds and the enforceability of the Current Bonds and the Current Bond Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter adopted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

It is provided in the Consolidated Farm and Rural Development Act that if the Current Bonds are sold out of the Agricultural Credit Insurance Fund or out of the Rural Development Insurance Fund as an insured loan, the interest thereon paid to an insured owner shall be included in the taxable income of such owner

PROVISION FOR REGISTRATION

This Bond shall be registered on the registration book of the District kept for that purpose by the Secretary, as Bond Registrar, upon presentation hereof to said Secretary, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered owner or its attorney, such transfer to be made on said book and endorsed hereon.

Date of Registration	Name of Registered Owner	Signature of Bond Registrar
September 13, 2007	UNITED STATES OF AMERICA acting by and through the U.S. DEPARTMENT OF AGRICULTURE 771 Corporate Drive, Suite 200 Lexington, Kentucky 40503-5477	

ASSIGNMENT

For value received, this Bond is hereby assigned without recourse and subject to all of its terms and conditions, unto _____

_____ this day of _____, 20_____

By: _____

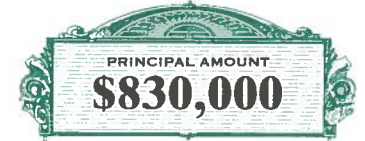
UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
COUNTY OF LETCHER

REGISTERED



LETCHER COUNTY WATER AND SEWER DISTRICT
WATERWORKS REVENUE BONDS, SERIES 2005
INTEREST RATE: 4.25%

REGISTERED



KNOW ALL PERSONS BY THESE PRESENTS: That the Letcher County Water and Sewer District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Letcher County, Kentucky for value received, hereby promises to pay to UNITED STATES OF AMERICA, acting by and through the U.S. DEPARTMENT OF AGRICULTURE, 771 Corporate Drive, Suite 200, Lexington, Kentucky 40503-5477, the Registered Owner hereof, or its registered assigns, solely from the fund hereinafter identified, the sum of

EIGHT HUNDRED THIRTY THOUSAND DOLLARS (\$830,000)

on the first day of January, in years and installments as follows:

Year	Principal	Year	Principal	Year	Principal
2007	\$ 9,000	2020	\$27,000	2033	\$27,000
2008	9,000	2021	16,000	2034	28,000
2009	9,000	2022	17,000	2035	30,000
2010	10,000	2023	17,000	2036	31,000
2011	10,000	2024	18,000	2037	32,000
2012	11,000	2025	19,000	2038	34,000
2013	11,000	2026	20,000	2039	35,000
2014	12,000	2027	21,000	2040	37,000
2015	12,000	2028	22,000	2041	39,000
2016	13,000	2029	23,000	2042	40,000
2017	13,000	2030	24,000	2043	42,000
2018	14,000	2031	25,000	2044	44,000
2019	15,000	2032	26,000		

and in like manner, solely from said fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, at the Interest Rate specified above, semiannually on the first days of January and July in each year beginning with the first January or July after the date of this Bond, until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable, without deduction for exchange or collection charges, in lawful money of the United States of America, at the address of the registered owner shown on the registration book of the District.

This Bond is issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 58 and 74 of the Kentucky Revised Statutes (collectively the "Act"), and pursuant to a duly adopted Bond Resolution of the District authorizing same (the "Current Bond Resolution"), to which Current Bond Resolution reference is

hereby made for a description of the nature and extent of the security thereby created, the rights and limitations of rights of the registered owner of this Bond, and the rights, obligations and duties of the District, for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the waterworks system of the District (said existing waterworks system, together with said extensions, additions and improvements, being hereinafter referred to as the "System").

This Bond has been issued in full compliance with the Current Bond Resolution; and this Bond, and any bonds ranking on a parity therewith that may be issued and outstanding under the conditions and restrictions of the Current Bond Resolution, are and will continue to be payable from revenues which shall be set aside in a fund for that purpose and identified as the "Letcher County Water and Sewer District Waterworks Sinking Fund", created in the Current Bond Resolution.

This Bond does not constitute an indebtedness of the District within the meaning of any constitutional or statutory provisions or limitations and is payable solely out of the revenues of the System. As provided in the Current Bond Resolution, the District covenants that so long as this Bond is outstanding, the System will be continuously owned and operated by the District as a revenue producing public undertaking within the meaning of the aforesaid Act for the security and source of payment of this Bond, and that the District will fix, and if necessary adjust, from time to time, such rates for the services and facilities of the System and will collect and account for the revenues therefrom sufficient to pay promptly the principal of and interest on this Bond and all other bonds ranking on a parity therewith as may be outstanding from time to time, to pay the cost of operation and maintenance of the System and to provide for the depreciation thereof.

[FURTHER PROVISIONS OF THIS BOND ARE SET FORTH ON THE REVERSE HEREOF]

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 issuances of this Bond, do exist, have happened and have been performed in due time, form and manner as required by law and that the face amount of this Bond, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF said Letcher County Water and Sewer District, by its Board of Commissioners, has caused this Bond to be executed by its Chairman, its corporate seal to be hereunto affixed, and attested by its Secretary, on the date of this Bond, which is **December 16, 2005.**

The holder of this Bond has consented to the issuance of \$1,000,000 of bonds ranking on a parity as to security and source of payment with this bond.

Attest:

Secretary



LETCHER COUNTY WATER AND SEWER DISTRICT
Letcher County, Kentucky

By:

Chairman

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with this Bond in order to complete the Project, and to finance future extensions, additions and improvements to the System, provided the necessary requirements of the Current Bond Resolution have been complied with by the District.

This Bond shall be registered as to principal and interest in the name of the owner hereof, after which it shall be transferable only upon presentation to the Secretary of the District as the Bond Registrar, with a written transfer duly acknowledged by the registered owner or its duly authorized attorney, which transfer shall be noted upon this Bond and upon the registration book of the District kept for that purpose.

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2015, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple of One Hundred Dollars (\$100), as the District may determine, at a price in an

amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or its assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States of America, or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$100, may be prepaid at any time in inverse chronological order of the installments due.

Upon default in the payment of any principal or interest payment on this Bond, or upon failure by the District to comply with any other provision of this Bond or with any provision of the Current Bond Resolution, the registered owner may, at its option, institute all rights and remedies provided by law or by said Current Bond Resolution.

