

PLEDGE AND SECURITY AGREEMENT

THIS PLEDGE AND SECURITY AGREEMENT (this "Agreement") is executed and delivered by **SOUTHERN WATER AND SEWER DISTRICT** (the "Borrower"), a water district organized and existing under the laws of the Commonwealth of Kentucky (the "State"), having its principal place of business, chief executive office and mailing address at 245 Kentucky Rt 680, McDowell, Kentucky 41647, to **COBANK, ACB** (the "Lender"), a federally-chartered instrumentality of the United States, whose mailing address is P.O. Box 5110, Denver, CO 80217.

SECTION 1. GRANT. For valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower hereby pledges to Lender and grants to Lender: (a) a first priority lien and security interest in the meter replacement surcharge account established and maintained by the Borrower pursuant to the Kentucky Public Service Commission's final order in Case No. 2019-00131 issued November 7, 2019, and (b) a subordinate lien and security interest (subject only to liens and security interests permitted under the Credit Agreement and existing as of the date of this Agreement; referred to as "**Permitted Liens**") in all of the Borrower's personal property, including all revenues from any source (the collateral described in (a) and (b) is referred to herein as the "**Collateral**").

SECTION 2. THE OBLIGATIONS. The pledges, liens and security interests granted hereunder shall secure the payment of all indebtedness and the performance of all obligations of the Borrower to the Lender of every type and description, whether now existing or hereafter arising, fixed or contingent, as primary obligor or as guarantor or surety, acquired directly or by assignment or otherwise, liquidated or unliquidated, regardless of how they arise or by what agreement or instrument they may be evidenced, including without limitation all loans, advances and other extensions of credit and all covenants, agreements, and provisions contained in all loan and other agreements between the parties (the "**Obligations**"). Without limitation of the foregoing, the Obligations shall include all payment and performance obligations of the Borrower under the Single Advance Term Promissory Note given by the Borrower to the Lender in the original principal amount of \$1,400,000 dated on or about the date hereof (together with any amendments, modifications, extensions, renewals or replacements thereof, the "**Note**") and that Credit Agreement dated on or about the date hereof (together with any amendments, modifications or replacements thereof, the "**Credit Agreement**"; the Note, the Credit Agreement, this Agreement and all other documents delivered in connection therewith or in connection with any other Obligations are referred to as the "**Loan Documents**").

SECTION 3. REPRESENTATIONS, WARRANTIES AND COVENANTS. The Borrower represents, warrants and covenants as follows:

A. Title. Except for Permitted Liens and any security interest in favor of the Lender, the Borrower has clear title to all Collateral free of all adverse claims, interests, liens, or encumbrances.

B. Validity of Agreement; Authority. This Agreement is the valid and binding obligation of the Borrower, enforceable in accordance with its terms. The Borrower is duly formed and validly existing and under the laws of the State. The Borrower has the full legal power to execute, deliver and carry out the terms and provisions of this Agreement, has taken all necessary action to authorize the execution, delivery and performance of this Agreement, and such execution, delivery and performance do not and will not (i) violate any provisions of any charter or other governing documents of the Borrower or any provision of any law, order, writ, judgment, injunction, ordinance, resolution, policy, decree, determination or award presently in effect having applicability to the Borrower, (ii) result in a breach of, or constitute an event of default under, any indenture or loan or credit agreement or any other agreement, document or instrument to which the Borrower is a party or by which the Borrower or any of the Borrower's property may be bound or affected or

(iii) result in or require the creation or imposition of any lien or other encumbrance of any nature upon or with respect to any of the property of the Borrower (except for any security interest in favor of the Lender).

C. Location of the Borrower. The Borrower's place of business (or chief executive office if applicable) is located at the address shown above. The Borrower's state of organization is the State.

D. Name, Identity, and Structure. The Borrower's exact legal name is as set forth above. The Borrower has not within the past ten years changed its legal name or organizational structure.

E. Change in Name, State of Borrower's Location, Location of Collateral, Etc. Without giving at least thirty days' prior written notice to the Lender, the Borrower shall not change its name, identity or entity structure, the location of its place of business (or chief executive office if more than one place of business), or the location of the Collateral.

