

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ESTILL COUNTY)
WATER DISTRICT NO. 1 FOR RATE ADJUSTMENT) CASE NO. 2017-00176
PURSUANT TO 807 KAR 5:076)

NOTICE OF FILING

Notice is given to all parties that the following materials have been filed into the record of this proceeding:

- The digital video recording of the evidentiary hearing conducted on November 1, 2017 in this proceeding;
- Certification of the accuracy and correctness of the digital video recording;
- All exhibits introduced at the evidentiary hearing conducted on November 1, 2017 in this proceeding;
- A written log listing, *inter alia*, the date and time of where each witness' testimony begins and ends on the digital video recording of the evidentiary hearing conducted on November 1, 2017.

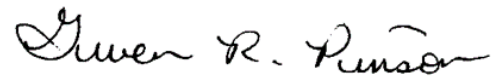
A copy of this Notice, the certification of the digital video record, hearing log, and exhibits have been electronically served upon all persons listed at the end of this Notice.

Parties desiring to view the digital video recording of the hearing may do so at

https://psc.ky.gov/av_broadcast/2017-00176/2017-00176_01Nov17_Inter.aspx.

Parties wishing an annotated digital video recording may submit a written request by electronic mail to pscfilings@ky.gov. A minimal fee will be assessed for a copy of this recording.

Done at Frankfort, Kentucky, this 9th day of November 2017.

A handwritten signature in black ink that reads "Gwen R. Pinson". The signature is written in a cursive style with a large initial 'G' and a long, sweeping underline.

Gwen R. Pinson
Executive Director
Public Service Commission of Kentucky

Estill County Water District #1
76 Cedar Grove Road
Irvine, KY 40336

Audrea Miller
Office Manager
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76 Cedar Grove Road
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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ESTILL) CASE NO.
COUNTY WATER DISTRICT NO. 1 FOR RATE) 2017-00176
ADJUSTMENT PURSUANT TO 807 KAR 5:076)

CERTIFICATE

I, Pamela Hughes, hereby certify that:

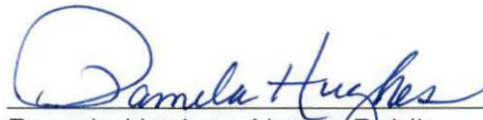
1. The attached DVD contains a digital recording of the Hearing conducted in the above-styled proceeding on November 1, 2017. Hearing Log, Exhibit List and Witness List are included with the recording on November 1, 2017.

2. I am responsible for the preparation of the digital recording.

3. The digital recording accurately and correctly depicts the Hearing of November 1, 2017.

5. The "Hearing Log" attached to this Certificate accurately and correctly states the events that occurred at the Hearing of November 1, 2017, and the time at which each occurred.

Signed this 8th day of November, 2017.



Pamela Hughes, Notary Public
State at Large

My Commission Expires: April 22, 2019



Judge: Bob Cicero; Talina Mathews; Michael Schmitt

Witness: Jerry Arnold; William Beard; Alan Bowman; Audria Miller; Dwight Richardson; Greg Wright

Clerk: Pam Hughes

Date:	Type:	Location:	Department:
11/1/2017	Alternative Rate Adjustment	Hearing Room 1	Hearing Room 1 (HR 1)

Event Time	Log Event	
8:34:31 AM	Session Started	
8:34:33 AM	Session Paused	
9:09:02 AM	Session Resumed	
9:09:03 AM	Chairman Schmitt	
	Note: Hughes, Pam	Calls Case No. 2017-00176 Estill Co WD 1 - explains the reason for today's hearing.
	Note: Hughes, Pam	Introduction of VC Cicero
9:10:24 AM	Motions filed	
	Note: Hughes, Pam	Late response to Comm. Staff Report - Late response filed on Oct 9, 2017. , and agreed with the Staff Report. Motion is denied. Motion to permit immediate increase of propped rates in Staff Report - Motion is sustained and may implement rates recommended.
9:13:14 AM	Chairman Schmitt	
	Note: Hughes, Pam	August 18, 2017 Order -Publication in newspapers. Counsel has filed the notice in record that the publication was given.
9:14:07 AM	No Public Comments	
9:14:30 AM	Atty Wuetcher introductions	
	Note: Hughes, Pam	Audrea Miller, Greg Wright, William Beard, Jerry Arnold, Dwight Richardson, William Ballard, Alan Bowmen as witnesses.
9:15:42 AM	PSC stafff introductions	
	Note: Hughes, Pam	Brittany Koenign Atty for the PSC along with Arial Miller with Division of FA.
9:16:01 AM	Atty Wuetcher asks for procedures	
9:16:34 AM	Chairman swears in all witnesses	
9:16:57 AM	Atty Wuetcher calls Witness Wright	
	Note: Hughes, Pam	Greg Wright - Estill Co Wd 1 Board of Commissioners. Chairman of Commission. 7 years as a member but not sure. Profession is under construction and heavy equipment and operates his own business.
	Note: Hughes, Pam	Hands out Estill Exhibit 1. Amorization Schedule of loan and Promissary Note 200, 300.00. Term is 4 years. Page 2 of Promissary note is not signed but he did execute a copy with the bank on Oct 31, 2013. Commercial security agreement page 5, he did execute copy of this with the bank. Business agreement page 5, he did execute this with the bank. Notice of final agreement, he also signed with the bank.
9:22:41 AM	Estill Co WD 1 Exhibit 2	
	Note: Hughes, Pam	Oct. 31, 2013 Minutes from Board meeting of Estill Co board of Commissioners
	Note: Hughes, Pam	Regarding this being an accurate copy of the minutes
9:24:45 AM	Atty Wuetcher direct exam of Witness Wright	
	Note: Hughes, Pam	Regarding if Estill pertained the approval from the PSC to enter into a loan agreement with the bank.

	Note: Hughes, Pam	Witness wasn't aware that he had to do this. Wasnt aware of KRS 300 but is aware now. Did WD have attorney at the time of the agreement, No they did not. Witness states their attorney had an accident and wasn't able to help them, 2nd attorney became a Judge and couldn't fulfill that. How long did District have to have an attorney - 8 or 9 years.
9:28:22 AM	Atty Wuetcher direct exam of Note: Hughes, Pam	Witness Wright Regarding asking the PSC about obtaining the loan or seeking advice from the PSC.
9:28:56 AM	Atty Wuetcher direct exam of Note: Hughes, Pam Note: Hughes, Pam	Witness Wright Had he been aware of KRS 300, he would have sought the PSC's advice. Referring that the Term is 4 years. Could they have got a 2 year loan.
9:30:58 AM	Estill County WD Exhibit 3 Note: Hughes, Pam Note: Hughes, Pam	Amorization schedule, and other loan documents. Citizens Guarenty Bank. 4 year note, 1-29-2015 executed. He did not sign the documents on this exhibit but did sign the copy at the bank. At time of this agreement he had no knowledge of KRS 300.
9:33:48 AM	Estill Co WD exhibit 4 Note: Hughes, Pam	1-18-15 Board of Commissioners meeting minutes. Motion made to borrow money from Citizens Bank.
9:34:36 AM	Estill Co Wd 1 Exhibit 5 Note: Hughes, Pam Note: Hughes, Pam	Amorization schedule and other loan documents. Loan 1-24-17 with CITizens Guaranty Bank. 4 year term. He did sign these at the bank. Was not aware of KRS 300 when entered into this loan. No legal counsel at time of these loans and didn't talk to anyone at the PSC.
9:37:38 AM	Atty Wuetcher direct exam of Note: Hughes, Pam Note: Hughes, Pam	Witness Wright Referring to Estill exhibit 1 - Why District needed the loan. District behind on water bill also.
9:39:02 AM	Atty Wuetcher direct exam of Note: Hughes, Pam	Witness Wright Regarding why District unable to pay it's current expenses.
9:39:41 AM	Atty Wuetcher direct exam of Note: Hughes, Pam	Witness Wright Regarding the 200,000 loan amount and why the District didn't seek a rate increase instead.
9:40:35 AM	Atty Wuetcher direct exam of Note: Hughes, Pam Note: Hughes, Pam	Witness Wright Line-loss was biggest problem. Around 33% line loss Regarding rate increase. Phase 10 project that the District was working on. Rate increase was given in late Oct. 2015. This didn't meet the necessary amount they needed to meet payments.
9:42:28 AM	Atty Wuetcher direct exam of Note: Hughes, Pam	Witness Wright Regarding how many banks the District checked before getting this loan.
9:43:23 AM	Atty Wuetcher direct exam of Note: Hughes, Pam	Witness Wright Regarding 4 year term for this loan, the reason.
9:43:47 AM	Atty Wuetcher direct exam of Note: Hughes, Pam	Witness Wright Regarding the Phase 10 project and the District felt it would lower the line loss.
9:45:03 AM	Atty Wuetcher direct exam of Note: Hughes, Pam	Witness Wright Regarding when the Phase 10 project was completed. 2015. Line loss issues got better at times and then loss would be up again.
9:46:05 AM	Atty Wuetcher direct exam of Note: Hughes, Pam	Witness Wright District financial condition in 2015. Why entered into another loan at that time.

9:46:41 AM	Atty Wuetcher direct exam of Note: Hughes, Pam Note: Hughes, Pam	Witness Wright Line loss was causing loss of revenue. Non revenue for 2014 was 212,00.00 During 2014 and 2015 water district had problems paying bills and they tried to cut down on expenses prior to obtaining these loans. District was having problems making payments including the water to city of Irvine.
9:48:33 AM	Atty Wuetcher direct exam of Note: Hughes, Pam Note: Hughes, Pam	Witness Wright After 2015 Phase 10, line loss was still found but got better at times. 36% water loss. Regarding what the Board did to help with line loss. Meters were found to be bad or leaking upon physical inspections by employees. Rural Water came in and helped on valves.
9:50:53 AM	Atty Wuetcher direct exam of Note: Hughes, Pam	Witness Wright Board was basing its hope for financial improvement when they fixed the line loss issues. Line loss didn't improve much so they just kept trying to fix this issue of line loss.
9:51:51 AM	Atty Wuetcher direct exam of Note: Hughes, Pam Note: Hughes, Pam	Witness Wright Application not filed until May 2017, why did it take so long for them to do this. Felt the person doing the study didn't get in hurry about getting back to them. Audrey Miller who was the office Manager and point of contact had personal issues in fall of 2015 that might have contributed to delay. Loan of January 2015 to cover operating expenses. Had a rate study conducted by a non-profit.
9:54:24 AM	Atty Wuetcher direct exam of Note: Hughes, Pam Note: Hughes, Pam	Witness Wright Refgarding making 2 payments a year to Rural development. During 2016, was the district having problems paying bills. Not sure.
9:55:27 AM	Atty Wuetcher direct exam of Note: Hughes, Pam Note: Hughes, Pam	Witness Wright Regarding how often Board checked on rate case. Every month at meetings. Third loan in January 2017. What proceeds were used for. Debt services and paying bills.
9:56:45 AM	Atty Wuetcher direct exam of Note: Hughes, Pam	Witness Wright 2013 loan came due on Oct 30, 2017. District was in good standings on this loan. Balloon payment at end of Oct was not made so they refinanced another 2 years with the bank.
9:57:43 AM	Atty Wuetcher direct exam of Note: Hughes, Pam Note: Hughes, Pam	Witness Wright Debt service payments amount in Feb. 2018. 150,00.00 sounds correct. District only has 25 to 30 thousand dollars on hand. Will addt'l income from higher rates help to meet debt service payment.
9:58:52 AM	VC Cicero clarification about loans. Note: Hughes, Pam	Asks if there is a 4th loan now. Atty Wuetcher explains.
9:59:41 AM	Atty Wuetcher direct exam of Note: Hughes, Pam	Witness Wright District has financial issues. If no action is taken will they default on loan to Rural Dev. District has talked about addt'l actions to improve financial situation.
10:01:07 AM	Estill Co WD Exhibit 6 Note: Hughes, Pam Note: Hughes, Pam	Immediate Actions to Improve Water District's Financial Problems. Last weeks meeting. Goes over the list 1-9. How often attended the PSC's water training for Commissioner's of the Board.

10:05:37 AM	Atty Koenig cross of Witness Wright Note: Hughes, Pam	Did attend Commissioner Board training, Did he recall going over the loan requirements in these trainings. Does he recall who presented at the trainings. He remembers different people doing these.
	Note: Hughes, Pam	Talks about why we are having the hearing and if he can't answer question to let her know.
10:07:50 AM	Atty Koenig cross of Witness Wright Note: Hughes, Pam	Regarding the loans. Exhibits 1, 3 and 5. Exhibit 1- Commercial security agreements, read under collateral description the sentence in bold into the record. Chairman asks Ms. Koenig to read into the record. Exhibit 3 says same thing. Exhibit 5 she reads also.
	Note: Hughes, Pam	Exhibit 4, Minutes from Board meeting. Atty Koenig reads from this dated Jan 18, 2015. Was the date difference a typo. Yes
10:12:31 AM	Atty Koenig cross of Witness Wright Note: Hughes, Pam	Refers to the application about loans. Rural Development loan was in 2014 and signed by him in 2013. He asked permission from Commission for this one but not of the other ones. He states it was a grant. He does not know who sought the approval of the PSC. Worked with P.E. Bell Engineering.
	Note: Hughes, Pam	Referring to if his District is zoned. Exhibit 6 talks about 2 zones in the District. Regarding Map of water lines.
10:17:17 AM	Atty Koenig cross of Witness Wright Note: Hughes, Pam	Referring to how much money spent on repairs. Can't answer. Atty Wuetcher atates Witness Richardson can answwr.
10:18:18 AM	VC Cicero cross of Witness Wright Note: Hughes, Pam Note: Hughes, Pam	Referring to line loss being biggest problem. Water theft issues. Procedure they have to know if water is being lost by theft. Any estimate of water loss contributed to water theft?
10:20:45 AM	VC cross of Witness Wright Note: Hughes, Pam	Regarding Ky. Water Association help with line loss.
10:21:57 AM	VC cross of Witness Wright Note: Hughes, Pam	Regarding cash planning and forecasting of his small business that he owns. Would he not look for things to cut back on if he was in the cash crunch position that the Water District is in. Reduce the health reimbursement to the employees on deductibles.
10:24:31 AM	Chairman cross of Witness Wright Note: Hughes, Pam	Referring to how long he has been a Water Commissioner. Thinks 12 years when this one is up. Has been Chairman since he has been on the Commission. Regarding if the County Judge/Executive knows about the financial problems of the DIstrict and if they have asked them for help. Judge only wanted the debts that they didn't need help on.
	Note: Hughes, Pam	Estill No 1, not a 2. Only water distict in Estill county. Water comes from city of Irvine and Powell and Jackson County. Majority from Irvine.
10:28:15 AM	VC cross of Witness Wright Note: Hughes, Pam	KRWA has given assistance to them. Valves were leaking and a lot of them have been repaired but still a lot that has not. Some are in slate areas and when fixing these they split the whole line
	Note: Hughes, Pam	Regarding leaks and not knowing where they are.
10:30:08 AM	Chairman cross of Witness Wright Note: Hughes, Pam	Regadrng Counsel for the district at any time. Have had several that left for different reasons. Finances were in such bad conditions couldn't afford an attorney.

10:31:32 AM	Chairman cross of Witness Wright Note: Hughes, Pam	Regarding bank loans (3). Michael Wilson from the bank, he never brought it to his attention that they needed approval from the Commission.
10:32:49 AM	Chairman cross of Witness Wright Note: Hughes, Pam	Referring to the 2013 money borrowed to repair lines. Money still wasn't sufficient to pay bills or operate the district. Sometimes water loss was over 40% when they were working on lines. New lines still didn't decrease water loss.
	Note: Hughes, Pam	District applied for rate increase and approved but was still not enough to help financially because of the water loss. They don't have enough people to do the repairs and inspecting all the lines.
10:36:02 AM	Chairman cross of Witness Wright Note: Hughes, Pam	Didn't have minutes to support the 2017 loan today. They will provide this information.
10:36:38 AM	Chairman cross of Witness Wright Note: Hughes, Pam	Two other Commissioner's here, only Mr. Arnold was there when he started, Bill Beard came in 2009.
	Note: Hughes, Pam	Regarding Any compensation for being a water commissioner.
10:38:07 AM	Chairman cross of Witness Wright Note: Hughes, Pam	When Rural Dev. came on they had helped obtain authorization from the PSC. Regarding not knowing he needed to get approval before getting the other 3 loans. Board of Commissioner's need to learn about the regulations and stay in compliance.
10:39:36 AM	Chairman cross of Witness Wright Note: Hughes, Pam	In 2015, the District considered applying for rate increase and a rate consultant was going to help them. Does he remember the name of this person? He can't recall. It was a non-profit - Rural Assistance Sponsheship. Did they help file the application for rate increase in 2017. Why did it take 2 years for this application to be filed. Witness doesn't know the answer.
10:42:17 AM	Chairman cross of Witness Wright Note: Hughes, Pam	Present cash on hand is only 25 to 30 thousand. Is it efficient to make payroll. Accounts are set aside for this.
10:43:00 AM	Chairman cross of Witness Wright Note: Hughes, Pam	No. 6 on list - Commissioners were now going to attend 12 hours of training. No. 9 on list- Have the District hired or retained an attorney other than Wuetcher in this case to help them. They hired Mr. Wuetcher to look over all minutes and agenda.
	Note: Hughes, Pam	Estill exhibit 6 - actions to improve. No. 4 to do with dental premiums being paid. Did District give him or other Commissioner's any other benefit. Paid for classes for water training and he attended all of them and got a certificate. He was given a book for reference. Did he ever go back and look in the book to see if he needed approval or anything certain had to be done. No he didn't.
10:47:18 AM	Chairman cross of Witness Wright Note: Hughes, Pam	If the city of Irvine operatd the system then Estill customers would be there customers and they could charge more to their customers since they are a municipal
	Note: Hughes, Pam	How many customers does Estill Co WD 1 have? Can't answer.
	Note: Hughes, Pam	Have they ever considered or talked to city of Irvine to consolidate with Irvine to take over the water district lines. Would Witness be open to consolidate with Irvine.
10:50:39 AM	Chairman cross of Witness Wright Note: Hughes, Pam	Has Estill 1 considered to consolidate with another or sale their water system.

10:51:30 AM	Atty Wuechter re- cross of Witness Wright Note: Hughes, Pam	Reduced work force by 3 to 31/2--- did these employees work in the field..., yes. Is this affeting the ability to find and correct water line leaks. Only have 4 total woking out in the field but not devoted only to leak detection.
	Note: Hughes, Pam	Regarding the Llast time workers recieved a raise.
10:53:41 AM	Atty Wuechter re- cross of Witness Wright Note: Hughes, Pam	One proposal board adopted was a surcharge for line loss efforts. Hiring a firm to assist in identifying leaks.
10:54:40 AM	Atty Wuechter re- cross of Witness Wright Note: Hughes, Pam	Regarding attorney's they had before. Michael Dean became Circuit Judge and could no longer able to provide assistance. The County attorney has to be paid and he wasn' t interested in helping.
10:55:57 AM	Atty Wuechter re- cross of Witness Wright Note: Hughes, Pam	Prior to rate case, has Estill ever filed a general rate adjustment application. Others were PWA's and the Rural dev. Phase 10.
10:56:51 AM	Atty Koenig re- cross of Witness Wright Note: Hughes, Pam	Improved some water loss and how they determined that. The % hasn't improved overall.
10:59:04 AM	VC Cicero re- cross of Witness Wright Note: Hughes, Pam	Money spent to fix the major line loss. What process did the District go through to determine where the major loss was coming from.
	Note: Hughes, Pam	Spent 1.7 million dollars and thought it would solve the problems. Didn' t realize they had all these other issues. Regarding him owning his own constuction business but he doesn't perform the work.
11:01:20 AM	VC Cicero re- cross of Witness Wright Note: Hughes, Pam Note: Hughes, Pam	Regarding the benefits the Commissioners recieve. No healthcare. Training for Dec. 2018 is only action that is assigned a date for the other actions.
	Note: Hughes, Pam	Atty Wuetcher makes statement about deadline on meeting payments for rural Development.
11:04:06 AM	PHDR Note: Hughes, Pam	Action list with dates of completion
11:04:21 AM	VC Cicero re- cross of Witness Wright Note: Hughes, Pam	3 1/2 employees gone to cut costs. One lost his eyesight, another quit on his own, another had medical issues. No one was replaced.
	Note: Hughes, Pam	PHDR for raises given to employees.
	Note: Hughes, Pam	Regarding last time employees recieved a raise. He thinks 2008.
11:05:40 AM	VC Cicero re- cross of Witness Wright Note: Hughes, Pam	Keeping water running is primary objective. Regarding hiring other employees but cutting costs on benefits.
11:06:55 AM	VC Cicero re- cross of Witness Wright Note: Hughes, Pam	Estill agreed to accept the Staff Report including cutting benefits. Does the Board plan on eliminating some of the expenses on insurance coverages for all employees in the District.
11:08:11 AM	Atty Wuetcher statement Note: Hughes, Pam	Hasn't considered the whole situation. Asks for minutes from next meeting.
11:08:45 AM	Break	
11:09:05 AM	Session Paused	
11:21:00 AM	Session Resumed	
11:21:04 AM	Witness Arnold called to the stand	

11:21:24 AM Atty Wuethcher direct of Witness Arnold
Note: Hughes, Pam Jerry Arnold- Secretary on Board of Commisoners since 2006. Retired from Railroad.

11:22:46 AM Atty Wuethcher direct of Witness Arnold
Note: Hughes, Pam Given exhibits 1, 3 and 5 and asks if he recognizes those documents.

11:23:49 AM Atty Wuethcher direct of Witness Arnold
Note: Hughes, Pam Present at Board meetings when the Board agreed to get these loans. Not aware of KRS 300 before getting these loans. Had anyone in the District sought legal advice for executing these documents. No. Did water district have an attorney, No. Agrees that the distric'ts actions were in contrast to KRS 300
Note: Hughes, Pam Loan agreements with Citizens Guarenty Bank 2013, 2017 and 2015 when executed. He was on Board at this time. He signed and executed these documents.

11:26:59 AM Atty Wuethcher direct of Witness Arnold
Note: Hughes, Pam Regarding lack of knowledge in this regulation does not give acceptance to them not getting approval

11:27:31 AM Atty Wuethcher direct of Witness Arnold
Note: Hughes, Pam Regarding proceeds of loans and anything Witness has to add to the testimony of Witness Wright.

11:28:10 AM Atty Wuethcher direct of Witness Arnold
Note: Hughes, Pam Regarding attendance of Board meetings. What information does he recieve prior to the meeting. No packet. Board does get a monthly report, financial report, profit and loss statement. balance sheet, water loss. Regarding attendance of these meeting other than the Commissioners.

11:30:27 AM Atty Wuethcher direct of Witness Arnold
Note: Hughes, Pam Regarding line loss and anyone else attending meetings because of this issue.

11:30:57 AM Atty Wuethcher direct of Witness Arnold
Note: Hughes, Pam Loan of 2013, bulk went to payoff debt service and general expenses. How much of spent of the 200,000 spent on each.

11:31:50 AM Atty Wuethcher direct of Witness Arnold
Note: Hughes, Pam Regarding the district getting a RD loan for the Phase 10 project and a rate adjustment.

11:32:54 AM Atty Wuethcher direct of Witness Arnold
Note: Hughes, Pam Between 2014 and 2015, did financial issue improve. No, water loss was major problem. Older vehicles and having to spend money to repair them; ice storm caused water lines that went across river and had to repair; water testing under Irvine bridge had a bad valve; issues of meters not picking up slow flow. Any unusual expenditures other than line loss issues.

11:35:44 AM Atty Wuethcher direct of Witness Arnold
Note: Hughes, Pam Testimony of Mr Wright about a rate study to be done. Rural Community partnership (ARCAP) to help do this study. Did Rural Dev. tell them to get in touch with them.
Note: Hughes, Pam How often was rate study talked about. Monthly meetings. Explanation as to why it took so long to file application. No answer. Ms. Miller was primary person and she had to be absent from work for daughter's accident.

11:38:15 AM	Atty Wuethcher direct of Witness Arnold Note: Hughes, Pam	In Feb 2016 all funds in depreciation account was used to make debt service payments., Phase 10 went online and didn't get the results they had hoped for, what was Board thinking to do about the financial problems. Line breakage on bad curve and not enough people to repair and flag traffic. Witness Arnold flagged to help.
	Note: Hughes, Pam	2013 and 2015 loans. Debt service was paid with no trouble. In Feb 2016, was debt service payments a problem. District had to look at taking funds out of reserve accounts.
11:41:39 AM	Atty Wuethcher direct of Witness Arnold Note: Hughes, Pam	August 2016 payment. Can't answer. Feb 2017 sigificant problems to make debt service payment
11:42:21 AM	Atty Wuethcher direct of Witness Arnold Note: Hughes, Pam Note: Hughes, Pam Note: Hughes, Pam	Audit and not being in compliance with bond ordinance. Is district meeting conditions of bond ordinance as of now. Not funding all accounts at this time. Did Rural Dev give them any notice between 2016 and 2017 about their financial situation.
11:44:35 AM	Atty Wuethcher direct of Witness Arnold Note: Hughes, Pam Note: Hughes, Pam	Estill exhibit 6 - items discussed at Board meeting. Does Witness agree with these? Yes Surcharge on exhibit- does he agree that the District needs some funds to get someone to devote more time to line loss issues. He agrees.
11:46:26 AM	VC Cicero cross of Witness Arnold Note: Hughes, Pam Note: Hughes, Pam Note: Hughes, Pam	Had to go back and get another note to cover balloon payment. Did office manger give them notice that this was coming due. Got several moths notice that this was coming up and they were short. Reports befor Board meetings. Does office manager attend meetings to talk about results. First loan they explored diferent banks and they went with local bank for expedited loan. Any discussion that payments were coming due every year and what to do to come up with a solution instead of going back to the bank for another loan.
11:50:06 AM	VC Cicero cross of Witness Arnold Note: Hughes, Pam	Urgency to get loan and actions to consolidate debt. Would Estill District have went back to bank for a 4th loan if they knew the regulations.
11:51:42 AM	VC Cicero cross of Witness Arnold Note: Hughes, Pam	Regarding rating the Board of Commissioner's as a group as far as knowledge and management. Board is open to listen to any advice they have (PCS).
11:53:26 AM	VC Cicero cross of Witness Arnold Note: Hughes, Pam Note: Hughes, Pam	Regarding finding leaks, based on availability of employees. What is procedure to go find leaks. Rely on customers to call in when they find one and if someoe is out in the field they look for them. District wants to have someone full-time to devote to finding and fixing leaks.
11:56:00 AM	VC Cicero cross of Witness Arnold Note: Hughes, Pam	Regarding financial district, would you agree some kind of drastic action needs to be taken to help Estill District. Witness states "absolutely so".
11:58:41 AM	VC Cicero cross of Witness Arnold Note: Hughes, Pam	Regarding difference in rates in Estill and Irvine customers

11:59:59 AM	Chairman cross of Witness Arnold Note: Hughes, Pam Note: Hughes, Pam Note: Hughes, Pam	Is city of Irvine utility financially sound to best of his knowledge. What if the city of Irvine took over the water system and said they would treat the Estill county customers the same as the city customers. Rates are not sufficient for Estill County WD 1 to keep the district going.
12:04:08 PM	Chairman cross of Witness Arnold Note: Hughes, Pam	Regarding his term since 2006. Always been Secretary. In 2015 ARCAP came in to help with a rate study to help them meet their needs. Doesn't know the name of the person that came. Was there a written report given from this person?
12:07:06 PM	Chairman cross of Witness Arnold Note: Hughes, Pam	Regarding the trainings for Board of water Commissioners. 6 hours. Compensation is 300 a month and 500 a month for trainings. \$6000 a year for last 5 to 6 years
12:08:11 PM	Chairman cross of Witness Arnold Note: Hughes, Pam	Bank notes and did he sign as an officer. He did sign as a Commissioner. Did he have to sign as a regular person as a guarenteer.
12:09:08 PM	Chairman cross of Witness Arnold Note: Hughes, Pam	Are County Judge and fiscal court aware of financial problems of the District. Do they have any help to give them
12:10:24 PM	Chairman cross of Witness Arnold Note: Hughes, Pam Note: Hughes, Pam	Regarding easement on most of the lines. Chairman suggests to not hook up someone or run a line unless given an easement. Regarding where water lines were and land owners put own lines in and the district would take over the lines.
12:13:51 PM	Chairman cross of Witness Arnold Note: Hughes, Pam Note: Hughes, Pam	Immediate action exhibit 6 - discontinue premuims for members of commission for dental. This has been done. Made any request for KRWA to audit water meters. (refers to Mr. Richardson) Has Commission adopted policy to attend 12 hours water training. Done Is further training needed for all board members, yes. Have they had an attorney for the District in the past. Yes
12:16:54 PM	Chairman cross of Witness Arnold Note: Hughes, Pam	Regarding hiring of an attorney for the District.
12:17:15 PM	Chairman cross of Witness Arnold Note: Hughes, Pam	Regarding PHDR for copy of rate study record.
12:17:50 PM	Atty Wuetcher statement Note: Hughes, Pam	Minutes identify the person from ARCAP.
12:18:47 PM	Chairman cross of Witness Arnold Note: Hughes, Pam Note: Hughes, Pam	Regarding the meetings being video taped. In Board meetings, is public notice given. Posted on the door and do put in newspapers and radio for special meetings. Do they have a schedule of regular meetings throughout the year. Last Thursday of every month. Is this posted anywhere for the public to know schedule. Website should have the schedule.
12:22:04 PM	Witness excused	
12:22:19 PM	Break	
12:22:34 PM	Session Paused	
1:18:01 PM	Session Resumed	
1:18:04 PM	Atty Wuetcher calls Witness Beard Note: Hughes, Pam	William Beard - Treasurer of Board of Commissioners at Estill Co WD 1.

1:19:06 PM	Atty Wuetcher direct exam of Witness Beard	
	Note: Hughes, Pam	Regarding Exhibits 1, 3, 5. Loan agreements and signatures
1:20:33 PM	Atty Wuetcher direct exam of Witness Beard	
	Note: Hughes, Pam	Present at meetings where Board voted into these documents. had any authorization obtained from the PSC and aware of KRS 300.
	Note: Hughes, Pam	Did anyone have legal advice before entering into these legal documents or ask for outside counsel.
	Note: Hughes, Pam	If knew PSC approval was needed he would not have borrowed the money.
1:22:18 PM	Atty Wuetcher direct exam of Witness Beard	
	Note: Hughes, Pam	Regarding lack of knowledge doesn't excuse them for the KRS 300 violation
1:22:44 PM	Atty Wuetcher direct exam of Witness Beard	
	Note: Hughes, Pam	Regarding financial reports before the Board meetings.
	Note: Hughes, Pam	Regarding the October 2013 loan proceeds and what they were used for.
	Note: Hughes, Pam	Discussion of exact amount that would be for debt service and other things.
1:24:31 PM	Atty Wuetcher direct exam of Witness Beard	
	Note: Hughes, Pam	Estill exhibit 6 - list of actions voted on. Confirm they were voted on at the meeting, He agrees with proposals.
1:25:23 PM	Atty Koenig cross exam of Witness Beard	
	Note: Hughes, Pam	Attendance at Water trainings
1:25:53 PM	VC cross exam of Witness Beard	
	Note: Hughes, Pam	Regarding Budgeting for the school he worked at prior, he got an allotment from the School board. Did he not think to check that prior approval was needed from the Commission. He realizes now very well that the regulations are to be complied with.
1:28:09 PM	Chairman exam of Witness Beard	
	Note: Hughes, Pam	Education - Rank 1 Masters Degree. No finance degree. nature of employment with ECU.
	Note: Hughes, Pam	Regarding him being Treasurer for Estill County WD 1. 6000 a year since he recieved his training. Recieved trainings from the PSC. Gets training every year and a certificate from each training.
1:30:53 PM	Chairman cross exam of Witness Beard	
	Note: Hughes, Pam	Regarding an obligation to read the regulations or to find out
	Note: Hughes, Pam	Regarding not having an attorney on hand to consult for advice.
1:32:21 PM	Chairman cross exam of Witness Beard	
	Note: Hughes, Pam	Signed the notes from the bank as an officer of the utility district.
	Note: Hughes, Pam	Did anyone from bank ever question borrowing money without Commission approval?
1:33:02 PM	Chairman cross exam of Witness Beard	
	Note: Hughes, Pam	Regarding ARCAP furnishing a rate consultant. States someone named Jared from ARCAP came to the meeting and brought back alternative rates to them. Still have these rate studies.
1:34:54 PM	Atty Koenig cross of Witness Beard	
	Note: Hughes, Pam	Arcap- Was this Jared Schmall
1:35:17 PM	VC cross exam of Witness Beard	
	Note: Hughes, Pam	Regarding him being Treasurer by default of the Water District
1:36:41 PM	Witness excused	
1:36:48 PM	Witness Miller called to the stand	
1:36:58 PM	Atty Wuetcher direct exam of Witness Miller	
	Note: Hughes, Pam	What reports are prepared for the Commissioners. Provided at the meeting.

	Note: Hughes, Pam	Audrea Miller - office manager since 2006. Prior billing clerk. Describes duties and responsibilities of her position.
1:38:26 PM	Atty Wuetcher direct exam of Witness Miller	
	Note: Hughes, Pam	Ever obtain lawyer to attend meetings.
	Note: Hughes, Pam	Outside professional services that are available to the District.
	Note: Hughes, Pam	Auditor is independent
1:39:33 PM	Atty Wuetcher direct exam of Witness Miller	
	Note: Hughes, Pam	Board was given reports on water loss monthly, prepared by Witness. Describes the report and how it is broken up.
1:40:25 PM	Atty Wuetcher direct exam of Witness Miller	
	Note: Hughes, Pam	As of Dec 31, 2014 not in compliance with its bond ordinance. same in 2015? No they are not and explains.
1:41:03 PM	Atty Wuetcher direct exam of Witness Miller	
	Note: Hughes, Pam	Who recommended ARCAP- Kimberly McKay at Rural Development. Ms. McKay brought him to the meeting. Jared Schmall
	Note: Hughes, Pam	ARCAP study. Board voted to move forward at the June 25th meeting. No representative there.
1:42:28 PM	Atty Wuetcher direct exam of Witness Miller	
	Note: Hughes, Pam	Regarding delays to Mr. Schmall in preparing the application and study. Board decided final application.
	Note: Hughes, Pam	She was point of contact but because of her daughter's accident she was not on fulltime basis and was not able to provide info needed for rate study. Other reason that the rate application was delayed.
1:45:40 PM	Atty Wuetcher direct exam of Witness Miller	
	Note: Hughes, Pam	Regarding Mr. Schmall being in contact with someone from PSC staff that he use the 2015 test year. Possible rate adjustment he recommended. 2015 annual report was given to the Commission in Jan 2017. He filed report in May and final was April.
1:47:39 PM	Atty Wuetcher direct exam of Witness Miller	
	Note: Hughes, Pam	How many loans with Rural Dev. 6 loans. Make payments 2 times a year. Loan through KRWA finance that is due at same time (2 times a year).
	Note: Hughes, Pam	Financial situation of the District and what led up to the first loan. Pressures on the District in 2011-2012 timeframe. Witness explains.
	Note: Hughes, Pam	Loan of Oct 2013 was for debt service and once it incurred how were the funds allocated. Witness explains the allocations. 112,000 to Rural Dev, remaining went to remaining expenses.
1:51:13 PM	Atty Wuetcher direct exam of Witness Miller	
	Note: Hughes, Pam	July 2014 problems meeting interest payments on loans. NO
	Note: Hughes, Pam	100, 000 loan Jan 2015 with Citizens Bank. What were these funds used for. Witness explains.
	Note: Hughes, Pam	During this period did anyone say it was a good idea to borrow this money. Topic at most of meetings.
1:53:00 PM	Atty Wuetcher direct exam of Witness Miller	
	Note: Hughes, Pam	Phase 10 project not online in 2015, expected water loss to go down after this went into effect and save them money.
1:53:44 PM	Atty Wuetcher direct exam of Witness Miller	
	Note: Hughes, Pam	Designed to be paid off in 4 years with a balloon payment at end.
	Note: Hughes, Pam	Loans with Citizens have a monthly payment. Current payments were made, late a few times on one.
1:55:51 PM	Atty Wuetcher direct exam of Witness Miller	
	Note: Hughes, Pam	Regarding reserve account to pay off loans. Is there reserve account for depreciation---yes. Need to tap into funds in depreciation account in January 2016.