LEGAL OPINION

Rubin & Hays

ATTORNEYS AT LAW

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202
Telephone (502) 569-7525 Telefax (502) 569-7555

Re: Letcher County Water and Sewer District Waterworks Revenue Bonds, Series 2005, in the principal amount of \$830,000

We have acted as Bond Counsel in connection with the issuance by the Letcher County Water and Sewer District of Letcher County, Kentucky (the "District") of \$830,000 of its Letcher County Water and Sewer District Waterworks Revenue Bonds, Series 2005 (the "Current Bonds"), dated as of the date of this Legal Opinion, bearing interest at the interest rate specified in the Current Bonds, payable semiannually on January 1 and July 1 of each year, with principal amounts falling due on January 1 in each of the respective years, 2007 through 2044, inclusive.

Said Current Bonds are issued pursuant to Chapters 58 and 74 of the Kentucky Revised Statutes and a Bond Resolution (the "Current Bond Resolution") duly adopted by the Commission of the District for the purpose of financing the cost of extensions, additions and improvements to the waterworks system (the "System") of the District.

We have examined the transcript of proceedings of the District in connection with the issuance of the Current Bonds and the executed single, fully registered bond, numbered R-1, representing the total authorized principal amount of said Current Bonds, as issued and delivered, and an executed counterpart of the Current Bond Resolution.

Based on such examination, we are of the opinion that the Current Bonds are valid and legally binding and enforceable upon the District according to the import thereof and are secured by and are payable from a pledge of the gross revenues of the System, and that a sufficient portion of said gross revenues has been ordered by the Commission to be set aside at least semiannually and pledged to the payment of the interest on and principal of the Current Bonds as the same become due. We express no opinion concerning the sufficiency of such revenues for that purpose.

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with the Current Bonds, if necessary in order to complete the aforesaid extensions, additions and improvements to the System. The District has also reserved the right to issue additional parity bonds to finance future extensions, additions and/or improvements to the System, provided the necessary showings as to the earnings coverage required by the Current Bond Resolution are in existence and properly certified.

Based on current rulings and official interpretations, and assuming that the District complies with certain covenants contained in the Current Bond Resolution made with respect to compliance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), including a covenant to comply with any and all requirements as to rebate (and reports with reference thereto) to the United States of America as to certain investment earnings on the proceeds of the Current Bonds, we are of the opinion that: (1) interest on the Current Bonds is excludable from gross income for federal income tax purposes; (2) the Current Bonds have been validly designated as "qualified tax-exempt obligations" by the District pursuant to the provisions of Section 265(b)(3) of the Code; (3) the Current Bonds are an issue of "state or local bonds" which are not "private activity bonds" within the meaning of Section 103 of the Code; (4) interest on the Current Bonds is not included as an item of tax preference in calculating the alternative minimum tax for individuals; (5) interest on the Current Bonds may be taken into account in the computation of certain taxes that may be imposed with respect to corporations, including, without limitation, the branch profits tax on foreign corporations, the effect on certain Subchapter S Corporations with excess passive income, and other tax consequences to certain insurance companies; (6) interest on the Current Bonds will be included in adjusted current earnings when calculating the alternative minimum taxable income of corporations; (7) an individual who owns any of the Current Bonds may be required to include in gross income a portion of his or her social security or railroad retirement payments; (8) any taxpayer (individuals or corporations) owning the Current Bonds may have collateral tax consequences if they are deemed to have incurred or have continued to incur indebtedness to purchase or carry tax-exempt obligations; (9) interest on the Current Bonds is exempt from Kentucky income taxes; and (10) the principal of the Current Bonds is exempt from *ad valorem* taxation by the Commonwealth of Kentucky and all of its political subdivisions.

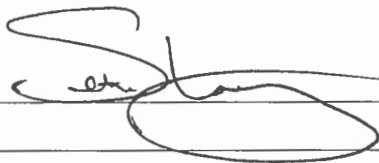
No opinion is expressed regarding other federal income tax consequences caused by the receipt of interest on the Current Bonds.

It is to be understood that the rights of the holders of the Current Bonds and the enforceability of the Current Bonds and the Current Bond Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter adopted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

It is provided in the Consolidated Farm and Rural Development Act that if the Current Bonds are sold out of the Agricultural Credit Insurance Fund or out of the Rural Development Insurance Fund as an insured loan, the interest thereon paid to an insured owner shall be included in the taxable income of such owner.

PROVISION FOR REGISTRATION

This Bond shall be registered on the registration book of the District kept for that purpose by the Secretary, as Bond Registrar, upon presentation hereof to said Secretary, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered owner or its attorney, such transfer to be made on said book and endorsed hereon.

Date of Registration	Name of Registered Owner	Signature of Bond Registrar
December 16, 2005	UNITED STATES OF AMERICA acting by and through the U.S. DEPARTMENT OF AGRICULTURE 771 Corporate Drive, Suite 200 Lexington, Kentucky 40503-5477	

ASSIGNMENT

For value received, this Bond is hereby assigned, without recourse and subject to all of its terms and conditions, unto _____

_____ , this day of _____, 20_____.

By: _____

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY

REGISTERED

NUMBER
R-1

CITY OF BLACKKEY
WATER REVENUE BOND, SERIES 1998
INTEREST RATE: 4.50%

REGISTERED

PRINCIPAL AMOUNT
\$507,000

KNOW ALL MEN BY THESE PRESENTS: That the City of Blackey (the "City"), acting by and through its City Council (the "Council"), a sixth class city in Letcher County, Kentucky, for value received hereby promises to pay to UNITED STATES OF AMERICA, acting by and through the U.S. DEPARTMENT OF AGRICULTURE, 771 Corporate Drive, Suite 200, Lexington, Kentucky 40503-5477, the registered assigns, the principal sum of

FIVE HUNDRED SEVEN THOUSAND DOLLARS (\$507,000)

on the first day of January, in years and installments as follows:

Payment Due January 1,	Principal Payment	Payment Due January 1,	Principal Payment	Payment Due January 1,	Principal Payment
2000	\$5,000	2013	\$ 9,000	2026	\$17,000
2001	5,000	2014	9,000	2027	18,000
2002	5,000	2015	10,000	2028	18,000
2003	6,000	2016	10,000	2029	20,000
2004	6,000	2017	11,000	2030	20,000
2005	6,000	2018	11,000	2031	22,000
2006	6,000	2019	12,000	2032	22,000
2007	7,000	2020	13,000	2033	23,000
2008	7,000	2021	13,000	2034	24,000
2009	7,000	2022	14,000	2035	25,000
2010	8,000	2023	14,000	2036	27,000
2011	8,000	2024	16,000	2037	28,000
2012	9,000	2025	16,000		

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 Bond is issued by the City 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 a new water treatment plant and distribution system to the existing water system of the City (the "System").

