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BOND RESOLUTION

SHARPSBURG WATER DISTRICT

WATERWORKS REFUNDING AND IMPROVEMENT REVENUE BONDS OF 1984

IN THE AMOUNT OF \$189,000

CONSISTING OF SERIES A BONDS, IN THE AMOUNT OF \$171,000

AND

SERIES B BONDS, IN THE AMOUNT OF \$18,000

I N D E X

| <u>SECTION</u> | <u>TITLE</u>   | <u>PAGE</u> |
|----------------|--|-------------|
|                | ARTICLE 1. DEFINITIONS; PURPOSE; AUTHORITY; CONSTRUCTION PROJECT; AUTHORIZATION OF BONDS; FIRST LIEN   |             |
| 101            | Definitions  | 1           |
| 102            | Purpose; Refunding of Outstanding Prior Bonds; Construction of Construction Project; Waterworks System to Continue to be Operated as a Revenue-Producing Public Project; Authority   | 6           |
| 103            | Construction Award Approved; Work Authorized   | 6           |
| 104            | Declaration of Period of Usefulness  | 6           |
| 105            | Authorization of Bonds   | 6           |
| 106            | Current Bonds Shall be Payable Out of Gross Revenues, and Secured by Statutory Mortgage Lien   | 7           |
| 107            | Lien on Water Purchase Contract  | 8           |
|                | ARTICLE 2. THE BONDS; REGISTERED BONDS; PRINCIPAL INSTALLMENTS; EXECUTION; PREPAYMENT; AND BOND FORM   |             |
| 201            | Principal Installments   | 8           |
| 202            | Issuance of Bond(s)  | 10          |
| 203            | Place of Payment and Manner of Execution   | 10          |
| 204            | Provisions as to Prepayment  | 10          |
| 205            | Bond Form  | 10          |
|                | ARTICLE 3. CALLING AND REDEMPTION OF PRIOR BONDS; DETERMINATION THAT REFUNDING OF PRIOR BONDS ADVANTAGEOUS TO DISTRICT; DISPOSITION OF PROCEEDS; CONSTRUCTION ACCOUNT; INTERIM FINANCING; INVESTMENT OF PROCEEDS; AND FEDERAL ARBITRAGE LIMITATIONS                            |             |
| 301            | Calling and Redemption of Prior Bonds as of December 1, 1984, or Earlier by Agreement with Holders of Prior Bonds; Determination that Refunding of Prior Bonds is to the Best Advantage and in the Public Interest Possible Earlier Redemption by Arrangement with Bondholders | 15          |
| 302            | The Construction Account; Fidelity Bond of Treasurer; Covenants Applicable if FmHA Purchases the Bonds; Application of Proceeds of Bonds; other Transfers and Deposits   | 16          |
|                | A. Covenants Applicable if FmHA Purchases Bonds  | 16          |
|                | B. Application of Proceeds of Bonds  | 16          |

| <u>SECTION</u> | <u>TITLE</u>   | <u>PAGE</u> |
|----------------|--|-------------|
|                | (1) Immediate Repayment of Interim Financing   | 17          |
|                | (2) Proceeds of Series A Bonds to be<br>Deposited in Prior Sinking Fund;<br>Redemption of Prior Bonds  | 17          |
|                | (3) Balance to be Deposited in Construction<br>Account; Proceeds of Grants and Connection<br>Fees Deposited in Construction Account                            | 18          |
|                | (4) Procedure for Withdrawal of Funds from<br>Construction Account   | 18          |
|                | (5) Transfer of Capitalized Interest to<br>Current Sinking Fund  | 19          |
|                | (6) Investment of Funds in Construction<br>Account   | 19          |
|                | (7) Statements of Contractors, Engineers, and<br>Attorneys as to Payment Required Prior to<br>Delivery of Current Bonds, if Current Bonds<br>Purchased by FmHA | 20          |
|                | (8) Disposition of Balance in Construction<br>Account After Completion of Project  | 20          |
| 303            | Interim Financing Authorization  | 20          |
|                | (a) Commercial Interim Financing   | 20          |
|                | (b) Possible Multiple Advances by FmHA if Bonds<br>Shall Be Purchased by FmHA  | 22          |
| 304            | Investment of Proceeds; Federal Arbitrage<br>Limitations   | 23          |
|                | ARTICLE 4. CREATION OF FUNDS; MONTHLY PAYMENTS OF<br>PRINCIPAL AND INTEREST IF REQUESTED BY<br>THE FmHA SO LONG AS FmHA HOLDS OR INSURES<br>THE BONDS          |             |
| 401            | Creation of Funds  | 27          |
|                | A. Sinking Fund  | 27          |
|                | B. Monthly Payments of Principal and Interest if<br>Requested by the FmHA So Long As the FmHA<br>Holds or Insures All of the Bonds                             | 28          |
|                | C. Operation and Maintenance Fund  | 28          |
|                | D. Depreciation Reserve Fund   | 28          |
|                | E. Excess Funds  | 29          |
|                | ARTICLE 5. COVENANTS OF DISTRICT TO BONDHOLDERS  |             |
| 501            | Estes and Charges  | 30          |
| 502            | Books and Accounts   | 30          |
| 503            | System to be Operated on Calendar Year Basis   | 31          |
| 504            | General Covenants  | 32          |
| 505            | Other General Covenants So Long as FmHA Holds<br>Any Current Bonds; Loan Resolution  | 32          |
| 506            | Insurance of Motors, Tanks, and Structures   | 33          |

| <u>SECTION</u> | <u>TITLE</u>   | <u>PAGE</u> |
|----------------|--|-------------|
|                | ARTICLE 6. INFERIOR BONDS AND PARITY BONDS   |             |
| 601            | Inferior Bonds   | 33          |
| 602            | Parity Bonds to Complete the Construction Project  | 34          |
| 603            | Parity Bonds to Finance Future Extensions, Additions,<br>and/or Improvements; Conditions or Showings Required  | 34          |
| 604            | Covenants to be Complied With at Time of Issuance of<br>Parity Bonds   | 35          |
| 605            | District Shall Not Issue Any Future Bonds or<br>Obligations Against the System Without the Written<br>Consent of the FmHA, So Long as the FmHA Holds Any<br>Bonds Against the System | 36          |
| 606            | Priority of Lien; Permissible Disposition of Surplus<br>or Obsolete Facilities; Conditions   | 36          |
|                | ARTICLE 7. DEFAULT; CONSEQUENCES   |             |
| 701            | Events of Default  | 37          |
| 702            | Consequences of Act of Default   | 37          |
|                | ARTICLE 8. CONTRACTUAL PROVISIONS; GRANT APPROVALS;<br>STATUTORY MORTGAGE LIEN; MISCELLANEOUS<br>PROVISIONS  |             |
| 801            | This Resolution Contractual with Bondholders   | 38          |
| 802            | District Obligated to Refund Bonds Held by the<br>Government Whenever Same is Feasible; Defeasement<br>Prohibited  | 39          |
| 803            | Statutory Mortgage Lien  | 39          |
| 804            | Approval of FmHA Grant Agreement   | 39          |
| 805            | Approval of HUD Grant Agreement  | 39          |
| 806            | Approval of ADF Grant Agreement  | 40          |
| 807            | Authorization of Condemnation to Acquire Easements<br>and/or Sites   | 40          |
|                | ARTICLE 9. SALE OF CURRENT BONDS   |             |
| 901            | Sale of Current Bonds  | 41          |
| 902            | Possible Adjustment in Date of Bonds, Maturities,<br>Prepayment Provisions, and Other Dates  | 43          |
|                | ARTICLE 10. CONCLUDING PROVISIONS  |             |
| 1001           | Severability Clause  | 43          |
| 1002           | All Provisions in Conflict Repealed  | 43          |
| 1003           | Effective Immediately  | 44          |
|                | CERTIFICATION  | 44          |

BOND RESOLUTION

RESOLUTION OF THE SHARPSBURG WATER DISTRICT OF BATH AND NICHOLAS COUNTIES, KENTUCKY, AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF ONE HUNDRED EIGHTY-NINE THOUSAND DOLLARS (\$189,000) PRINCIPAL AMOUNT OF SHARPSBURG WATER DISTRICT WATERWORKS REFUNDING AND IMPROVEMENT REVENUE BONDS OF 1984, FOR THE PURPOSES OF REFINANCING CERTAIN OUTSTANDING WATERWORKS REVENUE BONDS OF 1963, AND FINANCING THE COST (NOT OTHERWISE PROVIDED) OF THE CONSTRUCTION OF EXTENSIONS, ADDITIONS, AND IMPROVEMENTS TO THE EXISTING WATERWORKS SYSTEM OF THE DISTRICT; SETTING FORTH TERMS AND CONDITIONS UPON WHICH SAID PROPOSED BONDS OF 1984 MAY BE ISSUED AND OUTSTANDING; PROVIDING FOR THE COLLECTION, SEGREGATION, AND DISTRIBUTION OF THE REVENUES OF SAID WATERWORKS SYSTEM; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF SAID BONDS OF 1984.