1:57:11 PM	Atty Wuetcher direct exam of Witness Miller Note: Hughes, Pam	Payment due in Aug 2016 from the sinking reserve account. No money left in depreciation account.
1:57:47 PM	Atty Wuetcher direct exam of Witness Miller Note: Hughes, Pam	Regarding tapping existing reserve accounts, anything else being done to meet current expenses. Payments made right on time or late.
1:58:52 PM	Atty Wuetcher direct exam of Witness Miller Note: Hughes, Pam	Jan. 2017 amount of total debt service payment was 165,000.00 How much from the loan was used, 60,000.00
1:59:47 PM	Atty Wuetcher direct exam of Witness Miller Note: Hughes, Pam	Interest and principle in another 3 months. Have only 25,000 in sinking reserve account. 149,989.43 is what they need to make Feb 2018 payment.
	Note: Hughes, Pam	Interest payment for August 2017, funds were taken from the sinking reserve account.
2:01:21 PM	Atty Wuetcher direct exam of Witness Miller Note: Hughes, Pam	Regarding new rates being in effect today, will not give them enough money to pay all loans and expenses.
2:02:03 PM	Atty Wuetcher direct exam of Witness Miller Note: Hughes, Pam	Her warnings that these payments were coming due, no recommendations on how to make it.
	Note: Hughes, Pam	Did she give any recommendations how to proceed with how to make payments coming up.
2:03:06 PM	Atty Koenig exam of Witness Miller Note: Hughes, Pam	PHDR water loss reports 2016 and 2017 calendar years.
2:04:06 PM	PSC exhibit 1 Note: Hughes, Pam	Estill Co WD 1 Profit and Loss Jan - Aug 2017.
2:05:19 PM	PSC exhibit 2 Note: Hughes, Pam	Estill WD Accounts and Notes Receivable -- Net
2:05:45 PM	Atty Koenig exam of Witness Miller Note: Hughes, Pam	PSC exhibit 1 - exhibit B, 1 of 3
	Note: Hughes, Pam	Referring to PSC exhibit 1. Has this been viewed by their auditor
2:07:16 PM	Atty Koenig exam of Witness Miller Note: Hughes, Pam	PSC exhibit 2 - Accounts and Notes Receivable- Net Balance sheet filed on Oct 12th not been updated because the auditor does this.
2:09:08 PM	Atty Koenig exam of Witness Miller Note: Hughes, Pam	PSC exhibit 1 - Balance sheet- subject to check 9%
	Note: Hughes, Pam	Witness does not do adjustments to these.
2:10:39 PM	Atty Koenig exam of Witness Miller Note: Hughes, Pam	PSC exhibit 1 - explain accounts General and Revenue. Checks have not been put in the bank yet.
	Note: Hughes, Pam	142, other accounts receiveable. She can't break this down but can give her more detail later. PHDR
2:12:58 PM	Atty Koenig exam of Witness Miller Note: Hughes, Pam	2014-2015 same category. Dollar amounts for those years. Why? PHDR
	Note: Hughes, Pam	PSC exhibit 2 - 2010-2013 -other customer bad debts.
2:14:28 PM	Atty Koenig exam of Witness Miller Note: Hughes, Pam	Referring to when meters are read and when customers bills are issued.
	Note: Hughes, Pam	How long do they have to pay. The 10th before late fee is applied, disconnects go out on the 15th and disconnected on 21st of month..

2:15:45 PM	Atty Koenig exam of Witness Miller Note: Hughes, Pam	Average amount of time from reading meter and cutoff. 2 full months behind before disconnected. Late fee is 10%
2:16:38 PM	VC exam of Witness Miller Note: Hughes, Pam Note: Hughes, Pam	Educational background. Keeps the books for the District, on the job experience at Estill Co District. Regarding providing reports to Commissioner's and any recommendations she makes to them.
2:18:16 PM	VC exam of Witness Miller Note: Hughes, Pam Note: Hughes, Pam	Regarding Analysis of balance sheet. 2 months of receiveables. How long does customer have to pay there bill by the 10th of the month. She can't explain. CPA does the books. Wants a PHDR on the fionancial 2 months but 10 day window
2:20:50 PM	VC exam of Witness Miller Note: Hughes, Pam Note: Hughes, Pam	CPA look at books how often. Looks at annually. Regarding the Phase 10 project
2:22:12 PM	VC exam of Witness Miller Note: Hughes, Pam	Regarding the Balance of sinking acount at start of first loan. PHDR for balance at each year loan was given.
2:23:22 PM	VC exam of Witness Miller Note: Hughes, Pam	Cancer insurance withheld- employees that pay AFLAC
2:24:02 PM	VC exam of Witness Miller Note: Hughes, Pam	Regarding liabilites exceeding assets by 35%. The auditor (CPA) doesn't come in as he is independent. Who does end of year entries in books.
2:28:04 PM	Witness excused	
2:28:17 PM	All exhibits filed into evidence	
2:28:29 PM	Witness Richardson called to the stand.	
2:28:45 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam Note: Hughes, Pam	Dwight Richardson - Field Superintendent of Estill No 1 - operations manager Prior employment and position
2:30:43 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam	Regarding certificates or Licenses.
2:31:00 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam	Describe the Estill Co WD 1 distribution system
2:32:29 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam	Regarding line loss problem magnitude.
2:33:16 PM	Estill WD exhibit 7 Note: Hughes, Pam	Prepared by Witness Richardson - line loss from 2004 thru 2016. Sold, Purchased, Loss. 2006-07 installed 2700new meters. 2008 1000 meters installed, 2014 Phase 10 Rehab old lines.
2:35:15 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam Note: Hughes, Pam Note: Hughes, Pam	How old is the system - 40 years old and pipe is PVC but several thousand feet replaced in 2014 that had been installed in 1964. % is less than 10 years old is less tha 15 % 2013 large increase explanation. 2014 was due to contractors hitting mains when doing work. Regarding since 2004 loss has been increasing
2:38:49 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam Note: Hughes, Pam	Regarding as to why he thinks it wasn't successful. Older pipes can't take the pressure. Regarding expectation of phase 10 would resolve most of line loss.

2:41:02 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam	Regarding testing tanks. Regarding program to detect leaks and water loss. Steps that he has taken to find and fix the leaks.
2:43:28 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam	How recent was Census brought in to test meters. May 2017. What else has he done.
2:45:32 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam	Regarding the meters being a problem and testing.
2:46:36 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam	Regarding Check valves and what they are.
2:48:05 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam	Regarding the river crossing and explanation as to where the master meter is. Age of master meter only 10 years old and tested yearly.
2:49:46 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam	Regarding the Line going under the Ky. River and concerns and what he did.
2:50:38 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam	Regarding policy for testing master meters. Results were all good except one and that has been replaced.
2:50:54 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam	Regarding residential meters for accuracy
2:51:58 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam	Regarding illegal or non-meter connections. What they have done to keep this from happening.
2:52:26 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam	Regarding Phase 10 project being line loss effort.
2:54:35 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam	Regarding Isolation valves used by the District and explain how it is used to detect leaks. Preferable frequency to do the sections. Need 2 more employees
2:55:44 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam	Regarding meters being replaced in 2007 and 2008, test every 10 years. Most of time they replace, test is done outside the District.
2:57:52 PM	Atty Wuetcher direct exam of Witness Richardson Note: Hughes, Pam	Regarding the ones placed 10 years ago and issues he will have. Regarding any plans on replacing the meters.
2:59:00 PM	Estill WD 1 Exhibit 8 Note: Hughes, Pam	Regarding things he has already done to determine leaks. Since June 2015 fixed 230 leaks,
3:02:00 PM	Estill CO WD 1 exhibit 9 Note: Hughes, Pam	Prepared by Witness Richardson. June 2015- Sept 2017 estimated gallons of water loss. Based on how KRWA showed them to estimate loss. Fewer leaks in 2017, because losing one employee to go out and find leaks.
	Note: Hughes, Pam	Water loss information- amount they have spent from 2014-2017 on leak repairs. Prepared by Witness Richardson. Total is \$ 1,821,394.40 Regarding they need more equipment to fix leaks. New detection tools needed.

3:05:58 PM Atty Wuetcher direct exam of Witness Richardson
Note: Hughes, Pam Regarding what he thinks still needs to be done to address line loss problem. Replacing old lines, getting more employees, meter the creek lines and dead end lines.

3:07:25 PM Atty Wuetcher direct exam of Witness Richardson
Note: Hughes, Pam Regarding the Surcharge money

3:08:09 PM Atty Wuetcher direct exam of Witness Richardson
Note: Hughes, Pam Regarding anything else to say in efforts to fix line water loss. Witness makes statement.

3:08:51 PM Atty Wuetcher direct exam of Witness Richardson
Note: Hughes, Pam Regarding him attending monthly Board meetings and he provides the water loss report and has leak repair reports.

3:09:39 PM Atty Koenig cross exam of Witness Richardson
Note: Hughes, Pam Hands out PSC exhibit 3 - Estill CO WD 1- Response to PSC concerning the deficiencies that were identified. Signed by Dwight Richardson
Note: Hughes, Pam Regarding them having yearly inspection

3:12:08 PM Atty Koenig cross exam of Witness Richardson
Note: Hughes, Pam PSC exhibit 3- states he thinks 2 employees full-time for water loss monitoring.

3:13:12 PM Atty Koenig cross exam of Witness Richardson
Note: Hughes, Pam Witness is not a member of the Board. Field Superintendent is the same as Operations manager.
Note: Hughes, Pam Regarding zones in the system.

3:14:49 PM Atty Koenig cross exam of Witness Richardson
Note: Hughes, Pam Who helped locate the leaks- employees and sometimes customers find them.
Note: Hughes, Pam Regarding Estill exhibit 9. Explanation of what all the costs are for. No labor was added into this.

3:18:37 PM Atty Koenig cross exam of Witness Richardson
Note: Hughes, Pam Phase 10 project was installing new lines. Decision made by himself as to where the line leaks were repaired.

3:19:50 PM Atty Koenig cross exam of Witness Richardson
Note: Hughes, Pam Regarding monitoring the progress of water loss surcharge.
Note: Hughes, Pam Regarding the money that has helped line loss and the problems it also caused.

3:21:47 PM VC cross exam of Witness Richardson
Note: Hughes, Pam Regarding the routine to look for leaks.

3:24:31 PM VC cross exam of Witness Richardson
Note: Hughes, Pam How far from one meter to the next to find leaks.

3:25:29 PM VC cross exam of Witness Richardson
Note: Hughes, Pam Regarding list of leaks. Estill WD exhibit 9- 1800.00 a month on materials estimate.
Note: Hughes, Pam Regarding letter he responded to, to the deficiency letter from the Commission. Small percentage of system has been worked on. Regarding Estill WD Exhibit 7.

3:31:16 PM Atty Wuetcher hands out Estill WD exhibit 10
Note: Hughes, Pam Shows: Year - Customers-Gallons Sold- Average Usage

3:33:08 PM VC cross exam of Witness Richardson
Note: Hughes, Pam Regarding Estill WD exhibit 10 and the difference in customers base going up but sales are down.

3:33:41 PM VC cross exam of Witness Richardson
Note: Hughes, Pam 271,000 is dollars lost. 15% is the benchmark but some go below that.

3:35:41 PM	Chairman cross exam of Witness Richardson Note: Hughes, Pam	Regarding what Bell Engineering has done for Estill WD 1 in last couple of years.
3:37:08 PM	Chairman cross exam of Witness Richardson Note: Hughes, Pam	Regarding seeking a surcharge that proceeds would go for finding and repairing leaks. Would like a plan from a competent Engineering firm, approximate costs and how long it would take.
3:38:11 PM	Chairman cross exam of Witness Richardson Note: Hughes, Pam Note: Hughes, Pam	Regarding 2015-2016 and 2017. Have there been new lines installed. Most in 2014. Increased pressure on parts of the line and causing leaks in other sections of the system.
3:39:43 PM	Chairman cross exam of Witness Richardson Note: Hughes, Pam Note: Hughes, Pam Note: Hughes, Pam	Pressures varied from 40 lbs to 375 lbs, what is optimal pressure. He states no more than 90 lbs. of pressure would be his Defective valves causing some of the leaks. Inside pump houses and replaced or repaired all of those. Ongoing inspecting and replacing valves as needed. Policy to periodically inspect water valves in its system. Last time exercised the valves was in 2015.
3:42:51 PM	Chairman cross exam of Witness Richardson Note: Hughes, Pam	Estill WD exhibit 8- Utilized some method by KRWA. How was gallon loss estimated.
3:44:23 PM	Atty Wuetcher re exam of Witness Richardson Note: Hughes, Pam	Regarding major cost for water loss detection leak programs. Is it parts replacement or labor in finding the leak. Labor is big expense.
3:45:56 PM	Atty Wuetcher re- cross exam of Witness Richardson Note: Hughes, Pam	Estill WD 11 - the Periodic Water Inspection letter dated 9-5-17
3:47:02 PM	Atty Koenig to Witness Richardson Note: Hughes, Pam Note: Hughes, Pam	Separate plan for surcharge?? Current plan on water loss reduction and when prepared. Witness and KRWA prepared.
3:48:41 PM	Break	
3:48:49 PM	Session Paused	
3:59:45 PM	Session Resumed	
3:59:53 PM	Witness Bowman called to the stand Note: Hughes, Pam	Robert Bowman. P.E. at Bell Engineering. Prior work positions and educational background. Licensed engineer.
4:01:27 PM	Atty Wuetcher direct exam of Witness Bowman Note: Hughes, Pam	Regarding how long he has worked with Estill Co WD 1 and what his involvement has been.
4:03:34 PM	Atty Wuetcher direct exam of Witness Bowman Note: Hughes, Pam Note: Hughes, Pam	Complete meter replacement project and what that involves. Anything to add to Mr. Richardsons testimony to address water line loss problem.
4:04:43 PM	Atty Wuetcher direct exam of Witness Bowman Note: Hughes, Pam Note: Hughes, Pam Note: Hughes, Pam	Regarding additional steps the District can take and what he recommends with 122,000 annually. Regarding mapping system and line loss. Regarding a Hydrolic model.
4:10:01 PM	Atty Wuetcher direct exam of Witness Bowman Note: Hughes, Pam	Project development costs estimate
4:10:32 PM	Atty Wuetcher direct exam of Witness Bowman Note: Hughes, Pam	Regarding back to the 122,000

4:10:53 PM	Atty Wuetcher direct exam of Witness Bowman Note: Hughes, Pam	Regarding in his opinion other actions the district can take.
4:11:59 PM	Atty Wuetcher direct exam of Witness Bowman Note: Hughes, Pam Note: Hughes, Pam	Suggestions to the Commission concerning what Estill WD can do to reduce water loss. Regarding what Estill has done with the resources they have concerning leak detection.
4:14:13 PM	Atty Wuetcher direct exam of Witness Bowman Note: Hughes, Pam	Regarding the Emergency Regional Interconnect project.
4:16:08 PM	Atty Koenig cross exam of Witness Bowman Note: Hughes, Pam	Regarding how long it will take to fix the leaks, mapping, modeling, project dev., hydrolic, etc.
4:18:17 PM	Atty Koenig cross exam of Witness Bowman Note: Hughes, Pam	Regarding any Insight as to why they are in the situation they are in. He believes age of the system, metering issue, some theft.
4:19:19 PM	VC cross exam of Witness Bowman Note: Hughes, Pam Note: Hughes, Pam	Regarding the meter replacement program. Indication that meters are part of the problem. Part of it but not sole contributor. Not the priority project
4:21:09 PM	VC cross exam of Witness Bowman Note: Hughes, Pam	Regarding the 122,000 not making a big differenece. If Witness had to estimate what does he think. 50 to 75,000 for mapping and modeling. No way to give an accurate estimate on total.
4:23:47 PM	VC cross exam of Witness Bowman Note: Hughes, Pam	Regarding being familiar with any water systems that consolidate with others. Does he think this is a viable decision in his professional opinion. He states he doesn't know enough about some issues. Infrastructure wise?
4:25:50 PM	Chairman cross exam of Witness Bowman Note: Hughes, Pam	Regarding this system being a failing enterprise.
4:26:49 PM	Atty Wuetcher re duurct of Witness Bowman Note: Hughes, Pam	Assuming program in place for line loss. Where does he see this as being progress for the WD. Any stabilization of the system would be progress.
4:28:23 PM	Witness Bowman excused	
4:28:31 PM	PHDR Note: Hughes, Pam Note: Hughes, Pam	Nov 8th to get out, response due in 2 weeks. Order will go out for rates to be in effect immediately.
4:30:09 PM	Chairman Schmitt Note: Hughes, Pam	Chairman questions Mr. Eddie Beavers from the FA division on how long it would take for rates to be calculated.
4:31:32 PM	Adjourned	
4:31:40 PM	Session Paused	
10:45:47 AM	Session Ended	



Judge: Bob Cicero; Talina Mathews; Michael Schmitt

Witness: Jerry Arnold; William Beard; Alan Bowman; Audria Miller; Dwight Richardson; Greg Wright

Clerk: Pam Hughes

Name:	Description:
Estill Co WD 1 Exhibit 01	Amortization Schedule and other Loan documents dated 10-31-2013.
Estill Co WD 1 Exhibit 02	Minutes of the Board meeting of WD dated October 31, 2013.
Estill Co WD 1 Exhibit 03	Amortization Schedule and other loan documents dated 1-29-15
Estill Co WD 1 Exhibit 04	Minutes of meeting of Board dated January 18, 2015
Estill CO WD 1 Exhibit 05	Amortization Schedule and other loan documents dated 1-24-17
Estill Co WD 1 Exhibit 06	Estill WD 1 Immediate Actions to Improve Water District's Financial Position. List is 1-9
Estill Co WD 1 Exhibit 10	Table showing Years, Customers, Gallons sold and Average useage. 1193-2016
Estill Co WD 1 Exhibit 7	Prepared by Witness Richardson - Date - Sold - Purchased - Loss of water 2004-2016
Estill Co WD 1 Exhibit 8	Prepared by Witness Richardson - A. Leaks B. Repairs and C. Estimated Gal. Loss totals for 2015, 2016 and 2017
Estill Co WD 1 Exhibit 9	Water Loss Information - Grand total \$1,821,394.40
Estill CO WD Exhibit 11	Letter dated Sept. 5, 2017 to Dwight Richardson from the PSC concerning the deficiencies found during inspection.
PSC Exhibit 01	Estill Co WD 1 Profit and Loss - January through August 2017.
PSC Exhibit 02	Estill County WD 1 - Accounts and Notes Receivable - Net Jan 2015 - Dec. 2015
PSC Exhibit 03	Letter to Executive Director from Dwight Richardson concerning deficiencies. Dated October 3, 2017.

9:45 AM
10/11/17
Accrual Basis

Estill County Water District #1
Profit & Loss
January through August 2017

	Jan - Aug 17
Ordinary Income/Expense	
Income	
474 · OTHER WATER REVENUES	
474-3 · UTILITY TAX/COMMERICAL	2,921.77
474-1 · UTILITY TAX/RESIDENTIAL	26,927.65
Total 474 · OTHER WATER REVENUES	29,849.42
471 · MISC. SERVICE REVENUE	
471-5 · RETURNED CHECK FEE	315.00
471-4 · DISCONNECT/RECONNECT FEE	12,275.00
471-3 · MISC. INCOME	930.06
Total 471 · MISC. SERVICE REVENUE	13,520.06
470 · PENALTIES	
470-2 · PENALTIES	24,206.93
Total 470 · PENALTIES	24,206.93
462 · FIRE PROTECTION REVENUE	
462-2 · FIRE PROTECTION-PRIVATE	1,921.50
462-1 · FIRE PROTECTION-PUBLIC	329.00
Total 462 · FIRE PROTECTION REVENUE	2,250.50
461 · METERED WATER REVENUE	
461-2 · METERED SALES/COMMERCIAL	75,600.51
461-1 · METERED SALES/RESIDENTIAL	929,107.53
Total 461 · METERED WATER REVENUE	1,004,708.04
Total Income	1,074,534.95
Cost of Goods Sold	
610-1 · PURCHASED WATER	475,835.17
Total COGS	475,835.17
Gross Profit	598,699.78
Expense	
611-4 · UTILITIES/SEWER	169.61
604-1 · HEALTH REIMBURSEMENT ACCOUNT	5,117.16
623-6 · SMALL TOOLS/MAINT	3,352.08
620-9 · OFFICE/ BREAKROOM SUPPLIES	208.69
640-6 · UNIFORMS-MAINT.	1,413.13
640-8 · UNIFORMS-AD&G	351.30
640-7 · UNIFORMS-CUST SERV.	670.46
999 · ASK THE ACCOUNTANT	9,930.82
671 · CREDIT CARD REIMBURSEMENT	0.00
655-2 · TAXES-UTILITY	23,155.64
655-1 · TAXES-SALES	4,564.82
671-9 · C/C PROCESSING FEES	112.00
675-8 · MISC. EXPENSE/AD&G	3,552.52
675-6 · MISC. EXPENSE/MAINTENANCE	3,737.83
675-5 · MISC. EXPENSE/OPERATIONS	396.82
671-8 · BANK FEES	4,871.04
660-8 · ADVERTISING EXPENSE/AD&G	468.00
659-8 · INSURANCE/BONDS	407.20
658-8 · WORKMANS COMP	3,917.34
657-8 · INSURANCE GEN LIAB/AD&G	12,000.00
650-6 · TRANSPORTATION EXP/MAINTENANCE	12,014.03
650-5 · TRANSPORTATION EXP/OPERATIONS	2,892.68
635-8 · CONT SERVICE OTHER/AD&G	50.00
635-6 · CONT SERVICE/SUPPORT	18,280.05
635-5 · CONT SERVICE OTHER/OPERATIONS	1,779.44
634-8 · CONT SERVICE LAB/AD&G	2,343.50
633-8 · CONT SERVICE LEGAL/AD&G	6,611.25

9:45 AM
10/11/17
Accrual Basis

Estill County Water District #1
Profit & Loss
January through August 2017

	Jan - Aug 17
632-8 · CONT SERVICE ACCOUNTING/AD&G	13.75
621-8 · POSTAGE	13,814.47
620-7 · MATERIALS & SUPPLIES/CUST. SERV	412.24
620-6 · MATERIALS & SUPPLIES/MAINT.	26,352.99
620-5 · MATERIALS & SUPPLIES/OPERATIONS	9,835.65
615-5 · PURCHASED POWER/OPERATIONS	50,656.54
611-3 · UTILITIES/TRASH	150.00
611-2 · UTILITIES/TELEPHONE	3,559.02
611-1 · UTILITIES/INTERNET	425.70
604-8 · EMPLOYEE PEN & BEN/AD & G	21,625.84
604-7 · EMPLOYEE PEN & BEN/CUST SERVICE	28,685.11
604-6 · EMPLOYEE PEN & BEN/MAINTENANCE	77,571.41
603-8 · SALARY & WAGES/OFFICERS	12,000.00
601-8 · SALARY & WAGES/AD & G	28,172.16
601-7 · SALARY & WAGES/CUST. SERVICE	34,887.32
601-6 · SALARY & WAGES/MAINTENANCE	107,565.73
66000 · Payroll Expenses	0.00
Total Expense	538,095.34
Net Ordinary Income	60,604.44
Other Income/Expense	
Other Income	
419 · INTEREST & DIVIDEND INCOME	68.02
Total Other Income	68.02
Other Expense	
427-2 · INT ON LONG TERM DEBT/'15 CGB	1,709.85
427-1 · INT ON LONG TERM DEBT/'13 CGB	2,000.68
403 · DEPRECIATION EXPENSES	236,864.64
427-5 · INTEREST EXPENSE/84 REGIONS	4,549.00
428 · AMORT. OF DEBT EXPENSE	450.00
427-8 · INTEREST EXP./CUSTOMER DEPOSIT	323.36
427-3 · INT. ON LONG TERM DEBT/USDA-RD	145,709.06
427-6 · INT. ON LONG TERM DEBT/BERKADIA	1,600.00
Total Other Expense	393,206.59
Net Other Income	-393,138.57
Net Income	<u>-332,534.13</u>

9:38 AM
 10/11/17
 Accrual Basis

Estill County Water District #1
Account QuickReport
 January through October 2017

Type	Date	Num	Name	Memo	Split	Amount
999 - ASK THE ACCOUNTANT						
Bill	02/28/2017	2/28/2...	RAYMOND JONES ...	OVERPAYME...	231 - ACCOU...	118.09
Check	02/28/2017	1753	CITIZEN'S GUARA...	1009834824597	131-3 - CASH I...	1,419.97
Check	03/30/2017	1755	CITIZEN'S GUARA...	LOAN # 24597	131-3 - CASH I...	1,419.97
Check	03/30/2017	1756	CITIZEN'S GUARA...	LOAN # 24597	131-3 - CASH I...	1,352.35
Bill	03/31/2017	3/18	AMBER HUGHES	OVERPAYME...	231 - ACCOU...	22.71
Check	04/28/2017		DEPOSIT CORREC...	DEPOSIT CO...	131-3 - CASH I...	4.00
Bill	04/30/2017	10103...	LOGAN GRIFFIN	OVERPAYME...	231 - ACCOU...	110.88
Check	05/11/2017		DEPOSIT CORREC...		131-3 - CASH I...	0.40
Check	05/31/2017	1761	CITIZEN'S GUARA...	1009834824597	131-3 - CASH I...	1,352.35
Check	06/08/2017		DEPOSIT CORREC...	DEPOSIT CO...	131-3 - CASH I...	1.00
Deposit	06/12/2017		DEPOSIT CORREC...	DEPOSIT CO...	131-3 - CASH I...	-2.95
Deposit	06/15/2017		DEPOSIT CORREC...	DEPOSIT CO...	131-3 - CASH I...	-0.70
Check	06/22/2017		DEPOSIT CORREC...	DEPOSIT CO...	131-3 - CASH I...	0.22
Check	06/30/2017	1764	CITIZEN'S GUARA...	1009834824597	131-3 - CASH I...	1,352.35
Check	07/11/2017		DEPOSIT CORREC...	DEPOSIT CO...	131-3 - CASH I...	0.08
Check	07/31/2017	1768	CITIZEN'S GUARA...	10098348 245...	131-3 - CASH I...	1,419.97
Check	08/11/2017		DEPOSIT CORREC...	DEPOSIT CO...	131-3 - CASH I...	7.78
Check	08/31/2017	1773	CITIZEN'S GUARA...	1009834824597	131-3 - CASH I...	1,352.35
General ...	09/30/2017	9/17 8		TO RECLASS...	220-3 - '17 CG...	-9,669.31
Total 999 - ASK THE ACCOUNTANT						261.51
TOTAL						261.51

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10/10/17

Accrual Basis

Estill County Water District #1
Balance Sheet
 As of August 31, 2017

Aug 31, 17

ASSETS

Current Assets

Checking/Savings

135 · TEMPORARY CASH INVESTMENTS	
135-7 · 2006 SINKING RESERVE/USDA-RD	25,039.72
135-6 · 2002(84) SINKING/REGIONS	17,952.86
135-3 · 91/96/98 SINKING/USDA-RD	43.85

Total 135 · TEMPORARY CASH INVESTMENTS 43,036.43

131 · CASH

131-7 · CASH IN BANK/CUSTOMER SECURITY	72,427.32
131-2 · CASH IN BANK/GENERAL	-61,269.76
131-3 · CASH IN BANK/REVENUE	-36,688.89
131-1 · CASH ON HAND	807.21

Total 131 · CASH -24,724.12

Total Checking/Savings 18,312.31

Accounts Receivable

141 · ACCOUNTS RECEIVABLE	160,763.88
141-1 · UNBILLED RECEIVABLES	64,070.52
142 · OTHER ACCOUNTS RECEIVABLE	-118,119.37
143 · RETURNED CHECK	1,096.08
144 · ALLOW FOR DOUBTFUL ACCOUNTS	-14,517.00
145 · ACCOUNTS RECEIVABLE SEWER	12,340.65

Total Accounts Receivable 105,634.76

Total Current Assets 123,947.07

Other Assets

180 · BOND ISSUE COST	765.72
340 · OFFICE FURNITURE AND EQUIPMENT	35,666.48
347 · MISCELLANEOUS EQUIPMENT	125,294.87
346 · COMMUNICATION EQUIPMENT	12,062.73
343 · TOOLS, SHOP, & GARAGE EQUIPMENT	16,027.17
341 · TRANSPORTATION EQUIPMENT	158,783.27
334-1 · METERS INSTALLED	1,099,653.20
334 · METERS BOUGHT	148,938.70
331 · TRANSMIS. & DISTRIBUTION MAINS	9,529,098.28
330 · DISTRIBU. RESERV. & STAND PIPES	1,351,262.51
311 · PUMPING EQUIPMENT	320,824.78
304 · STRUCTURES & IMPROVEMENTS	443,226.60
303 · LAND & LAND RIGHTS	15,565.02
181 · UNAMORT. DEBT DIS. & EXPENSE	8,636.55
162 · PREPAYMENTS	17,096.95
151 · PLANT MATERIALS & SUPPLIES	40,176.30
105 · CONSTRUCTION IN PROGRESS	
105-8 · IRVINE/CLAY CITY RELOCATE (KTC)	19,533.00
105-3 · CONST. IN PROGRESS-PHASE IX	750.00
105-7 · CONST. IN PROGRESS-PHASE 10	2,529,161.38
105 · CONSTRUCTION IN PROGRESS - Other	25,419.58

Total 105 · CONSTRUCTION IN PROGRESS 2,574,863.96

108 · ACCU. DEPR/PLANT IN SERVICE -7,289,784.64

Total Other Assets 8,608,158.45

TOTAL ASSETS 8,732,105.52

Estill County Water District #1
Balance Sheet
As of August 31, 2017

Aug 31, 17

LIABILITIES & EQUITY

Liabilities

Current Liabilities

Accounts Payable

232 · N/P CURRENT ISSUE

232-4 · N/P '91 ISSUE SERVICE A CURRENT 14,000.00

232-6 · N/P '96 ISSUE CURRENT 11,000.00

232-9 · N/P '06 ISSUE CURRENT 15,000.00

232-5 · N/P '91 ISSUE SERVICE B CURRENT 2,700.00

232-3 · N/P '64 ISSUE CURRENT 27,500.00

232-8 · N/P '98 ISSUE CURRENT 19,000.00

232-1 · N/P 2002 (84) ISSUE CURRENT 15,000.00

Total 232 · N/P CURRENT ISSUE 104,200.00

231 · ACCOUNTS PAYABLE 18,220.91

Total Accounts Payable 122,420.91

Other Current Liabilities

239-6 · CANCER INSURANCE WITHHELD -127.58

239-9 · EMPLOYEE GARNISHMENTS -50.00

239-5 · HEALTH INSURANCE -44.37

271 · CONT. IN AID OF CONSTRUCTION 7,178,085.69

239-4 · LIFE INSURANCE WITHHELD 6,478.86

239-3 · SHORT TERM DISABILITY WITHHELD -250.09

239-2 · ACCIDENTAL INSURANCE WITHHELD -91.02

239-1 · DENTAL WITHHELD 372.70

239 · RETIREMENT WITHHELD -1,408.79

238 · COMPENSATED ABSENCES 2,545.84

237 · INTEREST ACCRUED 272,956.15

236 · TAXES ACCRUED 583.27

235 · CUSTOMER DEPOSITS 72,814.58

24000 · Payroll Liabilities 1,493.69

Total Other Current Liabilities 7,533,358.93

Total Current Liabilities 7,655,779.84

Long Term Liabilities

220-3 · '17 CGB LOAN 110,000.00

220-2 · '15 CGB LOAN 72,222.14

220-1 · '13 CGB LOAN 109,859.05

221 · BONDS

221-10 · N/P '14 ISSUE 1,603,807.82

221-9 · N/P '06 ISSUE 780,762.51

221-8 · N/P '98 ISSUE 709,642.50

221-6 · N/P '96 ISSUE 335,653.75

221-5 · N/P '91 ISSUE SER B 56,480.00

221-4 · N/P '91 ISSUE SER A 287,125.00

221-2 · N/P '76 ISSUE 20,000.00

221-1 · N/P 2002 (84) ISSUE 46,635.75

Total 221 · BONDS 3,840,107.33

Total Long Term Liabilities 4,132,188.52

Total Liabilities 11,787,968.36

1:24 PM
10/10/17
Accrual Basis

Estill County Water District #1
Balance Sheet
As of August 31, 2017

	Aug 31, 17
Equity	
32000 · Unrestricted Net Assets	-1,765,429.62
215 · UNAPPROPRIATED RETAINED EARNING	2,222,779.85
214 · APPROPRIATED RETAINED EARNINGS	66,025.53
210 · CAPITAL SURPLUS	91,943.37
30000 · Opening Balance Equity	-3,338,647.84
Net Income	-332,534.13
Total Equity	-3,055,862.84
TOTAL LIABILITIES & EQUITY	8,732,105.52

21500 Estill County Water District #1 01/01/2015 - 12/31/2015
Accounts and Notes Receivable - Net (Accts 141-144) (Ref Page: 18)

Description	Total
Accounts and Notes Receivable	
Customer Accounts Receivable (141)	\$207,945.00
Other Accounts Receivable (142)	
Total Other Accounts Receivable	\$0.00
Notes Receivable (144)	
Total Notes Receivable	
Total Accounts and Notes Receivable	\$207,945.00
Accumulated Provision for Uncollectible Accounts (143)	
Balance First of Year	\$14,261.00
Add:	
Provision for uncollectibles for current year	\$256.00
Collections of account previously written off	
Other	
(specify)	
Total Additions	\$256.00
Deduct accounts written off during year:	
Other	
(specify)	
Total Deductions	\$0.00
Balance end of Year	\$14,517.00
Total Accounts and Notes Receivable - Net	\$193,428.00

21500 Estill County Water District #1 01/01/2014 - 12/31/2014

Accounts and Notes Receivable - Net (Accts 141-144) (Ref Page: 18)

Description	Total
Accounts and Notes Receivable	
Customer Accounts Receivable (141)	\$204,495.00
Other Accounts Receivable (142)	
Total Other Accounts Receivable	\$0.00
Notes Receivable (144)	
Total Notes Receivable	
Total Accounts and Notes Receivable	\$204,495.00
Accumulated Provision for Uncollectible Accounts (143)	
Balance First of Year	\$9,411.00
Add:	
Provision for uncollectibles for current year	\$4,850.00
Collections of account previously written off	
Other	
(specify)	
Total Additions	\$4,850.00
Deduct accounts written off during year:	
Other	
(specify)	
Total Deductions	\$0.00
Balance end of Year	\$14,261.00
Total Accounts and Notes Receivable - Net	\$190,234.00

21500 Estill County Water District #1 01/01/2013 - 12/31/2013

Accounts and Notes Receivable - Net (Accts 141-144) (Ref Page: 18)

Description	Total
Accounts and Notes Receivable	
Customer Accounts Receivable (141)	\$203,908.00
Other Accounts Receivable (142)	
Total Other Accounts Receivable	
Notes Receivable (144)	
Total Notes Receivable	
Total Accounts and Notes Receivable	\$203,908.00
Accumulated Provision for Uncollectible Accounts (143)	
Balance First of Year	\$8,906.00
Add:	
Provision for uncollectibles for current year	\$4,967.00
Collections of account previously written off	
Other	
(specify)	
Total Additions	\$4,967.00
Deduct accounts written off during year:	
Other	
(specify) CUSTOMER BAD DEBTS	\$4,462.00
Total Deductions	\$4,462.00
Balance end of Year	\$9,411.00
Total Accounts and Notes Receivable - Net	\$194,497.00

21500 Estill County Water District #1 01/01/2012 - 12/31/2012

Accounts and Notes Receivable - Net (Accts 141-144) (Ref Page: 18)

Description	Total
Accounts and Notes Receivable	
Customer Accounts Receivable (141)	\$182,802.00
Other Accounts Receivable (142)	
Total Other Accounts Receivable	
Notes Receivable (144)	
Total Notes Receivable	
Total Accounts and Notes Receivable	\$182,802.00
Accumulated Provision for Uncollectible Accounts (143)	
Balance First of Year	\$10,054.00
Add:	
Provision for uncollectibles for current year	\$13,239.00
Collections of accountst previously written off	\$0.00
Other	
(specify)	
Total Additions	\$13,239.00
Deduct accounts written off during year:	
Other	
(specify) Customer bad debts	\$14,387.00
Total Deductions	\$14,387.00
Balance end of Year	\$8,906.00
Total Accounts and Notes Receivable - Net	\$173,896.00

21500 Estill County Water District #1 01/01/2011 - 12/31/2011

Accounts and Notes Receivable - Net (Accts 141-144) (Ref Page: 18)

Description	Total
Accounts and Notes Receivable	
Customer Accounts Receivable (141)	\$194,779.00
Other Accounts Receivable (142)	
Total Other Accounts Receivable	
Notes Receivable (144)	
Total Notes Receivable	
Total Accounts and Notes Receivable	\$194,779.00
Accumulated Provision for Uncollectible Accounts (143)	
Balance First of Year	\$4,264.00
Add:	
Provision for uncollectibles for current year	\$19,555.00
Collections of accountst previously written off	\$0.00
Other	
(specify)	
Total Additions	\$19,555.00
Deduct accounts written off during year:	
Other	
(specify) CUSTOMER BAD DEBTS	\$13,765.00
Total Deductions	\$13,765.00
Balance end of Year	\$10,054.00
Total Accounts and Notes Receivable - Net	\$184,725.00

21500 Estill County Water District #1 01/01/2010 - 12/31/2010

Accounts and Notes Receivable - Net (Accts 141-144) (Ref Page: 18)

Description	Total
Accounts and Notes Receivable	
Customer Accounts Receivable (141)	\$197,699.00
Other Accounts Receivable (142)	
Total Other Accounts Receivable	
Notes Receivable (144)	
Total Notes Receivable	
Total Accounts and Notes Receivable	\$197,699.00
Accumulated Provision for Uncollectible Accounts (143)	
Balance First of Year	\$3,950.00
Add:	
Provision for uncollectibles for current year	\$13,737.00
Collections of accountst previously written off	\$0.00
Other	
(specify)	
Total Additions	\$13,737.00
Deduct accounts written off during year:	
Other	
(specify)	
CUSTOMER BAD DEBTS	\$13,423.00
Total Deductions	\$13,423.00
Balance end of Year	\$4,264.00
Total Accounts and Notes Receivable - Net	\$193,435.00

RECEIVED

OCT 03 2017

PUBLIC SERVICE
COMMISSION

Estill County Water District No. 1

76 Cedar Grove Rd.
Irvine, Kentucky 40336-7607
Phone: (606) 723-3795
Fax: (606) 726-9083

Greg Wright
Chairman

Jerry Arnold
Secretary

William Beard
Treasurer

October 3, 2017

Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602-0615

Re: 2017 Periodic Water Inspection

We offer the following in response to the deficiencies found during a periodic inspection of the Estill County Water District's water system on August 17, 2017.

