

REED & JOHNSON

ATTORNEYS AT LAW
2218 FRANKFORT AVENUE
LOUISVILLE, KENTUCKY 40206-2408

(502) 899-3880
FAX (502) 899-3882
E-MAIL: hankreed@bellsouth.net

RECEIVED

NOV 20 2008

**PUBLIC SERVICE
COMMISSION**

**HENRY M. REED III
LOUISVILLE, KENTUCKY**

**GILLARD B. JOHNSON III
LEXINGTON, KENTUCKY**

November 17, 2008

VIA UPS

Ms. Stephanie L. Stumbo
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

In re: Application of Adair County Water District

- 2008-00480

Ms. Stumbo:

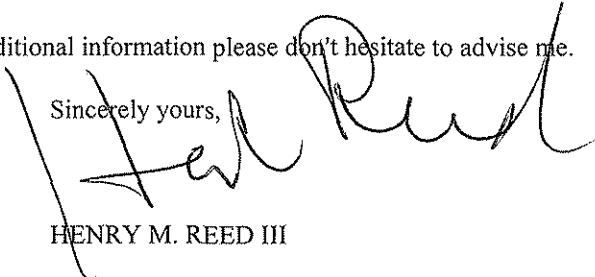
Enclosed herewith please find ten (10) copies of the Petition of the Adair County Water District with appropriate exhibits seeking a Certificate of Public Convenience and Necessity.

Monarch Engineering, Inc., Lawrenceburg, Kentucky are the Consulting Engineers employed by the District for this Project. You are respectfully requested to direct any requests of the Commission for additional engineering information directly to Monarch Engineering, Inc.

The cost of the Project for which approval is sought will be paid for with Grants from US Department of Agriculture, Rural Development ("USDARD") and the Commonwealth of Kentucky. No rate increase is required.

If this office can supply any additional information please don't hesitate to advise me.

Sincerely yours,



HENRY M. REED III

cc: Mr. David M. Bowles, P.E.
Monarch Engineering, Inc.
556 Carlton Dr.
Lawrenceburg, Kentucky 40342

Mr. Lennon Stone
Superintendent
Adair County Water District
109 Grant Lane
Columbia, Kentucky 42728

IN THE MATTER OF THE APPLICATION)
OF THE ADAIR COUNTY WATER DISTRICT, A)
WATER DISTRICT ORGANIZED PURSUANT TO)
CHAPTER 74 OF THE KENTUCKY REVISED)
STATUTES, IN ADAIR COUNTY, KENTUCKY,)
FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY, AUTHORIZING AND)
PERMITTING SAID ADAIR WATER DISTRICT)
TO CONSTRUCT WATER DISTRIBUTION)
SYSTEM IMPROVEMENTS, CONSISTING OF)
THE CONSTRUCTION OF EXTENSIONS,)
ADDITIONS AND IMPROVEMENTS TO THE)
DISTRICT'S WATER SYSTEM AND (2) THE)
RATIFICATION OF THE PROPOSED PLAN OF)
FINANCING SAID IMPROVEMENTS.)

CASE NO. 2008-0048

COMMONWEALTH OF KENTUCKY

**Before the Public Service Commission
In the Matter of
the Application of Adair County Water District**

Index to Application

1. Petition of Adair County Water District ("District") for Certificate of Public Convenience and Necessity.
2. PSC Order Case No. 2007-00195 dated June 14, 2007 and PSC Order Case No. 2007-00473 dated December 12, 2007.
3. Letter of Conditions to District from United States of America, acting through the U.S. Department of Agriculture, Rural Development ("USDARD") dated December 16, 2005 as Amended by Letter dated September 7, 2007.
4. Certificate of Vice Chairman of District regarding compliance with Public Service Commission requirements.
5. Concurrence of USDARD in Award of Construction Contracts.
6. Preliminary Engineering Report of Monarch Engineers, Inc., Lawrenceburg, Kentucky.
7. Final Engineering Report of Monarch Engineers, Inc., Lawrenceburg, Kentucky.

**Prepared by Henry M. Reed III, Reed & Johnson, Bond Counsel to District
2218 Frankfort Avenue, Louisville, Kentucky 40206
Phone: 502-899-3880, Fax: 502-899-3882
e-mail: hankreed@bellsouth.net**

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF THE APPLICATION)
OF THE ADAIR COUNTY WATER DISTRICT, A)
WATER DISTRICT ORGANIZED PURSUANT TO)
CHAPTER 74 OF THE KENTUCKY REVISED)
STATUTES, IN ADAIR COUNTY, KENTUCKY,)
FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE)
AND NECESSITY, AUTHORIZING AND)
PERMITTING SAID ADAIR WATER DISTRICT)
TO CONSTRUCT WATER DISTRIBUTION)
SYSTEM IMPROVEMENTS, CONSISTING OF)
THE CONSTRUCTION OF EXTENSIONS,)
ADDITIONS AND IMPROVEMENTS TO THE)
DISTRICT'S WATER SYSTEM AND (2) THE)
RATIFICATION OF THE PROPOSED PLAN OF)
FINANCING SAID IMPROVEMENTS.)

CASE NO. 2008-00480

PETITION

Pursuant to KRS 278.023, this Petition of the Adair County Water District ("District" or "Petitioner"), respectfully states:

1. That Petitioner is a Water District in Adair County, created and existing under and by virtue of Chapter 74 of the Kentucky Revised Statutes, pursuant to an Order of the County Court of said County, following the requisite procedure prescribed in said Chapter 74.

2. That the Post Office address of said District is "Adair County Water District, Danny Downey, Vice Chairman, P.O. Box 567, Columbia, Kentucky 42728".

3. That the formation of the District, its present tariff of rates, and the issuance of its outstanding long term indebtedness have been previously approved by Orders of the Public Service Commission of Kentucky ("PSC").

4. That in 2007 the District embarked on a two Phase Project. On June 14, 2007, the Commission entered an order granting a Certificate of Public Convenience and Necessity and approving the financing plan for Phase I of the Project. The Commission's Order in Case No. 2007-00195 is attached to the Exhibit Addendum accompanying this Petition.

5. That subsequent to the entry of the Commission's Order of June 14, 2007 the District obtained a Loan in the amount of \$1,000,000 from the Kentucky Infrastructure Authority ("KIA"). On December 12, 2007, the Commission entered an Order approving the KIA Loan and its application, if required, to Phase I of the Project as well as to an undetermined Phase II of the Project; provided, however, that Section 6 of said Order required the District to obtain a Certificate of Public Convenience and Necessity for Phase II of the Project upon the specific details of said Phase II being determined. The Commission's Order in Case No. 2007-00473 is attached to the Exhibit Addendum accompanying this Petition.

6. That the specifics of Phase II have now been determined and the District seeks a Certificate of Public Convenience and Necessity approving the construction of extensions, additions and improvements to the District's Water System, herein described as Phase II of the Project consisting of (a) 1,900 LF of 6-inch water line, (b) 28,890 LF of 4-inch water line, and (c) 53,350 LF of 3-inch water line in order to serve approximately 75 new residential customers located on 14 different rural roads.

7. That subject to the approval of the Commission, the District proposes to finance the construction of the improvements identified above pursuant to the terms of a certain Letter of Conditions dated December 16, 2005, as Amended by Letter dated September 7, 2007, from the United States Department of Agriculture, Rural Development ("USDARD") to the District, whereunder USDARD proposes to lend to the District through the issuance of the District's Water Revenue Bonds, Series of 2007, the sum of approximately \$752,000 supplemented by a USDARD Grant in the amount of approximately \$550,000, a KIA Loan in the amount of approximately \$1,000,000, and a 2006 Kentucky General Assembly Grant in the amount of approximately \$1,000,000.

8. That the District was required by USDARD to increase its schedule of rates and charges for water service in connection with the financing of Phase I of the Project in accordance with the District's Amended Water Rate Ordinance approved by the Commission's Order of June 14, 2007. No further increase in rates is sought by the District at this time.

9. That the District has observed the appropriate legal procedure in employing Monarch Engineering, Inc., Lawrenceburg, Kentucky to prepare the plans and specifications for the construction of Phase II of the Project. The plans and specifications as to said Phase II of the Project have been approved by the appropriate governmental agencies.

10. That the approval of the Public Service Commission is urgently required in order to enable the District to proceed to accept construction bids for Phase II of the Project and proceed with the construction in order to provide for the needs of the District.

11. That there are attached to this Petition those Exhibits indicated in the Exhibit Addendum to this Petition which the Petitioner believes the Commission will find necessary in ruling on the requests set forth in this Petition pursuant to KRS 278.023 (including Preliminary and Final Engineering Reports).

WHEREFORE, Petitioner prays that the Public Service Commission of Kentucky grant to the Petitioner the following:

A. A Certificate of Public Convenience and Necessity, permitting the Petitioner District to construct Phase II of the Project as described in the Engineers' Reports filed herewith as Exhibits in order to provide required water service to said District.

B. An Order ratifying the Commission's Order of December 12, 2007 approving the application of the remaining proceeds of the USDARD Grant and the 2006 Kentucky General Assembly Grant, to the extent required, to meet the costs of construction of Phase II of the Project.

Dated at Columbia, Kentucky as of this 13 day of November, 2008.

ADAIR COUNTY WATER DISTRICT

By 
Vice Chairman

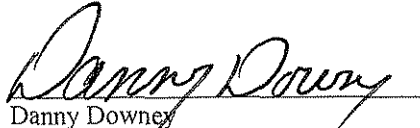


REED & JOHNSON
Henry M. Reed III, Bond Counsel
2218 Frankfort Avenue
Louisville, Kentucky 40206

STATE OF KENTUCKY)
) SS
COUNTY OF ADAIR)

The undersigned, Danny Downey, being first duly sworn, deposes and states: That he is the Vice Chairman of Adair County Water District of Adair County, Kentucky, Petitioner in the above Petition; that he has read the foregoing Petition and has noted the contents thereof; that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and that as to those matters, he believes same to be true.


IN TESTIMONY WHEREOF, witness the signature of the undersigned on the 13 day of November, 2008.



Danny Downey

Acknowledged before me by Danny Downey, Vice Chairman of the Adair County Water District, on this 13 day of November, 2008.

My Commission expires 4-26-2012.



Notary Public, Adair Co.
Kentucky

(Seal of Notary)

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE ADAIR COUNTY WATER)	
DISTRICT, A WATER DISTRICT ORGANIZED)	
PURSUANT TO CHAPTER 74 OF THE KENTUCKY)	
REVISED STATUTES, IN ADAIR COUNTY,)	
KENTUCKY, FOR (1) A CERTIFICATE OF PUBLIC)	
CONVENIENCE AND NECESSITY, AUTHORIZING)	
AND PERMITTING SAID ADAIR WATER DISTRICT TO)	CASE NO.
CONSTRUCT WATER DISTRIBUTION SYSTEM)	2007-00195
IMPROVEMENTS, CONSISTING OF THE)	
CONSTRUCTION OF EXTENSIONS, ADDITIONS AND)	
IMPROVEMENTS TO THE DISTRICT'S WATER)	
SYSTEM AND (2) THE APPROVAL OF THE)	
PROPOSED PLAN OF FINANCING SAID)	
IMPROVEMENTS)	

O R D E R

On May 16, 2007, Adair County Water District ("Adair County District") submitted an application for a Certificate of Public Convenience and Necessity to construct, finance, and increase rates for a \$2,302,000 waterworks improvement project. This project consists of the construction and installation of approximately 39,800 linear feet of 12-inch water line and a 500,000-gallon elevated water storage tank.

Adair County District proposes to finance the construction of the project through: a United States Department of Agriculture Rural Development ("RD") loan in the amount of \$752,000 for issuance of its Water and Sewer Revenue bonds, Series of 2007; an RD grant in the amount of \$550,000; and a Kentucky Infrastructure Authority Tobacco Settlement Grant in the amount of \$1,000,000.

Adair County District's application was made pursuant to KRS 278.023, which requires the Commission to accept agreements between water utilities and the U.S. Department of Agriculture or the U.S. Department of Housing and Urban Development, and to issue the necessary orders to implement the terms of such agreements within 30 days of satisfactory completion of the minimum filing requirements. Given that minimum filing requirements were met in this case on May 16, 2007, KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of this agreement.

IT IS THEREFORE ORDERED that:

1. Adair County District is granted a Certificate of Public Convenience and Necessity for the proposed construction project.
2. Adair County District's proposed plan of financing with RD is accepted.
3. Adair County District is authorized to issue its Water Revenue Bonds not to exceed \$752,000 at an interest rate not exceeding 4.25 percent per annum, maturing over 40 years.
4. The proceeds from the bond issuance shall be used only for the purposes specified in Adair County District's application.
5. Notwithstanding Ordering Paragraph 4, if surplus funds remain after the approved construction has been completed, Adair County District may use such surplus to construct additional plant facility if RD approves of the use, and the additional construction will not result in a change in Adair County District's rates for service. Adair County District shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 3.

6. Adair County District shall file a copy of the "as-built" drawings and a certified statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the substantial completion of the construction certified herein.

7. Adair County District shall monitor the adequacies of the expanded water distribution system after construction. If the level of service is inadequate or declining, or the pressure to any customer is outside the requirements of 807 KAR 5:066, Section 5(1), Adair County District shall take immediate action to ensure that the level of service conforms to the regulations of the Commission.

8. Adair County District shall notify the Commission one week prior to the actual start of construction and at the 50 percent completion point.

9. Within 30 days of the date of this Order, Adair County District shall file with the Commission its revised tariffs setting out the rates approved herein.

10. The rates set out in Appendix A, which is attached hereto and incorporated herein, are the rates approved for service rendered on and after the date of this Order.

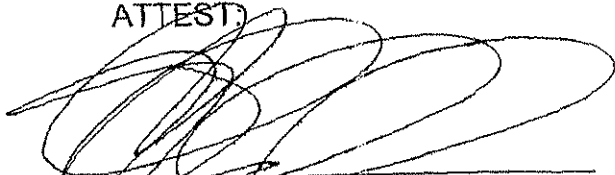
11. Three years from the effective date of this Order, Adair County District shall file an income statement, along with any pro forma adjustments, in sufficient detail to demonstrate that the rates approved herein are sufficient to meet its operating expenses and annual debt service requirements.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein accepted.

Done at Frankfort, Kentucky, this 14th day of June, 2007.

By the Commission

ATTEST



Executive Director

Case No. 2007-00195

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2007-00195 DATED June 14, 2007.