WHEREAS, the waterworks system (the "System") of the Sharpsburg Water District is owned and operated by said District under Chapter 74 and Sections 96.350 through 96.310, inclusive, of the Kentucky Revised Statutes, and in that connection the District presently has outstanding \$190,000 of Bonds designated as Sharpsburg Water District Waterworks System Revenue Bonds, dated December 1, 1963 (the "Prior Bonds"), of which Prior Bonds, \$5,000 were scheduled to mature on December 1, 1981, \$5,000 were scheduled to mature on December 1, 1982, and the remaining \$180,000 are scheduled to mature serially on December 1 in each of the respective years, 1983 through 2003, inclusive, which Prior Bonds, by their terms, are payable from and secured on a parity by a first pledge of the revenues derived from the operation of (and by a first statutory mortgage lien against) the System, and

WHEREAS, all of said outstanding Prior Bonds are now subject to redemption prior to maturity on June 1 or December 1 of any year, and

WHEREAS, in addition to the \$10,000 of delinquent principal, an additional amount of delinquent interest will be owed as of the date of payment, plus certain delinquent fees owed to the payee bank of such Prior Bonds,

WHEREAS, the provisions of the Prior Bonds and of the proceedings of the District authorizing same with reference to the issuance of additional Bonds payable from the revenues of the System, are so restrictive as to preclude the issuance of any such additional Bonds so long as any of the Prior Bonds are outstanding, and

WHEREAS, it is the desire and intent of the District at this time to adopt this Resolution pursuant to said Statutes, to authorize and provide for the issuance of revenue bonds in the principal amount of \$189,000, for the purpose of refinancing (refunding) all of the outstanding Prior Bonds (including delinquent interest thereon) and for the purpose of paying the cost (not otherwise provided) of the construction of extensions, additions, and improvements to the existing waterworks System of the District, in accordance with plans and specifications prepared by Mayes, Sudderth & Etheredge, Inc., Consulting Engineers, 568 Dalzan Place, Lexington, Kentucky 40503, now on file in the office of the Secretary of the District, and to prescribe the covenants of the District, the rights of bondholders, and the details of the issuance and sale of the proposed Current Bonds, and

WHEREAS, the Public Service Commission of Kentucky has issued an Order on May 8, 1984, approving the plan of refinancing and granting to the District a Certificate of Public Convenience and Necessity, authorizing the construction of said extensions, additions, and improvements, and

WHEREAS, the proceeds of the Current Bonds will be supplemented by a Federal (FmHA) grant in the amount of approximately \$485,500, a HUD grant in the amount of approximately \$450,700, an ADF grant in the amount of approximately \$50,000, and by waterworks connection charges in the amount of at least \$4,000, to provide the total cost of such refinancing and construction, and

WHEREAS, the District has entered into an Amended Contract for Purchase of Treated Water with the Bath County Water District, assuring the Sharpsburg Water District an adequate supply of water for as long as any of the proposed Current Bonds of 1984 shall be outstanding,

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF THE SHARPSBURG WATER DISTRICT OF BATH AND NICHOLAS COUNTIES, KENTUCKY, AS FOLLOWS:

ARTICLE I.

DEFINITIONS; PURPOSE; AUTHORITY; CONSTRUCTION  
PROJECT; AUTHORIZATION OF BONDS; FIRST LIEN.

Section 101. Definitions.

As used in this Resolution, unless the context requires otherwise:

"BEGINNING MONTH" means the month following the month in which the Bonds authorized herein are issued, sold, and delivered to the purchaser thereof.

"BOND," "OWNER," "HOLDER," and "PERSON" shall include the plural as well as the singular number unless the context shall otherwise indicate. The term "bondholder" or "bondowner" means and contemplates, unless the context otherwise indicates, the registered owner(s) of the Current Bonds at the time issued and outstanding hereunder, or any of them.

"BONDS OF 1963" or "PRIOR BONDS" refers to the outstanding Bonds of the original authorized issue of \$235,000 of bonds designated as "Sharpsburg Water District Waterworks Revenue Bonds," dated December 1, 1963.

"BOND ORDINANCE OF 1963" or "1963 BOND ORDINANCE" or "PRIOR BOND ORDINANCE" refers to the Ordinance authorizing the Bonds of 1963, duly adopted by the Board of Commissioners of the District on October 28, 1963.

"COMMISSION" means the Board of Commissioners of the Sharpsburg Water District of Bath and Nicholas Counties, Kentucky, or such other body as shall be the governing body of said District under the laws of Kentucky at any given time.

"CONSTRUCTION PROJECT" or "WATERWORKS CONSTRUCTION PROJECT" refers specifically to the construction of the currently proposed extensions, additions, and improvements to the existing waterworks System of the District, which construction project is being financed by the (Series 8) Current Bonds herein authorized (supplemented by other funds).

"CURRENT BONDS" or "BONDS OF 1984" refers to the \$189,000 of Bonds authorized herein, bearing the designation "Sharpsburg Water District Waterworks Refunding and Improvement Revenue Bonds of 1984," to be dated as of the date of issuance thereof, and to consist of Series A Bonds in the amount of \$171,000 and Series B Bonds in the amount of \$18,000.

"CURRENT BOND RESOLUTION" refers to this "1984 BOND RESOLUTION" authorizing the Current Bonds.

"DEPOSITORY BANK" means the bank which shall serve as the depository of all of the various funds created in this Current Bond Resolution, which bank is the Citizens Bank, Sharpsburg, Kentucky, or its successor.

"DEPRECIATION FUND" refers to the Sharpsburg Water District Depreciation Fund, created in Section 401C of this Current Bond Resolution.

"DISTRICT" refers to the Sharpsburg Water District, of Bath and Nicholas Counties, Kentucky.

"ENGINEER" or "ENGINEERS" or "CONSULTING ENGINEERS" refers to the Engineers or any one of them, who prepared the plans and specifications for the construction of the Construction Project and who will supervise the construction thereof and/or will furnish full time resident inspection of the construction of the Construction Project, and shall be deemed to refer to Mayes, Sudderth & Etheredge, Inc., Consulting Engineers, 568 Delzan Place, Lexington, Kentucky 40503, or a member of said firm, or their successors or successor.

"FmHA" means the Farmers Home Administration of the Department of Agriculture of the United States Government.

"FULLY REGISTERED BOND" refers to a single or series of negotiable (subject to registration requirements as to transferability, as herein prescribed) Bond(s) payable to the registered owner, of the form set out in this Resolution under the title "(FORM OF FULLY REGISTERED BOND)."

"GOVERNMENT" means the United States Government, or any agency thereof, including the FmHA.

"INDEPENDENT CONSULTING ENGINEER" or "CONSULTING ENGINEER" refers to an Independent Consulting Engineer or firm of Engineers of recognized excellent reputation in the field of waterworks system engineering, and such definition includes the Engineers named above.

"ORIGINAL PURCHASER" means the agency, person, firm, or firms to whom the Current Bonds herein authorized are awarded at the public sale of the Bonds, or their successors, and such definition shall refer to the FmHA if it is the original purchaser of the Current Bonds at said public sale.



"OUTSTANDING BONDS" refers to the outstanding Current Bonds, and any additional outstanding parity bonds, and does not refer to, nor include, any bonds for the payment of the principal and interest of which sufficient funds will have been deposited and earmarked for payment of bonds.

"PARITY BONDS" means bonds which may be issued in the future, in addition to the \$189,000 of Current Bonds herein specifically authorized, which bonds issued in the future will, pursuant to the provisions of this Current Resolution, rank on a basis of parity with said outstanding Current Bonds, as to priority, security, and source of payment, and does not refer to bonds which might be issued so as to rank inferior to the security and source of payment of the outstanding Current Bonds.

"PRIOR BONDS" refers to the Bonds of 1963.

"PRIOR BOND ORDINANCE" refers to the Bond Ordinance of 1963.

"REVENUE FUND" refers to the "Sharpsburg Water District Waterworks Revenue Fund," created in Section 401 of this Current Bond Resolution.

"SINKING FUND" refers to the "Sharpsburg Water District Waterworks Bond and Interest Sinking Fund," created in Section 401A of this Current Bond Resolution.

"STATUTES" refers to Chapter 74 and Sections 96.350 through 96.510 of the Kentucky Revised Statutes.

"SYSTEM" or "WATERWORKS SYSTEM" refers to the existing waterworks system of the District, together with all extensions, additions, and improvements to said System.

"U. S. OBLIGATIONS" means bonds or notes which are the direct obligations of the United States of America, or obligations the principal of and interest on which are guaranteed by the United States of America.

Section 102. Purpose; Refunding of Outstanding Prior Bonds; Construction of Construction Project; Waterworks System to Continue to be Operated as a Revenue-Producing Public Project; Authority.

The Current Bonds herein authorized shall be issued for the purpose of refinancing (refunding) all of the outstanding Prior Bonds and for the purpose of defraying the cost (not otherwise provided) of the Waterworks Construction Project, as defined herein, as set out in the plans and specifications prepared by the District's Consulting Engineers. The Commission hereby declares the waterworks system of the District, including the extensions, additions, and improvements to be constructed, to constitute a revenue-producing public project or System, and said System shall continue to be owned, controlled, operated, and maintained by the District as a revenue-producing public project or System pursuant to the Statutes, so long as any of the Current Bonds herein authorized, or any additional Parity Bonds, remain outstanding, for the security and source of payment of all of such bonds, which are payable from and secured by a first pledge of the gross revenues of, and by a statutory mortgage lien against, the System.

Section 103. Construction Award Approved; Work Authorized.

The Commission hereby authorizes, approves, ratifies, and confirms its previous action in advertising for and taking steps toward awarding the contracts for the construction of the Construction Project to the lowest and best bidders, and further approves the action of the District officials in entering into formal contracts with said bidders, subject to the necessary approvals being obtained. Authority is hereby given for undertaking the construction of the Construction Project according to the plans and specifications heretofore prepared by the Engineers for the District, after all necessary approvals have been obtained.

Section 104. Declaration of Period of Usefulness.

The Commission hereby declares that the period of usefulness of the aforesaid waterworks System is more than forty (40) years from the date of completion of the proposed Construction Project.

Section 105. Authorization of Bonds.

