

RESPONSE TO PSC

PSC CASE NO. 2008-00250

ITEM 5

Frankfort Electric and Water Plant Board
Response to PSC Order Dated: 7-2-2008
Case No. 2008-00250

ITEM 5: Outstanding Revenue Bond Issues

- Response:
- 5(a): 1999 Bond Authorizing Resolution (Ex. 1)
Resolution/Municipal Order No. 7, 1999 Series (Ex. 2)
 - 5(b): Amortization Schedule (Ex. 3)
 - 5(c): The debt was incurred in order to finance the system improvements detailed in the Bond Authorizing Resolution attached hereto.
 - 5(d): Amortization Schedule (Ex. 3)

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BOND-AUTHORIZING RESOLUTION

A RESOLUTION OF THE ELECTRIC AND WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY, AUTHORIZING THE SALE AND ISSUANCE OF THE BOARD'S ELECTRIC AND WATER REVENUE BONDS, SERIES 1999, TO FINANCE AND REFINANCE THE COSTS OF ACQUISITION, CONSTRUCTION AND INSTALLATION OF MAJOR IMPROVEMENTS AND ADDITIONS TO THE BOARD'S COMBINED ELECTRIC AND WATER SYSTEM; SETTING FORTH THE TERMS AND CONDITIONS UPON WHICH THE SERIES 1999 BONDS AND ADDITIONAL BONDS RANKING ON A PARITY THEREWITH ARE TO BE AND MAY BE ISSUED AND OUTSTANDING; PROVIDING FOR THE SECURITY OF THE SERIES 1999 BONDS AND THE PAYMENT THEREOF FROM THE REVENUES OF THE BOARD'S COMBINED ELECTRIC AND WATER SYSTEM, THE COLLECTION, SEGREGATION AND APPLICATION OF SUCH REVENUES AND THE OPERATION AND MAINTENANCE OF THE SYSTEM; PROVIDING FOR THE RIGHTS OF THE HOLDERS OF THE SERIES 1999 BONDS AND THE ENFORCEMENT THEREOF; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF THE SERIES 1999 BONDS

WHEREAS, the Electric and Water Plant Board of the City of Frankfort, Kentucky (the "Board"), a body politic and corporate and a political subdivision of the Commonwealth of Kentucky created and existing pursuant to Sections 96.171 through 96.188 of the Kentucky Revised Statutes (the "Act") and an ordinance of the City of Frankfort, Kentucky (the "City"), adopted on August 27, 1996, is vested with the exclusive operation, management, supervision and control of the City's combined electric and water system (sometimes referred to as the electric and water plant) supplying electric and water services for public, domestic, commercial and industrial uses to the inhabitants of the City and its environs (the "System"), and has the power and authority under the Act, among other things, to improve, add to and expand the System and to finance such improvements, additions and expansions by the issuance of the Board's revenue bonds secured by a pledge of the revenues of the System, and

WHEREAS, the Board desires and intends to authorize, sell and issue \$13,160,000 principal amount (subject to adjustment as hereinafter provided) of its Electric and Water Revenue Bonds, Series 1999 (the "Bonds") pursuant to the Act for the following purposes:

- (1) to refund, pay and discharge the Board's Electric and Water System Revenue Bond Anticipation Note, Series 1996, dated December 19, 1996 (the "1996 Note"), outstanding in the principal amount of \$3,614,000, which was issued to finance the costs of improvements and additions to the electric distribution system and the water treatment plant of the Board;

(2) to refund, pay and discharge the Board's Electric and Water System Revenue Bond Anticipation Note, Series 1997, dated December 19, 1997 (the "1997 Note"), outstanding in the principal amount of \$7,600,000, which was issued to finance the costs (including engineering costs) of water tank, pump station and line additions and improvements to the Board's water system in East Frankfort;

(3) to refund, pay and discharge the North Woodford Water District Water Revenue Bonds, previously issued in three series (the "Water District Bonds"), outstanding in the principal amount of \$143,000, which were assumed by the Board in 1989 when the Board acquired the water distribution system of North Woodford Water District;

(4) to pay cost overruns on the East Frankfort water project described in subparagraph (2) above in the amount of \$692,000, and to pay the costs of refurbishing water tanks and bridge lines in the estimated amount, including contingencies, of \$775,000 (collectively the "Project"); and

(5) to pay costs of issuance of the Bonds, including bond discount, in the estimated sum of \$336,000; and

WHEREAS, it is now appropriate for the Board to provide for borrowing of the sum of \$1,600,000 (subject to adjustment as hereinafter provided) by means of the issuance and sale of the Bonds according to authority of the Act; and the Bonds shall be payable as to both principal and interest solely (except as to any capitalized interest) from the Board's income and revenues derived from the operation of the System and shall not constitute an indebtedness of the City within the meaning of any statutory or constitutional provisions or limitations;

NOW, THEREFORE, THE ELECTRIC AND WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY, DOES HEREBY RESOLVE AND ORDER AS FOLLOWS:

Section 1. Affirmation of Preamble Recitals: System to Be Municipally Owned and Operated. All statements and recitals set forth in the preamble of this Resolution, including the terms defined therein, are hereby affirmed and adopted as a part of this Resolution.

It is hereby further determined and declared to be necessary in the interests of the general welfare of the citizens and inhabitants of the City and its environs that the Board undertake at this time the refunding, payment and discharge of the 1996 Note, the 1997 Note and the Water District Bonds and the acquisition, construction and installation of the Project, which is hereby approved, all pursuant to the Act.

The acquisition, construction and installation of the facilities originally financed by the 1996 Note, the 1997 Note and the Water District Bonds and the Project were and are undertaken by the Board for public and municipal purposes, and the same shall constitute and be a part of the Board's combined and consolidated municipal electric and water system (the "System," as expanded and

improved by the Project); and so long as any of the Bonds hereinafter authorized, or bonds issued on parity therewith, shall remain outstanding and unpaid as to principal or interest, the System shall continue to be municipally owned, controlled, operated and maintained by the Board pursuant to the Act for the security and source of payment of the Bonds and such parity bonds.

Section 2. Authorization of Bonds. For the purpose of providing funds to refund, pay and discharge the 1996 Note, the 1997 Note and the Water District Bonds, to pay the costs of the Project (to the extent not otherwise provided to be paid) and to pay costs of issuance of the Bonds, and pursuant to the laws of the Commonwealth of Kentucky, particularly the Act, there are hereby authorized to be issued \$13,160,000 aggregate principal amount of Electric and Water Plant Board of the City of Frankfort, Kentucky, Electric and Water Revenue Bonds, Series 1999 (the "Bonds"), which aggregate amount, together with corresponding amounts of annual maturities as set out in Section 3 hereof, may be increased or decreased by as much as \$500,000 pursuant to official action of the Chairman, Vice Chairman or Secretary-Treasurer of the Board upon the sale of the Bonds as hereinafter provided in Section 21, and each of which Bonds shall be designated an "Electric and Water Plant Board of the City of Frankfort, Kentucky, Electric and Water Revenue Bond, Series 1999."

Section 3. Description of Bonds. The Bonds shall be dated December 1, 1999, or such other date as the Chairman may designate, and shall bear interest payable on June 1, 2000, and on each June 1 and December 1 thereafter to maturity and payment of the Bonds, such interest to be paid by check drawn upon the Paying Agent and Bond Registrar, hereinafter designated, and mailed to each person in whose name a Bond is registered as hereinafter provided (a "Registered Holder") at the address of such Registered Holder as it appears on the registration books of the Paying Agent and Bond Registrar. Farmers Bank & Capital Trust Co., Frankfort, Kentucky, has been designated and appointed as the Paying Agent and Bond Registrar. The principal of and premium, if any, on the Bonds shall be payable to the respective Registered Holders without exchange or collection charges, in lawful money of the United States of America, upon their presentation and surrender as they respectively become due and payable, whether at maturity or by prior redemption, at the principal office of the Paying Agent and Bond Registrar in Frankfort, Kentucky. The Bonds shall be issued and reissued by the Paying Agent and Bond Registrar from time to time only as fully registered bonds without coupons in the denominations of \$5,000 and any integral multiples thereof, as hereinafter provided. Unless the Board shall otherwise direct, the Bonds shall be numbered separately from 1 upward.

The Bonds shall bear interest at a rate or rates to be established by official action of the Chairman, Vice Chairman or Secretary-Treasurer of the Board on the basis of competition after the Bonds are offered for sale at an advertised, public, competitive sale as hereinafter provided. The fifteenth day (15th) of the month prior to a June 1 or December 1 interest payment date shall be the record date for the Bonds (the "Record Date") for the purpose of determining the Registered Holder to whom interest shall be payable on the next succeeding interest payment date, and the Paying Agent and Bond Registrar may treat for such purpose the person in whose name any Bond is registered on the Record Date as the Registered Holder thereof.

The Bonds shall mature and be payable as to principal as follows:

<u>Year</u>	<u>Principal Amount*</u>	<u>Year</u>	<u>Principal Amount*</u>
December 1, 2000	\$ 400,000	December 1, 2010	\$ 635,000
December 1, 2001	415,000	December 1, 2011	670,000
December 1, 2002	435,000	December 1, 2012	705,000
December 1, 2003	455,000	December 1, 2013	745,000
December 1, 2004	475,000	December 1, 2014	790,000
December 1, 2005	500,000	December 1, 2015	835,000
December 1, 2006	520,000	December 1, 2016	880,000
December 1, 2007	550,000	December 1, 2017	935,000
December 1, 2008	575,000	December 1, 2018	990,000
December 1, 2009	605,000	December 1, 2019	1,045,000

*Subject to increase or reduction as provided in Section 2 and Section 21 hereof.

provided, however, certain Bonds may become Term Bonds subject to mandatory sinking fund redemption as described in Section 4 hereof and in Section 21 hereof.

All of the Bonds, together with the interest thereon and any additional bonds ranking on a parity therewith as may be issued and outstanding from time to time under the conditions and restrictions hereinafter set forth, shall be payable only out of and secured by a pledge of the special fund of the Board designated the "Electric and Water Revenue Bonds Sinking Fund" (the "Sinking Fund") as hereinafter created and more specifically provided in Section 13 and shall be a valid claim of the Registered Holder thereof only against the Sinking Fund and the portion or amount of the income and revenues of the System pledged to the Sinking Fund. The Sinking Fund and all income and revenues of the System and other moneys which are or should in accordance with the terms hereof be paid into the Sinking Fund are hereby pledged for the purpose of equally securing the payments when due of principal of and interest (and premium, if any) on the Bonds and any such parity bonds.

Section 4. Redemption of Bonds.

(A) Mandatory Sinking Fund Redemption.

If the successful bidder and original purchaser of the Bonds so elects in accordance with the provisions of Section 21 hereof and as may be provided by official action of the Chairman, Vice Chairman or Secretary-Treasurer in awarding the Bonds to such original purchaser, the Bonds stated to mature on the maturity dates set out in the successful bid of such original purchaser shall be combined to comprise the maturities of Term Bonds as set out in said successful bid and in said Resolution; and such Term Bonds shall be subject to mandatory redemption in part, at the selection of the Paying Agent and Bond Registrar by lot in such manner as the Paying Agent and Bond Registrar may determine, from moneys in the Sinking Fund on each applicable December 1 at par plus accrued interest to the redemption date, according to the mandatory sinking fund redemption

schedule or schedules set out in said official action and in principal amounts corresponding to the above maturity schedule set out in Section 3 hereof, as may be adjusted as provided in Section 21 hereof.

(B) Optional Redemption

The Bonds are non-callable for redemption prior to December 1, 2009. The Bonds maturing on and after December 1, 2010, are subject to redemption by the Board, at its option, prior to maturity in whole or from time to time in part on December 1, 2009, and on any date or dates thereafter, in any order of maturity (less than all of a single maturity to be selected by lot in such manner as the Paying Agent and Bond Registrar may determine) at the redemption prices (expressed as percentages of principal amount) set forth in the table below plus accrued interest to the redemption date:

<u>Redemption Date</u>	<u>Redemption Price</u>
December 1, 2009, and prior to December 1, 2010	101%
December 1, 2010, and prior to December 1, 2011	100.5%
December 1, 2011, and thereafter	100%

The Bonds maturing on and after December 1, 2010, shall be called for redemption by the Paying Agent and Bond Registrar as herein provided upon receipt by the Paying Agent and Bond Registrar at least forty-five (45) days prior to the redemption date of a certificate of the Board specifying the principal amount and maturities of the Bonds so to be called for redemption and the applicable redemption price or prices.

