

Boone County Water District



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February 9, 2010

RECEIVED

FEB 15 2010

PUBLIC SERVICE
COMMISSION

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Re: Application of Boone County Fiscal Court and Boone County Water District

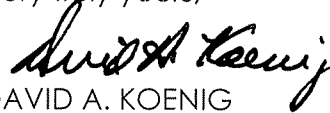
Dear Mr. Derouen:

2010-00065

Enclosed please find for filing original and ten (10) copies of a joint application by Boone County Fiscal Court and Boone County Water District for the transfer of control of Boone County Fiscal Court's water system and other relief.

Thanking you for your consideration, and with kindest regards, I remain,

Very truly yours,



DAVID A. KOENIG
Attorney at Law

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enclosures

RECEIVED

FEB 15 2010

PUBLIC SERVICE
COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION
FRANKFORT, KENTUCKY

IN THE MATTER OF THE APPLICATION OF:)
BOONE COUNTY FISCAL COURT AND)
BOONE COUNTY WATER DISTRICT)
FOR TRANSFER OF CONTROL OF WATER)
SYSTEM; TO TERMINATE AN EXISTING)
OPERATION AND MAINTENANCE)
AGREEMENT BETWEEN THE APPLICANTS;)
AND APPROVAL OF AGREEMENTS)
BETWEEN THE BOONE COUNTY FISCAL)
COURT AND BOONE COUNTY WATER)
DISTRICT AND KENTUCKY INFRASTRUCTURE)
AUTHORITY AND BOONE COUNTY WATER)
DISTRICT AS DEBT INSTRUMENTS)

CASE NO. 2010-00065

APPLICATION

The petition of Boone County Fiscal Court and Boone County Water District respectfully shows:

1. That applicant Boone County Fiscal Court (hereinafter "Fiscal Court") is the legislative and governing body for Boone County, Kentucky, and incidental thereto owns and operates a water system known as the Boone County Rural Water System (hereinafter "Rural Water System")

2. That applicant Boone County Water District (hereinafter "BCWD") is engaged in the business of providing potable water for sale to the citizens of Boone County within the established service area of the BCWD and operates and maintains the Rural Water System pursuant to an operation and maintenance agreement dated August 1, 2002, (hereinafter "O&M Agreement"), and attached as Exhibit 3.

3. That the post office address of Fiscal Court is:

**Boone County Fiscal Court
Attn: Jeff Earlywine, Administrator
P.O. Box 900
Burlington, KY 41005**

4. That the post office address of BCWD is:

**Boone County Water District
Attn: Phil Trzop, Manager
P.O. Box 18
Burlington, KY 41005**

5. By this application, the Fiscal Court and BCWD respectfully request the following:

a) That the Public Service Commission approve an agreement between the Fiscal Court and BCWD (hereinafter referred to as the "Agreement", and attached as Exhibit 1), transferring the Rural Water System from the Fiscal Court to BCWD. Authority: KRS 278.020(5).

b) That the Public Service Commission approve the Agreement as a debt instrument requiring payments from BCWD to the Fiscal Court. Authority: KRS 278.300.

c) That the Public Service Commission approve an Assumption and Supplemental Assistance Agreement between BCWD, Fiscal Court, and the Kentucky Infrastructure Authority (KIA)(hereinafter referred to as the "Assumption Agreement" and attached as Exhibit 2) calling for the assumption by BCWD of

an existing obligation of the Fiscal Court to KIA as a debt instrument. Authority: KRS 278.300.

d) That the O&M Agreement (Exhibit 3) relative to the Rural Water system be terminated. Authority: KRS 278.160(1) and 807 KAR 5:011, Section 13.

e) That the tariff for the Rural Water System be merged or incorporated into the tariff of BCWD to provide for the rates, charges, rules and regulations of BCWD in addition to the existing provision in the rural water tariff for the \$25.00 surcharge for Rural Water System customers.

I. FACTUAL BACKGROUND

6. The Rural Water System is a public water system created by the Fiscal Court to provide potable water to rural areas of Boone County not served by the public water systems of the BCWD, Bullock Pen Water District, or cities of Florence or Walton, which are other providers of potable water within Boone County. A copy of a system map for the Rural Water System is attached as Exhibit 4.

7. The creation of the Rural Water System was approved by the Public Service Commission by interim order dated July 9, 2002, and by order dated September 27, 2002, in Case No. 2002-00085. Copies of said orders are attached hereto as Exhibit 5.

8. The Rural Water System was constructed in two phases. The first phase was constructed in 2002, after approval by the Public Service Commission in Case No. 2002-00085 (Exhibit 5). This portion of the system is referred to as

"SubDistrict A". The system was constructed from the proceeds of the sale by the Fiscal Court of General Obligation Public Project Bonds, Series 2002-B (hereinafter "Bonds"). The total capital cost was \$5,081,811.00, including design, engineering, and legal expenses. A system map for SubDistrict A is attached as Exhibit 4-A.

9. The second phase of the Rural Water System was constructed in 2006, after approval by the Public Service Commission in Case No. 2005-291. A copy of this order is attached as Exhibit 6. This portion of the system is referred to as "SubDistrict B". SubDistrict B was constructed from several sources including the proceeds of a loan in the amount of \$2,506,118.00 from the Kentucky Infrastructure Authority to the Fiscal Court (hereinafter "KIA Loan"). A system map for SubDistrict B is attached as Exhibit 4-B.

10. The Rural Water System is operated and maintained by BCWD pursuant to the O&M Agreement (Exhibit 3). The O&M Agreement was approved by the Public Service Commission contemporaneously with the approval of the creation of the Rural Water System in Case No. 2002-00085.

11. Rural Water System customers pay water rates that are identical to rates charged to all BCWD customers for water purchased and for all other non-recurring, miscellaneous, and other charges. (BCWD has a pending application for an increase in tapping fees for ¾" and 1" meters in Case No. 2010-019.) In addition, Rural Water System customers pay an additional monthly surcharge in the amount of \$25.00, payable until the Bonds and KIA Loan are retired.

12. Pursuant to the O&M Agreement, BCWD bills customers of the Rural Water System. BCWD is entitled to recover the cost of water purchased by Rural Water System customers, plus a predetermined operation and maintenance charge established in the O&M Agreement. The Fiscal Court is entitled to the remainder of the bill, including the \$25.00 surcharge. The O&M Agreement also provides that the Rural Water System will be transferred to BCWD when the Bonds and KIA Loan are retired.

13. Fiscal Court and BCWD have entered into an Agreement (Exhibit 1) providing for the transfer of the Rural Water System from Fiscal Court to BCWD. The Agreement specifically provides for 1) the lease-purchase of the SubDistrict A portion of the Rural Water System; 2) the transfer of the SubDistrict B portion of the Rural Water System from the Fiscal Court to BCWD, which assets provide security for the KIA Loan (which BCWD will assume as set forth in the Assumption Agreement); and 3) the termination of the O&M Agreement.

14. SubDistrict A assets are held by the Fiscal Court free and clear, and do not provide security for the Bonds.

15. Contemporaneously with the transfer of SubDistrict B from Fiscal Court, BCWD proposes to enter into the Assumption Agreement, (Exhibit 2), with KIA. This transaction will permit BCWD to assume the KIA Loan.

16. In return for the early transfer of the Rural Water System to BCWD by

Fiscal Court, BCWD will compensate the Fiscal Court for system revenues in excess of those revenues BCWD would have received by virtue of the operation of the O&M Agreement.

17. To calculate the total payment by BCWD to Fiscal Court, historical Rural Water System revenues were measured and future Rural Water System revenues were assumed to grow at a rate of 3%. The anticipated annual revenue was reduced by anticipated fixed semi-annual payments to the Fiscal Court. The resulting annual cash flows for the life of the payments were discounted to a net present value of zero. Financial calculations relative to the net present value of the revenue stream to be acquired by BCWD are attached as Exhibit 7.

18. BCWD will directly pay the loan payment to KIA pursuant to the Assumption Agreement (Exhibit 2). This payment is subtracted from BCWD's semi-annual obligation to Fiscal Court. The difference constitutes BCWD's lease payment to Fiscal Court.

19. For the first two (2) years (July 1, 2009, through June 30, 2011), BCWD will be responsible for the KIA Loan and will pay to Fiscal Court an amount equal to the Fiscal Court's obligations on the Bonds. (Any of BCWD's obligations pursuant to the Agreement paid by Fiscal Court after July 1, 2009, reduced by actual revenue paid by BCWD to Fiscal Court pursuant to the O&M Agreement, will be reimbursed upon approval by PSC). These four (4) semi-annual payments

are greater than BCWD's uniform semi-annual obligation, resulting in lower semi-annual payments commencing in July, 2011.

20. Customers of the Rural Water System will become BCWD customers. These customers will continue to pay their customary rates for water purchased, non-recurring, miscellaneous, and other rates and charges, which rates and charges are identical to BCWD rates and charges, and the \$25.00 monthly surcharge until the Bonds and KIA Loan are retired. A copy of the Rural Water System tariff is attached as Exhibit 8. The surcharge was part of the calculations in which the value of the revenue stream to be acquired by BCWD was determined.

21. The District has the ability to absorb the additional payments required for the early acquisition of the Rural Water System assets and revenues. The first year's cash contribution by the District is calculated to be \$274,619.00, which is the difference between the capital cost of the Rural Water System less rural Water System revenue. In five (5) years, BCWD's net cash contribution (capital contribution less system revenue) is calculated to be only \$27,087.00. Commencing in 2019, the District is not anticipated to have any cash contribution, and the financial impact to BCWD after 2019 is positive in that BCWD will receive revenues that would have been flowing to Fiscal Court had Fiscal Court retained ownership of the Rural Water System, and which revenues will exceed BCWD's obligations to Fiscal Court and KIA. See Exhibit 7.

22. The acquisition of the Rural Water System by BCWD pursuant to the

Agreement is revenue neutral to BCWD. BCWD is not paying for assets which would have been transferred to it in 2037. BCWD is paying only for excess revenues it will acquire by virtue of its early acquisition of the Rural Water System assets.

23. The financial impact to the Fiscal Court is also favorable. The Fiscal Court is facing short term financial pressures. Fiscal Court will transfer to BCWD the obligation to repay the KIA loan, thereby achieving a savings. BCWD will contribute additional funds by which Fiscal Court can defray the debt service on the Bonds; however, BCWD's contribution will not equal Fiscal Court's obligations on the 2002 General Obligation Public Project Bonds after the first two years (July, 2009 – June, 2011).

24. The Agreement will have a positive impact on BCWD's ability to provide water to the citizens of Boone County. The Rural Water System's water lines are generally in rural areas on the outer edges of BCWD's existing system. There are unserved areas beyond the Rural Water System that BCWD has considered serving. However, the Rural Water System presently serves as a barrier through which BCWD cannot expand. The integration of the Rural Water System into the District will facilitate District expansion beyond present boundaries.

II. TERMINATION OF O&M AGREEMENT

25. The O&M Agreement presently in place governing the operation and maintenance of the Rural Water System by BCWD will no longer be necessary.

The system will be a part of BCWD's system. Rural Water System customers will be BCWD customers.

III. APPROVAL OF DEBT INSTRUMENTS

26. BCWD is requesting that the Public Service Commission approve the agreement with Fiscal Court and Assumption Agreement with KIA as evidences of indebtedness. Both agreements impose financial obligations upon BCWD. BCWD has sufficient cash to meet its obligations under the agreement and assumption agreement. According to BCWD's calculations (See Exhibit 7, the agreements will result in a possible cash flow to BCWD after nine years.

27. Pursuant to 807 KAR 5:0001, Section 11, the following information is provided:

a) BCWD's property includes all transmission and distribution lines within its service area and all fixtures, appurtenances, and real property, and easements related thereto; real estate housing its offices and maintenance facility; and vehicles, equipment, and personal property within its service area. The original cost of all assets of BCWD is \$88,902,864.00 as of October 31, 2009.

b) BCWD proposes to assume the following indebtedness:

1) The Agreement between BCWD and Fiscal Court (Exhibit 1) obligates BCWD to make payments to Fiscal Court as set forth in Exhibit 7.

2) The KIA Loan. The principal balance as of July 1, 2009, is \$2,394,368.65. The rate of interest is 2.70%. BCWD will make semi-annual payments as set forth in Exhibit 9.

c) The purpose of the assumption of the obligations in the two instruments is to permit the early acquisition of Rural Water System assets and revenues.

d) The property to be acquired by virtue of the indebtedness to be assumed by BCWD is the Rural Water System and its revenues. The original capital cost of the property to be acquired is \$7,587,929.00. Specific and detailed information relative to these assets are contained in PSC Cases No. 2002-00085 and 2005-00291, in which certificates of public convenience and necessity were issued by the PSC for the construction of same.

28. BCWD's financial exhibit is attached for the twelve month period ending October 31, 2009, and is attached hereto as Exhibit 10. To the extent that the financial exhibit covers operations for a period ending more than ninety (90) days prior to the date the application is filed, BCWD respectfully requests a deviation from the requirements of 807 KAR5:001, Section 11(2)(a) and Section 6. Year end financial information is being compiled but not available.

29. BCWD respectfully requests waiver or deviation from the requirements of 807 KAR 5:001, Section 11(2)(c), if applicable, in that detailed maps and drawings of the proposed property to be acquired in connection with

the agreement and assumption agreement have been previously supplied in PSC Cases No. 2002-00085 and 2005-00291.

IV. SUMMARY

30. By way of summary, the Agreement provides a mutually advantageous outcome for all parties as follows:

a) The Fiscal Court exits the water business, and two complimentary systems are merged under the control of BCWD, an entity whose sole purpose is the operation of a public water system for the benefit of Boone County residents.

b) The Agreement is revenue neutral to the BCWD. BCWD contributes initial cash in exchange for future revenues.

c) Fiscal Court will receive additional contributions from BCWD to ameliorate existing budget shortfalls for a system that it is already obligated to transfer to BCWD in the future.

d) The integrated system facilitates the ability of BCWD to expand the public water system in Boone County.

e) Customers will experience no change of rates or service.

WHEREFORE, the Boone County Fiscal Court and Boone County Water District jointly and respectfully request that the Public Service Commission of the Commonwealth of Kentucky make its order authorizing applicants to 1) authorize the transfer of the Rural Water system from the Boone County Fiscal Court to the Boone County Water District pursuant to the Agreement; 2)

approve the Agreement and Assumption Agreement as debt instruments; 3) terminate the existing O&M Agreement; and 4) approve the merger or incorporation of the tariff for the Rural Water System into the tariff for BCWD.