The deficiencies were identified as follows:

1. Estill County Water District is failing to operate its facilities so as to provide adequate and safe service to its customers as required by 807 KAR 5:066, Section 7, due to water loss exceeding 15 percent.

The deficiency occurred due to the Estill County Water Districts ongoing water loss issues. The District is acutely aware of our water loss problem and we have taken water loss very serious for the past few years, in which time the District has worked closely with Kentucky Rural Water Association as well as our engineers and we have determined that several issues have factored in to the water loss problem making it a very hard issue to solve.

The first problem is the aging infrastructure. The District currently maintains and operates ten water storage tanks, ten booster pump stations, and 450 miles of water distribution lines. Some of the system has been in service since the 1960's, when the District was formed. One of the priorities of the District's Commission and Management team has been, and it continues to be, upgrading its aging infrastructure. In 2014 the District rehabilitated 35,350 feet of old ductile iron water mains and built two new booster pumps station that replaced an old booster pump station that was a continuous source of water leaks. While these repairs did remedy the problems in the areas of rehabilitation, they also created higher pressure in other areas, therefore creating more water leaks. These new problem areas are now being looked at by the District for rehabilitation.

Also adding to the ongoing water loss issue is the loss of manpower within the District. Since 2007 the District has lost 3 maintenance employees that, due to financial constraints, we have not replaced. This reduction in manpower has directly affected our ability to monitor water loss because with a water district of our size, and in our region, water loss monitoring requires the attention of 2 employees on a full-time basis. The District has currently applied to the Kentucky Public Service Commission for a rate increase, once the rate increase is approved the District intends to hire a full-time employee that will be dedicated solely to water loss reduction.

While we are aware that our water loss percentages do not reflect our commitment to this issue we want to convey that we have been, and continue to take water loss very serious and we will continue in our efforts to meet the Kentucky Public Service Commission's water loss standards.

If there are any questions, please feel free to contact me.

Thank you

A handwritten signature in black ink, appearing to read "Dwight Richardson", with a long horizontal flourish extending to the right.

Dwight Richardson
Operational Manager



AMORTIZATION SCHEDULE

Principal \$200,305.00	Loan Date 10-31-2013	Maturity 10-30-2017	Loan No 88196	Call / Coll 5	Account 10098348	Officer SLC	Initials
References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.							

Borrower: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7657

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

Disbursement Date: October 31, 2013
Interest Rate: 3.850

Repayment Schedule: Balloon
Calculation Method: 365/365 U.S. Rule

Payment Number	Payment Date	Payment Amount	Interest Paid	Principal Paid	Remaining Balance
1	11-30-2013	2,427.34	633.84	1,793.50	198,511.50
2	12-30-2013	2,427.34	628.17	1,799.17	196,712.33
2013 TOTALS:		4,854.68	1,262.01	3,592.67	
3	01-30-2014	2,427.34	643.22	1,784.12	194,928.21
4	02-28-2014	2,427.34	596.27	1,831.07	193,097.14
5	03-30-2014	2,427.34	611.03	1,816.31	191,280.83
6	04-30-2014	2,427.34	626.46	1,801.88	189,478.95
7	05-30-2014	2,427.34	599.58	1,827.76	187,651.19
8	06-30-2014	2,427.34	613.59	1,813.75	185,837.44
9	07-30-2014	2,427.34	588.06	1,839.28	183,998.16
10	08-30-2014	2,427.34	601.65	1,825.69	182,172.47
11	09-30-2014	2,427.34	595.68	1,831.66	180,340.81
12	10-30-2014	2,427.34	570.67	1,856.67	178,484.14
13	11-30-2014	2,427.34	583.62	1,843.72	176,640.42
14	12-30-2014	2,427.34	558.96	1,868.38	174,772.04
2014 TOTALS:		29,128.08	7,187.79	21,940.29	
15	01-30-2015	2,427.34	571.48	1,855.86	172,916.18
16	02-28-2015	2,427.34	528.93	1,898.41	171,017.77
17	03-30-2015	2,427.34	541.17	1,886.17	169,131.60
18	04-30-2015	2,427.34	553.04	1,874.30	167,257.30
19	05-30-2015	2,427.34	529.27	1,898.07	165,359.23
20	06-30-2015	2,427.34	540.70	1,886.64	163,472.59
21	07-30-2015	2,427.34	517.29	1,910.05	161,562.54
22	08-30-2015	2,427.34	528.29	1,899.05	159,663.49
23	09-30-2015	2,427.34	522.08	1,905.26	157,758.23
24	10-30-2015	2,427.34	499.21	1,928.13	155,830.10
25	11-30-2015	2,427.34	509.54	1,917.80	153,912.30
26	12-30-2015	2,427.34	487.04	1,940.30	151,972.00
2015 TOTALS:		29,128.08	6,328.04	22,800.04	
27	01-30-2016	2,427.34	495.66	1,931.68	150,040.32
28	02-29-2016	2,427.34	473.49	1,953.85	148,086.47
29	03-30-2016	2,427.34	467.32	1,960.02	146,126.45
30	04-30-2016	2,427.34	476.51	1,950.83	144,175.62
31	05-30-2016	2,427.34	484.98	1,972.36	142,203.26
32	06-30-2016	2,427.34	463.71	1,963.63	140,239.63
33	07-30-2016	2,427.34	442.56	1,984.78	138,254.85
34	08-30-2016	2,427.34	450.84	1,976.50	136,278.35
35	09-30-2016	2,427.34	444.39	1,982.95	134,295.40
36	10-30-2016	2,427.34	423.80	2,003.54	132,291.86
37	11-30-2016	2,427.34	431.39	1,995.95	130,295.91
38	12-30-2016	2,427.34	411.18	2,016.16	128,279.75
2016 TOTALS:		29,128.08	5,435.83	23,692.25	
39	01-30-2017	2,427.34	419.38	2,007.96	126,271.79
40	02-28-2017	2,427.34	386.25	2,041.09	124,230.70
41	03-30-2017	2,427.34	393.11	2,034.23	122,196.47
42	04-30-2017	2,427.34	399.57	2,027.77	120,168.70
43	05-30-2017	2,427.34	380.26	2,047.08	118,121.62
44	06-30-2017	2,427.34	386.24	2,041.10	116,080.52
45	07-30-2017	2,427.34	367.32	2,060.02	114,020.50
46	08-30-2017	2,427.34	372.83	2,054.51	111,965.99
47	09-30-2017	2,427.34	366.11	2,061.23	109,904.76
48	10-30-2017	110,252.54	347.78	109,904.76	0.00
2017 TOTALS:		132,098.60	3,818.85	128,279.75	
TOTALS:		224,337.52	24,032.52	200,305.00	

NOTICE: This is an estimated loan amortization schedule. Actual amounts may vary if payments are made on different dates or in different amounts.

Principal: 200,305.00
Term: 97 Payments

Annual Interest Rate: 3.850
Payments per Year: 12

Pmt. No.	Date Due	Date Paid	Payment Amount	Interest Expense	Principal Reduction	Payoff Amount
						200,305.00
1	11/01/13		2,427.34	642.65	1,784.69	198,520.31
2	12/01/13		2,427.34	636.92	1,790.42	196,729.89
Sub-total			4,854.68	1,279.57	3,575.11	196,729.89
3	01/01/14		2,427.34	631.18	1,796.16	194,933.73
4	02/01/14		2,427.34	625.41	1,801.93	193,131.80
5	03/01/14		2,427.34	619.63	1,807.71	191,324.09
6	04/01/14		2,427.34	613.83	1,813.51	189,510.58
7	05/01/14		2,427.34	608.01	1,819.33	187,691.25
8	06/01/14		2,427.34	602.18	1,825.16	185,866.09
9	07/01/14		2,427.34	596.32	1,831.02	184,035.07
10	08/01/14		2,427.34	590.45	1,836.89	182,198.18
11	09/01/14		2,427.34	584.55	1,842.79	180,355.39
12	10/01/14		2,427.34	578.64	1,848.70	178,506.69
13	11/01/14		2,427.34	572.71	1,854.63	176,652.06
14	12/01/14		2,427.34	566.76	1,860.58	174,791.48
Sub-total			29,128.08	7,189.67	21,938.41	174,791.48
15	01/01/15		2,427.34	560.79	1,866.55	172,924.93
16	02/01/15		2,427.34	554.80	1,872.54	171,052.39
17	03/01/15		2,427.34	548.79	1,878.55	169,173.84
18	04/01/15		2,427.34	542.77	1,884.57	167,289.27
19	05/01/15		2,427.34	536.72	1,890.62	165,398.65
20	06/01/15		2,427.34	530.65	1,896.69	163,501.96
21	07/01/15		2,427.34	524.57	1,902.77	161,599.19
22	08/01/15		2,427.34	518.46	1,908.88	159,690.31
23	09/01/15		2,427.34	512.34	1,915.00	157,775.31
24	10/01/15		2,427.34	506.20	1,921.14	155,854.17
25	11/01/15		2,427.34	500.03	1,927.31	153,926.86
26	12/01/15		2,427.34	493.85	1,933.49	151,993.37
Sub-total			29,128.08	6,329.97	22,798.11	151,993.37

Use P&I
amounts on
monthly Statement
as of 3/14

Principal: 200,305.00
Term: 97 Payments

Annual Interest Rate: 3.850
Payments per Year: 12

Pmt. No.	Date Due	Date Paid	Payment Amount	Interest Expense	Principal Reduction	Payoff Amount
63	01/01/19		2,427.34	250.56	2,176.78	75,920.58
64	02/01/19		2,427.34	243.58	2,183.76	73,736.82
65	03/01/19		2,427.34	236.57	2,190.77	71,546.05
66	04/01/19		2,427.34	229.54	2,197.80	69,348.25
67	05/01/19		2,427.34	222.49	2,204.85	67,143.40
68	06/01/19		2,427.34	215.42	2,211.92	64,931.48
69	07/01/19		2,427.34	208.32	2,219.02	62,712.46
70	08/01/19		2,427.34	201.20	2,226.14	60,486.32
71	09/01/19		2,427.34	194.06	2,233.28	58,253.04
72	10/01/19		2,427.34	186.90	2,240.44	56,012.60
73	11/01/19		2,427.34	179.71	2,247.63	53,764.97
74	12/01/19		2,427.34	172.50	2,254.84	51,510.13
Sub-total			29,128.08	2,540.85	26,587.23	51,510.13
75	01/01/20		2,427.34	165.26	2,262.08	49,248.05
76	02/01/20		2,427.34	158.00	2,269.34	46,978.71
77	03/01/20		2,427.34	150.72	2,276.62	44,702.09
78	04/01/20		2,427.34	143.42	2,283.92	42,418.17
79	05/01/20		2,427.34	136.09	2,291.25	40,126.92
80	06/01/20		2,427.34	128.74	2,298.60	37,828.32
81	07/01/20		2,427.34	121.37	2,305.97	35,522.35
82	08/01/20		2,427.34	113.97	2,313.37	33,208.98
83	09/01/20		2,427.34	106.55	2,320.79	30,888.19
84	10/01/20		2,427.34	99.10	2,328.24	28,559.95
85	11/01/20		2,427.34	91.63	2,335.71	26,224.24
86	12/01/20		2,427.34	84.14	2,343.20	23,881.04
Sub-total			29,128.08	1,498.99	27,629.09	23,881.04
87	01/01/21		2,427.34	76.62	2,350.72	21,530.32
88	02/01/21		2,427.34	69.08	2,358.26	19,172.06
89	03/01/21		2,427.34	61.51	2,365.83	16,806.23
90	04/01/21		2,427.34	53.92	2,373.42	14,432.81
91	05/01/21		2,427.34	46.31	2,381.03	12,051.78
92	06/01/21		2,427.34	38.67	2,388.67	9,663.11
93	07/01/21		2,427.34	31.00	2,396.34	7,266.77
94	08/01/21		2,427.34	23.31	2,404.03	4,862.74
95	09/01/21		2,427.34	15.60	2,411.74	2,451.00
96	10/01/21		2,427.34	7.86	2,419.48	31.52
97	11/01/21		31.62	0.10	31.52	0.00
Sub-total			24,305.02	423.98	23,881.04	0.00
Total			233,056.26	32,751.26	200,305.00	0.00



PROMISSORY NOTE

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$200,305.00	10-31-2013	10-30-2017	88196	5	10098348	SLC	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Borrower: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7697

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

Principal Amount: \$200,305.00 **Interest Rate:** 3.850% **Date of Note:** October 31, 2013

PROMISE TO PAY. Estill Co Water District #1 ("Borrower") promises to pay to Citizens Guaranty Bank ("Lender"), or order, in lawful money of the United States of America, the principal amount of Two Hundred Thousand Three Hundred Five & 00/100 Dollars (\$200,305.00), together with interest on the unpaid principal balance from October 31, 2013, calculated as described in the "INTEREST CALCULATION METHOD" paragraph using an interest rate of 3.850% per annum, until paid in full. The interest rate may change under the terms and conditions of the "INTEREST AFTER DEFAULT" section.

PAYMENT. Borrower will pay this loan in 47 regular payments of \$2,427.34 each and one irregular last payment estimated at \$110,252.54. Borrower's first payment is due November 30, 2013, and all subsequent payments are due on the same day of each month after that. Borrower's final payment will be due on October 30, 2017, and will be for all principal and all accrued interest not yet paid. Payments include principal and interest. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal; then to any escrow or reserve account payments as required under any mortgage, deed of trust, or other security instrument or security agreement securing this Note; then to any late charges; and then to any unpaid collection costs. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

INTEREST CALCULATION METHOD. Interest on this Note is computed on a 365/365 simple interest basis; that is, by applying the ratio of the interest rate over the number of days in a year (366 during leap years), multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. All interest payable under this Note is computed using this method.

PREPAYMENT. Borrower agrees that all loan fees and other prepaid finance charges are earned fully as of the date of the loan and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. Except for the foregoing, Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, early payments will reduce the principal balance due and may result in Borrower's making fewer payments. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: Citizens Guaranty Bank, A Real Community Bank, P.O. Box 630 Irvine, KY 40336-0630.

LATE CHARGE. If a payment is 10 days or more late, Borrower will be charged 5.000% of the regularly scheduled payment.

INTEREST AFTER DEFAULT. Upon default, including failure to pay upon final maturity, the total sum due under this Note will continue to accrue interest at the interest rate under this Note.

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

Payment Default. Borrower fails to make any payment when due under this Note.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Note or the related documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Death or Insolvency. The death of Borrower or the dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the indebtedness or any guarantor, endorser, surety, or accommodation party dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

Insecurity. Lender in good faith believes itself insecure.

Cure Provisions. If any default, other than a default in payment is curable and if Borrower has not been given a notice of a breach of the same provision of this Note within the preceding twelve (12) months, it may be cured if Borrower, after Lender sends written notice to Borrower demanding cure of such default: (1) cures the default within thirty (30) days; or (2) if the cure requires more than thirty (30) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance under this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount.

ATTORNEYS' FEES; EXPENSES. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's reasonable attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), and appeals. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law.

JURY WAIVER. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other.

GOVERNING LAW. This Note will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the Commonwealth of Kentucky without regard to its conflicts of law provisions. This Note has been accepted by Lender in the Commonwealth of Kentucky.

CHOICE OF VENUE. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Estill County, Commonwealth of Kentucky.

DISHONORED ITEM FEE. Borrower will pay a fee to Lender of \$25.00 if Borrower makes a payment on Borrower's loan and the check or preauthorized charge with which Borrower pays is later dishonored.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether



**PROMISSORY NOTE
(Continued)**

Loan No: 88196

Page 2

checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts.

COLLATERAL. Borrower acknowledges this Note is secured by All Accounts Receivable now owned or hereafter acquired in the operation of Estill County Water District #1.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

NOTIFY US OF INACCURATE INFORMATION WE REPORT TO CONSUMER REPORTING AGENCIES. Borrower may notify Lender if Lender reports any inaccurate information about Borrower's account(s) to a consumer reporting agency. Borrower's written notice describing the specific inaccuracy(ies) should be sent to Lender at the following address: Citizens Guaranty Bank A Real Community Bank, P.O. Box 630 Irvine, KY 40336-0630.

GENERAL PROVISIONS. If any part of this Note cannot be enforced, this fact will not affect the rest of the Note. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE. BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

BORROWER:

ESTILL CO WATER DISTRICT #1

By: _____
Jerry M Arnold, Secretary of Estill Co Water District
#1

By: _____
Greg A Wright, Chairman of Estill Co Water District
#1

By: _____
William Beard, Treasurer of Estill Co Water District
#1



DISBURSEMENT REQUEST AND AUTHORIZATION

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$200,305.00	10-31-2013	10-30-2017	88196	5	10098348	SLC	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "*" has been omitted due to text length limitations.

Borrower: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7697

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

LOAN TYPE. This is a Fixed Rate (3.850%) Nondisclosable Loan to a Government Entity for \$200,305.00 due on October 30, 2017.

PRIMARY PURPOSE OF LOAN. The primary purpose of this loan is for:

- Personal, Family, or Household Purposes or Personal Investment.
- Business (Including Real Estate Investment).

SPECIFIC PURPOSE. The specific purpose of this loan is: Operating money.

DISBURSEMENT INSTRUCTIONS. Borrower understands that no loan proceeds will be disbursed until all of Lender's conditions for making the loan have been satisfied. Please disburse the loan proceeds of \$200,305.00 as follows:

Amount paid to Borrower directly:	\$200,000.00
\$200,000.00 Lender's Check #	
Other Charges Financed:	\$10.00
\$10.00 UCC Filing	
Total Financed Prepaid Finance Charges:	\$295.00
\$275.00 Commercial Loan Fee	
\$20.00 Loan Coupon Book	
Note Principal:	\$200,305.00

FINANCIAL CONDITION. BY SIGNING THIS AUTHORIZATION, BORROWER REPRESENTS AND WARRANTS TO LENDER THAT THE INFORMATION PROVIDED ABOVE IS TRUE AND CORRECT AND THAT THERE HAS BEEN NO MATERIAL ADVERSE CHANGE IN BORROWER'S FINANCIAL CONDITION AS DISCLOSED IN BORROWER'S MOST RECENT FINANCIAL STATEMENT TO LENDER. THIS AUTHORIZATION IS DATED OCTOBER 31, 2013.

BORROWER:

ESTILL CO WATER DISTRICT #1

By: Jerry M Arnold, Secretary of Estill Co Water District #1

By: Greg A Wright, Chairman of Estill Co Water District #1

By: William Beard, Treasurer of Estill Co Water District #1



COMMERCIAL SECURITY AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$200,305.00	10-31-2013	10-30-2017	88196	5	10098348	SLC	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Grantor: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7697

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

THIS COMMERCIAL SECURITY AGREEMENT dated October 31, 2013, is made and executed between Estill Co Water District #1 ("Grantor") and Citizens Guaranty Bank ("Lender").

GRANT OF SECURITY INTEREST. For valuable consideration, Grantor grants to Lender a security interest in the Collateral to secure the indebtedness and agrees that Lender shall have the rights stated in this Agreement with respect to the Collateral, in addition to all other rights which Lender may have by law.

COLLATERAL DESCRIPTION. The word "Collateral" as used in this Agreement means the following described property, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located, in which Grantor is giving to Lender a security interest for the payment of the indebtedness and performance of all other obligations under the Note and this Agreement:

All Accounts Receivable now owned or hereafter acquired in the operation of Estill County Water District #1

In addition, the word "Collateral" also includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

- (A) All accessions, attachments, accessories, replacements of and additions to any of the collateral described herein, whether added now or later.
- (B) All products and produce of any of the property described in this Collateral section.
- (C) All accounts, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, consignment or other disposition of any of the property described in this Collateral section.
- (D) All proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section, and sums due from a third party who has damaged or destroyed the Collateral or from that party's insurer, whether due to judgment, settlement or other process.
- (E) All records and data relating to any of the property described in this Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Grantor's right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or data on electronic media.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Grantor's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Grantor holds jointly with someone else and all accounts Grantor may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Grantor authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts.

GRANTOR'S REPRESENTATIONS AND WARRANTIES WITH RESPECT TO THE COLLATERAL. With respect to the Collateral, Grantor represents and promises to Lender that:

Perfection of Security Interest. Grantor agrees to take whatever actions are requested by Lender to perfect and continue Lender's security interest in the Collateral. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral, and Grantor will note Lender's interest upon any and all chattel paper and instruments if not delivered to Lender for possession by Lender.

Notices to Lender. Grantor will promptly notify Lender in writing at Lender's address shown above (or such other addresses as Lender may designate from time to time) prior to any (1) change in Grantor's name; (2) change in Grantor's assumed business name(s); (3) change in the structure of the entity Grantor; (4) change in the authorized signer(s); (5) change in Grantor's principal office address; (6) change in Grantor's principal residence; (7) conversion of Grantor to a new or different type of business entity; or (8) change in any other aspect of Grantor that directly or indirectly relates to any agreements between Grantor and Lender. No change in Grantor's name will take effect until after Lender has received notice.

No Violation. The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party.

Enforceability of Collateral. To the extent the Collateral consists of accounts, chattel paper, or general intangibles, as defined by the Uniform Commercial Code, the Collateral is enforceable in accordance with its terms, is genuine, and fully complies with all applicable laws and regulations concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral. At the time any account becomes subject to a security interest in favor of Lender, the account shall be a good and valid account representing an undisputed, bona fide indebtedness incurred by the account debtor, for merchandise held subject to delivery instructions or previously shipped or delivered pursuant to a contract of sale, or for services previously performed by Grantor with or for the account debtor. So long as this Agreement remains in effect, Grantor shall not, without Lender's prior written consent, compromise, settle, adjust, or extend payment under or with regard to any such Accounts. There shall be no setoffs or counterclaims against any of the Collateral, and no agreement shall have been made under which any deductions or discounts may be claimed concerning the Collateral except those disclosed to Lender in writing.

Location of the Collateral. Except in the ordinary course of Grantor's business, Grantor agrees to keep the Collateral (or to the extent the Collateral consists of intangible property such as accounts or general intangibles, the records concerning the Collateral) at Grantor's address shown above or at such other locations as are acceptable to Lender. Upon Lender's request, Grantor will deliver to Lender in form satisfactory to Lender a schedule of real properties and Collateral locations relating to Grantor's operations, including without limitation the following: (1) all real property Grantor owns or is purchasing; (2) all real property Grantor is renting or leasing; (3) all storage facilities Grantor owns, rents, leases, or uses; and (4) all other properties where Collateral is or may be located.

Removal of the Collateral. Except in the ordinary course of Grantor's business, Grantor shall not remove the Collateral from its existing location without Lender's prior written consent. Grantor shall, whenever requested, advise Lender of the exact location of the Collateral.

Transactions Involving Collateral. Except for inventory sold or accounts collected in the ordinary course of Grantor's business, or as otherwise provided for in this Agreement, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in this Agreement, without the prior written consent of Lender. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by Lender, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Lender and shall not be commingled with any other funds; provided however, this requirement shall not constitute consent by Lender to any sale or other disposition. Upon receipt, Grantor shall immediately deliver any such proceeds to Lender.

Title. Grantor represents and warrants to Lender that Grantor holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Lender has specifically consented. Grantor shall defend Lender's rights in the Collateral against the claims and demands of all other persons.

Repairs and Maintenance. Grantor agrees to keep and maintain, and to cause others to keep and maintain, the Collateral in good order, repair and condition at all times while this Agreement remains in effect. Grantor further agrees to pay when due all claims for work done on, or services rendered or material furnished in connection with the Collateral so that no lien or encumbrance may ever attach to or be



filed against the Collateral.

Inspection of Collateral. Lender and Lender's designated representatives and agents shall have the right at all reasonable times to examine and inspect the Collateral wherever located.

Taxes, Assessments and Liens. Grantor will pay when due all taxes, assessments and liens upon the Collateral, its use or operation, upon this Agreement, upon any promissory note or notes evidencing the Indebtedness, or upon any of the other Related Documents. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized in Lender's sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Grantor shall deposit with Lender cash, a sufficient corporate surety bond or other security satisfactory to Lender in an amount adequate to provide for the discharge of the lien plus any interest, costs, reasonable attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the Collateral. In any contest Grantor shall defend itself and Lender and shall satisfy any final adverse judgment before enforcement against the Collateral. Grantor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings. Grantor further agrees to furnish Lender with evidence that such taxes, assessments, and governmental and other charges have been paid in full and in a timely manner. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized.

Compliance with Governmental Requirements. Grantor shall comply promptly with all laws, ordinances, rules and regulations of all governmental authorities, now or hereafter in effect, applicable to the ownership, production, disposition, or use of the Collateral, including all laws or regulations relating to the undue erosion of highly-erodible land or relating to the conversion of wetlands for the production of an agricultural product or commodity. Grantor may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Lender's interest in the Collateral, in Lender's opinion, is not jeopardized.

Hazardous Substances. Grantor represents and warrants that the Collateral never has been, and never will be so long as this Agreement remains a lien on the Collateral, used in violation of any Environmental Laws or for the generation, manufacture, storage, transportation, treatment, disposal, release or threatened release of any Hazardous Substance. The representations and warranties contained herein are based on Grantor's due diligence in investigating the Collateral for Hazardous Substances. Grantor hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Grantor becomes liable for cleanup or other costs under any Environmental Laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims and losses resulting from a breach of this provision of this Agreement. This obligation to indemnify and defend shall survive the payment of the Indebtedness and the satisfaction of this Agreement.

Maintenance of Casualty Insurance. Grantor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as Lender may require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to Lender and issued by a company or companies reasonably acceptable to Lender. Grantor, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days' prior written notice to Lender and not including any disclaimer of the insurer's liability for failure to give such a notice. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Grantor or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest, Grantor will provide Lender with such loss payable or other endorsements as Lender may require. If Grantor at any time fails to obtain or maintain any insurance as required under this Agreement, Lender may (but shall not be obligated to) obtain such insurance as Lender deems appropriate, including if Lender so chooses "single interest insurance," which will cover only Lender's interest in the Collateral.

Application of Insurance Proceeds. Grantor shall promptly notify Lender of any loss or damage to the Collateral if the estimated cost of repair or replacement exceeds 5000, whether or not such casualty or loss is covered by insurance. Lender may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued proceeds thereon, shall be held by Lender as part of the Collateral. If Lender consents to repair or replacement of the damaged or destroyed Collateral, Lender shall, upon satisfactory proof of expenditure, pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration. If Lender does not consent to repair or replacement of the Collateral, Lender shall retain a sufficient amount of the proceeds to pay all of the Indebtedness, and shall pay the balance to Grantor. Any proceeds which have not been disbursed within six (6) months after their receipt and which Grantor has not committed to the repair or restoration of the Collateral shall be used to prepay the Indebtedness.

Insurance Reserves. Lender may require Grantor to maintain with Lender reserves for payment of insurance premiums, which reserves shall be created by monthly payments from Grantor of a sum estimated by Lender to be sufficient to produce, at least fifteen (15) days before the premium due date, amounts at least equal to the insurance premiums to be paid. If fifteen (15) days before payment is due, the reserve funds are insufficient, Grantor shall upon demand pay any deficiency to Lender. The reserve funds shall be held by Lender as a general deposit and shall constitute a non-interest-bearing account which Lender may satisfy by payment of the insurance premiums required to be paid by Grantor as they become due. Lender does not hold the reserve funds in trust for Grantor, and Lender is not the agent of Grantor for payment of the insurance premiums required to be paid by Grantor. The responsibility for the payment of premiums shall remain Grantor's sole responsibility.

Insurance Reports. Grantor, upon request of Lender, shall furnish to Lender reports on each existing policy of insurance showing such information as Lender may reasonably request including the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the property insured; (5) the then current value on the basis of which insurance has been obtained and the manner of determining that value; and (6) the expiration date of the policy. In addition, Grantor shall upon request by Lender (however not more often than annually) have an independent appraiser satisfactory to Lender determine, as applicable, the cash value or replacement cost of the Collateral.

Financing Statements. Grantor authorizes Lender to file a UCC financing statement, or alternatively, a copy of this Agreement to perfect Lender's security interest. At Lender's request, Grantor additionally agrees to sign all other documents that are necessary to perfect, protect, and continue Lender's security interest in the Property. Grantor will pay all filing fees, title transfer fees, and other fees and costs involved unless prohibited by law or unless Lender is required by law to pay such fees and costs. Grantor irrevocably appoints Lender to execute documents necessary to transfer title if there is a default. Lender may file a copy of this Agreement as a financing statement.

GRANTOR'S RIGHT TO POSSESSION AND TO COLLECT ACCOUNTS. Until default and except as otherwise provided below with respect to accounts, Grantor may have possession of the tangible personal property and beneficial use of all the Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Grantor's right to possession and beneficial use shall not apply to any Collateral where possession of the Collateral by Lender is required by law to perfect Lender's security interest in such Collateral. Until otherwise notified by Lender, Grantor may collect any of the Collateral consisting of accounts. At any time and even though no Event of Default exists, Lender may exercise its rights to collect the accounts and to notify account debtors to make payments directly to Lender for application to the Indebtedness. If Lender at any time has possession of any Collateral, whether before or after an Event of Default, Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if Lender takes such action for that purpose as Grantor shall request or as Lender, in Lender's sole discretion, shall deem appropriate under the circumstances, but failure to honor any request by Grantor shall not of itself be deemed to be a failure to exercise reasonable care. Lender shall not be required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve or maintain any security interest given to secure the Indebtedness.

LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Grantor fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Grantor's failure to discharge or pay when due any amounts Grantor is required to discharge or pay under this Agreement or any Related Documents, Lender on Grantor's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on the Collateral and paying all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity. The Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon Default.

**COMMERCIAL SECURITY AGREEMENT
(Continued)**

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DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Payment Default. Grantor fails to make any payment when due under the Indebtedness.

Other Defaults. Grantor fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Grantor.

False Statements. Any warranty, representation or statement made or furnished to Lender by Grantor or on Grantor's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

Insolvency. The insolvency of Grantor, the appointment of a receiver for any part of Grantor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or by any governmental agency against any collateral securing the Indebtedness. This includes a garnishment of any of Grantor's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Grantor as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Grantor gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the Indebtedness or guarantor, endorser, surety, or accommodation party dies or becomes incompetent or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

Adverse Change. A material adverse change occurs in Grantor's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

Insecurity. Lender in good faith believes itself insecure.

Cure Provisions. If any default, other than a default in payment is curable and if Grantor has not been given a notice of a breach of the same provision of this Agreement within the preceding twelve (12) months, it may be cured if Grantor, after Lender sends written notice to Grantor demanding cure of such default: (1) cures the default within thirty (30) days; or (2) if the cure requires more than thirty (30) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, at any time thereafter, Lender shall have all the rights of a secured party under the Kentucky Uniform Commercial Code. In addition and without limitation, Lender may exercise any one or more of the following rights and remedies:

Accelerate Indebtedness. Lender may declare the entire Indebtedness, including any prepayment penalty which Grantor would be required to pay, immediately due and payable, without notice of any kind to Grantor.