(C) Other Redemption Provisions

The Paying Agent and Bond Registrar shall, upon being satisfactorily indemnified as to expenses, cause notice of the call for any redemption, identifying the Bonds or portions thereof (\$5,000 or any integral multiples thereof) to be redeemed, to be sent by first class mail at least thirty (30) but no more than sixty (60) days prior to the date fixed for redemption to the Registered Holder of each Bond to be redeemed at the address shown on the registration books. Failure to give such notice by mailing or any defect therein in respect of any Bond shall not affect the validity of any proceedings for the redemption of any other Bond. Any notice mailed as provided in this Section shall be conclusively presumed to have been duly given, irrespective of whether the Registered Holder receives the notice. Such notice shall set forth in detail the redemption provisions.

Prior to the date fixed for redemption of Bonds, funds shall be deposited by the Board with the Paying Agent and Bond Registrar to pay, and the Paying Agent and Bond Registrar is hereby authorized and directed to deposit such funds into the Sinking Fund hereinafter identified and to apply such funds to the payment of, the Bonds or portions thereof called for redemption, together with accrued interest thereon to the redemption date and any required premium. Upon the giving of notice and the deposit of adequate funds in the Sinking Fund for redemption of Bonds, interest on the Bonds

portions thereof so called for redemption shall cease to accrue after the date fixed for redemption. No payment of principal, premium or interest shall be made by the Paying Agent and Bond Registrar upon any Bond or portion thereof called for redemption until such Bond or portion thereof shall have been delivered to the Paying Agent and Bond Registrar for payment or cancellation, or the Paying Agent and Bond Registrar shall have received the items required by Section 7 hereof with respect to any mutilated, lost, stolen or destroyed Bond.

A portion of any Bond maturing on or after December 1, 2010, may be redeemed, but Bonds shall be redeemed only in the principal amount of \$5,000 each or any integral multiples thereof. Upon surrender of any Bond for redemption in part only, the Board shall execute and the Paying Agent and Bond Registrar shall register, authenticate and deliver to the holder thereof, within a period of three days from surrender of such Bond to the Paying Agent and Bond Registrar, at the expense of the Board, a new Bond or Bonds of the same maturity, of authorized denominations and in aggregate principal amount equal to the unredeemed portion of the Bond surrendered.

Section 5. Execution of Bonds; Limited Obligation. The Bonds shall be executed on behalf of the Board by the manual or reproduced facsimile signature of the Chairman and shall have impressed or imprinted thereon either a true impression or a reproduced facsimile of the official seal of the Board and shall be attested with the manual or reproduced facsimile signature of the Secretary-Treasurer. An authorized facsimile signature shall have the same force and effect as a manual signature. In case any officer of the Board whose signature or a facsimile of whose signature shall appear on the Bonds shall cease to be such officer before the delivery of such Bonds, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes, the same as if he had remained in office until delivery.

The Bonds are not general obligations of the Board but are special and limited obligations payable solely from the Sinking Fund as hereinafter provided, and the Sinking Fund and the income and revenues of the System herein provided to be paid into the Sinking Fund are hereby specifically pledged to the holders of the Bonds for the payment of the Bonds and interest thereon in the manner and to the extent provided herein. The Bonds and the interest thereon do not constitute a debt, indebtedness or a pledge of the faith and credit of the City within the meaning of any provision or limitation of the Constitution or statutes of the Commonwealth of Kentucky and shall not constitute a charge against its general credit. The Board shall not be obligated to pay the principal of the Bonds, premium, if any, or the interest thereon or other costs incident thereto except from the net revenues and amounts pledged therefor, and the faith and credit of the Board are not pledged to the payment of the principal of the Bonds, premium, if any, or the interest thereon or other costs incident thereto.

Section 6. Form of Bonds. The Bonds shall be issued only in the form of bonds registered as to payment of both principal and interest in substantially the following form, with necessary and appropriate variations, omissions and insertions as permitted or required by this Resolution, as follows:

(FORM OF FACE OF BOND)

No. _____

\$ _____

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
ELECTRIC AND WATER PLANT BOARD
OF THE CITY OF FRANKFORT, KENTUCKY
ELECTRIC AND WATER REVENUE BONDS
SERIES 1999

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>BOND DATE</u>	<u>CUSIP</u>
_____ %	December 1, _____	December 1, 1999	_____

REGISTERED HOLDER: _____

PRINCIPAL AMOUNT: _____

KNOW ALL MEN BY THESE PRESENTS: That the Electric and Water Plant Board of the City of Frankfort, Kentucky (the "Board"), a statutory body politic and corporate created, organized and existing pursuant to Sections 96.171 through 96.188 of the Kentucky Revised Statutes, and a political subdivision of the Commonwealth of Kentucky, for value received, hereby promises to pay to the registered holder identified above, or registered assigns, solely and only from the special fund pledged for that purpose as hereinafter referred to and not otherwise, the principal amount set out above, on the maturity date set out above, and to pay interest from the same source on the unpaid balance of said amount at the interest rate per annum set out above, payable on the first days of June and December in each year, beginning June 1, 2000, until payment of the principal amount or until the date fixed for redemption if this Bond is called for prior redemption and payment on such redemption date is duly provided for. Each such interest payment shall represent interest accruing on this Bond from the later of December 1, 1999, or the most recent interest payment date (June 1 or December 1), to which interest has been paid or duly provided for.

Interest accruing on this Bond shall be payable as aforesaid by check drawn upon Farmers Bank & Capital Trust Co., Frankfort, Kentucky, as the Paying Agent and Bond Registrar (the "Paying Agent and Bond Registrar"), and mailed to the person who is the registered holder hereof as of the close of business on the Record Date for such interest installment, which Record Date shall be the fifteenth (15th) day of the month (whether or not a business day) next preceding an interest payment date, at the address of such registered holder as it appears on the books of the Paying Agent and Bond Registrar. Principal shall be paid when due upon delivery of this Bond for payment at the principal corporate trust office of the Paying Agent and Bond Registrar.

REFERENCE IS HEREBY MADE TO THE FURTHER PROVISIONS OF THIS BOND SET FORTH ON THE REVERSE HEREOF, WHICH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH AT THIS PLACE.

This Bond is exempt from ad valorem taxation by the Commonwealth of Kentucky and by all the political subdivisions thereof.

This Bond shall not be valid or become obligatory for any purpose until the authentication certificate hereon shall have been executed by the Paying Agent and Bond Registrar.

IN WITNESS WHEREOF, the Electric and Water Plant Board of the City of Frankfort, Kentucky, has caused this Bond to be executed with the manual or reproduced facsimile of the official signature of its Chairman, to be sealed by an impression or a reproduced facsimile of an impression of the official seal of the Board and to be attested by the manual or reproduced facsimile signature of its Secretary-Treasurer, in each case as its duly authorized officer, all as of the date of this Bond, which December 1, 1999.

ELECTRIC AND WATER PLANT BOARD
OF THE CITY OF FRANKFORT, KENTUCKY

(facsimile of Seal
of Board)

By (manual or facsimile signature)
Chairman

ATTEST:

(manual or facsimile signature)
Secretary-Treasurer

AUTHENTICATION CERTIFICATE

The undersigned hereby certifies
that this is one of
the Bonds described above.

FARMERS BANK & CAPITAL TRUST CO.
Frankfort, Kentucky
Paying Agent and Bond Registrar

By (manual signature)
Authorized Officer
Authentication Date:

(END OF FACE OF BOND)

(BEGIN REVERSE OF BOND)

This Bond is one of a duly authorized issue of Bonds of the Board designated "Electric and Water Plant Board of the City of Frankfort, Kentucky Electric and Water Revenue Bonds, Series 1999" (the "Bonds"), issued in the original principal amount of \$_____, authorized and issued by the Board pursuant to a Resolution duly adopted by the Board (the "Bond Resolution") for the purpose (among others) of financing and refinancing major additions and improvements to the Board's combined and consolidated municipal electric and water system (the "System"), and this Bond has been issued under and in full compliance with the Constitution and statutes of the Commonwealth of Kentucky, including among others Sections 96.171 through 96.188 of the Kentucky Revised Statutes (the "Act").

Reference is made to the Bond Resolution for provisions with respect to the nature and extent of the security, rights, duties and obligations of the holders of the Bonds, the Board and the Paying Agent and Bond Registrar, the terms upon which the Bonds are issued and the terms and conditions upon which the Bonds will be deemed to be paid at or prior to their scheduled maturity or redemption upon the making of provision for the payment thereof in the manner set forth in the Bond Resolution.

*The Bonds maturing on December 1 _____, are subject to mandatory sinking fund redemption in part, at the selection of the Paying Agent and Bond Registrar by lot, from moneys in the special fund identified hereinafter on each December 1, beginning December 1, _____, at the principal amount thereof plus accrued interest to the redemption date, according to following schedule of mandatory sinking fund installments:

<u>December 1</u>	<u>Amount</u>
	\$

This paragraph is to be inserted, and may be repeated, with respect to any Term Bonds as described in Section 3 hereof.

The Bonds are non-callable for redemption prior to December 1, 2009. The Bonds maturing on and after December 1, 2010, are subject to redemption by the Board, at its option, prior to maturity in whole or from time to time in part on December 1, 2009, and on any date or dates thereafter, in any order of maturity (less than all of a single maturity to be selected by lot by the

Paying Agent and Bond Registrar) at the redemption prices expressed as percentages of principal amount set forth in the table below plus accrued interest to the redemption date:

<u>Redemption Date</u>	<u>Redemption Price</u>
December 1, 2009, and prior to December 1, 2010	101%
December 1, 2010, and prior to December 1, 2011	100.5%
December 1, 2011, and thereafter	100%

At least thirty (30) but no more than sixty (60) days prior to the redemption date of any bonds, the Paying Agent and Bond Registrar shall cause a notice of redemption to be mailed postage prepaid by first class mail to all registered holders of Bonds to be redeemed in whole or in part at their registered addresses. Failure to mail any notice or any defect therein in respect of any such Bond shall not affect the validity of the redemption of any other Bond. Such redemption notice shall set forth in detail the redemption provisions.

This Bond and the series of which it forms a part, together with additional bonds ranking a parity therewith as may be hereafter issued and outstanding from time to time under the conditions and restrictions set forth in the Bond Resolution, are payable from and secured by a pledge of a fixed portion of the revenues to be derived from the operation of the System after paying operation and maintenance expenses of the System, which fixed portion shall be sufficient to pay the principal of and premium, if any, and interest on this Bond and the series of which it forms a part and any such additional parity bonds as and when the same become due and payable and which shall be set aside as a special fund for that purpose and identified as the "Electric and Water Revenue Bonds Sinking Fund."

This Bond and the series of which it forms a part do not constitute an indebtedness of the Board or the City of Frankfort, Kentucky, within the meaning of any constitutional or statutory provisions or limitations. The Board covenants that the System will be continuously operated as a revenue-producing undertaking and that it will fix and charge such rates for the services and facilities of the System so that the revenues therefrom will be sufficient to pay the interest and premium, if any, and principal of this series of Bonds and all other bonds ranking on a parity therewith as may be outstanding from time to time and also to pay the costs of operation and maintenance of the System.

This Bond is issued under and pursuant to the statutory laws of the Commonwealth of Kentucky, including the Act, and its construction will be governed thereby.

This Bond shall be transferable only upon the presentation and surrender hereof at the principal office of the Paying Agent and Bond Registrar duly endorsed for transfer or accompanied by an assignment duly executed by the registered holder or his authorized representative. The Paying Agent and Bond Registrar shall not be required to transfer or exchange this Bond (a) during any period beginning five days prior to the selection by the Paying Agent and Bond Registrar of Bonds to be redeemed prior to maturity and ending on the date of mailing of notice of any such redemption (b) if this Bond has been selected or called for redemption in whole or in part.