DATED AT BURLINGTON, KENTUCKY, THIS 11th DAY OF FEBRUARY, 2010.

BOONE COUNTY FISCAL COURT

BY: Roger Peterman by DAK
ROGER PETERMAN
Peck, Shaffer & Williams
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BOONE COUNTY WATER DISTRICT

BY: David A. Koenig
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(859) 525-6161

EXHIBIT INDEX

<u>EXHIBIT</u>	<u>DESCRIPTION</u>
1	Agreement between Fiscal Court and BCWD transferring the Rural Water System (the "Agreement")
2	Assumption and Supplemental Assistance Agreement between BCWD, Fiscal Court, and KIA (the "Assumption Agreement")
3	Operation and Maintenance Agreement between Fiscal Court and BCWD for the Rural Water System (the "O&M Agreement")
4	Rural Water System map – entire system
4-A	Rural Water System Map – SubDistrict A
4-B	Rural Water System Map – SubDistrict B
5	PSC Interim Order dated July 9, 2002, and order dated September 27, 2002, in Case No. 2002-00085
6	PSC Order dated February 1, 2006, in Case No. 2005-00291.
7	Financial calculations relative to the net present value of the revenue stream to be acquired by BCWD and payments to Fiscal Court and KIA.
8	Rural Water System tariff.
9	KIA loan repayment schedule.
10	BCWD financial exhibit.

EXHIBIT 1

**AGREEMENT BETWEEN FISCAL
COURT AND BCWD TRANSFERRING
THE RURAL WATER SYSTEM
(THE “AGREEMENT”)**

PURCHASE AND LEASE AGREEMENT

THIS PURCHASE AND LEASE AGREEMENT (the "Lease"), dated as of August 1, 2009, by and between the COUNTY OF BOONE, KENTUCKY, (hereinafter called the "County"), as lessor, and the BOONE COUNTY WATER DISTRICT, a special district created pursuant to Chapter 74 of the Kentucky Revised Statutes (hereinafter called the "District"), as lessee;

WITNESSETH

WHEREAS, the County has heretofore issued its General Obligation Public Project Bonds, Series 2002B (the "Bonds") and used the proceeds thereof, in part, to construct and install certain water lines and appurtenant facilities, as more fully described in Exhibit A attached hereto (the "Subdistrict A Project") for the purpose of establishing a water distribution system (the "County System") for the purpose of providing potable water to certain residents of the County; and

WHEREAS, the County entered into an Assistance Agreement dated as of May 1, 2006 with the Kentucky Infrastructure Authority (the "Assistance Agreement") and used the proceeds of the loan provided thereby to construct the "Project," as defined in the Assistance Agreement (the "Subdistrict B Project" and together with the Subdistrict A Project, the "Project"), which Subdistrict B Project is a part of the County System; and

WHEREAS, in order to provide for the operation and maintenance of the Project, the County entered into an Operation and Maintenance Agreement (the "Agreement") dated as of August 1, 2002 with the Boone County Water District, a water district created pursuant to Chapter 74 of the Kentucky Revised Statutes (the "District") under which the District has been operating and maintaining the County System; and

WHEREAS, the County has determined to terminate the County System and to transfer ownership of the Project to the District to become a part of the District's water system (the "District System"); and

WHEREAS, in order to (i) continue the provision of potable water to certain residents of the County, (ii) provide for the continued operation and maintenance of the Subdistrict A Project, and (iii) provide for the payment of a portion of the debt service on the outstanding Bonds from a source other than the County's general fund, the District has agreed to operate and maintain the Subdistrict A Project as a part of the District System and to make lease payments to the County as set forth herein; and

WHEREAS, in order to continue the provision of potable water to certain residents of the County, the District has agreed to purchase the Subdistrict B Project to be a part of the District System and to assume the obligations of the County under the Assistance Agreement; and

WHEREAS, the Public Service Commission of Kentucky, by Order _____, has approved this Lease and the transfer of the Project to the District, as herein provided.

NOW, THEREFORE, IT IS AGREED BETWEEN THE PARTIES HERETO AS FOLLOWS:

Section 1. The District agrees to lease and rent the Subdistrict A Project from the County and the County hereby lets to the District, the Subdistrict A Project, to be used only for public purposes as a part of the District System from the period commencing with the date of this Lease and ending on the August 1, 2037 (the "Termination Date") or such earlier date as hereinafter provided. Simultaneously with the commencement of this Lease, the Operation and Maintenance Agreement dated as of August 1, 2002 between the County and the District shall be deemed terminated and to no longer have any force or effect.

Legal title to the Subdistrict A Project and all fixtures, appurtenances and other permanent accessories thereto and all interests therein will be held by the District, subject to the County's rights under this Lease. The County and the District agree that this Lease or any other appropriate documents may be filed or recorded to evidence the parties' respective interests in the Subdistrict A Project and the Lease.

The District agrees to pay the Lease Payments specified in Exhibit B (the "Lease Payments"). Each payment shall be applied first to payment of the interest component of the respective Lease Payment; provided, however, the District may make advance payments of principal components of Lease Payments.

Notwithstanding that this Lease is between the District and the County, all payments due hereunder shall, if so requested by the County in writing, be made directly to the paying agent bank for the Bonds (the "Paying Agent") for deposit in the Bond Payment Fund established in the Ordinance authorizing the Bonds.

In order to secure all of its obligations hereunder, the District hereby (i) grants to the County a first and prior security interest in any and all right, title and interest of the District in the portions of the Subdistrict A Project that constitute personal property and in all additions, attachments, accessions, and substitutions thereto, and on any proceeds therefrom, (ii) agrees that this Lease may be filed as a financing statement evidencing such security interest, and (iii) agrees to execute and deliver all financing statements, certificates of title and other instruments necessary or appropriate to evidence such security interest.

The County's interest shall terminate upon (a) the District's exercise of the purchase option granted herein, or (b) the complete payment of all Lease Payments and performance by the District of all of its obligations hereunder; provided, however, that title shall immediately and without any action by the District vest in the County and the District shall immediately surrender possession of the Subdistrict A Project to the County upon (i) any termination of this Lease without the District exercising its option to purchase pursuant to this Lease or (ii) the occurrence of an Event of Default, as hereinafter defined. In any of such cases, the District agrees to execute such instruments and do such things as the County reasonably requests and as may be required by law in order to effectuate transfer of any and all of the District's right, title and interest in the Subdistrict A Project, as is, to the County. It is hereby acknowledged by the County and

the District that the District intends to purchase the Subdistrict A Project on the terms set forth in this Lease.

Section 2. The Subdistrict A Project referred to in this Lease is located in Boone County, Kentucky, and is more particularly described in Exhibit A attached hereto.

Section 3. The District represents and warrants that:

(a) It is a water district duly organized, validly existing, and in good standing under the laws of the Commonwealth of Kentucky.

(b) It has the power and has been duly authorized to enter into this Lease and perform all of its obligations hereunder.

(c) The District is not subject to any contractual or other limitation or provision of any nature whatsoever which in any way limits, restricts or prevents the District from entering into this Lease, or performing any of its obligations hereunder or thereunder; and the execution and delivery of this Lease, the consummation of the transactions contemplated hereby, and the fulfillment of or compliance with the terms and conditions of this Lease will not conflict with or result in a breach of the terms, conditions or provisions of any restriction, agreement or instrument to which the District is a party or by which it is bound, or constitute a default under any of the foregoing, and will not violate any provision of law or regulation applicable to the District or any court or administrative order or decree, including, but not limited to any regulations of the Public Service Commission of Kentucky.

Section 4. The County represents and covenants that it has full power to execute and perform this Lease and the covenants and promises contained herein.

Section 5. The District hereby accepts the Subdistrict A Project, as is, and the County makes no warranty or representation, either express or implied, as to the value, design, condition, fitness for particular purpose or fitness for use of any of the Subdistrict A Project. The County hereby transfers and assigns to the District, all of its right, title and interest it may have with respect to any warranties or representations, either express or implied, as to the value, design, condition, fitness for particular purpose or fitness for use of any of the Subdistrict A Project.

Section 6. The District will operate and maintain the Subdistrict A Project in a manner substantially consistent with the laws of the Commonwealth of Kentucky regarding water distribution projects and in a manner which will substantially effectuate the public purposes of Chapters 74 and 96 of the Kentucky Revised Statutes.

Section 7. The District covenants and agrees with the County that the District shall during the term of this Lease keep and maintain the Subdistrict A Project and all parts thereof in good condition and repair, ordinary wear and tear excepted, including, but not limited to, the furnishing of all parts, mechanisms and devices required to keep the Subdistrict A Project in good mechanical and working order. The District shall keep the Subdistrict A Project in substantial compliance with all applicable governmental

regulations and requirements, and in each case the District shall make all replacements and repairs necessary in connection therewith.

Section 8. The District shall have and is hereby given the right, at its sole cost and expense, to make such additions, improvements, changes and alterations in and to any part of the Subdistrict A Project as the District from time to time may deem necessary or advisable; provided, however, that the District shall not make any addition, change or alteration which would change the character of the Subdistrict A Project as a water distribution Subdistrict A Project. All additions, changes and alterations made by the District pursuant to the authority of this Section shall (a) be made in a workmanlike manner and in substantial compliance with all laws and ordinances or resolutions applicable thereto, (b) when commenced, be prosecuted to completion with due diligence without delay or abatement in the District's payment of rent due hereunder, and (c) when completed, be deemed a part of the District System.

Section 9. The District shall neither do nor permit others under its control to do any work in or about the Subdistrict A Project or related to any repair, rebuilding, restoration, replacement, alteration of or addition to the Subdistrict A Project, or any part thereof, unless District shall have first procured and paid for all requisite municipal and other governmental permits and authorizations. All such work shall be done in a good and workmanlike manner and in substantial compliance with all applicable building, zoning, and other laws, ordinances, governmental regulations and requirements and in accordance with the requirements, rules and regulations of all insurers under the policies required to be carried under Section 13 hereof.

Section 10. The District shall be responsible for establishing fees and charges (including any surcharges to customers of the District using the Subdistrict A Project) for the use by the public of the District System (including the Subdistrict A Project), subject to any limitations provided by law.

Section 11. Notwithstanding anything herein to the contrary, the District, for the benefit of the County and each holder of the Bonds, hereby represents that it has not taken, or permitted to be taken on its behalf, and agrees that it will not take or permit to be taken on its behalf, any action which would adversely affect the excludability from gross income of the interest on the Bonds for federal income tax purposes, and that it will make and take, or require to be made and taken, such acts and filings as may from time to time be required under the Internal Revenue Code of 1986, as amended, to maintain such excludability from gross income.

Section 12. The County shall have reasonable access and the right to inspect, examine and make copies of the books, records, accounts, tax returns and other such financial information of the District.

Section 13. The District shall obtain insurance with respect to the Subdistrict A Project issued by an insurer or insurers and on policy forms in such amounts which are customary with the District for facilities which are similar to the Subdistrict A Project, against loss or damage from theft, fire, vandalism and other events covered by uniform standard extended coverage endorsements approved by the insurance regulatory authority

in the Commonwealth of Kentucky. The District may alternatively insure such property under a blanket insurance policy or policies which cover not only such property but other properties.

Each insurance policy provided for in the preceding and following paragraphs shall contain a provision to the effect that the insurance company shall not cancel the same without first giving written notice thereof to the County at least thirty (30) days in advance of such cancellation.

The District shall also carry public liability insurance with reference to the Subdistrict A Project with one or more reputable insurance companies duly qualified to do business in Kentucky, for death or bodily injury and property damage in amounts which are customarily carried for water districts which are similar to the District. The County shall be made an additional insured under such policies. Such public liability insurance may be by blanket insurance policy or policies.

The parties hereto recognize that continued inflation, the emergence of new risks, and various other factors foreseeable or unforeseeable may at some future time cause the insurance coverages required by this Lease to become inadequate in face amount or the type of risks insured against. The District hereby covenants with the County that throughout the life of this Lease the District shall keep the Subdistrict A Project continuously insured against such risks as are customarily insured against by the District, and in such amounts as would be customarily maintained, by businesses of like size and type.

Section 14. If the Subdistrict A Project is destroyed (in whole or in part) or is damaged by fire or other casualty, the District shall promptly replace, repair, rebuild or restore the property damaged or destroyed to substantially the same condition as existed prior to the event causing such damage or destruction, with such changes, alterations and modifications including the substitution and addition of other property as may be desired by the District and as will not impair the operation of the Subdistrict A Project or change its character and the District will apply for such purpose so much as may be necessary of any net proceeds of insurance resulting from claims for losses, under the insurance policies required to be carried herein, resulting from such damage.

Section 15. The County and its duly authorized representatives and agents, reserve the right to enter the Subdistrict A Project at all reasonable times during the term of this Lease for the purpose of (a) examining and inspecting the same, including the construction, installation and equipping thereof and (b) performing such work in and about the Subdistrict A Project made necessary by reason of the District's default under any of the provisions of this Lease. The County shall also have the right at all reasonable times to examine the books and records of the District.

Section 16. This Lease is made on condition that if (each of the following events being deemed an "Event of Default" under the provisions of this Lease):

- (a) the District fails to punctually pay all Lease Payments as the same

become due; or

(b) the District fails to observe, keep or perform any other covenant or obligation herein contained on the District's part to be observed, kept or performed, and the District fails to remedy the same within thirty (30) days after the County has given the District written notice specifying such failure and requesting that it be remedied; or

(c) the District vacates or abandons the Subdistrict A Project; or

(d) any representation or warranty by the District contained in this Lease or in any certificate or instrument delivered by the District pursuant to this Lease is false or misleading in any material respect;

then the County may at its election then or at any time thereafter, and while such default shall continue, give the District written notice of intention to terminate this Lease on a date specified therein, which date shall not be earlier than ten (10) days after such notice is given, and, if all defaults have not then been cured, on the date so specified, the District's rights to operation of the Subdistrict A Project shall cease and this Lease shall thereupon be terminated, and the County may re-enter and take possession of the Subdistrict A Project.