[FURTHER PROVISIONS OF THIS BOND ARE SET FORTH ON THE REVERSE HEREOF]

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 Blackey, 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 **June 10, 1998**.

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

CITY OF BLACKKEY, KENTUCKY

Attest: *Leggy Buck*
City Clerk



By: *[Signature]*
Mayor

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 Blackey Water Sinking Fund", 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 Bonds 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 Bonds, 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 Bonds, 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 water treatment plant and distribution system and to finance future 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, 2007, 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.

LEGAL OPINION

Rubin & Hays

ATTORNEYS AT LAW

First Trust Centre, 200 South Fifth Street, Louisville, Kentucky 40202
Telephone (502) 569-7525 Telefax (502) 569-7555

June 10, 1998

Re: City of Blackey Water Revenue Bonds, Series 1998, in the amount of \$507,000

We have acted as Bond Counsel in connection with the issuance by the City of Blackey, Kentucky (the "City") of \$507,000 of its City of Blackey Water Revenue Bonds, Series 1998 (the "Current Bonds"), dated as of the date of this Legal Opinion, bearing interest at the interest rate specified in the Current Bonds, payable semiannually on January 1 and July 1 of each year, with principal amounts falling due on January 1 in each of the respective years, 2000 through 2037, inclusive.

Said Current Bonds are issued pursuant to Chapters 58 and 82 of the Kentucky Revised Statutes and a Bond Ordinance (the "Current Bond Ordinance") duly enacted by the City Council of the City for the purpose of financing the cost of a new water treatment plant and distribution system (the "System") of the City.

We have examined the transcript of proceedings of the City in connection with the issuance of the Current Bonds and the executed single, fully registered bond, number R-1, representing the total authorized principal amount of said Current Bonds, as issued and delivered, and an executed counterpart of the Current Bond Ordinance.

Based on such examination, we are of the opinion that the Current Bonds are valid and legally binding and enforceable upon the City according to the import thereof and that the Current Bonds are secured by and are payable from a pledge of a fixed portion of the gross revenues of the System, and that a sufficient portion of said gross revenues has been ordered by the City Council to be set aside at least semiannually and pledged to the payment of the interest on and principal of the Current Bonds as the same become due. We express no opinion concerning the sufficiency of such revenues for that purpose.

The City has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with the Current Bonds, if necessary in order to complete the aforesaid water treatment plant and distribution system. The City has also reserved the right to issue additional parity bonds to finance future extensions, additions and/or improvements to the System, provided the necessary show-

ings as to the earnings coverage required by the Current Bond Ordinance are in existence and properly certified.

Based on current rulings and official interpretations, and assuming that the City complies with certain covenants contained in the Current Bond Ordinance made with respect to compliance with the provisions of the Internal Revenue Code of 1986 (the "Code"), including a covenant to comply with any and all requirements as to rebate (and reports with reference thereto) to the United States of America as to certain investment earnings on the proceeds of the Current Bonds, we are of the opinion that: (1) interest on the Current Bonds is excludable from gross income for federal income tax purposes; (2) the Current Bonds have been validly designated as "qualified tax-exempt obligations" by the City pursuant to the provisions of Section 265(b)(3) of the Code; (3) the Current Bonds are an issue of "state or local bonds" which are not "private activity bonds" within the meaning of Section 103 of the Code; (4) interest on the Current Bonds is not included as an item of tax preference in calculating the alternative minimum tax for individuals; (5) interest on the Current Bonds may be taken into account in the computation of certain taxes that may be imposed with respect to corporations, including, without limitation, the branch profits tax on foreign corporations, the effect on certain Subchapter S Corporations with excess passive income, and other tax consequences to certain insurance companies; (6) interest on the Current Bonds will be included in adjusted current earnings when calculating the alternative minimum taxable income of corporations; (7) an individual who owns any of the Current Bonds may be required to include in gross income a portion of his or her social security or railroad retirement payments; (8) any taxpayer (individuals or corporations) owning the Current Bonds may have collateral tax consequences if they are deemed to have incurred or have continued to incur indebtedness to purchase or carry tax-exempt obligations; (9) interest on the Current Bonds is exempt from Kentucky income taxes; and (10) the principal of the Current Bonds is exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions.


No opinion is expressed regarding other federal income tax consequences caused by the receipt of interest on the Current Bonds.

It is to be understood that the rights of the holders of the Current Bonds and the enforceability of the Current Bonds and the Current Bond Ordinance may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

It is provided in the Consolidated Farm and Rural Development Act that if the Current Bonds are sold out of the Agricultural Credit Insurance Fund or out of the Rural Development Insurance Fund as an insured loan, the interest thereon paid to an insured owner shall be included in the taxable income of such owner.

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 by its attorney, such transfer to be made on said book and endorsed hereon.