Bonds shall be exchangeable upon the presentation and surrender thereof at the principal office of the Paying Agent and Bond Registrar for a Bond or Bonds of the same maturity, and in the denomination of \$5,000 or any integral multiple thereof, in an aggregate principal amount or amounts equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent and Bond Registrar shall authenticate and deliver Bonds delivered in exchange in accordance herewith.

It is hereby certified, recited and declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the execution and delivery of this Bond have existed, have happened and have been performed in due time, form and manner as required by law; that the issuance of this Bond and the series of which it forms a part, together with all other obligations of the Board, does not exceed or violate any constitutional or statutory limitation; and that a sufficient portion of the revenues of the System, after allowance for operation and maintenance expenses as aforesaid, has been pledged to and will be set aside into said special fund by the Board for the prompt payment of the principal of and premium, if any, and interest on this series of Bonds and all other bonds which by their terms and by the provisions of the Bond Resolution are payable from said special fund.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells,
assigns and transfers unto

(Name, Address and Social Security (or other Identifying) Number of
Assignee)

the within Bond and does hereby irrevocably constitute and appoint

attorney to transfer the said Bond on the books kept for registration thereof with full power of
substitution in the premises.

Dated: _____

NOTICE: The signature of this assignment must correspond with the name of the registered holder as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.

Signature guaranteed:

(END OF REVERSE OF BOND)

Section 7. Mutilated, Lost, Stolen or Destroyed Bonds. In the event any Bond is mutilated, stolen or destroyed, the Board may execute and the Paying Agent and Bond Registrar may authenticate and deliver a new Bond of like series, date, maturity and denomination as that mutilated, stolen or destroyed; provided that, in the case of any mutilated Bond, such Bond shall first be surrendered to the Paying Agent and Bond Registrar, and in the case of any lost, stolen or destroyed bond, there shall be first furnished to the Board and the Paying Agent and Bond Registrar evidence of such loss, theft or destruction satisfactory to them and such indemnity as the Board and the Paying Agent and Bond Registrar may require. In the event any such Bond shall have matured, in lieu of issuing a duplicate Bond, the Board may pay the same without surrender thereof. The Board and the Paying Agent and Bond Registrar may charge the holder or owner of such Bond their reasonable fees and expenses in this connection.

Section 8. Registration, Authentication, Transfer and Exchange of Bonds. So long as any bonds remain outstanding, the Paying Agent and Bond Registrar shall keep and maintain at its principal office in Frankfort, Kentucky, complete registration books for the Bonds and shall provide for the registration and transfer of the Bonds in accordance with the terms of this Resolution. Each Bond shall be authenticated by the Paying Agent and Bond Registrar and shall be transferable only upon the presentation and surrender thereof at the principal office of the Paying Agent and Bond Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Holder or his authorized representative. Upon receipt of any such Bond, duly endorsed for transfer or accompanied by any assignment for transfer, the Paying Agent and Bond Registrar shall transfer such Bond within a period of three days by reissuing such Bond, duly executed by the Board and authenticated by the Paying Agent and Bond Registrar, and delivering the same to the new Registered Holder thereof forthwith.

The Paying Agent and Bond Registrar shall not be required to transfer or exchange any bond (a) during any period beginning five (5) days prior to the selection by the Paying Agent and Bond Registrar of Bonds to be redeemed prior to maturity and ending on the date of mailing of notice of any such redemption or (b) if such Bond has been selected or called for redemption in whole or part.

Bonds shall be exchangeable upon the presentation and surrender thereof at the principal office of the Paying Agent and Bond Registrar for a Bond or Bonds of the same maturity, in the denomination of \$5,000 or an integral multiple thereof, in an aggregate principal amount or amounts equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent and Bond Registrar shall and is hereby authorized to authenticate and deliver Bonds delivered in exchange in accordance herewith. Each Bond delivered in exchange for a surrendered Bond shall constitute an original contractual obligation of the Board and shall be entitled to the benefits and security of this Resolution to the same extent as the Bond or Bonds in lieu of which any Bond is delivered in exchange. Any Bonds surrendered for exchange shall be canceled by the Paying Agent and Bond Registrar and the Paying Agent and Bond Registrar shall maintain a complete record of all exchanges, transfers and cancellations of Bonds and shall make a report thereof to the Board on not less than an annual basis.

No service charge or other transfer fee shall be charged to any Bondholder in connection with any transfer or exchange of a Bond. However, the Registered Holder of any Bond may be required to pay an amount equal to any tax or other governmental charge, if any, that may be imposed in connection with the transfer or exchange of any Bond.

Section 9. Destruction of Bonds. Whenever any outstanding Bond shall be delivered to the Paying Agent and Bond Registrar for cancellation thereof pursuant to this Resolution, upon payment of the principal amount or interest represented thereby or for replacement or exchange, such Bonds, following such replacement or exchange, shall be promptly canceled and destroyed by the Paying Agent and Bond Registrar and counterparts of a certificate of destruction evidencing such destruction shall be furnished by the Paying Agent and Bond Registrar to the Board.

All Bonds which have been redeemed shall not be reissued but shall be canceled and destroyed by Paying Agent and Bond Registrar in accordance with this Section.

Section 10. Appointment and Duties of Paying Agent and Bond Registrar. The Board has appointed Farmers Bank & Capital Trust Co., Frankfort, Kentucky, as Paying Agent and Bond Registrar in respect of the Bonds. The Paying Agent and Bond Registrar shall maintain a complete and current record of each Bond issued, the name and address of each owner (Registered Holder) of any Bonds and such additional information as may be required for compliance with applicable laws and regulations. The Paying Agent and Bond Registrar will also make all payments of interest on the Bonds and pay principal of and premium, if any, on the Bonds as herein provided.

The recitals of fact herein and in the Bonds contained shall be taken as the statements of the Board and the Paying Agent and Bond Registrar assumes no responsibility for the correctness of the same. The Paying Agent and Bond Registrar makes no representations as to the validity or sufficiency of this Resolution or of any Bonds issued thereunder or in respect of the security afforded by this Resolution, and the Paying Agent and Bond Registrar shall not incur any responsibility in respect thereof. The Board shall, however, be responsible for its representations contained in the Bonds. The Paying Agent and Bond Registrar shall not be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to the Board. The Paying Agent and Bond Registrar shall be under no obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. The Paying Agent and Bond Registrar shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. The Paying Agent and Bond Registrar may consult with counsel, who may or may not be of counsel to the Board, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever the Paying Agent and Bond Registrar shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by an authorized officer of the Board and such certificate shall be full warrant for any action taken or

ffered in good faith under the provisions of this Resolution upon the faith thereof, but in its discretion the Paying Agent and Bond Registrar may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidences as to it may seem reasonable. Except otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by the Board to the Paying Agent and Bond Registrar shall be sufficiently executed if executed in the name of the Board by its Chairman Secretary-Treasurer.

The Board shall pay to the Paying Agent and Bond Registrar reasonable compensation for services rendered under this Resolution, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents and employees, incurred in and about the performance of their powers and duties under this Resolution. The Board further agrees to indemnify and hold the Paying Agent and Bond Registrar harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or default. The Paying Agent and Bond Registrar hereby indemnifies and will hold the Board harmless against any liabilities which the Board may incur as a result of the negligence or default of the Paying Agent and Bond Registrar.

The Paying Agent and Bond Registrar may become the owner of any Bonds, with the same rights it would have if it were not the Paying Agent and Bond Registrar. The Paying Agent and Bond Registrar and any other fiduciary may act as depository for, or permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Resolution, whether or not any such committee shall represent the holders of a majority principal amount of the Bonds then outstanding.

Any company into which the Paying Agent and Bond Registrar may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Paying Agent and Bond Registrar may sell or transfer all or substantially all of its banking and corporate trust business, provided such company shall be authorized by law to perform all the duties imposed upon it by this Resolution, shall be the successor to the Paying Agent and Bond Registrar without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

Section 11. Disposition of Bond Proceeds. All sums received as accrued interest from the sale of the Bonds shall be deposited into the Interest Account of the Sinking Fund hereinafter created and the remaining Bond proceeds shall be applied as follows:

(A) The expenses incident to the authorization, sale and issuance of the Bonds, including without limitation the contractual fee of the Board's Financial Advisor, the fees and expenses of the Paying Agent and Bond Registrar, all counsel fees and expenses, rating service fees, printing and publishing expenses and any other necessary or desirable fees and expenses related to the issuance of the Bonds, shall, upon written direction of the Chairman or Secretary-Treasurer, be paid

immediately from the proceeds of the Bonds or otherwise from amounts in the Construction Fund identified in (D) following.

(B) A portion of the Bond proceeds in an amount sufficient to pay and discharge the 1996 Note and the 1997 Note shall, by or on the written order of the Chairman or Secretary-Treasurer, be paid to the holder thereof.

(C) A portion of Bond proceeds in an amount sufficient to pay and discharge the Water District Bonds shall, by or on the written order of the Chairman or Secretary-Treasurer, be paid to the holder thereof.

(D) The remaining balance of the Bond proceeds shall be deposited in a special fund or account of the Board, hereby created, designated and identified as the Board's "Electric and Water System 1999 Construction Fund" (the "Construction Fund"), to be held and applied as provided in the following Section 12 of this Resolution. The Construction Fund shall be an account or accounts at such bank or banks as the Board may from time to time designate (hereinafter sometimes referred to, singularly and collectively, as the "Depository Bank").

Section 12. Construction Fund Amounts on deposit in the Construction Fund shall be applied from time to time by the Board to the payment of the costs of acquiring, constructing and installing the Project, including without limitation planning, design and engineering costs, interest during construction, unpaid costs of issuance of the Bonds and reimbursements to the Board for Project costs previously paid.

The amount deposited in the Construction Fund shall, to the extent that it may cause the aggregate deposits of the Board in the Depository Bank to be in excess of the amount insured by the Federal Deposit Insurance Corporation ("FDIC"), be collaterally secured by direct obligations of or obligations guaranteed by the United States of America having a market value equivalent to such deposit, or the Depository Bank shall assist the Board in investing, for the credit of the Construction Fund, whatever portion of the Construction Fund is designated by the Chairman or Secretary-Treasurer in Investment Obligations as hereinafter defined in Section 14, having maturity dates, or being subject to retirement at the option of the holder, corresponding to the need for cash to pay costs of the Project as they come due; provided that for Construction Fund investment purposes only the Investment Obligations described in clause (ii) of Section 14 shall include obligations of any agency or instrumentality of the United States of America. All such investments, as well as all income therefrom, shall be carried to the credit of such Construction Fund.

Payments from the Construction Fund for costs of acquisition, construction and installation of the Project shall be made only upon vouchers approved by the engineer having charge of supervising such acquisition, construction and installation and countersigned by the Secretary-Treasurer or the Board's Assistant General Manager-Administration, such engineer to certify in each instance that the voucher represents a sum actually earned by and due to the proposed payee under a contract with the Board for work performed or materials furnished in connection with the Project, or represents a sum necessary to be expended for land or rights-of-way necessary to be acquired by the Board in connection with the Project, provided all checks drawn against the Construction Fund

shall be signed by the Secretary-Treasurer or other Board official duly authorized by the Board. No expenditure shall be made from the Construction Fund except for proper and authorized expenses relating to the acquisition, construction and installation of the Project (including design and engineering costs and interest during construction) in accordance with the plans and specifications prepared by the engineer and approved by the Board, for which contracts have been awarded or work has been authorized by the Board, or to pay any unpaid costs of issuance of the Bonds (as approved by the Secretary-Treasurer or the Board's Assistant General Manager-Administration). Pending disbursement for the authorized purposes, the Construction Fund shall be subject to a first and paramount lien and charge in favor of the holders of the Bonds.

After completion of the Project, as certified by the Secretary-Treasurer or the Board's Assistant General Manager-Administration, any balance then remaining on deposit in the Construction Fund shall, subject to any and all applicable legal requirements and compliance with applicable federal statutes and regulations necessary to assure the exclusion of interest on the Bonds from gross income for federal income tax purposes, upon order of the Chairman or Secretary-Treasurer be (a) expended to pay costs of improvements and additions to the System which may be outside the scope of the Project or (b) transferred to the 1989 Sinking Fund as a segregated subaccount and used to purchase (at 103 or less) Bonds, and such balance shall not be invested at a yield exceeding the yield of the Bonds.