Section 17. If the District shall fail to keep or perform any of its obligations as provided in this Lease in respect of (a) maintenance of insurance, (b) payments of rent required hereunder, (c) repairs and maintenance of the Subdistrict A Project, (d) substantial compliance with legal or insurance requirements hereunder, (e) keeping the Subdistrict A Project lien free, or in the making of any other payment or performance of any other obligation so to do, upon the continuance of such failure on the District's part for thirty (30) days after written notice of such failure is given to the District by the County and without waiving or releasing the District from any obligation hereunder, as an additional but not exclusive remedy, the County may make any such payment or perform any such obligation, and all sums so paid by the County and all necessary incidental costs and expenses incurred by the County in performing such obligation shall be deemed additional rent due and payable by the District and shall be paid to the County, and if not so paid by the District, the County shall have the same rights and remedies as provided for in the case of default by the District in the payment of Lease Payments due under Section 1 hereof.

Section 18. The District shall indemnify and hold the County, its officers, directors, agents and employees harmless against and from all claims by or on behalf of any person, firm or corporation arising from the conduct or management of, or from any work or thing done on the Subdistrict A Project during the term of this Lease, and against and from all claims arising during the term of this Lease from (a) any condition of the Subdistrict A Project caused by the District, (b) any breach or default on the part of the District in the performance of any of its obligations under this Lease, (c) any act of negligence of the District or of any of its agents, contractors, servants, employees or licensees, and (d) any act of negligence of any agents, contractors, servants, employees or licensees of the District in connection with the construction, installation, furnishing,

equipping, management or operation of the Subdistrict A Project during the term of this Lease. Any indemnified party seeking to enforce the above indemnity shall give the District written notice of and the opportunity to defend any claims with respect to which indemnity is sought to be enforced hereunder, in which event the District shall either (i) employ counsel reasonably acceptable to such party to defend such claims and pay all costs and expenses in connection with such defense, or (ii) permit such party to defend such claims itself through counsel of its own choosing in which event the District shall indemnify and hold such party harmless from and against all reasonable costs and expenses incurred in or in connection with any action or proceeding brought with respect to such claims. Upon notice from such party in any such action or proceeding, if the District fails or refuses to proceed under option (i) above, the District shall be deemed to have agreed that such party may proceed under option (ii) above.

Section 19. On the Termination Date, so long as no event of default by the District hereunder has occurred and is continuing, the County will immediately transfer all of its right, title and interest in and to the Subdistrict A Project to the District and provide any documents of instruments to the District for such purpose that the District may reasonably request.

The District may, in its discretion, prepay in full its Lease Payments under the Lease by paying to the County the Optional Prepayment Price with respect to the Lease. Upon payment of the Optional Prepayment Price, the County will transfer and convey the Subdistrict A Project to the District as provided in the preceding paragraph.

As used in this Section, "Optional Prepayment Price" means the amount equal to the unpaid principal component of Lease Payments increased by the sum of (a) the amount of any due or past due Lease Payments together with interest (at the interest rate on the Bonds) on such past due Lease Payments to the date of such prepayment in full and (b) the unpaid accrued interest on the outstanding principal component of the Lease Payments to the next date on which the related Bonds can be redeemed; provided that such amount may be paid in the form of cash or noncallable United States Treasury Obligations which, together with the interest income thereon, will be sufficient to pay such amounts to the date the prepayment will be used to redeem Bonds.

Section 20. The District agrees to purchase the Subdistrict B Project from the County and the County hereby sells to the District, the Subdistrict B Project, to be used only for public purposes as a part of the District System. In consideration for the sale of the Subdistrict B Project to the District, the District agrees to assume all of the County's obligations under the Assistance Agreement in accordance with the terms of the Assumption and Supplemental Assistance Agreement dated as of _____, 2009 among the District, the County and the Kentucky Infrastructure Authority.

The District hereby accepts the Subdistrict B Project, as is, and the County makes no warranty or representation, either express or implied, as to the value, design, condition, fitness for particular purpose or fitness for use of any of the Subdistrict B Project. The County hereby transfers and assigns to the District, all of its right, title and interest it may have with respect to any warranties or representations, either express or

implied, as to the value, design, condition, fitness for particular purpose or fitness for use of any of the Subdistrict B Project.

The County agrees to execute such instruments and do such things as the District reasonably requests and as may be required by law in order to effectuate transfer of any and all of the County's right, title and interest in the Subdistrict B Project, as is, to the District. The District agrees to execute such instruments and do such things as the County reasonably requests and as may be required by law in order to effectuate assumption by the District of any and all of the County's obligations under the Assistance Agreement. The County and the District agree that any appropriate documents may be filed or recorded to evidence the sale of the County's interest in the Subdistrict B Project to the District and the assumption by the District of the Assistance Agreement.

The District shall indemnify and hold the County, its officers, directors, agents and employees harmless against and from all claims by or on behalf of any person, firm or corporation arising from the conduct or management of, or from any work or thing done on the Subdistrict B Project in the same manner as set forth in Section 18 with respect to the Subdistrict A Project.

IN TESTIMONY WHEREOF, the District has caused this instrument to be executed for and on its behalf by its Chairman and attested by its Secretary and the County has caused this instrument to be executed for an on its behalf by its Judge/Executive and attested by its Fiscal Court Clerk, as of the date first above written.

BOONE COUNTY, KENTUCKY

By: _____
Judge/Executive

Attest:

Fiscal Court Clerk

BOONE COUNTY WATER DISTRICT

By: _____
Chairman

Attest:

Secretary

EXHIBIT A

BOONE COUNTY RURAL WATER PROJECT

PROJECT SUMMARY

- I. Project Location Map/Proposed Project Phases (attached)
- II. Description of water main construction/locations;

The project consists of installation of approximately 121,000 feet (23 miles) of ductile iron water main 8" and 12" sizes and appurtenances. The project will extend water service to rural areas and provide water system improvements (looping) for improved water quality and reliability. The estimated construction cost for the project is approximately \$6,730,000 which includes a 5% contingency. The project is anticipated to begin construction in the summer 2002 with a 9 month construction period, or completion by spring 2003. A summary of the Phases and locations is as follows:

- | | |
|-----------|---|
| Phase 1A: | Big Bone Rd./Beaver Rd./Rice Pike area;
52,600 feet of 8" water main
3,000 feet of 12" water main |
| Phase 1C: | Idlewild Rd(SR 338), Ky 20, 1-275 Idlewild bypass
Idlebrook Rd/Blackberry Hill Dr. areas:
34,800 feet of 8" water main
19,400 feet of 12" water main |
| Phase 1D: | Bullittsville Rd/Fawn Ln.
7500 feet of 12" water main
1900 feet of 8" water main
2000 feet of 12" water main replacement of 8" line |

The water mains will be constructed along the State and County roadways primarily within the road right of way. The construction will be open cut excavation as shown in the plans and specifications. The estimated number of property owners/parcels abutting the proposed water main extension (10/01) is summarized as follows:

Phase 1A: 144 properties
Phase 1C: 141 properties
Phase 1D: 79 properties (excludes multiple airport parcels)

III. Construction Specifications and Bid Document; Phase 1A, 1C, and 1D, see attached.

IV. Construction Plans; Phase 1A, 1C, and 1D, see attached.

EXHIBIT B

Lease Payments

<u>Date</u>	<u>Interest Component</u>	<u>Principal Component</u>	<u>Lease Payment</u>
August 1, 2009	\$54,563	\$119,437	\$174,000
February 1, 2010	52,175	121,175	173,350
August 1, 2010	49,751	123,599	173,350
February 1, 2011	47,279	73,071	120,350
August 1, 2011	45,818	74,532	120,350
February 1, 2012	44,327	23,863	68,190
August 1, 2012	43,850	24,340	68,190
February 1, 2013	43,363	24,827	68,190
August 1, 2013	42,866	25,324	68,190
February 1, 2014	42,360	25,830	68,190
August 1, 2014	41,843	26,347	68,190
February 1, 2015	41,316	26,874	68,190
August 1, 2015	40,779	27,411	68,190
February 1, 2016	40,231	27,959	68,190
August 1, 2016	39,672	28,518	68,190
February 1, 2017	39,101	29,089	68,190
August 1, 2017	38,519	29,671	68,190
February 1, 2018	37,926	30,264	68,190
August 1, 2018	37,321	30,869	68,190
February 1, 2019	36,703	31,487	68,190
August 1, 2019	36,074	32,116	68,190
February 1, 2020	35,431	32,759	68,190
August 1, 2020	34,776	33,414	68,190
February 1, 2021	34,108	34,082	68,190
August 1, 2021	33,426	34,764	68,190
February 1, 2022	32,731	35,459	68,190
August 1, 2022	32,022	36,168	68,190
February 1, 2023	31,298	36,892	68,190
August 1, 2023	30,561	37,629	68,190
February 1, 2024	29,808	38,382	68,190
August 1, 2024	29,040	39,150	68,190
February 1, 2025	28,257	39,933	68,190
August 1, 2025	27,459	40,731	68,190
February 1, 2026	26,644	41,546	68,190
August 1, 2026	25,813	42,377	68,190
February 1, 2027	24,966	43,224	68,190
August 1, 2027	24,101	44,089	68,190

<u>Date</u>	<u>Interest Component</u>	<u>Principal Component</u>	<u>Lease Payment</u>
February 1, 2028	\$23,219	\$44,971	68,190
August 1, 2028	22,320	45,870	68,190
February 1, 2029	21,403	46,787	68,190
August 1, 2029	20,467	47,723	68,190
February 1, 2030	19,512	48,678	68,190
August 1, 2030	18,539	49,651	68,190
February 1, 2031	17,546	50,644	68,190
August 1, 2031	16,533	51,657	68,190
February 1, 2032	15,500	52,690	68,190
August 1, 2032	14,446	53,744	68,190
February 1, 2033	13,371	54,819	68,190
August 1, 2033	12,275	55,915	68,190
February 1, 2034	11,156	57,034	68,190
August 1, 2034	10,015	58,175	68,190
February 1, 2035	8,852	59,338	68,190
August 1, 2035	7,665	60,525	68,190
February 1, 2036	6,455	61,735	68,190
August 1, 2036	5,220	62,970	68,190
February 1, 2037	3,961	98,039	102,000
August 1, 2037	2,000	100,000	102,000

EXHIBIT 2

**ASSUMPTION AND SUPPLEMENTAL
ASSISTANCE AGREEMENT
BETWEEN BCWD, FISCAL COURT,
AND KIA
(THE “ASSUMPTION AGREEMENT”)**

KENTUCKY INFRASTRUCTURE AUTHORITY
ASSUMPTION AND SUPPLEMENTAL ASSISTANCE AGREEMENT
FUND B

PROJECT NUMBER: B05-02

GOVERNMENTAL AGENCY: COUNTY OF BOONE,
KENTUCKY

GOVERNMENTAL AGENCY'S ADDRESS: P.O. Box 900
Burlington, Kentucky 41005

DATE OF ASSISTANCE AGREEMENT: May 1, 2006

DATE OF SUPPLEMENTAL
ASSISTANCE AGREEMENT: _____, 2009

ASSUMPTION AND SUPPLEMENTAL ASSISTANCE AGREEMENT

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

W I T N E S S E T H:

WHEREAS, the County of Boone (the "Prior Governmental Agency") heretofore entered into that certain assistance agreement dated as of May 1, 2006 (the "Original Assistance Agreement") with the Authority, pursuant to which the Authority loaned certain funds (the "Loan") to the Prior Governmental Agency to finance improvements (the "Project") to the Prior Governmental Agency's utility system (the "Prior Governmental Agency System"); and

WHEREAS, the current outstanding principal amount of the Loan is \$ _____; and

WHEREAS, pursuant to a Purchase and Lease Agreement dated as of _____, 2009 (the "Acquisition Agreement") between the Prior Governmental Agency and the Governmental Agency, the Governmental Agency agreed to acquire and assume all assets and liabilities of the Prior Governmental Agency's System, including the

Loan; and

WHEREAS, in connection with the Agreement, the Governmental Agency and the Authority desire to provide for a formal assumption by the Governmental Agency of all the rights and obligations of the Prior Governmental Agency with respect to the Original Assistance Agreement, including, without limitation, the payment obligations set forth in the Original Assistance Agreement; and

NOW, THEREFORE, IN CONSIDERATION OF THE MUTUAL COVENANTS CONTAINED HEREIN AND IN THE ORIGINAL ASSISTANCE AGREEMENT, AND OTHER GOOD AND VALUABLE CONSIDERATION, THE PARTIES HERETO COVENANT, AGREE AND BIND THEMSELVES AS FOLLOWS:

ARTICLE I

ASSUMPTION OF ORIGINAL ASSISTANCE AGREEMENT

Section 1.1. In consideration of the conveyance of the properties described in the Acquisition Agreement herein described between the Governmental Agency and the Prior Governmental Agency and the benefits accruing to the Governmental Agency from the Project financed by the Loan, the Governmental Agency does hereby agree to assume the obligations of the Prior Governmental Agency to make pay the payments under the Original Assistance Agreement and to keep and perform all the promises, covenants and conditions set forth and contained in the Original Assistance Agreement securing the payments under the Original Assistance Agreement, as debtor, and to fulfill any other covenant and condition contained in the Original Assistance Agreement in the manner and form as therein set forth.

ARTICLE II

EFFECT OF SUPPLEMENTAL AGREEMENT

Section 2.1. From and after the time of taking effect of this Supplemental Agreement, the Original Assistance Agreement shall be, and be deemed to be, modified and amended in accordance herewith, and the respective rights, duties and obligations under the Original Assistance Agreement of the Authority and the Governmental Agency thereunder shall be determined, exercised and enforced thereunder subject in all respects to the provisions of this Supplemental Agreement, and all provisions hereof shall be deemed to be part of the terms and conditions of the Original Assistance Agreement for any and all purposes.

ARTICLE III

EFFECTIVE DATE; MISCELLANEOUS PROVISIONS

Section 3.1. Time of taking effect. This Supplemental Agreement shall be

effective as of the day and year written on the cover page hereof.

Section 3.2. Invalidity of any provision. In case any one or more of the provisions contained herein shall be adjudicated by any court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be effected or impaired thereby.

Section 3.3. Execution in counterparts. This Supplemental Agreement may be simultaneously executed and delivered in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original, but such counterparts shall together constitute but one and the same instrument.

[Signatures begin on the following page.]

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Agreement to be executed by their respective duly authorized officers as of the day and year stated on the cover page hereof.