F. Further Assurances. The pledges, liens and security interests in favor of the Lender under this Agreement are duly created and perfected upon the execution of this Agreement, based on the terms of the resolution of the Borrower authorizing the execution hereof, and no further filing or other notice is required to effect the creation or perfection of the interests of the Lender hereunder. Upon the request of the Lender, the Borrower shall do all acts and things as the Lender may from time to time deem necessary or advisable (including, without limitation, delivery of any control agreements relating to deposit or security accounts included in the Collateral) to enable it to perfect, maintain, and continue the perfection and priority of the security interest of the Lender in the Collateral, or to facilitate the exercise by the Lender of any rights or remedies granted to the Lender hereunder or provided by law.

G. Insurance. The Borrower shall comply with the insurance requirements as set forth in the Credit Agreement.

H. Disposition and Use of Collateral. Without the prior written consent of the Lender, the Borrower shall not at any time sell, transfer, lease, abandon, or otherwise dispose of any Collateral.

I. Books and Records. The Borrower shall comply with the books and records requirements as set forth in the Credit Agreement, and shall allow the Lender or its representatives at any reasonable time to examine and copy such books, records, accounts, and other information.

J. Right of Inspection. The Borrower shall comply with the inspection requirements as set forth in the Credit Agreement.

SECTION 4. DEFAULT. The breach of any of the Obligations and/or the breach of any representation, warranty, covenant, or agreement contained in this Agreement or any other Loan Document, shall constitute an "Event of Default" hereunder.

SECTION 5. RIGHTS AND REMEDIES. Upon the occurrence of any Event of Default and at any time thereafter, the Lender may, to the extent permitted under applicable law, declare all Obligations to be immediately due and payable and may exercise any and all rights and remedies of the Lender in the enforcement of its liens and security interests under applicable law. Without limiting the foregoing:

A. Disposition of Collateral. The Lender may sell, lease, or otherwise dispose of all or any part of the Collateral, whether by public or private sale, in lots or in bulk, for cash, on credit or otherwise, with or without representations or warranties, and upon such other terms as may be acceptable to the Lender, and the Lender may purchase at any public sale. At any time when advance notice of sale is required, the Borrower agrees that ten days' prior written notice shall be reasonable. The Lender may: (1) require the Borrower to

assemble the Collateral and all records pertaining thereto and make such Collateral and records available to the Lender at a place to be designated by the Lender which is reasonably convenient to both parties; (2) enter the premises of the Borrower or premises under the Borrower's control and take possession of the Collateral; (3) without charge, use or occupy the premises of the Borrower or premises under the Borrower's control, including without limitation, warehouse and other storage facilities; (4) without charge, use any patent, trademark, tradename, or other intellectual property or technical process used by the Borrower in connection with any of the Collateral; and (5) rely conclusively upon the advice or instructions of any one or more brokers or other experts selected by the Lender to determine the method or manner of disposition of any of the Collateral and, in such event, any disposition of the Collateral by the Lender in accordance with such advice or instructions shall be deemed to be commercially reasonable.

B. Collection of Receivables. The Lender may, but shall not be obligated to, take all actions reasonable or necessary to preserve, enforce or collect the Borrower's receivables, including without limitation, the right to notify account debtors and obligors on receivables to make direct payment to the Lender, to permit any extension, compromise, or settlement of any of the Receivables for less than face value, or to sue on any Receivable, all without prior notice to the Borrower.

C. Proceeds. The Lender may collect and apply all proceeds of the Collateral, and may endorse the name of the Borrower in favor of the Lender on any and all checks, drafts, money orders, notes, acceptances, or other instruments of the same or a different nature, constituting, evidencing, or relating to the Collateral. The Lender may receive and open all mail addressed to the Borrower and remove therefrom any cash or non-cash items of payment constituting proceeds of the Collateral.

D. Insurance Adjustments. The Lender may, to the extent applicable, adjust, settle, and cancel any and all insurance covering any Collateral, endorse the name of the Borrower on any and all checks or drafts drawn by any insurer, whether representing payment for a loss or a return of unearned premium, and execute any and all proofs of claim and other documents or instruments of every kind required by any insurer in connection with any payment by such insurer.