The following rates and charges are prescribed for the customers in the area served by Adair County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8" x 3/4" Meter

First	2,000	Gallons	\$14.85	Minimum Bill
Next	3,000	Gallons	5.70	Per 1,000 Gallons
Next	5,000	Gallons	4.95	Per 1,000 Gallons
Next	15,000	Gallons	3.85	Per 1,000 Gallons
All Over	25,000	Gallons	3.10	Per 1,000 Gallons

1" Meter

First	5,000	Gallons	\$31.65	Minimum Bill
Next	5,000	Gallons	4.95	Per 1,000 Gallons
Next	15,000	Gallons	3.85	Per 1,000 Gallons
All Over	25,000	Gallons	3.10	Per 1,000 Gallons

1-1/2" Meter

First	10,000	Gallons	\$55.90	Minimum Bill
Next	15,000	Gallons	3.85	Per 1,000 Gallons
All Over	25,000	Gallons	3.10	Per 1,000 Gallons

2" Meter

First	16,000	Gallons	\$78.40	Minimum Bill
Next	9,000	Gallons	3.85	Per 1,000 Gallons
All Over	25,000	Gallons	3.10	Per 1,000 Gallons

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE ADAIR COUNTY)	
WATER DISTRICT, A WATER DISTRICT)	
ORGANIZED PURSUANT TO KRS CHAPTER 74)	
OF THE KENTUCKY REVISED STATUTES, IN)	CASE NO. 2007-00473
ADAIR COUNTY, KENTUCKY FOR THE)	
APPROVAL OF A PLAN OF FINANCING)	
IMPROVEMENTS TO THE DISTRICT'S WATER)	
DISTRIBUTION SYSTEM)	

ORDER

On November 7, 2007, Adair County Water District ("Adair District") applied for authority to borrow \$1,000,000 from the Kentucky Infrastructure Authority ("KIA") repayable over a 20-year term at an interest rate of 1 percent per annum to fund a proposed construction project.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Adair District is a water district that provides water service to approximately 5,635 customers in Adair County, Kentucky.
2. Adair District intends to construct a proposed waterworks improvement project ("Phase I Project") that consists of the construction and installation of approximately 39,800 linear feet of 12-inch water main and a 500,000-gallon water storage tank.
3. Adair District estimates the cost of the Phase I Project as \$2,302,000.

4. Adair District proposes to finance the Phase I Project with a loan of \$752,000 from the United States Department of Agriculture Rural Development ("RD"), a grant of \$550,000 from RD, and a grant of \$1,000,000 from KIA.

5. The Commission has previously granted a Certificate of Public Convenience and Necessity to Adair District for construction of the Phase I Project and authorized Adair District's entry into a loan agreement with RD.¹

6. Adair District intends to construct an additional water improvement project ("Phase II Project"). This project consists of undisclosed water system improvements, the construction and installation of an undetermined amount of water main, and the purchase and installation of an undetermined amount of radio read water meters to expand Adair District's existing radio read metering system. Adair District has not yet completed engineering designs and studies or obtained the governmental permits necessary to begin construction of the Phase II Project

7. Adair District estimates the cost of the Phase II Project as \$1,000,000.

8. KIA has approved a loan in the amount of \$1,000,000 to Adair District to finance the Phase II Project. KIA further will permit Adair District to use the proceeds of this loan to displace the proceeds of the RD loan and grant, provided that those proceeds are used for the Phase II Project.

¹ Case No. 2007-00195, The Application of the Adair County Water District, a Water District Organized Pursuant to Chapter 74 of the Kentucky Revised Statutes, in Adair County, Kentucky, for (1) a Certificate of Public Convenience and Necessity, Authorizing and Permitting said Adair Water District to Construct Water Distribution System Improvements, Consisting of the Construction of Extensions, Additions and Improvements to the District's Water System and (2) the Approval of the Proposed Plan of Financing said Improvements (Ky. PSC June 14, 2007).

9. Adair District asserts that its failure to enter into a loan agreement with KIA prior to completion of the engineering designs and studies or obtaining the governmental permits will greatly decrease the likelihood that the loan will be issued.

10. Adair District requests that proceeds from the KIA loan be pooled with Phase I Project funding sources to permit Phase I Project and Phase II Project construction costs to be paid from available financing sources.²

11. Adair District's proposed loan is for a lawful object within its corporate purpose, is necessary, and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

12. Adair District has requested a deviation from Administrative Regulation 807 KAR 5:001, Section 11(2)(a), which requires the filing of a financial exhibit covering "operations for a twelve (12) month period . . . ending not more than ninety (90) days prior to the date the application is filed."³ It has provided its financial statements for calendar year 2006 and represents that there has been no change that is material in nature in its financial condition or operation since the publication of these statements.

² For example, if the proceeds of the KIA loan are available to pay Phase I Project costs and RD has yet to disburse funds to Adair District, Adair District may use the KIA loan proceeds to pay Phase I Project costs. When RD disburses the proceeds from the loan and grant, Adair District would use these funds for Phase II Project costs.

³ Administrative Regulation 807 KAR 5:001, Section 6. Administrative Regulation 807 KAR 5:001, Section 11(2)(a), refers to Section 6. While Adair District in its application requested a deviation from Administrative Regulation 807 KAR 5:001, Section 6, its requested relief requires a deviation from 807 KAR 5:001, Section 11(2)(a).

13. Adair District has demonstrated that good cause exists to permit its deviation from Administrative Regulation 807 KAR 5:001, Section 11(2)(a).

Having considered the evidence of record and being otherwise sufficiently advised, the Commission HEREBY ORDERS that:

1. Adair District's request for permission to deviate from Administrative Regulation 807 KAR 5:001, Section 11(2)(a), is granted and its application is accepted for filing as of November 9, 2007.

2. Adair District is authorized to borrow an amount from KIA not to exceed \$1,000,000 at an interest rate not to exceed 1 percent per annum and with a repayment period of 20 years.

3. Within 30 days of executing its loan agreement with KIA for the amount authorized herein, Adair District shall advise the Commission in writing that the loan agreement was executed and the interest rate, repayment term, and principal amount of the loan.

4. Adair District shall use the proceeds from the approved transaction with KIA only for the purposes set forth in its application. These purposes may include the payment of Phase I Project costs provided Adair District reallocates an equal amount of proceeds from debt instruments that the Commission authorized in the Order of June 14, 2007 in Case No. 2007-00195 for Phase II Project costs.

5. Adair District shall deposit and maintain the proceeds from any debt instruments that the Commission has authorized in this Order or in the Order of June 14, 2007 in Case No. 2007-00195 into an interest bearing account.

6. Adair District shall not undertake any construction related to the Phase II Project until obtaining a Certificate of Public Convenience and Necessity.

7. Order paragraph 4 of the Commission's Order of June 14, 2007 in Case No. 2007-00195 is amended to permit the use of proceeds from the debt instruments that the Commission authorized in that proceeding for Phase II Project costs. Adair District, however, shall use such proceeds only to replace the proceeds from the KIA loan that are used for Phase I Project costs.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 12th day of December, 2007.

By the Commission

ATTEST:


Executive Director



United States Department of Agriculture
Rural Development
Kentucky State Office

December 16, 2005

Mr. Larry Legg, Chairman
Adair County Water District
P.O. Box 567
Columbia, Kentucky 42728

Dear Mr. Legg:

This letter establishes conditions which must be understood and agreed to by you before further consideration may be given to the application. The loan and/or grant will be administered on behalf of the Rural Utilities Service (RUS) by the State and Area office staff of USDA Rural Development. Any changes in project cost, source of funds, scope of services or any other significant changes in the project or applicant must be reported to and approved by USDA Rural Development, by written amendment to this letter. Any changes not approved by Rural Development shall be cause for discontinuing processing of the application. It should also be understood that Rural Development is under no obligation to provide additional funds to meet an overrun in construction costs.

This letter is not to be considered as loan and/or grant approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS loan not to exceed \$752,000, a RUS grant not to exceed \$550,000, and a Kentucky Infrastructure Authority (KIA) Tobacco Settlement grant in the amount of \$1,000,000.

If Rural Development makes the loan, the interest rate will be the lower of the rate in effect at the time of loan approval or the rate in effect at the time of loan closing, unless the applicant otherwise chooses. The loan will be considered approved on the date a signed copy of Form RD 1940-1, "Request for Obligation of Funds," is mailed to you.

Please complete and return the attached Form RD 1942-46, "Letter of Intent to Meet Conditions," if you desire that further consideration be given to your application.

The "Letter of Intent to Meet Conditions" must be executed within three weeks from the date of this letter or it becomes invalid unless a time extension is granted by Rural Development.

If the conditions set forth in this letter are not met within 240 days from the date hereof, Rural Development reserves the right to discontinue the processing of the application.

In signing Form RD 1942-46, "Letter of Intent to Meet Conditions," you are agreeing to complete the following as expeditiously as possible:

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7300 • Fax: (859) 224-7425 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

Committed to the future of rural communities.

"USDA is an equal opportunity provider, employer and lender."
To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD).

1. Number of Users and Their Contribution:

There shall be 5,010 water users. The Area Director will review and authenticate the number of users prior to advertising for construction bids. No contribution is required from the Water District.

1a. Grant Agreement:

Attached is a copy of RUS Bulletin 1780-12, "Water and Waste System Grant Agreement," for your review. You will be required to execute a completed form at the time of grant closing.

1b. Drug-Free Work Place:

Prior to grant approval, the Water District will be required to execute Form AD-1049, "Certification Regarding Drug-Free Workplace Requirements (Grants) Alternative I - For Grantees Other Than Individuals."

2. Repayment Period:

The loan will be scheduled for repayment over a period not to exceed 40 years from the date of the bond. Principal payment will not be deferred for two years from the date of the bond. Pa which requires interest to be paid se IRS, icipal Water its of nents will be due on or before the first of District to adopt a supplemental pay principal and interest so long as the will be approximate amortized insta

336 new amt.
575 old amt.

911

3. Recommended Repayment Method:

Payments on this loan can be made u method. This procedure eliminates t of RD loan payments. To initiate PA Agreement for Preauthorized Paymen electronic withdrawal of funds from y installment payment due date. The A further guidance on the PAD procedu

→
\$18877

ceipt
ze the
nd

4. Reserve Accounts:

Reserves must be properly budgeted to maintain the financial viability of any operation. Reserves are important to fund unanticipated emergency maintenance and repairs and assist with debt service should the need arise.

The District will be required to deposit \$336.00 per month into a "Funded Depreciation Reserve Account" until the account reaches \$40,240. The deposits are to be resumed any time the account falls below the \$40,240.

The required monthly deposits to the Reserve Account and required Reserve Account levels are in addition to the requirements of the District's prior bond ordinances.

The monthly deposits to the Reserve Account are required to commence with the first month of the first full fiscal year after the facility becomes operational.

The District also needs to fund an account for short-lived assets by depositing a sum of \$1,887 monthly into the account. The funds in the short-lived asset account may be used by the District as needed to replace or add short-lived assets in the District's utility system.

5. Security Requirements:

A pledge of gross water revenue will be provided in the Bond Resolution. Bonds shall rank on a parity with existing bonds.

6. Land Rights and Real Property:

The Water District will be required to furnish satisfactory title, easements, etc., necessary to install, maintain and operate the facility to serve the intended users. The pipelines will be on private rights-of-way where feasible. Easements and options are to be secured prior to advertising for construction bids.

7. Organization:

The Water District will be legally organized under applicable KRS which will permit them to perform this service, borrow and repay money.

8. Business Operations:

The Water District will be required to operate the system under a well-established set of resolutions, rules and regulations. A budget must be established annually and adopted by the Water District after review by Rural Development. At no later than loan pre-closing, the Water District will be required to furnish a prior approved management plan to include, as a minimum, provisions for management, maintenance, meter reading, miscellaneous services, billing, collecting, bookkeeping, making and delivering required reports and audits.

9. Accounts, Records and Audits:

The Water District will be required to maintain adequate records and accounts and submit statistical and financial reports, quarterly and annually, in accordance with subsection 1780.47 of RUS Instruction 1780 and RUS Staff Instruction 1780-4, a copy of which is enclosed. The enclosed audit booklet will be used as a guide for preparation of audits. The Water District shall be required to submit a copy of its audit agreement for review and concurrence by Rural Development prior to pre-closing the loan.

10. Accomplish Audits for Years in Which Federal Financial Assistance is Received:

The Water District will accomplish audits in accordance with OMB Circular A-133, during the years in which federal funds are received. The Water District will provide copies of the audits to the Area Office and the appropriate Federal cognizant agency as designated by OMB Circular A-133.

11. Insurance and Bonding:

The following insurance and bonding will be required:

- A. Adequate Liability and Property Damage Insurance including vehicular coverage, if applicable, must be obtained and maintained by the Water District. The Water District should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.
- B. Worker's Compensation - The Water District will carry worker's compensation insurance for employees in accordance with applicable state laws.
- C. Fidelity Bond - The Water District will provide Fidelity Bond Coverage for all persons who have access to funds. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing protection for all appropriate employees and/or officials. The amount of coverage required for all RUS loans is \$342,780.
- D. Real Property Insurance - The Water District will obtain and maintain adequate fire and extended coverage on all structures including major items of equipment or machinery located in the structures. The amounts of coverage should be based on recommendations obtained by the Water District from its attorney, consulting engineer and/or insurance provider. Subsurface lift stations do not have to be covered except for the value of electrical and pumping equipment therein.
- E. Flood Insurance - The Water District will obtain and maintain adequate coverage on any facilities located in a special flood and mudslide prone areas.

12. Planning and Performing Development:

- A. The engineer should not be authorized to commence work on final plans and specifications until a determination has been made that the project can be planned and constructed within the estimated cost shown in paragraph "22" of this letter. The engineer may then proceed to develop final plans and specifications to be completed no later than 210 days from this date, and prepare bid documents. The Area Director is prepared to furnish the necessary guide to follow so as to keep the project plans and documents within our guidelines and requirements. The project should not be advertised for construction bids until all easements and enforceable options have been obtained, and total funds are committed or available for the project.

- B. The following documents will be submitted to Rural Development for review and must be concurred in by Rural Development prior to advertisement for construction bids:
1. Final plans, specifications and bid documents.
 2. Applicant's letter on efforts to encourage small business and minority-owned business participation.
 3. Legal Service Agreements.
 4. Engineering Agreements.

Revision in these documents will be subject to Rural Development concurrence. Any agreements, contracts, etc. not reviewed and approved by Rural Development will not be eligible for payment from project funds or revenues from facilities financed by this Agency.

Prior to receipt of an authorization to advertise for construction bids, the Water District will obtain advance clearance from Bond Counsel regarding compliance with KRS 424 pertaining to publishing of the advertisement for construction bids in local newspapers and the period of time the notice is required to be published.

13. Civil Rights & Equal Opportunity:

You should be aware of and will be required to comply with other federal statute requirements including but not limited to:

A. Section 504 of the Rehabilitation Act of 1973:

Under Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), no handicapped individual in the United States shall, solely by reason of their handicap, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Rural Development financial assistance.

B. Civil Rights Act of 1964:

All borrowers are subject to, and facilities must be operated in accordance with, Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d et seq.) and Subpart E of Part 1901 of this Title, particularly as it relates to conducting and reporting of compliance reviews. Instruments of conveyance for loans and/or grants subject to the Act must contain the covenant required by paragraph 1901.202(e) of this Title.

C. The Americans with Disabilities Act (ADA) of 1990:

This Act (42 U.S.C. 12101 et seq.) prohibits discrimination on the basis of disability in employment, state and local government services, public transportation, public accommodations, facilities, and telecommunications. Title II of the Act applies to facilities operated by state and local public entities that provide services, programs, and activities. Title III of the Act applies to facilities owned, leased, or operated by private entities that accommodate the public.

D. Age Discrimination Act of 1975:

This Act (42 U.S.C. 6101 et seq.) provides that no person in the United States shall, on the basis of age, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance.

Rural Development financial programs must be extended without regard to race, color, religion, sex, national origin, marital status, age, or physical or mental handicap.

14. Closing Instructions:

The Office of General Counsel, our Regional Attorney, will be required to write closing instructions in connection with this loan. Conditions listed therein must be met by the Water District.