Section 13. Operation and Revenues of System, Funds and Accounts. From and after the delivery of the Bonds and any parity bonds issued under the provisions of this Resolution and so long as any of said bonds remain outstanding, the System shall be continuously operated by the Board as a revenue-producing and self-liquidating undertaking and the income and revenues from the System, together with all extensions, improvements or betterments thereto that may be made, shall be set aside, and are hereby pledged daily as collected, into a special and separate fund hereby created and designated the "Electric and Water Plant Board Electric and Water Revenue Fund" (the "Revenue Fund") to be used and apportioned, as follows:

(A) On or before the 20th day of each month there shall be withdrawn from the Revenue Fund and credited to a separate and special fund hereby created and designated as the "Operation and Maintenance Fund" a sum sufficient to pay the reasonably necessary costs of operating and maintaining the System during such month, including without limitation salaries, wages, cost of materials and supplies, power at wholesale and insurance for such month, and any deficit for the same arising in the preceding month.

(B) There shall be and there is hereby created a separate and special fund to be known as the "Electric and Water Plant Board Electric and Water Revenue Bonds Sinking Fund" (the "Sinking Fund"). The Sinking Fund shall comprise three accounts, the Interest Account, the Principal Account and the Debt Service Reserve Account, which are hereby irrevocably pledged and shall be used and applied for the following purposes. Money in the Interest Account shall be used solely for the payment of interest falling due on the Bonds and any additional parity bonds. Money in the Principal Account shall be used solely for the purpose of paying the principal of (and premium, if any, on) the Bonds and any additional parity bonds when due at maturity or pursuant to any call for redemption. The Debt Service Reserve Account shall be held for the benefit of the holders of all of the Bonds and

any additional parity bonds and shall be used solely for the purpose of paying principal of or interest on the Bonds and any parity bonds as to which there would otherwise be a default.

There shall be set aside into the Sinking Fund in equal monthly installments on or before the 20th day of each month, out of the Revenue Fund (subject to the priorities of the foregoing paragraph (A) of this Section 13) sufficient funds to pay when due the interest on and premium, if any, and principal of any outstanding bonds (including the Bonds) which by their terms are payable from the Sinking Fund. Such monthly payments into the Sinking Fund shall be made in the minimum amounts each month as follows:

1. An amount which together with other funds available for such purpose will be equal to at least one-sixth (1/6th) of the interest falling due on the Bonds on the next succeeding interest payment date shall be deposited in the Interest Account.
2. An amount which together with other funds available for such purpose will be equal to at least one-twelfth (1/12th) of the principal amount of the Bonds coming due on the next December 1 shall be deposited in the Principal Account.

In addition to the aforesaid monthly installments, during the first ten-year period from the date of issuance of the Bonds and any additional parity bonds permitted to be issued hereunder there shall be set aside from the Revenue Fund (subject to the foregoing priorities) into the Debt Service Reserve Account in equal monthly installments on or before the 20th day of each month a sufficient amount so that at the end of such ten-year period there will have been accumulated in the Debt Service Reserve Account an amount equal to the Reserve Amount, hereinafter defined; provided that no further payments into the Debt Service Reserve Account shall be made when and so long as the amount therein is equal to the Reserve Amount. Whenever any amount in the Debt Service Reserve Account is withdrawn, such withdrawn amount shall be made up from the first moneys thereafter available in the Revenue Fund (after the requirements of subparagraphs 1 and 2 above have been satisfied). The term "Reserve Amount" as used in this Resolution is defined as an amount of money equal to the lesser of (i) the highest amount required to be paid into the Interest Account and the Principal Account for account of the Bonds and any additional parity bonds in any 12-month period ending December 1, (ii) an amount equal to 125% of the average amount required to be paid into the Interest Account and the Principal Account for account of the Bonds and any additional parity bonds in each 12-month period ending December 1, and (iii) an amount equal to 10% of the proceeds of the Bonds and any additional parity bonds within the meaning of Section 148(d) of the United States Internal Revenue Code of 1986, as amended.

As and when additional parity bonds are issued provision shall be made for additional payments into the Sinking Fund so as to pay the interest on and principal of such additional parity bonds as and when the same become due and for increasing the monthly installments required to be paid into the Debt Service Reserve Account over the ten-year period from the date of issuance of the additional parity bonds on the same basis as provided in the next preceding paragraph hereof.

No further payments need be made into the Sinking Fund after and so long as the amount then held in the Sinking Fund, including the Debt Service Reserve Account, is equal to the entire amount

required for retiring all bonds then outstanding which are payable from the Sinking Fund and paying all interest that will accrue at the time of such retirement.

If for any reason there should be a failure to pay into the Sinking Fund the full amount above stipulated, then an amount equivalent to such deficiency shall be set apart and paid into the Sinking Fund from the first available income and revenues of the System or from the Depreciation Fund hereinafter created.

All moneys held in the Sinking Fund, including the Debt Service Reserve Account, shall be deposited in a bank or banks which are members of the Federal Deposit Insurance Corporation ("FDIC") and all such deposits which cause the aggregate deposits of the Board in any one bank to be in excess of the amount insured by the FDIC shall be continuously secured by a valid pledge of direct obligations of the United States of America having an equivalent market value. All or any part of the Sinking Fund may, provided that the Debt Service Reserve Account therein shall, be invested in Investment Obligations, as defined in Section 14 hereof, maturing or being subject to retirement at the option of the holder on such dates as the same may be needed for meeting interest and/or principal payments, and all such investments shall be carried to the credit of the particular account in the Sinking Fund which supplied the funds for such investments, but the income from such investments shall be credited to the Interest Account; provided, however, if the amount in the Debt Service Reserve Account is less than the Reserve Amount, income from investments in the Debt Service Reserve Account shall be credited to the Debt Service Reserve Account until the Reserve Amount is accumulated therein. Investment Obligations in the Debt Service Reserve Account shall be valued at cost.

The Sinking Fund shall be used solely and only and is hereby pledged for the purpose of paying principal of and interest and premium, if any, on the Bonds and any additional bonds ranking on a parity therewith that may be outstanding from time to time in accordance with the terms and provisions of this Resolution.

Notwithstanding the foregoing provisions of this Section 13(B) relating to the Debt Service Reserve Account, in lieu of the deposit of funds in the Debt Service Reserve Account, the Board may obtain a Debt Service Reserve Guaranty. Any Debt Service Reserve Guaranty shall be considered a deposit of funds in the Debt Service Reserve Account equal to the Debt Service Reserve Guaranty Coverage provided by the Debt Service Reserve Guaranty Agreement. As conditions precedent to delivery of a Debt Service Reserve Guaranty, the Board shall obtain (i) the Debt Service Reserve Guaranty, (ii) an opinion of counsel addressed to the Board stating that the delivery of such Debt Service Reserve Guaranty to the Board is authorized under this Resolution and complies with the terms hereof, and (iii) written evidence from a Rating Agency, if the Bonds and any additional parity bonds are then rated by such Rating Agency, that the Rating Agency has reviewed the proposed Debt Service Reserve Guaranty and that (a) the issuance of the Debt Service Reserve Guaranty to the Board and, (b) if a Debt Service Reserve Guaranty is then in effect with respect to the Debt Service Reserve Account, the substitution of the proposed Debt Service Reserve Guaranty for the Debt Service Reserve Guaranty then in effect, will not, by itself, result in a reduction or withdrawal of its rating on the Bonds and any additional parity bonds. If the Bonds and any additional parity bonds are insured by a bond insurer, the references to a Rating Agency in the preceding sentence shall be

ad to mean such bond insurer and the substitution of the proposed Debt Service Reserve Guaranty shall not result in the cancellation of the bond insurance provided by such bond insurer.

The capitalized terms used in the preceding paragraph shall have the following meanings:

“Debt Service Reserve Guarantor” means the issuer of a Debt Service Reserve Guaranty.

“Debt Service Reserve Guaranty” means a letter of credit, insurance policy, surety bond or similar arrangement representing the irrevocable obligation of the Debt Service Reserve Guarantor to pay to or for the account of the Board upon request made by the Board or its designee up to an amount stated therein for application as provided in this Section 13(B).

“Debt Service Reserve Guaranty Agreement” means the reimbursement agreement, bond insurance agreement, loan agreement or similar agreement between the Board and a Debt Service Reserve Guarantor with respect to repayment of amounts advanced under the Debt Service Reserve Guaranty.

“Debt Service Reserve Guaranty Coverage” means the amount available at any particular time to be paid to or for the account of the Board under the terms of the Debt Service Reserve Guaranty.

“Debt Service Reserve Guaranty Limit” means the maximum aggregate amount available to be paid to or for the account of the Board under the terms of a Debt Service Reserve Guaranty.

“Rating Agency” means either Moody’s Investors Service, Inc. or Standard & Poor’s Rating’s Services, and their successors and assigns.

(C) In order to provide moneys which will be available for improvements and major repairs to and replacements and extensions of the System, a separate and special fund is hereby created, separate and apart from all other accounts and funds of the Board, and the same is hereby designated the “Depreciation Fund.” It is hereby recognized that the Board presently has on hand the sum of \$2,606,000, which amount is equal to six percent (6%) of the undepreciated book value of the System (based on the most recent audited financial statements of the System) and is hereby credited to the Depreciation Fund. Balances at any time on deposit in the Depreciation Fund may be expended for costs indicated in this paragraph. If and when it shall become necessary to make disbursements from the Depreciation Fund for authorized purposes, monthly transfers and deposits from the Revenue Fund to the Depreciation Fund shall be made (after meeting the requirements of the foregoing subsections (A) and (B) of this Section 13) until such time as a balance equal to six percent (6%) of the undepreciated book value of the System (based on the most recent audited financial statements of the System) shall have been accumulated therein, represented either by cash or the market value of investments, as hereinafter permitted. Upon the accumulation of such balance in such amount, the monthly transfers from the Revenue Fund may be suspended. To the extent amounts in the Depreciation Fund from time to time may exceed the foreseeable need for making disbursements therefrom, the same may be invested and reinvested by the Board in Investment Obligations, as defined in Section 14 hereof, which shall have a maturity date or be redeemable at the option of the holder within five years from the date of investment therein, and all income therefrom shall be

credited to the Depreciation Fund (or to the Revenue Fund at the election of the Board if the aforesaid minimum balance is on deposit in the Depreciation Fund) and any expenses or loss in connection therewith shall be charged to the Depreciation Fund. In the event there would otherwise be a default in the payment of interest on or principal of any bond or bonds outstanding under authority of this Resolution, amounts in the Depreciation Fund shall be withdrawn and applied to such extent as may be necessary in order to prevent such default, and any investments held for the account of the Depreciation Fund shall be converted into cash if and to the extent required for such purpose; but such withdrawal shall be deemed to be advances from the Depreciation Fund and the amount thereof shall be restored as soon as moneys are available.

(D) The remaining moneys in the Revenue Fund shall be used and applied to the extent necessary (1) to maintain a cash working fund equal to one-twelfth (1/12) of the gross income and revenues of the System during the preceding fiscal year; (2) to pay all other obligations authorized and incurred by the Board in the operation and maintenance of the System and furnishing of services and facilities thereby; (3) to pay such taxes, if any, as the Board may elect to pay to the City under the provisions of Section 96.179 of the Act; and (4) for any other lawful corporate purpose as permitted and provided by Section 96.182 of the Act.

The Board reserves the right from time to time to purchase bonds herein authorized or permitted to be issued in advance of maturity and to redeem such bonds pursuant to the pertinent redemption terms through the use and application of surplus income and revenues from the System and from excess funds in the Sinking Fund, provided no such purchase shall be made from the Sinking Fund at a price exceeding the redemption terms on the next succeeding redemption date; and all bonds so purchased or redeemed shall be canceled.