The net proceeds of any disposition of the Collateral may be applied by the Lender, after deducting its reasonable expenses incurred in such disposition, to the payment in whole or in part of the Obligations in such order as the Lender may elect. The enumeration of the foregoing rights and remedies is not intended to be exhaustive, and the exercise of any right and/or remedy shall not preclude the exercise of any other rights or remedies, all of which are cumulative and non-exclusive.

SECTION 6. OTHER PROVISIONS.

A. Amendment, Modification, Waiver. No amendment, modification or waiver of this Agreement will be effective unless approved by Lender in writing as set forth in the Credit Agreement.

B. Indemnification; Costs and Attorneys' Fees. To the extent permitted by law, provisions of the Loan Documents obligating the Borrower to indemnify the Lender and to pay costs and expenses of the Lender are incorporated herein by this reference.

C. Revival of Obligations. To the extent the Borrower or any third party makes a payment or payments to the Lender or the Lender enforces its security interest or exercises any right of setoff, and such payment or payments or the proceeds thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, and/or required to be repaid to a trustee, receiver, or any other party under any bankruptcy, insolvency or other law or in equity, then, to the extent of such recovery, the Obligations or any part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment or payments had not been made, or such enforcement or setoff had not occurred.

D. Performance by the Lender. In the event the Borrower shall at any time fail to pay or perform punctually any of its duties hereunder, the Lender may, at its option and without notice to or demand upon the Borrower, without obligation and without waiving or diminishing any of its other rights or remedies hereunder, fully perform or discharge any of such duties. All costs and expenses incurred by the Lender in connection therewith, together with interest thereon at four percent per annum in excess of the rate(s) of interest that would otherwise be in effect on that loan, shall become part of the Obligations secured hereby and be paid by the Borrower upon demand.

E. Power of Attorney. The Borrower appoints the Lender as its attorney-in-fact, which appointment is irrevocable, durable, and coupled with an interest, with full power of substitution, in the name of the Borrower or in the name of the Lender, to take any action which the Borrower is obligated to perform hereunder or which the Lender may deem necessary or advisable to accomplish the purposes of this Agreement. In taking any action in accordance with this Section, the Lender shall not be deemed to be the agent of the Borrower. The powers conferred upon the Lender in this Section are solely to protect its interest in the Collateral and shall not impose any duty upon the Lender to exercise any such powers.

F. Continuing Effect. This Agreement, the Lender's security interest in the Collateral, and all other documents or instruments contemplated hereby shall continue in full force and effect until all of the Obligations have been satisfied in full, the Lender has no commitment to make any further advances to the Borrower, and the Borrower has sent a valid written demand to the Lender for termination of this Agreement.

G. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Borrower and the Lender and their respective successors and assigns.

H. Governing Law. Subject to any applicable federal law, this Agreement shall be construed in accordance with and governed by the laws of the State.

I. Notices. All notices, requests, demands, or other communications required or permitted hereunder shall be in writing and shall be deemed to have been given when delivered as provided in the Credit Agreement.

J. Severability. The determination that any term or provision of this Agreement is unenforceable or invalid shall not affect the enforceability or validity of any other term or provision hereof.

K. Marshalling. Lender shall not be required to marshal any present or future collateral security (including, without limitation, the Collateral) for, or other assurances of payment of, any or all of the Obligations or to resort to such collateral security or other assurances of payment in any particular order, and all of their respective rights and remedies under this Agreement and in respect of such collateral security and other assurances of payment shall be cumulative and in addition to all other rights and remedies, however existing or arising. To the extent not prohibited by applicable law, the Borrower hereby agrees that it will not invoke any law relating to marshalling of collateral which might cause delay or impede the enforcement of any of the rights and/or remedies of the Lender under this Agreement or under any other agreement, document or instrument creating or evidencing any of Obligations or under which any of the Obligations is outstanding or by which any of the Obligations is secured or payment thereof is otherwise assured, and, to the extent not prohibited by applicable law, the Borrower hereby irrevocably waives the benefits of such laws.

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IN WITNESS WHEREOF, the Borrower has executed this Agreement by its duly authorized officer as of the day and year shown below.

Dated as of: May __, 2020

Borrower: SOUTHERN WATER AND SEWER DISTRICT

By: Jeff Prater
Name: Jeff Prater
Title: Chairman

By: Rick Roberts
Name: Rick Roberts
Title: Secretary SWD