Assemble Collateral. Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter upon the property of Grantor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Grantor agrees Lender may take such other goods, provided that Lender makes reasonable efforts to return them to Grantor after repossession.

Sell the Collateral. Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in Lender's own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender will give Grantor, and other persons as required by law, reasonable notice of the time and place of any public sale, or the time after which any private sale or any other disposition of the Collateral is to be made. However, no notice need be provided to any person who, after Event of Default occurs, enters into and authenticates an agreement waiving that person's right to notification of sale. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Appoint Receiver. Lender shall have the right to have a receiver appointed to take possession of all or any part of the Collateral, with the power to protect and preserve the Collateral, to operate the Collateral preceding foreclosure or sale, and to collect the rents from the Collateral and apply the proceeds, over and above the cost of the receivership, against the Indebtedness. The receiver may serve without bond if permitted by law. Lender's right to the appointment of a receiver shall exist whether or not the apparent value of the Collateral exceeds the Indebtedness by a substantial amount. Employment by Lender shall not disqualify a person from serving as a receiver.

Collect Revenues, Apply Accounts. Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Lender may at any time in Lender's discretion transfer any Collateral into Lender's own name or that of Lender's nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of and in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Lender may notify account debtors and obligors on any Collateral to make payments directly to Lender.

Obtain Deficiency. If Lender chooses to sell any or all of the Collateral, Lender may obtain a judgment against Grantor for any deficiency remaining on the Indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this Agreement. Grantor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

Other Rights and Remedies. Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Lender shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

Election of Remedies. Except as may be prohibited by applicable law, all of Lender's rights and remedies, whether evidenced by this Agreement, the Related Documents, or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not affect Lender's right to declare a default and exercise its remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Attorneys' Fees; Expenses. Grantor agrees to pay upon demand all of Lender's costs and expenses, including Lender's reasonable attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Grantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's reasonable attorneys' fees and legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any



anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Governing Law. This Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the Commonwealth of Kentucky without regard to its conflicts of law provisions. This Agreement has been accepted by Lender in the Commonwealth of Kentucky.

Choice of Venue. If there is a lawsuit, Grantor agrees upon Lender's request to submit to the jurisdiction of the courts of Estill County, Commonwealth of Kentucky.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Notices. Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Grantor agrees to keep Lender informed at all times of Grantor's current address. Unless otherwise provided or required by law, if there is more than one Grantor, any notice given by Lender to any Grantor is deemed to be notice given to all Grantors.

Power of Attorney. Grantor hereby appoints Lender as Grantor's irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect, amend, or to continue the security interest granted in this Agreement or to demand termination of filings of other secured parties. Lender may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lender's security interest in the Collateral.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

Successors and Assigns. Subject to any limitations stated in this Agreement on transfer of Grantor's interest, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns. If ownership of the Collateral becomes vested in a person other than Grantor, Lender, without notice to Grantor, may deal with Grantor's successors with reference to this Agreement and the Indebtedness by way of forbearance or extension without releasing Grantor from the obligations of this Agreement or liability under the Indebtedness.

Survival of Representations and Warranties. All representations, warranties, and agreements made by Grantor in this Agreement shall survive the execution and delivery of this Agreement, shall be continuing in nature, and shall remain in full force and effect until such time as Grantor's Indebtedness shall be paid in full.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

Waive Jury. All parties to this Agreement hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code:

Agreement. The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

Borrower. The word "Borrower" means Estill Co Water District #1 and includes all co-signers and co-makers signing the Note and all their successors and assigns.

Collateral. The word "Collateral" means all of Grantor's right, title and interest in and to all the Collateral as described in the Collateral Description section of this Agreement.

Default. The word "Default" means the Default set forth in this Agreement in the section titled "Default".

Environmental Laws. The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

Grantor. The word "Grantor" means Estill Co Water District #1.

Guaranty. The word "Guaranty" means the guaranty from guarantor, endorser, surety, or accommodation party to Lender, including without limitation a guaranty of all or part of the Note.

Hazardous Substances. The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Grantor is responsible under this Agreement or under any of the Related Documents.

Lender. The word "Lender" means Citizens Guaranty Bank, its successors and assigns.

Note. The word "Note" means the Note dated October 31, 2013 and executed by Estill Co Water District #1 in the principal amount of \$200,305.00, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

Property. The word "Property" means all of Grantor's right, title and interest in and to all the Property as described in the "Collateral Description" section of this Agreement.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments,



**COMMERCIAL SECURITY AGREEMENT
(Continued)**

Loan No: 88196

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agreements and documents, whether now or hereafter existing, executed in connection with the indebtedness.

GRANTOR HAS READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT AND AGREES TO ITS TERMS. THIS AGREEMENT IS DATED OCTOBER 31, 2013.

GRANTOR:

ESTILL CO WATER DISTRICT #1

By: _____
Jerry M Arnold, Secretary of Estill Co Water District
#1

By: _____
Greg A Wright, Chairman of Estill Co Water District
#1

By: _____
William Beard, Treasurer of Estill Co Water District
#1



BUSINESS LOAN AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$200,305.00	10-31-2013	10-30-2017	88196	5	10098348	SLC	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Borrower: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7697

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

THIS BUSINESS LOAN AGREEMENT dated October 31, 2013, is made and executed between Estill Co Water District #1 ("Borrower") and Citizens Guaranty Bank ("Lender") on the following terms and conditions. Borrower has received prior commercial loans from Lender or has applied to Lender for a commercial loan or loans or other financial accommodations, including those which may be described on any exhibit or schedule attached to this Agreement. Borrower understands and agrees that: (A) in granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements as set forth in this Agreement; (B) the granting, renewing, or extending of any Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; and (C) all such Loans shall be and remain subject to the terms and conditions of this Agreement.

TERM. This Agreement shall be effective as of October 31, 2013, and shall continue in full force and effect until such time as all of Borrower's Loans in favor of Lender have been paid in full, including principal, interest, costs, expenses, attorneys' fees, and other fees and charges, or until October 30, 2017.

CONDITIONS PRECEDENT TO EACH ADVANCE. Lender's obligation to make the initial Advance and each subsequent Advance under this Agreement shall be subject to the fulfillment to Lender's satisfaction of all of the conditions set forth in this Agreement and in the Related Documents.

Loan Documents. Borrower shall provide to Lender the following documents for the Loan: (1) the Note; (2) Security Agreements granting to Lender security interests in the Collateral; (3) financing statements and all other documents perfecting Lender's Security Interests; (4) evidence of insurance as required below; (5) together with all such Related Documents as Lender may require for the Loan; all in form and substance satisfactory to Lender and Lender's counsel.

Borrower's Authorization. Borrower shall have provided in form and substance satisfactory to Lender properly certified resolutions, duly authorizing the execution and delivery of this Agreement, the Note and the Related Documents. In addition, Borrower shall have provided such other resolutions, authorizations, documents and instruments as Lender or its counsel, may require.

Payment of Fees and Expenses. Borrower shall have paid to Lender all fees, charges, and other expenses which are then due and payable as specified in this Agreement or any Related Document.

Representations and Warranties. The representations and warranties set forth in this Agreement, in the Related Documents, and in any document or certificate delivered to Lender under this Agreement are true and correct.

No Event of Default. There shall not exist at the time of any Advance a condition which would constitute an Event of Default under this Agreement or under any Related Document.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any Indebtedness exists:

Organization. Borrower is a governmental entity which is, and at all times shall be, duly organized, validly existing, and in good standing under and by virtue of the laws of the Commonwealth of Kentucky. Borrower is duly authorized to transact business in all other states in which Borrower is doing business, having obtained all necessary filings, governmental licenses and approvals for each state in which Borrower is doing business. Specifically, Borrower is, and at all times shall be, duly qualified as a foreign in all states in which the failure to so qualify would have a material adverse effect on its business or financial condition. Borrower has the full power and authority to own its properties and to transact the business in which it is presently engaged or presently proposes to engage. Borrower maintains an office at 76 Cedar Grove Rd, Irvine, KY 40336-7697. Unless Borrower has designated otherwise in writing, the principal office is the office at which Borrower keeps its books and records including its records concerning the Collateral. Borrower will notify Lender prior to any change in the location of Borrower's state of organization or any change in Borrower's name. Borrower shall do all things necessary to preserve and to keep in full force and effect its existence, rights and privileges, and shall comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental or quasi-governmental authority or court applicable to Borrower and Borrower's business activities.

Assumed Business Names. Borrower has filed or recorded all documents or filings required by law relating to all assumed business names used by Borrower. Excluding the name of Borrower, the following is a complete list of all assumed business names under which Borrower does business: **None.**

Authorization. Borrower's execution, delivery, and performance of this Agreement and all the Related Documents have been duly authorized by all necessary action by Borrower and do not conflict with, result in a violation of, or constitute a default under (1) any provision of any agreement or other instrument binding upon Borrower or (2) any law, governmental regulation, court decree, or order applicable to Borrower or to Borrower's properties.

Financial Information. Each of Borrower's financial statements supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.

Legal Effect. This Agreement constitutes, and any instrument or agreement Borrower is required to give under this Agreement when delivered will constitute legal, valid, and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

Properties. Except as contemplated by this Agreement or as previously disclosed in Borrower's financial statements or in writing to Lender and as accepted by Lender, and except for property tax liens for taxes not presently due and payable, Borrower owns and has good title to all of Borrower's properties free and clear of all Security Interests, and has not executed any security documents or financing statements relating to such properties. All of Borrower's properties are titled in Borrower's legal name, and Borrower has not used or filed a financing statement under any other name for at least the last five (5) years.

Hazardous Substances. Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that: (1) During the period of Borrower's ownership of the Collateral, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance by any person on, under, about or from any of the Collateral. (2) Borrower has no knowledge of, or reason to believe that there has been (a) any breach or violation of any Environmental Laws; (b) any use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance on, under, about or from the Collateral by any prior owners or occupants of any of the Collateral; or (c) any actual or threatened litigation or claims of any kind by any person relating to such matters. (3) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the Collateral shall use, generate, manufacture, store, treat, dispose of or release any Hazardous Substance on, under, about or from any of the Collateral; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation all Environmental Laws. Borrower authorizes Lender and its agents to enter upon the Collateral to make such inspections and tests as Lender may deem appropriate to determine compliance of the Collateral with this section of the Agreement. Any inspections or tests made by Lender shall be at Borrower's expense and for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the Collateral for hazardous waste and Hazardous Substances. Borrower hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Borrower becomes liable for cleanup or other costs under any such laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release of a hazardous waste or substance on the Collateral. The provisions of this section of the Agreement, including the obligation to indemnify and defend, shall survive the payment of the Indebtedness and the termination, expiration or satisfaction of this Agreement and shall not be affected by Lender's acquisition of any interest in any of the Collateral, whether by



foreclosure or otherwise.

Litigation and Claims. No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

Taxes. To the best of Borrower's knowledge, all of Borrower's tax returns and reports that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being or to be contested by Borrower in good faith in the ordinary course of business and for which adequate reserves have been provided.

Lien Priority. Unless otherwise previously disclosed to Lender in writing, Borrower has not entered into or granted any Security Agreements, or permitted the filing or attachment of any Security Interests on or affecting any of the Collateral directly or indirectly securing repayment of Borrower's Loan and Note, that would be prior or that may in any way be superior to Lender's Security Interests and rights in and to such Collateral.

Binding Effect. This Agreement, the Note, all Security Agreements (if any), and all Related Documents are binding upon the signers thereof, as well as upon their successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, so long as this Agreement remains in effect, Borrower will:

Notices of Claims and Litigation. Promptly inform Lender in writing of (1) all material adverse changes in Borrower's financial condition, and (2) all existing and all threatened litigation, claims, investigations, administrative proceedings or similar actions affecting Borrower or any Guarantor which could materially affect the financial condition of Borrower or the financial condition of any Guarantor.

Financial Records. Maintain its books and records in accordance with GAAP, applied on a consistent basis, and permit Lender to examine and audit Borrower's books and records at all reasonable times.

Financial Statements. Furnish Lender with the following:

Annual Statements. As soon as available, but in no event later than sixty (60) days after the end of each fiscal year, Borrower's balance sheet and income statement for the year ended, prepared by Borrower.

Tax Returns. As soon as available, but in no event later than sixty (60) days after the applicable filing date for the tax reporting period ended, Borrower's Federal and other governmental tax returns, prepared by a tax professional satisfactory to Lender.

All financial reports required to be provided under this Agreement shall be prepared in accordance with GAAP, applied on a consistent basis, and certified by Borrower as being true and correct.

Additional Information. Furnish such additional information and statements, as Lender may request from time to time.

Insurance. Maintain fire and other risk insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, coverages and with insurance companies acceptable to Lender. Borrower, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days prior written notice to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest for the Loans, Borrower will provide Lender with such lender's loss payable or other endorsements as Lender may require.

Insurance Reports. Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitation the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the properties insured; (5) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (6) the expiration date of the policy. In addition, upon request of Lender (however not more often than annually), Borrower will have an independent appraiser satisfactory to Lender determine, as applicable, the actual cash value or replacement cost of any Collateral. The cost of such appraisal shall be paid by Borrower.

Other Agreements. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

Loan Proceeds. Use all Loan proceeds solely for Borrower's business operations, unless specifically consented to the contrary by Lender in writing.

Taxes, Charges and Liens. Pay and discharge when due all of its indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits. Provided however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (1) the legality of the same shall be contested in good faith by appropriate proceedings, and (2) Borrower shall have established on Borrower's books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim in accordance with GAAP.

Performance. Perform and comply, in a timely manner, with all terms, conditions, and provisions set forth in this Agreement, in the Related Documents, and in all other instruments and agreements between Borrower and Lender. Borrower shall notify Lender immediately in writing of any default in connection with any agreement.

Operations. Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; conduct its business affairs in a reasonable and prudent manner.

Environmental Studies. Promptly conduct and complete, at Borrower's expense, all such investigations, studies, samplings and testings as may be requested by Lender or any governmental authority relative to any substance, or any waste or by-product of any substance defined as toxic or a hazardous substance under applicable federal, state, or local law, rule, regulation, order or directive, at or affecting any property or any facility owned, leased or used by Borrower.

Compliance with Governmental Requirements. Comply with all laws, ordinances, and regulations, now or hereafter in effect, of all governmental authorities applicable to the conduct of Borrower's properties, businesses and operations, and to the use or occupancy of the Collateral, including without limitation, the Americans With Disabilities Act. Borrower may contest in good faith any such law, ordinance, or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Borrower has notified Lender in writing prior to doing so and so long as, in Lender's sole opinion, Lender's interests in the Collateral are not jeopardized. Lender may require Borrower to post adequate security or a surety bond, reasonably satisfactory to Lender, to protect Lender's interest.

Inspection. Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

Environmental Compliance and Reports. Borrower shall comply in all respects with any and all Environmental Laws; not cause or permit to exist, as a result of an intentional or unintentional action or omission on Borrower's part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

Additional Assurances. Make, execute and deliver to Lender such promissory notes, mortgages, deeds of trust, security agreements, assignments, financing statements, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence and secure the Loans and to protect all Security Interests.



**BUSINESS LOAN AGREEMENT
(Continued)**

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LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Borrower fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Borrower's failure to discharge or pay when due any amounts Borrower is required to discharge or pay under this Agreement or any Related Documents, Lender on Borrower's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on any Collateral and paying all costs for insuring, maintaining and preserving any Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Borrower. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity.

NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall not, without the prior written consent of Lender:

Indebtedness and Liens. (1) Except for trade debt incurred in the normal course of business and indebtedness to Lender contemplated by this Agreement, create, incur or assume indebtedness for borrowed money, including capital leases, (2) sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of Borrower's assets (except as allowed as Permitted Liens), or (3) sell with recourse any of Borrower's accounts, except to Lender.

Continuity of Operations. (1) Engage in any business activities substantially different than those in which Borrower is presently engaged, (2) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change its name, dissolve or transfer or sell Collateral out of the ordinary course of business, or (3) make any distribution with respect to any capital account, whether by reduction of capital or otherwise.

Loans, Acquisitions and Guaranties. (1) Loan, invest in or advance money or assets to any other person, enterprise or entity, (2) purchase, create or acquire any interest in any other enterprise or entity, or (3) incur any obligation as surety or guarantor other than in the ordinary course of business.

Agreements. Enter into any agreement containing any provisions which would be violated or breached by the performance of Borrower's obligations under this Agreement or in connection herewith.

CESSATION OF ADVANCES. If Lender has made any commitment to make any Loan to Borrower, whether under this Agreement or under any other agreement, Lender shall have no obligation to make Loan Advances or to disburse Loan proceeds if: (A) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (B) Borrower or any Guarantor dies, becomes incompetent or becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (C) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; or (D) any Guarantor seeks, claims or otherwise attempts to limit, modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender; or (E) Lender in good faith deems itself insecure, even though no Event of Default shall have occurred.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the Indebtedness against any and all such accounts.

DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Payment Default. Borrower fails to make any payment when due under the Loan.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Death or Insolvency. The death of Borrower or the dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the Loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Loan is impaired.

Insecurity. Lender in good faith believes itself insecure.

Right to Cure. If any default, other than a default on Indebtedness, is curable and if Borrower or Grantor, as the case may be, has not been given a notice of a similar default within the preceding twelve (12) months, it may be cured if Borrower or Grantor, as the case may be, after Lender sends written notice to Borrower or Grantor, as the case may be, demanding cure of such default: (1) cure the default within thirty (30) days; or (2) if the cure requires more than thirty (30) days, immediately initiate steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continue and complete all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

EFFECT OF AN EVENT OF DEFAULT. If any Event of Default shall occur, except where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate (including any obligation to make further Loan Advances or disbursements), and, at Lender's option, all Indebtedness immediately will become due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Attorneys' Fees; Expenses. Borrower agrees to pay upon demand all of Lender's costs and expenses, including Lender's reasonable attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Borrower shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's reasonable attorneys' fees and legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any



anticipated post-judgment collection services. Borrower also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Consent to Loan Participation. Borrower agrees and consents to Lender's sale or transfer, whether now or later, of one or more participation interests in the Loan to one or more purchasers, whether related or unrelated to Lender. Lender may provide, without any limitation whatsoever, to any one or more purchasers, or potential purchasers, any information or knowledge Lender may have about Borrower or about any other matter relating to the Loan, and Borrower hereby waives any rights to privacy Borrower may have with respect to such matters. Borrower additionally waives any and all notices of sale of participation interests, as well as all notices of any repurchase of such participation interests. Borrower also agrees that the purchasers of any such participation interests will be considered as the absolute owners of such interests in the Loan and will have all the rights granted under the participation agreement or agreements governing the sale of such participation interests. Borrower further waives all rights of offset or counterclaim that it may have now or later against Lender or against any purchaser of such a participation interest and unconditionally agrees that either Lender or such purchaser may enforce Borrower's obligation under the Loan irrespective of the failure or insolvency of any holder of any interest in the Loan. Borrower further agrees that the purchaser of any such participation interests may enforce its interests irrespective of any personal claims or defenses that Borrower may have against Lender.

Governing Law. This Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the Commonwealth of Kentucky without regard to its conflicts of law provisions. This Agreement has been accepted by Lender in the Commonwealth of Kentucky.

Choice of Venue. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Estill County, Commonwealth of Kentucky.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any of Borrower's or any Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Notices. Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Borrower agrees to keep Lender informed at all times of Borrower's current address. Unless otherwise provided or required by law, if there is more than one Borrower, any notice given by Lender to any Borrower is deemed to be notice given to all Borrowers.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

Subsidiaries and Affiliates of Borrower. To the extent the context of any provisions of this Agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used in this Agreement shall include all of Borrower's subsidiaries and affiliates. Notwithstanding the foregoing however, under no circumstances shall this Agreement be construed to require Lender to make any Loan or other financial accommodation to any of Borrower's subsidiaries or affiliates.

Successors and Assigns. All covenants and agreements by or on behalf of Borrower contained in this Agreement or any Related Documents shall bind Borrower's successors and assigns and shall inure to the benefit of Lender and its successors and assigns. Borrower shall not, however, have the right to assign Borrower's rights under this Agreement or any interest therein, without the prior written consent of Lender.

Survival of Representations and Warranties. Borrower understands and agrees that in making the Loan, Lender is relying on all representations, warranties, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement or the Related Documents. Borrower further agrees that regardless of any investigation made by Lender, all such representations, warranties and covenants will survive the making of the Loan and delivery to Lender of the Related Documents, shall be continuing in nature, and shall remain in full force and effect until such time as Borrower's indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

Waive Jury. All parties to this Agreement hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. Accounting words and terms not otherwise defined in this Agreement shall have the meanings assigned to them in accordance with generally accepted accounting principles as in effect on the date of this Agreement:

Advance. The word "Advance" means a disbursement of Loan funds made, or to be made, to Borrower or on Borrower's behalf on a line of credit or multiple advance basis under the terms and conditions of this Agreement.

Agreement. The word "Agreement" means this Business Loan Agreement, as this Business Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Business Loan Agreement from time to time.

Borrower. The word "Borrower" means Estill Co Water District #1 and includes all co-signers and co-makers signing the Note and all their successors and assigns.

Collateral. The word "Collateral" means all property and assets granted as collateral security for a Loan, whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, collateral mortgage, deed of trust, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

Environmental Laws. The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

GAAP. The word "GAAP" means generally accepted accounting principles.

Grantor. The word "Grantor" means each and all of the persons or entities granting a Security Interest in any Collateral for the Loan, including without limitation all Borrowers granting such a Security Interest.

Guarantor. The word "Guarantor" means any guarantor, surety, or accommodation party, singly or all of the Loan.



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Guaranty. The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.

Hazardous Substances. The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Borrower is responsible under this Agreement or under any of the Related Documents.

Lender. The word "Lender" means Citizens Guaranty Bank, its successors and assigns.

Loan. The word "Loan" means any and all loans and financial accommodations from Lender to Borrower whether now or hereafter existing, and however evidenced, including without limitation those loans and financial accommodations described herein or described on any exhibit or schedule attached to this Agreement from time to time.

Note. The word "Note" means the Note dated October 31, 2013 and executed by Estill Co Water District #1 in the principal amount of \$200,305.00, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

Permitted Liens. The words "Permitted Liens" mean (1) liens and security interests securing indebtedness owed by Borrower to Lender; (2) liens for taxes, assessments, or similar charges either not yet due or being contested in good faith; (3) liens of materialmen, mechanics, warehousemen, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (4) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower in the ordinary course of business to secure indebtedness outstanding on the date of this Agreement or permitted to be incurred under the paragraph of this Agreement titled "Indebtedness and Liens"; (5) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by the Lender in writing; and (6) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrower's assets.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Loan.

Security Agreement. The words "Security Agreement" mean and include without limitation any agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

Security Interest. The words "Security Interest" mean, without limitation, any and all types of collateral security, present and future, whether in the form of a lien, charge, encumbrance, mortgage, deed of trust, security deed, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever whether created by law, contract, or otherwise.

BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS BUSINESS LOAN AGREEMENT AND BORROWER AGREES TO ITS TERMS. THIS BUSINESS LOAN AGREEMENT IS DATED OCTOBER 31, 2013.

BORROWER:

ESTILL CO WATER DISTRICT #1

By: _____
Jerry M Arnold, Secretary of Estill Co Water District #1

By: _____
Greg A Wright, Chairman of Estill Co Water District #1

By: _____
William Beard, Treasurer of Estill Co Water District #1

LENDER:

CITIZENS GUARANTY BANK

By: _____
Authorized Signer



NOTICE OF FINAL AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$200,305.00	10-31-2013	10-30-2017	88196	5	10098348	SLC	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Borrower: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7697

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

BY SIGNING THIS DOCUMENT EACH PARTY REPRESENTS AND AGREES THAT: (A) THE WRITTEN LOAN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES, (B) THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES, AND (C) THE WRITTEN LOAN AGREEMENT MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR UNDERSTANDINGS OF THE PARTIES.

As used in this Notice, the following terms have the following meanings:

Loan. The term "Loan" means the following described loan: a Fixed Rate (3.850%) Nondisclosable Loan to a Government Entity for \$200,305.00 due on October 30, 2017.

Loan Agreement. The term "Loan Agreement" means one or more promises, promissory notes, agreements, undertakings, security agreements, deeds of trust or other documents, or commitments, or any combination of those actions or documents, relating to the Loan, including without limitation the following:

LOAN DOCUMENTS

- | | |
|---|--|
| Amortization Schedule | Disclosure of Right to Receive a Copy of an Appraisal |
| Governmental Certificate: Estill Co Water District #1 | Business Loan Agreement |
| Customer Information Profile: William Beard | Customer Information Profile: Jerry M Arnold |
| Customer Information Profile: Greg A Wright | Promissory Note |
| KY Commercial Security Agreement: All Accounts Receivable now owned or hereafter acquired in the operation of Estill County Water District #1; owned by Estill Co Water District #1 | KY National UCC Financing Statement (Rev. 04/20/11): All Accounts; whether any of the foregoing is |
| W-9 Request for Taxpayer ID Number and Certification: : Greg A Wright | Disbursement Request and Authorization |
| W-9 Request for Taxpayer ID Number and Certification: : Estill Co Water District #1 | Notice of Final Agreement |
| | W-9 Request for Taxpayer ID Number and Certification: : William Beard |
| | W-9 Request for Taxpayer ID Number and Certification: : Jerry M Arnold |

Parties. The term "Parties" means Citizens Guaranty Bank and any and all entities or individuals who are obligated to repay the loan or have pledged property as security for the Loan, including without limitation the following:

Borrower: Estill Co Water District #1
Grantor(s): Estill Co Water District #1

Each Party who signs below, other than Citizens Guaranty Bank, acknowledges, represents, and warrants to Citizens Guaranty Bank that it has received, read and understood this Notice of Final Agreement. This Notice is dated October 31, 2013.

BORROWER:

ESTILL CO WATER DISTRICT #1

By: _____
Jerry M Arnold, Secretary of Estill Co Water District #1

By: _____
Greg A Wright, Chairman of Estill Co Water District #1

By: _____
William Beard, Treasurer of Estill Co Water District #1

LENDER:

CITIZENS GUARANTY BANK

X _____
Authorized Signer

THE ESTILL COUNTY WATER DISTRICT BOARD OF COMMISSIONERS (THE COMMISSION) MET IN REGULAR SESSION THURSDAY OCTOBER 31, 2013 AT 3:00 P.M. IN THE CONFERENCE ROOM AT ITS OFFICES LOCATED AT 76 CEDAR GROVE ROAD, IRVINE, KENTUCKY, WITH THE FOLLOWING OFFICERS AND MEMBERS PRESENT: GREG WRIGHT, CHAIRMAN, JERRY ARNOLD, SECRETARY, WILLIAM BEARD, TREASURER, AUDREA MILLER, OFFICE MANAGER, AND DWIGHT RICHARDSON, OPERATIONAL MANAGER.

From the roll call, it was determined that a quorum of the Board of Commissioners of the Estill County Water District was present. The meeting was then opened for the transaction of business, at which time the following proceedings were had and entered for record:

ON MOTION OF BEARD AND SECONDED BY ARNOLD and all members of the Board voting in the affirmative, that the Board approves the agenda for the October 31, 2013 regular Board of Commissioners Meeting.

The Minutes from the October 22, 2013 special board meeting were presented to the Board with no corrections being found necessary. ON MOTION OF ARNOLD AND SECONDED BY BEARD and all members of the Board voting in the affirmative, that the Minutes be approved as presented.

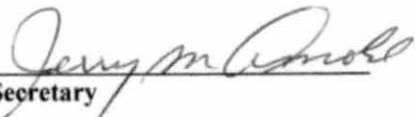
ON MOTION OF BEARD AND SECONDED BY ARNOLD and all members of the Board voting in the affirmative that the District take out a loan, in the amount of \$200,000.00, from Citizen's Guaranty Bank. The loan will be locked in at 3.85% interest for 4 years, amortized over 8 years. The Districts accounts receivables will be used as collateral. Greg Wright, Jerry Arnold and William Beard will sign all paperwork pertaining to the loan.

ON MOTION OF ARNOLD AND SECONDED BY BEARD and all members of the Board voting in the affirmative, that the District's November regular scheduled meeting be changed to Tuesday November 26, 2013 due to the Thanksgiving holiday.

ON MOTION OF ARNOLD AND SECONDED BY BEARD and all members of the Board voting in the affirmative that the fire departments will be assessed a \$10.00 fee for not filing monthly water usage reports.

ON MOTION OF BEARD AND SECONDED BY ARNOLD and all members of the Board voting in the affirmative, that the meeting be adjourned.

Signed


Secretary

Attested: 

**Meeting agenda and sign in sheets are filed in the Districts office and can be made available for review upon request.*

AMORTIZATION SCHEDULE

Principal \$100,305.00	Loan Date 01-29-2015	Maturity 01-28-2019	Loan No 03387	Call / Coll s	Account 10098348	Officer SLC	Initials
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References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item.
Any item above containing ***** has been omitted due to text length limitations.

Borrower: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7697

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

Disbursement Date: January 29, 2015
Interest Rate: 3.850

Repayment Schedule: Balloon
Calculation Method: 365/365 U.S. Rule

Payment Number	Payment Date	Payment Amount	Interest Paid	Principal Paid	Remaining Balance
1	02-28-2015	1,215.44	317.40	898.04	99,406.96
2	03-28-2015	1,215.44	293.59	921.85	98,485.11
3	04-28-2015	1,215.44	322.03	893.41	97,591.70
4	05-28-2015	1,215.44	308.82	906.62	96,685.08
5	06-28-2015	1,215.44	316.15	899.29	95,785.79
6	07-28-2015	1,215.44	303.10	912.34	94,873.45
7	08-28-2015	1,215.44	310.22	905.22	93,968.23
8	09-28-2015	1,215.44	307.26	908.18	93,060.05
9	10-28-2015	1,215.44	294.48	920.96	92,139.09
10	11-28-2015	1,215.44	301.28	914.16	91,224.93
11	12-28-2015	1,215.44	288.67	926.77	90,298.16
2015 TOTALS:		13,369.84	3,363.00	10,006.84	
12	01-28-2016	1,215.44	294.56	920.88	89,377.28
13	02-28-2016	1,215.44	291.45	923.99	88,453.29
14	03-28-2016	1,215.44	289.83	945.61	87,507.68
15	04-28-2016	1,215.44	285.36	930.08	86,577.60
16	05-28-2016	1,215.44	273.22	942.22	85,635.38
17	06-28-2016	1,215.44	278.25	936.19	84,699.19
18	07-28-2016	1,215.44	267.29	948.15	83,751.04
19	08-28-2016	1,215.44	273.11	942.33	82,808.71
20	09-28-2016	1,215.44	270.03	945.41	81,863.30
21	10-28-2016	1,215.44	258.34	957.10	80,906.20
22	11-28-2016	1,215.44	263.83	951.61	79,954.59
23	12-28-2016	1,215.44	252.32	963.12	78,991.47
2016 TOTALS:		14,585.28	3,278.59	11,306.69	
24	01-28-2017	1,215.44	258.20	957.24	78,034.23
25	02-28-2017	1,215.44	255.16	960.28	77,073.95
26	03-28-2017	1,215.44	227.63	987.81	76,086.14
27	04-28-2017	1,215.44	248.79	966.65	75,119.49
28	05-28-2017	1,215.44	237.71	977.73	74,141.76
29	06-28-2017	1,215.44	242.43	973.01	73,168.75
30	07-28-2017	1,215.44	231.53	983.91	72,184.84
31	08-28-2017	1,215.44	236.03	979.41	71,205.43
32	09-28-2017	1,215.44	232.83	982.61	70,222.82
33	10-28-2017	1,215.44	222.21	993.23	69,229.59
34	11-28-2017	1,215.44	226.37	989.07	68,240.52
35	12-28-2017	1,215.44	215.94	999.50	67,241.02
2017 TOTALS:		14,585.28	2,834.83	11,750.45	
36	01-28-2018	1,215.44	219.87	995.57	66,245.45
37	02-28-2018	1,215.44	216.61	998.83	65,246.62
38	03-28-2018	1,215.44	192.70	1,022.74	64,223.88
39	04-28-2018	1,215.44	210.00	1,005.44	63,218.44
40	05-28-2018	1,215.44	200.05	1,015.39	62,203.05
41	06-28-2018	1,215.44	203.40	1,012.04	61,191.01
42	07-28-2018	1,215.44	193.63	1,021.81	60,169.20
43	08-28-2018	1,215.44	196.75	1,018.69	59,150.51
44	09-28-2018	1,215.44	193.41	1,022.03	58,128.48
45	10-28-2018	1,215.44	183.94	1,031.50	57,096.98
46	11-28-2018	1,215.44	186.70	1,028.74	56,068.24
47	12-28-2018	1,215.44	177.42	1,038.02	55,030.22
2018 TOTALS:		14,585.28	2,374.48	12,210.80	
48	01-28-2019	55,210.16	179.94	55,030.22	0.00
2019 TOTALS:		55,210.16	179.94	55,030.22	
TOTALS:		112,335.84	12,030.84	100,305.00	

NOTICE: This is an estimated loan amortization schedule. Actual amounts may vary if payments are made on different dates or in different amounts.



PROMISSORY NOTE

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$100,305.00	01-29-2015	01-28-2019	03387	5	10098348	SLC	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item.
Any item above containing "****" has been omitted due to text length limitations.

Borrower: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7697

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

Principal Amount: \$100,305.00

Interest Rate: 3.850%

Date of Note: January 29, 2015

PROMISE TO PAY. Estill Co Water District #1 ("Borrower") promises to pay to Citizens Guaranty Bank ("Lender"), or order, in lawful money of the United States of America, the principal amount of One Hundred Thousand Three Hundred Five & 00/100 Dollars (\$100,305.00), together with interest on the unpaid principal balance from January 29, 2015, calculated as described in the "INTEREST CALCULATION METHOD" paragraph using an interest rate of 3.850% per annum, until paid in full. The interest rate may change under the terms and conditions of the "INTEREST AFTER DEFAULT" section.

PAYMENT. Borrower will pay this loan in 47 regular payments of \$1,215.44 each and one irregular last payment estimated at \$55,210.16. Borrower's first payment is due February 28, 2015, and all subsequent payments are due on the same day of each month after that. Borrower's final payment will be due on January 28, 2019, and will be for all principal and all accrued interest not yet paid. Payments include principal and interest. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal; then to any escrow or reserve account payments as required under any mortgage, deed of trust, or other security instrument or security agreement securing this Note; then to any late charges; and then to any unpaid collection costs. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. All payments must be made in U.S. dollars and must be received by Lender consistent with any written payment instructions provided by Lender. If a payment is made consistent with Lender's payment instructions but received after 5:00 p.m. Eastern Standard Time, Monday thru Friday, Lender will credit Borrower's payment on the next business day.

INTEREST CALCULATION METHOD. Interest on this Note is computed on a 365/365 simple interest basis; that is, by applying the ratio of the interest rate over the number of days in a year (366 during leap years), multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. All interest payable under this Note is computed using this method.

PREPAYMENT. Borrower agrees that all loan fees and other prepaid finance charges are earned fully as of the date of the loan and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. Except for the foregoing, Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, early payments will reduce the principal balance due and may result in Borrower's making fewer payments. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: Citizens Guaranty Bank, A Real Community Bank, P.O. Box 630 Irvine, KY 40336-0630.

LATE CHARGE. If a payment is 10 days or more late, Borrower will be charged 5.000% of the regularly scheduled payment.