15. Compliance with Special Laws and Regulations:

The Water District will be required to conform with any and all state and local laws and regulations affecting this type project.

16. Treatment Plant/System Operator:

The Water District is reminded that the treatment plant and/or system operator must have an Operator's Certificate issued by the State.

17. Prior to Pre-Closing the Loan, the Water District Will Be Required to Adopt:

- A. Form RUS Bulletin 1780-27, "Loan Resolution (Public Bodies)."
- B. Form RD 400-1, "Equal Opportunity Agreement."
- C. Form RD 400-4, "Assurance Agreement."
- D. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- E. Form RD 1910-11, "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts."
- F. RD Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."
- G. RUS Bulletin 1780-22, "Eligibility Certification."

18. Refinancing and Graduation Requirements:

The Water District is reminded that if at any time it shall appear to the Government that the Water District is able to refinance the amount of the RUS indebtedness then outstanding, in whole or in part, by obtaining a loan from commercial sources at reasonable rates and terms, upon the request of the Government, the Water District will apply for and accept such loan in sufficient amount to repay the Government.

19. Commercial Interim Financing:

The Water District will be required to use commercial interim financing for the project during construction for the RUS loan portion of the financing, if available at reasonable rates and terms.

Before the loan is closed, the Water District will be required to provide Rural Development with statements from the contractor, engineer and attorneys that they have been paid to date in accordance with their contract or other agreements and, in the case of the contractor, that he has paid his suppliers and sub-contractors.

20. Disbursement of Project Funds:

A construction account for the purpose of disbursement of project funds (RUS) will be established by the Water District prior to start of construction. The position of officials entrusted with the receipt and disbursement of RUS project funds will be covered by a "Fidelity Bond," with USDA Rural Development as Co-Obligee, in the amount of construction funds on hand at any one time during the construction phase.

During construction, the Water District shall disburse project funds in a manner consistent with subsection 1780.76 (e) of RUS Instruction 1780. Form RD 1924-18, "Partial Payment Estimate," or similar form approved by Rural Development, shall be used for the purpose of documenting periodic construction estimates, and shall be submitted to Rural Development for review and acceptance. Prior to disbursement of funds by the Water District, the Board of Directors shall review and approve each payment estimate. All bills and vouchers must be approved by Rural Development prior to payment by the Water District.

Form RD 440-11, "Estimate of Funds Needed for 30-Day Period Commencing _____," will be prepared by the Water District and submitted to Rural Development in order that a periodic advance of federal cash may be requested.

Monthly audits of the Water District's construction account records shall be made by Rural Development.

21. Disbursement of Grant Funds:

The RUS funds will be advanced as they are needed in the amount(s) necessary to cover the RUS proportionate share of obligations due and payable by the Water District. Grant funds, upon receipt, must be deposited in an interest bearing account in accordance with 7 CFR part 3016 (as applicable). Interest earned on grant funds in excess of \$100 (as applicable) per year will be submitted to RUS at least quarterly.

22. Cost of Facility:

Breakdown of Costs:

Development	\$ 1,846,500
Land and Rights	10,000
Legal and Administrative	15,000
Engineering	218,000
Interest	16,000
Contingencies	<u>196,500</u>
TOTAL	\$ 2,302,000

Financing:

RUS Loan	\$ 752,000
RUS Grant	550,000
KIA Tobacco Settlement Grant	<u>1,000,000</u>
TOTAL	\$ 2,302,000

23. Commitment of Other Project Funds:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the KIA Tobacco Settlement grant in the amount of \$1,000,000.

24. Use of Remaining Project Funds:

After providing for all authorized costs, any remaining project funds will be considered to be RUS/KIA Tobacco Settlement grant funds and refunded in proportion to participation in the project. If the amount of unused grant funds exceeds the grants, that part would be RUS loan funds.

25. Proposed Operating Budget:

You will be required to submit to Rural Development a copy of your proposed annual operating budget that supports the proposed loan repayment prior to this agency giving you written authorization to proceed with the bidding phase. The operating budget should be based on a typical year cash flow, subject to completion of this project in the first full year of operation. Form RD 442-7, "Operating Budget," or similar form may be utilized for this purpose.

26. Rates and Charges:

Rates and charges for facilities and services rendered by the Water District must be at least adequate to meet cost of maintaining, repairing and operating the utility system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

5/8" x 3/4" Meter:

First	2,000	gallons @ \$	14.85 - Minimum Bill.
Next	3,000	gallons @ \$	5.70 - per 1,000 gallons.
Next	5,000	gallons @ \$	4.95 - per 1,000 gallons.
Next	15,000	gallons @ \$	3.85 - per 1,000 gallons.
All Over	25,000	gallons @ \$	3.10 - per 1,000 gallons.

1" Meter:

First	5,000	gallons @ \$	31.65 - Minimum Bill.
Next	5,000	gallons @ \$	4.95 - per 1,000 gallons.
Next	15,000	gallons @ \$	3.85 - per 1,000 gallons.
All Over	25,000	gallons @ \$	3.10 - per 1,000 gallons.

1 1/2" Meter:

First	10,000	gallons @ \$	55.90 - Minimum Bill.
Next	15,000	gallons @ \$	3.85 - per 1,000 gallons.
All Over	25,000	gallons @ \$	3.10 - per 1,000 gallons.

2" Meter:

First	16,000	gallons @ \$	78.40 - Minimum Bill.
Next	9,000	gallons @ \$	3.85 - per 1,000 gallons.
All Over	25,000	gallons @ \$	3.10 - per 1,000 gallons.

27. Water Purchase Contract:

The Water District will submit a Water Purchase Contract for approval by Rural Development before advertising for construction bids. If the contract is not on Form RD 442-30, "Water Purchase Contract," the contract will require approval by our Regional Attorney. The contract must meet the requirements of subsection 1780.62 of RUS Instruction 1780.

28. Compliance with the Bioterrorism Act:

Prior to pre-closing the loan, the District will provide a certification they have completed a Vulnerability Assessment (VA) and prepared an emergency response plan (ERP) as required by the Safe Drinking Water Act (SDWA).

29. Floodplain Construction:

The Water District will be required to pass and adopt a Resolution or amend its By-Laws whereby the Water District will deny any water service to any future customer wishing to build on or develop property located within a designated floodplain. If a customer or developer requests service for construction in a designated floodplain, the customer or developer must provide evidence and a justification for approval by the Water District and Rural Development officials that there are no other alternatives to construction or development within the designated floodplain. The community must be a participant in the National Flood Insurance Program (NFIP) and the customer or developer must obtain the required permits prior to the tap on restrictions being waived.

30. Mitigation Measures:

- A. The project shall be in compliance with all requirements noted in the Governor's Office for Local Development letter dated September 23, 2004, from Mr. Ronald W. Cook, Manager, Kentucky State Clearinghouse.
- B. The design and construction shall be in compliance with the requirements of the U.S. Fish and Wildlife Service as requested by letter dated July 12, 2004, and signed by Virgil Lee Andrews, Jr., Field Supervisor.
- C. The line design and construction shall be accomplished in a way that will leave flood plains and farmland without affect after construction is complete. The Army Corps of Engineers Nationwide Permit No. 12 applies to all floodplain and wetland utility line construction.
- D. The design and construction shall be in compliance with all local, state and federal environmental statutes, regulations and executive orders applicable to the project.

31. Final Approval Conditions:

Final approval of this assistance will depend on your willingness, with the assistance of all your co-workers, to meet the conditions of this letter in an orderly and systematic manner. Then too, final approval will depend on funds being available.

If you desire to proceed with your application, the Area Director will allot a reasonable portion of time to provide guidance in application processing.

Sincerely,


KENNETH SLONE
State Director

Enclosures

cc: Area Director - Columbia, Kentucky
Rural Development Manager - Columbia, Kentucky
Lake Cumberland ADD - Russell Springs, Kentucky
Marshall F. Loy - Columbia, Kentucky
Henry M. Reed, III - Louisville, Kentucky ✓
Monarch Engineering - Lawrenceburg, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky



**United States Department of Agriculture
Rural Development
Kentucky State Office**

September 7, 2007

Mr. Larry Legg, Chairman
Adair County Water District
P.O. Box 567
Columbia, Kentucky 42728

Re: Letter of Conditions Dated December 16, 2005

Dear Mr. Legg:

This letter shall serve as Amendment No. 1 to the Letter of Conditions dated December 16, 2005. The purpose of this amendment is to revise the total cost of the project and project funding to reflect additional line extensions and additional Kentucky Infrastructure Authority (KIA) funding.

The Second Paragraph on Page 1 is revised to read as follows:

“ This letter is not to be considered as loan and grant approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS loan not to exceed \$752,000; a RUS grant not to exceed \$550,000; a Kentucky Infrastructure Authority (KIA) F-fund 1% loan in the amount of \$1,000,000; and a 2006 Kentucky General Assembly grant of \$1,000,000. ”

Paragraph numbered “1” is revised to read as follows:

“ 1. Number of Users and Their Contribution:

There shall be 5,781 water users; of which 5,741 are existing users and 40 are new users.”

“ 22. Cost of Facility:

Breakdown of Costs:

Development - Phase I	\$ 1,976,020
Development - Phase II	660,000
Legal and Administrative	40,000
Engineering	348,080
Interest	15,000
Contingencies	<u>262,900</u>
TOTAL	\$ 3,302,000

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7336 • Fax: (859) 224-7444 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

Committed to the future of rural communities.

“USDA is an equal opportunity provider, employer and lender.”
To file a complaint of discrimination write USDA, Director, Office of Civil Rights,
1400 Independence Avenue, SW, Washington, DC 20250-9410
or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

Financing:

RUS Loan	\$ 752,000
RUS Grant	550,000
KIA F-fund 1% Loan	1,000,000
2006 KY General Assembly Grant	<u>1,000,000</u>
TOTAL	\$ 3,302,000 ”

Paragraph numbered “23” is revised to read as follows:

“ 23. Commitment of Other Project Funds:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the KIA F-fund 1% loan in the amount of \$1,000,000, and for the 2006 Kentucky General Assembly grant in the amount of \$1,000,000. ”

All other provisions of the referenced Letter of Conditions remain in full force and unchanged.

Sincerely,


 KENNETH SLONE
 State Director

- cc: Area Director - Columbia, Kentucky
- Rural Development Manager - Columbia, Kentucky
- Lake Cumberland ADD - Russell Springs, Kentucky
- Marshall F. Loy - Columbia, Kentucky
- Henry M. Reed, III - Louisville, Kentucky
- Monarch Engineering, Inc. - Lawrenceburg, Kentucky
- PSC - ATTN: Bob Amato - Frankfort, Kentucky

**CERTIFICATION OF DISTRICT VICE CHAIRMAN REGARDING COMPLIANCE
WITH PUBLIC SERVICE COMMISSION REQUIREMENTS**

The undersigned certifies that he is the duly authorized and acting Vice Chairman of the Adair County Water District (the "District") which intends to file with the Public Service Commission of Kentucky ("PSC") a Petition seeking a Certificate of Public Convenience and Necessity in connection with the construction of additions, extensions, and improvements to the District's water distribution system, consisting of (a) 1,900 LF of 6-inch water line, (b) 28,890 LF of 4-inch water line, and (c) 53,350 LF of 3-inch water line in order to serve approximately 75 new residential customers located on 14 different rural roads (the "Phase II Project").

The undersigned has executed this Certificate in reliance upon information and advice of Monarch Engineering, Inc., Lawrenceburg, Kentucky (the "Engineers") which firm has been retained by the District to provide engineering services in connection with the Phase II Project.

The undersigned states that the proposed plans and specifications for the Phase II Project have been designed to meet the minimum construction and operating requirements established in 807 KAR 5:066, Section 4(3) and (4), Section 5(1), Sections 6 and 7, Section 8(1) through (3), Section 9(1) and Section 10.

The undersigned states that all other State approvals or permits have been obtained.

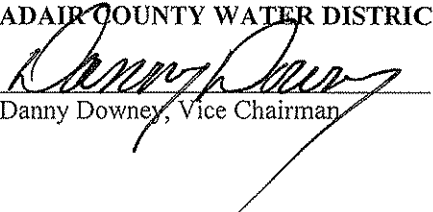
The undersigned further certifies that the Phase II Project is to be financed through the application of the Kentucky Infrastructure Authority ("KIA") Tobacco Settlement Loan in the amount of \$1,000,000.

Based upon the information supplied by the Engineers, it is estimated that construction of the Phase II Project will commence January 1, 2009 and be completed June 30, 2009.

Based upon the advice of the Engineers and USDARD, the undersigned has been advised that an increase in water rates will not be required by the District in connection with the Phase II Project, as existing rates are estimated to be sufficient to meet the expenses incident to the operation and maintenance of the District's water distribution system and pay and retire all of the District's outstanding Water Revenue Bonds and KIA Loans.

Dated this 13 day of November, 2008.

ADAIR COUNTY WATER DISTRICT



Danny Downey, Vice Chairman



**United States Department of Agriculture
Rural Development
Kentucky State Office**


November 6, 2008

SUBJECT: Adair County Water District
Phase II Shepherd Water System Improvements
Contract Award Concurrence

TO: Area Director
Columbia, Kentucky

Based on the bids received and the recommendation of the consulting engineer, Rural Development concurs in the award of subject contract to the low Southern Backhoe, Inc., in the amount of \$559,088.00.

If you have any questions, please contact Julie Anderson, State Engineer, at (859) 224-7348.


KENNETH SLONE
State Director
Rural Development

cc: Monarch Engineering, Inc
Lawrenceburg, Kentucky

Reed Law Office
Louisville, Kentucky

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7300 • Fax: (859) 224-7425 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

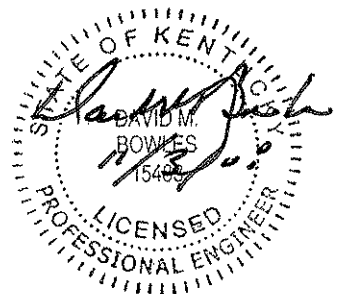
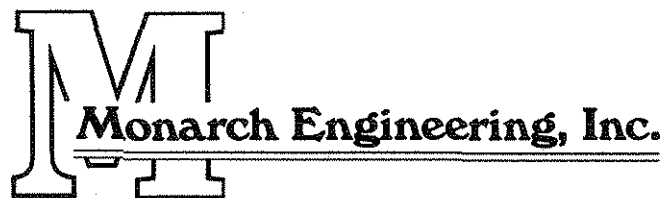
Committed to the future of rural communities.

"USDA is an equal opportunity provider, employer and lender."
To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD).

**PRELIMINARY ENGINEERING REPORT
FOR THE
ADAIR COUNTY WATER DISTRICT
ADAIR COUNTY, KENTUCKY**

PHASE 10 WATERLINE EXTENSIONS

MARCH 2008



**PRELIMINARY ENGINEERING REPORT
FOR THE
ADAIR COUNTY WATER DISTRICT
ADAIR COUNTY, KENTUCKY**

PHASE 10 WATERLINE EXTENSIONS

MARCH 2008

**PRELIMINARY ENGINEERING REPORT
FOR THE
ADAIR COUNTY WATER DISTRICT
ADAIR COUNTY, KENTUCKY**

PHASE 10 WATERLINE EXTENSIONS

I. GENERAL

This Preliminary Engineering Report is intended to analyze the proposed water distribution system extensions and improvements that are being planned by the Adair County Water District to serve 75 first time customers with potable drinking water. The improvements will add service to 14 previously un-served county roads in various communities across Adair County. The new customers to be served are all residential.