The District Commission has heretofore determined that the total costs of the proposed refinancing of the Prior Bonds and of the Construction Project, including preliminary expenses, redemption premium on the Prior Bonds, land and rights-of-way, engineering expense, capitalized interest during construction, legal and administrative costs, publication costs, initial deposits required, and all incidental expenses, will be not exceeding \$1,179,200. Therefore, it is hereby determined to be necessary in order for the District to refinance the Prior Bonds and to finance the cost, not otherwise provided, of the Construction Project that the District issue a total of \$189,000 of Current Bonds, based on the following calculation:

Total cost of Refinancing and of  
Construction Project \$1,179,200

Less:

|                                  |              |
|----------------------------------|--------------|
| FmHA grant                       | \$485,500    |
| HUD grant                        | 450,700      |
| ADF grant                        | 50,000       |
| Waterworks Connection<br>Charges | <u>4,000</u> |

Total Non-Bond Funds: 990,200

Balance to be financed by Current Bonds \$ 189,000

Accordingly, for the purposes of (1) refinancing (refunding) the Prior Bonds, and (2) financing the cost (not otherwise provided) of the Construction Project, under the provisions of the aforesaid Statutes, there are hereby authorized to be issued and sold One Hundred Eighty-Nine Thousand Dollars (189,000) principal amount of Sharpsburg Water District Waterworks Refunding and Improvement Revenue Bonds of 1984 (the "Current Bonds"), consisting of Series A Bonds in the amount of \$171,000 and Series B Bonds in the amount of \$18,000.

The Current Bonds shall be dated as of the date of delivery to the purchaser thereof, shall bear interest from such date at such interest rate as may be fixed by supplemental resolution as a result of the advertised sale and competitive bidding for such Bonds, as hereinafter provided, and shall be issued and delivered or according to the form of "Fully Registered Bond," as prescribed in Section 205 hereof.

Interest on the Current Bonds shall be payable semiannually on January 1 and July 1 of each year, provided that the first interest payment period will cover interest only from the date of delivery of the Bonds to the ensuing January 1 or July 1, as the case may be. Principal of the Bonds shall be payable on January 1 of each of the respective years until maturity, as set out in Section 201 hereof.

Section 106. Current Bonds Shall be Payable Out of Gross Revenues, and Secured by Statutory Mortgage Lien.

All of the Current Bonds, together with the interest thereon, and any additional parity bonds that may be issued under the conditions and restrictions hereinafter set forth, shall be secured on a first lien basis by and payable solely from the gross revenues of the System, shall be a valid claim of the holders thereof against the Sinking Fund hereinafter created for the benefit of such holders, and shall be further secured by a first statutory mortgage lien against the System as provided in Section 96.400 of the Kentucky Revised Statutes, which statutory mortgage lien is hereby recognized to be valid and binding upon the District and upon all of the properties constituting the System; and such lien shall take effect immediately upon delivery of the Current Bonds.

Section 107. Lien on Water Purchase Contract.

In addition to the revenue pledge and statutory mortgage lien securing the Bonds, a first lien is hereby created and granted in favor of the Current Bonds on all contracts (including specifically the Water Purchase Contract between the District and the Bath County Water District) and on all other rights of the District pertaining to the System, enforceable by assignment to any Receiver or other operator proceeding by authority of any court.

ARTICLE 2.

THE BONDS; REGISTERED BONDS; PRINCIPAL INSTALLMENTS;  
EXECUTION; PREPAYMENT; AND BOND FORM.

Section 201. Principal Installments.

Principal installments due on the Current Bonds shall be as follows:

| <u>PAYMENT DUE<br/>JANUARY 1,</u> | <u>PRINCIPAL<br/>INSTALLMENTS,<br/>SERIES A BONDS</u> | <u>PRINCIPAL<br/>INSTALLMENTS,<br/>SERIES B BONDS</u> | <u>TOTAL ANNUAL<br/>PRINCIPAL<br/>INSTALLMENTS</u> |
|-----------------------------------|---|---|--|
| 1987                              | \$ 1,000  | \$ 100  | \$ 1,100   |
| 1988                              | 1,000   | 100   | 1,100  |
| 1989                              | 1,000   | 100   | 1,100  |
| 1990                              | 1,000   | 100   | 1,100  |
| 1991                              | 1,000   | 100   | 1,100  |
| 1992                              | 1,000   | 100   | 1,100  |
| 1993                              | 1,000   | 100   | 1,100  |
| 1994                              | 1,000   | 100   | 1,100  |
| 1995                              | 2,000   | 100   | 2,100  |
| 1996                              | 2,000   | 100   | 2,100  |
| 1997                              | 2,000   | 100   | 2,100  |
| 1998                              | 2,000   | 100   | 2,100  |
| 1999                              | 2,000   | 100   | 2,100  |
| 2000                              | 2,000   | 100   | 2,100  |
| 2001                              | 2,000   | 200   | 2,200  |
| 2002                              | 3,000   | 200   | 3,200  |
| 2003                              | 3,000   | 200   | 3,200  |
| 2004                              | 3,000   | 200   | 3,200  |
| 2005                              | 3,000   | 200   | 3,200  |
| 2006                              | 3,000   | 300   | 3,300  |
| 2007                              | 4,000   | 300   | 4,300  |
| 2008                              | 4,000   | 300   | 4,300  |
| 2009                              | 4,000   | 400   | 4,400  |
| 2010                              | 4,000   | 400   | 4,400  |
| 2011                              | 5,000   | 400   | 5,400  |
| 2012                              | 5,000   | 500   | 5,500  |
| 2013                              | 5,000   | 600   | 5,600  |
| 2014                              | 6,000   | 600   | 6,600  |
| 2015                              | 7,000   | 700   | 7,700  |
| 2016                              | 8,000   | 800   | 8,800  |
| 2017                              | 8,000   | 900   | 8,900  |
| 2018                              | 9,000   | 1,000   | 10,000   |
| 2019                              | 9,000   | 1,100   | 10,100   |
| 2020                              | 10,000  | 1,200   | 11,200   |
| 2021                              | 10,000  | 1,300   | 11,300   |
| 2022                              | 11,000  | 1,400   | 12,400   |
| 2023                              | 12,000  | 1,600   | 13,600   |
| 2024                              | 13,000  | 1,800   | 14,800   |

Section 202. Issuance of Bond(s).

The purchaser of the Current Bonds at the public sale shall take delivery of each Series of Bonds in the form of a single or a series of Fully Registered Bonds, as prescribed in Section 205 below, amounting in the aggregate to the principal amount of the respective Series of Bonds, maturing as to principal in installments as set out above. The Fully Registered Series A Bond(s) shall be numbered AR-1 (and consecutively thereafter, AR-2, etc.), and the Fully Registered Series B Bond(s) shall be numbered BR-1 (and consecutively thereafter, BR-2, etc.). The Bonds shall be of type composition, shall be on paper of sufficient weight and strength to prevent deterioration until the last day of maturity of any installment of principal as stated therein, and shall conform in size to standard practice. Each Fully Registered Bond(s) shall, upon appropriate execution on behalf of the District as prescribed, constitute a part of the bond issue herein authorized, shall be negotiable (subject to registration requirements as to transferability), without interest coupons, registered as to principal and interest, payable as directed by the registered owner, and shall be in substantially the form hereinafter set forth.

Section 203. Place of Payment and Manner of Execution.

Both principal of and interest on the Current Bonds shall be payable at the place and in the manner set out in the form of such Fully Registered Bond prescribed in Section 205 below. The Bonds shall be executed on behalf of the District by being signed manually by the Chairman of the District, with the Corporate Seal of the District affixed thereto, and attested by the manual signature of the Secretary of said District.

IF either of the officers whose signatures appear on the Current Bonds ceases to be such officer before delivery of said Bonds, such signatures shall nevertheless be valid for all purposes the same as if such officers had remained in office until delivery.

Section 204. Provisions as to Prepayment.

Except when all of the Bonds are held by the Government, installments of principal falling due prior to January 1, 1996, shall not be subject to prepayment. Installments of principal falling due on and after January 1, 1996, shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 1995, upon terms of par plus accrued interest, without any prepayment penalty.

So long as all of the Current Bonds are held by the Government, all or any of the Bonds, or installments of either or both Series of Bonds, in a multiple of \$1,000 for Series A Bonds and in a multiple of \$100 for Series B Bonds, may be prepaid at any time in inverse chronological order of the installments due, at face amount plus accrued interest without any prepayment penalty.

Section 205. Bond Form.

The Current Bonds shall be in substantially the following form, with appropriate insertions, omissions, and variations consistent with or as provided or permitted in this Resolution:

(FORM OF FULLY REGISTERED BOND)

BOND NO. R-1

UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
COUNTIES OF BATH AND NICHOLAS  
SHARPSBURG WATER DISTRICT  
WATERWORKS REFUNDING AND IMPROVEMENT REVENUE BOND OF 1984  
SERIES A [B]

No. R-1

\$171,000  
[\$18,000]

KNOW ALL MEN BY THESE PRESENTS:

That the Sharpsburg Water District, acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Bath and Nicholas Counties, Kentucky, for value received, hereby promises to pay to

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the registered owner hereof, or to its registered assigns, solely from the special fund hereinafter identified, the sum of

ONE HUNDRED SEVENTY-ONE THOUSAND DOLLARS (\$171,000),  
[EIGHTEEN THOUSAND DOLLARS (\$18,000)],

on the first day of January, in years and installments as follows:

| <u>Year</u> | <u>Principal</u> | <u>Year</u> | <u>Principal</u> | <u>Year</u> | <u>Principal</u> |
|-------------|------------------|-------------|------------------|-------------|------------------|
|-------------|------------------|-------------|------------------|-------------|------------------|

(Here the printer of the Bond will print the applicable maturities of the (Series A or Series B) Bond purchased by the individual purchaser (registered owner))

without deduction for exchange or collection charges; and in like manner, solely from said special fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, at the rate of \_\_\_\_\_ percent (\_\_\_\_ %) per annum, semiannually on the first days of January and July in each year hereafter until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable, without deduction for exchange or collection charges, in lawful money of the United States of America, at the address of the registered owner shown on the registration book of the District.