INTEREST AFTER DEFAULT. Upon default, including failure to pay upon final maturity, the total sum due under this Note will continue to accrue interest at the interest rate under this Note.

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

Payment Default. Borrower fails to make any payment when due under this Note.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Note or the related documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Death or Insolvency. The death of Borrower or the dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the indebtedness or any guarantor, endorser, surety, or accommodation party dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

Insecurity. Lender in good faith believes itself insecure.

Cure Provisions. If any default, other than a default in payment is curable and if Borrower has not been given a notice of a breach of the same provision of this Note within the preceding twelve (12) months, it may be cured if Borrower, after Lender sends written notice to Borrower demanding cure of such default: (1) cures the default within thirty (30) days; or (2) if the cure requires more than thirty (30) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance under this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount.

ATTORNEYS' FEES; EXPENSES. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's reasonable attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), and appeals. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law.

GOVERNING LAW. This Note will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the Commonwealth of Kentucky without regard to its conflicts of law provisions. This Note has been accepted by Lender in the Commonwealth of Kentucky.

CHOICE OF VENUE. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Estill County, Commonwealth of Kentucky.

DISHONORED ITEM FEE. Borrower will pay a fee to Lender of \$25.00 if Borrower makes a payment on Borrower's loan and the check or preauthorized charge with which Borrower pays is later dishonored.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether



**PROMISSORY NOTE
(Continued)**

Loan No: 03387

Page 2

checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts.

COLLATERAL. Borrower acknowledges this Note is secured by All Accounts Receivable now owned or hereafter acquired in the operation of Estill Co Water District #1.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

NOTIFY US OF INACCURATE INFORMATION WE REPORT TO CONSUMER REPORTING AGENCIES. Borrower may notify Lender if Lender reports any inaccurate information about Borrower's account(s) to a consumer reporting agency. Borrower's written notice describing the specific inaccuracy(ies) should be sent to Lender at the following address: Citizens Guaranty Bank A Real Community Bank, P.O. Box 630 Irvine, KY 40336-0630.

GENERAL PROVISIONS. If any part of this Note cannot be enforced, this fact will not affect the rest of the Note. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE. BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

BORROWER:

ESTILL CO WATER DISTRICT #1

By: _____
Greg A Wright, Chairman of Estill Co Water District
#1

By: _____
Jerry M Arnold, Secretary of Estill Co Water District
#1

By: _____
William Beard, Treasurer of Estill Co Water District
#1



DISBURSEMENT REQUEST AND AUTHORIZATION

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$100,305.00	01-29-2015	01-28-2019	03387	5	10098348	SLC	

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Borrower: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7697

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

LOAN TYPE. This is a Fixed Rate (3.850%) Nondisclosable Loan to a Government Entity for \$100,305.00 due on January 28, 2019.

PRIMARY PURPOSE OF LOAN. The primary purpose of this loan is for:

- Personal, Family, or Household Purposes or Personal Investment.
 Business (Including Real Estate Investment).

SPECIFIC PURPOSE. The specific purpose of this loan is: Operating money.

DISBURSEMENT INSTRUCTIONS. Borrower understands that no loan proceeds will be disbursed until all of Lender's conditions for making the loan have been satisfied. Please disburse the loan proceeds of \$100,305.00 as follows:

Amount paid to Borrower directly:	\$100,000.00
\$100,000.00 Lender's Check #	
Other Charges Financed:	\$10.00
\$10.00 UCC Filing Fee	
Total Financed Prepaid Finance Charges:	\$295.00
\$275.00 Commercial Loan Fee	
\$20.00 Loan Coupon Book	
Note Principal:	\$100,305.00

FINANCIAL CONDITION. BY SIGNING THIS AUTHORIZATION, BORROWER REPRESENTS AND WARRANTS TO LENDER THAT THE INFORMATION PROVIDED ABOVE IS TRUE AND CORRECT AND THAT THERE HAS BEEN NO MATERIAL ADVERSE CHANGE IN BORROWER'S FINANCIAL CONDITION AS DISCLOSED IN BORROWER'S MOST RECENT FINANCIAL STATEMENT TO LENDER. THIS AUTHORIZATION IS DATED JANUARY 29, 2015.

BORROWER:

ESTILL CO WATER DISTRICT #1

By: _____
Greg A Wright, Chairman of Estill Co Water District
#1

By: _____
Jerry M Arnold, Secretary of Estill Co Water District
#1

By: _____
William Beard, Treasurer of Estill Co Water District
#1



BUSINESS LOAN AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$100,305.00	01-29-2015	01-28-2019	03387	5	10098348	SLC	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Borrower: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7697

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

THIS BUSINESS LOAN AGREEMENT dated January 29, 2015, is made and executed between Estill Co Water District #1 ("Borrower") and Citizens Guaranty Bank ("Lender") on the following terms and conditions. Borrower has received prior commercial loans from Lender or has applied to Lender for a commercial loan or loans or other financial accommodations, including those which may be described on any exhibit or schedule attached to this Agreement. Borrower understands and agrees that: (A) in granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements as set forth in this Agreement; (B) the granting, renewing, or extending of any Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; and (C) all such Loans shall be and remain subject to the terms and conditions of this Agreement.

TERM. This Agreement shall be effective as of January 29, 2015, and shall continue in full force and effect until such time as all of Borrower's Loans in favor of Lender have been paid in full, including principal, interest, costs, expenses, attorneys' fees, and other fees and charges, or until January 28, 2019.

CONDITIONS PRECEDENT TO EACH ADVANCE. Lender's obligation to make the initial Advance and each subsequent Advance under this Agreement shall be subject to the fulfillment to Lender's satisfaction of all of the conditions set forth in this Agreement and in the Related Documents.

Loan Documents. Borrower shall provide to Lender the following documents for the Loan: (1) the Note; (2) Security Agreements granting to Lender security interests in the Collateral; (3) financing statements and all other documents perfecting Lender's Security Interests; (4) evidence of insurance as required below; (5) together with all such Related Documents as Lender may require for the Loan; all in form and substance satisfactory to Lender and Lender's counsel.

Borrower's Authorization. Borrower shall have provided in form and substance satisfactory to Lender properly certified resolutions, duly authorizing the execution and delivery of this Agreement, the Note and the Related Documents. In addition, Borrower shall have provided such other resolutions, authorizations, documents and instruments as Lender or its counsel, may require.

Payment of Fees and Expenses. Borrower shall have paid to Lender all fees, charges, and other expenses which are then due and payable as specified in this Agreement or any Related Document.

Representations and Warranties. The representations and warranties set forth in this Agreement, in the Related Documents, and in any document or certificate delivered to Lender under this Agreement are true and correct.

No Event of Default. There shall not exist at the time of any Advance a condition which would constitute an Event of Default under this Agreement or under any Related Document.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any Indebtedness exists:

Organization. Borrower is a governmental entity which is, and at all times shall be, duly organized, validly existing, and in good standing under and by virtue of the laws of the Commonwealth of Kentucky. Borrower is duly authorized to transact business in all other states in which Borrower is doing business, having obtained all necessary filings, governmental licenses and approvals for each state in which Borrower is doing business. Specifically, Borrower is, and at all times shall be, duly qualified as a foreign in all states in which the failure to so qualify would have a material adverse effect on its business or financial condition. Borrower has the full power and authority to own its properties and to transact the business in which it is presently engaged or presently proposes to engage. Borrower maintains an office at 76 Cedar Grove Rd, Irvine, KY 40336-7697. Unless Borrower has designated otherwise in writing, the principal office is the office at which Borrower keeps its books and records including its records concerning the Collateral. Borrower will notify Lender prior to any change in the location of Borrower's state of organization or any change in Borrower's name. Borrower shall do all things necessary to preserve and to keep in full force and effect its existence, rights and privileges, and shall comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental or quasi-governmental authority or court applicable to Borrower and Borrower's business activities.

Assumed Business Names. Borrower has filed or recorded all documents or filings required by law relating to all assumed business names used by Borrower. Excluding the name of Borrower, the following is a complete list of all assumed business names under which Borrower does business: **None.**

Authorization. Borrower's execution, delivery, and performance of this Agreement and all the Related Documents have been duly authorized by all necessary action by Borrower and do not conflict with, result in a violation of, or constitute a default under (1) any provision of any agreement or other instrument binding upon Borrower or (2) any law, governmental regulation, court decree, or order applicable to Borrower or to Borrower's properties.

Financial Information. Each of Borrower's financial statements supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.

Legal Effect. This Agreement constitutes, and any instrument or agreement Borrower is required to give under this Agreement when delivered will constitute legal, valid, and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

Properties. Except as contemplated by this Agreement or as previously disclosed in Borrower's financial statements or in writing to Lender and as accepted by Lender, and except for property tax liens for taxes not presently due and payable, Borrower owns and has good title to all of Borrower's properties free and clear of all Security Interests, and has not executed any security documents or financing statements relating to such properties. All of Borrower's properties are titled in Borrower's legal name, and Borrower has not used or filed a financing statement under any other name for at least the last five (5) years.

Hazardous Substances. Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that: (1) During the period of Borrower's ownership of the Collateral, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance by any person on, under, about or from any of the Collateral. (2) Borrower has no knowledge of, or reason to believe that there has been (a) any breach or violation of any Environmental Laws; (b) any use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance on, under, about or from the Collateral by any prior owners or occupants of any of the Collateral; or (c) any actual or threatened litigation or claims of any kind by any person relating to such matters. (3) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the Collateral shall use, generate, manufacture, store, treat, dispose of or release any Hazardous Substance on, under, about or from any of the Collateral; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation all Environmental Laws. Borrower authorizes Lender and its agents to enter upon the Collateral to make such inspections and tests as Lender may deem appropriate to determine compliance of the Collateral with this section of the Agreement. Any inspections or tests made by Lender shall be at Borrower's expense and for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the Collateral for hazardous waste and Hazardous Substances. Borrower hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Borrower becomes liable for cleanup or other costs under any such laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release of a hazardous waste or substance on the Collateral. The provisions of this section of the Agreement, including the obligation to indemnify and defend, shall survive the payment of the Indebtedness and the termination, expiration or satisfaction of this Agreement and shall not be affected by Lender's acquisition of any interest in any of the Collateral, whether by



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foreclosure or otherwise.

Litigation and Claims. No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

Taxes. To the best of Borrower's knowledge, all of Borrower's tax returns and reports that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being or to be contested by Borrower in good faith in the ordinary course of business and for which adequate reserves have been provided.

Lien Priority. Unless otherwise previously disclosed to Lender in writing, Borrower has not entered into or granted any Security Agreements, or permitted the filing or attachment of any Security Interests on or affecting any of the Collateral directly or indirectly securing repayment of Borrower's Loan and Note, that would be prior or that may in any way be superior to Lender's Security Interests and rights in and to such Collateral.

Binding Effect. This Agreement, the Note, all Security Agreements (if any), and all Related Documents are binding upon the signers thereof, as well as upon their successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, so long as this Agreement remains in effect, Borrower will:

Notices of Claims and Litigation. Promptly inform Lender in writing of (1) all material adverse changes in Borrower's financial condition, and (2) all existing and all threatened litigation, claims, investigations, administrative proceedings or similar actions affecting Borrower or any Guarantor which could materially affect the financial condition of Borrower or the financial condition of any Guarantor.

Financial Records. Maintain its books and records in accordance with GAAP, applied on a consistent basis, and permit Lender to examine and audit Borrower's books and records at all reasonable times.

Financial Statements. Furnish Lender with the following:

Annual Statements. As soon as available, but in no event later than sixty (60) days after the end of each fiscal year, Borrower's balance sheet and income statement for the year ended, prepared by Borrower.

Tax Returns. As soon as available, but in no event later than sixty (60) days after the applicable filing date for the tax reporting period ended, Borrower's Federal and other governmental tax returns, prepared by a tax professional satisfactory to Lender.

All financial reports required to be provided under this Agreement shall be prepared in accordance with GAAP, applied on a consistent basis, and certified by Borrower as being true and correct.

Additional Information. Furnish such additional information and statements, as Lender may request from time to time.

Insurance. Maintain fire and other risk insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, coverages and with insurance companies acceptable to Lender. Borrower, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days prior written notice to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest for the Loans, Borrower will provide Lender with such lender's loss payable or other endorsements as Lender may require.

Insurance Reports. Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitation the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the properties insured; (5) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (6) the expiration date of the policy. In addition, upon request of Lender (however not more often than annually), Borrower will have an independent appraiser satisfactory to Lender determine, as applicable, the actual cash value or replacement cost of any Collateral. The cost of such appraisal shall be paid by Borrower.

Other Agreements. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

Loan Proceeds. Use all Loan proceeds solely for Borrower's business operations, unless specifically consented to the contrary by Lender in writing.

Taxes, Charges and Liens. Pay and discharge when due all of its indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits. Provided however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (1) the legality of the same shall be contested in good faith by appropriate proceedings, and (2) Borrower shall have established on Borrower's books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim in accordance with GAAP.

Performance. Perform and comply, in a timely manner, with all terms, conditions, and provisions set forth in this Agreement, in the Related Documents, and in all other instruments and agreements between Borrower and Lender. Borrower shall notify Lender immediately in writing of any default in connection with any agreement.

Operations. Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; conduct its business affairs in a reasonable and prudent manner.

Environmental Studies. Promptly conduct and complete, at Borrower's expense, all such investigations, studies, samplings and testings as may be requested by Lender or any governmental authority relative to any substance, or any waste or by-product of any substance defined as toxic or a hazardous substance under applicable federal, state, or local law, rule, regulation, order or directive, at or affecting any property or any facility owned, leased or used by Borrower.

Compliance with Governmental Requirements. Comply with all laws, ordinances, and regulations, now or hereafter in effect, of all governmental authorities applicable to the conduct of Borrower's properties, businesses and operations, and to the use or occupancy of the Collateral, including without limitation, the Americans With Disabilities Act. Borrower may contest in good faith any such law, ordinance, or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Borrower has notified Lender in writing prior to doing so and so long as, in Lender's sole opinion, Lender's interests in the Collateral are not jeopardized. Lender may require Borrower to post adequate security or a surety bond, reasonably satisfactory to Lender, to protect Lender's interest.

Inspection. Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

Environmental Compliance and Reports. Borrower shall comply in all respects with any and all Environmental Laws; not cause or permit to exist, as a result of an intentional or unintentional action or omission on Borrower's part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

Additional Assurances. Make, execute and deliver to Lender such promissory notes, mortgages, deeds of trust, security agreements, assignments, financing statements, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence and secure the Loans and to perfect all Security Interests.



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LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Borrower fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Borrower's failure to discharge or pay when due any amounts Borrower is required to discharge or pay under this Agreement or any Related Documents, Lender on Borrower's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on any Collateral and paying all costs for insuring, maintaining and preserving any Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Borrower. All such expenses will become a part of the indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity.

NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall not, without the prior written consent of Lender:

Indebtedness and Liens. (1) Except for trade debt incurred in the normal course of business and indebtedness to Lender contemplated by this Agreement, create, incur or assume indebtedness for borrowed money, including capital leases, (2) sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of Borrower's assets (except as allowed as Permitted Liens), or (3) sell with recourse any of Borrower's accounts, except to Lender.

Continuity of Operations. (1) Engage in any business activities substantially different than those in which Borrower is presently engaged, (2) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change its name, dissolve or transfer or sell Collateral out of the ordinary course of business, or (3) make any distribution with respect to any capital account, whether by reduction of capital or otherwise.

Loans, Acquisitions and Guaranties. (1) Loan, invest in or advance money or assets to any other person, enterprise or entity, (2) purchase, create or acquire any interest in any other enterprise or entity, or (3) incur any obligation as surety or guarantor other than in the ordinary course of business.

Agreements. Enter into any agreement containing any provisions which would be violated or breached by the performance of Borrower's obligations under this Agreement or in connection herewith.

CESSATION OF ADVANCES. If Lender has made any commitment to make any Loan to Borrower, whether under this Agreement or under any other agreement, Lender shall have no obligation to make Loan Advances or to disburse Loan proceeds if: (A) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (B) Borrower or any Guarantor dies, becomes incompetent or becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (C) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; or (D) any Guarantor seeks, claims or otherwise attempts to limit, modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender; or (E) Lender in good faith deems itself insecure, even though no Event of Default shall have occurred.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts.

DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Payment Default. Borrower fails to make any payment when due under the Loan.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Death or Insolvency. The death of Borrower or the dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the Loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the indebtedness.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Loan is impaired.

Insecurity. Lender in good faith believes itself insecure.

Right to Cure. If any default, other than a default on indebtedness, is curable and if Borrower or Grantor, as the case may be, has not been given a notice of a similar default within the preceding twelve (12) months, it may be cured if Borrower or Grantor, as the case may be, after Lender sends written notice to Borrower or Grantor, as the case may be, demanding cure of such default: (1) cure the default within thirty (30) days; or (2) if the cure requires more than thirty (30) days, immediately initiate steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continue and complete all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

EFFECT OF AN EVENT OF DEFAULT. If any Event of Default shall occur, except where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate (including any obligation to make further Loan Advances or disbursements), and, at Lender's option, all indebtedness immediately will become due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Attorneys' Fees; Expenses. Borrower agrees to pay upon demand all of Lender's costs and expenses, including Lender's reasonable attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Borrower shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's reasonable attorneys' fees and legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any



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anticipated post-judgment collection services. Borrower also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Consent to Loan Participation. Borrower agrees and consents to Lender's sale or transfer, whether now or later, of one or more participation interests in the Loan to one or more purchasers, whether related or unrelated to Lender. Lender may provide, without any limitation whatsoever, to any one or more purchasers, or potential purchasers, any information or knowledge Lender may have about Borrower or about any other matter relating to the Loan, and Borrower hereby waives any rights to privacy. Borrower may have with respect to such matters. Borrower additionally waives any and all notices of sale of participation interests, as well as all notices of any repurchase of such participation interests. Borrower also agrees that the purchasers of any such participation interests will be considered as the absolute owners of such interests in the Loan and will have all the rights granted under the participation agreement or agreements governing the sale of such participation interests. Borrower further waives all rights of offset or counterclaim that it may have now or later against Lender or against any purchaser of such a participation interest and unconditionally agrees that either Lender or such purchaser may enforce Borrower's obligation under the Loan irrespective of the failure or insolvency of any holder of any interest in the Loan. Borrower further agrees that the purchaser of any such participation interests may enforce its interests irrespective of any personal claims or defenses that Borrower may have against Lender.

Governing Law. This Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the Commonwealth of Kentucky without regard to its conflicts of law provisions. This Agreement has been accepted by Lender in the Commonwealth of Kentucky.

Choice of Venue. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Estill County, Commonwealth of Kentucky.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any of Borrower's or any Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Notices. Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Borrower agrees to keep Lender informed at all times of Borrower's current address. Unless otherwise provided or required by law, if there is more than one Borrower, any notice given by Lender to any Borrower is deemed to be notice given to all Borrowers.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

Subsidiaries and Affiliates of Borrower. To the extent the context of any provisions of this Agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used in this Agreement shall include all of Borrower's subsidiaries and affiliates. Notwithstanding the foregoing however, under no circumstances shall this Agreement be construed to require Lender to make any Loan or other financial accommodation to any of Borrower's subsidiaries or affiliates.

Successors and Assigns. All covenants and agreements by or on behalf of Borrower contained in this Agreement or any Related Documents shall bind Borrower's successors and assigns and shall inure to the benefit of Lender and its successors and assigns. Borrower shall not, however, have the right to assign Borrower's rights under this Agreement or any interest therein, without the prior written consent of Lender.

Survival of Representations and Warranties. Borrower understands and agrees that in making the Loan, Lender is relying on all representations, warranties, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement or the Related Documents. Borrower further agrees that regardless of any investigation made by Lender, all such representations, warranties and covenants will survive the making of the Loan and delivery to Lender of the Related Documents, shall be continuing in nature, and shall remain in full force and effect until such time as Borrower's indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. Accounting words and terms not otherwise defined in this Agreement shall have the meanings assigned to them in accordance with generally accepted accounting principles as in effect on the date of this Agreement:

Advance. The word "Advance" means a disbursement of Loan funds made, or to be made, to Borrower or on Borrower's behalf on a line of credit or multiple advance basis under the terms and conditions of this Agreement.

Agreement. The word "Agreement" means this Business Loan Agreement, as this Business Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Business Loan Agreement from time to time.

Borrower. The word "Borrower" means Estill Co Water District #1 and includes all co-signers and co-makers signing the Note and all their successors and assigns.

Collateral. The word "Collateral" means all property and assets granted as collateral security for a Loan, whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, collateral mortgage, deed of trust, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

Environmental Laws. The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

GAAP. The word "GAAP" means generally accepted accounting principles.

Grantor. The word "Grantor" means each and all of the persons or entities granting a Security Interest in any Collateral for the Loan, including without limitation all Borrowers granting such a Security Interest.

Guarantor. The word "Guarantor" means any guarantor, surety, or accommodation party of any or all of the Loan.

Guaranty. The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.



**BUSINESS LOAN AGREEMENT
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Hazardous Substances. The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Borrower is responsible under this Agreement or under any of the Related Documents.

Lender. The word "Lender" means Citizens Guaranty Bank, its successors and assigns.

Loan. The word "Loan" means any and all loans and financial accommodations from Lender to Borrower whether now or hereafter existing, and however evidenced, including without limitation those loans and financial accommodations described herein or described on any exhibit or schedule attached to this Agreement from time to time.

Note. The word "Note" means the Note dated January 29, 2015 and executed by Estill Co Water District #1 in the principal amount of \$100,305.00, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

Permitted Liens. The words "Permitted Liens" mean (1) liens and security interests securing Indebtedness owed by Borrower to Lender; (2) liens for taxes, assessments, or similar charges either not yet due or being contested in good faith; (3) liens of materialmen, mechanics, warehousemen, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (4) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower in the ordinary course of business to secure indebtedness outstanding on the date of this Agreement or permitted to be incurred under the paragraph of this Agreement titled "Indebtedness and Liens"; (5) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by the Lender in writing; and (6) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrower's assets.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Loan.

Security Agreement. The words "Security Agreement" mean and include without limitation any agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

Security Interest. The words "Security Interest" mean, without limitation, any and all types of collateral security, present and future, whether in the form of a lien, charge, encumbrance, mortgage, deed of trust, security deed, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever whether created by law, contract, or otherwise.

BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS BUSINESS LOAN AGREEMENT AND BORROWER AGREES TO ITS TERMS. THIS BUSINESS LOAN AGREEMENT IS DATED JANUARY 29, 2015.

BORROWER:

ESTILL CO WATER DISTRICT #1

By: Greg A Wright, Chairman of Estill Co Water District #1

By: Jerry M Arnold, Secretary of Estill Co Water District #1

By: William Beard, Treasurer of Estill Co Water District #1

LENDER:

CITIZENS GUARANTY BANK

By: Authorized Signer



COMMERCIAL SECURITY AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$100,305.00	01-29-2015	01-28-2019	03387	5	10098348	SLC	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Grantor: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7697

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

THIS COMMERCIAL SECURITY AGREEMENT dated January 29, 2015, is made and executed between Estill Co Water District #1 ("Grantor") and Citizens Guaranty Bank ("Lender").

GRANT OF SECURITY INTEREST. For valuable consideration, Grantor grants to Lender a security interest in the Collateral to secure the indebtedness and agrees that Lender shall have the rights stated in this Agreement with respect to the Collateral, in addition to all other rights which Lender may have by law.

COLLATERAL DESCRIPTION. The word "Collateral" as used in this Agreement means the following described property, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located, in which Grantor is giving to Lender a security interest for the payment of the indebtedness and performance of all other obligations under the Note and this Agreement:

All Accounts Receivable now owned or hereafter acquired in the operation of Estill Co Water District #1

In addition, the word "Collateral" also includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

- (A) All accessions, attachments, accessories, replacements of and additions to any of the collateral described herein, whether added now or later.
- (B) All products and produce of any of the property described in this Collateral section.
- (C) All accounts, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, consignment or other disposition of any of the property described in this Collateral section.
- (D) All proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section, and sums due from a third party who has damaged or destroyed the Collateral or from that party's insurer, whether due to judgment, settlement or other process.
- (E) All records and data relating to any of the property described in this Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Grantor's right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or data on electronic media.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Grantor's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Grantor holds jointly with someone else and all accounts Grantor may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Grantor authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts.

GRANTOR'S REPRESENTATIONS AND WARRANTIES WITH RESPECT TO THE COLLATERAL. With respect to the Collateral, Grantor represents and promises to Lender that:

Perfection of Security Interest. Grantor agrees to take whatever actions are requested by Lender to perfect and continue Lender's security interest in the Collateral. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral, and Grantor will note Lender's interest upon any and all chattel paper and instruments if not delivered to Lender for possession by Lender.

Notices to Lender. Grantor will promptly notify Lender in writing at Lender's address shown above (or such other addresses as Lender may designate from time to time) prior to any (1) change in Grantor's name; (2) change in Grantor's assumed business name(s); (3) change in the structure of the entity Grantor; (4) change in the authorized signer(s); (5) change in Grantor's principal office address; (6) change in Grantor's principal residence; (7) conversion of Grantor to a new or different type of business entity; or (8) change in any other aspect of Grantor that directly or indirectly relates to any agreements between Grantor and Lender. No change in Grantor's name will take effect until after Lender has received notice.

No Violation. The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party.

Enforceability of Collateral. To the extent the Collateral consists of accounts, chattel paper, or general intangibles, as defined by the Uniform Commercial Code, the Collateral is enforceable in accordance with its terms, is genuine, and fully complies with all applicable laws and regulations concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral. At the time any account becomes subject to a security interest in favor of Lender, the account shall be a good and valid account representing an undisputed, bona fide indebtedness incurred by the account debtor, for merchandise held subject to delivery instructions or previously shipped or delivered pursuant to a contract of sale, or for services previously performed by Grantor with or for the account debtor. So long as this Agreement remains in effect, Grantor shall not, without Lender's prior written consent, compromise, settle, adjust, or extend payment under or with regard to any such Accounts. There shall be no setoffs or counterclaims against any of the Collateral, and no agreement shall have been made under which any deductions or discounts may be claimed concerning the Collateral except those disclosed to Lender in writing.

Location of the Collateral. Except in the ordinary course of Grantor's business, Grantor agrees to keep the Collateral (or to the extent the Collateral consists of intangible property such as accounts or general intangibles, the records concerning the Collateral) at Grantor's address shown above or at such other locations as are acceptable to Lender. Upon Lender's request, Grantor will deliver to Lender in form satisfactory to Lender a schedule of real properties and Collateral locations relating to Grantor's operations, including without limitation the following: (1) all real property Grantor owns or is purchasing; (2) all real property Grantor is renting or leasing; (3) all storage facilities Grantor owns, rents, leases, or uses; and (4) all other properties where Collateral is or may be located.

Removal of the Collateral. Except in the ordinary course of Grantor's business, Grantor shall not remove the Collateral from its existing location without Lender's prior written consent. Grantor shall, whenever requested, advise Lender of the exact location of the Collateral.

Transactions Involving Collateral. Except for inventory sold or accounts collected in the ordinary course of Grantor's business, or as otherwise provided for in this Agreement, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in this Agreement, without the prior written consent of Lender. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by Lender, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Lender and shall not be commingled with any other funds; provided however, this requirement shall not constitute consent by Lender to any sale or other disposition. Upon receipt, Grantor shall immediately deliver any such proceeds to Lender.

Title. Grantor represents and warrants to Lender that Grantor holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Lender has specifically consented. Grantor shall defend Lender's rights in the Collateral against the claims and demands of all other persons.

Repairs and Maintenance. Grantor agrees to keep and maintain, and to cause others to keep and maintain, the Collateral in good order, repair and condition at all times while this Agreement remains in effect. Grantor further agrees to pay when due all claims for work done on, or services rendered or material furnished in connection with the Collateral so that no lien or encumbrance may ever attach to or be



COMMERCIAL SECURITY AGREEMENT
(Continued)

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filed against the Collateral.

Inspection of Collateral. Lender and Lender's designated representatives and agents shall have the right at all reasonable times to examine and inspect the Collateral wherever located.

Taxes, Assessments and Liens. Grantor will pay when due all taxes, assessments and liens upon the Collateral, its use or operation, upon this Agreement, upon any promissory note or notes evidencing the Indebtedness, or upon any of the other Related Documents. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized in Lender's sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Grantor shall deposit with Lender cash, a sufficient corporate surety bond or other security satisfactory to Lender in an amount adequate to provide for the discharge of the lien plus any interest, costs, reasonable attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the Collateral. In any contest Grantor shall defend itself and Lender and shall satisfy any final adverse judgment before enforcement against the Collateral. Grantor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings. Grantor further agrees to furnish Lender with evidence that such taxes, assessments, and governmental and other charges have been paid in full and in a timely manner. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized.

Compliance with Governmental Requirements. Grantor shall comply promptly with all laws, ordinances, rules and regulations of all governmental authorities, now or hereafter in effect, applicable to the ownership, production, disposition, or use of the Collateral, including all laws or regulations relating to the undue erosion of highly-erodible land or relating to the conversion of wetlands for the production of an agricultural product or commodity. Grantor may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Lender's interest in the Collateral, in Lender's opinion, is not jeopardized.

Hazardous Substances. Grantor represents and warrants that the Collateral never has been, and never will be so long as this Agreement remains a lien on the Collateral, used in violation of any Environmental Laws or for the generation, manufacture, storage, transportation, treatment, disposal, release or threatened release of any Hazardous Substance. The representations and warranties contained herein are based on Grantor's due diligence in investigating the Collateral for Hazardous Substances. Grantor hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Grantor becomes liable for cleanup or other costs under any Environmental Laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims and losses resulting from a breach of this provision of this Agreement. This obligation to indemnify and defend shall survive the payment of the Indebtedness and the satisfaction of this Agreement.

Maintenance of Casualty Insurance. Grantor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as Lender may require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to Lender and issued by a company or companies reasonably acceptable to Lender. Grantor, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days' prior written notice to Lender and not including any disclaimer of the insurer's liability for failure to give such a notice. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Grantor or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest, Grantor will provide Lender with such loss payable or other endorsements as Lender may require. If Grantor at any time fails to obtain or maintain any insurance as required under this Agreement, Lender may (but shall not be obligated to) obtain such insurance as Lender deems appropriate, including if Lender so chooses "single interest insurance," which will cover only Lender's interest in the Collateral.

Application of Insurance Proceeds. Grantor shall promptly notify Lender of any loss or damage to the Collateral if the estimated cost of repair or replacement exceeds 5000, whether or not such casualty or loss is covered by insurance. Lender may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued proceeds thereon, shall be held by Lender as part of the Collateral. If Lender consents to repair or replacement of the damaged or destroyed Collateral, Lender shall, upon satisfactory proof of expenditure, pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration. If Lender does not consent to repair or replacement of the Collateral, Lender shall retain a sufficient amount of the proceeds to pay all of the Indebtedness, and shall pay the balance to Grantor. Any proceeds which have not been disbursed within six (6) months after their receipt and which Grantor has not committed to the repair or restoration of the Collateral shall be used to prepay the Indebtedness.

Insurance Reserves. Lender may require Grantor to maintain with Lender reserves for payment of insurance premiums, which reserves shall be created by monthly payments from Grantor of a sum estimated by Lender to be sufficient to produce, at least fifteen (15) days before the premium due date, amounts at least equal to the insurance premiums to be paid. If fifteen (15) days before payment is due, the reserve funds are insufficient, Grantor shall upon demand pay any deficiency to Lender. The reserve funds shall be held by Lender as a general deposit and shall constitute a non-interest-bearing account which Lender may satisfy by payment of the insurance premiums required to be paid by Grantor as they become due. Lender does not hold the reserve funds in trust for Grantor, and Lender is not the agent of Grantor for payment of the insurance premiums required to be paid by Grantor. The responsibility for the payment of premiums shall remain Grantor's sole responsibility.

Insurance Reports. Grantor, upon request of Lender, shall furnish to Lender reports on each existing policy of insurance showing such information as Lender may reasonably request including the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the property insured; (5) the then current value on the basis of which insurance has been obtained and the manner of determining that value; and (6) the expiration date of the policy. In addition, Grantor shall upon request by Lender (however not more often than annually) have an independent appraiser satisfactory to Lender determine, as applicable, the cash value or replacement cost of the Collateral.

Financing Statements. Grantor authorizes Lender to file a UCC financing statement, or alternatively, a copy of this Agreement to perfect Lender's security interest. At Lender's request, Grantor additionally agrees to sign all other documents that are necessary to perfect, protect, and continue Lender's security interest in the Property. Grantor will pay all filing fees, title transfer fees, and other fees and costs involved unless prohibited by law or unless Lender is required by law to pay such fees and costs. Grantor irrevocably appoints Lender to execute documents necessary to transfer title if there is a default. Lender may file a copy of this Agreement as a financing statement.

GRANTOR'S RIGHT TO POSSESSION AND TO COLLECT ACCOUNTS. Until default and except as otherwise provided below with respect to accounts, Grantor may have possession of the tangible personal property and beneficial use of all the Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Grantor's right to possession and beneficial use shall not apply to any Collateral where possession of the Collateral by Lender is required by law to perfect Lender's security interest in such Collateral. Until otherwise notified by Lender, Grantor may collect any of the Collateral consisting of accounts. At any time and even though no Event of Default exists, Lender may exercise its rights to collect the accounts and to notify account debtors to make payments directly to Lender for application to the Indebtedness. If Lender at any time has possession of any Collateral, whether before or after an Event of Default, Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if Lender takes such action for that purpose as Grantor shall request or as Lender, in Lender's sole discretion, shall deem appropriate under the circumstances, but failure to honor any request by Grantor shall not of itself be deemed to be a failure to exercise reasonable care. Lender shall not be required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve or maintain any security interest given to secure the Indebtedness.

LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Grantor fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Grantor's failure to discharge or pay when due any amounts Grantor is required to discharge or pay under this Agreement or any Related Documents, Lender on Grantor's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on the Collateral and paying all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity. The Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon Default.



COMMERCIAL SECURITY AGREEMENT
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DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Payment Default. Grantor fails to make any payment when due under the Indebtedness.

Other Defaults. Grantor fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Grantor.

False Statements. Any warranty, representation or statement made or furnished to Lender by Grantor or on Grantor's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

Insolvency. The insolvency of Grantor, the appointment of a receiver for any part of Grantor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or by any governmental agency against any collateral securing the Indebtedness. This includes a garnishment of any of Grantor's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Grantor as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Grantor gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the Indebtedness or guarantor, endorser, surety, or accommodation party dies or becomes incompetent or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

Adverse Change. A material adverse change occurs in Grantor's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

Insecurity. Lender in good faith believes itself insecure.

Cure Provisions. If any default, other than a default in payment is curable and if Grantor has not been given a notice of a breach of the same provision of this Agreement within the preceding twelve (12) months, it may be cured if Grantor, after Lender sends written notice to Grantor demanding cure of such default: (1) cures the default within thirty (30) days; or (2) if the cure requires more than thirty (30) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, at any time thereafter, Lender shall have all the rights of a secured party under the Kentucky Uniform Commercial Code. In addition and without limitation, Lender may exercise any one or more of the following rights and remedies:

Accelerate Indebtedness. Lender may declare the entire Indebtedness, including any prepayment penalty which Grantor would be required to pay, immediately due and payable, without notice of any kind to Grantor.

Assemble Collateral. Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter upon the property of Grantor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Grantor agrees Lender may take such other goods, provided that Lender makes reasonable efforts to return them to Grantor after repossession.