Date of Registration	Name of Registered Owner	Signature of Bond Registrar
June 10, 1998	UNITED STATES OF AMERICA, acting by and through the U. S. DEPARTMENT OF AGRICULTURE 771 Corporate Drive, Suite 200 Lexington, Kentucky 40503-5477	

ASSIGNMENT

For value received, this Bond is hereby assigned, without recourse and subject to all of its terms and conditions, unto _____

_____ , this _____ day of _____ , 19 _____ .

By: _____

EXECUTIVE SUMMARY		Reviewer: Sandy Williams			
KENTUCKY INFRASTRUCTURE AUTHORITY		Chris Whitaker			
FUND F, FEDERALLY ASSISTED DRINKING WATER		Date: October 4, 2007			
REVOLVING LOAN FUND		KIA Loan Number: F07-04			
		WRIS Number: WX21133005			
BORROWER:	LETCHER COUNTY WATER & SEWER DISTRICT				
	Letcher County				
BRIEF DESCRIPTION:	The Letcher Co. Water & Sewer District proposes to extend potable water service to the Little Cowan area of Letcher County. The project will include the construction of approximately 19,345 linear feet of 8-inch water main, 6,545 linear feet of 3-inch water main, a 30,000 gallon water storage tank and a booster pumping station. Residents in this area of Letcher County must currently rely on wells, cisterns and springs for potable water. These water sources are subject to contamination and are vulnerable to drought.				
PROJECT FINANCING:	PROJECT BUDGET				
Fund F Loan	\$	781,000	Administrative Expenses	\$	15,000
HB 267 Grant	\$	300,000	Legal Expenses		5,000
IEDF Grant	\$	112,000	Land & Easements		10,000
TOTAL		1,193,000	Engineering Fees		171,981
			Construction		943,757
			Contingency		47,262
			TOTAL		1,193,000
REPAYMENT			Est. Annual		
	Rate	1.00%	Payment		\$45,135
	Term	20 years	1st Payment		6 Mo. after first draw
PROFESSIONAL SERVICES	Engineer	Bell Engineering			
	Bond Counsel	Peck, Shafer, & Williams			
PROJECT SCHEDULE					
	Bid Opening:		August 2007		
	Construction Start:		September 2007		
	Construction Stop:		March 2008		
DEBT PER CUSTOMER	Existing:	\$	1,478.21		
	Proposed:	\$	2,120.90		
OTHER DEBT	See Attached				
OTHER STATE-FUNDED PROJECTS LAST 5 YRS	See Attached				
RESIDENTIAL RATES		<u>Users</u>	<u>Avg. Bill</u>		
	Current	872	\$	34.00 (for 4,000 gallons)	
	Additional Proposed	104	\$	34.00 (for 4,000 gallons)	
REGIONAL COORDINATION	This project is consistent with regional planning recommendations.				
CASHFLOW	Cash Available for		Income after Debt		
	Debt Service	Debt Service	Service		Coverage Ratio
Audited 2004	-33,460	0	-33,460		N/A
Audited 2005	17,493	7,972	9,521		2.19
Audited 2006	16,953	65,290	-48,337		0.28
Projected 2007	72,120	70,365	1,754		1.02
Projected 2008	201,397	120,349	81,048		1.67
Projected 2009	199,703	150,669	49,034		1.33

Reviewer: Sandy Williams
 Chris Whitaker
 Date: October 4, 2007
 Loan Number: F07-03

**KENTUCKY INFRASTRUCTURE AUTHORITY
 DRINKING WATER REVOLVING LOAN FUND (FUND "F")
 CITY OF RICHMOND, MADISON COUNTY
 PROJECT REVIEW
 WX21151011**

I. PROJECT DESCRIPTION

The Letcher Co. Water & Sewer District is requesting a Fund F loan in the amount of \$781,000 to extend potable water service to the Little Cowan area of Letcher County. The project will include the construction of approximately 19,345 linear feet of 6-inch water main, 6,545 linear feet of 3-inch water main, a 30,000 gallon water storage tank and a booster pumping station. Residents in this area of Letcher County must currently rely on wells, cisterns and springs for potable water. These water sources are subject to contamination and are vulnerable to drought.

II. PROJECT BUDGET

Administrative Expenses	\$	15,000
Legal Expenses		5,000
Land & Easements		10,000
Engineering Fees		171,981
Construction		943,757
Contingency		47,262
TOTAL		1,193,000

III. PROJECT FUNDING

	<u>Amount</u>	<u>%</u>
Fund F Loan	781,000	65%
HB 267 Grant	300,000	25%
IEDF Grant	112,000	9%
Total	1,193,000	100%

IV. KIA DEBT SERVICE

Construction Loan	\$	781,000
Interest Rate		1.00%
Loan Term (Years)		20
Estimated Annual Debt Service	\$	43,182
Administrative Fee (0.25%)		1,953
Total Estimated Annual Debt Service	\$	45,135

V. PROJECT SCHEDULE

Bid Opening:	August 2007
Construction Start:	September 2007
Construction Stop:	March 2008

VI. RATE STRUCTURE

	Current	Proposed	Total
Residential	872	104	976
Commercial	0	0	0
Industrial	0	0	0
	<u>872</u>	<u>104</u>	<u>976</u>

Rates

The monthly charge for water utility service is:

Effective Date	1/6/2006
First 2,000 gal (min. bill)	\$22.00
Each 1,000 gal. Thereafter	6.00
Residential Bill for 4,000 gallons	\$34.00

VII. DEMOGRAPHICS

The Letcher County Water and Sewer District serves areas of Letcher County and purchases wholesale water from the City of Whitesburg at a rate of \$2.90 per thousand gallons. Letcher County has a population of 25,277. In 2000, the City's Median Household Income (MHI) level was \$21,110. The median household income for the Commonwealth is \$33,672. Based on median household income, the project will qualify for the 1% interest rate.

VIII. FINANCIAL ANALYSIS (See Exhibit 1)

Financial information for the utility was obtained from Public Service Commission Reports for the years ended December 31, 2003, 2004, 2005 and 2006. Audited financial statements for the years ended December 2005 and 2006 were also consulted.

HISTORICAL

Revenues for the system increased significantly between 2005 and 2006 from \$69,705 to \$247,597 due to the purchase of the City of Blackey water system facilities and customers and the addition of customers from several water line extensions. Operating expenses also increased during the same time period due to the increased services. In 2005, the system also added debt to the balance sheet. Water line extensions accounted for \$830,000 additional debt while the Blackey purchase added another \$459,000. The water line extensions were financed through US Rural Development

and the District assumed the USRD debt from the Blackey purchase. In 2006, the District was approved through USRD for an additional \$1 million of debt to finance water line extensions. The debt coverage ratio for 2006 was less than one because interest payments were due on the loans but the extension projects were not yet fully completed so revenue was not yet available from the additional proposed customers.