The Adair County Water District provides water service to nearly 5,800 residential and nonresidential customers throughout Adair County. The District purchases water from the newly formed Columbia/Adair County Water Commission which owns and operates a newly constructed water treatment plant which is located just outside of Adair County in Taylor County.

Included in this report are maps of the proposed service area showing the intended routes of the water lines, and the location of major appurtenances. In addition, project cost estimates are included which outline all costs associated with water line extensions and improvements that are planned.

II. PROJECT PLANNING AREA

The Adair County Water District owns and operates a water distribution system that serves all of Adair County with the exception of the City of Columbia. The project proposes to install several new water lines throughout and across Adair County. All mains installed as part of this project will be of PVC SDR17, PVC SDR21, and PVC C-900 waterline and will range in size from 3-inch to 6-inch. The roads to be served include the following: Carroll Ridge Road, Knifley Road, Allen Curry Road, Richards Hollow Road, Chestnut Grove Road, Walnut Grove Road, Chestnut Flat Road, Ralph Hadley Road, D. Acree Road, County Line Road, Beckham-Loy Road, Dale Morrison Road, Purdy Sano Road, and F. Burton Road. These areas and the planned route of the proposed waterlines are outlined on the attached maps.

Topography of the areas to be served typically varies from relatively flat to gently rolling slopes. The land use in these areas is mainly agricultural with some light timber harvesting in the steeper sloped areas. Within the proposed water line extension and improvement areas there are no commercial or industrial businesses expected.

the proposed method of service is the only alternative that exists to adequately serve these residences that reside within the project area.

VI. PROPOSED PROJECT

The proposed project consists of the installation of 1,900 LF of 6-inch water line, 28,890 LF of 4-inch water line, and 53,350 LF of 3-inch water line to serve approximately 75 new customers. An itemized cost estimate is included in this report and it outlines all of the individual construction items along with their associated estimated unit costs. A summary cost estimate summarizes all of the project costs and outlines the funding scheme for the project which is also included in this report.

This project proposes to serve new customers with a sufficient and safe water supply in the areas in need of new water lines as well as those in need of water line replacement as shown on the attached maps. The current water system will continue to serve the Water District without over extending the capacity of the water supply and distribution system. The proposed water lines and water line replacements are planned to be installed adjacent to the public rights of ways and all residences interested in obtaining water service will be served by the new water lines.

The project cost has been estimated to be \$744,200 and the total project cost will be \$925,445. The Water District is proposing to finance the project through 2006 Kentucky State General Assembly Grant which outlines an amount of \$500,000 for water system improvements to the District's system. Those funds will be added to funds remaining from a project that is currently in construction and that is being funded by the U.S.D.A.'s Rural Development program. The Sheppard Transmission Main and Tank Project is anticipated to have a budget excess of more than \$750,000 which will be applied to this project once construction is complete.

VII. CONCLUSIONS AND RECOMMENDATIONS

Based on the desperate need for the residents in the communities to have a potable water supply it is recommended that the Adair County Water District pursue the financial assistance as outlined above in order that this unhealthy situation can be corrected. The Adair County Water District is the only major supplier of potable water within this rural areas of Adair County and their system is situated such that these extensions and line replacements as proposed could be made without affecting service to their existing customers. This project is the only feasible alternative to serve the areas in question and therefore this project should be undertaken.

The residents in the communities that have never been served by a public water system mostly rely on creeks, or community springs, which are known to be contaminated. There are no cisterns and thus there is no possibility that these residences can transport their water by commercial water haulers. People in these areas carry water to their homes by means of barrels, buckets, jugs, old milk cartons, or other containers. They often make daily trips to the nearest water source, none of which are monitored by an approved health agency. It is not anticipated that a significant growth pattern will emerge as a result of the implementation of a domestic water supply but rather that the standard of living for those residents will be greatly improved.

III. EXISTING FACILITIES

This area is currently served with water that is withdrawn from the Green River Reservoir which is treated at the Columbia/Adair County Water Commission water treatment plant. The only other supplier is the City of Jamestown and due to limitations in the amount of water that can be treated at the Jamestown plant the source of supply will be currently being changed to the Green River Reservoir and the Columbia/Adair County Water Commission plant. With the source being Green River Reservoir which has virtually an unlimited supply of water that is of high quality.

The Water District operates the water system through a Board of Commissioners which consists of the chairman and four commissioners which are appointed by the Adair County Fiscal Court.

IV. NEED FOR THE PROJECT

This project is intended to eliminate a serious health hazard in the communities in which it will serve by providing first time potable water service to those residents that reside within those communities. As mentioned earlier, the use of unsafe and potentially contaminated water for drinking and other vital human needs is prevalent. It is well known and confirmed by the local health agency that ground water, springs, and surface water from creeks and streams is unfit for human consumption.

V. ALTERNATIVES CONSIDERED

Based on the fact that there are no other major potable water suppliers that are situated to serve the areas in need of new water lines, the Adair County Water District is the only logical entity that is in position to provide water service. The Water District is regulated by the Kentucky Division of Water and also the Kentucky Public Service Commission. The Columbia/Adair Water Commission supplies water to the District and are the only major public water supplier in Adair County. Therefore, based on these factors, the

**PRELIMINARY COST ESTIMATE
 ADAIR COUNTY WATER DISTRICT
 PHASE 10 WATER LINE EXTENSIONS
 ADAIR COUNTY , KENTUCKY
 JULY 2008**

ITEM NO.	DESCRIPTION	QUANTITY	UNIT COST	TOTAL COST
	TOTAL PROJECT			
1	6-Inch PVC SDR 21 Water Line	1,900 LF	\$10.00	\$19,000.00
2	4-Inch PVC SDR 21 Water Line	27,050 LF	\$6.00	\$162,300.00
3	4-Inch PVC C900 Water Line	1,750 LF	\$14.00	\$24,500.00
4	3-Inch PVC SDR 21 Water Line	49,950 LF	\$5.00	249,750.00
5	3-Inch PVC SDR 17 Water Line	3,050 LF	\$6.00	18,300.00
6	Bore & Case for 6-Inch Water Line	40 LF	\$80.00	3,200.00
7	Bore & Case for 4-Inch Water Line	120 LF	\$60.00	7,200.00
8	Bore & Case for 3-Inch Water Line	420 LF	\$50.00	21,000.00
9	Open Cut & Case for 3-Inch Water Line	210 LF	\$40.00	8,400.00
10	Creek Crossing for 4-Inch Water Line	100 LF	\$50.00	5,000.00
11	Creek Crossing for 3-Inch Water Line	430 LF	\$40.00	17,200.00
12	Connection	17 EA	\$1,300.00	22,100.00
13	6-Inch Gate Valve	1 EA	\$600.00	600.00
14	4-Inch Gate Valve	12 EA	\$500.00	6,000.00
15	3-Inch Gate Valve	21 EA	\$450.00	9,450.00
16	Blowoff Assembly	19 EA	\$1,000.00	19,000.00
17	Meter Setting	223 EA	\$600.00	133,800.00
18	Meter Reconnect	18 EA	\$350.00	6,300.00
19	3/4-Inch P.E. Service Line	3,700 LF	\$3.00	11,100.00
TOTAL				\$744,200.00

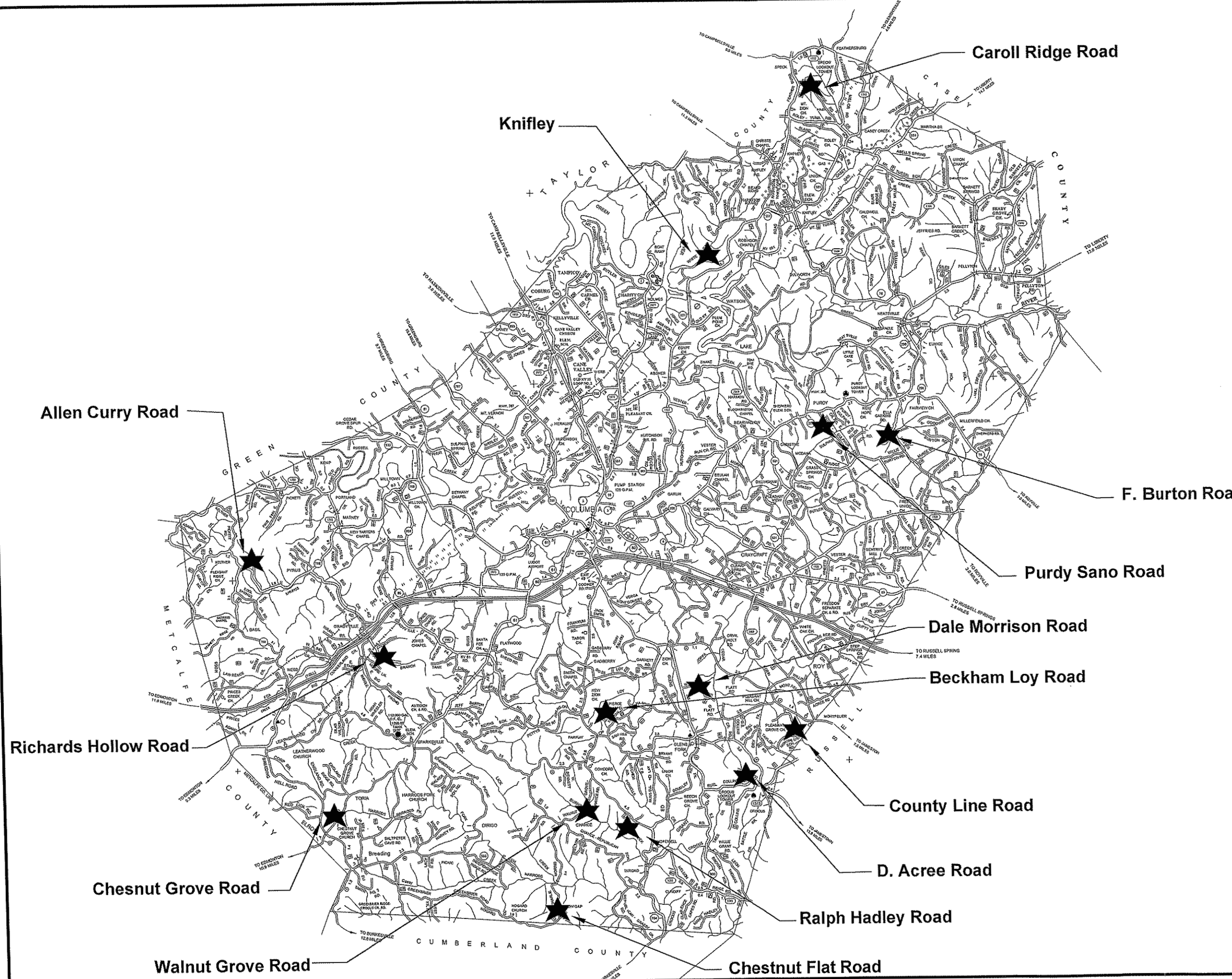
**PRELIMINARY COST ESTIMATE
ADAIR COUNTY WATER DISTRICT
PHASE 10 WATER LINE EXTENSIONS
ADAIR COUNTY , KENTUCKY
JULY 2008**

PROJECT COSTS

DEVELOPMENT	\$744,200.00
CONTINGENCY	61,245.00
ENGINEERING DESIGN	60,000.00
CONSTRUCTION INSPECTION	41,500.00
ADMINISTRATION	<u>18,500.00</u>
TOTAL PROJECT COSTS	\$925,445.00

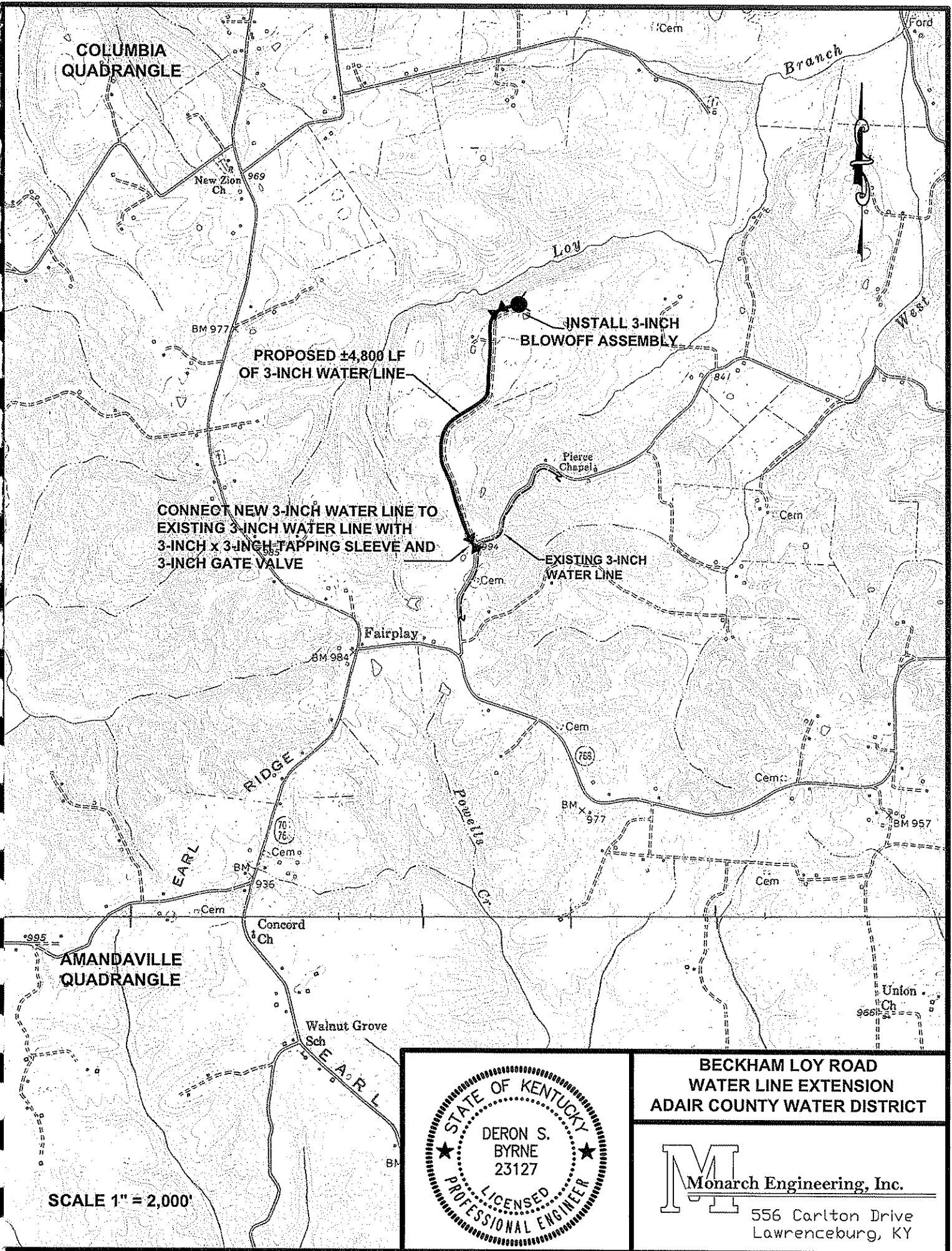
PROJECT FINANCING

USDA RURAL DEVELOPMENT	\$425,445.00
2005 GENERAL ASSEMBLY	<u>\$500,000.00</u>
TOTAL PROJECT FINANCING	\$925,445.00



**PROJECT LOCATION MAP
ADAIR COUNTY WATER DISTRICT**

M
Monarch Engineering, Inc.
 556 Carlton Drive
 Lawrenceburg, KY



COLUMBIA QUADRANGLE

AMANDAVILLE QUADRANGLE

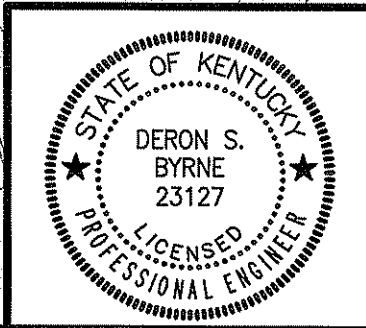
PROPOSED ±4,800 LF OF 3-INCH WATER LINE

INSTALL 3-INCH BLOWOFF ASSEMBLY

CONNECT NEW 3-INCH WATER LINE TO EXISTING 3-INCH WATER LINE WITH 3-INCH X 3-INCH TAPPING SLEEVE AND 3-INCH GATE VALVE

EXISTING 3-INCH WATER LINE

SCALE 1" = 2,000'