Sell the Collateral. Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in Lender's own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender will give Grantor, and other persons as required by law, reasonable notice of the time and place of any public sale, or the time after which any private sale or any other disposition of the Collateral is to be made. However, no notice need be provided to any person who, after Event of Default occurs, enters into and authenticates an agreement waiving that person's right to notification of sale. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Appoint Receiver. Lender shall have the right to have a receiver appointed to take possession of all or any part of the Collateral, with the power to protect and preserve the Collateral, to operate the Collateral preceding foreclosure or sale, and to collect the rents from the Collateral and apply the proceeds, over and above the cost of the receivership, against the Indebtedness. The receiver may serve without bond if permitted by law. Lender's right to the appointment of a receiver shall exist whether or not the apparent value of the Collateral exceeds the Indebtedness by a substantial amount. Employment by Lender shall not disqualify a person from serving as a receiver.

Collect Revenues, Apply Accounts. Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Lender may at any time in Lender's discretion transfer any Collateral into Lender's own name or that of Lender's nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of and in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Lender may notify account debtors and obligors on any Collateral to make payments directly to Lender.

Obtain Deficiency. If Lender chooses to sell any or all of the Collateral, Lender may obtain a judgment against Grantor for any deficiency remaining on the Indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this Agreement. Grantor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

Other Rights and Remedies. Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Lender shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

Election of Remedies. Except as may be prohibited by applicable law, all of Lender's rights and remedies, whether evidenced by this Agreement, the Related Documents, or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not affect Lender's right to declare a default and exercise its remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Attorneys' Fees; Expenses. Grantor agrees to pay upon demand all of Lender's costs and expenses, including Lender's reasonable attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Grantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's reasonable attorneys' fees and legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any



COMMERCIAL SECURITY AGREEMENT
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anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Governing Law. This Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the Commonwealth of Kentucky without regard to its conflicts of law provisions. This Agreement has been accepted by Lender in the Commonwealth of Kentucky.

Choice of Venue. If there is a lawsuit, Grantor agrees upon Lender's request to submit to the jurisdiction of the courts of Estill County, Commonwealth of Kentucky.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Notices. Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Grantor agrees to keep Lender informed at all times of Grantor's current address. Unless otherwise provided or required by law, if there is more than one Grantor, any notice given by Lender to any Grantor is deemed to be notice given to all Grantors.

Power of Attorney. Grantor hereby appoints Lender as Grantor's irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect, amend, or to continue the security interest granted in this Agreement or to demand termination of filings of other secured parties. Lender may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lender's security interest in the Collateral.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

Successors and Assigns. Subject to any limitations stated in this Agreement on transfer of Grantor's interest, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns. If ownership of the Collateral becomes vested in a person other than Grantor, Lender, without notice to Grantor, may deal with Grantor's successors with reference to this Agreement and the indebtedness by way of forbearance or extension without releasing Grantor from the obligations of this Agreement or liability under the indebtedness.

Survival of Representations and Warranties. All representations, warranties, and agreements made by Grantor in this Agreement shall survive the execution and delivery of this Agreement, shall be continuing in nature, and shall remain in full force and effect until such time as Grantor's indebtedness shall be paid in full.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

Waive Jury. All parties to this Agreement hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code:

Agreement. The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

Borrower. The word "Borrower" means Estill Co Water District #1 and includes all co-signers and co-makers signing the Note and all their successors and assigns.

Collateral. The word "Collateral" means all of Grantor's right, title and interest in and to all the Collateral as described in the Collateral Description section of this Agreement.

Default. The word "Default" means the Default set forth in this Agreement in the section titled "Default".

Environmental Laws. The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

Grantor. The word "Grantor" means Estill Co Water District #1.

Guaranty. The word "Guaranty" means the guaranty from guarantor, endorser, surety, or accommodation party to Lender, including without limitation a guaranty of all or part of the Note.

Hazardous Substances. The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Grantor is responsible under this Agreement or under any of the Related Documents.

Lender. The word "Lender" means Citizens Guaranty Bank, its successors and assigns.

Note. The word "Note" means the Note dated January 29, 2015 and executed by Estill Co Water District #1 in the principal amount of \$100,305.00, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

Property. The word "Property" means all of Grantor's right, title and interest in and to all the Property as described in the "Collateral Description" section of this Agreement.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments,



**COMMERCIAL SECURITY AGREEMENT
(Continued)**

Loan No: 03387

Page 5

agreements and documents, whether now or hereafter existing, executed in connection with the indebtedness.

GRANTOR HAS READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT AND AGREES TO ITS TERMS. THIS AGREEMENT IS DATED JANUARY 29, 2015.

GRANTOR:

ESTILL CO WATER DISTRICT #1

By: _____
Greg A Wright, Chairman of Estill Co Water District
#1

By: _____
Jerry M Arnold, Secretary of Estill Co Water District
#1

By: _____
William Beard, Treasurer of Estill Co Water District
#1



NOTICE OF FINAL AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$100,305.00	01-29-2015	01-28-2019	03387	5	10098348	SLC	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "*****" has been omitted due to text length limitations.

Borrower: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7697

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

BY SIGNING THIS DOCUMENT EACH PARTY REPRESENTS AND AGREES THAT: (A) THE WRITTEN LOAN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES, (B) THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES, AND (C) THE WRITTEN LOAN AGREEMENT MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR UNDERSTANDINGS OF THE PARTIES.

As used in this Notice, the following terms have the following meanings:

Loan. The term "Loan" means the following described loan: a Fixed Rate (3.850%) Nondisclosable Loan to a Government Entity for \$100,305.00 due on January 28, 2019.

Loan Agreement. The term "Loan Agreement" means one or more promises, promissory notes, agreements, undertakings, security agreements, deeds of trust or other documents, or commitments, or any combination of those actions or documents, relating to the Loan, including without limitation the following:

LOAN DOCUMENTS

- | | |
|---|---|
| Amortization Schedule | Disclosure of Right to Receive a Copy of an Appraisal |
| Governmental Certificate: Estill Co Water District #1 | Business Loan Agreement |
| Customer Information Profile: William Beard | Customer Information Profile: Jerry M Arnold |
| Customer Information Profile: Greg A Wright | Promissory Note |
| KY Commercial Security Agreement: All Accounts Receivable now owned or hereafter acquired in the operation of Estill Co Water District #1; owned by Estill Co Water District #1 | KY National UCC Financing Statement (Rev. 04/20/11): All Accounts; whether any of the foregoing |
| Notice of Final Agreement | Disbursement Request and Authorization |
| W-9 Request for Taxpayer ID Number and Certification: : Jerry M Arnold | W-9 Request for Taxpayer ID Number and Certification: : Greg A Wright |
| W-9 Request for Taxpayer ID Number and Certification: : Estill Co Water District #1 | W-9 Request for Taxpayer ID Number and Certification: : William Beard |

Parties. The term "Parties" means Citizens Guaranty Bank and any and all entities or individuals who are obligated to repay the loan or have pledged property as security for the Loan, including without limitation the following:

- Borrower:** Estill Co Water District #1
Grantor(s): Estill Co Water District #1

Each Party who signs below, other than Citizens Guaranty Bank, acknowledges, represents, and warrants to Citizens Guaranty Bank that it has received, read and understood this Notice of Final Agreement. This Notice is dated January 29, 2015.

BORROWER:

ESTILL CO WATER DISTRICT #1

By: _____
Greg A Wright, Chairman of Estill Co Water District #1

By: _____
Jerry M Arnold, Secretary of Estill Co Water District #1

By: _____
William Beard, Treasurer of Estill Co Water District #1

LENDER:

CITIZENS GUARANTY BANK

X _____
Authorized Signer

THE ESTILL COUNTY WATER DISTRICT BOARD OF COMMISSIONERS (THE COMMISSION) MET IN SPECIAL SESSION WEDNESDAY, JANUARY 18, 2015 AT 3:30 PM. IN THE CONFERENCE ROOM AT ITS OFFICES LOCATED AT 76 CEDAR GROVE ROAD, IRVINE, KENTUCKY, WITH THE FOLLOWING OFFICERS AND MEMBERS PRESENT: GREG WRIGHT-CHAIRMAN, JERRY ARNOLD-SECRETARY, WILLIAM BEARD-TREASURER, AUDREA MILLER-OFFICE MANAGER & DWIGHT RICHARSON-OPERATIONAL MANAGER

From the roll call, it was determined that a quorum of the Board of Commissioners of the Estill County Water District was present. The meeting was then opened for the transaction of business, at which time the following proceedings were had and entered for record:

ON MOTION OF ARNOLD AND SECONDED BY BEARD and all members of the Board voting in the affirmative, that the agenda for the January 18, 2017 special Board of Commissioners Meeting be approved.

The Minutes from the December 29, 2016 regular board meeting were presented to the Board with no corrections being found necessary. ON MOTION OF BEARD AND SECONDED BY ARNOLD and all members of the Board voting in the affirmative, that the minutes be approved as presented.

ON MOTION OF ARNOLD AND SECONDED BY BEARD and all members of the Board voting in the affirmative, that the District borrow \$110,000.00 from Citizens Guaranty Bank, to cover the February 2017 USDA-RD payment.

ON MOTION OF ARNOLD AND SECOND BY BEARD and all members of the Board voting in the affirmative, that the meeting be adjourned.

Signed William Beard
Secretary

Attested: [Signature]

**Meeting agenda and sign in sheets are filed in the Districts office and can be made available for review upon request.*

AMORTIZATION SCHEDULE

Principal \$110,330.00	Loan Date 01-24-2017	Maturity 02-10-2021	Loan No 24597	Call / Coll 5	Account 10098348	Officer SLC	Initials
References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.							

Borrower: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7697

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

Disbursement Date: January 24, 2017
Interest Rate: 4.100

Repayment Schedule: Balloon
Calculation Method: 365/365 U.S. Rule

Payment Number	Payment Date	Payment Amount	Interest Paid	Principal Paid	Remaining Balance
1	03-10-2017	1,352.35	557.70	794.65	109,535.35
2	04-10-2017	1,352.35	381.42	970.93	108,564.42
3	05-10-2017	1,352.35	385.85	966.50	107,577.92
4	06-10-2017	1,352.35	374.61	977.74	106,600.18
5	07-10-2017	1,352.35	359.23	993.12	105,607.06
6	08-10-2017	1,352.35	367.74	984.61	104,622.45
7	09-10-2017	1,352.35	364.32	988.03	103,634.42
8	10-10-2017	1,352.35	349.23	1,003.12	102,631.30
9	11-10-2017	1,352.35	357.38	994.97	101,636.33
10	12-10-2017	1,352.35	342.50	1,009.85	100,626.48
2017 TOTALS:		13,523.50	3,819.98	9,703.52	
11	01-10-2018	1,352.35	350.40	1,001.95	99,624.53
12	02-10-2018	1,352.35	346.91	1,005.44	98,618.09
13	03-10-2018	1,352.35	310.18	1,042.17	97,576.92
14	04-10-2018	1,352.35	339.78	1,012.57	96,564.35
15	05-10-2018	1,352.35	325.41	1,026.94	95,537.41
16	06-10-2018	1,352.35	332.68	1,019.67	94,517.74
17	07-10-2018	1,352.35	318.51	1,033.84	93,483.90
18	08-10-2018	1,352.35	325.53	1,026.82	92,457.08
19	09-10-2018	1,352.35	321.95	1,030.40	91,426.68
20	10-10-2018	1,352.35	308.10	1,044.25	90,382.43
21	11-10-2018	1,352.35	314.73	1,037.62	89,344.81
22	12-10-2018	1,352.35	301.08	1,051.27	88,293.54
2018 TOTALS:		16,228.20	3,895.26	12,332.94	
23	01-10-2019	1,352.35	307.46	1,044.89	87,248.65
24	02-10-2019	1,352.35	303.82	1,048.53	86,200.12
25	03-10-2019	1,352.35	271.12	1,081.23	85,118.89
26	04-10-2019	1,352.35	296.40	1,055.95	84,062.94
27	05-10-2019	1,352.35	283.28	1,069.07	82,993.87
28	06-10-2019	1,352.35	289.00	1,063.35	81,930.52
29	07-10-2019	1,352.35	276.09	1,076.26	80,854.26
30	08-10-2019	1,352.35	281.55	1,070.80	79,783.46
31	09-10-2019	1,352.35	277.82	1,074.53	78,708.93
32	10-10-2019	1,352.35	265.24	1,087.11	77,621.82
33	11-10-2019	1,352.35	270.29	1,082.06	76,539.76
34	12-10-2019	1,352.35	257.93	1,094.42	75,445.34
2019 TOTALS:		16,228.20	3,380.00	12,848.20	
35	01-10-2020	1,352.35	262.51	1,089.84	74,355.50
36	02-10-2020	1,352.35	258.21	1,094.14	73,261.36
37	03-10-2020	1,352.35	238.00	1,114.35	72,147.01
38	04-10-2020	1,352.35	250.54	1,101.81	71,045.20
39	05-10-2020	1,352.35	238.76	1,113.59	69,931.61
40	06-10-2020	1,352.35	242.85	1,109.50	68,822.11
41	07-10-2020	1,352.35	231.29	1,121.06	67,701.05
42	08-10-2020	1,352.35	235.10	1,117.25	66,583.80
43	09-10-2020	1,352.35	231.22	1,121.13	65,462.67
44	10-10-2020	1,352.35	220.00	1,132.35	64,330.32
45	11-10-2020	1,352.35	223.40	1,128.95	63,201.37
46	12-10-2020	1,352.35	212.40	1,139.95	62,061.42
2020 TOTALS:		16,228.20	2,844.28	13,383.92	
47	01-10-2021	1,352.35	215.69	1,136.66	60,924.76
48	02-10-2021	61,136.91	212.15	60,924.76	0.00
2021 TOTALS:		62,489.26	427.84	62,061.42	
TOTALS:		124,697.36	14,367.36	110,330.00	

NOTICE: This is an estimated loan amortization schedule. Actual amounts may vary if payments are made on different dates or in different amounts.



PROMISSORY NOTE

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$110,330.00	01-24-2017	02-10-2021	24597	5	10098348	SLC	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing ***** has been omitted due to text length limitations.

Borrower: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7697

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

Principal Amount: \$110,330.00 **Interest Rate:** 4.100% **Date of Note:** January 24, 2017

PROMISE TO PAY. Estill Co Water District #1 ("Borrower") promises to pay to Citizens Guaranty Bank ("Lender"), or order, in lawful money of the United States of America, the principal amount of One Hundred Ten Thousand Three Hundred Thirty & 00/100 Dollars (\$110,330.00), together with interest on the unpaid principal balance from January 24, 2017, calculated as described in the "INTEREST CALCULATION METHOD" paragraph using an interest rate of 4.100% per annum, until paid in full. The interest rate may change under the terms and conditions of the "INTEREST AFTER DEFAULT" section.

PAYMENT. Borrower will pay this loan in 47 regular payments of \$1,352.35 each and one irregular last payment estimated at \$61,136.91. Borrower's first payment is due March 10, 2017, and all subsequent payments are due on the same day of each month after that. Borrower's final payment will be due on February 10, 2021, and will be for all principal and all accrued interest not yet paid. Payments include principal and interest. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal; then to any escrow or reserve account payments as required under any mortgage, deed of trust, or other security instrument or security agreement securing this Note; and then to any late charges. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. All payments must be made in U.S. dollars and must be received by Lender consistent with any written payment instructions provided by Lender. If a payment is made consistent with Lender's payment instructions but received after 5:00 p.m. Eastern Standard Time, Monday through Friday, Lender will credit Borrower's payment on the next business day.

INTEREST CALCULATION METHOD. Interest on this Note is computed on a 365/365 simple interest basis; that is, by applying the ratio of the interest rate over the number of days in a year (366 during leap years), multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. All interest payable under this Note is computed using this method.

PREPAYMENT. Borrower agrees that all loan fees and other prepaid finance charges are earned fully as of the date of the loan and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. Except for the foregoing, Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, early payments will reduce the principal balance due and may result in Borrower's making fewer payments. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: Citizens Guaranty Bank, A Real Community Bank, P.O. Box 630 Irvine, KY 40336-0630.

LATE CHARGE. If a payment is 10 days or more late, Borrower will be charged 5.000% of the regularly scheduled payment.

INTEREST AFTER DEFAULT. Upon default, including failure to pay upon final maturity, the total sum due under this Note will continue to accrue interest at the interest rate under this Note.

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

Payment Default. Borrower fails to make any payment when due under this Note.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Note or the related documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Death or Insolvency. The death of Borrower or the dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the indebtedness or any guarantor, endorser, surety, or accommodation party dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

Insecurity. Lender in good faith believes itself insecure.

Cure Provisions. If any default, other than a default in payment, is curable and if Borrower has not been given a notice of a breach of the same provision of this Note within the preceding twelve (12) months, it may be cured if Borrower, after Lender sends written notice to Borrower demanding cure of such default: (1) cures the default within thirty (30) days; or (2) if the cure requires more than thirty (30) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance under this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount.

ATTORNEYS' FEES; EXPENSES. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's reasonable attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), and appeals. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law.

GOVERNING LAW. This Note will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the Commonwealth of Kentucky without regard to its conflicts of law provisions. This Note has been accepted by Lender in the Commonwealth of Kentucky.

CHOICE OF VENUE. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Estill County, Commonwealth of Kentucky.

DISHONORED ITEM FEE. Borrower will pay a fee to Lender of \$25.00 if Borrower makes a payment on Borrower's loan and the check or preauthorized charge with which Borrower pays is later dishonored.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may



**PROMISSORY NOTE
(Continued)**

Loan No: 24597

Page 2

open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts.

COLLATERAL. Borrower acknowledges this Note is secured by a UCC on all accounts receivable now owned and hereafter acquired for use in the business known as Estill County Water District #1 located at 76 Cedar Grove Rd, Irvine, Estill County, KY 40336.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

NOTIFY US OF INACCURATE INFORMATION WE REPORT TO CONSUMER REPORTING AGENCIES. Borrower may notify Lender if Lender reports any inaccurate information about Borrower's account(s) to a consumer reporting agency. Borrower's written notice describing the specific inaccuracy(ies) should be sent to Lender at the following address: Citizens Guaranty Bank A Real Community Bank, P.O. Box 630 Irvine, KY 40336-0630.

GENERAL PROVISIONS. If any part of this Note cannot be enforced, this fact will not affect the rest of the Note. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE. BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

BORROWER:

ESTILL CO WATER DISTRICT #1

By: _____
Jerry M Arnold, Secretary of Estill Co Water District
#1

By: _____
Greg A Wright, Chairman of Estill Co Water District
#1

By: _____
William Beard, Treasurer of Estill Co Water District
#1



BUSINESS LOAN AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$110,330.00	01-24-2017	02-10-2021	24597	5	10098348	SLC	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "*****" has been omitted due to text length limitations.

Borrower: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7697

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

THIS BUSINESS LOAN AGREEMENT dated January 24, 2017, is made and executed between Estill Co Water District #1 ("Borrower") and Citizens Guaranty Bank ("Lender") on the following terms and conditions. Borrower has received prior commercial loans from Lender or has applied to Lender for a commercial loan or loans or other financial accommodations, including those which may be described on any exhibit or schedule attached to this Agreement. Borrower understands and agrees that: (A) in granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements as set forth in this Agreement; (B) the granting, renewing, or extending of any Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; and (C) all such Loans shall be and remain subject to the terms and conditions of this Agreement.

TERM. This Agreement shall be effective as of January 24, 2017, and shall continue in full force and effect until such time as all of Borrower's Loans in favor of Lender have been paid in full, including principal, interest, costs, expenses, attorneys' fees, and other fees and charges, or until February 10, 2021.

CONDITIONS PRECEDENT TO EACH ADVANCE. Lender's obligation to make the initial Advance and each subsequent Advance under this Agreement shall be subject to the fulfillment to Lender's satisfaction of all of the conditions set forth in this Agreement and in the Related Documents.

Loan Documents. Borrower shall provide to Lender the following documents for the Loan: (1) the Note; (2) Security Agreements granting to Lender security interests in the Collateral; (3) financing statements and all other documents perfecting Lender's Security Interests; (4) evidence of insurance as required below; (5) together with all such Related Documents as Lender may require for the Loan; all in form and substance satisfactory to Lender and Lender's counsel.

Borrower's Authorization. Borrower shall have provided in form and substance satisfactory to Lender properly certified resolutions, duly authorizing the execution and delivery of this Agreement, the Note and the Related Documents. In addition, Borrower shall have provided such other resolutions, authorizations, documents and instruments as Lender or its counsel, may require.

Payment of Fees and Expenses. Borrower shall have paid to Lender all fees, charges, and other expenses which are then due and payable as specified in this Agreement or any Related Document.

Representations and Warranties. The representations and warranties set forth in this Agreement, in the Related Documents, and in any document or certificate delivered to Lender under this Agreement are true and correct.

No Event of Default. There shall not exist at the time of any Advance a condition which would constitute an Event of Default under this Agreement or under any Related Document.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any Indebtedness exists:

Organization. Borrower is a governmental entity which is, and at all times shall be, duly organized, validly existing, and in good standing under and by virtue of the laws of the Commonwealth of Kentucky. Borrower is duly authorized to transact business in all other states in which Borrower is doing business, having obtained all necessary filings, governmental licenses and approvals for each state in which Borrower is doing business. Specifically, Borrower is, and at all times shall be, duly qualified as a foreign in all states in which the failure to so qualify would have a material adverse effect on its business or financial condition. Borrower has the full power and authority to own its properties and to transact the business in which it is presently engaged or presently proposes to engage. Borrower maintains an office at 76 Cedar Grove Rd, Irvine, KY 40336-7697. Unless Borrower has designated otherwise in writing, the principal office is the office at which Borrower keeps its books and records including its records concerning the Collateral. Borrower will notify Lender prior to any change in the location of Borrower's state of organization or any change in Borrower's name. Borrower shall do all things necessary to preserve and to keep in full force and effect its existence, rights and privileges, and shall comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental or quasi-governmental authority or court applicable to Borrower and Borrower's business activities.

Assumed Business Names. Borrower has filed or recorded all documents or filings required by law relating to all assumed business names used by Borrower. Excluding the name of Borrower, the following is a complete list of all assumed business names under which Borrower does business: **None.**

Authorization. Borrower's execution, delivery, and performance of this Agreement and all the Related Documents have been duly authorized by all necessary action by Borrower and do not conflict with, result in a violation of, or constitute a default under (1) any provision of any agreement or other instrument binding upon Borrower or (2) any law, governmental regulation, court decree, or order applicable to Borrower or to Borrower's properties.

Financial Information. Each of Borrower's financial statements supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.

Legal Effect. This Agreement constitutes, and any instrument or agreement Borrower is required to give under this Agreement when delivered will constitute legal, valid, and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

Properties. Except as contemplated by this Agreement or as previously disclosed in Borrower's financial statements or in writing to Lender and as accepted by Lender, and except for property tax liens for taxes not presently due and payable, Borrower owns and has good title to all of Borrower's properties free and clear of all Security Interests, and has not executed any security documents or financing statements relating to such properties. All of Borrower's properties are titled in Borrower's legal name, and Borrower has not used or filed a financing statement under any other name for at least the last five (5) years.

Hazardous Substances. Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that: (1) During the period of Borrower's ownership of the Collateral, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance by any person on, under, about or from any of the Collateral. (2) Borrower has no knowledge of, or reason to believe that there has been (a) any breach or violation of any Environmental Laws; (b) any use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance on, under, about or from the Collateral by any prior owners or occupants of any of the Collateral; or (c) any actual or threatened litigation or claims of any kind by any person relating to such matters. (3) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the Collateral shall use, generate, manufacture, store, treat, dispose of or release any Hazardous Substance on, under, about or from any of the Collateral; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation all Environmental Laws. Borrower authorizes Lender and its agents to enter upon the Collateral to make such inspections and tests as Lender may deem appropriate to determine compliance of the Collateral with this section of the Agreement. Any inspections or tests made by Lender shall be at Borrower's expense and for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the Collateral for hazardous waste and Hazardous Substances. Borrower hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Borrower becomes liable for cleanup or other costs under any such laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release of a hazardous waste or substance on the Collateral. The provisions of this section of the Agreement, including the obligation to indemnify and defend, shall survive the payment of the Indebtedness and the termination, expiration or satisfaction of this Agreement and shall not be affected by Lender's acquisition of any interest in any of the Collateral, whether by



**BUSINESS LOAN AGREEMENT
(Continued)**

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foreclosure or otherwise.

Litigation and Claims. No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

Taxes. To the best of Borrower's knowledge, all of Borrower's tax returns and reports that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being or to be contested by Borrower in good faith in the ordinary course of business and for which adequate reserves have been provided.

Lien Priority. Unless otherwise previously disclosed to Lender in writing, Borrower has not entered into or granted any Security Agreements, or permitted the filing or attachment of any Security Interests on or affecting any of the Collateral directly or indirectly securing repayment of Borrower's Loan and Note, that would be prior or that may in any way be superior to Lender's Security Interests and rights in and to such Collateral.

Binding Effect. This Agreement, the Note, all Security Agreements (if any), and all Related Documents are binding upon the signers thereof, as well as upon their successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, so long as this Agreement remains in effect, Borrower will:

Notices of Claims and Litigation. Promptly inform Lender in writing of (1) all material adverse changes in Borrower's financial condition, and (2) all existing and all threatened litigation, claims, investigations, administrative proceedings or similar actions affecting Borrower or any Guarantor which could materially affect the financial condition of Borrower or the financial condition of any Guarantor.

Financial Records. Maintain its books and records in accordance with GAAP, applied on a consistent basis, and permit Lender to examine and audit Borrower's books and records at all reasonable times.

Financial Statements. Furnish Lender with the following:

Annual Statements. As soon as available, but in no event later than sixty (60) days after the end of each fiscal year, Borrower's balance sheet and income statement for the year ended, prepared by Borrower.

Tax Returns. As soon as available, but in no event later than sixty (60) days after the applicable filing date for the tax reporting period ended, Borrower's Federal and other governmental tax returns, prepared by a tax professional satisfactory to Lender.

All financial reports required to be provided under this Agreement shall be prepared in accordance with GAAP, applied on a consistent basis, and certified by Borrower as being true and correct.

Additional Information. Furnish such additional information and statements, as Lender may request from time to time.

Insurance. Maintain fire and other risk insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, coverages and with insurance companies acceptable to Lender. Borrower, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days prior written notice to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest for the Loans, Borrower will provide Lender with such lender's loss payable or other endorsements as Lender may require.

Insurance Reports. Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitation the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the properties insured; (5) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (6) the expiration date of the policy. In addition, upon request of Lender (however not more often than annually), Borrower will have an independent appraiser satisfactory to Lender determine, as applicable, the actual cash value or replacement cost of any Collateral. The cost of such appraisal shall be paid by Borrower.

Other Agreements. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

Loan Proceeds. Use all Loan proceeds solely for Borrower's business operations, unless specifically consented to the contrary by Lender in writing.

Taxes, Charges and Liens. Pay and discharge when due all of its indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits. Provided however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (1) the legality of the same shall be contested in good faith by appropriate proceedings, and (2) Borrower shall have established on Borrower's books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim in accordance with GAAP.

Performance. Perform and comply, in a timely manner, with all terms, conditions, and provisions set forth in this Agreement, in the Related Documents, and in all other instruments and agreements between Borrower and Lender. Borrower shall notify Lender immediately in writing of any default in connection with any agreement.

Operations. Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; conduct its business affairs in a reasonable and prudent manner.

Environmental Studies. Promptly conduct and complete, at Borrower's expense, all such investigations, studies, samplings and testings as may be requested by Lender or any governmental authority relative to any substance, or any waste or by-product of any substance defined as toxic or a hazardous substance under applicable federal, state, or local law, rule, regulation, order or directive, at or affecting any property or any facility owned, leased or used by Borrower.

Compliance with Governmental Requirements. Comply with all laws, ordinances, and regulations, now or hereafter in effect, of all governmental authorities applicable to the conduct of Borrower's properties, businesses and operations, and to the use or occupancy of the Collateral, including without limitation, the Americans With Disabilities Act. Borrower may contest in good faith any such law, ordinance, or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Borrower has notified Lender in writing prior to doing so and so long as, in Lender's sole opinion, Lender's interests in the Collateral are not jeopardized. Lender may require Borrower to post adequate security or a surety bond, reasonably satisfactory to Lender, to protect Lender's interest.

Inspection. Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

Environmental Compliance and Reports. Borrower shall comply in any and all Environmental Laws; not cause or permit to exist, as a result of an intentional or unintentional action or omission on Borrower's part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

Additional Assurances. Make, execute and deliver to Lender such promissory notes, mortgages, deeds of trust, security agreements, assignments, financing statements, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence and secure the Loans and to perfect all Security Interests.



BUSINESS LOAN AGREEMENT
(Continued)

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LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Borrower fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Borrower's failure to discharge or pay when due any amounts Borrower is required to discharge or pay under this Agreement or any Related Documents, Lender on Borrower's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on any Collateral and paying all costs for insuring, maintaining and preserving any Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Borrower. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity.

NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall not, without the prior written consent of Lender:

Indebtedness and Liens. (1) Except for trade debt incurred in the normal course of business and indebtedness to Lender contemplated by this Agreement, create, incur or assume indebtedness for borrowed money, including capital leases, (2) sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of Borrower's assets (except as allowed as Permitted Liens), or (3) sell with recourse any of Borrower's accounts, except to Lender.

Continuity of Operations. (1) Engage in any business activities substantially different than those in which Borrower is presently engaged, (2) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change its name, dissolve or transfer or sell Collateral out of the ordinary course of business, or (3) make any distribution with respect to any capital account, whether by reduction of capital or otherwise.

Loans, Acquisitions and Guaranties. (1) Loan, invest in or advance money or assets to any other person, enterprise or entity, (2) purchase, create or acquire any interest in any other enterprise or entity, or (3) incur any obligation as surety or guarantor other than in the ordinary course of business.

Agreements. Enter into any agreement containing any provisions which would be violated or breached by the performance of Borrower's obligations under this Agreement or in connection herewith.

CESSATION OF ADVANCES. If Lender has made any commitment to make any Loan to Borrower, whether under this Agreement or under any other agreement, Lender shall have no obligation to make Loan Advances or to disburse Loan proceeds if: (A) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (B) Borrower or any Guarantor dies, becomes incompetent or becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (C) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; or (D) any Guarantor seeks, claims or otherwise attempts to limit, modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender; or (E) Lender in good faith deems itself insecure, even though no Event of Default shall have occurred.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the Indebtedness against any and all such accounts.

DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Payment Default. Borrower fails to make any payment when due under the Loan.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Death or Insolvency. The death of Borrower or the dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the Loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Loan is impaired.

Insecurity. Lender in good faith believes itself insecure.

Right to Cure. If any default, other than a default on Indebtedness, is curable and if Borrower or Grantor, as the case may be, has not been given a notice of a similar default within the preceding twelve (12) months, it may be cured if Borrower or Grantor, as the case may be, after Lender sends written notice to Borrower or Grantor, as the case may be, demanding cure of such default: (1) cure the default within thirty (30) days; or (2) if the cure requires more than thirty (30) days, immediately initiate steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continue and complete all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

EFFECT OF AN EVENT OF DEFAULT. If any Event of Default shall occur, except where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate (including any obligation to make further Loan Advances or disbursements), and, at Lender's option, all Indebtedness immediately will become due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Attorneys' Fees: Expenses. Borrower agrees to pay upon demand all of Lender's costs and expenses, including Lender's reasonable attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Borrower shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's reasonable attorneys' fees and legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any



**BUSINESS LOAN AGREEMENT
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anticipated post-judgment collection services. Borrower also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Consent to Loan Participation. Borrower agrees and consents to Lender's sale or transfer, whether now or later, of one or more participation interests in the Loan to one or more purchasers, whether related or unrelated to Lender. Lender may provide, without any limitation whatsoever, to any one or more purchasers, or potential purchasers, any information or knowledge Lender may have about Borrower or about any other matter relating to the Loan, and Borrower hereby waives any rights to privacy Borrower may have with respect to such matters. Borrower additionally waives any and all notices of sale of participation interests, as well as all notices of any repurchase of such participation interests. Borrower also agrees that the purchasers of any such participation interests will be considered as the absolute owners of such interests in the Loan and will have all the rights granted under the participation agreement or agreements governing the sale of such participation interests. Borrower further waives all rights of offset or counterclaim that it may have now or later against Lender or against any purchaser of such a participation interest and unconditionally agrees that either Lender or such purchaser may enforce Borrower's obligation under the Loan irrespective of the failure or insolvency of any holder of any interest in the Loan. Borrower further agrees that the purchaser of any such participation interests may enforce its interests irrespective of any personal claims or defenses that Borrower may have against Lender.

Governing Law. This Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the Commonwealth of Kentucky without regard to its conflicts of law provisions. This Agreement has been accepted by Lender in the Commonwealth of Kentucky.

Choice of Venue. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Estill County, Commonwealth of Kentucky.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any of Borrower's or any Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Notices. Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Borrower agrees to keep Lender informed at all times of Borrower's current address. Unless otherwise provided or required by law, if there is more than one Borrower, any notice given by Lender to any Borrower is deemed to be notice given to all Borrowers.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

Subsidiaries and Affiliates of Borrower. To the extent the context of any provisions of this Agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used in this Agreement shall include all of Borrower's subsidiaries and affiliates. Notwithstanding the foregoing however, under no circumstances shall this Agreement be construed to require Lender to make any Loan or other financial accommodation to any of Borrower's subsidiaries or affiliates.

Successors and Assigns. All covenants and agreements by or on behalf of Borrower contained in this Agreement or any Related Documents shall bind Borrower's successors and assigns and shall inure to the benefit of Lender and its successors and assigns. Borrower shall not, however, have the right to assign Borrower's rights under this Agreement or any interest therein, without the prior written consent of Lender.

Survival of Representations and Warranties. Borrower understands and agrees that in making the Loan, Lender is relying on all representations, warranties, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement or the Related Documents. Borrower further agrees that regardless of any investigation made by Lender, all such representations, warranties and covenants will survive the making of the Loan and delivery to Lender of the Related Documents, shall be continuing in nature, and shall remain in full force and effect until such time as Borrower's Indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. Accounting words and terms not otherwise defined in this Agreement shall have the meanings assigned to them in accordance with generally accepted accounting principles as in effect on the date of this Agreement:

Advance. The word "Advance" means a disbursement of Loan funds made, or to be made, to Borrower or on Borrower's behalf on a line of credit or multiple advance basis under the terms and conditions of this Agreement.

Agreement. The word "Agreement" means this Business Loan Agreement, as this Business Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Business Loan Agreement from time to time.

Borrower. The word "Borrower" means Estill Co Water District #1 and includes all co-signers and co-makers signing the Note and all their successors and assigns.

Collateral. The word "Collateral" means all property and assets granted as collateral security for a Loan, whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, collateral mortgage, deed of trust, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

Environmental Laws. The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

GAAP. The word "GAAP" means generally accepted accounting principles.

Grantor. The word "Grantor" means each and all of the persons or entities granting a Security Interest in any Collateral for the Loan, including without limitation all Borrowers granting such a Security Interest.

Guarantor. The word "Guarantor" means any guarantor, surety, or accommodation party of any or all of the Loan.

Guaranty. The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.



**BUSINESS LOAN AGREEMENT
(Continued)**

Loan No: 24597

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Hazardous Substances. The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Borrower is responsible under this Agreement or under any of the Related Documents.