**KENTUCKY INFRASTRUCTURE
AUTHORITY**

By: _____

Title:

Attest:

Secretary

**COUNTY OF BOONE, KENTUCKY, Prior
Governmental Agency**

By: _____

Judge/Executive

Attest:

Fiscal Court Clerk

**BOONE COUNTY WATER DISTRICT,
Governmental Agency**

By: _____

Title:

Attest:

Title:

Approved:

Examined:

Secretary/Finance and Administration
Cabinet of the Commonwealth of
Kentucky

Legal Counsel to the
Kentucky Infrastructure Authority

EXHIBIT 3

OPERATION AND MAINTENANCE AGREEMENT BETWEEN FISCAL COURT AND BCWD FOR THE RURAL WATER SYSTEM (THE “O&M AGREEMENT”)

OPERATION AND MAINTENANCE AGREEMENT

THIS OPERATION AND MAINTENANCE AGREEMENT (the "Agreement"), dated for reference purposes as of August 1, 2002, to be effective August 20, 2002, by and between the COUNTY OF BOONE, KENTUCKY, (hereinafter called the "County") and the BOONE COUNTY WATER DISTRICT, a water district created pursuant to Chapter 74 of the Kentucky Revised Statutes (hereinafter called the "District");

WITNESSETH

WHEREAS, the County has determined to issue its General Obligation Public Project Bonds, Series 2002B (the "Bonds") in the principal amount of \$5,750,000, and to use a portion of the proceeds thereof to construct and install certain water lines and appurtenant facilities as more fully described in Exhibit A attached hereto (the "Project"); and

WHEREAS, in order to provide for the continued operation and maintenance of the Project and to provide for the payment of a portion of the debt service on the Bonds from a source other than the County's general fund, the District has determined to operate and maintain the Project and to make certain annual payments to the County as set forth herein.

NOW, THEREFORE, IT IS AGREED BETWEEN THE PARTIES HERETO AS FOLLOWS:

Section 1. The County agrees to issue its general obligation bonds in a principal amount of \$5,750,000 and to use a portion of the proceeds thereof to construct and install the Project, to be used only for public purposes. Such bonds shall mature no later than 30 years, as determined by the County, from the date of issuance

Section 2. The District agrees to operate and maintain the Project, to be used only for public purposes, for the period commencing August 20, 2002 and ending June 30, 2003 or such earlier date as hereinafter provided. Unless and until terminated as provided herein, this Agreement shall continue in effect from fiscal year to fiscal year. The obligations of the County and the District under this Agreement shall be subject to either party's annual right to terminate and no obligation hereunder shall constitute an obligation in any future year. If either party determines, for any reason, to exercise its annual right to terminate this Agreement, effective on any June 30, such party must give written notice thereof to the other party not later than the preceding May 31. In addition, either party hereto may terminate this Agreement at any time by providing written notice thereof to the other party at least ninety days prior to the termination date set forth in such notice. Upon termination of this Agreement, any amounts required to be paid hereunder shall accrue until the date of termination, at which time all such obligations shall cease to accrue.

The County agrees to set and the District agrees to collect rates and charges (collectively, the "Project Revenues") for customers using the Project, as follows:

(a) the District's water service rates applicable to other customers of the District that are not users of the Project (the "Service Charges"); plus

(b) an additional charge of \$25.00 each month, or such other dollar amount or any one time charge for new customers as may be established from time to time by the County and

communicated to the District in writing (the "Surcharge" and, together with the Service Charges are collectively referred to as, the "Water Charges"); plus

(c) the District's tap-in fee applicable to other customers of the District that are not users of the Project (currently \$625.00) (the "District Tap Fee").

The Project Revenues shall be allocated (based on information set forth in the most recent annual report (the "PSC Report") filed by the District with the Kentucky Public Service Commission (the "PSC")), as follows:

(a) The District shall retain the District Tap Fee;

(b) The District shall retain its cost of Water Purchased for Resale (page 31 of the PSC Report) applicable to customers related to the Project (the "Project Water Volume");

(c) The District shall retain its cost of operation and maintenance ("O&M") related to the Project, which shall be determined by multiplying the Project Water Volume times O&M cost (the "Adjusted County Water Charges"), with O&M cost determined by computing the difference between Water Utility Expenses (appearing below line 675 column (c) on page 30 of the PSC Report) and Purchased Water (appearing at line 610 on page 30 of the PSC Report) and dividing such difference by the total Water Purchased for Resale (appearing on page 31 of the PSC Report); and

(d) The District shall remit the Adjusted County Water Charges to the County which shall be used by the County, as follows:

- (i) to pay interest on the Bonds as scheduled;
- (ii) to pay principal on the Bonds as scheduled;
- (iii) to reimburse the County for its accrued County Subsidy Payments (as hereinafter defined);
- (iv) to redeem Bonds earlier than their scheduled maturity as is permitted by the ordinance authorizing the Bonds.

The District shall provide notice to the County of the adjusted O&M cost by July 1 of each year.

Amounts payable by the District to the County shall be paid within thirty (30) days of receipt thereof by the District

Notwithstanding that this Agreement is between the District and the County, all payments due hereunder shall, if so requested by the County in writing, be made directly to the paying agent bank for the Bonds (the "Paying Agent") for deposit in the Bond Payment Fund established in the Ordinance authorizing the Bonds.

The County agrees that, if during any fiscal year (ending June 30) the Adjusted County Water Charges are not sufficient to meet the scheduled principal and interest payments on the Bonds, the County will cover the deficiency with funds of the County (the "County Subsidy Payment").

Section 3. The Project referred to in this Agreement is located in Boone County, Kentucky, and is more particularly described in Exhibit A attached hereto.

Section 4. The District represents and warrants that:

(a) It is a water district duly organized, validly existing, and in good standing under the laws of the Commonwealth of Kentucky.

(b) It has the power and has been duly authorized to enter into this Agreement and perform all of its obligations hereunder.

(c) The District is not subject to any contractual or other limitation or provision of any nature whatsoever which in any way limits, restricts or prevents the District from entering into this Agreement, or performing any of its obligations hereunder or thereunder; and the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby, and the fulfillment of or compliance with the terms and conditions of this Agreement will not conflict with or result in a breach of the terms, conditions or provisions of any restriction, agreement or instrument to which the District is a party or by which it is bound, or constitute a default under any of the foregoing, and will not violate any provision of law or regulation applicable to the District or any court or administrative order or decree.

Section 5. The County represents and covenants that it has full power to execute and perform this Agreement and the covenants and promises contained herein.

Section 6. The District hereby accepts the Project, as is, and the County makes no warranty or representation, either express or implied, as to the value, design, condition, fitness for particular purpose or fitness for use of any of the Project. The County agrees that it will require all contracts for the construction of the Project to contain a provision extending any and all warranties, express or implied, under such contracts to the District as well as the County. The County further agrees that the County will transfer to the District any and all warranties, express or implied, resulting from contracts for the construction of the Project which do not contain such provision.

Section 7. The District will operate and maintain the Project in a manner substantially consistent with the laws of the Commonwealth of Kentucky regarding water distribution Projects and in a manner which will substantially effectuate the public purposes of Chapters 74 and 96 of the Kentucky Revised Statutes.

Section 8. The District covenants and agrees with the County that the District shall during the term of this Agreement keep and maintain the Project and all parts thereof in good condition and repair, ordinary wear and tear excepted, including, but not limited to, the furnishing of all parts, mechanisms and devices required to keep the Project in good mechanical and working order. The District shall keep the Project in substantial compliance with all applicable governmental regulations and requirements, and in each case the District shall make all replacements and repairs necessary in connection therewith.

Section 9. The District shall have and is hereby given the right, at its sole cost and expense, to make or accept such additions, improvements, changes and alterations in and to any part of the Project as the District from time to time may deem necessary or advisable; provided, however, that the District shall not make or accept any addition, change or alteration which would change the

character of the Project as a water distribution Project. All additions, changes and alterations made or accepted by the District pursuant to the authority of this Section shall (a) be made in a workmanlike manner and in substantial compliance with all laws and ordinances or resolutions applicable thereto, (b) when commenced, be prosecuted to completion with due diligence without delay or abatement in the District's payments due hereunder, and (c) when completed, be deemed a part of the County's Water System (the "System") until such time as the Bonds have been fully retired, at which time the Project and all additions, improvements, changes and alterations shall become part of the District's Water System. The provisions of this Section 9 are not to be construed to create any liability of the District under 807 KAR 5:066, Section 11 to reimburse customers for extensions to the Project.

Section 10. The District shall neither do nor permit others under its control to do any work in or about the Project or related to any repair, rebuilding, restoration, replacement, alteration or addition to the Project, or any part thereof, unless District shall have first procured and paid for or caused to be procured and paid for all requisite municipal and other governmental permits and authorizations. All such work shall be done in a good and workmanlike manner and in substantial compliance with all District policies and specifications as well as all applicable building, zoning, and other laws, ordinances, governmental regulations and requirements and in accordance with the requirements, rules and regulations of all insurers under the policies required to be carried under Section 13 hereof.

Section 11. Except as provided in Section 2 hereof, the District shall be responsible for establishing fees and charges (including any surcharge to customers of the District using the Project) for the use by the public of the System (including the Project), subject to any limitations provided by law.

Section 12. Notwithstanding anything herein to the contrary, the District, for the benefit of the County and each holder of the Bonds, hereby represents that it has not taken, or permitted to be taken on its behalf, and agrees that it will not take or permit to be taken on its behalf, any action which would adversely affect the excludibility from gross income of the interest on the Bonds for federal income tax purposes, and that it will make and take, or require to be made and taken, such acts and filings as may from time to time be required under the Internal Revenue Code of 1986, as amended, to maintain such excludibility from gross income.

Section 13. The County shall have reasonable access and the right to inspect, examine and make copies of the books, records, accounts, tax returns and other such financial information of the District.

Section 14. During construction of the Project, the County shall obtain or shall cause to be obtained insurance with respect to the Project issued by an insurer or insurers and on policy forms in such amounts which are customary with the County for facilities which are similar to the Project, against loss or damage from theft, fire, vandalism and other events covered by uniform standard extended coverage endorsements approved by the insurance regulatory authority in the Commonwealth of Kentucky. The County may alternatively insure such property under a blanket insurance policy or policies which cover not only such property but other properties. Upon completion of construction of the Project, the District shall be responsible for insuring the Project in accordance with this Section 14.

Each insurance policy provided for in the preceding and following paragraphs shall contain a provision to the effect that the insurance company shall not cancel the same without first giving written notice thereof to the County at least thirty (30) days in advance of such cancellation.

The District shall also carry public liability insurance with reference to the Project with one or more reputable insurance companies duly qualified to do business in Kentucky, for death or bodily injury and property damage in amounts which are customarily carried for water districts which are similar to the District. The County shall be made an additional insured under such policies. Such public liability insurance may be by blanket insurance policy or policies.

The parties hereto recognize that continued inflation, the emergence of new risks, and various other factors foreseeable or unforeseeable may at some future time cause the insurance coverages required by this Agreement to become inadequate in face amount or the type of risks insured against. The District hereby covenants with the County that throughout the life of this Agreement the District shall keep the Project continuously insured against such risks as are customarily insured against by the District, and in such amounts as would be customarily maintained, by businesses of like size and type.

Section 15. If the Project is destroyed (in whole or in part) or is damaged by fire or other casualty, the District (i) shall promptly replace, repair, rebuild or restore the property damaged or destroyed to substantially the same condition as existed prior to the event causing such damage or destruction, with such changes, alterations and modifications including the substitution and addition of other property as may be desired by the District and as will not impair the operation of the Project or change its character and the District will apply for such purpose so much as may be necessary of any net proceeds of insurance resulting from claims for losses, under the insurance policies required to be carried herein, resulting from such damage.

Section 16. The County and its duly authorized representatives and agents, reserve the right to enter the Project at all reasonable times during the term of this Agreement for the purpose of (a) examining and inspecting the same, including the construction, installation and equipping thereof and (b) performing such work in and about the Project made necessary by reason of the District's default under any of the provisions of this Agreement. The County shall also have the right at all reasonable times to examine the books and records of the District.

Section 17. This Agreement is made on condition that if (each of the following events being deemed an "Event of Default" under the provisions of this Agreement):

- (a) the District fails to punctually make any payment required hereunder as the same becomes due; or
- (b) the District fails to observe, keep or perform any other covenant or obligation herein contained on the District's part to be observed, kept or performed, and the District fails to remedy the same within thirty (30) days after the County has given the District written notice specifying such failure and requesting that it be remedied; or
- (c) the District vacates or abandons the Project; or

(d) any representation or warranty by the District contained in this Agreement or in any certificate or instrument delivered by the District pursuant to this Agreement is false or misleading in any material respect;

then the County may at its election then or at any time thereafter, and while such default shall continue, give the District written notice of intention to terminate this Agreement on a date specified therein, which date shall not be earlier than ten (10) days after such notice is given, and, if all defaults have not then been cured, on the date so specified, the District's rights to operation of the Project shall cease and this Agreement shall thereupon be terminated, and the County may re-enter and take possession of the Project.

Section 18. If the District shall fail to keep or perform any of its obligations as provided in this Agreement in respect of (a) maintenance of insurance, (b) payments required hereunder, (c) repairs and maintenance of the Project, (d) substantial compliance with legal or insurance requirements hereunder, (e) keeping the Project lien free, or in the making of any other payment or performance of any other obligation so to do) upon the continuance of such failure on the District's part for thirty (30) days after written notice of such failure is given to the District by the County and without waiving or releasing the District from any obligation hereunder, as an additional but not exclusive remedy, the County may make any such payment or perform any such obligation, and all sums so paid by the County and all necessary incidental costs and expenses incurred by the County in performing such obligation shall be deemed additional amounts due and payable by the District and shall be paid to the County, and if not so paid by the District, the County shall have the same rights and remedies as provided for in the case of default by the District in the payment of amounts due under Section 2 hereof.