Section 14. Investments. As used in this Resolution, the term "Investment Obligations" shall mean any of the following, if and to the extent the following are legal investments for the moneys held in the funds and accounts established pursuant to this Resolution: (i) direct general obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America, and any certificate or other evidence of an ownership interest in any such securities or in specified portions thereof consisting of the principal thereof or the interest thereon or any combination thereof; (ii) obligations of any agency or instrumentality of the United States of America; (iii) savings accounts, interest-bearing time deposits or certificates of deposit in any national bank or bank chartered in Kentucky authorized to engage in the banking business the deposits of which shall be insured by the FDIC and having a combined capital and surplus aggregating not less than Two Million Dollars (\$2,000,000); provided, however, that each such deposit shall be continuously secured (to the extent not insured by FDIC) by lodging with a separate bank or trust company approved by the Board, as custodian, collateral security in the form of obligations described in (i) or (ii) above having a market value (exclusive of accrued interest) at all times not less than the amount of such deposit, which collateral security shall be valued by the Board at least annually and must be unencumbered and not otherwise pledged and shall be subject to a perfected first lien for the benefit of the Board; (iv) repurchase agreements with banks described in (iii) above, continuously secured as provided in (iii) above; (v) money market funds composed of securities described in (i) and (ii) above and rated "AAA" by Standard and Poor's Ratings Services or Moody's Investors Service, Inc., provided that any such investment in money market funds shall not exceed six (6) months in

duration; and (vi) bonds, notes or certificates of indebtedness of the Commonwealth of Kentucky and its agencies and instrumentalities.

Section 15. Rebate Fund. The following terms when used hereinafter shall have the indicated meanings.

“Computation Period” means, with respect to the Bonds, the period of time over which Excess Earnings are required to be computed under Section 148(f) of the United States Internal Revenue Code of 1986, as amended (the “Code”), and applicable regulations thereunder.

“Cumulative Excess Earnings” means the amount of all Excess Earnings earned from the date of original delivery of the Bonds through the end of the relevant computation date, less the amount of any Excess Earnings paid to the United States pursuant to this Section.

“Excess Earnings” means an amount equal to the sum of (i) plus (ii) where:

(i) is the excess of

(a) the aggregate amount earned on all nonpurpose investments in which gross proceeds of the Bonds are invested (other than investments attributable to an excess described in this clause (i)), over

(b) the amount which would have been earned if such nonpurpose investments (other than amounts attributable to an excess described in this clause (i)) were invested at a rate equal to the yield on the Bonds; and

(ii) is any income attributable to the excess described in clause (i).

The sum of (i) plus (ii) shall be determined in accordance with Section 148(f) of the Code. As used herein, the terms “gross proceeds,” “nonpurpose investments” and “yield” have the meanings assigned to them for purposes of Section 148(f) of the Code.

The Board’s Electric and Water Revenue Bonds, Series 1999 Rebate Fund (the “Rebate Fund”) is hereby created. Amounts from time to time held in the Rebate Fund, if any, shall be invested in Investment Obligations (to the extent practicable), shall not be subject to the pledge of this Resolution, shall not constitute a part of the funds held for the benefit of the holders of the Bonds and shall be dedicated to the United States of America to the extent of any obligation on the part of the Board to rebate to the United States Cumulative Excess Earnings.

Within five days after the end of each Computation Period and within five days after the payment in full of all outstanding Bonds, the Board shall calculate the amount of Cumulative Excess Earnings as of the end of that Computation Period or the date of such payment, and shall also determine the amount then on deposit in the Rebate Fund. If the amount then on deposit in the Rebate Fund is in excess of the Cumulative Excess Earnings, the Board shall forthwith deposit that excess amount in the Sinking Fund. If the amount then on deposit in the Rebate Fund is less than the

Cumulative Excess Earnings, the Board shall within five days deposit in the Rebate Fund an amount sufficient to cause the Rebate Fund to contain an amount equal to the Cumulative Excess Earnings. Within 30 days after the end of the fifth anniversary date of the issuance of the Bonds and every such fifth anniversary date thereafter, the Board shall pay to the United States in accordance with Section 148(f) of the Code from the moneys then on deposit in the Rebate Fund an amount equal to 90% (or such greater percentage not in excess of 100% as the Board may direct) of the Cumulative Excess Earnings as of the end of such fifth anniversary date. Within 60 days after the payment in full of all outstanding Bonds, the Board shall pay to the United States in accordance with Section 148(f) of the Code from the moneys then on deposit in the Rebate Fund an amount equal to 100% of the Cumulative Excess Earnings as of the date of such payment and any moneys remaining in the Rebate Fund following such payment shall be paid to the Sinking Fund.

Section 16. Covenants to Bondholders. (A) While the Bonds or any parity bonds remain outstanding and unpaid, the rates and charges for all services rendered by the System shall be reasonable and just, taking into account and consideration the cost and value of the System and the cost of maintaining and operating the same, and the amounts necessary for the retirement of all bonds and the accruing interest on all such bonds as may be issued or permitted to be issued under the provisions of this Resolution and the payments provided to be made into the Depreciation Fund. Said rates will be fixed, maintained and, if necessary, adjusted from time to time so as to produce after costs of normal maintenance and operation, net revenues (as defined in Section 17 hereof) sufficient (1) to provide for the payment of the principal and interest maturing in the next fiscal year of the System on the Bonds and parity bonds, if any are issued under the restrictions and conditions set forth in Section 17 hereof, and to accumulate and maintain the Reserve Amount in the Debt Service Reserve Account as provided in Section 13 hereof; (2) to maintain the Depreciation Fund for account of the System in an amount equal to six percent (6%) of the undepreciated book value of the System; (3) to maintain a cash working fund equal to one-twelfth (1/12) of the gross income and revenues of the System during the preceding fiscal year; (4) to pay all other obligations authorized and incurred by the Board in the operation and maintenance of the System and the furnishing of services and facilities thereby; (5) to pay such taxes, if any, as the Board may elect to pay to the City under the provisions of Section 96.179 of the Kentucky Revised Statutes; and (6) to satisfy any other obligations or commitments authorized or incurred by the Board for any lawful corporate purpose as permitted and provided by Section 96.182 of the Act. The rates prevailing at any time will not be reduced except upon the basis of a written statement of a consulting engineer or firm of consulting engineers of national reputation, after necessary investigation, expressing the opinion that the net earnings of the System will not thereby be reduced below the level prescribed in the preceding sentence; and there shall be charged against all users of electric and water services rendered by or through the System, including the City, such rates and amounts for such services as shall be adequate to meet the requirements of this Section 16. Compensation for services rendered to the City shall be charged against the City and payment for the same from the corporate funds shall be made and shall be apportioned as other income and revenues.

(B) The Board hereby covenants and agrees with the holder or holders of the Bonds and any parity bonds permitted to be issued hereunder, or any of them, that it will faithfully and punctually perform all duties with reference to the System and the operation and maintenance thereof as required by the Constitution and laws of the Commonwealth of Kentucky, including the making and collecting

of reasonable and sufficient rates for services rendered thereby, and that the income and revenues of the System will be segregated and application thereof made into the respective funds as created and provided by this Resolution; and to maintain in good condition and continuously operate the System and to charge and collect such rates and charges for services rendered thereby so that the gross revenues will be sufficient at all times to provide for the payment of the operation and maintenance thereof, to make the prescribed payments into the Sinking Fund, including provision for the reserve therein, to create and maintain the Depreciation Fund as provided herein and to provide for all other authorized payments therefrom as provided in this Resolution.

(C) The Board hereby further covenants, binds and obligates itself and the City not to sell, lease, mortgage or in any manner dispose of any integral part of the System, including any and all extensions, additions and appurtenances thereto that may be made or constructed, until all the Bonds and any parity bonds permitted to be issued hereunder shall have been paid in full, both principal and interest; provided, however, that this covenant shall not be construed to prevent disposal of property by exchange for other property on the basis of a finding by the Board, after necessary investigation, that the property to be obtained through such exchange is of equal or greater value and utility than the property so disposed of and such exchange will not adversely affect the operations of the System or the income and revenues to be derived therefrom; nor shall be construed to prevent the sale, lease or other disposal of properties of the System which are found by the Board to be no longer necessary or useful in the operations of the System, provided that the proceeds, if any, received from the lease, sale or other disposition of any such property shall be paid either into the Depreciation Fund or into the Sinking Fund, but such payments shall not operate to reduce the amounts otherwise required to be paid into said funds.

Section 17. No Priority among Bonds: Issuance of Additional Bonds. The Bonds, together with any additional parity bonds issued under the restrictions and conditions hereinafter set forth, shall not be entitled to priority one over the other in the application of the income and revenues of the System regardless of the time or times of their issuance, it being the intention that there shall be no priority among such bonds, regardless of the fact that they may be actually issued and delivered at different times.

The Board hereby reserves the right and privilege of issuing additional bonds from time to time payable from the income and revenues of the System ranking on a parity with the Bonds (herein sometimes referred to as "additional parity bonds") in order to pay the costs of extensions, additions and improvements to the System and related costs, including without limitation providing funds for deposit in the Debt Service Reserve Account, provided that either of the conditions set forth in (i) or (ii) below is met.

(i) The net revenues of the System for the fiscal year preceding the year in which such parity bonds are to be issued were at least 120% of the maximum annual debt service requirements (for any year ending December 1) with respect to all Bonds and parity bonds which are then outstanding and the additional parity bonds then proposed to be issued. The term "net revenues" as herein used is defined as gross income and revenues of the System (including all payments to the Revenue Fund and interest earnings accruing to the Sinking Fund and the Depreciation Fund) less the sum of operating expenses, which shall include

salaries, wages, costs of maintenance and operation, materials and supplies, pumping, generating and development costs, power at wholesale, insurance, and such other expenses as are normally chargeable to costs of operation, maintenance and repairs under generally recognized accounting practices and principles, not including, however, any costs for capital expenses or allowances for depreciation or payments on account of interest or principal due on the Bonds and any additional parity bonds. Such showing of net revenues for such preceding fiscal year may be represented by the report of the auditors.

(ii) A statement is filed with the Secretary-Treasurer by (a) an independent certified public accountant or firm of certified public accountants not in the regular employ of the Board on a monthly salary basis or (b) an independent professional engineer or firm or firms of professional engineers not in the employ of the Board on a monthly salary basis, and of recognized excellent expertise and reputation in the fields of electric and water engineering and licensed in Kentucky, reciting the opinion based upon necessary investigation that the net revenues of the System as defined in (i) above for twelve (12) consecutive months out of the eighteen (18) months preceding the issuance of said additional parity bonds (with adjustments as hereinafter provided) were equal to at least 120% of the maximum annual debt service (for any year ending December 1) on the Bonds and any parity bonds then outstanding and the proposed additional parity bonds. The net revenues may be adjusted for the purpose of the foregoing computations to reflect any revision in the schedule of rates or charges being imposed at the time of the issuance of any such additional parity bonds, and also to reflect any increase in such net income and revenues by reason of the extensions, additions and improvements to the System the cost of which (in whole or in part) is to be paid through the issuance of such additional parity bonds and by reason of the investment of any proceeds of such additional parity bonds that are deposited in the Debt Service Reserve Account; but such adjustments to reflect an increase in net revenues by reason of extensions, additions and improvements to the System shall only be made if contracts for the immediate construction or acquisition of such extensions, additions and improvements have been or will be entered into prior to the issuance of such additional parity bonds. All such adjustments to reflect any revision of rates and charges or an increase in net revenues by reason of extensions, additions and improvements to the System shall be based upon written certification by (a) a professional engineer not in the employ of the Board on a monthly salary basis, or firm or firms of professional engineers, of recognized excellent expertise and reputation in the field of water engineering and licensed in Kentucky or (b) a certified public accountant or firm of certified public accountants.

The Board hereby further reserves the right and privilege of issuing additional parity bonds for the purpose of refunding the Bonds or any parity bonds, or any portion thereof, as may be outstanding, provided that before any additional parity bonds are issued for such purpose, there shall have been procured and filed with the Secretary-Treasurer a statement by an independent certified public accountant or firm of independent certified public accountants reciting the opinion based upon necessary investigation that after the issuance of such additional parity bonds, the net revenues, as adjusted and defined above, of the System for the fiscal year preceding the date of issuance of such additional parity bonds, after taking into account the revised Reserve Amount resulting from the issuance of such additional parity bonds and from the elimination of the bonds being refunded thereby,

are equal to not less than 120% of the maximum annual debt service (for any year ending December 1) on the Bonds and any parity bonds then outstanding and the proposed additional parity bonds and calculated in the manner specified above.