BECKHAM LOY ROAD
 WATER LINE EXTENSION
 ADAIR COUNTY WATER DISTRICT

M Monarch Engineering, Inc.
 556 Carlton Drive
 Lawrenceburg, KY

EAST FORK
QUADRANGLE

GRADYVILLE
QUADRANGLE

INSTALL 3-INCH
BLOWOFF ASSEMBLY

PROPOSED 4,000 LF
OF 3-INCH WATER LINE

REMOVE EXISTING BLOWOFF ASSEMBLY
AND CONNECT NEW 3-INCH WATER LINE
TO EXISTING 4-INCH GATE VALVE

EXISTING 4-INCH
WATER LINE

SCALE 1" = 2,000'

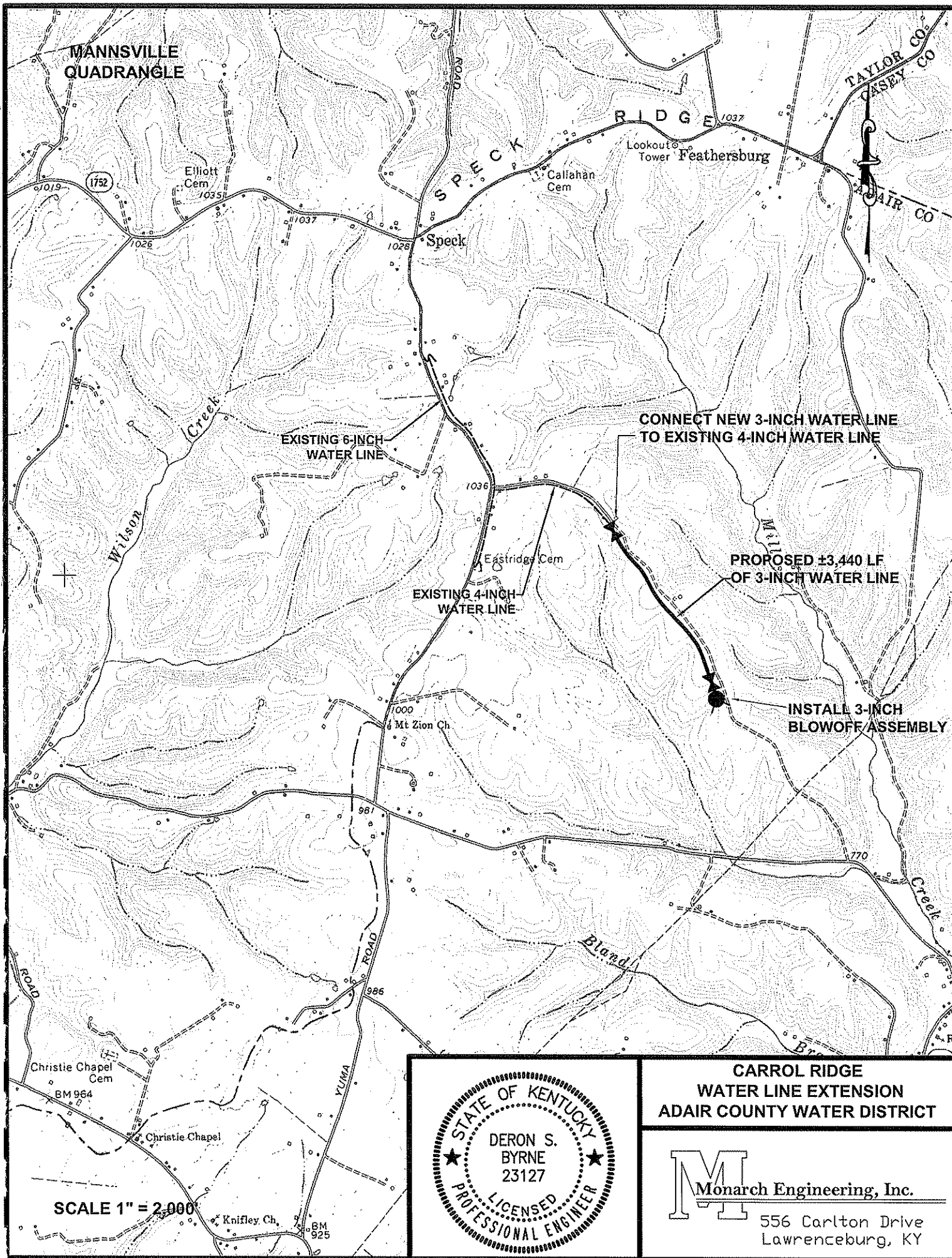


ALLEN CURRY ROAD
WATER LINE EXTENSION
ADAIR COUNTY WATER DISTRICT



Monarch Engineering, Inc.

556 Carlton Drive
Lawrenceburg, KY



MANNVILLE QUADRANGLE

SPECK RIDGE

TAYLOR CO
CASEY CO
ADAIR CO

1752

Elliott Cem
1035

Callahan Cem

Lookout Tower
Feathersburg

Speck

Wilson Creek

EXISTING 6-INCH WATER LINE

CONNECT NEW 3-INCH WATER LINE TO EXISTING 4-INCH WATER LINE

1036

Egstridge Cem

EXISTING 4-INCH WATER LINE

PROPOSED ±3,440 LF OF 3-INCH WATER LINE

INSTALL 3-INCH BLOWOFF ASSEMBLY

1000
Mt Zion Ch

770

Bland

YUMA ROAD

986

Christie Chapel Cem
BM 964

Christie Chapel

SCALE 1" = 2,000'

Knifley Ch.

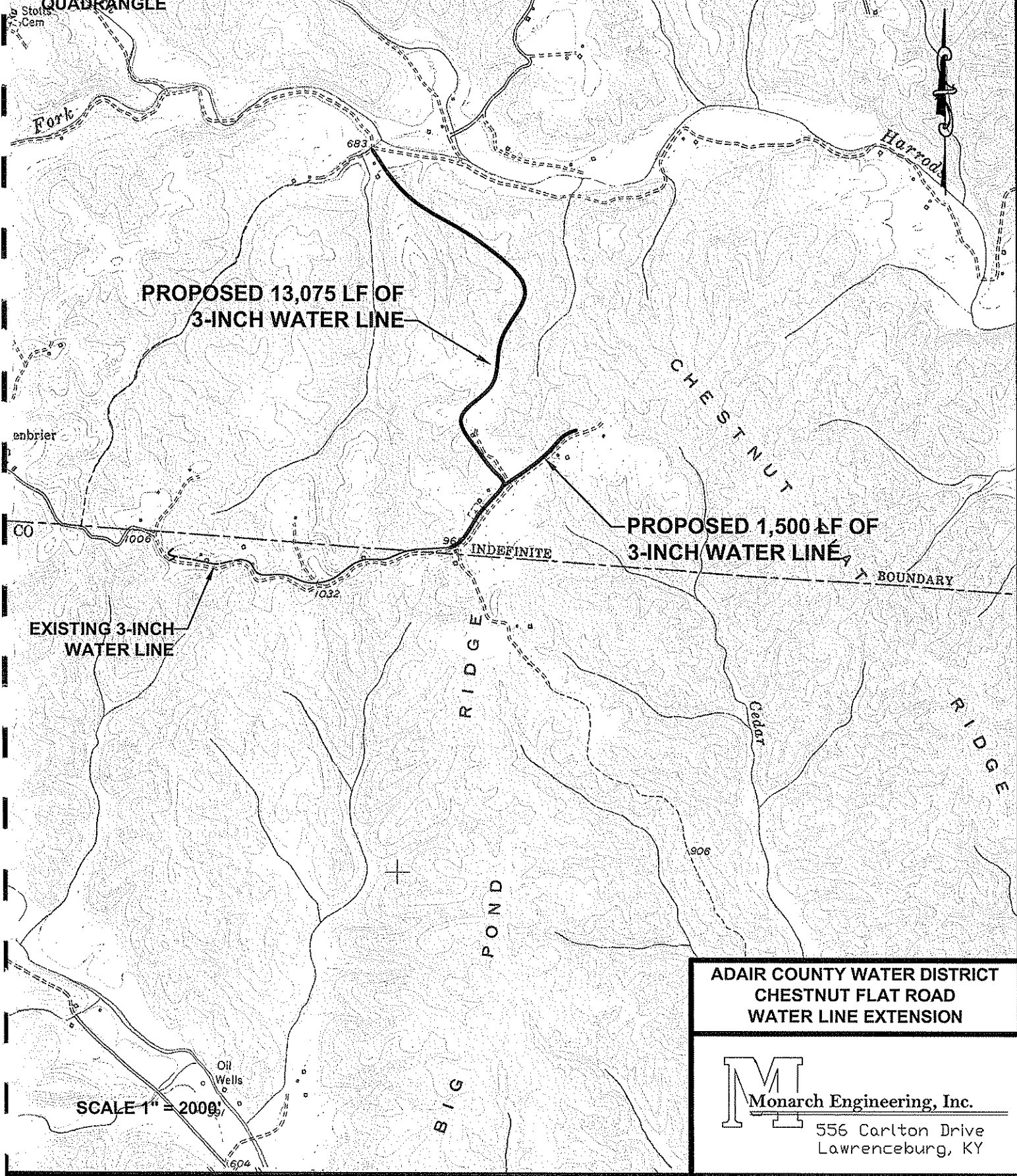
BM 925



**CARROL RIDGE
WATER LINE EXTENSION
ADAIR COUNTY WATER DISTRICT**

M
Monarch Engineering, Inc.
556 Carlton Drive
Lawrenceburg, KY

AMANDAVILLE
QUADRANGLE



PROPOSED 13,075 LF OF
3-INCH WATER LINE

PROPOSED 1,500 LF OF
3-INCH WATER LINE

EXISTING 3-INCH
WATER LINE

INDEFINITE

BOUNDARY

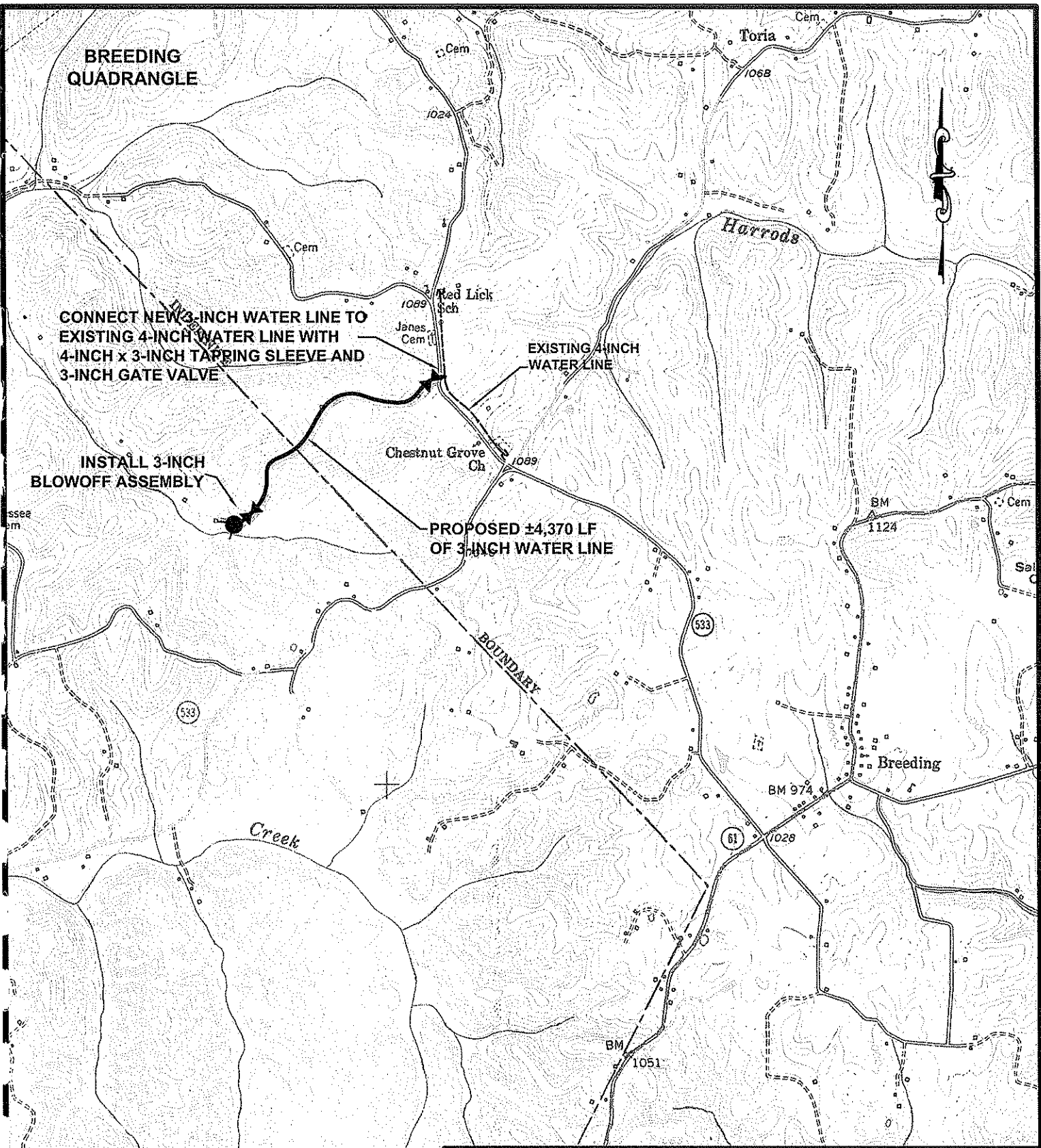
SCALE 1" = 2000'

ADAIR COUNTY WATER DISTRICT
CHESTNUT FLAT ROAD
WATER LINE EXTENSION



Monarch Engineering, Inc.