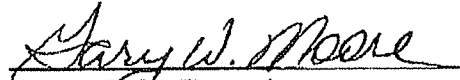
Section 19. The District shall indemnify and hold the County, its officers, directors, agents and employees harmless against and from all claims by or on behalf of any person, firm or corporation arising from the conduct or management of, or from any work or thing done on the Project during the term of this Agreement, and against and from all claims arising during the term of this Agreement from (a) any condition of the Project caused by the District, (b) any breach or default on the part of the District in the performance of any of its obligations under this Agreement, (c) any act of negligence of the District or of any of its agents, contractors, servants, employees or licensees, and (d) any act of negligence of any agents, contractors, servants, employees or licensees of the District in connection with the construction, installation, furnishing, equipping, management or operation of the Project during the term of this Agreement. Any indemnified party seeking to enforce the above indemnity shall give the District written notice of and the opportunity to defend any claims with respect to which indemnity is sought to be enforced hereunder, in which event the District shall either (i) employ counsel reasonably acceptable to such party to defend such claims and pay all costs and expenses in connection with such defense, or (ii) permit such party to defend such claims itself through counsel of its own choosing in which event the District shall indemnify and hold such party harmless from and against all reasonable costs and expenses incurred in or in connection with any action or proceeding brought with respect to such claims. Upon notice from such party in any such action or proceeding, if the District fails or refuses to proceed under option (i) above, the District shall be deemed to have agreed that such party may proceed under option (ii) above.

Section 20. Upon payment in full of the Bonds, the County, so long as no event of default by the District hereunder has occurred and is continuing, will immediately transfer all of its right, title and interest in and to the Project to the District.

Section 20. This Agreement shall be effective as of the date set forth above, subject to approval hereof by the PSC or a determination by the PSC that approval of this Agreement is not required.

IN TESTIMONY WHEREOF, the District has caused this instrument to be executed for and on its behalf by its Chairman and attested by its Secretary and the County has caused this instrument to be executed for an on its behalf by its Judge/Executive and attested by its Fiscal Court Clerk, as of the date first above written.

COUNTY OF BOONE, KENTUCKY




Judge/Executive

ATTEST:



Fiscal Court Clerk

BOONE COUNTY WATER DISTRICT



Chairman

ATTEST:



Secretary

EXHIBIT A

BOONE COUNTY RURAL WATER PROJECT

PROJECT SUMMARY

- I. Project Location Map/Proposed Project Phases (attached)
- II. Description of water main construction/locations;

The project consists of installation of approximately 121,000 feet (23 miles) of ductile iron water main 8" and 12" sizes and appurtenances. The project will extend water service to rural areas and provide water system improvements (looping) for improved water quality and reliability. The estimated construction cost for the project is approximately \$6,730,000 which includes a 5% contingency. The project is anticipated to begin construction in the summer 2002 with a 9 month construction period, or completion by spring 2003. A summary of the Phases and locations is as follows:

- Phase 1A: Big Bone Rd./Beaver Rd./Rice Pike area;
52,600 feet of 8" water main
3,000 feet of 12" water main
- Phase 1C: Idlewild Rd(SR 338), Ky 20, 1-275 Idlewild bypass
Idlebrook Rd/Blackberry Hill Dr. areas:
34,800 feet of 8" water main
19,400 feet of 12" water main
- Phase 1D: Bullittsville Rd/Fawn Ln.
7500 feet of 12" water main
1900 feet of 8" water main
2000 feet of 12" water main replacement of 8" line

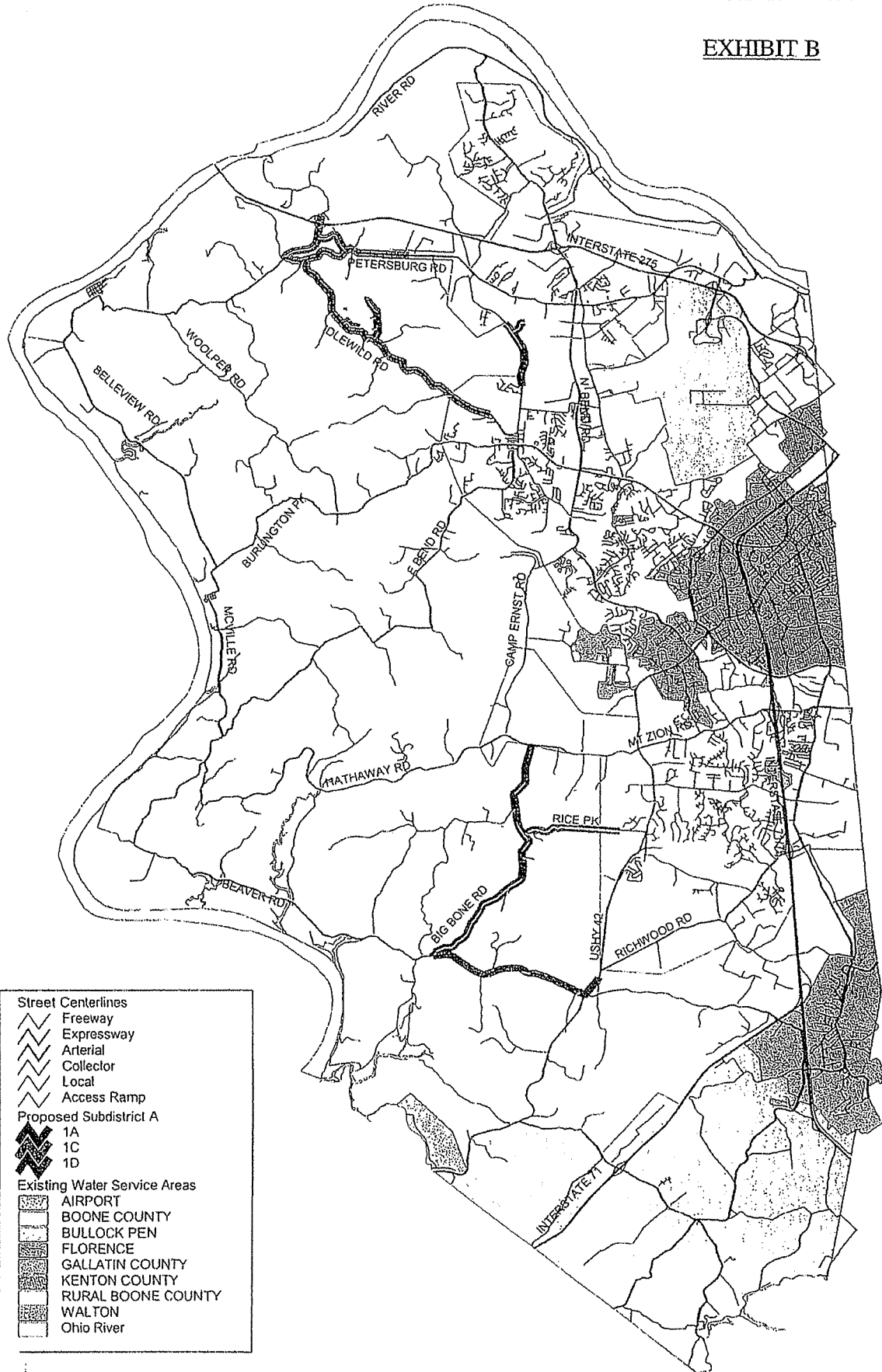
The water mains will be constructed along the State and County roadways primarily within the road right of way. The construction will be open cut excavation as shown in the plans and specifications. The estimated number of property owners/parcels abutting the proposed water main extension (10/01) is summarized as follows:

Phase 1A: 144 properties
Phase 1C: 141 properties
Phase 1D: 79 properties (excludes multiple airport parcels)

III. Construction Specifications and Bid Document; Phase 1A, 1C, and 1D, see attached.

IV. Construction Plans; Phase 1A, 1C, and 1D, see attached.

EXHIBIT B



Street Centerlines

- Freeway
- Expressway
- Arterial
- Collector
- Local
- Access Ramp

Proposed Subdistrict A

- 1A
- 1C
- 1D

Existing Water Service Areas

- AIRPORT
- BOONE COUNTY
- BULLOCK PEN
- FLORENCE
- GALLATIN COUNTY
- KENTON COUNTY
- RURAL BOONE COUNTY
- WALTON
- Ohio River

**Boone County
Rural Water Project**



5000 0 5000 10000 15000 Feet

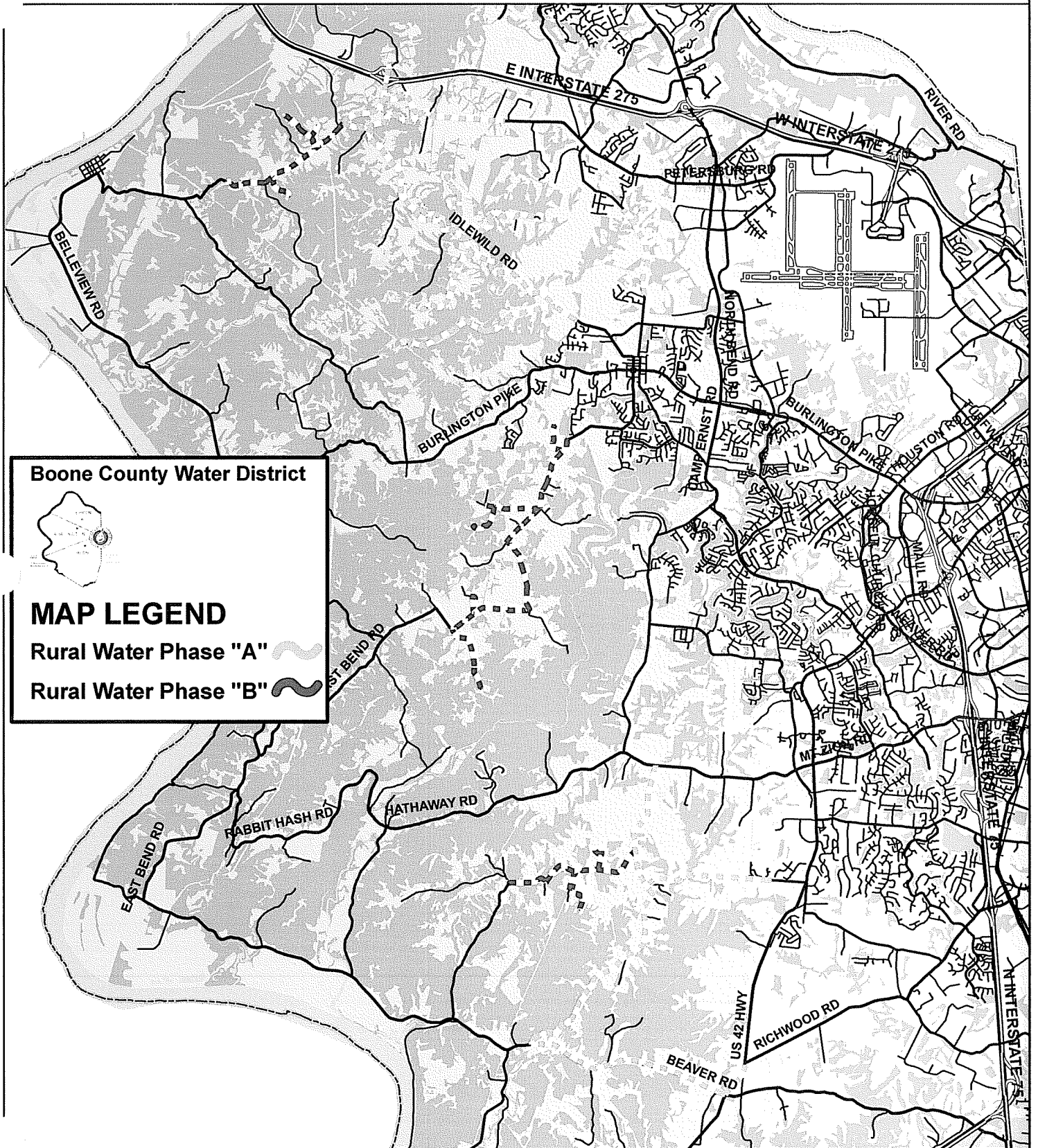


EXHIBIT 4

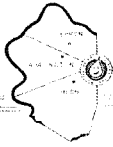
RURAL WATER SYSTEM MAP ENTIRE SYSTEM

Rural Water

www.boonecountygis.com



Boone County Water District



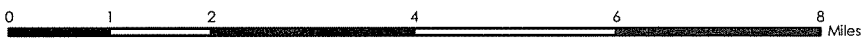
MAP LEGEND

Rural Water Phase "A" 

Rural Water Phase "B" 

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1 inch = 10,000 feet



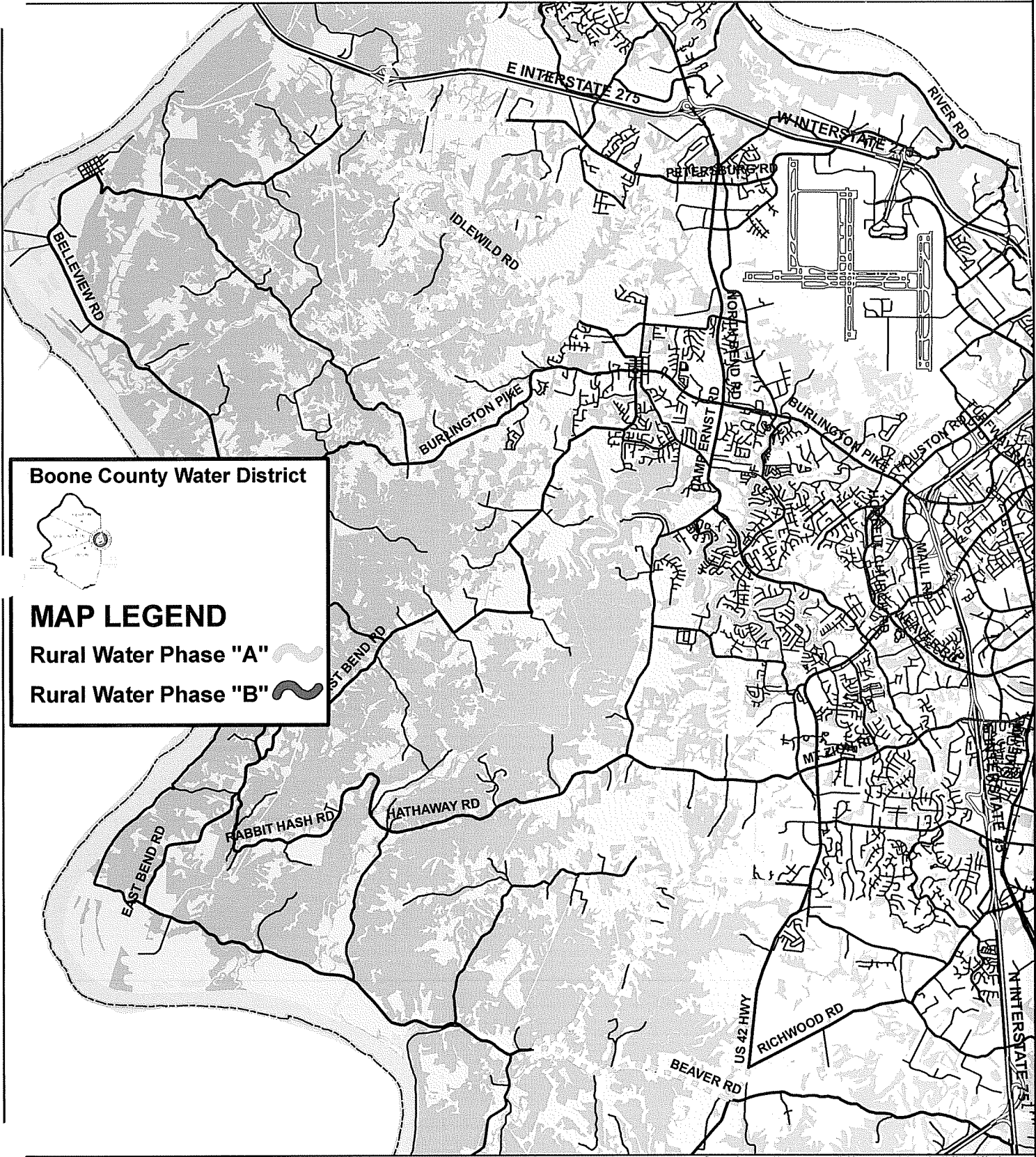
Boone County GIS - Putting Northern Kentucky on the Map

EXHIBIT 4-A


RURAL WATER SYSTEM MAP SUBDISTRICT A

Rural Water Phase "A"


www.boonecountygis.com




Boone County Water District



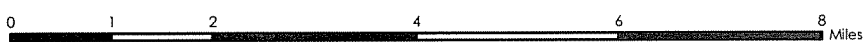
MAP LEGEND

Rural Water Phase "A" 

Rural Water Phase "B" 

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1 inch = 10,000 feet



Boone County GIS - Putting Northern Kentucky on the Map

Map Created: 01/07/2010

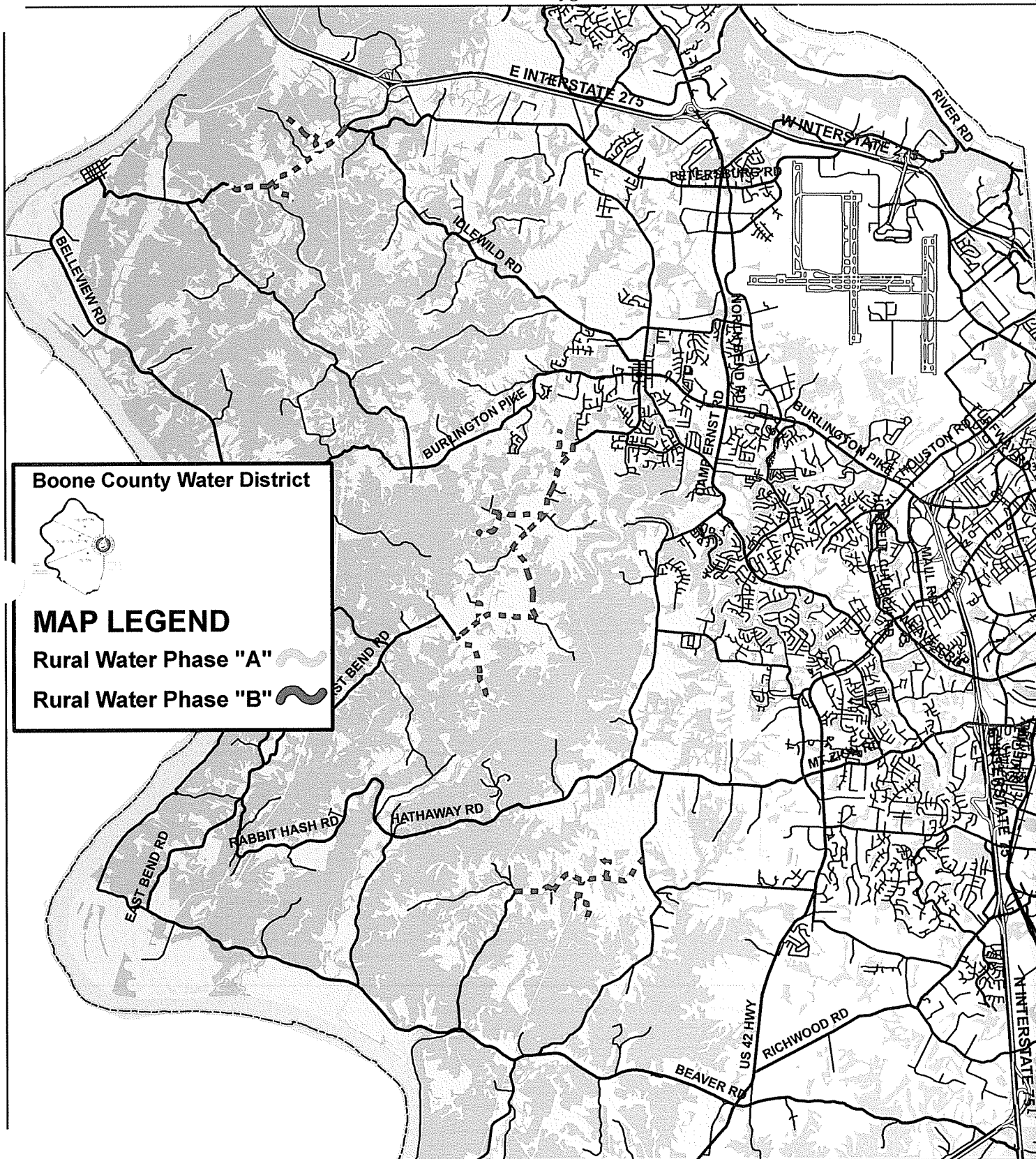
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EXHIBIT 4-B

RURAL WATER SYSTEM MAP SUBDISTRICT B

Rural Water Phase "B"

www.boonecountygis.com



Boone County Water District



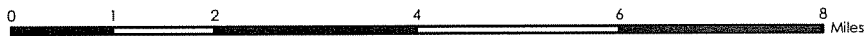
MAP LEGEND

Rural Water Phase "A" 

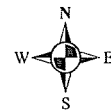
Rural Water Phase "B" 

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1 inch = 10,000 feet



Boone County GIS - Putting Northern Kentucky on the Map

EXHIBIT 5

**PSC INTERIM ORDER DATED
JULY 9, 2002, AND ORDER DATED
SEPTEMBER 27, 2002,
IN CASE NO. 2002-00085**

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE COUNTY OF BOONE,)	
KENTUCKY TO THE KENTUCKY PUBLIC SERVICE)	
COMMISSION REQUESTING THAT THEY GRANT A)	
CERTIFICATE OF CONVENIENCE AND)	
NECESSITY FOR THE CONSTRUCTION OF A)	CASE NO.
PUBLIC WATER DISTRIBUTION SYSTEM IN AN)	2002-00085
UNSERVED AREA OF SOUTHERN BOONE)	
COUNTY)	

INTERIM ORDER

On March 15, 2002, the County of Boone, Kentucky ("County of Boone") submitted an application for (1) a Certificate of Public Convenience and Necessity ("CPCN") to construct a water distribution system in an unserved area of Boone County ("Sub District A") at a cost of \$8,425,000, (2) approval of its plan of financing for this project, and (3) approval of the rates and charges for the customers to be serviced by these water line extensions. On June 18, 2002, County of Boone filed a letter with the Commission requesting that its application be amended. It stated that bids had been received and that the cost of the project would be substantially less than originally estimated. It requested that its application be amended to reflect that the cost of the project would be \$4,275,000 and to reflect that it no longer planned to assess the originally proposed initial customer capital cost of up to \$2,000. On July 2, 2002, County of Boone filed with the Commission a revised preliminary plan of financing that reflects the total financing will be \$5,320,000.

County of Boone plans to issue bonds or bond anticipation notes in the amount of \$5,320,000 at an average interest rate of 4.5 percent to fund the proposed project.

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG") was granted full intervention in this proceeding on May 14, 2002.

To determine the reasonableness of County of Boone's request, the Commission suspended the proposed rates for 5 months from their effective date pursuant to KRS 278.190(2) up to and including September 30, 2002. On May 29, 2002, County of Boone filed a motion with the Commission requesting that the Commission grant a CPCN authorizing the construction of the project and grant approval of the financing of the project by July 1, 2002. In support of its motion, County of Boone states that it would like to take advantage of this construction season and that, since no customers will be served by the project until at least December 1, 2002, granting the CPCN and financing will not affect the Commission's decision with respect to the reasonableness of the rates proposed. The AG filed a response to County of Boone's motion on May 30, 2002, and stated that he takes no position on the motion. This Interim Order addresses the construction and financing proposals of the Applicant in order to allow County of Boone to take advantage of the construction season. A final Order regarding the proposed rates to be charged by County of Boone will be entered by the Commission after a timely and thorough review of the remaining record in this matter.

BACKGROUND

County of Boone proposes to construct 22 miles of 12-inch and 8-inch ductile iron class 50 water transmission mains and related appurtenances in an unincorporated area of

Boone County, Kentucky. County of Boone states that portions of Boone County are presently served by the city of Florence, Kentucky, the Boone County Water District ("BCWD"), and the Bullock Pen Water District, but states that it is not currently economically feasible to extend a public water supply to the project area without a subsidy by the County of Boone. County of Boone further states that although the area to be served by the project is within the service area of the BCWD, BCWD does not intend to serve the proposed project area due to the detrimental impact this project could have on its financial condition.

County of Boone proposes to construct the project and then connect the project to the BCWD's water distribution system. It proposes to enter an agreement with BCWD wherein the parties agree that BCWD will operate and maintain the project and that upon payment in full of the bonds, County of Boone will immediately transfer all of its right, title, and interest in and to the project to BCWD.

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

1. County of Boone proposes to construct: Contract 1A – 2,952 linear feet of 12-inch and 47,754 linear feet of 8-inch ductile iron class 50 water transmission mains and related appurtenances; Contract 1C – 23,865 linear feet of 12-inch and 30,353 linear feet of 8-inch ductile iron class 50 water transmission mains and related appurtenances; Contract 1D – 9,511 linear feet of 12-inch and 1,877 linear feet of 8-inch ductile iron class 50 water transmission mains and related appurtenances.

2. Plans and specifications for the proposed improvements prepared by PDR Engineers, Inc. of Sharonville, Ohio have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

3. Public convenience and necessity require that the construction identified in County of Boone's application be performed and that a CPCN be granted.

4. The financing plan proposed by County of Boone is for lawful objects within the corporate purpose of its utility operation, is necessary and appropriate for and consistent with the proper performance of the utility's service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose. It should, therefore, be approved.

IT IS THEREFORE ORDERED that:

1. County of Boone is granted a CPCN to proceed with the proposed construction project as set forth in the plans and specifications of record herein.

2. County of Boone shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

3. Any deviation from the construction approved shall be undertaken only with the prior approval of the Commission.

4. County of Boone shall furnish documentation of the total costs of this project, including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by the Commission.

5. County of Boone shall require construction to be inspected under the general supervision of a licensed professional engineer with a Kentucky registration in civil or mechanical engineering, to ensure that the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

6. Within 60 days of the substantial completion of the construction certificated herein, County of Boone 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.

7. County of Boone shall monitor the adequacies of the 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), County of Boone shall take immediate action to maintain the level of service in conformance with the regulations of the Commission.

8. County of Boone's proposed plan of financing is approved.

9. County of Boone shall notify the Commission 1 week prior to the actual start of construction and at the 50 percent completion point.

10. Nothing contained herein shall be construed as constituting approval of any other portion of the County of Boone's application.

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 9th day of July, 2002.

By the Commission

ATTEST:

Deputy W. H. Bowen
Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE COUNTY OF BOONE,)	
KENTUCKY TO THE KENTUCKY PUBLIC SERVICE)	
COMMISSION REQUESTING A CERTIFICATE OF)	
CONVENIENCE AND NECESSITY FOR THE)	CASE NO.
CONSTRUCTION OF A PUBLIC WATER)	2002-00085
DISTRIBUTION SYSTEM IN AN UNSERVED AREA)	
OF SOUTHERN BOONE COUNTY)	

O R D E R

On March 15, 2002, County of Boone, Kentucky ("County of Boone") submitted an application for (1) a Certificate of Public Convenience and Necessity to construct a water distribution system in an unserved area of Boone County, (2) approval of its plan of financing for the project, and (3) approval of the rates and charges for the customers to be served by the water line extensions.

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, was granted full intervention in this proceeding on May 14, 2002. He has neither engaged in any discovery nor requested a hearing in this matter.

KRS 278.010(3) defines utility as ~~any person except a city, who owns, controls, operates, or manages any facility used or to be used for or in connection with . . . [t]he diverting, developing, pumping, impounding, distributing, or furnishing of water to or for the public, for compensation.~~ KRS 278.010 defines a "person" to include corporations and defines "corporation" to include "private, quasipublic and public corporations." County of

Boone is a quasipublic corporation. See Howell v. Haney, Ky., 330 S.W.2d 941 (1960). As a quasipublic corporation, it is subject to the jurisdiction of this Commission.

On July 9, 2002, the Commission issued an Interim Order granting approval of the construction and financing; however, the request for rates was continued until further review could be performed. This Order supplements that Interim Order.

The Commission suspended the proposed rates for 5 months from their effective date, pursuant to KRS 278.190(2), to and including September 30, 2002.

County of Boone proposed, and the Commission approved, the construction of a water extension project to serve an area in Boone County where it was not economically feasible for Boone County Water District ("BCWD") to extend service without subsidization by County of Boone. Once constructed, the project will be connected to the BCWD distribution facilities. County of Boone plans to issue bonds or bond anticipation notes to pay for the construction of the facilities. Upon payment in full of the bonds, County of Boone intends to transfer the facilities to BCWD.¹

County of Boone has entered into a contract with BCWD wherein BCWD agrees to operate and maintain the County of Boone's facilities and agrees to read the water meters, to bill the customers, and to collect the charges for County of Boone through June 30, 2003. County of Boone requests approval to charge its customers the same rates and non-recurring charges as those approved for the customers of BCWD and for approval to assess a surcharge of \$25.00 for each 10,000 gallons, or any portion thereof, of water

¹ Response to Commission Staff's Data Request dated June 10, 2002, Item 5.

consumed each month to each customer.² County of Boone states that the revenues collected will be used to pay BCWD for the cost of the treated water and for its fee for operating and maintaining ("O&M") County of Boone's facilities. County of Boone states that the O&M fees will be adjusted each calendar year based on the most recently audited O&M costs for the prior year as reported to the Commission by BCWD in its annual report. The balance of the revenues collected will be used to meet the scheduled principal and interest payments on the bonds.

County of Boone is a new, rather than an existing, utility. Consequently, test period financial information is nonexistent. Initial operating revenues are therefore based upon projections and estimates provided by County of Boone.

County of Boone projects that in the first 3 years of operations, the revenues will be sufficient to meet the bond payments that are due.³ County of Boone states that if the balance of revenues used to pay off the bonds is not sufficient to make the principal and interest payments, the county will pay all shortfalls to ensure that the bond payments are timely made. County of Boone states that it is financially sound and has the ability to ensure the payment of these bonds without jeopardizing other county services.⁴ Therefore, the Commission finds the rates proposed should be approved. However, the Commission advises County of Boone to monitor and review its first year of operations. County of

² County of Boone initially proposed that each customer also pay up to \$2,000 at the time of the tap-on as an "initial customer capital cost." On June 11, 2002, County of Boone informed the Commission that as a result of lower-than-estimated bids for the project, it does not plan to assess the additional \$2,000 initial customer capital cost.

³ Information filed by Terrell Ross on behalf of County of Boone on June 18, 2002.

⁴ Application at 2. See also Application, Exhibit D.

Boone should take appropriate action if actual results differ substantially from the projections.

~~The non-recurring charges proposed by County of Boone should be approved. These proposed charges are associated with costs that will be incurred by BCWD in its operation and management of County of Boone's facilities and that were previously approved for BCWD.~~

~~County of Boone also requests that its rates be adjusted in accordance with any future approved rate adjustments for BCWD. The Commission acknowledges that these two utilities are very closely related, but finds that rates for each utility should be approved based on their individual conditions. The Commission further finds that there is a provision in the O&M agreement that would, upon notice, allow a party to terminate the agreement. If BCWD ceases to operate and maintain the system, it would not be reasonable for County of Boone's rates to be adjusted automatically when BCWD's rates are adjusted. If the two utilities believe that their rates should be identical, they may file a joint application for approval of rates.~~

RATES

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by County of Boone and contained in Appendix A of this Order are approved for services rendered by County of Boone on and after the date of this Order.
2. County of Boone's request to revise its rates in accordance with revisions to BCWD's rates is denied.

3. ~~Within 30 days from the date of this Order, County of Boone shall file a tariff containing schedules of all the charges, tolls, rules, and regulations that it plans to impose.~~

4. ~~Within 30 days from the date of this Order, County of Boone shall also file maps and plats of the area in which it offers service.~~

5. County of Boone shall monitor and review its operations and take appropriate action if actual results differ substantially from its projections.

Done at Frankfort, Kentucky, this 27th day of September, 2002.

By the Commission

ATTEST:


Executive Director

EXHIBIT 6

**PSC ORDER DATED
FEBRUARY 1, 2006, IN
CASE NO. 2005-00291**

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE COUNTY OF)	
BOONE, KENTUCKY FOR (A) ISSUANCE OF A)	
CERTIFICATE OF PUBLIC CONVENIENCE AND)	
NECESSITY TO CONSTRUCT AN)	CASE NO.
IMPROVEMENTS PROJECT TO SERVE)	2005-00291
SUBDISTRICT B; (B) AUTHORIZATION FOR)	
PROJECT FINANCING; AND (C))	
AUTHORIZATION TO ADJUST RATES)	

ORDER

The County of Boone ("the County") has applied for a Certificate of Public Convenience and Necessity to construct water distribution facilities in unserved areas of Boone County, Kentucky; authorization to borrow \$2,548,148 from the Kentucky Infrastructure Authority to finance the proposed construction; approval of the proposed rates for customers of the proposed new facilities; and an adjustment of rates for existing customers. After careful review, we grant the application with the exception of the County's request for automatic rate adjustments.

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

1. The County currently owns and operates water distribution facilities that serve approximately 170 customers for compensation in Boone County, Kentucky.¹

¹ Annual Report of Boone County, Kentucky to the Public Service Commission of Kentucky for the Calendar Year Ended December 31, 2004 at 21.

2. KRS 278.010(3)(d) defines a utility as “any person except . . . a city, who owns, controls, operates, or manages any facility used or to be used for or in connection with . . . [t]he diverting, developing, pumping, impounding, distributing, or furnishing of water to or for the public, for compensation.”

3. KRS 278.010(2) defines a “person” to include corporations.

4. KRS 28.010(1) defines “corporation” to include “private, quasipublic and public corporations.”

5. The County is a county of Kentucky and, as such, is a quasipublic corporation. See Howell v. Haney, Ky., 330 S.W.2d 941 (1960).

6. Through its ownership and operation of water distribution facilities, the County is a utility and is subject to the Commission's jurisdiction. See KRS 278.040(1) and (2).

7. In 2002, the County proposed a multi-phased project to construct facilities to serve portions of unincorporated Boone County for which service by Boone County's then-existing water suppliers² was not feasible. The County's plan contained the following features:

a. The facilities would be located in the territory of Boone County Water District (“Boone District”) and would be connected to Boone District's water distribution system.

b. Boone District would operate these facilities under the terms of an “Operation and Maintenance Agreement” between the County and the water district.

² At that time, Boone County Water District, the city of Florence, Kentucky, and Bullock Pen Water District served areas of Boone County.

c. Under the terms of this "Operation and Maintenance Agreement," Boone District agreed to operate and maintain the County's water distribution facilities, to provide potable water to customers of these facilities, and to perform all billing and collection services. In return for these services, the County compensates Boone District based upon an operation and maintenance expense factor, which is determined from Boone District's reported operation and maintenance expenses applied to the number of gallons of water sold to Boone District's customers. Upon payment of all debt instruments to finance these facilities, the County will transfer all of its interest in the facilities to Boone District.

d. The County would assess Boone District's schedule of rates for water service and a monthly surcharge of \$25. The use of the monthly surcharge proceeds would be restricted to retirement of debt instruments that finance the construction of the facilities.

e. As the County anticipated that the proposed rates would not generate sufficient revenues to meet all of the facilities' operating expenses and debt requirements, it would pay any deficit from its general funds to ensure timely payment of debt service on all debt instruments.

8. In Case No. 2002-00085,³ the Commission authorized the construction of the initial phase of the County's project and approved rates for customers served through those facilities.

³ Case No. 2002-00085, The Application of the County of Boone, Kentucky to the Kentucky Public Service Commission Requesting a Certificate of Convenience and Necessity for the Construction of a Public Water Distribution System in an Unserved Area of Southern Boone County.

9. The County now proposes to construct approximately 13.4 miles of 12-inch and 8-inch ductile iron class 50 water transmission main in selected portions of unincorporated Boone County, Kentucky. These mains will be connected to Boone District's water distribution system.

10. The proposed construction project has the potential to serve approximately 406 households.

11. Approximately 179 households have contracted with the County to receive water service from the proposed construction project.

12. No other water utility presently provides water service to the areas that the proposed water main extensions will serve.

13. Total estimated cost of the proposed construction project is \$3,815,378.

14. The proposed construction will be funded through a \$2,548,148 loan from the Kentucky Infrastructure Authority, a grant of \$1,000,000 from the Kentucky Infrastructure Authority, and a contribution of \$267,230 from the County.

15. Tetra Tech, Inc. of Cincinnati, Ohio, prepared the plans and specifications for the proposed improvements.

16. The Division of Water of the Kentucky Environmental and Public Protection Cabinet has approved the plans and specifications for the proposed water main extension.

17. The public convenience and necessity require the proposed water main extension.

18. The County's proposed loan of \$2,548,148 from the Kentucky Infrastructure Authority is for lawful objects within the corporate purpose of the County's

utility operation, is necessary and appropriate for and consistent with the proper performance of the County's service to the public and will not impair the County's ability to perform that service, is reasonably necessary and appropriate for such purpose, and should be approved.

19. Upon completion of the proposed construction project, Boone District will operate the facilities under the terms of its "Operation and Maintenance Agreement" with the County.

20. The County proposes to define the areas of the initial phase of the multi-phased construction project, which has been constructed and is in operation, as Subdistrict A. It proposes to define the areas that the current project will serve as Subdistrict B.

21. The County proposes that the rates for both Subdistricts be established at the same levels as Boone District's rates for water service. The rates that the County currently assesses to customers of Subdistrict A do not reflect the adjustments to Boone District's rates that became effective on February 27, 2003 and are lower than the rates that Boone District currently charges.⁴

22. Given the circumstances surrounding the multi-phased construction project, the County's present financial condition, and the County's stated intention to subsidize the debt service requirements of both Subdistricts, the proposed rates for both

⁴ See Case No. 2002-00295, Application of Boone County Water District for an Adjustment of Rates (Ky. PSC Feb. 27, 2003). The Commission approved rates for Boone District that generated an increase of 39.32 percent in Boone District's test-year revenues.

Subdistricts are reasonable. The proposed rates will require a subsidy from the County's general funds.⁵

23. The County further proposes that the rates for both Subdistricts be automatically adjusted to reflect any adjustments in Boone District's rates for water service. For the reasons set forth in Case No. 2002-00085,⁶ such proposal is unreasonable and should be denied.

24. The County requests authority to deviate from the provisions of Administrative Regulation 807 KAR 5:001, Section 10, that are listed in Appendix A of this Order. Given the unique nature of the County's utility operations and that many of the filing requirements in question will not produce evidence pertinent to the Commission's review, good cause exists to grant the requested deviation.

IT IS THEREFORE ORDERED that:

1. The County is authorized to deviate from the provisions of Administrative Regulation 807 KAR 5:001, Section 10, that are listed in Appendix A of this Order.
2. The County's application shall be considered filed as of December 5, 2005.
3. The County is granted a Certificate of Public Convenience and Necessity to proceed with the proposed construction project as set forth in the plans and specifications of record herein.
4. The County shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

⁵ See Appendix C of this Order.

⁶ Case No. 2002-00085, Order of September 27, 2002 at 4.

5. Any deviation from the construction approved shall be undertaken only with the prior approval of the Commission.

6. The County shall furnish documentation of the total costs of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Construction cost should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts ("USoA") for Water Utilities prescribed by the Commission.

7. The County shall require construction to be inspected under the general supervision of a licensed professional engineer with a Kentucky registration in civil or mechanical engineering to ensure that the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

8. The County shall notify the Commission in writing 7 days prior to the actual commencement of the proposed construction and when 50 percent of the proposed construction is completed.

9. The County 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 certificated herein.

10. The County is authorized to enter into a loan agreement with the Kentucky Infrastructure Authority for \$2,548,148 with a term of 30 years at an interest rate not exceeding 2.71 percent per annum.

11. The proceeds of the County's loan agreement with the Kentucky Infrastructure Authority shall be used only for the lawful purposes specified in the County's application.

12. The rates set forth in Appendix B of this Order are approved for service that the County renders on and after the date of this Order.

13. The County's proposal to automatically adjust its rates to reflect any revisions in Boone District's rates is denied.

14. Within 30 days of the date of this Order, the County shall file a tariff that contains its rates and conditions of service and that conforms to the requirements of Administrative Regulation 807 KAR 5:011. This tariff shall contain separate descriptions and maps of the areas that Subdistrict A and Subdistrict B comprise.

15. The County shall maintain a current description of Subdistricts A and B in its filed tariff so long as the surcharges for both subdistricts are effective.

16. The County shall closely monitor its operations and, if the actual results differ substantially from the projections submitted in support of its application, take appropriate action to maintain the financial viability of its Subdistricts.

17. The County shall take all actions necessary to avoid one Subdistrict from subsidizing another Subdistrict. The collection of all revenues from Subdistrict A and Subdistrict B shall be kept separately to ensure that operation and maintenance expenses and debt service for each Subdistrict are paid only from the revenues collected from the customers of that Subdistrict.

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 1st day of February, 2006.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the bottom.

Executive Director

Case No. 2005-00291

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2005-00291 DATED FEBRUARY 1, 2006

County of Boone is authorized to deviate from the following provisions
of Administrative Regulation 807 KAR 5:001, Section 10:

Section 10(6)(h)
Section 10(6)(n)
Section 10(6)(o)
Section 10(6)(p)
Section 10(6)(r)
Section 10(6)(t)
Section 10(7)(a)
Section 10(7)(b)
Section 10(7)(c)
Section 10(7)(d)

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2005-00291 DATED FEBRUARY 1, 2006

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

Monthly Water Rates

SCHEDULE A: All customers except multiple occupancy buildings and mobile home parks.

First	3,000 gallons	\$15.45 Minimum Bill
Next	2,000 gallons	4.65 per 1,000 gallons
Next	5,000 gallons	4.40 per 1,000 gallons
All Over	10,000 gallons	3.65 per 1,000 gallons

SCHEDULE B: Multiple occupancy buildings and mobile home parks.

First	3,000 gallons	\$15.45 Minimum Bill
Next	2,000 gallons	5.15 per 1,000 gallons
Next	5,000 gallons	4.65 per 1,000 gallons
Next	140,000 gallons	4.40 per 1,000 gallons
All Over	150,000 gallons	3.65 per 1,000 gallons

Minimum Bill for Each Meter Size

			Schedule A	Schedule B
3/4"	Meter	3,000 gallons	\$15.45	\$15.45
1"	Meter	5,000 gallons	24.75	25.75
1 1/2"	Meter	9,000 gallons	42.35	44.35
2"	Meter	11,000 gallons	50.40	53.40
3"	Meter	21,000 gallons	86.90	97.40
4"	Meter	29,000 gallons	116.10	132.60
6"	Meter	100,000 gallons	375.25	445.00
Over 6"	Meter	100,000 gallons	375.25	445.00

A surcharge of \$25 per month will be assessed to each customer of Subdistricts A and B for each 10,000 gallons or any portion thereof of water consumed each month.

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2005-00291 DATED FEBRUARY 1, 2006

	Sub District	
	A	B
Projected Annual Volume Sales		
Number of customers	170	179
Times: Average monthly usage of Sub District A customers from 2004 Annual Report. Used also for Sub District B	6,118	6,118
Times: 12 months	12	12
Projected annual sales, gallons	12,480,720	13,141,464
Revenue to be Generated from Projected Sales at Proposed Rates		
Monthly revenue generated from one customer at average usage	\$ 29.67	\$ 29.67
Plus: Amount of surcharge	25.00	25.00
Total average monthly collections per customer	54.67	54.67
Times: Number of customers	170	179
Times: 12 months	12	12
Total Revenue to be Generated from Projected Sales at Proposed Rates	\$ 111,526.80	\$ 117,431.16
Projected Cost to be Paid to Boone District by Boone County For Projected Sales		
Boone District Operation and Maintenance Expense per 2004 Annual Report	\$ 7,453,192	\$ 7,453,192
Divide by: Total gallons sold 2004 (Omitted 000's)	1,856,953	1,856,953
Per 1,000 gallon O&M factor	4.01	4.01
Times: Projected sales (Omitted 000's)	12,481	13,141
Cost of projected sales	\$ 50,093	\$ 52,745
Income Available to Retire Debt Compared to Debt Retirements		
Projected revenues	\$ 111,527	\$ 117,431
Less: Projected expenses	(50,093)	(52,745)
Income available to retire debt	61,433	64,686
Less: Projected annual debt principal and interest	(282,923)	(125,179)
Projected Revenue Shortfall at Proposed Rates	\$ (221,489)	\$ (60,493)

EXHIBIT 7

**FINANCIAL CALCULATIONS
RELATIVE TO THE NET PRESENT
VALUE OF THE REVENUE STREAM
TO BE ACQUIRED BY BCWD AND
PAYMENTS TO FISCAL COURT
AND KIA**

BOONE COUNTY WATER DISTRICT

	REVENUE	FIXED PAYMENT	FIXED PAYMENT	NET CASH	TOTAL FIXED PAYMENT	Subdistrict B KIA PAYMENT	DUE COUNTY		Subdistrict A FIXED SEMI-ANNUAL PAYMENT	INTEREST	PRINCIPAL	CAPITALIZED LEASE BALANCE
2025	319,978	265,180		54,798	265,180	131,081	134,099	February	68,190	28,257	39,933	1,372,932
								August	68,190	27,459	40,731	1,332,201
2026	329,577	265,180		64,397	265,180	130,904	134,276	February	68,190	26,644	41,546	1,290,655
								August	68,190	25,813	42,377	1,248,278
2027	339,465	265,180		74,285	265,180	127,485	137,695	February	68,190	24,966	43,224	1,205,054
								August	68,190	24,101	44,089	1,160,965
2028	349,649	265,180		84,469	265,180	124,413	140,767	February	68,190	23,219	44,971	1,115,994
								August	68,190	22,320	45,870	1,070,124
2029	360,138	265,180		94,958	265,180	124,221	140,959	February	68,190	21,403	46,787	1,023,337
								August	68,190	20,467	47,723	975,614
2030	370,943	265,180		105,763	265,180	124,023	141,157	February	68,190	19,512	48,678	926,936
								August	68,190	18,539	49,651	877,285
2031	382,070	265,180		116,890	265,180	123,820	141,360	February	68,190	17,546	50,644	826,641
								August	68,190	16,533	51,657	774,984
2032	393,533	265,180		128,353	265,180	123,612	141,568	February	68,190	15,500	52,690	722,294
								August	68,190	14,446	53,744	668,550
2033	405,339	265,180		140,159	265,180	123,398	141,782	February	68,190	13,371	54,819	613,731
								August	68,190	12,275	55,915	557,816
2034	417,498	265,180		152,318	265,180	123,178	142,002	February	68,190	11,156	57,034	500,782
								August	68,190	10,015	58,175	442,607
2035	430,024	265,180		164,844	265,180	122,952	142,228	February	68,190	8,852	59,338	383,269
								August	68,190	7,665	60,525	322,744
2036	442,925	265,180		177,745	265,180	122,720	142,460	February	68,190	6,455	61,735	261,009
								August	68,190	5,220	62,970	198,039
2037	456,212	265,180		191,032	265,180	61,270	203,910	February	102,000	3,961	98,039	100,000
								August	102,000	2,000	100,000	0
	<u>8,916,928</u>	<u>7,027,270</u>	<u>961,700</u>	<u>927,958</u>	<u>7,988,970</u>	<u>3,614,353</u>	<u>4,374,617</u>		<u>4,374,900</u>	<u>1,646,733</u>	<u>2,728,167</u>	

ASSUMPTIONS:

BCWD will purchase Subdistrict B immediately and assume bond liability.

Revenues will increase 3 % per year.

Net present value of stream of cash flow for BCWD is zero using
a 4% discount interest rate.

Interest rate on Capitalized Lease is 4%.

BCFC will receive Capitalized Lease payments and pay the Series 2002 Bonds.

EXHIBIT 8

RURAL WATER SYSTEM TARIFF

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2005-00291 DATED FEBRUARY 1, 2006

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

Monthly Water Rates

SCHEDULE A: All customers except multiple occupancy buildings and mobile home parks.

First	3,000 gallons	\$15.45 Minimum Bill
Next	2,000 gallons	4.65 per 1,000 gallons
Next	5,000 gallons	4.40 per 1,000 gallons
All Over	10,000 gallons	3.65 per 1,000 gallons

SCHEDULE B: Multiple occupancy buildings and mobile home parks.

First	3,000 gallons	\$15.45 Minimum Bill
Next	2,000 gallons	5.15 per 1,000 gallons
Next	5,000 gallons	4.65 per 1,000 gallons
Next	140,000 gallons	4.40 per 1,000 gallons
All Over	150,000 gallons	3.65 per 1,000 gallons

Minimum Bill for Each Meter Size

			Schedule A	Schedule B
3/4"	Meter	3,000 gallons	\$15.45	\$15.45
1"	Meter	5,000 gallons	24.75	25.75
1 1/2"	Meter	9,000 gallons	42.35	44.35
2"	Meter	11,000 gallons	50.40	53.40
3"	Meter	21,000 gallons	86.90	97.40
4"	Meter	29,000 gallons	116.10	132.60
6"	Meter	100,000 gallons	375.25	445.00
Over 6"	Meter	100,000 gallons	375.25	445.00

A surcharge of \$25 per month will be assessed to each customer of Subdistricts A and B for each 10,000 gallons or any portion thereof of water consumed each month.

EXHIBIT 9

KIA LOAN REPAYMENT SCHEDULE

EXHIBIT 10

BCWD FINANCIAL EXHIBIT

MORRIS & BRESSLER

December 22, 2009

To the Commissioners
Boone County Water District
P. O. Box 18
Burlington, KY 41005

We have compiled the accompanying balance sheet of Boone County Water District as of October 31, 2009 and the related statement of revenues, expenses and changes in net assets for the twelve months ended October 31, 2009, and the accompanying supplementary information contained in Schedule 1 which is presented only for supplementary analysis purposes, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements and supplementary schedule information that is the representation of management. We have not audited or reviewed the accompanying financial statements and supplementary schedule and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures and the statement of cash flows required by generally accepted accounting principles. If the omitted disclosures and statement of cash flows were included in the financial statements, they might influence the user's conclusions about the Water District's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

Management has not presented the management's discussion and analysis and budgetary comparison information that the Governmental Accounting Standards Board has determined is required to supplement, although not required to be a part of, the basic financial statements.

We are not independent with respect to Boone County Water District.



Morris & Bressler, PSC
Certified Public Accountants

MORRIS & BRESSLER, PSC
Certified Public Accountants

7309 Dixie Highway • P.O. Box 545 • Florence, KY 41022-0545 • (859) 525-6306

**BOONE COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2009**

OPERATING REVENUES

Water revenue	10,422,550
Forfeited discounts	207,887
Other water revenues	<u>82,027</u>

TOTAL OPERATING REVENUES 10,712,464

OPERATING EXPENSES

Water purchased	6,113,480
Operation and maintenance expense	2,880,155
Depreciation	<u>1,893,432</u>

TOTAL OPERATING EXPENSES 10,887,067

OPERATING LOSS (174,603)

NON-OPERATING INCOME (EXPENSE)

Investment income	122,308
Gain on sale of assets	3,211
Interest on long-term obligations	(128,257)
Amortization of bond discounts and expenses	<u>(13,798)</u>

NET NON-OPERATING EXPENSE (16,536)

NET LOSS (191,139)

CAPITAL CONTRIBUTIONS 1,542,812

CHANGE IN NET ASSETS 1,351,673

NET ASSETS, NOVEMBER 1 72,844,881

NET ASSETS, OCTOBER 31 74,196,554

See accompanying accountants' report.

**BOONE COUNTY WATER DISTRICT
BALANCE SHEET
OCTOBER 31, 2009**

ASSETS

Current Assets	
Cash and cash equivalents	2,812,128
Certificates of deposit	950,180
Accounts receivable	
Customers, net of allowance	1,938,404
Others	39,127
Assessments receivable	291,514
Inventories	160,327
Prepays	13,418
Accrued interest income	3,143
Current portion of deferred charges	9,691
Total Current Assets	<u>6,217,932</u>

Restricted Assets	
Debt service account	44,560
Debt service reserve	515,000
Renewal and replacement fund	1,750,000
Total Restricted Assets	<u>2,309,560</u>

Noncurrent Assets	
Miscellaneous deferred charges	<u>140,902</u>

Capital Assets	
Land, building, transmission system, equipment, and vehicles	88,792,918
Construction in progress	109,946
Total utility plant in service	88,902,864
Less accumulated depreciation	(19,466,560)
Total Capital Assets, Net	<u>69,436,304</u>

TOTAL ASSETS 78,104,698

LIABILITIES

Current Liabilities	
Accounts payable	704,879
Accrued payroll and taxes	117,244
Customer deposits	121,542
Total Current Liabilities	<u>943,665</u>

Current Liabilities Payable From Restricted Asses	
Bonds payable	225,000
Accrued interest payable	9,479
Total Current Liabilities Payable From Restricted Assets	<u>234,479</u>

Long-Term Obligations	
Bonds	2,730,000
Total Long-term Obligations	<u>2,730,000</u>

TOTAL LIABILITIES 3,908,144

NET ASSETS

Invested in capital assets, net of related debt	67,538,191
Restricted	2,091,596
Unrestricted	4,566,767

TOTAL NET ASSETS 74,196,554

See accompanying accountants' report.

SUPPLEMENTARY INFORMATION

BOONE COUNTY WATER DISTRICT
 SCHEDULE 1 – BOND INDEBTEDNESS
 OCTOBER 31, 2009

Water Revenue Bonds, Series 2001

In October of 2001, the District sold \$2,750,000 of revenue bonds for the purpose of providing funds to pay and discharge a bond anticipation note belonging to the District, to fund a debt service reserve and to pay costs of issuance of bonds. The bond anticipation note was originally issued in the amount of \$2,500,000 to finance the costs of major water system facilities consisting of a waterline extension, an administrative building, and an automated meter reading system. The bonds are secured by the District's revenues and fixed assets. All bonds are issued in denominations of \$5,000, are numbered and mature on October 1st of each year beginning in 2003 and ending in 2021. Interest is payable on April 1st and October 1st of each year. During the twelve months ended October 31, 2009 the District paid interest of \$89,412 on these bonds. The Series 2001 bonds, dated September 15, 2001 are scheduled to mature as follows:

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2010	3.90%	\$ 125,000	\$ 84,662	\$ 209,662
2011	4.00%	130,000	79,787	209,787
2012	4.00%	135,000	74,587	209,587
2013	4.10%	140,000	69,188	209,188
2014	4.25%	145,000	63,447	386,705
2015-2021	4.45%-4.75%	<u>1,235,000</u>	<u>241,705</u>	<u>1,298,447</u>
Totals		<u>\$1,910,000</u>	<u>\$613,376</u>	<u>\$2,523,376</u>

Revenue Refunding Bonds, Series 2004

In November 2004, the District sold \$1,975,000 of revenue bonds in order to redeem the Water System Refunding and Revenue Bonds, 1993 Series A. The bonds are secured by the District's revenues and fixed assets. The bonds mature on or after October 1, 2018 at a redemption price of 100%. Interest is payable April 1st and October 1st of each year. Maturing bond principal is due October 1st of each year. The District paid interest of \$39,672 on these bonds during the twelve months ended October 31, 2009. The Refunding Revenue Bonds, Series 2004, are scheduled to mature as follows.

<u>Year</u>	<u>Interest Rates</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Debt Service</u>
2010	3.00%	\$ 100,000	\$ 36,673	\$ 136,673
2011	3.10%	105,000	33,672	138,672
2012	3.375%	110,000	30,418	140,418
2013	3.400%	115,000	26,705	141,705
2014	3.50%	115,000	22,795	137,795
2015-2018	3.60%-3.90%	<u>500,000</u>	<u>48,300</u>	<u>548,300</u>
Totals		<u>\$1,045,000</u>	<u>\$198,563</u>	<u>\$1,243,563</u>

See accountants' report.

BOONE COUNTY WATER DISTRICT
 SCHEDULE 1 – BOND INDEBTEDNESS
 OCTOBER 31, 2009

Defeased District Revenue Bonds

The District has irrevocably placed \$1,426,101 from the 1993 Series A Bond proceeds to trust to be used solely for satisfying scheduled payments of both interest and principal of the prior bond issue of 1967. This defeasance was completed in 2007.

In November 2004, the District irrevocably placed \$1,924,562 from the 2004 Series Bond proceeds in trust to be used solely for satisfying schedule payments of both principal and interest of the 1993 Series A Bonds

These defeased revenue bonds outstanding at October 31, 2009 are as follows:

<u>Year</u>	<u>1993 Series A</u>	<u>1967 Issue</u>	<u>Principal Total</u>
2010	\$ 95,000	\$ -	\$ 95,000
2011	100,000	-	100,000
2012	105,000	-	105,000
2013	115,000	-	115,000
2014-2018	<u>635,000</u>	-	<u>635,000</u>
	<u>\$1,050,000</u>	<u>\$ -</u>	<u>\$1,050,000</u>

These revenues bonds are considered extinguished and do not appear as liabilities on the accompanying balance sheets as of October 31, 2009. The balance of losses incurred on defeasement was \$41,075 for the twelve months ended October 31, 2009. This loss is being amortized over fifteen years.

See accountants' report.