These Bonds, consisting of this Series A [B] Bond and the Series B [A] Bonds, are issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapter 74 and Sections 96.350 through 96.510 of the Kentucky Revised Statutes, as amended,

and pursuant to a duly adopted Bond Resolution of the District authorizing same (the "Current Bond Resolution"), to which Resolution reference is hereby made for a description of the nature and extent of the security thereby created, the rights and limitations of rights of the registered owner of this Bond, and the rights, obligations, and duties of the District, for the purposes of refunding the outstanding \$180,000 of Sharpsburg Water District Waterworks Revenue Bonds, dated December 1, 1963, and of financing the cost (not otherwise provided) of the construction of extensions, additions, and improvements to the existing waterworks system of the District (said existing waterworks system, together with said extensions, additions, and improvements, being hereinafter referred to as the "waterworks System" or the "System").

These Bonds are payable from and secured by an exclusive pledge of a fixed portion of the gross revenues to be derived from the operation of the System, which fixed portion of said revenues shall be sufficient to pay the principal of and interest on these Bonds, and any additional bonds ranking on a parity therewith, as may be issued and outstanding under the conditions and restrictions set out in the Current Bond Resolution, as and when the same become due and payable, and a sufficient portion of which revenues shall be set aside as a special fund for that purpose and identified as the "Sharpsburg Water District Waterworks Bond and Interest Sinking Fund," created in the Current Bond Resolution.

This Bond does not constitute an indebtedness of the District within the meaning of any constitutional or statutory provisions or limitations, and is payable solely out of the revenues of the System. As provided in the Current Bond Resolution, the District covenants that so long as any of these Bonds are outstanding, the System will be continuously owned and operated by the District as a revenue-producing undertaking within the meaning of the aforesaid Statutes for the security and source of payment of the Bonds, and that the District will fix, and if necessary adjust, from time to time, such rates for the services and facilities of the System and will collect and account for the revenues therefrom sufficient to pay promptly the interest on and principal of these Bonds, and all other bonds ranking on a parity therewith as may be outstanding from time to time, to pay the cost of operation and maintenance of the System, and to provide for the depreciation thereof.

A first statutory mortgage lien, which is hereby recognized as valid and binding on the waterworks System, has been created and granted by the District by the Current Bond Resolution pursuant to said Statutes, and more specifically Section 96.400 of the Kentucky Revised Statutes, to and in favor of the registered owner(s) of these Bonds, and the System and all appurtenances thereof and extensions thereto shall remain subject to such statutory mortgage lien until payment in full of the principal of and interest on these Bonds.

This Bond shall be registered as to principal and interest in the name of the owner hereof, after which it shall be transferable only upon presentation to the Secretary of the District as the Bond Registrar, with a written transfer duly acknowledged by the registered owner or his duly authorized attorney, which transfer shall be noted upon this Bond and upon the book of the District kept for that purpose.



The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 1995, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple of One Thousand Dollars (\$1,000) [One Hundred Dollars (\$100)], as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or his assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States Government, or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$1,000 [\$100] may be prepaid at any time in inverse chronological order of the installments due.

Upon default in the payment of any principal or interest payment on this Bond, or upon failure by the District to comply with any other provision of this Bond or with any provision of the Current Bond Resolution, the registered owner may, at his option, institute all rights and remedies provided by law or by said Resolution.

This Bond is exempt from taxation in the Commonwealth of Kentucky.

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 issuance of this Bond, do exist, have happened, and have been performed in due time, form, and manner as required by Law, and that the face amount of this Bond, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF said Sharpsburg Water District, by its Board of Commissioners, has caused this Bond to be executed by its Chairman, its corporate seal to be hereunto affixed, and attested by its Secretary, on the date of this Bond, which is

SHARPSBURG WATER DISTRICT  
Bath and Nicholas Counties, Kentucky

By \_\_\_\_\_  
Chairman

Attest:

\_\_\_\_\_  
Secretary

(Seal of District)

PROVISION FOR REGISTRATION

This Bond shall be registered on the registration book of the District kept for that purpose by the Secretary, as Bond Registrar, upon presentation hereof to said Secretary, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered owner or his attorney, such transfer to be made on said book and endorsed hereon.

(FORM OF REGISTRATION)

| Date of<br>Registration | Name of<br>Registered Owner | Signature of Secretary<br>of the Sharpsburg<br>Water District,<br>Bond Registrar |
|-------------------------|-----------------------------|--|
| :                       | :                           | :  |
| :                       | :                           | :  |
| :                       | :                           | :  |
| :                       | :                           | :  |
| :                       | :                           | :  |

(FORM OF ASSIGNMENT)

For value received, this Bond is hereby assigned, without recourse and subject to all of its terms and conditions, unto \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

By: \_\_\_\_\_

ARTICLE 3

CALLING AND REDEMPTION OF PRIOR BONDS; DETERMINATION THAT REFUNDING OF PRIOR BONDS ADVANTAGEOUS TO DISTRICT; DISPOSITION OF PROCEEDS; CONSTRUCTION ACCOUNT; INTERIM FINANCING; INVESTMENT OF PROCEEDS; AND FEDERAL ARBITRAGE LIMITATIONS.

Section 301. Calling and Redemption of Prior Bonds as of December 1, 1984, or Earlier by Agreement with Holders of Prior Bonds; Determination that Refunding of Prior Bonds is to the Best Advantage and in the Public Interest Possible Earlier Redemption by Arrangement with Bondholders:

(a) It is hereby determined that all of the outstanding Prior Bonds (except those Prior Bonds which were scheduled to mature on December 1, 1981, December 1, 1982, and December 1, 1983, and the Prior Bonds now scheduled to mature on December 1, 1984) shall be and are hereby called for redemption on December 1, 1984, in accordance with their terms. The Secretary of the District is hereby authorized to publish the appropriate Notice of Redemption of the Prior Bonds, notifying the holders thereof that same are and have been called for redemption, such Notice to be published at least one time prior to November 1, 1984, which is more than thirty days prior to the redemption date of December 1, 1984; provided that such Prior Bonds may be redeemed at an earlier date if agreement can be reached to that effect with the holders of all of the Prior Bonds, as hereinafter specified.

(b) In accordance with the provisions of KRS 58.440, it is hereby determined that it is in the best interests of the District and in the financing of the Construction Project authorized herein, that the Prior Bonds be redeemed and refunded as of December 1, 1984, and that same be accomplished either through interim financing if the Current Bonds are not delivered in time to make funds available for that purpose, or through the application of proceeds derived from the Current Bonds if such Current Bonds are delivered in time to accomplish same. The Commission hereby determines that the financing of the Construction Project may be accomplished to the best advantage in the public interest only by combining such financing with the refunding of the Prior Bonds, at a rate or rates of interest higher than the rates now applicable to the Prior Bonds, in order to enable the Current Bonds to be issued free and clear of the revenue pledge and statutory mortgage lien securing the Prior Bonds, since the provisions of the Prior Bonds as to the issuance of additional Bonds payable from the revenues of the System are so restrictive that any such issuance of additional Bonds is precluded so long as any of the Prior Bonds remain outstanding.

In order to enable the District to authorize the Current Bonds with same being secured by a first pledge of the revenues of the System and in order to enable the District to provide for interim financing of the costs of the Construction Project and of the proposed refinancing of the Prior Bonds, by making a first pledge of the proceeds of the proposed Current Bonds and of the proposed grants and a first pledge of the gross revenues of the System to the "lending

banks" and/or to the FmHA, in connection with such interim financing and/or multiple advances of Bond proceeds, it is necessary and desirable that the refunding and refinancing of the Prior Bonds be accomplished through part of the proceeds of the proposed interim financing and/or multiple advances, in advance of the issuance of the Current Bonds, as provided in Section 303 hereof.

(c) Notwithstanding the foregoing provisions of this Section 301, if funds become available to the District, through interim financing or otherwise, prior to December 1, 1984, and if the District is able to make separate arrangements with the respective holders of the Prior Bonds for the redemption of the Bonds, or any of them, prior to December 1, 1984, any of such Prior Bonds for which such separate arrangements shall be made, may be redeemed at any time, without the necessity of public advertisement as to the redemption of such Bonds.

Section 302. The Construction Account; Fidelity Bond of Treasurer; Covenants Applicable if FmHA Purchases the Bonds; Application of Proceeds of Bonds; Other Transfers and Deposits.

The Treasurer of the District shall be the custodian of all funds belonging to and associated with the waterworks System, and such funds shall be deposited in the Citizens Bank, Sharpsburg, Kentucky (the "Depository Bank"), which bank is a member of the Federal Deposit Insurance Corporation. All moneys in excess of the amount insured by the FDIC in the Construction Account (hereinafter referred to) shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The Treasurer shall execute a Fidelity Bond in the amount of not less than \$40,000, or such larger amount as the FmHA may require, which Fidelity Bond shall be effective and secured by a surety company approved by the Farmers Home Administration of the United States Department of Agriculture so long as it is holder of any of the Bonds; the FmHA and the District shall be named co-obligees in such surety bond; and the amount thereof shall not be reduced without the written consent of the FmHA.

A. Covenants Applicable if FmHA Purchases Bonds.

It is acknowledged that all covenants herein with reference to the necessity for approval of the FmHA, the necessity of observing FmHA procedure, and the necessity of using FmHA Forms, shall apply only if the FmHA is the purchaser of the Bonds and only so long as the FmHA holds the Bonds thereafter. In the event that the FmHA shall not be the purchaser of the Bonds, or, after purchasing same, shall sell or transfer the Bonds to a nongovernmental holder, all covenants herein with reference to the necessity for approval of the FmHA, the necessity of observing FmHA procedure, and the necessity of using FmHA Forms, shall be inapplicable.

B. Application of Proceeds of Bonds.

The proceeds of said \$189,000 of Bonds shall be applied as follows:

(1) Immediate Repayment of Interim Financing.