The interest payment dates for all such additional parity bonds shall be semiannually on June 1 and December 1 of each year, and the principal maturities thereof shall be on December 1 of the year in which any such principal is scheduled to become due.

The additional parity bonds, the issuance of which is restricted and conditioned by this Section, shall be understood to mean bonds payable from the income and revenues of the System on a parity with the Bonds, and shall not be deemed to include nor prohibit the issuance of other obligations, the security and source of payment of which is subordinate and subject to the priority of the payments into the Sinking Fund for account of the Bonds and any parity bonds.

Section 18. Additional Covenants of Board. (A) The Board covenants and agrees that so long as the Bonds or any parity bonds are outstanding it will keep its operations and all buildings and all machinery and equipment therein, constituting a part of the System, insured to the extent insurable under a policy or policies of a responsible insurance company or companies authorized and qualified under the laws of Kentucky to assume such risks and in amounts and of the character customarily carried by municipal utilities in similar operations. The proceeds of all such insurance shall be available for the repair, replacement and reconstruction of damaged or destroyed property. The Board further covenants and agrees in like manner to carry public liability and property damage insurance covering such risks and for such amounts as the Board determines from time to time to be necessary or advisable by reason of the character and extent of its operations. If the insurance proceeds are in excess of the amount required for making good the loss or damage in respect of which such proceeds are received by repairing, replacing and reconstructing the property damaged or destroyed, any balance remaining shall be paid into the Sinking Fund or the Depreciation Fund, and if for any reason the insurance proceeds are insufficient for the repair, replacement and reconstruction of the damaged or destroyed property, any deficiency may be supplied from any moneys legally available to the Board for such purposes.

(B) The Board hereby covenants and agrees that it will keep and maintain proper books and accounts adapted to the System, which books and accounts will show the several items of receipts and disbursements and the same shall be audited annually by a recognized independent firm of certified public accountants; and in each annual audit report such accountants shall be instructed to comment on the performances of the Board during the audit period as compared with the requirements set forth in this Resolution. The balance sheet and the profit and loss statement of the System as certified by such accountants shall be generally available to the holder or holders of any Bonds upon their written request.

Section 19. Tax Covenants and Representations. The Board certifies, covenants and agrees to and for the benefit of the Bondholders that so long as any of the Bonds remain outstanding, moneys on deposit in any fund or account in connection with the Bonds, whether or not such moneys were derived from the proceeds of the sale of the Bonds or from any other sources, will not be invested or used in a manner which will cause the Bonds to be "arbitrage bonds" within the meaning

of Sections 103(b)(2) and 148 of the United States Internal Revenue Code of 1986, as amended (the "Code"), and any lawful Income Tax Regulations issued or proposed thereunder, as the same presently exist, or may from time to time hereafter be amended, supplemented or revised. The Chairman, Vice Chairman and/or Secretary-Treasurer as the officers of the Board charged with the responsibility for issuing the Bonds are authorized and directed, for and on behalf of the Board, to execute all certificates and other documents that may be required for evidencing compliance with federal tax rules, and any representations, certifications and covenants contained in such certificates and other documents so executed shall be deemed to constitute representations, certifications and covenants of the Board.

The Board further represents, warrants, agrees, covenants and certifies as follows:

(A) Within the meaning of Section 141 of the Code and the Income Tax Regulations issued thereunder, over the term of the Bonds (i) less than 10% of the proceeds of the Bonds, if any, will be applied for any private business use, and the payment of principal of or interest on less than 10% of the amount of the Bonds, if any, will be secured directly or indirectly by any interest in property used for a private business use, or payments in respect of such property, or will be derived directly or indirectly from payments (whether or not to the Board) in respect of such property; (ii) at least 90% of the proceeds applied for a governmental use of the Board; (iii) any private business use of the System will be related to such governmental use of the Board and will not be unrelated or disproportionate; and (iv) none of the proceeds of the Bonds will be used, directly or indirectly, to make or finance loans to private persons. It is reasonably expected that over the term of the Bonds (a) the System will be available for general public use, in that it will be reasonably available for use by natural persons not engaged in a trade or business on the same basis as any other person or entity, (b) no nongovernmental person will have any special legal entitlement to use the System, and (c) there will be no direct or indirect payments made with respect to the System or the security of the Bonds by any persons or entities other than payments by the general public as described in clause (a) above.

(B) It is reasonably expected at least 15% of the proceeds (including investment proceeds) of the Bonds will be spent for the governmental purposes of the issue within six months from the date the Bonds are issued, at least 60% of such proceeds will be spent for such purposes within one year from such date, and at least 100% of such proceeds will be spent within 18 months from such date. The Board will take all action necessary to comply with the arbitrage rebate requirements of Section 148(f) of the Code in respect of the Bonds.

(C) It is reasonably expected that during the term of the Bonds the System will not be disposed of, provided, however, should there be any disposition of any personal property constituting a part of the System because it is no longer suitable for its governmental purpose, it is reasonably expected that the fair market value of such personal property will not exceed 25% of its cost.

(D) The weighted average maturity of the Bonds does not exceed 120% of the weighted average useful life of the facilities financed or refinanced by the Bonds.

(E) The Bonds are not federally guaranteed within the meaning of Section 149(b) of the Code.

(F) The Board will comply with the information reporting requirements of Section 149(e) of the Code.

(G) The Board will not use or permit the use of any of the funds provided by the Bonds in such manner as to, or take or omit to take any action which would, impair the exclusion from gross income for federal income tax purposes of interest on the Bonds. The Board shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Board on the Bonds shall, for the purposes of federal income taxation, be excludable from gross income.

Section 20. Defeasance. The Board reserves the right at any time to cause the pledge of this Resolution securing any Bonds to be defeased and released by paying an amount into an escrow fund sufficient, when invested (or sufficient without such investment, as the case may be) in direct obligations of the United States Government to assure the availability in such escrow fund of an adequate amount (a) to call for redemption and to redeem and retire all of such Bonds, both as to principal and as to interest, on the next or any optional redemption date, including all costs and expenses in connection therewith, and to pay all principal and interest falling due on such Bonds to and on said date, or (b) to pay all principal and interest requirements on such Bonds as same mature, without redemption in advance of maturity, the determination of whether to defease under (a) or (b) or both to be made by the Board. Such United States Government obligations shall have such maturities as to assure that there will be sufficient funds for such purpose. If such defeasance is to be accomplished pursuant to (a), the Board shall take all steps necessary to publish notice of the redemption of such Bonds on the applicable redemption date. Upon the proper amount of United States Government obligations being placed in escrow and so pledged, the pledge of this Resolution securing such Bonds shall be automatically fully defeased and released without any further action being necessary.

The immediately foregoing provisions are subject to the limitation that no such termination and release of the pledge of this Resolution shall be accomplished through the use of any funds or investments which, in the opinion of the Board's Bond Counsel, would adversely affect the exclusion of interest on any such Bonds from gross income for federal income tax purposes.

Section 21. Sale of Bonds. The Chairman is authorized to approve, execute and cause to be published in accordance with Chapter 424 of the Kentucky Revised Statutes an appropriate form of Notice of Bond Sale soliciting sealed, competitive bids for the purchase of all the Bonds, such bids to be received in the office of the Assistant General Manager-Administration of the Board until a fixed time on a day the Chairman may determine, after which fixed time the sealed competitive bids heretofore received in said office shall be opened by him and then referred to the Chairman, Vice Chairman or Secretary-Treasurer for official action. Such Notice of Bond Sale shall be in such form as may be prepared by the Board's Bond Counsel and recommended by the Board's Financial Advisor in connection with the issuance of the Bonds.

The public offering of the Bonds shall be upon the following terms and conditions and such other terms and conditions as the Chairman may determine:

(A) Bids shall be for the entire issue and shall be submitted upon an Official Bid Form in order to provide for uniformity in submission of bids and ready determination of the best bid.

(B) Bidders shall be required to bid not less than 98.25% of par plus accrued interest from the date of the Bonds to the date of delivery; provided that upon the recommendation of the Financial Advisor, the Chairman is authorized to approve a change in the required minimum and/or maximum bid price, and also to change the date and hour of the sale.

(C) No good faith check will be required to accompany a bid, but the successful bidder shall be required to wire transfer to Farmers Bank & Capital Trust Co., Frankfort, Kentucky, for the credit of the Board, an amount equal to 2% of the principal amount of Bonds awarded by the close of the business day following the day of award of the Bonds. Such good faith amount will be applied (without interest) to the purchase price upon delivery of the Bonds.

(D) Bidders have the option of specifying that all of the principal amount of Bonds maturing on any two or more consecutive dates given in the schedule in Section 3 hereof may, in lieu of maturing on each of such dates, be considered to comprise one maturity of Bonds ("Term Bonds") scheduled to mature on the latest of such dates and be subject to mandatory sinking fund redemption at par in the manner described in Section 4 hereof on each of the dates and in the principal amounts as given in said schedule, except for the principal amount of Bonds scheduled to mature on the date of maturity of the Term Bonds, which shall mature on such date. Bidders may specify one or more of such Term Bonds.

(E) Bidders must stipulate an interest rate or rates in a multiple of 1/8 or 1/20 of 1%. There is no limit on the number of different interest rates which may be specified by any bidder, subject to compliance with the other bidding conditions, provided that interest rates must be on an ascending scale, in that the rate for Bonds of any maturity may not be less than the rate stipulated for any preceding maturity, and all Bonds of the same maturity shall bear the same and a single interest rate from the date thereof to maturity.

(F) The right to reject bids for any reason deemed advisable by the Board, acting by and through the Chairman, Vice Chairman or Secretary-Treasurer, and the right to waive any possible informalities or irregularities in any bid which, in the judgment of the Board, acting by and through the Chairman, Vice Chairman or Secretary-Treasurer, shall be minor or immaterial are expressly reserved.

(G) CUSIP identification numbers may be printed on the Bonds at the request of the purchaser. Neither the failure to print a CUSIP number on any Bonds nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Bonds in accordance with the terms of the purchase agreement.

(H) The determination of the best bid will be made on the basis of all bids submitted for exactly \$13,160,000 of Bonds offered for sale under the terms and conditions herein specified. The Board, acting by and through the Chairman, Vice Chairman or Secretary-Treasurer, will upon the receipt of bids for the Bonds accept a bid or reject such bids; provided, however, the Board, acting

by and through the Chairman, Vice Chairman or Secretary-Treasurer, reserves the right to increase or to decrease by an amount not exceeding \$500,000 (in \$5,000 denominations) the total amount of Bonds sold to such best bidder by increasing or decreasing any of the stipulated principal maturities. In the event of any such adjustment, no rebidding or recalculation of the bid submitted will be required or permitted. The price at which such adjusted amount of Bonds will be sold will be at the same price per \$1,000 of Bonds as the price bid per \$1,000 for the \$13,160,000 of Bonds.

Further, upon determination of the best bid, the Board, acting by and through the Chairman, Vice Chairman or Secretary-Treasurer, shall have the right within its sole discretion, without increasing or decreasing the aggregate principal amount of the Bonds sold, to increase or decrease (in increments of \$5,000) the amount of any annual principal maturities in order to promote level debt service on the Bonds. In the event of any such adjustments, no rebidding or recalculation of a submitted bid will be required or permitted.

It shall not be necessary that the published Notice of Bond Sale set forth any or all of the special conditions stated herein, but the substance thereof shall be disclosed to prospective bidders either in the Notice of Bond Sale, the Official Terms and Conditions of Bond Sale or the Official Bid Form. The Chairman and/or Secretary-Treasurer are authorized in connection with the Bond sale to sign and cause to be furnished to any interested party upon request an Official Terms and Conditions of Bond Sale containing the above conditions, together with additional requirements and information relating to the sale and delivery of the Bonds, and giving a detailed description of the Bonds, all calculated to bring about uniformity in bidding.

Suggested forms of Notice of Bond Sale, Official Terms and Conditions of Bond Sale and Official Bid Form having been prepared and submitted according to the recommendation of the Board's Financial Advisor by Bond Counsel, and the same having been examined by the Board and found to be in order, the same are hereby approved and adopted for use in connection with the Bond sale.