556 Carlton Drive
Lawrenceburg, KY

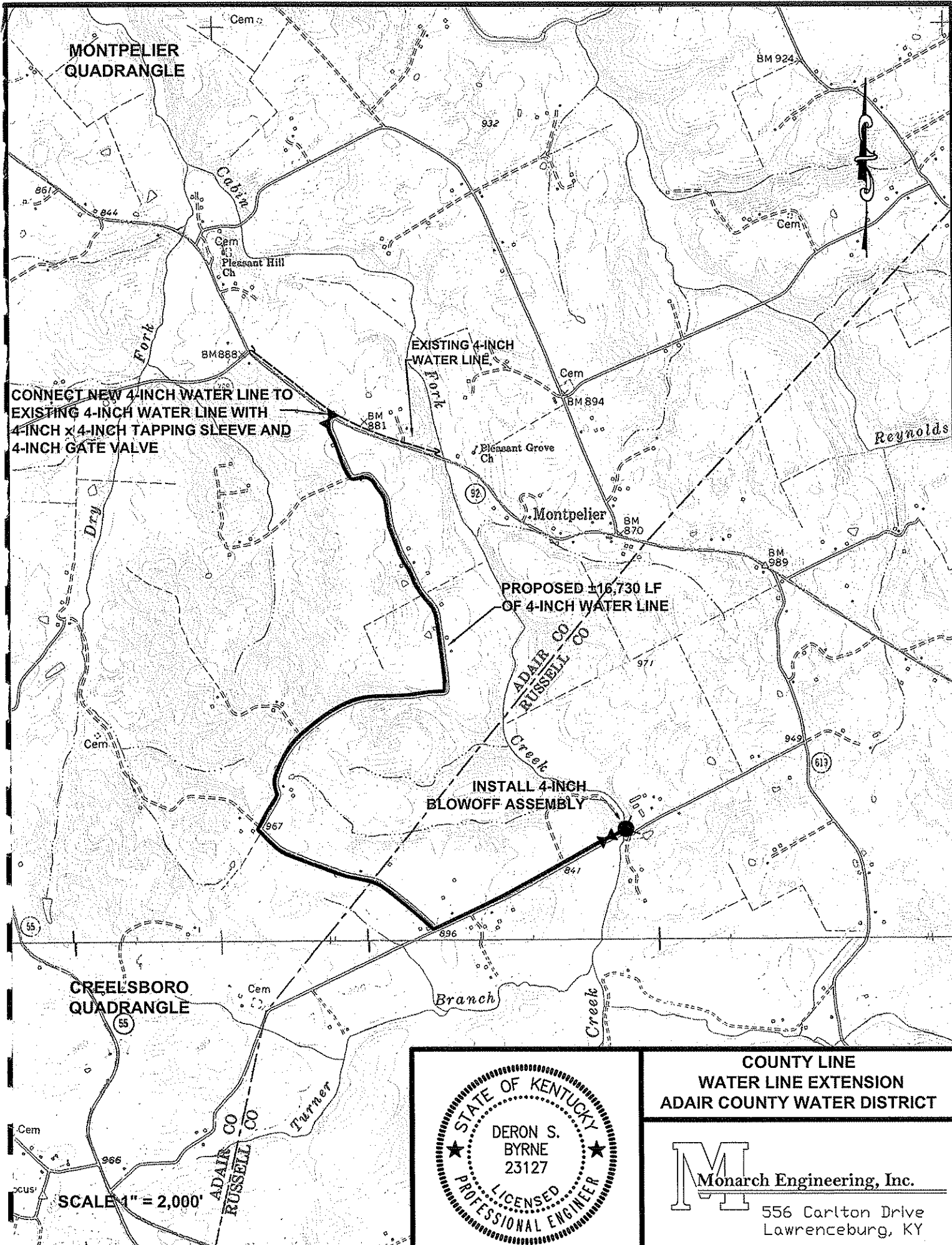


SCALE 1" = 2,000'



**CHESTNUT GROVE
WATER LINE EXTENSION
ADAIR COUNTY WATER DISTRICT**

M Monarch Engineering, Inc.
556 Carlton Drive
Lawrenceburg, KY

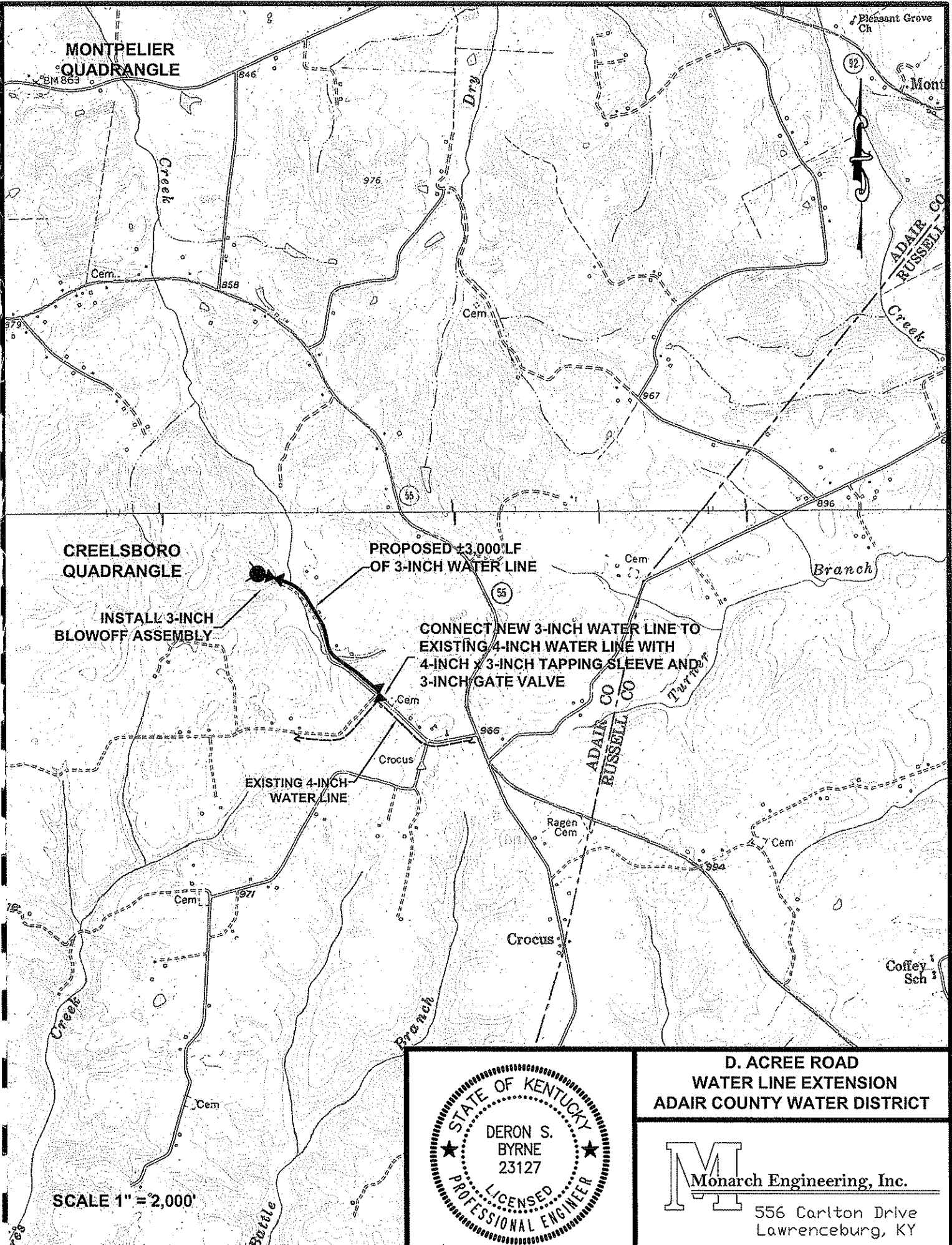


SCALE 1" = 2,000'



**COUNTY LINE
WATER LINE EXTENSION
ADAIR COUNTY WATER DISTRICT**

M
Monarch Engineering, Inc.
 556 Carlton Drive
 Lawrenceburg, KY



**MONTPELIER
QUADRANGLE**

**CREELSBORO
QUADRANGLE**

**PROPOSED +3,000 LF
OF 3-INCH WATER LINE**

**INSTALL 3-INCH
BLOWOFF ASSEMBLY**

**CONNECT NEW 3-INCH WATER LINE TO
EXISTING 4-INCH WATER LINE WITH
4-INCH X 3-INCH TAPPING SLEEVE AND
3-INCH GATE VALVE**

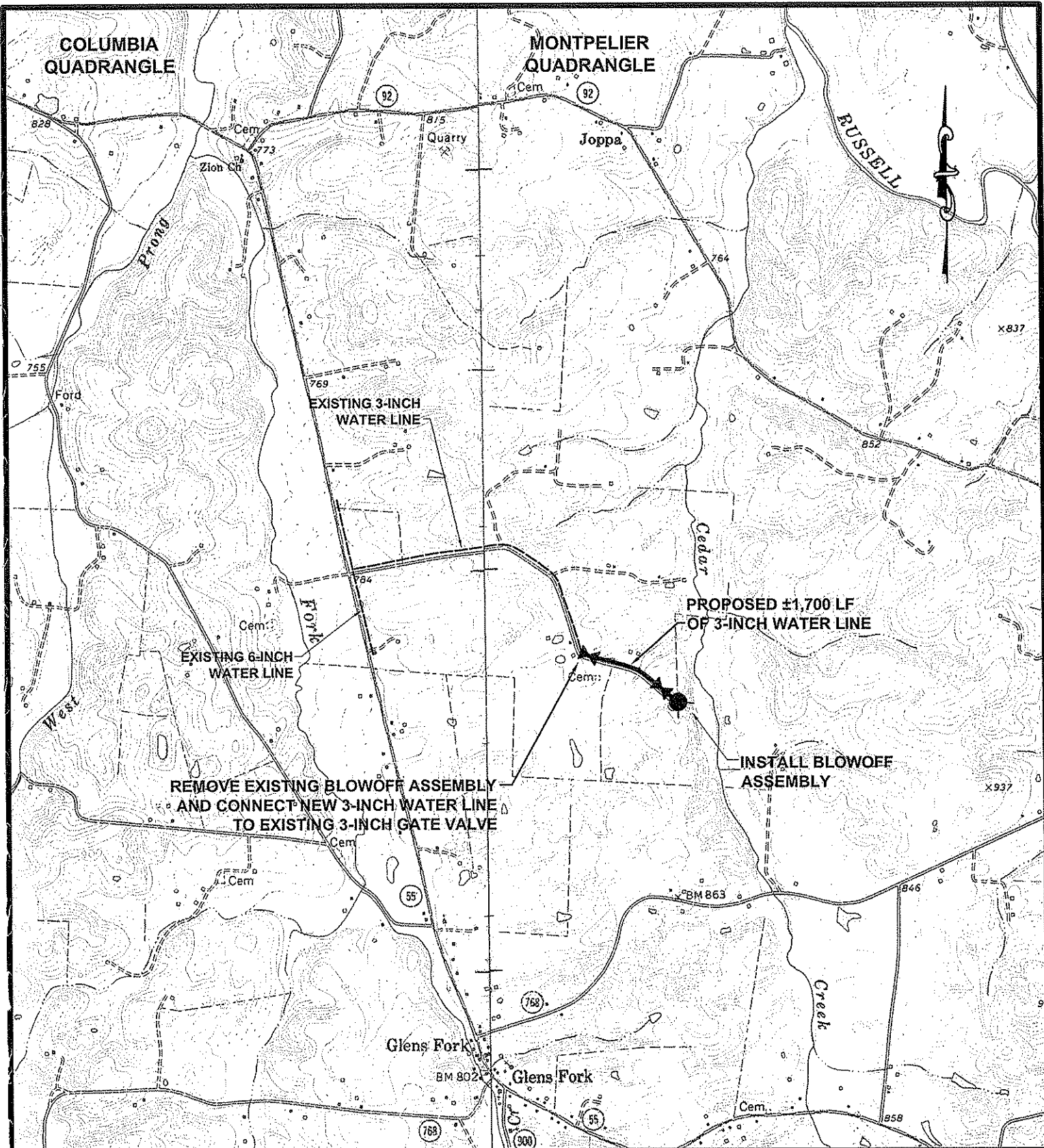
**EXISTING 4-INCH
WATER LINE**

SCALE 1" = 2,000'



**D. ACREE ROAD
WATER LINE EXTENSION
ADAIR COUNTY WATER DISTRICT**

M
Monarch Engineering, Inc.
556 Carlton Drive
Lawrenceburg, KY



SCALE 1" = 2,000'



DALE MORRISON ROAD
 WATER LINE EXTENSION
 ADAIR COUNTY WATER DISTRICT

M Monarch Engineering, Inc.
 556 Carlton Drive
 Lawrenceburg, KY

KNIFLEY
QUADRANGLE

DUNNVILLE
QUADRANGLE

Lookout
Tower

BM
1011

New Hope
Ch

BM
1009

Ella

Fairview Ch

BM
1032

76

1032

16

BM
1022

EXISTING 4-INCH
WATER LINE

REMOVE EXISTING BLOWOFF ASSEMBLY
AND CONNECT NEW 4-INCH WATER LINE
TO EXISTING 4-INCH GATE VALVE

INSTALL 4-INCH BLOWOFF
ASSEMBLY

PROPOSED ±4,100 LF
OF 4-INCH WATER LINE

REMOVE EXISTING BLOWOFF ASSEMBLY
AND CONNECT NEW 4-INCH WATER LINE
TO EXISTING 4-INCH GATE VALVE

EXISTING 4-INCH
WATER LINE

ROAD
Name

Lovedale Ch
Cems

1014

Ridge

1034

Cem

CHURCH

Creek

McKee
Br

Adkins
Cem

Branch

MILLERFIELD

1010

1013

MONTPELIER
QUADRANGLE

Creek

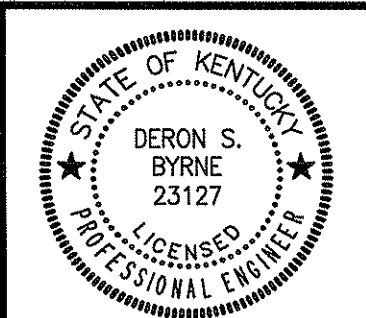
1021

Cem

SCALE 1" = 2,000'