PROJECTED

Projections are based on the following assumptions:

- Charges for services in 2007 are projected to increase by the additional revenue generated from the water line extension projects, approximately 228 customers.
- Charges for services in 2008 reflect the addition of 104 customers for a time period of 9 months.
- Charges for services in 2009 a full year of revenue from the additional 104 customers added as a result of this project.
- Expenses are based on estimates provided by the system.
- The replacement reserve is \$3,905 annually for this project.
- Debt service on the new KIA loan will be \$45,135 annually beginning in 2009.

Projected income and expenses for cashflow purposes was based on actual customer counts and 104 projected new customers as a result of this project. Based on the above assumptions, the Letcher County Water and Sewer District will meet the required cashflow through the projected years. A debt coverage ratio of 1.33 is projected by the sewer system in 2009 when debt service payments of \$45,135 will begin.

REPLACEMENT RESERVE

Based on the information provided in the application the annual replacement cost is \$3,905. This amount should be added to the replacement account each December 1 until the balance reaches \$39,050 and maintained for the life of the system.

IX. DEBT OBLIGATIONS

		Outstanding
USDA Rural Development Loan	\$	821,000.00
USDA Rural Development Loan	\$	468,000.00
USDA Rural Development Loan	\$	<u>1,000,000.00</u>
TOTAL	\$	2,289,000.00

X. OTHER STATE OF FEDERAL FUNDING IN PAST FIVE YEARS

<u>WRIS</u>	<u>Project Title</u>	<u>Type</u>	<u>Amount</u>
WX21133009	Water Line Extension - Sandlick	SCC	\$800,000
WX21133022	Whitesburg Water Line Extension to Dry Fork	CDF	\$400,000
WX21133200	Water Line Extension, Crafts Colly	SCC	\$800,000
WX21133014	Water Line Extension Route 7 and 317	CDF	\$2,000,000

XI. CONTACTS

Don Profitt, Chairman
Letcher County Water & Sewer District
PO Box 827
Whitesburg, Kentucky 41858

Jim Tolliver, Director
Letcher County Water & Sewer
PO Box 827
Whitesburg, Kentucky 41858

Stephen Caudill
Bell Engineering
354 Waller Avenue
Lexington, Kentucky
40504

XII. RECOMMENDATIONS

KIA staff recommends approval of the loan.

**EXHIBIT 1
LETCHER COUNTY WATER & SEWER DISTRICT
CASHFLOW ANALYSIS**

	Audited 2003	% Change	Audited 2004	% Change	Audited 2005	% Change	Audited 2006	Projected 2007	Projected 2008	Projected 2009
Operating Revenues										
Charges for Services	11,414	272%	42,491	64%	69,705	255%	247,597	340,621	480,624	491,232
Miscellaneous	0		0		0		0	0	0	0
Total Revenues	11,414	272%	42,491	64%	69,705	255%	247,597	340,621	480,624	491,232
Operating Expenses										
Salaries	0		0		0		64,610	66,548	68,545	70,601
Other Operating Expenses	26,936	189%	77,803	-26%	57,617	202%	173,883	205,182	211,337	217,678
Depreciation	18,691	114%	39,973	21%	48,497	183%	137,016	166,841	196,666	226,491
Replacement Reserve	45,627	158%	117,776	-10%	106,114	254%	375,509	443,191	483,742	525,869
Total Expenses	(34,213)	120%	(75,285)	-52%	(36,409)	251%	(127,912)	(102,570)	(3,118)	(34,637)
Net Operating Income										
Non-Operating Income and Expenses										
Interest on Investments	4,089	-55%	1,852	192%	5,405	45%	7,849	7,849	7,849	7,849
Other Income and Expenses	2,500		0		0		0	0	0	0
Total Non-Operating Income & Expenses	6,589	-72%	1,852	192%	5,405	45%	7,849	7,849	7,849	7,849
Add Non-Cash Expenses										
Depreciation and Amortization	18,691	114%	39,973	21%	48,487	183%	137,016	166,841	196,666	226,491
Cash Available for Debt Service	(8,933)	275%	(33,460)	-152%	17,493	-3%	16,953	72,120	201,397	198,703
Debt Service										
Existing Debt	0		0		7,972		65,290	70,365	112,539	105,536
Fund A KIA Loan	0		0		0		0	0	7,810	45,135
Total Debt Service	0		0		7,972		65,290	70,365	120,349	150,669
Income After Debt Service	(8,933)		(33,460)		9,521		(48,337)	1,754	81,048	49,034
Debt Coverage Ratio	N/A		N/A		2.19		0.26	1.02	1.67	1.33

**LETCHER COUNTY WATER & SEWER DISTRICT
BALANCE SHEETS**

	ASSETS				Upon Project Completion
	2003	2004	2005	2006	
Current Assets					
Cash	357,583	222,287	179,684	607,535	607,535
Investments	0	0	0	0	0
Accounts Receivable	1,807	1,059	11,681	49,023	61,581
Inventories	0	0	0	0	0
Misc. Current & Accrued Assets	0	10,950	1,188	69,798	24,308
Total Current Assets	359,490	234,296	192,453	726,356	693,424
Fixed Assets					
Utility Plant	1,248,107	1,332,444	1,898,259	5,280,080	6,473,080
Construction in Progress	55,430	553,950	1,103,887	2,470,689	2,539,042
Total Fixed Assets	1,301,537	1,886,394	3,000,256	7,750,769	9,012,122
Less Accumulated Depreciation	(14,081)	(54,684)	(146,185)	(78,103)	(613,009)
Net Fixed Assets	1,282,848	1,827,730	2,854,091	6,967,565	8,199,113
Total Assets	1,642,336	2,062,026	3,046,544	7,693,941	8,892,537
LIABILITIES					
Current Liabilities					
Accounts Payable	0	0	9,845	51,924	54,520
Misc. Current And Accrued Liabilities	0	0	5,332	3,928	3,928
Customer Meter Deposits	0	360	6,310	0	0
Retirement Payable	0	0	0	0	3,000
Total Current Liabilities	0	360	21,487	55,852	61,448
Long Term Liabilities					
USDA Loan	0	0	830,000	1,289,000	1,289,000
New KIA Fund F Loan	0	0	0	0	781,000
Total Long Term Liabilities	0	0	830,000	1,289,000	2,070,000
Total Liabilities	0	360	851,487	1,344,852	2,131,448
Retained Earnings:					
Invested in Capital Assets	1,642,336	2,061,666	2,195,057	6,349,089	6,761,089
Total Equity and Other Credits	1,642,336	2,061,666	2,195,057	6,349,089	6,761,089
Total Liabilities and Equities	1,642,336	2,062,026	3,046,544	7,693,941	8,892,537
Balance Sheet Analysis					
Current Ratio	#DIV/0!	650.82	8.96	13.01	11.28
Debt to Equity	-	0.00	0.39	0.21	0.32
Working Capital	359,490	233,936	170,866	670,504	631,976
Percent of Total Assets in Working Capital	21.86%	11.34%	5.61%	8.71%	7.11%
Percent of Operating Revenue in Receivables	18.71%	2.49%	16.61%	19.80%	24.87%