In addition, in connection with the Bond sale the Board has caused or is causing to be prepared its preliminary Official Statement (the "Official Statement"), setting forth relevant information concerning the sale and issuance of the Bonds, including, *inter alia*, financial data relating to the System. The Official Statement and the use thereof by the Board in offering and selling the Bonds is hereby expressly approved, the Board, through certain of its officials and employees, having reviewed the Official Statement and having found the factual statements and the data therein to be accurate, and the Chairman is authorized to sign the same on behalf of the Board, with such modifications as may be necessary or desirable and approved by the Chairman, as evidenced by such execution. The Official Statement shall be supplemented following sale of the Bonds, and the Chairman is authorized to approve and sign such supplemented or final Official Statement on behalf of the Board. The Official Statement is in a form "deemed final" by the Board for purposes of SEC Rule 15c2-12(b)(1) but, as aforesaid, is subject to supplementation and completion following sale of the Bonds.

Upon the date and at the hour set forth for the opening of purchase bids, as provided in the instruments hereinabove approved, the sealed bids theretofore received by the Assistant General

Manager-Administration of the Board shall be publicly opened and examined by the Assistant General Manager-Administration, and shall then be referred to the Board's Financial Advisor for assistance in determining the best bid. If there shall be one or more bids which conform in all respects to the prescribed terms and conditions, the same shall be compared and the Chairman, Vice Chairman or Secretary-Treasurer, acting on behalf of the Board, will accept the best of such bids, as measured in terms of the lowest net interest cost to the Board, subject to the terms prescribed in the Official Terms and Conditions of Bond Sale. If upon the basis of the foregoing the Board accepts a purchase bid for the Bonds, such acceptance shall be evidenced by the completion of and execution of the acceptance on the Official Bid Form of the successful bidder by the Chairman, Vice Chairman or Secretary-Treasurer, a copy of which document shall be filed in the official records of the Board, provided that the net average interest rate (i.e., net interest cost) on the Bonds shall not exceed 6.5% per annum. The principal amount of the Bonds, principal maturities and interest rates shall be as set out in said completed and executed Official Bid Form without further action of the Board.

Section 22. Bondholders' Rights and Remedies. As provided in Section 96.184 of the Act, any holder or holders of Bonds shall have the right, in addition to all other rights:

(A) By action in court, to enforce his or their rights against the Board, and any other proper officer, agent or employee of the Board, including without limitation the right to require the Board, and any proper officer, agent or employee of the Board, to fix and collect rates and charges adequate to carry out any agreement as to, or pledge of, revenues from the System, and to require the Board, and any officer, agent or employee of the Board, to carry out any other covenants or agreements and to perform its and their duties under the Act.

(B) By action in equity, to enjoin any act or thing which may be unlawful or a violation of the rights of the holder of Bonds.

If there is a default in the payment of the principal or interest of any Bonds, any court having jurisdiction may, upon the petition of the holders of not less than twenty-five percent (25%) of the outstanding Bonds, appoint a receiver to administer the System on behalf of the Board, with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against the System and for the payment of the operating expenses and to apply the income and revenues in conformity with the Act.

Section 23. Resolution as Contract. The provisions of this Resolution shall constitute a contract between the Board and the holders of the Bonds and any additional parity bonds, and after the issuance of any of said bonds no material change, variation or alteration of any kind in the provisions of this Resolution shall be made in any manner without the consent of such holders and except as herein provided, until such time as all of said bonds issued hereunder and interest thereon have been paid or provided for in full by defeasance as provided in Section 20 hereof or as otherwise provided herein.

Section 24. Continuing Disclosure. Prior to the issuance of the Bonds, the Board shall execute a Continuing Disclosure Certificate dated the date of issuance and delivery of the Bonds, which document, as originally executed and as it may be amended from time to time in accordance

with the terms thereof, is hereinafter referred to as the "Continuing Disclosure Certificate." The Board hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Resolution, failure of the Board to comply with the Continuing Disclosure Certificate shall not be considered an event of default under this Resolution; however, any holder of a Bond may take such action as may be necessary to obtain specific performance by court order to cause the Board to comply with its obligations under this Section.

Section 25. Holidays. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Resolution, is not a business day for the Paying Agent and Bond Registrar, such payment may be made or act performed or right exercised on the next succeeding business day with the same force and effect as if done on the nominal date provided in this Resolution, and no interest shall accrue for the period after such nominal date.

Section 26. Severability. If any section, paragraph, clause or provision of this Resolution shall be held to be invalid or ineffective for any reason, the remainder of this Resolution shall remain in full force and effect, it being expressly hereby found and declared that the remainder of this Resolution would have been adopted despite the invalidity of such section, paragraph, clause or provision.

Section 27. Miscellaneous Provisions. (A) All resolutions or parts thereof in conflict herewith are, to the extent of such conflict, hereby repealed.

(B) This Resolution shall take effect immediately upon its adoption as provided by law.

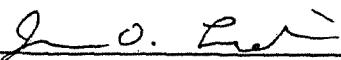
(C) The captions or headings in this Resolution, and in the Table of Contents preceding this Resolution, are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Resolution.

ADOPTED BY THE ELECTRIC AND WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY, at a meeting held on the 30th day of November, 1999, signed by the Chairman, attested by the Secretary-Treasurer, and declared to be in full force and effect.



Chairman

ATTEST:

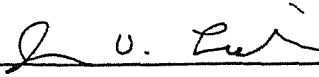


Secretary-Treasurer

CERTIFICATION

The undersigned, Secretary-Treasurer of the Electric and Water Plant Board of the City of Frankfort, Kentucky (the "Board"), hereby certifies that the foregoing is a true, complete and correct copy of a Resolution duly adopted by the Board at a properly convened meeting of the Board held on the 30th day of November, 1999, as shown by the official records of the Board in my custody and under my control, and that said Resolution is in full force and effect.

WITNESS my hand this 28th day of December, 1999.



Secretary-Treasurer

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RESOLUTION/MUNICIPAL ORDER NO. 7, 1999 SERIES

A RESOLUTION/MUNICIPAL ORDER RELATING TO THE FINANCING AND REFINANCING OF IMPROVEMENTS AND ADDITIONS TO THE COMBINED ELECTRIC AND WATER SYSTEM OF THE ELECTRIC AND WATER PLANT BOARD OF THE CITY OF FRANKFORT, KENTUCKY

WHEREAS, the Electric and Water Plant Board of the City of Frankfort, Kentucky (the "Board"), established by the City of Frankfort, Kentucky (the "City"), operates, manages and controls a combined and consolidated municipal electric and water system (the "System") for the benefit of the citizens and residents of the City and its environs, as provided by Sections 96.171 through 96.188 of the Kentucky Revised Statutes; and

WHEREAS, by Resolution to be adopted on November 30, 1999 (the "Board Resolution"), the Board plans to authorize the issuance of \$13,160,000 principal amount (subject to adjustment) of the Board's Electric and Water Revenue Bonds, Series 1999 (the "Bonds"), for the purpose of financing and refinancing improvements and additions to the System, which Board Resolution has been duly considered by the City at the request of the Board, inasmuch as by statute the City is vested with title to the System;

NOW, THEREFORE, BE IT RESOLVED AND ORDERED BY THE COMMISSION OF THE CITY OF FRANKFORT, KENTUCKY, AS FOLLOWS:

Section 1. The facts and statements contained in the foregoing preamble of this Resolution/Municipal Order, including the terms defined therein, are hereby affirmed and incorporated as a part of this Resolution/Municipal Order.

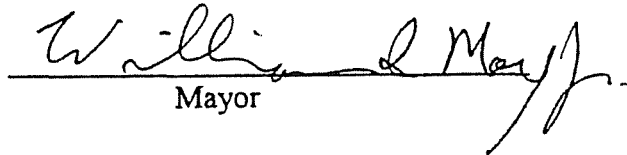
Section 2. All ordinances and resolutions heretofore adopted and all provisions heretofore made for the supervision, management and control of the operation, maintenance and improvement of the System by the Board are hereby ratified and confirmed.

Section 3. The City hereby consents to and approves the acquisition, construction and installation of the improvements and additions to the System and the issuance of the Bonds, all as provided in and in accordance with the terms of the Board Resolution, provided that the approval and consent herein given shall not in any manner constitute or be construed as an adoption or warranty on the part of the City of the Bonds, and the Bonds and the obligations of the Board under the Board Resolution shall be special and limited obligations only of the Board, which is a separate municipal corporation and political subdivision of the state, payable solely from the revenues of the System and shall not constitute obligations of the City in any respect.

Section 4. If any section, paragraph, clause and provision of this Resolution/Municipal Order shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions.

Section 5. This Resolution/Municipal Order shall be in full force and effect from and after its adoption as provided by law.

Adopted on November 22, 1999.



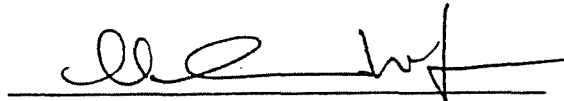
Mayor

ATTEST:




City Clerk

Summary: This Resolution/Municipal Order approves and consents to improvements and additions to the municipal combined electric and water system of the Electric and Water Plant Board of the City of Frankfort, Kentucky, and the Board's financing and refinancing of such improvements and additions by issuance of its revenue bonds, all as provided in a Resolution of the Board; provided that the City is not obligated in any respect for the payment of the revenue bonds, which are obligations of the Board only.



City Solicitor

I certify that the foregoing is a true and correct copy of Resolution No. 7, 1999 Series, as adopted by the Board of Commissioners at its November 22, 1999, regular meeting



City Clerk
11/23/99

**FRANKFORT ELECTRIC AND WATER PLANT BOARD
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
ON THE 1999 BOND ISSUE**

PAY DATE	PRINC	INT	TOTAL	PRINCIPAL BAL
6/1/2000		\$ 351,378.13	\$ 351,378.13	
12/1/2000	\$ 385,000.00	\$ 351,378.13	\$ 736,378.13	\$ 12,775,000.00
6/1/2001		\$ 341,560.63	\$ 341,560.63	
12/1/2001	\$ 405,000.00	\$ 341,560.63	\$ 746,560.63	\$ 12,370,000.00
6/1/2002		\$ 331,233.13	\$ 331,233.13	
12/1/2002	\$ 425,000.00	\$ 331,233.13	\$ 756,233.13	\$ 11,945,000.00
6/1/2003		\$ 320,342.50	\$ 320,342.50	
12/1/2003	\$ 445,000.00	\$ 320,342.50	\$ 765,342.50	\$ 11,500,000.00
6/1/2004		\$ 308,939.38	\$ 308,939.38	
12/1/2004	\$ 470,000.00	\$ 308,939.38	\$ 778,939.38	\$ 11,030,000.00
6/1/2005		\$ 296,895.63	\$ 296,895.63	
12/1/2005	\$ 495,000.00	\$ 296,895.63	\$ 791,895.63	\$ 10,535,000.00
6/1/2006		\$ 284,211.25	\$ 284,211.25	
12/1/2006	\$ 520,000.00	\$ 284,211.25	\$ 804,211.25	\$ 10,015,000.00
6/1/2007		\$ 270,886.25	\$ 270,886.25	
12/1/2007	\$ 550,000.00	\$ 270,886.25	\$ 820,886.25	\$ 9,465,000.00
6/1/2008		\$ 256,586.25	\$ 256,586.25	
12/1/2008	\$ 580,000.00	\$ 256,586.25	\$ 836,586.25	\$ 8,885,000.00
6/1/2009		\$ 241,361.25	\$ 241,361.25	
12/1/2009	\$ 610,000.00	\$ 241,361.25	\$ 851,361.25	\$ 8,275,000.00
6/1/2010		\$ 225,348.75	\$ 225,348.75	
12/1/2010	\$ 640,000.00	\$ 225,348.75	\$ 865,348.75	\$ 7,635,000.00
6/1/2011		\$ 208,548.75	\$ 208,548.75	
12/1/2011	\$ 675,000.00	\$ 208,548.75	\$ 883,548.75	\$ 6,960,000.00
6/1/2012		\$ 190,830.00	\$ 190,830.00	
12/1/2012	\$ 715,000.00	\$ 190,830.00	\$ 905,830.00	\$ 6,245,000.00
6/1/2013		\$ 171,882.50	\$ 171,882.50	
12/1/2013	\$ 755,000.00	\$ 171,882.50	\$ 926,882.50	\$ 5,490,000.00
6/1/2014		\$ 151,497.50	\$ 151,497.50	
12/1/2014	\$ 795,000.00	\$ 151,497.50	\$ 946,497.50	\$ 4,695,000.00
6/1/2015		\$ 129,635.00	\$ 129,635.00	
12/1/2015	\$ 840,000.00	\$ 129,635.00	\$ 969,635.00	\$ 3,855,000.00
6/1/2016		\$ 106,535.00	\$ 106,535.00	
12/1/2016	\$ 885,000.00	\$ 106,535.00	\$ 991,535.00	\$ 2,970,000.00
6/1/2017		\$ 82,197.50	\$ 82,197.50	
12/1/2017	\$ 935,000.00	\$ 82,197.50	\$ 1,017,197.50	\$ 2,035,000.00
6/1/2018		\$ 56,485.00	\$ 56,485.00	
12/1/2018	\$ 990,000.00	\$ 56,485.00	\$ 1,046,485.00	\$ 1,045,000.00
6/1/2019		\$ 29,260.00	\$ 29,260.00	
12/1/2019	\$ 1,045,000.00	\$ 29,260.00	\$ 1,074,260.00	\$ -
	\$ 13,160,000.00	\$ 8,711,228.80		