Hol

1012



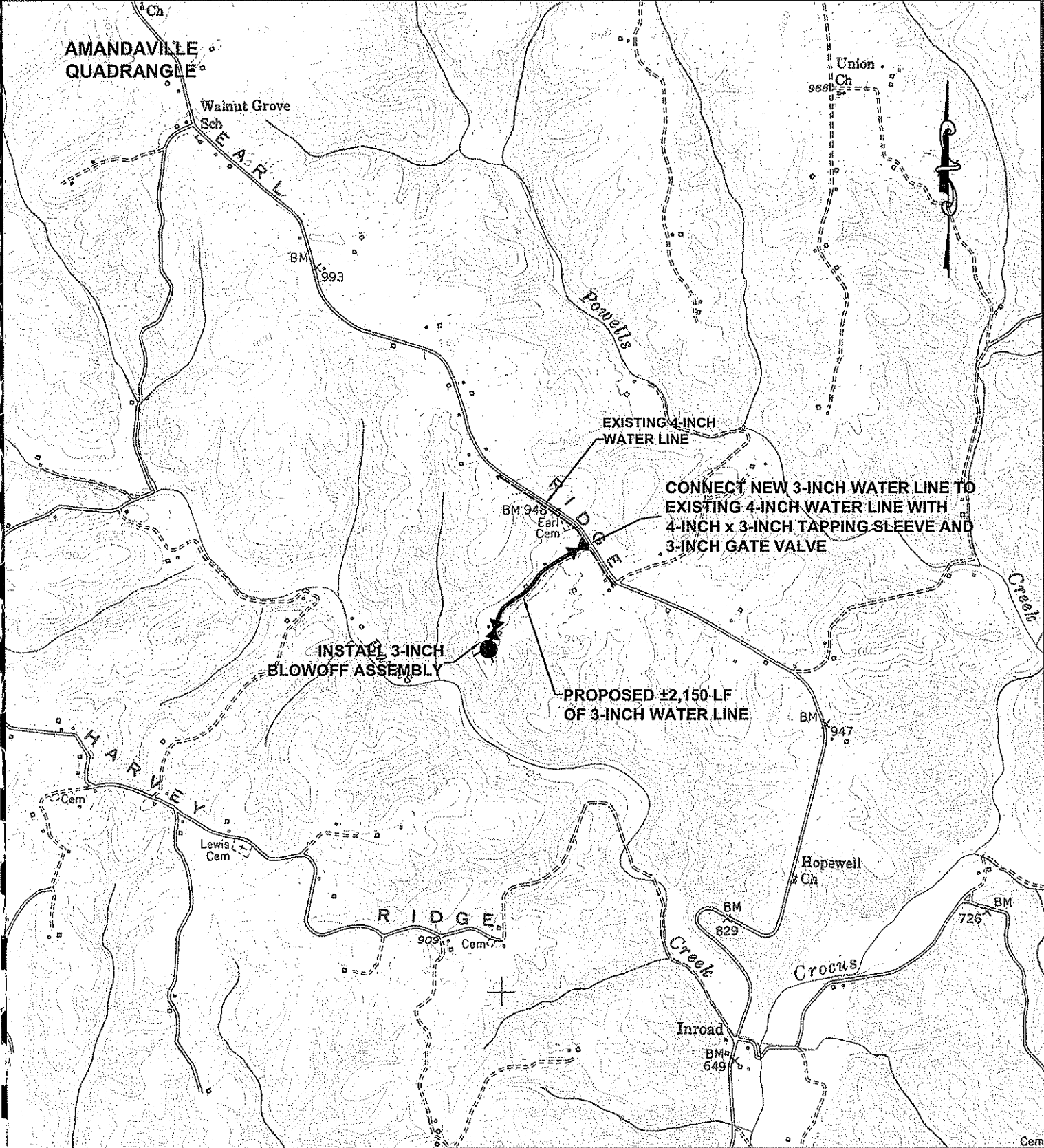
F. BURTON
WATER LINE EXTENSION
ADAIR COUNTY WATER DISTRICT

M Monarch Engineering, Inc.
556 Carlton Drive
Lawrenceburg, KY

AMANDAVILLE
QUADRANGLE

Walnut Grove
Sch

Union
Ch



EXISTING 4-INCH
WATER LINE

CONNECT NEW 3-INCH WATER LINE TO
EXISTING 4-INCH WATER LINE WITH
4-INCH x 3-INCH TAPPING SLEEVE AND
3-INCH GATE VALVE

INSTALL 3-INCH
BLOWOFF ASSEMBLY

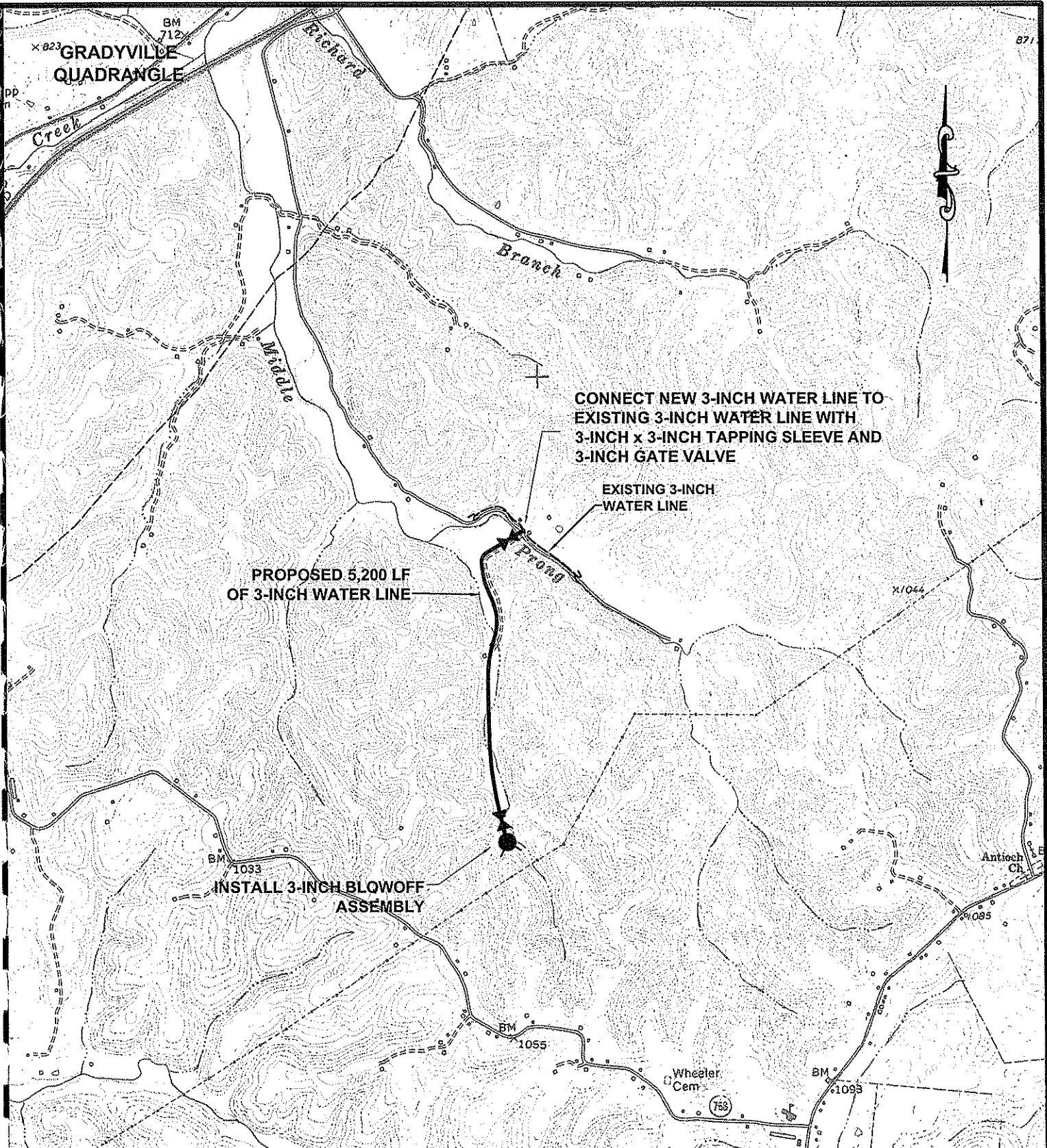
PROPOSED ±2,150 LF
OF 3-INCH WATER LINE

SCALE 1" = 2,000'

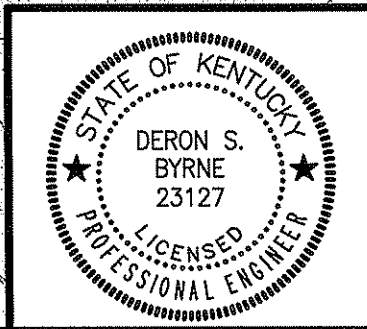


RALPH HADLEY
WATER LINE EXTENSION
ADAIR COUNTY WATER DISTRICT

M
Monarch Engineering, Inc.
556 Carlton Drive
Lawrenceburg, KY

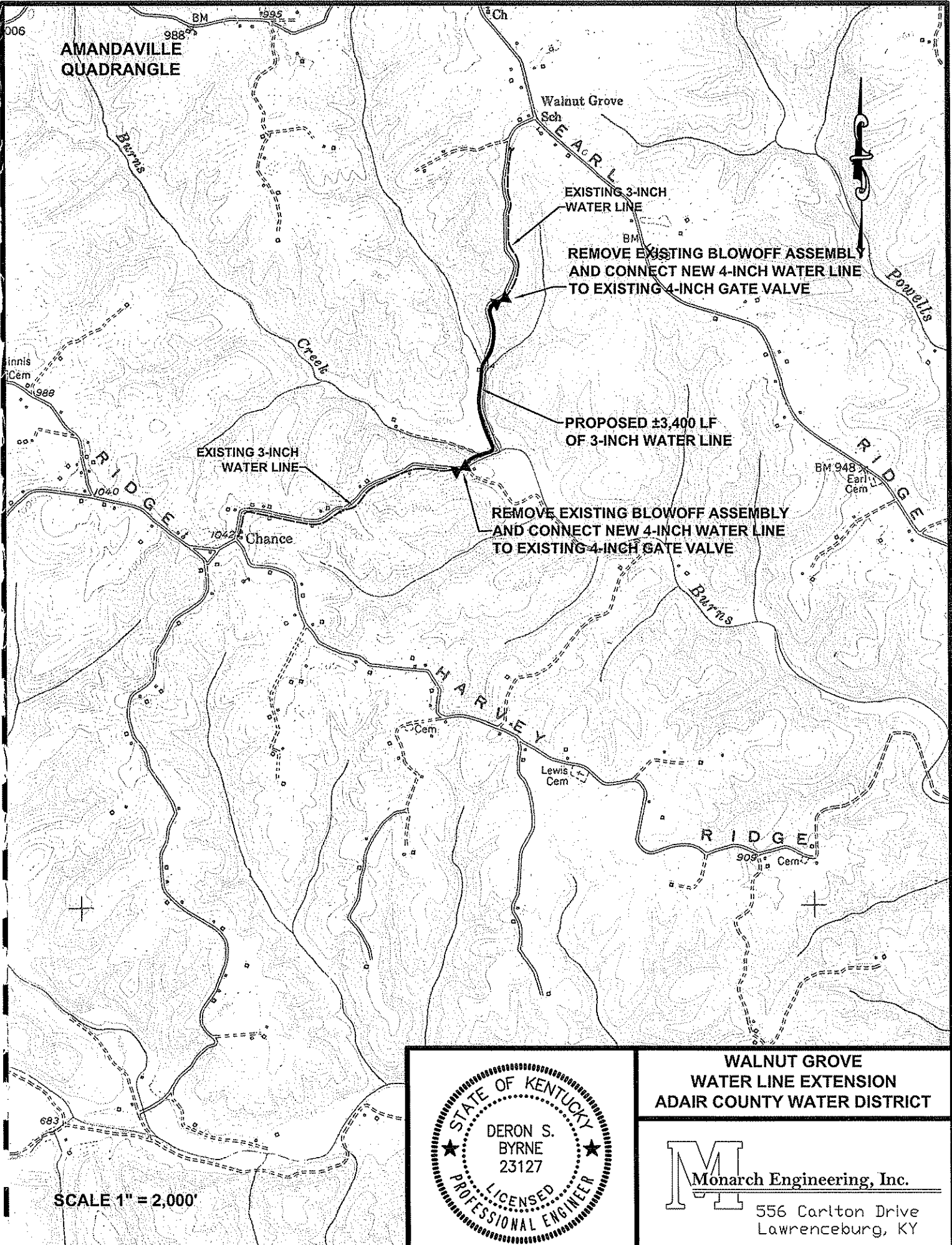


SCALE 1" = 2,000'



**RICHARDS HOLLOW ROAD
WATER LINE EXTENSION
ADAIR COUNTY WATER DISTRICT**

M Monarch Engineering, Inc.
556 Carlton Drive
Lawrenceburg, KY



STATE OF KENTUCKY
 DERON S. BYRNE
 23127
 LICENSED PROFESSIONAL ENGINEER

**WALNUT GROVE
 WATER LINE EXTENSION
 ADAIR COUNTY WATER DISTRICT**

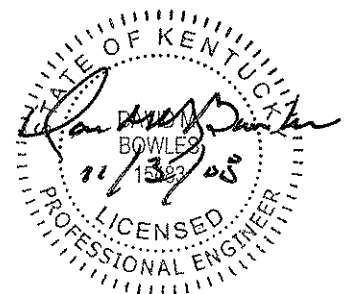
M Monarch Engineering, Inc.
 556 Carlton Drive
 Lawrenceburg, KY

FINAL ENGINEERING REPORT

PHASE 10 WATER SYSTEM EXTENSIONS

ADAIR COUNTY WATER DISTRICT
ADAIR COUNTY, KENTUCKY

OCTOBER 2008





October 27, 2008

Mr. Larry Legg
Adair County Water District
P.O. Box 567
Columbia, KY 42728

Re: Phase 10 Waterline Extensions

Dear Mr. Legg:

On October 21, 2008, bids were received by the Adair County Water District for the construction of the Phase 10 Water System Extensions Project. Four bids were received, with the lowest bid being submitted by Southern Backhoe, Inc, located in Campbellsville, KY, in the amount of \$559,088.00. A summarized bid tabulation of all bids received is attached.

Funds that are planned to be used to construct this project are the remaining funds that were not spent on the recently constructed Shepherd Water System Improvements Project. The amount of the remaining funds is \$709,200.68 which is a sufficient amount to construct the Phase 10 Water System Extension Project and includes an amount of \$40,011.82 in contingencies. Based on this information, we recommend that the Water District consider awarding a contract to Southern Backhoe, Inc, in the amount of \$559,088.00. This recommendation is contingent upon approval from the Rural Development Agency and the Kentucky Public Service Commission.

Should you need additional information, please advise.

Sincerely,



David M. Bowles, P.E.