Lender. The word "Lender" means Citizens Guaranty Bank, its successors and assigns.

Loan. The word "Loan" means any and all loans and financial accommodations from Lender to Borrower whether now or hereafter existing, and however evidenced, including without limitation those loans and financial accommodations described herein or described on any exhibit or schedule attached to this Agreement from time to time.

Note. The word "Note" means the Note dated January 24, 2017 and executed by Estill Co Water District #1 in the principal amount of \$110,330.00, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

Permitted Liens. The words "Permitted Liens" mean (1) liens and security interests securing Indebtedness owed by Borrower to Lender; (2) liens for taxes, assessments, or similar charges either not yet due or being contested in good faith; (3) liens of materialmen, mechanics, warehousemen, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (4) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower in the ordinary course of business to secure indebtedness outstanding on the date of this Agreement or permitted to be incurred under the paragraph of this Agreement titled "Indebtedness and Liens"; (5) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by the Lender in writing; and (6) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrower's assets.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Loan.

Security Agreement. The words "Security Agreement" mean and include without limitation any agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

Security Interest. The words "Security Interest" mean, without limitation, any and all types of collateral security, present and future, whether in the form of a lien, charge, encumbrance, mortgage, deed of trust, security deed, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever whether created by law, contract, or otherwise.

BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS BUSINESS LOAN AGREEMENT AND BORROWER AGREES TO ITS TERMS. THIS BUSINESS LOAN AGREEMENT IS DATED JANUARY 24, 2017.

BORROWER:

ESTILL CO WATER DISTRICT #1

By: _____
Jerry M Arnold, Secretary of Estill Co Water District #1

By: _____
Greg A Wright, Chairman of Estill Co Water District #1

By: _____
William Beard, Treasurer of Estill Co Water District #1

LENDER:

CITIZENS GUARANTY BANK

By: _____
Authorized Signer



COMMERCIAL SECURITY AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$110,330.00	01-24-2017	02-10-2021	24597	5	10098348	SLC	
References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing ***** has been omitted due to text length limitations.							

Grantor: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7697

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

THIS COMMERCIAL SECURITY AGREEMENT dated January 24, 2017, is made and executed between Estill Co Water District #1 ("Grantor") and Citizens Guaranty Bank ("Lender").

GRANT OF SECURITY INTEREST. For valuable consideration, Grantor grants to Lender a security interest in the Collateral to secure the indebtedness and agrees that Lender shall have the rights stated in this Agreement with respect to the Collateral, in addition to all other rights which Lender may have by law.

COLLATERAL DESCRIPTION. The word "Collateral" as used in this Agreement means the following described property, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located, in which Grantor is giving to Lender a security interest for the payment of the indebtedness and performance of all other obligations under the Note and this Agreement:

all accounts receivable now owned and hereafter acquired for use in the business known as Estill County Water District #1 located at 76 Cedar Grove Rd, Irvine, Estill County, KY 40336

In addition, the word "Collateral" also includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

- (A) All accessions, attachments, accessories, replacements of and additions to any of the collateral described herein, whether added now or later.
- (B) All products and produce of any of the property described in this Collateral section.
- (C) All accounts, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, consignment or other disposition of any of the property described in this Collateral section.
- (D) All proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section, and sums due from a third party who has damaged or destroyed the Collateral or from that party's insurer, whether due to judgment, settlement or other process.
- (E) All records and data relating to any of the property described in this Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Grantor's right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or data on electronic media.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Grantor's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Grantor holds jointly with someone else and all accounts Grantor may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts for which setoff would be prohibited by law. Grantor authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness against any and all such accounts.

GRANTOR'S REPRESENTATIONS AND WARRANTIES WITH RESPECT TO THE COLLATERAL. With respect to the Collateral, Grantor represents and promises to Lender that:

Perfection of Security Interest. Grantor agrees to take whatever actions are requested by Lender to perfect and continue Lender's security interest in the Collateral. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral, and Grantor will note Lender's interest upon any and all chattel paper and instruments if not delivered to Lender for possession by Lender.

Notices to Lender. Grantor will promptly notify Lender in writing at Lender's address shown above (or such other addresses as Lender may designate from time to time) prior to any (1) change in Grantor's name; (2) change in Grantor's assumed business name(s); (3) change in the structure of the entity Grantor; (4) change in the authorized signer(s); (5) change in Grantor's principal office address; (6) change in Grantor's principal residence; (7) conversion of Grantor to a new or different type of business entity; or (8) change in any other aspect of Grantor that directly or indirectly relates to any agreements between Grantor and Lender. No change in Grantor's name will take effect until after Lender has received notice.

No Violation. The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party.

Enforceability of Collateral. To the extent the Collateral consists of accounts, chattel paper, or general intangibles, as defined by the Uniform Commercial Code, the Collateral is enforceable in accordance with its terms, is genuine, and fully complies with all applicable laws and regulations concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral. At the time any account becomes subject to a security interest in favor of Lender, the account shall be a good and valid account representing an undisputed, bona fide indebtedness incurred by the account debtor, for merchandise held subject to delivery instructions or previously shipped or delivered pursuant to a contract of sale, or for services previously performed by Grantor with or for the account debtor. So long as this Agreement remains in effect, Grantor shall not, without Lender's prior written consent, compromise, settle, adjust, or extend payment under or with regard to any such Accounts. There shall be no setoffs or counterclaims against any of the Collateral, and no agreement shall have been made under which any deductions or discounts may be claimed concerning the Collateral except those disclosed to Lender in writing.

Location of the Collateral. Except in the ordinary course of Grantor's business, Grantor agrees to keep the Collateral (or to the extent the Collateral consists of intangible property such as accounts or general intangibles, the records concerning the Collateral) at Grantor's address shown above or at such other locations as are acceptable to Lender. Upon Lender's request, Grantor will deliver to Lender in form satisfactory to Lender a schedule of real properties and Collateral locations relating to Grantor's operations, including without limitation the following: (1) all real property Grantor owns or is purchasing; (2) all real property Grantor is renting or leasing; (3) all storage facilities Grantor owns, rents, leases, or uses; and (4) all other properties where Collateral is or may be located.

Removal of the Collateral. Except in the ordinary course of Grantor's business, Grantor shall not remove the Collateral from its existing location without Lender's prior written consent. Grantor shall, whenever requested, advise Lender of the exact location of the Collateral.

Transactions Involving Collateral. Except for inventory sold or accounts collected in the ordinary course of Grantor's business, or as otherwise provided for in this Agreement, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in this Agreement, without the prior written consent of Lender. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by Lender, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Lender and shall not be commingled with any other funds; provided however, this requirement shall not constitute consent by Lender to any sale or other disposition. Upon receipt, Grantor shall immediately deliver any such proceeds to Lender.

Title. Grantor represents and warrants to Lender that Grantor holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Lender has specifically consented. Grantor shall defend Lender's rights in the Collateral against the claims and demands of all other persons.

Repairs and Maintenance. Grantor agrees to keep and maintain, and to cause others to keep and maintain, the Collateral in good order, repair and condition at all times while this Agreement remains in effect. Grantor further agrees to pay when due all claims for work done



on, or services rendered or material furnished in connection with the Collateral so that no lien or encumbrance may ever attach to or be filed against the Collateral.

Inspection of Collateral. Lender and Lender's designated representatives and agents shall have the right at all reasonable times to examine and inspect the Collateral wherever located.

Taxes, Assessments and Liens. Grantor will pay when due all taxes, assessments and liens upon the Collateral, its use or operation, upon this Agreement, upon any promissory note or notes evidencing the Indebtedness, or upon any of the other Related Documents. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized in Lender's sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Grantor shall deposit with Lender cash, a sufficient corporate surety bond or other security satisfactory to Lender in an amount adequate to provide for the discharge of the lien plus any interest, costs, reasonable attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the Collateral. In any contest Grantor shall defend itself and Lender and shall satisfy any final adverse judgment before enforcement against the Collateral. Grantor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings. Grantor further agrees to furnish Lender with evidence that such taxes, assessments, and governmental and other charges have been paid in full and in a timely manner. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized.

Compliance with Governmental Requirements. Grantor shall comply promptly with all laws, ordinances, rules and regulations of all governmental authorities, now or hereafter in effect, applicable to the ownership, production, disposition, or use of the Collateral, including all laws or regulations relating to the undue erosion of highly-erodible land or relating to the conversion of wetlands for the production of an agricultural product or commodity. Grantor may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Lender's interest in the Collateral, in Lender's opinion, is not jeopardized.

Hazardous Substances. Grantor represents and warrants that the Collateral never has been, and never will be so long as this Agreement remains a lien on the Collateral, used in violation of any Environmental Laws or for the generation, manufacture, storage, transportation, treatment, disposal, release or threatened release of any Hazardous Substance. The representations and warranties contained herein are based on Grantor's due diligence in investigating the Collateral for Hazardous Substances. Grantor hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Grantor becomes liable for cleanup or other costs under any Environmental Laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims and losses resulting from a breach of this provision of this Agreement. This obligation to indemnify and defend shall survive the payment of the Indebtedness and the satisfaction of this Agreement.

Maintenance of Casualty Insurance. Grantor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as Lender may require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to Lender and issued by a company or companies reasonably acceptable to Lender. Grantor, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days' prior written notice to Lender and not including any disclaimer of the insurer's liability for failure to give such a notice. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Grantor or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest, Grantor will provide Lender with such loss payable or other endorsements as Lender may require. If Grantor at any time fails to obtain or maintain any insurance as required under this Agreement, Lender may (but shall not be obligated to) obtain such insurance as Lender deems appropriate, including if Lender so chooses "single interest insurance," which will cover only Lender's interest in the Collateral.

Application of Insurance Proceeds. Grantor shall promptly notify Lender of any loss or damage to the Collateral if the estimated cost of repair or replacement exceeds 5000, whether or not such casualty or loss is covered by insurance. Lender may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued proceeds thereon, shall be held by Lender as part of the Collateral. If Lender consents to repair or replacement of the damaged or destroyed Collateral, Lender shall, upon satisfactory proof of expenditure, pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration. If Lender does not consent to repair or replacement of the Collateral, Lender shall retain a sufficient amount of the proceeds to pay all of the Indebtedness, and shall pay the balance to Grantor. Any proceeds which have not been disbursed within six (6) months after their receipt and which Grantor has not committed to the repair or restoration of the Collateral shall be used to prepay the Indebtedness.

Insurance Reserves. Lender may require Grantor to maintain with Lender reserves for payment of insurance premiums, which reserves shall be created by monthly payments from Grantor of a sum estimated by Lender to be sufficient to produce, at least fifteen (15) days before the premium due date, amounts at least equal to the insurance premiums to be paid. If fifteen (15) days before payment is due, the reserve funds are insufficient, Grantor shall upon demand pay any deficiency to Lender. The reserve funds shall be held by Lender as a general deposit and shall constitute a non-interest-bearing account which Lender may satisfy by payment of the insurance premiums required to be paid by Grantor as they become due. Lender does not hold the reserve funds in trust for Grantor, and Lender is not the agent of Grantor for payment of the insurance premiums required to be paid by Grantor. The responsibility for the payment of premiums shall remain Grantor's sole responsibility.

Insurance Reports. Grantor, upon request of Lender, shall furnish to Lender reports on each existing policy of insurance showing such information as Lender may reasonably request including the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the property insured; (5) the then current value on the basis of which insurance has been obtained and the manner of determining that value; and (6) the expiration date of the policy. In addition, Grantor shall upon request by Lender (however not more often than annually) have an independent appraiser satisfactory to Lender determine, as applicable, the cash value or replacement cost of the Collateral.

Financing Statements. Grantor authorizes Lender to file a UCC financing statement, or alternatively, a copy of this Agreement to perfect Lender's security interest. At Lender's request, Grantor additionally agrees to sign all other documents that are necessary to perfect, protect, and continue Lender's security interest in the Property. Grantor will pay all filing fees, title transfer fees, and other fees and costs involved unless prohibited by law or unless Lender is required by law to pay such fees and costs. Grantor irrevocably appoints Lender to execute documents necessary to transfer title if there is a default. Lender may file a copy of this Agreement as a financing statement.

GRANTOR'S RIGHT TO POSSESSION AND TO COLLECT ACCOUNTS. Until default and except as otherwise provided below with respect to accounts, Grantor may have possession of the tangible personal property and beneficial use of all the Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Grantor's right to possession and beneficial use shall not apply to any Collateral where possession of the Collateral by Lender is required by law to perfect Lender's security interest in such Collateral. Until otherwise notified by Lender, Grantor may collect any of the Collateral consisting of accounts. At any time and even though no Event of Default exists, Lender may exercise its rights to collect the accounts and to notify account debtors to make payments directly to Lender for application to the Indebtedness. If Lender at any time has possession of any Collateral, whether before or after an Event of Default, Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if Lender takes such action for that purpose as Grantor shall request or as Lender, in Lender's sole discretion, shall deem appropriate under the circumstances, but failure to honor any request by Grantor shall not of itself be deemed to be a failure to exercise reasonable care. Lender shall not be required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve or maintain any security interest given to secure the Indebtedness.

LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Grantor fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Grantor's failure to discharge or pay when due any amounts Grantor is required to discharge or pay under this Agreement or any Related Documents, Lender on Grantor's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on the Collateral and paying all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be added as a balloon payment which will be due and payable at the Note's maturity. The Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon



Default.

DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Payment Default. Grantor fails to make any payment when due under the Indebtedness.

Other Defaults. Grantor fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Grantor.

False Statements. Any warranty, representation or statement made or furnished to Lender by Grantor or on Grantor's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

Insolvency. The insolvency of Grantor, the appointment of a receiver for any part of Grantor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or by any governmental agency against any collateral securing the Indebtedness. This includes a garnishment of any of Grantor's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Grantor as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Grantor gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any guarantor, endorser, surety, or accommodation party of any of the Indebtedness or guarantor, endorser, surety, or accommodation party dies or becomes incompetent or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

Adverse Change. A material adverse change occurs in Grantor's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

Insecurity. Lender in good faith believes itself insecure.

Cure Provisions. If any default, other than a default in payment, is curable and if Grantor has not been given a notice of a breach of the same provision of this Agreement within the preceding twelve (12) months, it may be cured if Grantor, after Lender sends written notice to Grantor demanding cure of such default: (1) cures the default within thirty (30) days; or (2) if the cure requires more than thirty (30) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, at any time thereafter, Lender shall have all the rights of a secured party under the Kentucky Uniform Commercial Code. In addition and without limitation, Lender may exercise any one or more of the following rights and remedies:

Accelerate Indebtedness. Lender may declare the entire Indebtedness, including any prepayment penalty which Grantor would be required to pay, immediately due and payable, without notice of any kind to Grantor.

Assemble Collateral. Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter upon the property of Grantor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Grantor agrees Lender may take such other goods, provided that Lender makes reasonable efforts to return them to Grantor after repossession.

Sell the Collateral. Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in Lender's own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender will give Grantor, and other persons as required by law, reasonable notice of the time and place of any public sale, or the time after which any private sale or any other disposition of the Collateral is to be made. However, no notice need be provided to any person who, after Event of Default occurs, enters into and authenticates an agreement waiving that person's right to notification of sale. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Appoint Receiver. Lender shall have the right to have a receiver appointed to take possession of all or any part of the Collateral, with the power to protect and preserve the Collateral, to operate the Collateral preceding foreclosure or sale, and to collect the rents from the Collateral and apply the proceeds, over and above the cost of the receivership, against the Indebtedness. The receiver may serve without bond if permitted by law. Lender's right to the appointment of a receiver shall exist whether or not the apparent value of the Collateral exceeds the Indebtedness by a substantial amount. Employment by Lender shall not disqualify a person from serving as a receiver.

Collect Revenues, Apply Accounts. Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Lender may at any time in Lender's discretion transfer any Collateral into Lender's own name or that of Lender's nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of and in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Lender may notify account debtors and obligors on any Collateral to make payments directly to Lender.

Obtain Deficiency. If Lender chooses to sell any or all of the Collateral, Lender may obtain a judgment against Grantor for any deficiency remaining on the Indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this Agreement. Grantor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

Other Rights and Remedies. Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Lender shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

Election of Remedies. Except as may be prohibited by applicable law, all of Lender's rights and remedies, whether evidenced by this Agreement, the Related Documents, or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not effect Lender's right to declare a default and exercise its remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Attorneys' Fees; Expenses. Grantor agrees to pay upon demand all of Lender's costs and expenses, including Lender's reasonable attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Grantor shall pay the costs and expenses of such enforcement. Costs and expenses



COMMERCIAL SECURITY AGREEMENT
(Continued)

Loan No: 24597

Page 4

include Lender's reasonable attorneys' fees and legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Governing Law. This Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the Commonwealth of Kentucky without regard to its conflicts of law provisions. This Agreement has been accepted by Lender in the Commonwealth of Kentucky.

Choice of Venue. If there is a lawsuit, Grantor agrees upon Lender's request to submit to the jurisdiction of the courts of Estill County, Commonwealth of Kentucky.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Notices. Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Grantor agrees to keep Lender informed at all times of Grantor's current address. Unless otherwise provided or required by law, if there is more than one Grantor, any notice given by Lender to any Grantor is deemed to be notice given to all Grantors.

Power of Attorney. Grantor hereby appoints Lender as Grantor's irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect, amend, or to continue the security interest granted in this Agreement or to demand termination of filings of other secured parties. Lender may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lender's security interest in the Collateral.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

Successors and Assigns. Subject to any limitations stated in this Agreement on transfer of Grantor's interest, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns. If ownership of the Collateral becomes vested in a person other than Grantor, Lender, without notice to Grantor, may deal with Grantor's successors with reference to this Agreement and the Indebtedness by way of forbearance or extension without releasing Grantor from the obligations of this Agreement or liability under the Indebtedness.

Survival of Representations and Warranties. All representations, warranties, and agreements made by Grantor in this Agreement shall survive the execution and delivery of this Agreement, shall be continuing in nature, and shall remain in full force and effect until such time as Grantor's Indebtedness shall be paid in full.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

Waive Jury. All parties to this Agreement hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code:

Agreement. The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

Borrower. The word "Borrower" means Estill Co Water District #1 and includes all co-signers and co-makers signing the Note and all their successors and assigns.

Collateral. The word "Collateral" means all of Grantor's right, title and interest in and to all the Collateral as described in the Collateral Description section of this Agreement.

Default. The word "Default" means the Default set forth in this Agreement in the section titled "Default".

Environmental Laws. The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

Grantor. The word "Grantor" means Estill Co Water District #1.

Guaranty. The word "Guaranty" means the guaranty from guarantor, endorser, surety, or accommodation party to Lender, including without limitation a guaranty of all or part of the Note.

Hazardous Substances. The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Grantor is responsible under this Agreement or under any of the Related Documents.

Lender. The word "Lender" means Citizens Guaranty Bank, its successors and assigns.

Note. The word "Note" means the Note dated January 24, 2017 and executed by Estill Co Water District #1 in the principal amount of \$110,330.00, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

Property. The word "Property" means all of Grantor's right, title and interest in and to all the Property as described in the "Collateral Description" section of this Agreement.



**COMMERCIAL SECURITY AGREEMENT
(Continued)**

Loan No: 24597

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Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the indebtedness.

GRANTOR HAS READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT AND AGREES TO ITS TERMS. THIS AGREEMENT IS DATED JANUARY 24, 2017.

GRANTOR:

ESTILL CO WATER DISTRICT #1

By: _____
Jerry M Arnold, Secretary of Estill Co Water District
#1

By: _____
Greg A Wright, Chairman of Estill Co Water District
#1

By: _____
William Beard, Treasurer of Estill Co Water District
#1



NOTICE OF FINAL AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$110,330.00	01-24-2017	02-10-2021	24597	5	10098348	SLC	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Borrower: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7697

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

BY SIGNING THIS DOCUMENT EACH PARTY REPRESENTS AND AGREES THAT: (A) THE WRITTEN LOAN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES, (B) THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES, AND (C) THE WRITTEN LOAN AGREEMENT MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR UNDERSTANDINGS OF THE PARTIES.

As used in this Notice, the following terms have the following meanings:

Loan. The term "Loan" means the following described loan: a Fixed Rate (4.100%) Nondisclosable Loan to a Government Entity for \$110,330.00 due on February 10, 2021.

Loan Agreement. The term "Loan Agreement" means one or more promises, promissory notes, agreements, undertakings, security agreements, deeds of trust or other documents, or commitments, or any combination of those actions or documents, relating to the Loan, including without limitation the following:

LOAN DOCUMENTS

- Disclosure of Right to Receive a Copy of an Appraisal
- Business Loan Agreement
- KY Commercial Security Agreement: Collateral owned by Estill Co Water District #1
- National UCC Instructions 04/20/11
- Disbursement Request and Authorization
- W-9 Request for Taxpayer ID Number and Certification: Greg A Wright
- W-9 Request for Taxpayer ID Number and Certification: William Beard
- Governmental Certificate: Estill Co Water District #1
- Promissory Note
- KY National UCC Financing Statement (Rev. 04/20/11): Collateral owned by Estill Co Water District #1
- National UCC Addendum Instructions 04/20/11
- Notice of Final Agreement
- W-9 Request for Taxpayer ID Number and Certification: Jerry M Arnold
- W-9 Request for Taxpayer ID Number and Certification: Estill Co Water District #1

Parties. The term "Parties" means Citizens Guaranty Bank and any and all entities or individuals who are obligated to repay the loan or have pledged property as security for the Loan, including without limitation the following:

Borrower: Estill Co Water District #1
Grantor(s): Estill Co Water District #1

Each Party who signs below, other than Citizens Guaranty Bank, acknowledges, represents, and warrants to Citizens Guaranty Bank that it has received, read and understood this Notice of Final Agreement. This Notice is dated January 24, 2017.

BORROWER:

ESTILL CO WATER DISTRICT #1

By: Jerry M Arnold, Secretary of Estill Co Water District #1

By: Greg A Wright, Chairman of Estill Co Water District #1

By: William Beard, Treasurer of Estill Co Water District #1

LENDER:

CITIZENS GUARANTY BANK

X _____
Authorized Signer



DISBURSEMENT REQUEST AND AUTHORIZATION

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$110,330.00	01-24-2017	02-10-2021	24597	5	10098348	SLC	

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing ***** has been omitted due to text length limitations.

Borrower: Estill Co Water District #1
76 Cedar Grove Rd
Irvine, KY 40336-7697

Lender: Citizens Guaranty Bank
River Drive Branch
25 River Drive
P.O. Box 630
Irvine, KY 40336-0630
(606) 723-2139

LOAN TYPE. This is a Fixed Rate (4.100%) Nondisclosable Loan to a Government Entity for \$110,330.00 due on February 10, 2021.

PRIMARY PURPOSE OF LOAN. The primary purpose of this loan is for:

- Personal, Family, or Household Purposes or Personal Investment.
- Business (Including Real Estate Investment).

SPECIFIC PURPOSE. The specific purpose of this loan is: Operating Money.

DISBURSEMENT INSTRUCTIONS. Borrower understands that no loan proceeds will be disbursed until all of Lender's conditions for making the loan have been satisfied. Please disburse the loan proceeds of \$110,330.00 as follows:

Amount paid to Borrower directly:	\$110,000.00
\$110,000.00 Lender's Check #	
Other Charges Financed:	\$10.00
\$10.00 UCC	
Total Financed Prepaid Finance Charges:	\$320.00
\$300.00 Commercial Loan Fee	
\$20.00 Loan Coupon Book	
Note Principal:	\$110,330.00

FINANCIAL CONDITION. BY SIGNING THIS AUTHORIZATION, BORROWER REPRESENTS AND WARRANTS TO LENDER THAT THE INFORMATION PROVIDED ABOVE IS TRUE AND CORRECT AND THAT THERE HAS BEEN NO MATERIAL ADVERSE CHANGE IN BORROWER'S FINANCIAL CONDITION AS DISCLOSED IN BORROWER'S MOST RECENT FINANCIAL STATEMENT TO LENDER. THIS AUTHORIZATION IS DATED JANUARY 24, 2017.

BORROWER:

ESTILL CO WATER DISTRICT #1

By: Jerry M Arnold, Secretary of Estill Co Water District #1

By: Greg A Wright, Chairman of Estill Co Water District #1

By: William Beard, Treasurer of Estill Co Water District #1

Immediate Actions to Improve Water District's Financial Position

1. Explore refinancing long-term debt (all or portions) with Kentucky Rural Water Finance Corporation or other entity.
2. Request Kentucky Rural Water Association to conduct a water meter audit to determine if meter reading errors or inaccuracies are playing a role in Estill District's water loss problems.
3. Request additional technical assistance from KRWA in addressing Estill District's water loss problems.
4. Terminate Estill District's current practice of paying the premiums for single dental insurance coverage provided to members of its Board of Commissioners.
5. Authorize an application to the PSC for a surcharge to finance more extensive efforts to address unaccounted-water loss problem.
6. Adopt a policy requiring members of the Board of Commissioners to attend at least 12 hours of PSC-certified water district commissioner training annually, and requiring all members of Board, including existing members, to attend the PSC's new commissioner training no later than December 31, 2018.
7. Authorize efforts to design and obtain financing for water main replacements for 2 zones within Estill District's distribution system
8. Authorize negotiations with Rural Development to revise its current debt repayment schedules.
9. Retain an attorney on monthly retainer to review Board agenda and Board minutes for legal and regulatory issues and to be available to answer questions from Board members and water district employees.

DATE	SOLD	PURCHASED	LOSS
2004	170,077,000	222,575,000	23%
2005	183,113,000	241,075,000	24%
2006	181,220,000	252,388,000	28%
2007	205,290,000	288,186,000	28%
2008	193,216,500	258,733,369	25%
2009	190,070,380	255,869,850	26%
2010	189,870,570	258,936,024	26%
2011	183,243,800	256,674,927	29%
2012	187,868,750	247,836,888	24%
2013	176,515,684	261,789,430	33%
2014	177,751,830	281,730,192	37%
2015	169,945,940	264,869,799	36%
2016	164,451,960	255,996,200	36%
2006-2007	PHASE 9 2700 NEW METERS		
2008	1000 NEW METERS		
2,014	PHASE 10 REHAB OLD LINES		

Movants
Exhibit 8

	A	B	C
1	LEAKS	REPAIR	ESTIMATED GAL. LOSS
2	Jun-15	4-LEAKS	807,165
3	Jul-15	6-LEAKS	560,192
4	Aug-15	15-LEAKS	537,454
5	Sep-15	15-LEAKS	930,077
6	Oct-15	4-LEAKS	136,420
7	Nov-15	12-LEAKS	1,808,350
8	Dec-15	10-LEAKS	1,749,008
9			
10	TOTALS	66 LEAKS	6,528,666
11			
12			
13	Jan-16	6- LEAKS	1,136,661
14	Feb-16	8- LEAKS	1,907,465
15	Mar-16	6- LEAKS	1,111,526
16	Apr-16	8- LEAKS	1,056,960
17	May-16	11- LEAKS	792,750
18	Jun-16	8- LEAKS	3,242,437
19	Jul-16	7- LEAKS	934,794
20	Aug-16	11- LEAKS	622,586
21	Sep-16	12- LEAKS	698,388
22	Oct-16	15- LEAKS	1,554,038
23	Nov-16	8- LEAKS	621,266
24	Dec-16	3- LEAKS	452,045
25			
26	TOTALS	103 LEAKS	14,130,916
27			
28	Jan-17	4- LEAKS	241,726
29	Feb-17	2-LEAKS	55,464
30	Mar-17	4-LEAKS	198,951
31	Apr-17	8-LEAKS	596,657
32	May-17	8-LEAKS	1,101,411
33	Jun-17	7-LEAKS	840,379
34	Jul-17	8-LEAKS	2,460,980
35	Aug-17	13-LEAKS	1,672,417
36	Sep-17	6- LEAKS	295,018
37			
38	TOTALS	60-LEAKS	7,463,003
39			
40			
41	GRAND TOTALS	229-LEAKS	28,122,585

January 2014 - September 2017					
1 1/2' -6' PVC PIPE	\$1,762.20			PHASE 10 REHAB 2014-2015	
3/4 '-1' POLY PIPE	\$241.00			WISEMANTOWN RD	13,654 \$724,492.00
2'-6' MECHANICAL FITTINGS	\$533.00			DARK HOLLOW	4,000 \$123,589.00
2'-6' MECHANICAL JOINT KITS	\$832.66			DUG HILL	1,800 \$51,619.00
2'-6' PVC REPAIR COUPLINGS	\$2,454.61			CEDAR GROVE	1,100 \$250,573.00
3'-8' CHECK VALVES	\$2,691.49			PEA RIDGE	3,600 \$174,116.00
3'-6' GATE VALVES	\$4,820.00			DRY BRANCH P/S	\$250,000.00
GATE VALVE BOXES & LIDS	\$860.06			TELEMETRY UP GRADE	\$32,000.00
HYDRANT & REPAIR	\$6,714.25			TOTAL	\$1,606,389.00
METER BOTTOM REPAIR	\$323.76				
CHECK VALVE GASKETS	\$71.70	2014	STATION CAMP CREEK CROSSING SOUTH IRVINE		\$20,000.00
2'-6' REPAIR CLAMPS	\$8,902.25	2015	STATION CAMP CREEK CROSSING HWY 1209		\$25,000.00
HYMAX REPAIR COUPLING	\$3,939.99	2015	KY RIVER CROSSING OLD LANDING MILLERS CREEK		\$75,000.00
PRV REPAIRS	\$789.69		TOTAL		\$120,000.00
REPLACE LEAKING PRV'S	\$11,090.22				
HYDRA SHIELD FOR THEFT	\$698.02	2009	DLD LISTENING TOOL		\$3,500.00
12 VOLT TRASH PUMP	\$843.44	2009	ULTRA SONIC FLOW METER		\$5,000.00
PIPE LUBE	\$22.50	2009	LINE LOCATOR		\$4,000.00
BRASS REPAIR MISC COUPLING	\$8,945.43	2016	PLD LISTENING TOOL		\$2,900.00
COPPER SHUT OFF TOOL	\$198.24		TOTAL		\$15,400.00
PUMP CONTROL VALVE REPAIR	\$6,563.46				
HYDRANT REPAIR RACK	\$783.36				
PUMP & SEAL REPAIR	\$11,145.03				
KRWA VALVE EXERCIST	\$250.00				
CREEK CROSSING CONCRETE	\$318.00				
PUMP REPAIR LABOR	\$1,310.53				
2' INCH REPLACEMENT	\$2,500.51				
TOTAL	\$79,605.40				
			GRAND TOTAL		\$1,821,394.40

YEAR	CUSTOMERS	GALLONS SOLD	AVERAGE USEAGE
1993	2312	143,368,000	5168
1994	2385	153,518,820	5364
1995	2488	145,857,070	4885
1996	2561	139,223,000	4530
1997	2625	144,696,000	4593
1998	2777	151,069,710	4533
1999	2916	159,836,000	4568
2000	3128	159,521,000	4250
2001	3362	170,828,990	4234
2002	3449	173,726,000	4197
2003	3492	170,938,000	4079
2004	3532	170,077,000	4013
2005	3584	183,113,000	4258
2006	3649	181,220,000	4139
2007	3821	205,290,000	4477
2008	3788	193,217,000	4251
2009	3795	190,073,000	4174
2010	3810	189,872,000	4153
2011	3806	184,920,000	4049
2012	3785	187,871,000	4136
2013	3782	176,516,000	3889
2014	3774	177,752,000	3925
2015	3770	169,948,000	3757
2016	3770	164,452,000	3635



Matthew G. Bevin
Governor

Charles G. Snavely
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

Michael J. Schmitt
Chairman

Robert Cicero
Vice Chairman

Talina R. Mathews
Commissioner

September 5, 2017

Dwight Richardson
Estill County Water District #1
76 Cedar Grove Road
Irvine, KY 40336

Re: Periodic Water Inspection
Estill County Water District #1
Estill County, KY

Dear Dwight Richardson:

Public Service Commission staff performed a periodic inspection of the Estill County Water District's water system on August 17, 2017, reviewing utility operations and management practices pursuant to Commission regulations. The report of this inspection is enclosed with this letter.

Based on the inspector's observations, the following deficiency was identified:

1. Estill County Water District is failing to operate its facilities so as to provide adequate and safe service to its customers as required by 807 KAR 5:066, Section 7, due to water loss exceeding 15 percent.

According to Estill County Water District #1's annual report for 2016, unaccounted-for water loss equaled approximately 35.42 percent of the Utility's total water purchased. The Utility purchased \$140,460 of water that cannot be recovered for rate making purposes.

For the one deficiency listed above, an explanation of why this deficiency occurred and how this deficiency will be remedied and prevented in the future needs to be provided. A letter addressing the organization's actions regarding the deficiency needs to be submitted by October 5, 2017.

One deficiency was noted on the previous inspection on July 21, 2016. The deficiency from the previous inspection have been addressed.

Periodic Water Inspection
Estill County Water District Water System
September 5, 2017
Page 2 of 2

If you have any questions regarding this inspection, feel free to contact Erin Donges at 502-782-2627 or via email at erin.donges@ky.gov.

Sincerely,



Erin Donges
Utility Regulatory & Safety Investigator
Public Service Commission

Enclosure(s)

Copy: Wright, Greg Chairperson
Taylor, Wallace County Judge/Executive
Rader, Gerald County Magistrate District 1
Eldridge, William County Magistrate District 2
Johnson, Darrell County Magistrate District 3

Kentucky Public Service Commission

Periodic Compliance Inspection

Utility: Estill County Water District #1

Utility location: 76 Cedar Grove Road Irvine, KY 40336

Investigator: Erin Donges

Date(s) of inspection: August 17, 2017

Date(s) of last inspection: July 21, 2016

Deficiencies noted during last inspection: 1

Have deficiencies been corrected since last inspection: Yes No N/A

If no, provide a response as to why these deficiencies have not been addressed.

Primary utility representative(s) involved with inspection:

Name: Dwight Richardson

Title: Operations Manager

Who with the utility should receive the inspection report cover letter from the commission?

Name: Dwight Richardson

Title: Operations Manager

Mailing address: 76 Cedar Grove Road Irvine, KY 40336

Phone number: (606) 643-5424

Kentucky Public Service Commission

Periodic Compliance Inspection

General Questions

Treatment Facility

Source Water: Utility purchases all water needed for its distribution system.

Plant Capacity: N/A

Avg. Amount Produced: N/A

Distribution Facility

Source Water: The Utility's distribution system is provided with water from Irvine Municipal Utilities and Jackson County Water Association. The Utility plans to create an emergency connection with the City of Beattyville and Madison County Utility District in the future.

Area of Operation: The Utility provides Estill and Lee Counties with water.

Miles of Water Line: Utility stated it has approximately 400 miles of 2"-8" distribution main.

Avg. Amount Purchased: According to the 2015 Annual Report the Utility purchased an average of 725,671 gallons of water per day.

Water sold at whole sale rate: The Utility does not sell water at a whole sale rate.

Utility Information

Number of Employees: 7

Number of Office Employees: 3

Number of Certified Water Treatment Employees: N/A

Number of Certified Distribution Employees: 4

Number of Certified Meter Testers: N/A

Utility Chairperson/President: Greg Wright

Metering System:

Number of Customers: 3,780

Meter Reading:

Kentucky Public Service Commission

Periodic Compliance Inspection

AMR AMI Other Manual

Type of meter used for customers: Sensus

Contractor(s): Employed by Utility- C.I. Thornburg tests the Utilities meters.