**FRANKFORT ELECTRIC AND WATER PLANT BOARD
SCHEDULE OF MONTHLY DEPOSITS
PRINCIPAL, INTEREST AND SINKING FUND
1999 BOND ISSUE**

DATE	INTEREST	PRINCIPAL	TOTAL P & I	SINKING FUND	TOTAL DEPOSIT
Jul-05	\$ 49,482.60	\$ 41,250.00	\$ 90,732.60	\$ 8,993.50	\$ 99,726.10
Aug-05	\$ 49,482.60	\$ 41,250.00	\$ 90,732.60	\$ 8,994.50	\$ 99,727.10
Sep-05	\$ 49,482.60	\$ 41,250.00	\$ 90,732.60	\$ 8,995.50	\$ 99,728.10
Oct-05	\$ 49,482.60	\$ 41,250.00	\$ 90,732.60	\$ 8,996.50	\$ 99,729.10
Nov-05	\$ 49,482.60	\$ 41,250.00	\$ 90,732.60	\$ 8,997.50	\$ 99,730.10
Dec-05	\$ 47,368.55	\$ 43,333.35	\$ 90,701.90	\$ 8,998.50	\$ 99,700.40
Jan-06	\$ 47,368.54	\$ 43,333.33	\$ 90,701.87	\$ 8,999.50	\$ 99,701.37
Feb-06	\$ 47,368.54	\$ 43,333.33	\$ 90,701.87	\$ 8,999.50	\$ 99,701.37
Mar-06	\$ 47,368.54	\$ 43,333.33	\$ 90,701.87	\$ 8,999.50	\$ 99,701.37
Apr-06	\$ 47,368.54	\$ 43,333.33	\$ 90,701.87	\$ 8,999.50	\$ 99,701.37
May-06	\$ 47,368.54	\$ 43,333.33	\$ 90,701.87	\$ 8,999.50	\$ 99,701.37
Jun-06	\$ 47,368.55	\$ 43,333.35	\$ 90,701.90	\$ 8,999.50	\$ 99,701.40
			\$ 1,088,576.15	\$ 107,973.00	
Jul-06	\$ 47,368.54	\$ 43,333.33	\$ 90,701.87	\$ 8,999.50	\$ 99,701.37
Aug-06	\$ 47,368.54	\$ 43,333.33	\$ 90,701.87	\$ 8,999.50	\$ 99,701.37
Sep-06	\$ 47,368.54	\$ 43,333.33	\$ 90,701.87	\$ 8,999.50	\$ 99,701.37
Oct-06	\$ 47,368.54	\$ 43,333.33	\$ 90,701.87	\$ 8,999.50	\$ 99,701.37
Nov-06	\$ 47,368.54	\$ 43,333.33	\$ 90,701.87	\$ 8,999.50	\$ 99,701.37
Dec-06	\$ 45,147.75	\$ 45,833.35	\$ 90,981.10	\$ 8,999.50	\$ 99,980.60
Jan-07	\$ 45,147.70	\$ 45,833.33	\$ 90,981.03	\$ 8,999.50	\$ 99,980.53
Feb-07	\$ 45,147.70	\$ 45,833.33	\$ 90,981.03	\$ 8,999.50	\$ 99,980.53
Mar-07	\$ 45,147.70	\$ 45,833.33	\$ 90,981.03	\$ 8,999.50	\$ 99,980.53
Apr-07	\$ 45,147.70	\$ 45,833.33	\$ 90,981.03	\$ 8,999.50	\$ 99,980.53
May-07	\$ 45,147.70	\$ 45,833.33	\$ 90,981.03	\$ 8,999.50	\$ 99,980.53
Jun-07	\$ 45,147.75	\$ 45,833.35	\$ 90,981.10	\$ 8,999.50	\$ 99,980.60
			\$ 1,090,376.70	\$ 107,994.00	
Jul-07	\$ 45,147.70	\$ 45,833.33	\$ 90,981.03	\$ 8,986.50	\$ 99,967.53
Aug-07	\$ 45,147.70	\$ 45,833.33	\$ 90,981.03	\$ 8,986.50	\$ 99,967.53
Sep-07	\$ 45,147.70	\$ 45,833.33	\$ 90,981.03	\$ 8,986.50	\$ 99,967.53
Oct-07	\$ 45,147.70	\$ 45,833.33	\$ 90,981.03	\$ 8,986.50	\$ 99,967.53
Nov-07	\$ 45,147.70	\$ 45,833.33	\$ 90,981.03	\$ 8,986.50	\$ 99,967.53
Dec-07	\$ 42,764.40	\$ 48,333.35	\$ 91,097.75	\$ 8,986.50	\$ 100,084.25
Jan-08	\$ 42,764.37	\$ 48,333.33	\$ 91,097.70	\$ 8,986.50	\$ 100,084.20
Feb-08	\$ 42,764.37	\$ 48,333.33	\$ 91,097.70	\$ 8,986.50	\$ 100,084.20
Mar-08	\$ 42,764.37	\$ 48,333.33	\$ 91,097.70	\$ 8,986.50	\$ 100,084.20
Apr-08	\$ 42,764.37	\$ 48,333.33	\$ 91,097.70	\$ 8,986.50	\$ 100,084.20
May-08	\$ 42,764.37	\$ 48,333.33	\$ 91,097.70	\$ 8,986.50	\$ 100,084.20
Jun-08	\$ 42,764.40	\$ 48,333.35	\$ 91,097.75	\$ 8,986.50	\$ 100,084.25
			\$ 1,092,589.15	\$ 107,838.00	

**FRANKFORT ELECTRIC AND WATER PLANT BOARD
SCHEDULE OF MONTHLY DEPOSITS
PRINCIPAL, INTEREST AND SINKING FUND
1999 BOND ISSUE**

DATE	INTEREST	PRINCIPAL	TOTAL P & I	SINKING FUND	TOTAL DEPOSIT
Jul-08	\$ 42,764.37	\$ 48,333.33	\$ 91,097.70	\$ 8,986.50	\$ 100,084.20
Aug-08	\$ 42,764.37	\$ 48,333.33	\$ 91,097.70	\$ 8,986.50	\$ 100,084.20
Sep-08	\$ 42,764.37	\$ 48,333.33	\$ 91,097.70	\$ 8,986.50	\$ 100,084.20
Oct-08	\$ 42,764.37	\$ 48,333.33	\$ 91,097.70	\$ 8,986.50	\$ 100,084.20
Nov-08	\$ 42,764.37	\$ 48,333.33	\$ 91,097.70	\$ 8,986.50	\$ 100,084.20
Dec-08	\$ 40,226.90	\$ 50,833.35	\$ 91,060.25	\$ 8,986.50	\$ 100,046.75
Jan-09	\$ 40,226.87	\$ 50,833.33	\$ 91,060.20	\$ 8,986.50	\$ 100,046.70
Feb-09	\$ 40,226.87	\$ 50,833.33	\$ 91,060.20	\$ 8,986.50	\$ 100,046.70
Mar-09	\$ 40,226.87	\$ 50,833.33	\$ 91,060.20	\$ 8,986.50	\$ 100,046.70
Apr-09	\$ 40,226.87	\$ 50,833.33	\$ 91,060.20	\$ 8,986.50	\$ 100,046.70
May-09	\$ 40,226.87	\$ 50,833.33	\$ 91,060.20	\$ 8,986.50	\$ 100,046.70
Jun-09	\$ 40,226.90	\$ 50,833.35	\$ 91,060.25	\$ 8,986.50	\$ 100,046.75
			\$ 1,092,910.00	\$ 107,838.00	
Jul-09	\$ 40,226.87	\$ 50,833.33	\$ 91,060.20	\$ 8,989.50	\$ 100,049.70
Aug-09	\$ 40,226.87	\$ 50,833.33	\$ 91,060.20	\$ 8,989.50	\$ 100,049.70
Sep-09	\$ 40,226.87	\$ 50,833.33	\$ 91,060.20	\$ 8,989.50	\$ 100,049.70
Oct-09	\$ 40,226.87	\$ 50,833.33	\$ 91,060.20	\$ 8,989.50	\$ 100,049.70
Nov-09	\$ 40,226.87	\$ 50,833.33	\$ 91,060.20	\$ 8,655.50	\$ 99,715.70
Dec-09	\$ 37,558.15	\$ 53,333.35	\$ 90,891.50	\$ -	\$ 90,891.50
Jan-10	\$ 37,558.12	\$ 53,333.33	\$ 90,891.45	\$ -	\$ 90,891.45
Feb-10	\$ 37,558.12	\$ 53,333.33	\$ 90,891.45	\$ -	\$ 90,891.45
Mar-10	\$ 37,558.12	\$ 53,333.33	\$ 90,891.45	\$ -	\$ 90,891.45
Apr-10	\$ 37,558.12	\$ 53,333.33	\$ 90,891.45	\$ -	\$ 90,891.45
May-10	\$ 37,558.12	\$ 53,333.33	\$ 90,891.45	\$ -	\$ 90,891.45
Jun-10	\$ 37,558.15	\$ 53,333.35	\$ 90,891.50	\$ -	\$ 90,891.50
			\$ 1,091,541.25	\$ 44,613.50	
Jul-10	\$ 37,558.12	\$ 53,333.33	\$ 90,891.45	\$ -	\$ 90,891.45
Aug-10	\$ 37,558.12	\$ 53,333.33	\$ 90,891.45	\$ -	\$ 90,891.45
Sep-10	\$ 37,558.12	\$ 53,333.33	\$ 90,891.45	\$ -	\$ 90,891.45
Oct-10	\$ 37,558.12	\$ 53,333.33	\$ 90,891.45	\$ -	\$ 90,891.45
Nov-10	\$ 37,558.12	\$ 53,333.33	\$ 90,891.45	\$ -	\$ 90,891.45
Dec-10	\$ 34,758.15	\$ 56,250.00	\$ 91,008.15	\$ -	\$ 91,008.15
Jan-11	\$ 34,758.12	\$ 56,250.00	\$ 91,008.12	\$ -	\$ 91,008.12
Feb-11	\$ 34,758.12	\$ 56,250.00	\$ 91,008.12	\$ -	\$ 91,008.12
Mar-11	\$ 34,758.12	\$ 56,250.00	\$ 91,008.12	\$ -	\$ 91,008.12
Apr-11	\$ 34,758.12	\$ 56,250.00	\$ 91,008.12	\$ -	\$ 91,008.12
May-11	\$ 34,758.12	\$ 56,250.00	\$ 91,008.12	\$ -	\$ 91,008.12
Jun-11	\$ 34,758.15	\$ 56,250.00	\$ 91,008.15	\$ -	\$ 91,008.15

\$ 1,078,380.00
*target amt for rev
bond sinking fund
(see 1999 bond
transcript sect 19
pg 17 & sect 19
appendix A pg a1)
final pay nov 09*