STRUCTURE AUTHORITY
EDULE

F

1.00% Rate
\$19,964.78 P & I Calculation

Principal Due	Interest Due	Interest Rate	Principal & Interest	Servicing Fee	Credit Due	Total Payment	Principal Balance	R & M Reserve
\$12,357.47	\$2,715.38	1.0000%	\$15,072.85	\$682.11	\$0.00	\$15,754.96	\$545,691.71	\$0.00
\$17,898.67	\$3,078.46	1.0000%	\$20,977.13	\$960.80	\$0.00	\$21,937.93	\$768,642.53	\$3,905.00
\$17,988.17	\$3,753.71	1.0000%	\$21,741.88	\$938.43	\$0.00	\$22,680.31	\$730,743.86	\$0.00
\$18,078.10	\$3,663.78	1.0000%	\$21,741.88	\$915.94	\$0.00	\$22,657.82	\$732,755.69	\$3,905.00
\$18,168.49	\$3,573.39	1.0000%	\$21,741.88	\$893.35	\$0.00	\$22,635.22	\$714,677.60	\$0.00
\$18,259.33	\$3,482.55	1.0000%	\$21,741.88	\$870.64	\$0.00	\$22,612.51	\$696,509.11	\$0.00
\$18,350.63	\$3,391.25	1.0000%	\$21,741.88	\$847.81	\$0.00	\$22,589.69	\$678,249.78	\$3,905.00
\$18,442.38	\$3,299.50	1.0000%	\$21,741.88	\$824.87	\$0.00	\$22,566.75	\$659,899.16	\$0.00
\$18,534.60	\$3,207.28	1.0000%	\$21,741.88	\$801.82	\$0.00	\$22,543.70	\$641,456.78	\$3,905.00
\$18,627.27	\$3,114.61	1.0000%	\$21,741.88	\$778.65	\$0.00	\$22,520.53	\$622,922.18	\$0.00
\$18,720.40	\$3,021.48	1.0000%	\$21,741.88	\$755.37	\$0.00	\$22,497.25	\$604,294.91	\$3,905.00
\$65,138.94	\$2,927.87	1.0000%	\$68,066.81	\$731.97	\$0.00	\$68,798.78	\$585,574.52	\$0.00
\$17,362.59	\$2,715.43	1.0000%	\$20,078.01	\$650.54	\$0.00	\$20,728.56	\$520,435.58	\$3,905.00
\$17,449.42	\$2,515.36	1.0000%	\$19,964.78	\$628.84	\$0.00	\$20,593.62	\$503,072.99	\$0.00
\$17,536.66	\$2,428.12	1.0000%	\$19,964.78	\$607.03	\$0.00	\$20,571.81	\$485,623.58	\$3,905.00
\$17,624.35	\$2,340.43	1.0000%	\$19,964.78	\$585.11	\$0.00	\$20,549.88	\$468,086.92	\$0.00
\$17,712.46	\$2,252.32	1.0000%	\$19,964.78	\$563.08	\$0.00	\$20,527.85	\$450,462.57	\$3,905.00
\$17,801.03	\$2,163.75	1.0000%	\$19,964.78	\$540.94	\$0.00	\$20,505.71	\$432,750.12	\$0.00
\$17,890.04	\$2,074.74	1.0000%	\$19,964.78	\$518.69	\$0.00	\$20,483.46	\$414,949.09	\$3,905.00
\$17,979.48	\$1,985.30	1.0000%	\$19,964.78	\$496.32	\$0.00	\$20,461.10	\$397,059.06	\$0.00
\$18,069.38	\$1,895.40	1.0000%	\$19,964.78	\$473.85	\$0.00	\$20,438.63	\$379,079.58	\$3,905.00
\$18,159.72	\$1,805.06	1.0000%	\$19,964.78	\$451.26	\$0.00	\$20,416.04	\$361,010.20	\$0.00
\$18,250.52	\$1,714.26	1.0000%	\$19,964.78	\$428.56	\$0.00	\$20,393.34	\$342,850.49	\$0.00
\$18,341.79	\$1,622.99	1.0000%	\$19,964.78	\$405.75	\$0.00	\$20,370.53	\$324,599.97	\$0.00
\$18,433.48	\$1,531.30	1.0000%	\$19,964.78	\$382.82	\$0.00	\$20,347.60	\$306,258.19	\$0.00
\$18,525.66	\$1,439.12	1.0000%	\$19,964.78	\$359.78	\$0.00	\$20,324.56	\$287,824.71	\$0.00
\$18,618.28	\$1,346.50	1.0000%	\$19,964.78	\$336.62	\$0.00	\$20,301.40	\$269,299.05	\$0.00
\$18,711.37	\$1,253.41	1.0000%	\$19,964.78	\$313.35	\$0.00	\$20,278.13	\$250,680.78	\$0.00
\$18,804.93	\$1,159.85	1.0000%	\$19,964.78	\$289.96	\$0.00	\$20,254.74	\$231,969.41	\$0.00
\$18,898.96	\$1,065.82	1.0000%	\$19,964.78	\$266.46	\$0.00	\$20,231.23	\$213,164.49	\$0.00
\$18,993.45	\$971.33	1.0000%	\$19,964.78	\$242.83	\$0.00	\$20,207.61	\$194,265.53	\$0.00
\$19,088.42	\$876.36	1.0000%	\$19,964.78	\$219.09	\$0.00	\$20,183.87	\$175,272.09	\$0.00
\$19,183.86	\$780.92	1.0000%	\$19,964.78	\$195.23	\$0.00	\$20,160.01	\$156,183.67	\$0.00
\$19,279.78	\$685.00	1.0000%	\$19,964.78	\$171.25	\$0.00	\$20,136.03	\$136,999.81	\$0.00
\$19,376.18	\$588.60	1.0000%	\$19,964.78	\$147.15	\$0.00	\$20,111.93	\$117,720.04	\$0.00
\$19,473.06	\$491.72	1.0000%	\$19,964.78	\$122.93	\$0.00	\$20,087.71	\$98,343.86	\$0.00
\$19,570.43	\$394.35	1.0000%	\$19,964.78	\$98.59	\$0.00	\$20,063.36	\$78,870.81	\$0.00
\$19,668.28	\$296.50	1.0000%	\$19,964.78	\$74.13	\$0.00	\$20,038.90	\$59,300.38	\$0.00
\$19,766.62	\$198.16	1.0000%	\$19,964.78	\$49.54	\$0.00	\$20,014.32	\$39,632.10	\$0.00
\$19,865.49	\$99.29	1.0000%	\$19,964.78	\$24.83	\$0.00	\$19,989.61	\$19,865.49	\$0.00
\$781,000.00	\$77,920.64		\$858,920.64	\$19,646.31	\$0.00	\$878,566.95	\$39,050.00	