There shall immediately be paid to the Bank(s) and/or the FmHA entitled thereto an amount sufficient to pay interest on and principal of any temporary loans (if any), and/or any Multiple Advances furnished by the FmHA pursuant to Section 302(b) hereof, borrowed by the District in anticipation of the sale and delivery of the Bonds and/or of the receipt of grant proceeds, or the interest on and principal of such temporary loans may be paid simultaneously with the delivery of the Bonds, to the extent of part or all of the proceeds of the Bonds, as may be required by said Bank(s), and/or by the FmHA, in which event the amount to be so deposited into the Construction Account shall be reduced by such amount so paid. Also, at the time of delivery of the Bonds, there shall be paid all amounts then due and payable in connection with the costs of the Construction Project and in connection with the issuance of the Bonds.

(2) Proceeds of Series A Bonds to be Deposited in Prior Sinking Fund; Redemption of Prior Bonds.

Unless and except to the extent effected through interim financing in advance of the delivery of the Current Bonds, the proceeds of the Series A Bonds shall be deposited in the Prior Sinking Fund, which shall henceforth be treated as an Escrow Fund for the benefit of the Prior Bonds and the Prior Bondholders, in the Prior Payee Bank, which proceeds will constitute an amount sufficient, when added to amounts on deposit in said Prior Sinking Fund, and other funds available to the District, including, to the extent necessary, the proceeds of the ADF grant, to provide for, and which amount is hereby ordered to be earmarked and held in trust to be applied solely and only for, the purposes of the immediate payment of delinquent principal, interest, and fees of the Payee Bank, and of paying the principal, interest, and redemption premium of the \$170,000 of Prior Bonds to be redeemed on December 1, 1984 (or at an earlier date, as provided in Section 301(c) above). The total amount required to be deposited in the Prior Sinking Fund for such purpose is \$226,380.00, determined as follows:

|  |                 |
|--|-----------------|
| Prior Bonds which were scheduled to mature on<br>12-1-81, 12-1-82, and 12-1-83 | \$ 15,000.00    |
| Prior Bonds scheduled to mature on 12-1-84                                     | 5,000.00        |
| Interest on \$190,000 of Bonds from 12-1-81<br>through 6-1-84                  | 23,500.00       |
| Fees of Prior Payee Bank   | 130.00          |
| Prior Bonds to be redeemed on 12-1-84  | 170,000.00      |
| Redemption premium on \$170,000 of Bonds at 5%                                 | 8,500.00        |
| Six months' interest on \$170,000 of Bonds to be<br>redeemed on 12-1-84        | <u>4,250.00</u> |
| TOTAL  | \$226,380.00    |

Any balances remaining in the respective funds or accounts created in the Prior Bond Ordinance, after said sum of \$226,380.00 has been deposited in the Prior Sinking Fund, shall be transferred to the respective similar Funds hereinafter created, whereupon all of said funds or accounts shall be closed.

Funds on deposit (in escrow) in the Prior Sinking Fund shall be invested for the benefit of such Fund in the same manner as funds on deposit in the Construction Account (hereinafter created) are invested and such investments shall be subject to the limitations set out in Section 304 hereof.

Any balance remaining in the Prior Sinking Fund after all of the Prior Bonds have been retired shall be transferred to the Construction Account, if and to the extent needed for construction purposes; provided that any balance not so needed shall be transferred to the (Current) Sinking Fund created in Section 401A hereof.

(3) Balance to be Deposited in Construction Account; Proceeds of Grants and Connection Fees Deposited in Construction Account.

If and to the extent that the proceeds of the Bonds shall be in excess of the amount necessary to pay the interest, principal, and costs referred to in Subparagraph B(1) of this Section, such excess amount shall immediately be deposited in the "Sharpsburg Water District Construction Account" (the "Construction Account"), hereby created, which shall be established at the Depository Bank. There shall also be deposited in said Construction Account the proceeds of the respective grants referred to in Section 105 hereof (except, to the extent necessary to accomplish the purposes of Section 302B(2) above, the proceeds of the ADF grant) as and when received, or said grant proceeds, may be applied, to the extent necessary, to liquidate or reduce any interim financing owed by the District at the time of receipt of grant proceeds. Simultaneously with or prior to the delivery of the Bonds, there shall also be deposited in the Construction Account the proceeds of the District contribution in the minimum amount of \$4,000 (less any amounts theretofore used for authorized purposes), to supplement the proceeds of the Bonds and grants in order to assure completion of the Project.

(4) Procedure for Withdrawal of Funds From Construction Account.

(a) Prior to the expenditure by the District of any funds from the Construction Account derived from the proceeds of the Bonds, the District must obtain written approval from the FmHA as to such expenditures. The proceeds of said Account shall be withdrawn only on checks signed by the District Treasurer, in payment for services and/or materials supplied in connection with the acquisition and construction of the System, as evidenced by (1) a certification of the Engineers designated herein, and (2) written approval of the Chairman (or by such other official of the District as may be authorized by the Commission).

(b) Prior to the expenditure by the District of any funds from the Construction Account derived from interim financing or from multiple advances from the FmHA, the District must obtain approved invoices and/or Partial Payment Estimates bearing the written approval of the Contractor, the Engineer, and the Chairman, and which invoices and/or Partial Payment Estimates must have been reviewed and approved for payment by the designated FmHA official.

(c) Written approval of the Engineers shall not be required for matters not under the jurisdiction of the Engineers, such as legal fees, land acquisition, and related items. Executed certifications (authorizing payment) shall be retained by the District Treasurer and need not be furnished to the Depository Bank, which shall be authorized to honor checks signed by the District Treasurer.

Periodic Audits of the District's Construction Account records shall be made by FmHA as determined by it to be necessary.

During construction, the District shall disburse project funds in a manner consistent with FmHA Instruction 1942.17 (p) (5) of Appendix "A" to FmHA Instruction 1942-A. Form FmHA 424-18, "Partial Payment Estimate", or similar form approved by FmHA, shall be used for the purpose of documenting periodic construction estimates, and shall be submitted to FmHA for review and acceptance. Form SF-271, "Outlay Report and Request for Reimbursement for Construction Programs," shall be prepared and submitted to FmHA to account for funds expended in the last 30 day period.

After the Bonds are delivered, the District shall prepare and submit Form SF-272, "Report of Federal Cash Transactions," to report the status of federal cash received during each prior monthly period. Form FmHA 440-11, "Estimate of Funds Needed for 30-Day Period Commencing \_\_\_\_\_," will be prepared by the District and submitted to FmHA in order that a periodic Advance of Federal Cash may be requested. Forms FmHA 440-11 and SF-272 will be submitted to FmHA simultaneously.

(5) Transfer of Capitalized Interest to Current Sinking Fund.

There shall be transferred from the Construction Account an amount sufficient to provide for capitalized interest (initially estimated at \$20,000) during the construction of the Project, as approved by the Engineers and by the FmHA. If and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project, such amount so transferred from the Construction Account shall be deposited in the Current Sinking Fund hereinafter created.

(6) Investment of Funds in Construction Account.

Pending disbursement of amounts on deposit in the Construction Account, all such funds, or such portion of said amounts on deposit in said Construction Account as is designated by the Commission, shall be invested for the benefit of such Construction Account in Certificates of Time Deposits, savings accounts, or U. S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for costs of the Project (as determined by the Engineers, the Chairman of the District, and the representative of the FmHA), provided that to the extent that any amounts on deposit in said Depository Bank shall cause the total deposits of the District in said Bank to exceed the amount insured by the FDIC, the same shall be continuously secured by a valid pledge of U. S. Obligations, having an equivalent market value, in conformity with KRS 66.480. Investments in Certificates of Time Deposit may be made only if a separate FmHA

Form 402-4 Agreement is executed, if the FmHA has purchased any of the Bonds, and investments in Certificates of Deposit or savings accounts may be made only in such Certificates or accounts of an FDIC bank. Any such investments will be a part of the Construction Account, and income from such investments will be credited to the Construction Account. All such investments shall be subject to the limitations set out in Section 304 hereof.

(7) Statements of Contractors, Engineers, and Attorneys as to Payment Required Prior to Delivery of Current Bonds, if Current Bonds Purchased by FmHA.

Prior to the delivery of the Bonds, if FmHA is the purchaser of the Bonds, the District will be required to provide FmHA with statements from the Contractors, Engineers, and Attorneys that they have been paid to date in accordance with their contract or other agreements and, in the case of any Contractor, that he has paid his suppliers and sub-contractors. Any exceptions must be authorized under FmHA Instructions 1942-A, Subsection 1942.17 (n) (2).

(8) Disposition of Balance in Construction Account After Completion of Project.

When the construction of the Project has been completed and all construction costs have been paid in full, as certified by the Engineers for the District and/or by the FmHA, any balance then remaining in the Construction Account may, with the consent of the State Director of the FmHA, be applied to the cost of constructing additional extensions, additions, and/or improvements to the System, and/or such balance (subject to legal requirements as to possible refund of any allocated portion of the balance derived from grant proceeds) shall be transferred to the Sinking Fund hereinafter created, whereupon said Construction Account shall be closed. If such additional construction is to be undertaken by the contractor previously engaged in the Construction Project, such additional work may be authorized by a change order. Such balance so transferred shall be used by the District immediately to prepay installments due on the Bonds without prepayment penalty, provided further that any balance insufficient to prepay at least \$1,000 of the principal payment falling due in any year on the Bonds will be transferred to the Depreciation Reserve Fund hereinafter created.

Section 303. Interim Financing Authorization.

(a) Commercial Interim Financing.

The District shall use commercial interim financing for the Project during construction of that portion of the cost of the Project financed by the Bonds, if available at reasonable rates and terms.