Review Current Emergency Response Plan (ERP):

Has the utility made any revisions to the ERP in the past 24 months?
Yes No N/A

When the last year construction was performed? 2014

What did the construction project consist of? Water Line Extensions which replaced old ductile main (35,350 ft. 4-8" pvc) and built 2 new pump stations.

807 KAR 5:006 (General Rules)

Section 4: Reports

Has the utility filed its gross annual operating revenue report?
Yes No N/A

Does the utility file Quarterly Meter Reports (QMR) indicating meter tested, number of customers, and amount of refunds?
Yes No N/A

Section 7: Billings, Meter Readings, and Information

Does each bill for utility service issued periodically by a utility clearly show the following?

The date the bill was issued: Yes No N/A

Class of service: Yes No N/A

Present and last preceding meter readings: Yes No N/A

Date of the present reading: Yes No N/A

Number of units consumed: Yes No N/A

Meter constant, if applicable: Yes No N/A

Kentucky Public Service Commission

Periodic Compliance Inspection

Net amount for service rendered:	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
All taxes:	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
Adjustments, if applicable:	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
The gross amount of the bill:	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
The date after which a penalty may apply to the gross amount:	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
If the bill is estimated or calculated:	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
Is the rate schedule under which the bill is computed posted on the utility's Web site (if it maintains a Web site)?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
Also furnished by one (1) of the following methods, by:			
Printing it on the bill:	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input checked="" type="checkbox"/>
Publishing it in a newspaper of general circulation once each year:	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input checked="" type="checkbox"/>
Mailing it to each customer once each year, or:	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
Provide a place on each bill for a customer to indicate the customer's desire for a copy of the applicable rates:	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
Does the utility (except if prevented by reasons beyond its control) read customer meters at least quarterly?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
Is each customer-read meter read manually, at least once during each calendar year?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input checked="" type="checkbox"/>
Does the utility maintain the information required by this subsection, and is it available to the commission and any customer requesting this information?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
If, due to reasons beyond its control, a utility is unable to read a meter in accordance with this subsection, does the utility record the date and time the attempt was made, if applicable, and the reason the utility was unable to read the meter?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>

Section 9: Non-recurring Charges

Is a charge assessed if a customer requests the meter be tested pursuant to Section 19 of this administrative regulation and the tests show the as-found meter accuracy is within the limits established by 807 KAR 5:066, Section 15(2)(a)?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
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Section 10: Customer Complaints to the Utility

Kentucky Public Service Commission

Periodic Compliance Inspection

Upon complaint to a utility by a customer at the utility's office, by telephone or in writing, does the utility make a prompt and complete investigation and advise the customer of the utility's findings?

Yes No N/A

Does the utility keep a record of all written complaints concerning the utility's service?

Yes No N/A

Does the record include the following?

The customer's name and address:

Yes No N/A

The date and nature of the complaint:

Yes No N/A

The disposition of the complaint:

Yes No N/A

Does the utility maintain these records for two (2) years from the date of resolution of the complaint?

Yes No N/A

If a written complaint or a complaint made in person at the utility's office is not resolved, does the utility provide written notice to the customer of his or her right to file a complaint with the commission?

Yes No N/A

Does the utility provide the customer with the mailing address, Web site address, and telephone number of the commission?

Yes No N/A

If a telephonic complaint is not resolved, does the utility provide at least oral notice to the customer of his or her right to file a complaint with the commission?

Yes No N/A

Section 11: Bill Adjustment

Does the utility monitor a customer's usage at least quarterly? Yes No N/A

Are the utility's procedures designed to draw the utility's attention to unusual deviations in a customer's usage? Yes No N/A

If a customer's usage is unduly high and the deviation is not otherwise explained, will the utility test the customer's meter? Yes No N/A

If a utility's procedure for monitoring usage indicates that an investigation of a customer's usage is necessary, does the utility notify the customer in writing? Yes No N/A

If knowledge of a serious situation requires more expeditious notice, does the utility notify the customer by the most expedient means available? Yes No N/A

If the meter shows an average meter error greater than two (2) percent fast or slow, does the utility maintain the meter in question at a secure location under the utility's control, for a period of six (6) months from the date the customer is notified of the finding of the investigation and the time frame the meter will be secured by the utility or if the customer has filed a formal complaint?

Kentucky Public Service Commission

Periodic Compliance Inspection

Yes No N/A

Section 14: Utility Customer Relations

Does the utility post and maintain regular business hours and provide representatives available to assist its customers and to respond to inquiries from the commission regarding customer complaints?

Yes No N/A

Does the utility designate at least one (1) representative to be available to answer customer questions, resolve disputes, and negotiate partial payment plans at the utility's office?

Yes No N/A

If the utility has an annual operating revenue of \$250,000 or more make a designated representative available during the utility's established working hours not fewer than seven (7) hours per day, five (5) days per week excluding legal holidays?

Yes No N/A

If the utility has an annual operating revenue of less than \$250,000 make a designated representative available during the utility's established working hours not fewer than seven (7) hours per day, one (1) days per week?

Yes No N/A

Does the utility provide the following?

Maintain a telephone: Yes No N/A

Publish the telephone number in all service areas: Yes No N/A

Permit all customers to contact the utility's designated representative without charge: Yes No N/A

Does the utility prominently display in each office open to the public for customer service (and shall post on its Web site, if it maintains a Web site) a summary, prepared and provided by the commission, of the customer's rights pursuant to this section and Section 16 of this administrative regulation?

Yes No N/A

Does the utility inspect the condition of its meter and service connections before making service connections to a new customer so that prior or fraudulent use of the facilities shall not be attributed to the new customer?

Yes No N/A

Section 17: Meter Testing

Does the utility maintain meter standards and test facilities, as more specifically established in 807 KAR 5:066?

Yes No N/A

Before being installed for use by a customer, are all meters tested and in good working order (and adjusted as close to the optimum operating tolerance as possible) as more specifically established in 807 KAR 5:066, Section 15(2)(a)-(b)?

Yes No N/A

Kentucky Public Service Commission

Periodic Compliance Inspection

Does the utility have all or part of its testing of meters performed by another utility or agency?
Yes No N/A

Does utility or agency doing meter testing for a utility have in its employ meter testers certified by the commission?
Yes No N/A

Does the utility or agency employ apprentices in training for certification as meter testers?
Yes No N/A

Are all tests performed during this period by an apprentice witnessed by a certified meter tester?
Yes No N/A

Section 18: Meter Test Records

Does the utility maintain a complete record of all meter tests and adjustments and data sufficient to allow checking of test calculations?
Yes No N/A

Do the records include the following?

Information to identify the unit and its location: Yes No N/A

Date of tests: Yes No N/A

Reason for the tests: Yes No N/A

Readings before and after test: Yes No N/A

Statement of "as found" and "as left" accuracies sufficiently complete to permit checking of calculations employed: Yes No N/A

Statement of repairs made, if any: Yes No N/A

Identifying number of the meter: Yes No N/A

Type and capacity of the meter: Yes No N/A

Does the utility maintain a complete record of tests of each meter continuous for at least two (2) periodic test periods and shall in no case be less than two (2) years? Yes No N/A

Does the utility maintain numerically arranged and properly classified records for each meter that it owns, uses, and inventories? Yes No N/A

Do these records include the following?

Identification number: Yes No N/A

Date of purchase: Yes No N/A

Name of manufacturer: Yes No N/A

Kentucky Public Service Commission

Periodic Compliance Inspection

Serial number: Yes No N/A

Type: Yes No N/A

Name and address of each customer on whose premises the meter has been in service with date of installation and removal: Yes No N/A

Do these records contain condensed information concerning all tests and adjustments including dates and general results of the adjustments? Yes No N/A

Do these records reflect the date of the last test and indicate the proper date for the next periodic test? Yes No N/A

Section 19: Request Tests

Does the utility make a test of a meter upon written request of a customer if the request is not made more frequently than once each twelve (12) months? Yes No N/A

Does the utility afford the customer the opportunity to be present at the requested test? Yes No N/A

If the tests show the as-found meter accuracy is within the limits allowed by 807 KAR 5:066, Section 15(2)(a), does the utility may make a reasonable charge for the test? Yes No N/A

Has the utility filed a tariff (commission approved) establishing a meter test charge? Yes No N/A

Section 20: Access to Property

Do employees of the utility (whose duties require him to enter the customer's premises) wear a distinguishing uniform or other insignia, identifying them as an employee of the utility, and show a badge or other identification that shall identify them as an employee of the utility? Yes No N/A

Section 23: System Maps and Records

Does the utility have on file at its principal office located within the state and shall file upon request with the commission a map or maps of suitable scale of the general territory it serves or holds itself ready to serve? Yes No N/A

Is the map or maps available in electronic format as a PDF file or as a digital geographic database? Yes No N/A

Is following data available on the map or maps?

Operating districts: Yes No N/A

Kentucky Public Service Commission

Periodic Compliance Inspection

Rate districts: Yes No N/A
Communities served: Yes No N/A
Location and size of distribution lines, and service connections: Yes No N/A

Section 24: Location of Records

Are all records required by 807 KAR Chapter 5 kept in the office of the utility and shall be made available to representatives, agents, or staff of the commission upon reasonable notice at all reasonable hours?
Yes No N/A

Section 25: Safety Program

Has the utility adopted and executed a safety program, appropriate to the size and type of its operations?
Yes No N/A

At a minimum, does the safety program include the following?

A safety manual with written guidelines for safe working practices and procedures to be followed by utility employees: Yes No N/A

Instruct employees in safe methods of performing their work. For electric utilities, this is to include the standards established in 807 KAR 5:041, Section 3: Yes No N/A

Instruct employees who, in the course of their work, are subject to the hazard of electrical shock, asphyxiation, or drowning, in accepted methods of artificial respiration: Yes No N/A

Section 26: Inspection of Systems

Has the utility adopted inspection procedures to assure safe and adequate operation of the utility's facilities and compliance with KRS Chapter 278 and 807 KAR Chapter 5?
Yes No N/A

Have these inspection procedures been filed with the commission for review?
Yes No N/A

Upon receipt of a report of a potentially hazardous condition at a utility facility, does the utility inspect all portions of the system that are the subject of the report? Yes No N/A

Are appropriate records kept by a utility to identify the inspection made, the date and time of inspection, the person conducting the inspection, deficiencies found, and action taken to correct the deficiencies?
Yes No N/A

Kentucky Public Service Commission

Periodic Compliance Inspection

Water utility inspections. Each water utility shall make systematic inspections of its system as established in paragraphs (a) through (c) of 807 KAR 5:006 Section 26(6) to insure that the commission's safety requirements are being met. These inspections shall be made as often as necessary but not less frequently than as established in paragraphs (a) through (c) of 807 KAR 5:006 Section (6) for various classes of facilities and types of inspection.

The utility shall annually inspect all structures pertaining to source of supply for their safety and physical and structural integrity.

Does the utility inspect the structures listed below?

Dams	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input checked="" type="checkbox"/>
Intakes	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input checked="" type="checkbox"/>
Traveling screen	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input checked="" type="checkbox"/>

Does the utility semiannually inspect the structures listed below?

Wells	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input checked="" type="checkbox"/>
Well motors and structures	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input checked="" type="checkbox"/>
Electric power wiring and controls	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>

The utility shall annually inspect all structures pertaining to purification for their safety, physical and structural integrity, and for leaks.

Does the utility annually inspect the structures listed below?

Sedimentation basins	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input checked="" type="checkbox"/>
Filters	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input checked="" type="checkbox"/>
Clear Wells	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input checked="" type="checkbox"/>
Chemical feed equipment	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input checked="" type="checkbox"/>
Pumping equipment	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
Water storage facilities	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
Hydrants	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
Mains	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
Meters	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
Meter settings	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>

Kentucky Public Service Commission

Periodic Compliance Inspection

Valves Yes No N/A

Does the utility monthly inspect the equipment listed below for defects, wear, operational hazards, lubrication, and safety features?

Construction equipment Yes No N/A

Vehicles Yes No N/A

Section 27: Reporting of Accidents, Property Damage, or Loss of Service

Within two (2) hours following discovery does the utility notify the commission by telephone or electronic mail of a utility related accident that results in the following:

Death or shock or burn requiring medical treatment at a hospital or similar medical facility, or any accident requiring inpatient overnight hospitalization: Yes No N/A

Actual or potential property damage of \$25,000 or more: Yes No N/A

Loss of service for four (4) or more hours to ten (10) percent or 500 or more of the utility's customers, whichever is less: Yes No N/A

Are summary written reports submitted by the utility to the commission within seven (7) calendar days of the utility related accident? Yes No N/A

Section 28: Deviations from Administrative Regulation:

Has the utility been permitted by the commission to deviate from these administrative regulations? Yes No N/A

If yes, provide a list of the deviations (Case Number).

807 KAR 5:011 (Tariffs)

Section 12: Posting tariffs, Administrative Regulations, and Statutes

Does the utility display a suitable placard, in large type, that states that the utility's tariff and statutes are available for public inspection? Yes No N/A

Does the utility provide a suitable table or desk in its office or place of business on which the public may view all effective tariffs? Yes No N/A

Section 13: Special Contracts

Does the utility have any special contracts that establish rates, charges, or conditions of service not contained in its tariff? Yes No N/A

If yes has the utility filed, the special contracts with the PSC?

Kentucky Public Service Commission

Periodic Compliance Inspection

Yes No N/A

807 KAR 5:066
(Water)

Section 2: Information Available to Customers:

Does the utility providing the information listed below to any customer upon request?

A description in writing of chemical constituents and bacteriological standards of the treated water as required by the Division of Water Yes No N/A

Schedule of rates for water service Yes No N/A

Method of reading meters Yes No N/A

Past readings of a customer's meter for a period of two (2) years Yes No N/A

Section 3: Quality of Water

Is the utility in compliance with the Division of Water? Yes No N/A

When the utility is required by the Division of Water to make a public notification is the utility providing the Commission with a copy of the notification when it is made? Yes No N/A

Section 4: Continuity of Service

Does the utility immediately notify the fire chief if an emergency interruption of service affects service to any public fire protection device? Yes No N/A

If the utility schedules an interruption of service are all customers notified that are affected by the interruption? Yes No N/A

Does the utility have standby pumps capable of providing the maximum daily pumping demand? Yes No N/A

Does the utility's minimum storage capacity equal the average daily consumption? Yes No N/A

Does the utility keep a record of all interruption? Yes No N/A

Kentucky Public Service Commission

Periodic Compliance Inspection

Does the record contain the information listed below?

Cause of interruption	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
Date	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
Time	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
Duration	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
Remedy and steps taken to prevent recurrence	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>

Section 5: Pressure

Does the customer's service pipe under normal conditions fall below thirty (30) psig or static pressure exceed 150 psig? Yes No N/A

Does the utility have one (1) or more recording pressure gauges to make pressure surveys? Yes No N/A

Is the utility maintaining one (1) or more of these recording pressure gauges at some representative point on the utility's mains at a minimum of one (1) week per month in continuous service? Yes No N/A

Is the utility, at least once annually, making a survey of pressures in its distribution system? Yes No N/A

Section 6: Water Supply Measurement

Has the utility installed a measuring device at each source of supply? Yes No N/A

Section 7: Standards of Construction

Is the utility failing to operate its facilities so as to provide adequate and safe service to its customers due to water loss exceeding 15 percent? Yes No N/A

Section 8: Distribution Mains

Are dead ends provided with a hydrant, flushing hydrant, or blowoff for flushing purpose? Yes No N/A

Section 9: Service Lines

Does the utility inspect the customer's service line? Yes No N/A

Kentucky Public Service Commission

Periodic Compliance Inspection

Does the utility substitute its inspection for the proof of an inspection done by the appropriate state or local plumbing inspector?

Yes No N/A

Section 13: Measurement of Service

Does the utility meter all water sold?

Yes No N/A

Does the utility have any flat water rates?

Yes No N/A

Has the utility adopted a standard method of installing meters and service lines?

Yes No N/A

Section 15: Accuracy requirement of Water Meters

Are all new meters, and any meter removed from service for any cause tested for accuracy prior to being placed into service?

Yes No N/A

Does the meters tested register within the accuracy limits specified in 807 KAR 5:066, Section 15 (2)(a)?

Yes No N/A

Section 16: Periodic Tests

Is the utility testing all water meters so that no meter remains in service without test for a period longer than specified by the table in 807 KAR, Section 16 (1)?

Yes No N/A

Section 17: Water Shortage Response Plan

Has the utility submitted a copy of its Water Shortage Response Plan with the Commission?

Yes No N/A

Section 18: Deviations from Administrative Regulation:

Has the utility been permitted by the commission to deviate from these administrative regulations?

Yes No N/A

If yes, provide a list of the deviations (Case Number).

807 KAR 5:095

(Fire Protection Service for Water Utilities)

Section 9

Does the utility allow a utility to withdraw water from its distribution system for fire protection and training purposes at no charge?

Yes No N/A

Does the utility require a fire department to submit quarterly reports demonstrating its water usage?

Kentucky Public Service Commission

Periodic Compliance Inspection

Yes

No

N/A

Does the utility's tariff state the penalty to be assessed for failure to submit water usage reports?

Yes

No

N/A

Kentucky Public Service Commission

Periodic Compliance Inspection

Review of Facilities:

1.

Tank: Iron Mound Water Storage Tank

Capacity: 200,000

Condition: No Visual Issues

2.

Tank: Winston Water Storage Tank

Capacity: 200,000

Condition: No Visual Issues

3.

Pump Station: Dry Branch Pump Station

Condition: No Visual Issues New in 2014

4.

Pump Station: New River Pump Station

Condition: Visual Signs of Rust

Kentucky Public Service Commission

Periodic Compliance Inspection

Deficiency

1. Utility is failing to operate its facilities so as to provide adequate and safe service to its customers as required by 807 KAR 5 :066, Section 7, due to water loss exceeding 15 percent.

Additional Inspector Comments

C.I. Thornburg tests all of Estill County Water District's meters.

Dry Branch and Knob Lick Pump Stations were replaced in 2014.

Submitting fire dept. charge to be added to their tariff.

Comment: During this periodic regulatory compliance inspection, it was not possible to review/discuss every record relating to all Commission requirements. Therefore, in some instances the results contained in this report are indicative of those items inspected and reviewed on a sample basis.

Report by:

Date: September 5, 2017



Erin Donges

Utility Regulatory & Safety Investigator

Kentucky Public Service Commission

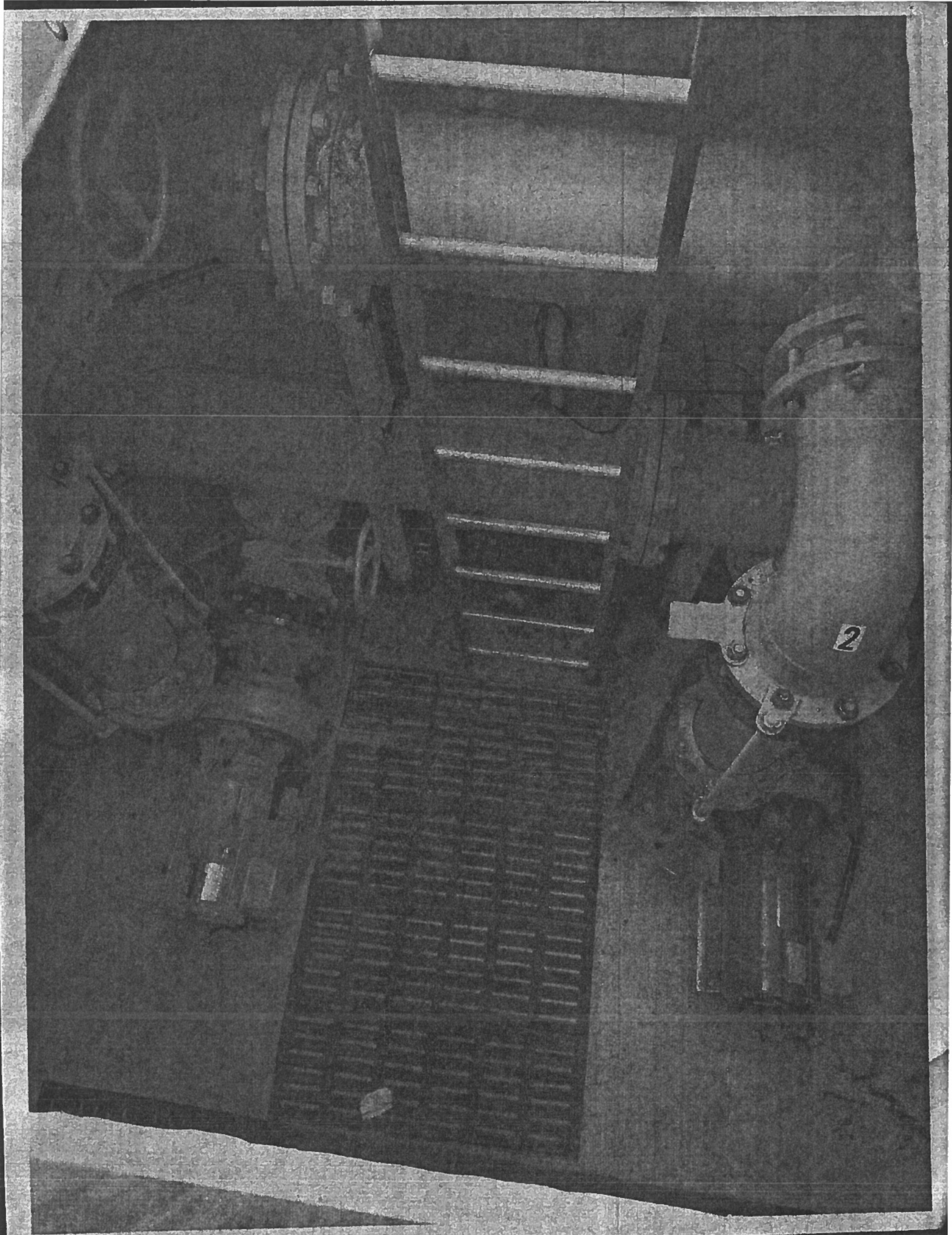
Kentucky Public Service Commission

Periodic Compliance Inspection

Attachment(s): A.) Water Storage Tanks, Pump Stations, Master Meters, Water Loss

B.) Pictures

Attachment A



ESTILL COUNTY WATER DISTRICT #1

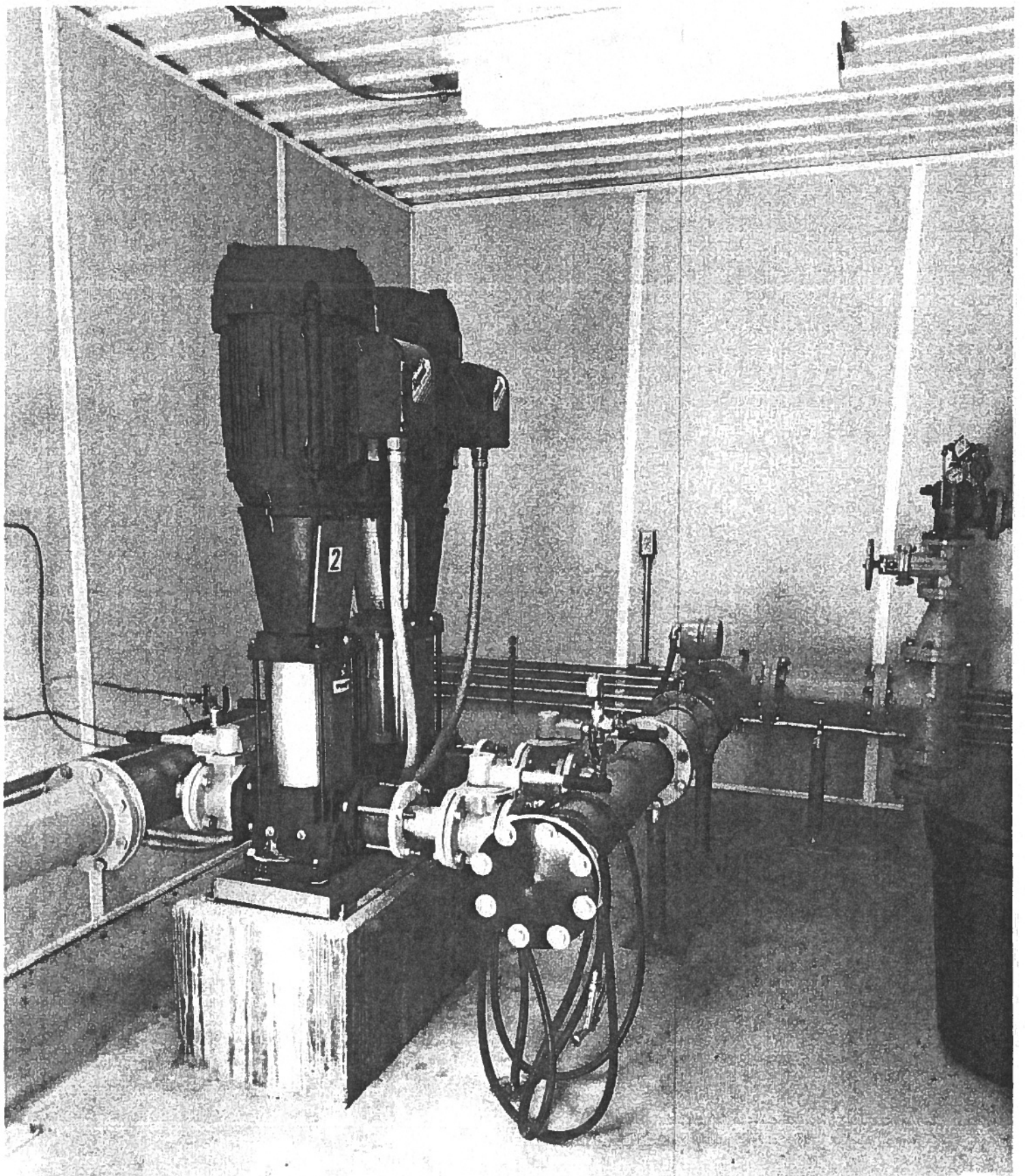
<u>WATER STORAGE TANKS</u>	<u>CAPACITY</u>	<u>INT INSP</u>	<u>EXT INSP</u>
<u>WISEMANTOWN</u>	250,000	2008	2017
<u>IRON MOUND</u>	200,000	1984	2017
<u>WINSTON</u>	200,000	2008	2017
<u>SANDHILL</u>	112,000	2008	2017
<u>PALMER</u>	113,000	2012	2017
<u>851</u>	108,000	1998	2017
<u>BARNES MOUNTAIN</u>	116,000	1998	2017
<u>COBB HILL</u>	116,000	2008	2017
<u>KNOB LICK</u>	116,000	2000	2017
<u>CHESTNUT STAND</u>	360		2017

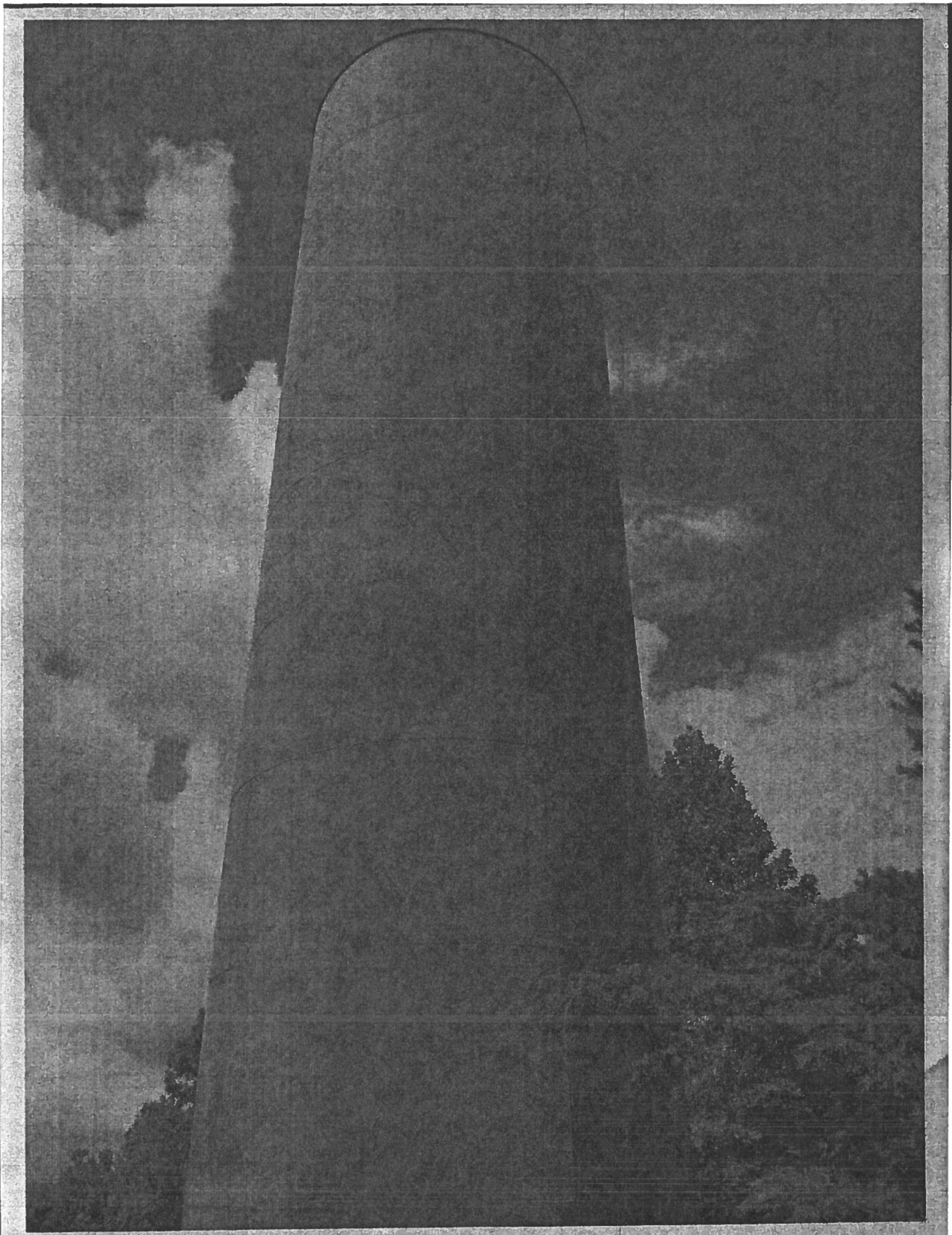
<u>PUMP STATIONS</u>	<u># OF PUMP/GPM</u>	<u>LAST INSP</u>
<u>NEW RIVER</u>	2/750	2017
<u>DRY BRANCH</u>	2/250	2017
<u>KNOB LICK</u>	2/70	2017
<u>CHESTNUT STAND</u>	2/70	2017
<u>CEDAR GROVE</u>	2/150	2017
<u>PEA RIDGE</u>	2/200	2017
<u>SOUTH IRVINE</u>	2/200	2017
<u>851</u>	2/75	2017
<u>COBB HILL</u>	2/150	2017
<u>IVORY HILL</u>	2/80	2017

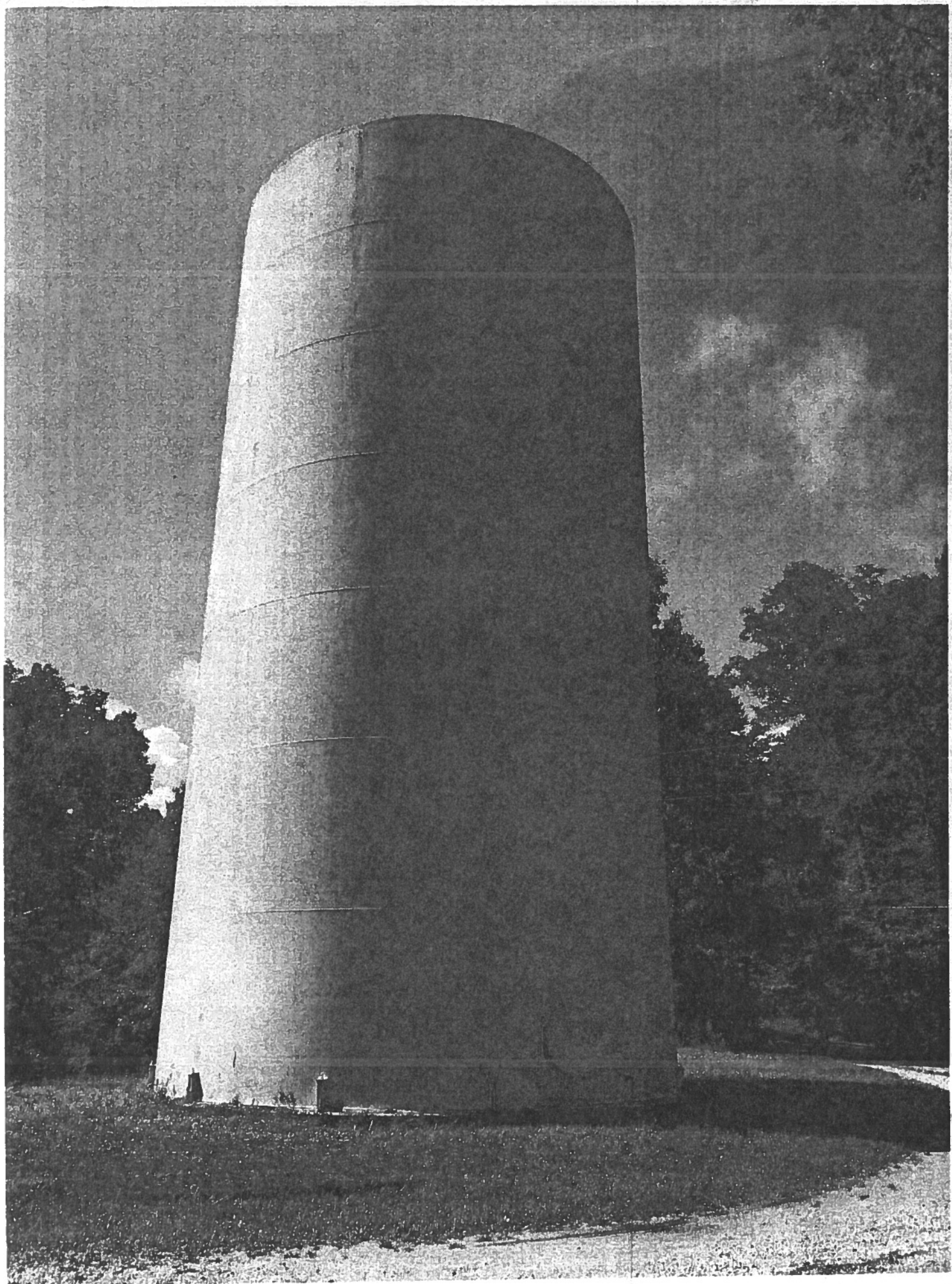
<u>MASTER METERS</u>	<u>LAST TESTED</u>	<u>SIZE</u>
<u>IRVINE BRIDGE (CITY OF IRVINE)</u>	5/2017	6"
<u>DRY BRANCH (CITY OF IRVINE)</u>	5/2017	6"
<u>CHESTNUT STAND (CITY OF IRVINE)</u>	5/2017	2"
<u>JACKSON COUNTY (TEST THEIR OWN)</u>		2"

<u>WATER LOSS PERCENT</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
	35.42	35	36.5	32	23.6

Attachment B







*Estill County Water District #1
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Irvine, KY 40336

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Office Manager
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