on 01/30/2017

Attachment #9

**STATEMENT OF DISCLOSURE OF
RELATED PARTY TRANSACTIONS**

I swear or affirm to the best of my knowledge and belief the information set forth below represents all present transactions and those transactions occurring within the past twenty-four (24) months between _____ ("Utility") and related parties that exceed \$25.00 in value. For the purpose of this statement, "related party transactions" include, all transactions and payments in excess of \$25.00, except regular salary, wages and benefits, made directly to or on behalf of: 1) the Utility's current or former employees; 2) current or former members of the Utility's board of commissioners or board of directors; 3) persons who have a 10 percent or greater ownership interest in the Utility; 4) family members* of any current Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or 5) a business enterprise in which any current or former Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or a family member of such person has an ownership interest.

Name of Related Party (Individual or Business)	Type of Service Provided By Related Party	Amount of Compensation

- Check this box if the Utility has no related party transactions.
- Check box if additional transactions are listed on the supplemental page.
- Check box if any employee of the Utility is a family member of the Utility's chief executive officer, a Utility commissioner, or any person with a 10 percent or greater ownership interest in the Utility. The name of each employee and the official to whom they are related and the nature of the relationship are listed on the supplemental page entitled "Employees Related to Utility Officials."

RICHARD CARTER
(Print Name)

Richard Carter
(Signed)

COMMISSIONER
COMMISSIONER
(Position/Office)

* "Family Member" means any person who is the spouse, parent, sibling, child, mother-in-law, father-in-law, son-in-law, daughter-in-law, grandparent, or grandchild of any current Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility; or is a dependent for tax purposes of any Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or his or her spouse; or who is a member of the household of any Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility.

COMMONWEALTH OF KENTUCKY

COUNTY OF Letcher

Subscribed and sworn to before me by Richard Carter
(Name)

this 15th day of December, 2022.

Stephan Boering - Ky
NOTARY PUBLIC
State-at-Large

**STATEMENT OF DISCLOSURE OF
RELATED PARTY TRANSACTIONS**

I swear or affirm to the best of my knowledge and belief the information set forth below represents all present transactions and those transactions occurring within the past twenty-four (24) months between _____ ("Utility") and related parties that exceed \$25.00 in value. For the purpose of this statement, "related party transactions" include, all transactions and payments in excess of \$25.00, except regular salary, wages and benefits, made directly to or on behalf of: 1) the Utility's current or former employees; 2) current or former members of the Utility's board of commissioners or board of directors; 3) persons who have a 10 percent or greater ownership interest in the Utility; 4) family members* of any current Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or 5) a business enterprise in which any current or former Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or a family member of such person has an ownership interest.

Name of Related Party (Individual or Business)	Type of Service Provided By Related Party	Amount of Compensation

- Check this box if the Utility has no related party transactions.
- Check box if additional transactions are listed on the supplemental page.
- Check box if any employee of the Utility is a family member of the Utility's chief executive officer, a Utility commissioner, or any person with a 10 percent or greater ownership interest in the Utility. The name of each employee and the official to whom they are related and the nature of the relationship are listed on the supplemental page entitled "Employees Related to Utility Officials."

FRED WEBB
(Print Name)

Fred Webb
(Signed)

SECRETARY
(Position/Office) TREASURER

* "Family Member" means any person who is the spouse, parent, sibling, child, mother-in-law, father-in-law, son-in-law, daughter-in-law, grandparent, or grandchild of any current Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility; or is a dependent for tax purposes of any Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or his or her spouse; or who is a member of the household of any Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility.

COMMONWEALTH OF KENTUCKY

COUNTY OF Letcher

Subscribed and sworn to before me by Fred Webb
(Name)

this 15th day of December, 2012.

Stephanie Bowling - Ky
NOTARY PUBLIC
State-at-Large

**STATEMENT OF DISCLOSURE OF
RELATED PARTY TRANSACTIONS**

I swear or affirm to the best of my knowledge and belief the information set forth below represents all present transactions and those transactions occurring within the past twenty-four (24) months between _____ ("Utility") and related parties that exceed \$25.00 in value. For the purpose of this statement, "related party transactions" include, all transactions and payments in excess of \$25.00, except regular salary, wages and benefits, made directly to or on behalf of: 1) the Utility's current or former employees; 2) current or former members of the Utility's board of commissioners or board of directors; 3) persons who have a 10 percent or greater ownership interest in the Utility; 4) family members* of any current Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or 5) a business enterprise in which any current or former Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or a family member of such person has an ownership interest.

Name of Related Party (Individual or Business)	Type of Service Provided By Related Party	Amount of Compensation

- Check this box if the Utility has no related party transactions.
- Check box if additional transactions are listed on the supplemental page.
- Check box if any employee of the Utility is a family member of the Utility's chief executive officer, a Utility commissioner, or any person with a 10 percent or greater ownership interest in the Utility. The name of each employee and the official to whom they are related and the nature of the relationship are listed on the supplemental page entitled "Employees Related to Utility Officials."

Sam Oaks
(Print Name)

[Signature]
(Signed)

Board member
(Position/Office)

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COMMONWEALTH OF KENTUCKY

COUNTY OF Letcher

Subscribed and sworn to before me by Sam Oaks
(Name)

this 15th day of December, 20 22.

Stephanie Bowling - Key
NOTARY PUBLIC
State-at-Large

**STATEMENT OF DISCLOSURE OF
RELATED PARTY TRANSACTIONS**

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James Mark Lewis
(Print Name)


(Signed)

General Manager
(Position/Office)

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COMMONWEALTH OF KENTUCKY

COUNTY OF Letcher

Subscribed and sworn to before me by James Mark Lewis
(Name)

this 15th day of December, 2022.

Stephanie Bowling - Ky
NOTARY PUBLIC
State-at-Large

**STATEMENT OF DISCLOSURE OF
RELATED PARTY TRANSACTIONS**

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Dianne Adams
(Print Name)

Dianne Adams
(Signed)

Chairman
(Position/Office)

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COMMONWEALTH OF KENTUCKY

COUNTY OF Retard

Subscribed and sworn to before me by Dianne Adams
(Name)

this 15th day of December, 2022.

Stephanie Bowling - Key
NOTARY PUBLIC
State-at-Large

**STATEMENT OF DISCLOSURE OF
RELATED PARTY TRANSACTIONS**

I swear or affirm to the best of my knowledge and belief the information set forth below represents all present transactions and those transactions occurring within the past twenty-four (24) months between _____ ("Utility") and related parties that exceed \$25.00 in value. For the purpose of this statement, "related party transactions" include, all transactions and payments in excess of \$25.00, except regular salary, wages and benefits, made directly to or on behalf of: 1) the Utility's current or former employees; 2) current or former members of the Utility's board of commissioners or board of directors; 3) persons who have a 10 percent or greater ownership interest in the Utility; 4) family members* of any current Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or 5) a business enterprise in which any current or former Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or a family member of such person has an ownership interest.

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Jerry Ingram
(Print Name)


(Signed)

Board Member
(Position/Office)

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COMMONWEALTH OF KENTUCKY

COUNTY OF Letcher

Subscribed and sworn to before me by Jeremy Vingan
(Name)

this 15th day of December, 2022.

Stephanie Boering - Ky
NOTARY PUBLIC
State-at-Large

Attachment #10

**A RESOLUTION OF THE BOARD OF COMMISSIONERS OF THE
LETCHER COUNTY WATER AND SEWER DISTRICT TO APPLY
TO THE KENTUCKY PUBLIC SERVICE COMMISSION FOR
AUTHORITY TO ADJUST RATES FOR WATER SERVICE**

WHEREAS, the Letcher County Water and Sewer District ("District") is a district created and organized under the provisions of KRS Chapter 74. The District is subject to the jurisdiction of the Kentucky Public Service Commission ("PSC");

WHEREAS, KRS 278.030 provides that "[e]very utility may demand, collect and receive fair, just and reasonable rates for the services rendered or to be rendered to it by any person;"

WHEREAS, KRS 74.080 provides that the board of commissioners of a water district "may establish water rates and make reasonable regulations for the disposition and consumption of water;"

WHEREAS, Letcher County Water and Sewer District has reviewed its costs to provide adequate and reasonable water service and the revenues produced from the current rates for such service;

WHEREAS, using the ratemaking methodology that the Kentucky Public Service Commission has historically employed for water districts to establish the appropriate level of revenue from rates.

WHEREAS, an across-the-board increase of 35.58 percent to Letcher County Water and Sewer District's current rates is necessary for Letcher County Water and Sewer District's rates to produce the appropriate level of revenue to ensure adequate and reliable service to persons within its territory;

WHEREAS, KRS 278.180 and KAR 5:076 require Letcher County Water and Sewer District to serve notice of its proposed rate adjustment on and to make application for rate adjustment to the Kentucky Public Service Commission;


NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF LETCHER COUNTY WATER AND SEWER DISTRICT 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. The General Manager is authorized and directed to take any and all actions reasonable necessary to prepare and submit an application to the Kentucky Public Service Commission, pursuant to 807 KAR 5:076, for authority to adjust Letcher County Water and Sewer District's rates to the rate set forth in Exhibit A to this Resolution.

Section 3. This Resolution shall take effect upon its adoption.

ADOPTED BY THE BOARD OF COMMISSIONERS OF LETCHER COUNTY WATER AND SEWER DISTRICT at a meeting held on December 15, 2022, signed by the Chairman, and attested by the Secretary.



(for D. ANNIE ADAMS) Chairman

ATTEST:



Secretary

CERTIFICATION

I, Secretary of the Letcher County Water and Sewer District ("District"), do hereby certify that the foregoing is a true copy of a Resolution duly adopted by the Commission of the District at a meeting properly held on December 15, 2022, signed by the Chairman of the Commission, attested by me as Secretary, and now in full force and effect.

WITNESS my hand this 15th day of December, 2022.


Secretary

EXHIBIT A

**EXHIBIT TO A RESOLUTION OF THE BOARD OF COMMISSIONERS
OF LETCHER COUNTY WATER AND SEWER DISTRICT DATED
DECEMBER 15, 2022**

<u>5/8" x 3/4" Meter</u>	<u>Current Rates</u>		<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>		
First 2,000 gallons	\$	28.08	Minimum Bill	\$	38.07	\$ 9.99	35.58%
Over 2,000 gallons		7.79	per 1,000 gallons	\$	10.56	\$ 2.77	35.58%

<u>Meter</u>	<u>Average Monthly Usage</u>	<u>Current Monthly Bill</u>	<u>Proposed Rates Monthly Bill</u>	<u>Increase</u>	<u>Change</u>
5/8" x 3/4"	3,500 Gallons	\$ 39.77	\$ 53.91	\$ 14.15	35.58%