The borrowing of up to the aggregate sum of \$1,179,200 from the Citizens Bank, Sharpsburg, Kentucky (either alone or through its correspondent bank), from any other banks, (hereinafter collectively and individually referred to as the "Banks"), is hereby authorized; and the Chairman of the District, Bill Steward, or his successor, is hereby authorized to execute in the name and on behalf of the District (1) a single note (the "Note") in the amount of the interim loan with provision for advances against the amount of



such Note, or (2) any number of notes ("Notes"), in such form as may be prescribed by the lending Banks, including Revenue Bond Anticipation Notes pursuant to MRS 58.150. Each advance shall evidence a loan of cash funds by the Banks to the District for the refinancing of the Prior Bonds or for services and/or materials supplied in connection with the aforesaid Construction Project, as evidenced by (i) a certification of the Engineers designated herein, and (ii) written approval of the Chairman or by such other official of the District as may be authorized by the Commission, and (iii) written approval of the FmHA; provided, however, that written approval of the Engineers shall not be required for matters not under the jurisdiction of the Engineers, such as the aforesaid refinancing, legal fees, land acquisition, and related items.

Interim financing in the amount of \$171,000, the equivalent of the Series A Bonds, shall be disbursed as set out in Section 302B(2) above. Interim financing of construction costs shall be disbursed as follows:

(A) At the request of the District, the Banks are and shall be authorized to disburse the proceeds of any such Note or Notes by cashier's checks directly to the parties entitled thereto based on the certification specified herein; or

(B) At the request of the District, the Banks are and shall be authorized to deposit the proceeds of such Note or Notes in the Construction Account, in which event amounts of the District on deposit therein shall, until expended to the extent that same shall exceed the amount insured by the FDIC, be fully secured by a pledge of U. S. Obligations (without the use of a Deposit Agreement of the FmHA), and a Fidelity Bond in an amount equal to not less than the maximum amount deposited in such Account must be furnished by the proper official of the District, as provided in Section 301 hereof.

The authority hereby granted to the Chairman includes the execution of renewal Notes in evidence of the renewal and extension of Notes becoming due, provided the aggregate of the principal amount of all such Notes outstanding and payable to the Banks shall not exceed \$1,179,200, and provided each Note which is renewed or superseded is simultaneously cancelled by the Banks and transmitted to the District Treasurer. The rate of interest applicable to each Note and to each renewal Note shall not exceed a reasonable rate, which rate is subject to the approval of the FmHA.

Authority is hereby given for said total authorized interim financing of \$1,179,200 to be the maximum indebtedness which the District may owe to said Banks at any given time; provided, however, that the District may reduce the amount owed by the District to said Banks from time to time as and when funds are available to the District, whether derived from the proceeds of the Federal grants, the proceeds of the sale of the Current Bonds, or otherwise, and may reborrow from said Banks additional amounts in anticipation of the further receipt by the District of additional proceeds from the Bonds and/or grants, in order thus to enable the District to save interest costs by applying the proceeds of the Bonds and/or grants and/or other funds as received and which are not immediately needed for the payment of costs of the Construction

Project, toward the liquidation and/or reduction of said interim financing loans until such time as additional interim financing loans are needed to provide additional funds for costs of the Construction Project as required by the District, subject to the limitation that the total amount owed to said Banks at any given time shall not be in excess of \$1,179,200.

The District hereby covenants and agrees with said Banks that upon the issuance and delivery of the Current Bonds and/or the receipt of said grants, the District will apply the proceeds thereof, to whatever extent may be necessary, in payment of the principal amount of all such Note or Notes of the District then held by said Banks, together with interest thereon to the date of such payment; and the first proceeds of said Bonds and grants are hereby pledged therefor, and such pledge shall constitute a first and prior charge against said proceeds. The District further pledges the proceeds of the gross revenues of the System to the payment of said interim financing, such pledge ranking on a parity with the Prior Bonds and the Current Bonds or subject to the priority of the Prior Bonds.

Although the proceeds of the Current Bonds and grants are pledged to the repayment of said interim financing, it is recognized that the proceeds of the grants may be applied to the extent required at the time of receipt of the proceeds of said grants, to the payment of costs of the Construction Project due and owing by the District at the time of receipt of such proceeds, rather than to the repayment of portions of the interim financing at that time. If and to the extent that the proceeds of said grants are in excess of any costs of the Construction Project due and owing at the time of receipt thereof, such proceeds may be applied, in the same manner as hereinabove indicated, to the reduction of the amount of the interim financing, after which, such interim financing may again be increased as theretofore. In any event, the proceeds of said grants and of any other grants earmarked for the Construction Project, are pledged, together with the proceeds of the Current Bonds, to the repayment of such interim financing.

It is understood that the foregoing constitutes an alternative method of obtaining interim financing, and does not preclude the authorization, public advertisement, and sale of Bond Anticipation Notes, Grant Anticipation Notes, and/or Bond and Grant Anticipation Notes to the most favorable bidder on the open market, by concurrent or subsequent proceedings of the District.

(b) Possible Multiple Advances by FmHA if Bonds Shall be Purchased by FmHA.

In the event the Bonds are purchased by the FmHA, and in the event the District is unable to obtain a commitment for commercial interim financing for the refinancing and for the Project during construction from any Bank at reasonable rates and terms, the Chairman is authorized to request multiple advances ("Multiple Advances") of loan funds from the FmHA.

If the FmHA agrees to make Multiple Advances to the District pending the delivery of the Bonds, the Chairman is hereby authorized to execute in the name and on behalf of the District any number of Bond Anticipation Notes, each Note evidencing an advance of funds by the FmHA to the District, such Note or Notes to be in the form prescribed by the FmHA.

Each request for an advance from the FmHA shall be accompanied by (1) a certification of the Engineers designated herein, and (2) written approval of the Chairman or by such other official of the District as may be authorized by the Commission; provided, however, that written approval of the Engineers shall not be required for matters not under the jurisdiction of the Engineers, such as refinancing, legal fees, land acquisition, and related items. The District will also furnish to the FmHA, prior to the receipt of each such advance, whatever additional documentation shall be requested by the FmHA, including a Supplemental Title Opinion (updated) of Local Counsel and a Supplemental Preliminary Legal Opinion (updated) of Bond Counsel.

Except for refinancing, the proceeds of any Multiple Advances made by the FmHA shall either be (1) disbursed directly to the parties entitled thereto for services and/or materials supplied in connection with the Project, (2) deposited into the Construction Account and disbursed in accordance with the provisions of Section 301B(3) hereof, in which event amounts of the District on deposit in such Account shall, until expended, to the extent that same shall exceed the amount insured by the FDIC, be fully secured by a pledge of the U. S. Obligations (without the use of a Deposit Agreement of the FmHA, unless requested by the FmHA), and a Fidelity Bond in an amount equal to not less than the maximum amount deposited in such Account must be furnished by the proper official of the District, as provided in Section 301 hereof.

The first proceeds of the Bonds are hereby pledged to the repayment of such Multiple Advances, and such pledge shall constitute a first and prior pledge against such proceeds. The District further pledges the proceeds of the revenues of the System to the repayment of said Multiple Advances.

Section 304. Investment of Proceeds; Federal Arbitrage Limitations.

The District covenants and certifies, in compliance with Federal Arbitrage Regulations, as follows:

(a) The District certifies, on the basis of known facts and reasonable expectations on the date of adoption of this Bond Resolution, that it is not expected that the proceeds of the Current Bonds will be used in a manner which would cause such Bonds to be arbitrage bonds. The District covenants to the purchasers and/or holders of the Current Bonds that (1) the District will make no use of the proceeds of said Bonds, which, if such use had been reasonably expected on the date of issue of such Bonds, would have caused such Bonds to be arbitrage bonds, and (2) that the District will comply with (1) all of the requirements of Section 103(c) of the Internal Revenue Code, and (ii) all of the requirements of the applicable Regulations thereunder, to whatever extent is necessary to assure that the Current Bonds shall not be treated as or constitute arbitrage bonds.

(b) The District certifies, based on information furnished by the Engineers, and on known facts and reasonable expectations at this time, as follows:

- (1) that the District has entered into a contract with the Engineers for engineering services in connection with the Construction Project financed by the Current Bonds and the fees to be paid to such Engineers will exceed 2-1/2% of the total cost of the Project;
- (2) that work on the Construction Project has commenced or will commence within six months from the date of issuance of the Current Bonds;
- (3) that the construction of said Construction Project will proceed thereafter to completion with due diligence on the part of the District;
- (4) that at least 85% of the spendable proceeds of the Current Bonds will be expended on the costs of (a) refinancing the Prior Bonds (proceeds of the Current Series A Bonds), and (b) the Construction Project (proceeds of Series B Bonds) within less than three years from the date of issuance of the Current Bonds;
- (5) that it is anticipated that amounts on deposit in the Sinking Fund will be used within thirteen (13) months from the date of deposit for the payment of debt service on the Outstanding Bonds, and that, except for an amount equal to not more than the greater of (i) one-twelfth (1/12) of debt service requirements of the Outstanding Bonds for the then ensuing year, or (ii) one year's earnings on the Sinking Fund, such Sinking Fund will be depleted through such application for current debt service requirements of the Outstanding Bonds;
- (6) that it is not anticipated that amounts will be accumulated in any reserve fund anticipated to be used for debt service on the Outstanding Bonds in excess of 15% of (a) the face amounts (par) of the original authorized issue or series, or (b) the net proceeds thereof if sold at less than 98% of par, of whatever bonds are outstanding against and payable from the revenues of the System;
- (7) that it is not reasonably anticipated that amounts accumulated in the Depreciation Fund will be used for payment of the debt service on any Outstanding Bonds, even though such Fund will be available if necessary to prevent a default in the payment of principal and interest on such Bonds;

- (8) that (a) the original proceeds of the Current Series A Bonds will not exceed by more than five percent (5%) (or by any percent) the amount required (after deducting the available proceeds of the ADF grant and other funds provided by the District) for the refinancing of the Prior Bonds, as set out in Section 302B(2) above, and (b) the original proceeds of the Current Series B Bonds will not exceed by more than five percent (5%) (or by any percent) the amount required (after deducting the available proceeds of connection charges and other funds provided by the District) for the costs of the Construction Project; and there has therefore been no overissuance of the Current Bonds; and
- (9) that the District has not been advised of any listing or contemplated listing by the Internal Revenue Service determining that the foregoing type of certification with respect to the District's obligations may not be relied on.