/dmb

**FINAL COST ESTIMATE
WATERLINE EXTENSIONS
ADAIR COUNTY WATER DISTRICT
OCTOBER 2008**

PHASE II AS BID BUDGET

PROJECT COSTS

DEVELOPMENT	559,088.00
CONTINGENCY	45,011.82
ENGINEERING DESIGN	55,685.16
CONSTRUCTION INSPECTION	39,415.70
LEGAL	10,000.00
ADMINISTRATION	<u>5,000.00</u>
TOTAL PROJECT COSTS	\$714,200.68

PROJECT FINANCING

RURAL DEVELOPMENT GRANT	\$67,741.07
2006 KENTUCKY GENERAL ASSEMBLY GRANT	<u>646,459.61</u>
TOTAL PROJECT FINANCING	\$714,200.68

**FINAL BUDGET
SHEPHERD WATER SYSTEM IMPROVEMENTS
ADAIR COUNTY WATER DISTRICT
OCTOBER 2008**

PHASE I FINAL BUDGET

PROJECT COSTS

DEVELOPMENT	2,248,416.92
ENGINEERING DESIGN	172,678.42
CONSTRUCTION INSPECTION	103,876.86
LEGAL	14,867.43
ACWD TELEMETRY	9,789.09
ADDITIONAL ENGINEERING	18,170.60
INTEREST	15,000.00
ADMINISTRATION	<u>5,000.00</u>
TOTAL PROJECT COSTS	\$2,587,799.32

**FINAL BUDGET
SHEPHERD WATER SYSTEM IMPROVEMENTS
ADAIR COUNTY WATER DISTRICT
OCTOBER 2008**

PHASE I FINAL BUDGET

PROJECT FINANCING

RURAL DEVELOPMENT GRANT	\$482,258.93
RURAL DEVELOPMENT LOAN	752,000.00
KIA LOAN FUND F	1,000,000.00
2006 KENTUCKY GENERAL ASSEMBLY GRANT	<u>353,540.39</u>
TOTAL PROJECT FINANCING	\$2,587,799.32

MONARCH ENGINEERING, INC.
 556 Carlton Drive
 Lawrenceburg, KY 40342
 Phone (502) 839-1310
 Fax (502) 839-1373

BID TABULATIONS
ADAIR COUNTY WATER DISTRICT
PHASE 10 WATER LINE EXTENSIONS
ADAIR COUNTY, KENTUCKY
BID DATE: OCTOBER 21, 2008 @ 11:00 A.M. LOCAL TIME

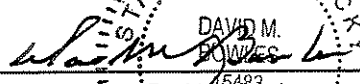
Southern Backhoe, Inc.
808 West Main St.
Campbellsville, KY 42718

Twin States Utilities, Inc.
P.O. Box 14
Mt. Hermon, KY 42157

ITEM NO.	DESCRIPTION	QUANTITY	UNIT PRICE	TOTAL COST	UNIT PRICE	TOTAL COST
BASE BID						
1	6-Inch PVC SDR 21 Water Line	1,900 LF	\$7.00	\$13,300.00	\$8.10	\$15,390.00
2	4-Inch PVC SDR 21 Water Line	27,050 LF	4.00	108,200.00	6.10	165,005.00
3	4-Inch PVC C900 Water Line	1,740 LF	8.00	13,920.00	7.50	13,050.00
4	3-Inch PVC SDR 21 Water Line	50,000 LF	3.75	187,500.00	5.20	260,000.00
5	3-Inch PVC SDR 17 Water Line	3,050 LF	4.00	12,200.00	5.30	16,165.00
6	Bore & Case for 6-Inch Water Line	40 LF	90.00	3,600.00	83.00	3,320.00
7	Bore & Case for 4-Inch Water Line	120 LF	90.00	10,800.00	80.00	9,600.00
8	Bore & Case for 3-Inch Water Line	420 LF	85.00	35,700.00	71.00	29,820.00
9	Open Cut & Case for 3-Inch Water Line	210 LF	40.00	8,400.00	45.00	9,450.00
10	Creek Crossing for 4-Inch Water Line	100 LF	80.00	8,000.00	40.00	4,000.00
11	Creek Crossing for 3-Inch Water Line	460 LF	80.00	36,800.00	40.00	18,400.00
12	Creek Crossing for 1-Inch Water Line	30 LF	80.00	2,400.00	38.00	1,140.00
13	Connection	17 EA	800.00	13,600.00	1,200.00	20,400.00
14	6-Inch Gate Valve	1 EA	963.00	963.00	590.00	590.00
15	4-Inch Gate Valve	12 EA	625.00	7,500.00	460.00	5,520.00
16	3-Inch Gate Valve	17 EA	620.00	10,540.00	410.00	6,970.00
17	Blowoff Assembly	19 EA	900.00	17,100.00	720.00	13,680.00
18	Meter Setting	76 EA	640.00	48,640.00	620.00	47,120.00
19	Meter Reconnection	18 EA	250.00	4,500.00	310.00	5,580.00
20	1-Inch Service Line	200 LF	4.00	800.00	4.50	900.00
21	3/4-Inch Service Line	3,900 LF	3.75	14,625.00	4.40	17,160.00
TOTAL BASE BID				\$559,088.00		\$663,260.00

THE ABOVE IS A TRUE AND COMPLETE TABULATION OF BIDS RECEIVED AT 11:00A.M. LOCAL TIME, TUESDAY, OCTOBER 21, 2008 AT THE ADAIR COUNTY WATER DISTRICT.

BY:


 DAVID M. BOWLES
 15483
 David M. Bowles
 LICENSED PROFESSIONAL ENGINEER

10/21/08
 DATE

BID TABULATIONS
ADAIR COUNTY WATER DISTRICT
PHASE 10 WATER LINE EXTENSIONS
ADAIR COUNTY, KENTUCKY

BID DATE: OCTOBER 21, 2008 @ 11:00 A.M. LOCAL TIME

ITEM NO.	DESCRIPTION	QUANTITY	Stotts Construction Co., Inc. P.O. Box 1689 Columbia, KY 42728		Garrison Construction Co., Inc. 6960 Greensburg Rd. Greensburg, KY 42743	
			UNIT PRICE	TOTAL COST	UNIT PRICE	TOTAL COST
	BASE BID					
1	6-Inch PVC SDR 21 Water Line	1,900 LF	\$7.00	\$13,300.00	\$8.90	\$16,910.00
2	4-Inch PVC SDR 21 Water Line	27,050 LF	6.00	162,300.00	6.85	185,292.50
3	4-Inch PVC C900 Water Line	1,740 LF	7.00	12,180.00	8.00	13,920.00
4	3-Inch PVC SDR 21 Water Line	50,000 LF	6.25	312,500.00	6.20	310,000.00
5	3-Inch PVC SDR 17 Water Line	3,050 LF	6.00	18,300.00	6.30	19,215.00
6	Bore & Case for 6-Inch Water Line	40 LF	65.00	2,600.00	105.00	4,200.00
7	Bore & Case for 4-Inch Water Line	120 LF	65.00	7,800.00	92.00	11,040.00
8	Bore & Case for 3-Inch Water Line	420 LF	60.00	25,200.00	80.00	33,600.00
9	Open Cut & Case for 3-Inch Water Line	210 LF	35.00	7,350.00	50.00	10,500.00
10	Creek Crossing for 4-Inch Water Line	100 LF	35.00	3,500.00	40.00	4,000.00
11	Creek Crossing for 3-Inch Water Line	460 LF	35.00	16,100.00	35.00	16,100.00
12	Creek Crossing for 1-Inch Water Line	30 LF	25.00	750.00	30.00	900.00
13	Connection	17 EA	1,100.00	18,700.00	805.00	13,685.00
14	6-Inch Gate Valve	1 EA	690.00	690.00	915.00	915.00
15	4-Inch Gate Valve	12 EA	620.00	7,440.00	630.00	7,560.00
16	3-Inch Gate Valve	17 EA	580.00	9,860.00	595.00	10,115.00
17	Blowoff Assembly	19 EA	650.00	12,350.00	795.00	15,105.00
18	Meter Setting	76 EA	675.00	51,300.00	890.00	67,640.00
19	Meter Reconnection	18 EA	250.00	4,500.00	557.00	10,026.00
20	1-Inch Service Line	200 LF	5.40	1,080.00	7.70	1,540.00
21	3/4-Inch Service Line	3,900 LF	4.25	16,575.00	7.00	27,300.00
	TOTAL BASE BID			\$704,375.00		\$779,563.50

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE ADAIR COUNTY)
WATER DISTRICT, A WATER DISTRICT)
ORGANIZED PURSUANT TO KRS CHAPTER 74)
OF THE KENTUCKY REVISED STATUTES, IN) CASE NO. 2007-00473
ADAIR COUNTY, KENTUCKY FOR THE)
APPROVAL OF A PLAN OF FINANCING)
IMPROVEMENTS TO THE DISTRICT'S WATER)
DISTRIBUTION SYSTEM)

ORDER

On November 7, 2007, Adair County Water District ("Adair District") applied for authority to borrow \$1,000,000 from the Kentucky Infrastructure Authority ("KIA") repayable over a 20-year term at an interest rate of 1 percent per annum to fund a proposed construction project.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Adair District is a water district that provides water service to approximately 5,635 customers in Adair County, Kentucky.
2. Adair District intends to construct a proposed waterworks improvement project ("Phase I Project") that consists of the construction and installation of approximately 39,800 linear feet of 12-inch water main and a 500,000-gallon water storage tank.
3. Adair District estimates the cost of the Phase I Project as \$2,302,000.

4. Adair District proposes to finance the Phase I Project with a loan of \$752,000 from the United States Department of Agriculture Rural Development ("RD"), a grant of \$550,000 from RD, and a grant of \$1,000,000 from KIA.

5. The Commission has previously granted a Certificate of Public Convenience and Necessity to Adair District for construction of the Phase I Project and authorized Adair District's entry into a loan agreement with RD.¹

6. Adair District intends to construct an additional water improvement project ("Phase II Project"). This project consists of undisclosed water system improvements, the construction and installation of an undetermined amount of water main, and the purchase and installation of an undetermined amount of radio read water meters to expand Adair District's existing radio read metering system. Adair District has not yet completed engineering designs and studies or obtained the governmental permits necessary to begin construction of the Phase II Project

7. Adair District estimates the cost of the Phase II Project as \$1,000,000.

8. KIA has approved a loan in the amount of \$1,000,000 to Adair District to finance the Phase II Project. KIA further will permit Adair District to use the proceeds of this loan to displace the proceeds of the RD loan and grant, provided that those proceeds are used for the Phase II Project.

¹ Case No. 2007-00195, The Application of the Adair County Water District, a Water District Organized Pursuant to Chapter 74 of the Kentucky Revised Statutes, in Adair County, Kentucky, for (1) a Certificate of Public Convenience and Necessity, Authorizing and Permitting said Adair Water District to Construct Water Distribution System Improvements, Consisting of the Construction of Extensions, Additions and Improvements to the District's Water System and (2) the Approval of the Proposed Plan of Financing said Improvements (Ky. PSC June 14, 2007).

9. Adair District asserts that its failure to enter into a loan agreement with KIA prior to completion of the engineering designs and studies or obtaining the governmental permits will greatly decrease the likelihood that the loan will be issued.

10. Adair District requests that proceeds from the KIA loan be pooled with Phase I Project funding sources to permit Phase I Project and Phase II Project construction costs to be paid from available financing sources.²

11. Adair District's proposed loan is for a lawful object within its corporate purpose, is necessary, and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

12. Adair District has requested a deviation from Administrative Regulation 807 KAR 5:001, Section 11(2)(a), which requires the filing of a financial exhibit covering "operations for a twelve (12) month period . . . ending not more than ninety (90) days prior to the date the application is filed."³ It has provided its financial statements for calendar year 2006 and represents that there has been no change that is material in nature in its financial condition or operation since the publication of these statements.

² For example, if the proceeds of the KIA loan are available to pay Phase I Project costs and RD has yet to disburse funds to Adair District, Adair District may use the KIA loan proceeds to pay Phase I Project costs. When RD disburses the proceeds from the loan and grant, Adair District would use these funds for Phase II Project costs.

³ Administrative Regulation 807 KAR 5:001, Section 6. Administrative Regulation 807 KAR 5:001, Section 11(2)(a), refers to Section 6. While Adair District in its application requested a deviation from Administrative Regulation 807 KAR 5:001, Section 6, its requested relief requires a deviation from 807 KAR 5:001, Section 11(2)(a).

13. Adair District has demonstrated that good cause exists to permit its deviation from Administrative Regulation 807 KAR 5:001, Section 11(2)(a).

Having considered the evidence of record and being otherwise sufficiently advised, the Commission HEREBY ORDERS that:

1. Adair District's request for permission to deviate from Administrative Regulation 807 KAR 5:001, Section 11(2)(a), is granted and its application is accepted for filing as of November 9, 2007.

2. Adair District is authorized to borrow an amount from KIA not to exceed \$1,000,000 at an interest rate not to exceed 1 percent per annum and with a repayment period of 20 years.

3. Within 30 days of executing its loan agreement with KIA for the amount authorized herein, Adair District shall advise the Commission in writing that the loan agreement was executed and the interest rate, repayment term, and principal amount of the loan.

4. Adair District shall use the proceeds from the approved transaction with KIA only for the purposes set forth in its application. These purposes may include the payment of Phase I Project costs provided Adair District reallocates an equal amount of proceeds from debt instruments that the Commission authorized in the Order of June 14, 2007 in Case No. 2007-00195 for Phase II Project costs.

5. Adair District shall deposit and maintain the proceeds from any debt instruments that the Commission has authorized in this Order or in the Order of June 14, 2007 in Case No. 2007-00195 into an interest bearing account.

6. Adair District shall not undertake any construction related to the Phase II Project until obtaining a Certificate of Public Convenience and Necessity.

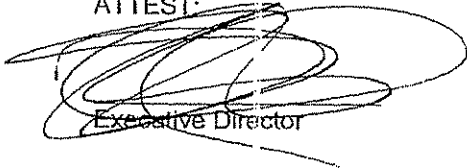
7. Order paragraph 4 of the Commission's Order of June 14, 2007 in Case No. 2007-0019⁵ is amended to permit the use of proceeds from the debt instruments that the Commission authorized in that proceeding for Phase II Project costs. Adair District, however, shall use such proceeds only to replace the proceeds from the KIA loan that are used for Phase I Project costs.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 12th day of December, 2007.

By the Commission

ATTEST:



Executive Director

Case No. 2007-00473



United States Department of Agriculture
Rural Development
Kentucky State Office

September 7, 2007

Mr. Larry Legg, Chairman
Adair County Water District
P.O. Box 567
Columbia, Kentucky 42728

Re: Letter of Conditions Dated December 16, 2005

Dear Mr. Legg:

This letter shall serve as Amendment No. 1 to the Letter of Conditions dated December 16, 2005. The purpose of this amendment is to revise the total cost of the project and project funding to reflect additional line extensions and additional Kentucky Infrastructure Authority (KIA) funding.

The Second Paragraph on Page 1 is revised to read as follows:

“ This letter is not to be considered as loan and grant approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS loan not to exceed \$752,000; a RUS grant not to exceed \$550,000; a Kentucky Infrastructure Authority (KIA) F-fund 1% loan in the amount of \$1,000,000; and a 2006 Kentucky General Assembly grant of \$1,000,000. ”

Paragraph numbered “1” is revised to read as follows:

“ 1. Number of Users and Their Contribution:

There shall be 5,781 water users, of which 5,741 are existing users and 40 are new users.”

“ 22. Cost of Facility:

Breakdown of Costs:

Development - Phase I	\$ 1,976,020
Development - Phase II	660,000
Legal and Administrative	40,000
Engineering	348,080
Interest	15,000
Contingencies	<u>262,900</u>
TOTAL	\$ 3,302,000

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7336 • Fax: (859) 224-7444 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

Committed to the future of rural communities.

“USDA is an equal opportunity provider, employer and lender.”
To file a complaint of discrimination write USDA, Director, Office of Civil Rights,
1400 Independence Avenue, SW, Washington, DC 20250-9410
or call (800) 795-3272 (voice) or (202) 720-6367 (TDD).

Financing:

RUS Loan	\$ 752,000
RUS Grant	550,000
KIA F-fund 1% Loan	1,000,000
2006 KY General Assembly Grant	<u>1,000,000</u>
TOTAL	\$ 3,302,000 "

Paragraph numbered "23" is revised to read as follows:

" 23. Commitment of Other Project Funds:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the KIA F-fund 1% loan in the amount of \$1,000,000, and for the 2006 Kentucky General Assembly grant in the amount of \$1,000,000. "

All other provisions of the referenced Letter of Conditions remain in full force and unchanged.

Sincerely,


KENNETH SLONE
State Director

cc: Area Director - Columbia, Kentucky
Rural Development Manager - Columbia, Kentucky
Lake Cumberland ADD - Russell Springs, Kentucky
Marshall F. Loy - Columbia, Kentucky
Henry M. Reed, III - Louisville, Kentucky
Monarch Engineering, Inc. - Lawrenceburg, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky