

Rubin & Hays

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CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

July 13, 2012

Mr. Jeff Derouen, Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

RECEIVED

JUL 16 2012

PUBLIC SERVICE
COMMISSION

Re: Mountain Water District PSC Application

Dear Mr. Derouen:

Enclosed please find the original and ten (10) copies of the Application of the Mountain Water District for an Order authorizing the District to issue securities pursuant to KRS 278.300.

This Application requests approval of the issuance of securities for the purpose of refunding certain high interest Bonds of the Applicant.

Thank you for your assistance and if you need any additional information or documentation, please let us know.

Sincerely,

Rubin & Hays

By 
W. Randall Jones

WRJ:jlm
Enclosures

cc: Mr. Roy Sawyers, Mountain Water District
Ms. Kristen Millard, Morgan Keegan

RECEIVED

JUL 16 2012

PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

THE APPLICATION OF THE MOUNTAIN)
 WATER DISTRICT TO ISSUE SECURITIES IN)
 THE APPROXIMATE PRINCIPAL AMOUNT OF)
 \$6,310,000 FOR THE PURPOSE OF REFUNDING) CASE NO. 2012 - _____
 CERTAIN OUTSTANDING REVENUE BONDS OF)
 THE DISTRICT PURSUANT TO THE PROVISIONS)
 OF KRS 278.300 AND 807 KAR 5:001)

** *** **** ***** **

APPLICATION

The Applicant, Mountain Water District (the "District"), files this Application pursuant to KRS 278.300, 807 KAR 5:001, and all other applicable laws and regulations, and requests that the Kentucky Public Service Commission (the "Commission") enter an Order authorizing the District to issue certain securities in the approximate principal amount of \$6,310,000 (subject to adjustment of up to 10%), for the purpose of refunding certain outstanding waterworks revenue bonds of the District. In support of this Application, and in compliance with the rules and regulations of the Commission, the District states as follows:

1. The District was established in accordance with the provisions of Chapter 74 of the Kentucky Revised Statutes pursuant to an Order of the County Judge/Executive of Pike County, which Order is on file in the County Court Order Books in the office of the Clerk of Pike County, Kentucky. The District is now, and has been since its inception, regulated by the Commission, and

all records and proceedings of the Commission with reference to the District are incorporated in this Application by reference. The District does not have any Articles of Incorporation due to the fact that it is a statutory entity.

2. The governing body of the District is its Board of Commissioners which is a public body corporate, with power to make contracts in furtherance of its lawful and proper purpose as provided for in KRS 74.070 and all applicable law and regulations.

3. The mailing address of the District is as follows:

Mountain Water District
c/o Mr. Roy Sawyers
P.O. Box 3157
Pikeville, Kentucky 41502
Telephone: (606) 616-8366

4. A general description of the District's water system property, together with a statement of the original cost, is contained in the District's Annual Report for 2011 which is on file with the Commission. The Annual Report is incorporated herein by reference.

5. The District proposes to borrow funds from the Kentucky Rural Water Finance Corporation ("KRWFC") pursuant to an Assistance Agreement (the "KRWFC Loan"), in the estimated principal amount of \$6,310,000 (subject to adjustment of up to 10%) for the purpose of refunding the outstanding revenue bonds designated as (i) Mountain Water District Waterworks Revenue Bonds of 1988, dated March 17, 1988, in the original principal amount of \$500,000, bearing interest at the rate of 5.00% per annum (the "1988 Bonds"); (ii) Mountain Water District Waterworks Revenue Bonds of 1989 Series B, dated June 20, 1990, in the original principal amount of \$500,000, bearing interest at the rate of 5.00% per annum (the "1989 Bonds"); (iii) Mountain Water District Waterworks Revenue Bonds of 1990, dated February 11, 1992, in the original

principal amount of \$1,488,000, bearing interest at the rate of 5.00% per annum (the "1990 Bonds"); (iv) Mountain Water District Waterworks Revenue Bonds of 1993, dated June 7, 1994, in the original principal amount of \$662,000, bearing interest at the rate of 4.50% per annum (the "1993 Bonds"); (v) Mountain Water District Waterworks Revenue Bonds, Series 1995, dated August 10, 1995, in the original principal amount of \$1,334,000, bearing interest at the rate of 4.50% per annum (the "1995 Bonds"); (vi) Mountain Water District Waterworks and Sewer Refunding Revenue Bonds, Series 1998, dated January 12, 1999, in the original principal amount of \$2,540,000, bearing interest at the rate of 4.50% per annum (the "1998 Bonds"); and (vii) Mountain Water District Waterworks Revenue Bonds, Series 2004, dated May 20, 2004, in the original principal amount of \$1,760,000, bearing interest at the rate of 4.375% per annum (the "2004 Bonds")(hereinafter, the 1988 Bonds, the 1989 Bonds, the 1990 Bonds, the 1993 Bonds, the 1995 Bonds, the 1998 Bonds and the 2004 Bonds shall be collectively referred to as the "Prior Bonds"). The Prior Bonds are held by the U.S. Department of Agriculture, acting through Rural Development.

6. The estimated debt service for the KRWFC Loan is shown in **Exhibit "A"**, which is attached hereto and incorporated herein by reference. The debt service schedule and estimated interest rates are subject to change because of market conditions. The final terms and details of the KRWFC Loan may vary from the present assumptions based upon market conditions and other business judgment factors.

7. The KRWFC Loan will provide the District with the funds necessary to (i) refund the Prior Bonds; and (iii) pay the fees and expenses incident to the issuance of the KRWFC Loan.

8. The Sources and Uses of Funds to be obtained from the issuance of the KRWFC Loan are detailed as **Exhibit "B"**, which is attached hereto and incorporated herein by reference.

9. It is anticipated that the proposed refinancing will result in a net present value benefit of approximately \$280,835.60. These savings are shown on the Debt Service Comparison, which is attached hereto and incorporated herein by reference as **Exhibit "C"**.

10. The final principal amount of the KRWFC Loan will be adjusted based upon final interest rates which will be known on or about the date of sale of the proposed KRWFC Loan. Final financial figures will be submitted to the Commission in a timely manner. The Applicant will not issue the securities if interest rates in the bond market shift to a point where the Applicant will not achieve any debt service savings.

11. The Debt Service Schedule of the outstanding Prior Bonds being refunded is set forth in **Exhibit "D"**.

12. The District represents that the KRWFC Loan is in the public interest and is intended to accomplish the purpose of strengthening the financial condition of the District by producing substantial debt service savings. This is a lawful object within the corporate purposes of the District's utility operations. The KRWFC Loan is necessary, appropriate for, and consistent with the proper performance by the District of its service to the public and will not impair its ability to perform that service.

13. The District represents that it will, as soon as reasonably possible after the closing of the KRWFC Loan, file with the Commission a statement setting forth the date of issuance of the KRWFC Loan, the price paid, the fees and expenses incurred in the issuance of the KRWFC Loan, and the terms and interest rates of the KRWFC Loan.

14. The detailed Statement of Revenues and Expenses and Changes in Net Assets, Balance Sheet and Statement of Cash Flows for the twelve month period ending on December 31, 2010 are attached hereto and incorporated herein by reference as **Exhibit E** respectively.

15. The remaining financial schedules and other information necessary for the Financial Exhibit required by 807 KAR 5:001, Section 6 and Section 11 (2) (a) are contained in the 2011 Annual Report which is on file with the Commission. The Annual Report is incorporated herein by reference.

16. Pursuant to 807 KAR 5:001, the District hereby responds as follows:

- (a) Section 6(4) Mortgages: The District does not have any mortgages in effect as of the date hereof.
- (b) Section 6(5) Bonds: The KRWFC Loan will be secured by a pledge of the revenues of the District's Water System.
- (c) Section 11(2)(b): The District does not have any trust deeds in effect as of the date hereof.
- (d) Section 11(2)(c): No property is being acquired as the proceeds of the securities are being used for the refunding of the Prior Bonds.

17. The District hereby requests and moves for a deviation, pursuant to 807 KAR 5:001, Section 14, from the requirements of 807 KAR 5:001, Section 6, which requires that the financial data filed with the Application be for a twelve (12) month period ending within ninety (90) days of the filing of the application. The District states that there has been no change that is material in nature in the financial condition or operation of the District since December 31, 2010. The financial data filed with this Application is for the twelve (12) month period ending December

31, 2010. This is the most recent published financial data available. Because of the volatility of the bond market, the District cannot run the risk of delaying the closing of the KRWFC Loan while more current financial data is compiled.

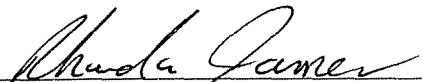
18. No rate adjustment will be necessary.

WHEREFORE, the District respectfully requests that the Commission take the following actions:


1. Authorize the issuance of the securities requested in the Application;
2. Grant the District a deviation from 807 KAR 5:001, Section 6 to allow the submission of the District's 2011 Annual Report and 2010 audited financial statements in lieu of more recent financial data as there has been no change that is material in nature in the financial condition or operation of the District since December 31, 2010, and due to the volatility of the present bond market; and
3. Process this Application without a formal hearing in order to save time and expense.

The District will promptly respond to any information requests by the Commission's staff.

Mountain Water District

By 
Rhonda James, Chairperson
P.O. Box 3157
Pikeville, Kentucky 41502
Phone: (606) 616-8366

Rubin & Hays

By 
W. Randall Jones
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202
Phone: (502) 569-7525
Counsel for Mountain Water District

Preliminary

\$6,310,000

Mountain Water District
 Kentucky Rural Water Finance Corporation
 Public Projects Refunding Bonds, Series 2012 E

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
07/19/2012					
02/01/2013			124,417.33	124,417.33	
08/01/2013	165,000.00	3.500%	116,641.25	281,641.25	
12/30/2013					406,058.58
02/01/2014			113,753.75	113,753.75	
08/01/2014	315,000.00	3.500%	113,753.75	428,753.75	
12/30/2014					542,507.50
02/01/2015			108,241.25	108,241.25	
08/01/2015	330,000.00	3.800%	108,241.25	438,241.25	
12/30/2015					546,482.50
02/01/2016			101,971.25	101,971.25	
08/01/2016	340,000.00	3.300%	101,971.25	441,971.25	
12/30/2016					543,942.50
02/01/2017			96,361.25	96,361.25	
08/01/2017	350,000.00	3.250%	96,361.25	446,361.25	
12/30/2017					542,722.50
02/01/2018			90,673.75	90,673.75	
08/01/2018	360,000.00	3.350%	90,673.75	450,673.75	
12/30/2018					541,347.50
02/01/2019			84,643.75	84,643.75	
08/01/2019	375,000.00	3.350%	84,643.75	459,643.75	
12/30/2019					544,287.50
02/01/2020			78,362.50	78,362.50	
08/01/2020	385,000.00	3.350%	78,362.50	463,362.50	
12/30/2020					541,725.00
02/01/2021			71,913.75	71,913.75	
08/01/2021	235,000.00	3.350%	71,913.75	306,913.75	
12/30/2021					378,827.50
02/01/2022			67,977.50	67,977.50	
08/01/2022	215,000.00	3.400%	67,977.50	282,977.50	
12/30/2022					350,955.00
02/01/2023			64,322.50	64,322.50	
08/01/2023	225,000.00	3.500%	64,322.50	289,322.50	
12/30/2023					353,645.00
02/01/2024			60,385.00	60,385.00	
08/01/2024	230,000.00	3.600%	60,385.00	290,385.00	
12/30/2024					350,770.00
02/01/2025			56,245.00	56,245.00	
08/01/2025	240,000.00	3.800%	56,245.00	296,245.00	
12/30/2025					352,490.00
02/01/2026			51,685.00	51,685.00	
08/01/2026	245,000.00	3.800%	51,685.00	296,685.00	
12/30/2026					348,370.00
02/01/2027			47,030.00	47,030.00	
08/01/2027	255,000.00	3.900%	47,030.00	302,030.00	
12/30/2027					349,060.00
02/01/2028			42,057.50	42,057.50	
08/01/2028	240,000.00	3.900%	42,057.50	282,057.50	
12/30/2028					324,115.00
02/01/2029			37,377.50	37,377.50	
08/01/2029	245,000.00	3.900%	37,377.50	282,377.50	
12/30/2029					319,755.00
02/01/2030			32,600.00	32,600.00	
08/01/2030	255,000.00	4.000%	32,600.00	287,600.00	
12/30/2030					320,200.00
02/01/2031			27,500.00	27,500.00	
08/01/2031	180,000.00	4.000%	27,500.00	207,500.00	
12/30/2031					235,000.00
02/01/2032			23,900.00	23,900.00	
08/01/2032	185,000.00	4.150%	23,900.00	208,900.00	
12/30/2032					232,800.00
02/01/2033			20,061.25	20,061.25	
08/01/2033	160,000.00	4.150%	20,061.25	180,061.25	
12/30/2033					200,122.50
02/01/2034			16,741.25	16,741.25	
08/01/2034	165,000.00	4.150%	16,741.25	181,741.25	
12/30/2034					198,482.50
02/01/2035			13,317.50	13,317.50	
08/01/2035	170,000.00	4.150%	13,317.50	183,317.50	
12/30/2035					196,635.00
02/01/2036			9,790.00	9,790.00	
08/01/2036	105,000.00	4.400%	9,790.00	114,790.00	
12/30/2036					124,580.00
02/01/2037			7,480.00	7,480.00	
08/01/2037	110,000.00	4.400%	7,480.00	117,480.00	
12/30/2037					124,960.00
02/01/2038			5,060.00	5,060.00	
08/01/2038	115,000.00	4.400%	5,060.00	120,060.00	
12/30/2038					125,120.00
02/01/2039			2,530.00	2,530.00	
08/01/2039	115,000.00	4.400%	2,530.00	117,530.00	
12/30/2039					120,060.00
Total	\$6,310,000.00		\$2,905,021.08	\$9,215,021.08	

Yield Statistics

Bond Year Dollars	\$74,825.33
Average Life	11.858 Years
Average Coupon	3.8824031%
Net Interest Cost (NIC)	3.9284065%
True Interest Cost (TIC)	3.9046786%
Bond Yield for Arbitrage Purposes	3.7208236%
All Inclusive Cost (AIC)	4.0711423%

IRS Form 8038

Net Interest Cost	3.7898270%
Weighted Average Maturity	11.689 Years

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Morgan Keegan & Company, Inc.

Public Finance

Preliminary

\$6,310,000

Mountain Water District

Kentucky Rural Water Finance Corporation

Public Projects Refunding Bonds, Series 2012 E

Sources & Uses

Dated 07/19/2012 | Delivered 07/19/2012

Sources Of Funds

Par Amount of Bonds	\$6,310,000.00
Reoffering Premium	76,002.80
Transfers from Prior Issue Debt Service Funds	135,500.00
Total Sources	\$6,521,502.80

Uses Of Funds

Total Underwriter's Discount (1.750%)	110,425.00
Costs of Issuance	84,530.00
Deposit to Current Refunding Fund	6,325,523.44
Rounding Amount	1,024.36
Total Uses	\$6,521,502.80

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Preliminary

\$6,310,000

Mountain Water District

Kentucky Rural Water Finance Corporation

Public Projects Refunding Bonds, Series 2012 E

Debt Service Comparison

Date	Total P+I	Expenses	Net New D/S	Old Net D/S	Savings
12/30/2012	-	-	-	-	-
12/30/2013	406,058.58	450.00	406,508.58	555,263.13	148,754.55
12/30/2014	542,507.50	450.00	542,957.50	556,041.56	13,084.06
12/30/2015	546,482.50	450.00	546,932.50	555,221.87	8,289.37
12/30/2016	543,942.50	450.00	544,392.50	554,806.56	10,414.06
12/30/2017	542,722.50	450.00	543,172.50	554,262.19	11,089.69
12/30/2018	541,347.50	450.00	541,797.50	554,539.07	12,741.57
12/30/2019	544,287.50	450.00	544,737.50	554,592.51	9,855.01
12/30/2020	541,725.00	450.00	542,175.00	553,911.88	11,736.88
12/30/2021	378,827.50	450.00	379,277.50	389,162.50	9,885.00
12/30/2022	350,955.00	450.00	351,405.00	362,638.75	11,233.75
12/30/2023	353,645.00	450.00	354,095.00	362,806.25	8,711.25
12/30/2024	350,770.00	450.00	351,220.00	362,015.00	10,795.00
12/30/2025	352,490.00	450.00	352,940.00	361,753.75	8,813.75
12/30/2026	348,370.00	450.00	348,820.00	361,486.25	12,666.25
12/30/2027	349,060.00	450.00	349,510.00	362,165.00	12,655.00
12/30/2028	324,115.00	450.00	324,565.00	333,006.25	8,441.25
12/30/2029	319,755.00	450.00	320,205.00	332,057.50	11,852.50
12/30/2030	320,200.00	450.00	320,650.00	332,082.50	11,432.50
12/30/2031	235,000.00	450.00	235,450.00	245,747.50	10,297.50
12/30/2032	232,800.00	450.00	233,250.00	245,152.50	11,902.50
12/30/2033	200,122.50	450.00	200,572.50	209,496.25	8,923.75
12/30/2034	198,482.50	450.00	198,932.50	208,312.50	9,380.00
12/30/2035	196,635.00	450.00	197,085.00	208,302.50	11,217.50
12/30/2036	124,580.00	450.00	125,030.00	135,108.75	10,078.75
12/30/2037	124,960.00	450.00	125,410.00	135,287.50	9,877.50
12/30/2038	125,120.00	450.00	125,570.00	135,218.75	9,648.75
12/30/2039	120,060.00	450.00	120,510.00	133,436.25	12,926.25
Total	\$9,215,021.08	\$12,150.00	\$9,227,171.08	\$9,653,875.02	\$426,703.94

PV Analysis Summary (Net to Net)

Net FV Cashflow Savings	426,703.94
Gross PV Debt Service Savings	422,996.43
Effects of changes in Expenses	(7,685.20)
Net PV Cashflow Savings @ 3.721%(Bond Yield)	415,311.24
Transfers from Prior Issue Debt Service Fund	(135,500.00)
Contingency or Rounding Amount	1,024.36
Net Future Value Benefit	\$292,228.30
Net Present Value Benefit	\$280,835.60
Net PV Benefit / \$6,311,000 Refunded Principal	4.450%
Net PV Benefit / \$6,310,000 Refunding Principal	4.451%

Refunding Bond Information

Refunding Dated Date	7/19/2012
Refunding Delivery Date	7/19/2012
6/29/2012 10:54 AM	

Morgan Keegan & Company, Inc.

Preliminary

\$306,000

Mountain Water District

Series 1988

Total Refunded Debt Service

Date	Principal	Coupon	Interest	Total P+I
12/30/2013	14,000.00	-	14,950.00	28,950.00
12/30/2014	15,000.00	-	14,225.00	29,225.00
12/30/2015	16,000.00	-	13,450.00	29,450.00
12/30/2016	17,000.00	-	12,625.00	29,625.00
12/30/2017	17,000.00	-	11,775.00	28,775.00
12/30/2018	18,000.00	-	10,900.00	28,900.00
12/30/2019	19,000.00	-	9,975.00	28,975.00
12/30/2020	20,000.00	-	9,000.00	29,000.00
12/30/2021	21,000.00	-	7,975.00	28,975.00
12/30/2022	22,000.00	-	6,900.00	28,900.00
12/30/2023	23,000.00	-	5,775.00	28,775.00
12/30/2024	24,000.00	-	4,600.00	28,600.00
12/30/2025	25,000.00	-	3,375.00	28,375.00
12/30/2026	27,000.00	-	2,075.00	29,075.00
12/30/2027	28,000.00	5.000%	700.00	28,700.00
Total	\$306,000.00	-	\$128,300.00	\$434,300.00

Yield Statistics

Base date for Avg Life & Avg Coupon Calculation	7/19/2012
Average Life	8.336 Years
Average Coupon	5.0000000%
Weighted Average Maturity (Par Basis)	8.336 Years

Refunding Bond Information

Refunding Dated Date	7/19/2012
Refunding Delivery Date	7/19/2012

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Morgan Keegan & Company, Inc.

Public Finance

Preliminary

\$1,034,000

Mountain Water District

Series 1990 (closed 2/11/92)

Total Refunded Debt Service

Date	Principal	Coupon	Interest	Total P+I
12/30/2013	37,000 00	-	50,775 00	87,775 00
12/30/2014	39,000 00	-	48,875 00	87,875 00
12/30/2015	41,000 00	-	46,875 00	87,875 00
12/30/2016	42,000 00	-	44,800 00	86,800 00
12/30/2017	45,000 00	-	42,625 00	87,625 00
12/30/2018	47,000 00	-	40,325 00	87,325 00
12/30/2019	49,000 00	-	37,925 00	86,925 00
12/30/2020	52,000 00	-	35,400 00	87,400 00
12/30/2021	54,000 00	-	32,750 00	86,750 00
12/30/2022	57,000 00	-	29,975 00	86,975 00
12/30/2023	60,000 00	-	27,050 00	87,050 00
12/30/2024	63,000 00	-	23,975 00	86,975 00
12/30/2025	66,000 00	-	20,750 00	86,750 00
12/30/2026	69,000 00	-	17,375 00	86,375 00
12/30/2027	73,000 00	-	13,825 00	86,825 00
12/30/2028	76,000 00	-	10,100 00	86,100 00
12/30/2029	80,000 00	-	6,200 00	86,200 00
12/30/2030	84,000 00	5 000%	2,100 00	86,100 00
Total	\$1,034,000.00	-	\$531,700.00	\$1,565,700.00

Yield Statistics

Base date for Avg Life & Avg Coupon Calculation	7/19/2012
Average Life	10 234 Years
Average Coupon	5.00000000%
Weighted Average Maturity (Par Basis)	10 234 Years

Refunding Bond Information

Refunding Dated Date	7/19/2012
Refunding Delivery Date	7/19/2012

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Preliminary

\$225,000

Mountain Water District

Series 1991 (closed 6/20/90)

Total Refunded Debt Service

Date	Principal	Coupon	Interest	Total P+I
12/30/2013	21,000.00	-	10,725.00	31,725.00
12/30/2014	22,000.00	-	9,650.00	31,650.00
12/30/2015	23,000.00	-	8,525.00	31,525.00
12/30/2016	24,000.00	-	7,350.00	31,350.00
12/30/2017	25,000.00	-	6,125.00	31,125.00
12/30/2018	27,000.00	-	4,825.00	31,825.00
12/30/2019	28,000.00	-	3,450.00	31,450.00
12/30/2020	29,000.00	-	2,025.00	31,025.00
12/30/2021	26,000.00	5.000%	650.00	26,650.00
Total	\$225,000.00	-	\$53,325.00	\$278,325.00

Yield Statistics

Base date for Avg Life & Avg Coupon Calculation	7/19/2012
Average Life	4.690 Years
Average Coupon	5.0000000%
Weighted Average Maturity (Par Basis)	4.690 Years

Refunding Bond Information

Refunding Dated Date	7/19/2012
Refunding Delivery Date	7/19/2012

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Morgan Keegan & Company, Inc.

Public Finance

Preliminary

\$487,000

Mountain Water District

Series 1993

Total Refunded Debt Service

Date	Principal	Coupon	Interest	Total P+I
12/30/2013	15,000.00	-	21,577.50	36,577.50
12/30/2014	16,000.00	-	20,880.00	36,880.00
12/30/2015	16,000.00	-	20,160.00	36,160.00
12/30/2016	17,000.00	-	19,417.50	36,417.50
12/30/2017	18,000.00	-	18,630.00	36,630.00
12/30/2018	19,000.00	-	17,797.50	36,797.50
12/30/2019	20,000.00	-	16,920.00	36,920.00
12/30/2020	21,000.00	-	15,997.50	36,997.50
12/30/2021	22,000.00	-	15,030.00	37,030.00
12/30/2022	23,000.00	-	14,017.50	37,017.50
12/30/2023	24,000.00	-	12,960.00	36,960.00
12/30/2024	26,000.00	-	11,835.00	37,835.00
12/30/2025	26,000.00	-	10,665.00	36,665.00
12/30/2026	28,000.00	-	9,450.00	37,450.00
12/30/2027	29,000.00	-	8,167.50	37,167.50
12/30/2028	31,000.00	-	6,817.50	37,817.50
12/30/2029	32,000.00	-	5,400.00	37,400.00
12/30/2030	33,000.00	-	3,937.50	36,937.50
12/30/2031	35,000.00	-	2,407.50	37,407.50
12/30/2032	36,000.00	4.500%	810.00	36,810.00
Total	\$487,000.00	-	\$252,877.50	\$739,877.50

Yield Statistics

Base date for Avg. Life & Avg. Coupon Calculation	7/19/2012
Average Life	11.489 Years
Average Coupon	4.5000000%
Weighted Average Maturity (Par Basis)	11.489 Years

Refunding Bond Information

Refunding Dated Date	7/19/2012
Refunding Delivery Date	7/19/2012

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Morgan Keegan & Company, Inc.

Public Finance

Preliminary

\$1,046,000

Mountain Water District

Series 1995

Total Refunded Debt Service

Date	Principal	Coupon	Interest	Total P+I
12/30/2013	27,000.00	-	46,462.50	73,462.50
12/30/2014	28,000.00	-	45,225.00	73,225.00
12/30/2015	29,000.00	-	43,942.50	72,942.50
12/30/2016	31,000.00	-	42,592.50	73,592.50
12/30/2017	32,000.00	-	41,175.00	73,175.00
12/30/2018	33,000.00	-	39,712.50	72,712.50
12/30/2019	35,000.00	-	38,182.50	73,182.50
12/30/2020	36,000.00	-	36,585.00	72,585.00
12/30/2021	38,000.00	-	34,920.00	72,920.00
12/30/2022	40,000.00	-	33,165.00	73,165.00
12/30/2023	42,000.00	-	31,320.00	73,320.00
12/30/2024	43,000.00	-	29,407.50	72,407.50
12/30/2025	46,000.00	-	27,405.00	73,405.00
12/30/2026	47,000.00	-	25,312.50	72,312.50
12/30/2027	50,000.00	-	23,130.00	73,130.00
12/30/2028	52,000.00	-	20,835.00	72,835.00
12/30/2029	54,000.00	-	18,450.00	72,450.00
12/30/2030	57,000.00	-	15,952.50	72,952.50
12/30/2031	59,000.00	-	13,342.50	72,342.50
12/30/2032	62,000.00	-	10,620.00	72,620.00
12/30/2033	66,000.00	-	7,740.00	73,740.00
12/30/2034	68,000.00	-	4,725.00	72,725.00
12/30/2035	71,000.00	4.500%	1,597.50	72,597.50
Total	\$1,046,000.00	-	\$631,800.00	\$1,677,800.00

Yield Statistics

Base date for Avg Life & Avg Coupon Calculation	7/19/2012
Average Life	13.373 Years
Average Coupon	4.5000000%
Weighted Average Maturity (Par Basis)	13.373 Years

Refunding Bond Information

Refunding Dated Date	7/19/2012
Refunding Delivery Date	7/19/2012

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Morgan Keegan & Company, Inc.

Public Finance

Preliminary

\$2,132,000

Mountain Water District

Series 1998

Total Refunded Debt Service

Date	Principal	Coupon	Interest	Total P+I
12/30/2013	42,000 00	-	94,995 00	136,995 00
12/30/2014	44,000 00	-	93,060 00	137,060 00
12/30/2015	46,000 00	-	91,035 00	137,035 00
12/30/2016	48,000 00	-	88,920 00	136,920 00
12/30/2017	50,000 00	-	86,715 00	136,715 00
12/30/2018	52,500 00	-	84,408 75	136,908 75
12/30/2019	55,000 00	-	81,990 00	136,990 00
12/30/2020	57,000 00	-	79,470 00	136,470 00
12/30/2021	60,000 00	-	76,837 50	136,837 50
12/30/2022	62,500 00	-	74,081 25	136,581 25
12/30/2023	65,500 00	-	71,201 25	136,701 25
12/30/2024	68,000 00	-	68,197 50	136,197 50
12/30/2025	71,500 00	-	65,058 75	136,558 75
12/30/2026	74,500 00	-	61,773 75	136,273 75
12/30/2027	78,000 00	-	58,342 50	136,342 50
12/30/2028	81,500 00	-	54,753 75	136,253 75
12/30/2029	85,000 00	-	51,007 50	136,007 50
12/30/2030	89,000 00	-	47,092 50	136,092 50
12/30/2031	93,000 00	-	42,997 50	135,997 50
12/30/2032	97,000 00	-	38,722 50	135,722 50
12/30/2033	101,500 00	-	34,256 25	135,756 25
12/30/2034	106,000 00	-	29,587 50	135,587 50
12/30/2035	111,000 00	-	24,705 00	135,705 00
12/30/2036	115,500 00	-	19,608 75	135,108 75
12/30/2037	121,000 00	-	14,287 50	135,287 50
12/30/2038	126,500 00	-	8,718 75	135,218 75
12/30/2039	130,500 00	4.500%	2,936 25	133,436 25
Total	\$2,132,000.00	-	\$1,544,760.00	\$3,676,760.00

Yield Statistics

Base date for Avg. Life & Avg. Coupon Calculation	7/19/2012
Average Life	16.051 Years
Average Coupon	4.5000000%
Weighted Average Maturity (Par Basis)	16.051 Years

Refunding Bond Information

Refunding Dated Date	7/19/2012
Refunding Delivery Date	7/19/2012

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Morgan Keegan & Company, Inc.

Public Finance

Preliminary

\$0

Mountain Water District
Series 2004

Total Refunded Debt Service

Date	Principal	Coupon	Interest	Total P+I
12/30/2013	115,000.00	-	44,778.13	159,778.13
12/30/2014	120,500.00	-	39,626.56	160,126.56
12/30/2015	126,000.00	-	34,234.37	160,234.37
12/30/2016	131,500.00	-	28,601.56	160,101.56
12/30/2017	137,500.00	-	22,717.19	160,217.19
12/30/2018	143,500.00	-	16,570.32	160,070.32
12/30/2019	150,000.00	-	10,150.01	160,150.01
12/30/2020	157,000.00	4.375%	3,434.38	160,434.38
Total	\$1,081,000.00	-	\$200,112.52	\$1,281,112.52

Yield Statistics

Base date for Avg. Life & Avg. Coupon Calculation	7/19/2012
Average Life	4.181 Years
Average Coupon	4.3750004%
Weighted Average Maturity (Par Basis)	4.181 Years

Refunding Bond Information

Refunding Dated Date	7/19/2012
Refunding Delivery Date	7/19/2012

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MOUNTAIN WATER DISTRICT
STATEMENTS OF FUND NET ASSETS
DECEMBER 31, 2010 AND 2009

	<u>ASSETS</u>	
	<u>2010</u>	<u>2009</u>
<u>CURRENT ASSETS</u>		
Petty Cash	\$ 320	\$ 320
Cash on Hand	-0-	73,936
Cash In Bank	340,453	342,870
Customer Accounts Receivable Less Allowance For Uncollectible Accounts of \$52,000 and \$52,000, respectively	946,534	924,421
Prepaid Expenses	<u>274,591</u>	<u>295,962</u>
<u>TOTAL CURRENT ASSETS</u>	<u>1,561,898</u>	<u>1,637,509</u>
<u>RESTRICTED ASSETS</u>		
Cash-Depreciation Reserve	218,141	108,987
Cash-Construction	739,055	733,300
Cash-Customer Deposits	320,685	349,640
Cash-Recycling Account	1,670	875
Cash-Operation and Maintenance Reserve	16,479	16,436
Cash-Wastewater Operation and Maintenance Reserve	156,145	16,256
Cash-Sinking Fund	<u>120,358</u>	<u>79,742</u>
<u>TOTAL RESTRICTED CASH</u>	<u>1,572,533</u>	<u>1,305,236</u>
Capital Assets (Net)	<u>80,281,727</u>	<u>82,064,983</u>
Construction in Progress	<u>14,199,122</u>	<u>11,575,767</u>
<u>OTHER ASSETS</u>		
Deposits on Leased Vehicles	<u>625</u>	<u>625</u>
<u>TOTAL ASSETS</u>	<u>\$ 97,615,905</u>	<u>\$ 96,584,120</u>

MOUNTAIN WATER DISTRICT
STATEMENTS OF FUND NET ASSETS
DECEMBER 31, 2010 AND 2009
"CONTINUED"

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 107,793	\$ 123,732
Accounts Payable, Construction in Progress	27,279	17,524
Accounts Payable Mall Charge Collection	-0-	62,460
Other Accrued Liabilities	22,499	25,946
Accrued Interest	8,623	9,196
Customer Deposits	250,902	280,425
Notes Payable and Capital Leases, Current	<u>867,863</u>	<u>643,970</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>1,284,959</u>	<u>1,163,253</u>
<u>OTHER LIABILITIES</u>		
Bonds Payable, Long-Term	10,600,654	10,901,154
Notes Payable and Capital Leases, Long-Term	4,109,535	4,972,762
Advances For Construction	<u>14,282,635</u>	<u>11,645,734</u>
<u>TOTAL OTHER LIABILITIES</u>	<u>28,992,824</u>	<u>27,519,650</u>
<u>TOTAL LIABILITIES</u>	<u>30,277,783</u>	<u>28,682,903</u>
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	63,680,328	65,477,131
Restricted for:		
Construction	711,706	715,776
Depreciation, Maintenance, and Replacement	494,644	204,985
Customer Deposits	69,783	69,215
Unrestricted	<u>2,381,661</u>	<u>1,434,110</u>
<u>TOTAL NET ASSETS</u>	<u>\$ 67,338,122</u>	<u>\$ 67,901,217</u>

The accompanying notes are an integral part of the financial statements. 7

MOUNTAIN WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>OPERATING REVENUE</u>		
Metered Sales-Residential	\$ 6,634,117	\$ 6,672,938
Metered Sales-Commercial	747,293	647,319
Metered Sales-Industrial	44,868	49,336
Metered Sales-Public Authorities	285,208	319,630
Metered Sales-Multi-Family	214,361	213,208
Sewage Revenue	899,097	841,919
Customer Late Payment Charges	230,687	192,110
Other Water Service Revenue	129,816	239,327
Service Connection Fees	82,531	73,317
Fire Protection Revenue	1,200	1,200
Miscellaneous Income	-0-	1,495
	9,269,178	9,251,799
<u>OPERATING EXPENSES</u>		
Contract Service-Management	6,524,901	6,519,817
Depreciation	3,277,304	3,278,422
Repairs and Maintenance	220,725	-0-
Settlement Fees	92,176	25,500
Bad Debt	69,033	64,402
Contract Service-Accounting	62,851	56,211
Contract Service-Legal	60,674	85,205
Flood Expense	49,355	-0-
Compensation-Commissioners	30,000	26,045
Service Fees	21,950	38,073
Taxes & Licenses	6,668	-0-
Education, Dues and Meetings	6,463	1,895
Payroll Taxes	2,295	2,505
Advertising	1,411	-0-
Auto and Transportation	-0-	2,535
Building Rental	-0-	1,225
	10,425,806	10,101,835
	<u>OPERATING LOSS</u>	<u>(850,036)</u>
	<u>(1,156,628)</u>	<u>(850,036)</u>
<u>NON-OPERATING REVENUE (EXPENSES)</u>		
Gain (Loss) On Sale Of Assets	71,456	(400)
Interest Income	4,400	4,669
Interest Expense	(645,121)	(689,019)
	<u>TOTAL NON-OPERATING</u>	<u>REVENUE (EXPENSES)</u>
	<u>(569,265)</u>	<u>(684,750)</u>
<u>LOSS BEFORE CAPITAL CONTRIBUTIONS AND</u>		
<u>OTHER CHANGES IN NET ASSETS</u>		
	<u>(1,725,893)</u>	<u>(1,534,786)</u>

MOUNTAIN WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
"CONTINUED"

	<u>2010</u>	<u>2009</u>
<u>CAPITAL CONTRIBUTIONS AND OTHER CHANGES</u>		
<u>IN NET ASSETS</u>		
Capital Contributions from:		
Government Grants	979,693	209,870
Customers through Tap-on Fees	<u>183,105</u>	<u>158,769</u>
 <u>TOTAL CAPITAL CONTRIBUTIONS AND</u>		
<u>OTHER CHANGES IN NET ASSETS</u>	<u>1,162,798</u>	<u>368,639</u>
 <u>CHANGE IN NET ASSETS</u>	<u>(563,095)</u>	<u>(1,166,147)</u>
 <u>NET ASSETS, BEGINNING OF YEAR</u>	<u>67,901,217</u>	<u>69,067,364</u>
 <u>NET ASSETS, END OF YEAR</u>	<u>\$ 67,338,122</u>	<u>\$ 67,901,217</u>

The accompanying notes are an integral part of the financial statements. 9

MOUNTAIN WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts from Customers	\$ 9,291,291	\$ 9,452,585
Payments to Suppliers	(7,366,779)	(7,800,616)
Payments to Employees	<u>(30,000)</u>	<u>(26,045)</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>1,954,512</u>	<u>1,625,924</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING</u> <u>ACTIVITIES</u>		
Decrease In Customer Deposits	<u>(29,523)</u>	<u>(12,644)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED</u> <u>FINANCING ACTIVITIES</u>		
Proceeds From Tap-On Fees	183,105	158,769
Contributions in Aid of Construction	979,693	209,870
Increase in Advances for Construction	2,636,901	3,592,142
Purchases of Utility Plant in Service	(423,085)	(300,738)
Increase in Construction in Progress	(3,724,673)	(4,469,273)
Principal Payments	(846,503)	(839,736)
Interest Payments	(645,694)	(689,578)
Proceeds of Bank Loan	-0-	1,150,000
Proceeds from Sale of Vehicles	<u>101,811</u>	<u>-0-</u>
<u>NET CASH USED BY CAPITAL AND RELATED</u> <u>FINANCING ACTIVITIES</u>	<u>(1,738,445)</u>	<u>(1,188,544)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Income	<u>4,400</u>	<u>4,669</u>
<u>NET INCREASE IN CASH</u>	190,944	429,405
<u>CASH, BEGINNING OF YEAR</u>	<u>1,722,362</u>	<u>1,292,957</u>
<u>CASH, END OF YEAR</u>	<u>\$ 1,913,306</u>	<u>\$ 1,722,362</u>

MOUNTAIN WATER DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
"CONTINUED"

	<u>2010</u>	<u>2009</u>
<u>RECONCILIATION OF OPERATING LOSS</u>		
<u>TO NET CASH PROVIDED BY</u>		
<u>OPERATING ACTIVITIES</u>		
Operating Loss	\$(1,156,628)	\$ (850,036)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation	3,277,304	3,278,422
Cancellation of Debt Payments	(93,331)	(59,680)
(Decrease) Increase In Provision For Uncollectible Accounts	-0-	(8,000)
Decrease (Increase) In:		
Customer Accounts Receivable	34,449	(192,786)
Other Accounts Receivable	(42,000)	-0-
FEMA Receivable	(14,562)	-0-
Prepaid Expenses	21,371	(295,962)
Increase (Decrease) In:		
Accounts Payable:		
Trade	(15,939)	(259,347)
Construction in Progress	9,755	6,935
Mall Charge Collection	(62,460)	9,689
Other Accrued Liabilities	(3,447)	(3,311)
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>\$ 1,954,512</u>	<u>\$ 1,625,924</u>
 <u>NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Net Book value of assets transferred to City of Pikeville.	<u>\$ -0-</u>	<u>\$ 2,029,858</u>
During the period the Company purchased vehicles in exchange for long-term debt.	<u>\$ -0-</u>	<u>\$ 106,392</u>
During the period the Company completed certain construction projects that were transferred to capital assets.	<u>\$ 1,101,318</u>	<u>\$ 293,470</u>
(Gain) Loss on sale of assets.	<u>\$ (71,456)</u>	<u>\$ 400</u>