(c) The District covenants that neither the proceeds of the Bonds, nor "Non-Exempt Revenues of the District," as defined herein, will be invested in investments which will produce a net adjusted yield in excess of the net interest cost (effective yield) of the Bonds, if such investment would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 103(c)(2) of the Internal Revenue Code, as amended, and the applicable regulations thereunder; provided, however, that such proceeds and/or revenues may be invested to whatever extent and whenever such Code and/or applicable Regulations permit same to be invested without causing the Current Bonds to be treated as "arbitrage bonds."

"Non-Exempt Revenues" within the meaning of the foregoing shall be deemed to refer to revenues of the District deposited in any of the funds earmarked for or reasonably expected to be used for the payment of debt service on the Outstanding Bonds, in excess of "Exempt Revenues," which Exempt Revenues are:

- (1) amounts deposited in the Sinking Fund for the purpose of paying debt service on any Outstanding Bonds within 13 months from the date of deposit;
- (2) amounts deposited in any reserve earmarked for or anticipated to be used for debt service on Outstanding Bonds, to the extent that such deposits do not cause the total amount of such revenues, deposits, and other excess Non-Exempt Revenues, to exceed 15% of the Outstanding Bonds for which adequate provision was made to obtain the appropriate 15% exemption;

- (3) amounts deposited in a Depreciation Fund, Reserve for Replacements, Operation and Maintenance Fund, or any other fund (however designated) reasonably expected to be used for extensions, additions, improvements, repairs, or replacements to the System, and not reasonably expected to be used to pay debt service (even if pledged to be used to pay debt service in the event of the unexpected inadequacy of other funds pledged for that purpose) of Outstanding Bonds.

If, and to the extent that any Non-Exempt Revenues are on deposit and are available for investment, such funds shall be subject to the investment limitation referred to in Section 303 above.

Accordingly it is anticipated that there will be no limitation on the permissible yield on investments made from the proceeds of the Current Bonds.

Prior to or at the time of delivery of the Bonds, the Chairman and/or the District Treasurer (who are jointly and severally charged with the responsibility for the issuance of the Current Bonds) is authorized to execute the appropriate certification with reference to the matters referred to above, setting out all known and contemplated facts concerning such anticipated refinancing, construction expenditures, and investments, including the execution of necessary and/or desirable certifications of the type contemplated by the latest "Proposed Arbitrage Regulations," as amended, in order to assure that interest on the Current Bonds will be exempt from all Federal income taxes and that the Current Bonds will not be treated as arbitrage bonds.

#### ARTICLE 4

#### CREATION OF FUNDS; MONTHLY PAYMENTS OF PRINCIPAL AND INTEREST IF REQUESTED BY THE FmHA SO LONG AS FmHA HOLDS OR INSURES THE BONDS.

##### Section 401. Creation of Funds.

The District covenants that beginning with the date of delivery of the Current Bonds, or the date on which funds obtained from interim financing is deposited in the Prior Sinking Fund for the retirement of all of the Prior Bonds, whichever occurs first, and so long as any of the Current Bonds and any additional parity bonds are issued and outstanding, all of the income and revenues of the System shall be deposited to the credit of a separate and special account designated as the "Sharpsburg Water District Waterworks Revenue Fund" (the "Revenue Fund"), hereby created, which fund shall be maintained at the Depository Bank named above, and said Fund shall be maintained and preserved so long as any of the Bonds are outstanding. The Revenue Fund shall then be expended, used, and apportioned by the Treasurer of the District, as follows:

A. Sinking Fund. At or after the time that the Bonds have been delivered, there shall be transferred from the Construction Account an amount sufficient to provide for capitalized interest (initially estimated at \$20,000) during the construction of the Project, as approved by the Engineers and by the FmHA, if and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project. Such amount so transferred from the Construction Account shall be deposited in the "Sharpsburg Water District Waterworks Bond and Interest Sinking Fund" (the "Sinking Fund"), hereby created.

After the expiration of the month in which interest is last payable out of the sum so set aside into the Sinking Fund as capitalized interest, there shall next be transferred in each month from said Revenue Fund and deposited into said Sinking Fund on or before the 20th day of each month, for payment of interest on and principal of the Bonds, a sum equal to the total of the following:

- (1) An amount equal to one-sixth (or such larger amount as is necessary) of the next succeeding six month interest installment to become due on the Bonds then outstanding, plus
- (2) Beginning in January, 1986, a sum equal to one-twelfth (or such larger amount as is necessary) of the principal of any Bonds maturing on the next succeeding January 1.

If the District for any reason shall fail to make any monthly deposit(s) as required, then an amount equal to the deficiency shall be set apart and deposited into the Sinking Fund out of the first available revenues in the ensuing month(s), which amount shall be in addition to the monthly deposit otherwise required during the such succeeding month(s). Reference is made to

Section 303(c)(5) of the Resolution as to the authorized application of amounts on deposit in the Sinking Fund.

On or before the 20th days of June and/or December in each year, the Depository Bank shall transfer from the Sinking Fund and from the Reserve Fund (if necessary) a sum equal to the interest, or a sum equal to the principal and interest, as the case may be, becoming due on the next following respective January 1 and/or July 1, and deposit the same in an account hereby created and identified as the "Sharpsburg Water District Bond and Interest Payment Account," and shall notify the alternate payor bank, if any, that the same is held as a trust fund to be drawn upon by the paying agent(s) to pay maturing coupons, and/or interest installments, or bonds and coupons, and/or principal and interest installments, as the case may be, upon presentation thereof on or after maturity and upon surrender of maturing Bonds and/or coupons.

The Treasurer of the District shall keep appropriate records as to payment of principal and interest installments on the Bonds.

B. Monthly Payments of Principal and Interest if Requested by the FmHA So Long As the FmHA Holds or Insures All of the Bonds. So long as all of the Bonds are held or insured by the FmHA, the District shall, if requested by the FmHA and/or by the insured owner, make payments of amounts equal to the total of (1) and (2) above, being the total of the monthly principal and interest requirements on the Bonds, in monthly payments to said FmHA, or to the insured owner of the Bonds, out of said Sinking Fund; provided further that at the option of any other owner of all of the Bonds, such payments shall similarly be made in monthly payments to such other owner.

C. Operation and Maintenance Fund. At or prior to the delivery of the Current Bonds there shall be deposited into the Operation and Maintenance Fund, hereby created, the sum of not less than \$4,000 (less any amounts thereof used for authorized purposes), derived from collected connection charges, to provide for the initial operation and maintenance of the System after completion of the Construction Project. After the completion of the transfers required in Section 401A above, there shall next be transferred monthly from the Revenue Fund and deposited in said Operation and Maintenance Fund, sums sufficient to meet the current expenses of operating and maintaining the System. The balance maintained in said Fund shall not be in excess of the amount required to cover anticipated expenditures for a two-month period pursuant to the Annual Budget.

D. Depreciation Reserve Fund. After all of the transfers required to be made in each in Section 401 A and D above, have been made in each and/or any month, there shall next be transferred from the Revenue Fund to the "Depreciation Reserve Fund" (the "Reserve Fund"), hereby created, the sum of \$128.00 each month until there is accumulated in such Reserve Fund the sum of \$15,360, after which no further deposits need be made into such Fund except to replace withdrawals. In addition to such monthly transfers from the Revenue Fund, until construction of the Project is completed, there shall be deposited in said Reserve Fund as received (1) all proceeds collected from potential customers except (a) the amounts necessary to pay the actual costs of the respective meters and service connections applicable to said potential customers,



and (b) at least \$4,000 of said connection charges, required to be transferred into the Operation and Maintenance Fund, to aid in the financing of the cost of future extensions, additions, and/or improvements to such System, plus (2) the proceeds of any property damage insurance (not otherwise used to replace damaged or destroyed property) except public liability insurance; plus (3) the cash proceeds of any surplus, worn-out, or obsolescent properties of the System, if same be sold by the District; and any such amounts or proceeds so deposited shall be used solely and only for the purposes intended.

The term "income and revenues" of the System as used in Section 401 hereof, means all proceeds of service rates and charges and does not include any of the cash items listed under this Subsection.

Moneys in the Reserve Fund may be withdrawn and used by the District, upon appropriate certification by the Commission, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals, and replacements not included in the annual budget of current expenses and/or of paying the cost of constructing future extensions, additions, and/or improvements to the System which will either enhance its revenue-producing capacity or will provide a higher degree of service, and when necessary, for the purpose of making payments of principal and interest on the Bonds hereby authorized if the moneys on deposit in the Sinking Fund are not sufficient to make such payments.

All funds in said Sinking Fund and in said Reserve Fund shall be deposited in the Depository Bank, or such portion of said amounts on deposit in said respective Funds as is designated by the Commission shall be invested for the benefit of such respective Funds, in Certificates of Time Deposit, savings accounts, or U. S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for meeting interest and/or principal payments, to mature or be called, provided that to the extent that any amount of funds of the District on deposit in said Bank shall cause the total deposits of the District in said Bank to exceed the amount insured by the FDIC, such excess amount shall be continuously secured by a valid pledge of U. S. Obligations, having an equivalent market value, in conformity with KRS 66.480. Investments in Certificates of Time Deposit may be made only if a separate FmHA 402-4 Agreement is executed, if the FmHA has purchased any of the Bonds. Any such investments will be a part of the respective Funds from which the proceeds invested are derived, and income from such investments will be credited to such respective Funds.

E. Excess Funds. Subject to the provisions for the monthly disposition of the income and revenues of the System in subparagraphs A, C, and D of this Section, which provisions are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred within sixty days after the end of each calendar year, the balance of excess funds in the Revenue Fund on such date, to the Depreciation Reserve Fund, to be earmarked for the purpose of paying or financing the cost of future extensions, additions, and/or improvements to the System, or, at the option of the District, such excess funds may be applied to the maximum extent feasible, to the purchase or redemption of outstanding Bonds.

## ARTICLE 5

### COVENANTS OF DISTRICT TO BONDHOLDERS

So long as any of the Current Bonds are outstanding and unpaid, the District covenants as follows:

#### Section 501. Rates and Charges.

The rates and charges for all services and facilities rendered by the System shall be reasonable and just, taking into account and consideration the cost and value of the System, including all extensions, additions, and improvements thereto, the cost of maintaining, repairing, and operating the same, and the amounts necessary for the retirement of all Bonds and the accruing interest on all Bonds, and there shall be charged such rates and charges as shall be adequate to meet the requirements of this Section and of ARTICLE 4 hereof.

The District covenants that it will not reduce the rates and charges for the services rendered by the System without first filing with the Secretary of the District, a certification of an Independent Consulting Engineer, as defined herein, to the effect that the annual net revenues (defined as gross revenues less essential operation and maintenance expenses) of the then existing System for the fiscal year preceding the year in which such reduction is proposed, as such annual revenues are adjusted, after taking into account the projected are equal to not less than 120% of the annual debt service requirements for principal and interest on all of the then outstanding bonds payable from the revenues of the System, calculated in the manner specified in Section 603 hereof.

#### Section 502. Books and Accounts.

The District shall install and maintain proper records and accounts relating to the operation of the System and its financial affairs, and the holders of any of said Bonds, or their authorized representatives, shall have the right at all reasonable times to inspect the facilities and all records, accounts, and data relating thereto. An annual audit on a fiscal year basis (which is the same as the calendar year) shall be made of the books and accounts pertinent to the System by a Certified Public Accountant licensed in Kentucky. No later than sixty days after the close of each calendar year, copies of such audit reports certified by such Accountant shall be promptly mailed to the Government without request, so long as the Government is the holder of any of the Bonds, and to any bondholder that may have requested same in writing. Monthly operating reports shall be furnished to the FMHA and to any bondholder requesting same, whenever and so long as the District is delinquent in any of the covenants set out herein. Quarterly operating reports shall be furnished to such parties at all other times.

Section 503. System to be Operated on Calendar Year Basis.

While any Bonds are outstanding and unpaid and to the extent not now prohibited by law, the System shall be operated and maintained on a calendar year basis commencing on January 1 of each year and ending on December 31 of the same year, which period shall also constitute the budget year or fiscal year for the operation and maintenance of the System. Not later than 60 days after the beginning of each calendar year, beginning immediately after the issuance of these Bonds, the District and the Commission agree to cause to be prepared a detailed statement of income and expenditures for the past year, a current financial statement and a "Proposed Annual Budget of Current Expenses" of the System for the then calendar year, itemized on the basis of monthly requirements. A copy of said "Proposed Annual Budget of Current Expenses" shall be mailed to any bondowner who may request in writing a copy of such Budget, and to the Government without request if the Government is the owner of any of said Bonds.

Current expenses shall include all reasonable and necessary expenses of operating, repairing, maintaining, and insuring the System, but shall exclude depreciation and payments into the Sinking Fund and the Depreciation Fund. The District covenants that the Current Expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that the District will not expend any amount or incur any obligation for operation or maintenance and repair in excess of the amounts provided for Current Expenses in the Annual Budget, except upon resolution by the District that such expenses are necessary to operate and maintain the System. At the same time and in like manner, the District shall prepare an estimate of gross revenues to be derived from the operation of the System for said fiscal year, and, to the extent that said gross revenues are insufficient (a) to pay debt service requirements on all outstanding bonds during the ensuing fiscal year, (b) to accumulate and maintain all required reserves enumerated herein, and (c) to pay Current Expenses, the District shall revise the rates and charges sufficiently to provide the funds required.

If the owners of 50% in amount of the outstanding Bonds, or the Government so long as it is the owner of any of said Bonds, so request, the Commission shall hold an open hearing not later than thirty days before the beginning of the ensuing fiscal year, at which time any bondowner may appear by agent or attorney and may file written objections to such proposed budget. Notice of the time and place of such hearing shall be mailed at least 15 days prior to the hearing to each registered bondowner and to the Government.

The District and its Commission covenant that annually before the first day of March, the annual budget of current expenses for the then current calendar year will be adopted substantially in accordance with the preliminary or proposed annual budget, and no expenditures for operation and maintenance expenses of the System in excess of the budget shall be made during such calendar year unless directed by said Commission by a specific resolution duly adopted.

Section 504. General Covenants.

The District through its Commission hereby covenants and agrees with the owners of the Current Bonds that:

- (1) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky;
- (2) It will make and collect reasonable and sufficient rates and charges for services and facilities rendered by the System;
- (3) It will segregate the revenues and income from the System and make application thereof consistent with and as provided by this Resolution;
- (4) Unless the written consent of the owners of a majority in amount of the outstanding Current Bonds has been obtained, it agrees not to sell, lease, mortgage, or in any manner dispose of any integral part of the System, including any and all appurtenances thereof and extensions, additions, and/or improvements that may be made thereto, until all of said Current Bonds shall have been paid or provided for in full; subject to the provisions of Section 506 hereof;
- (5) It will maintain in good condition and continuously operate the System and appurtenances thereto and will charge such rates and charges for the services rendered thereby so that the gross income and revenues of the System will be sufficient at all times to pay the interest on and principal of the Bonds herein authorized and any parity bonds as same become due, to pay the cost and expense of operating and maintaining the System, and to provide for an adequate depreciation account;
- (6) It shall carry and maintain insurance on properties of the System subject to loss or damage in amounts and against hazards substantially in accordance with the practices of other corporations which own and maintain water supply and distribution systems under similar conditions; and so long as the Government is the owner of any of said Bonds, the Government will be listed as co-beneficiary on any such policy; and the District shall further comply with the insurance requirements of Section 506 hereof (involving insurance on motors, tanks and structures).

Section 505. Other General Covenants so Long as FmHA Holds Any Current Bonds; Loan Resolution

So long as the FmHA shall own any of the Current Bonds, the District shall comply with such FmHA regulations, requirements, and requests as shall be made by the FmHA, including the furnishing of operating and other financial

statements in such form and substance and for such periods as may be requested by the FmHA, the carrying of insurance of such types and in such amounts as the FmHA may specify, with insurance carriers acceptable to the FmHA, and compliance with all of the terms and conditions of the Loan Resolution (FmHA Form 442-47) executed by the District, which is hereby authorized, approved, ratified, and confirmed,

Section 506. Insurance of Motors, Tanks, and Structures.

If and to the extent not now fully required by the Prior Bond Ordinance, the District shall, (a) immediately after the adoption of this Current Bond Resolution, and (b) at the time of final acceptance of the Construction Project from the contractor(s), insure all electric motors, elevated water storage tanks, pumping stations, and major structures of the entire waterworks System, in an amount recommended by the District's Engineers and approved by the FmHA, so long as the FmHA is the owner of any of the Current Bonds, for the hazards usually covered in such area, and shall similarly insure same in an amount recommended by the District's Engineers, without the necessity of approval by the FmHA if and whenever the District has Bonds outstanding against the System and such Bonds are not owned by the FmHA.

ARTICLE 6

INFERIOR BONDS AND PARITY BONDS

Section 601. Inferior Bonds.

Except as provided below in this Section, the District shall not, so long as any of the Current Bonds (and any bonds ranking on a parity) are outstanding, issue any additional bonds payable from the revenues of the System unless the security and/or pledge of the revenues and statutory mortgage lien to secure such additional bonds is/are made inferior and subordinate in all respects to the security of the Current Bonds and any parity bonds.

The District expressly reserves the right at any time or times to issue its bonds or other obligations payable from the revenues of the System and not ranking on a basis of equality with the Current Bonds, without any proof of previous earnings or net revenues, provided that the consent of the FmHA must be obtained prior to the issuance of any inferior bonds so long as the FmHA holds any of the Current Bonds or any parity bonds, and provided further that such inferior bonds may be issued only for the purpose of providing for extensions, additions, and/or improvements to the System, and only in express recognition of the priorities, liens, and rights created and existing for the security, source of payment, and protection of the Current Bonds and any parity bonds.

Section 602. Parity Bonds to Complete the Construction Project.

The District hereby certifies, covenants, and agrees that in the event that the cost of completion of the construction of the Project, as hereinbefore described, shall exceed the moneys available to the District from any and all sources, the District shall have the right, if necessary, to provide for such excess, and only such excess, through the issuance of parity bonds, provided the District has obtained a certification from the Engineers to the effect that it is necessary to issue the desired amount of additional parity bonds in order to enable the District to pay the cost (not otherwise provided) of the completion of the Construction Project, and provided the District has obtained, (a) the consent of the Government, or (b) the consent of the holders of at least seventy-five percent (75%) in principal amount of the Current Bonds outstanding, if the Current Bonds have been issued, sold, and delivered to a purchaser other than the Government.

Section 603. Parity Bonds to Finance Future Extensions, Additions, and/or Improvements; Conditions or Showings Required.

The District further reserves the right to add new waterworks and/or related auxiliary facilities and/or to finance future extensions, additions, and/or improvements to the System by the issuance of one or more additional series of bonds to be secured by a parity lien on and ratably payable from the revenues of the System, and also secured by a parity statutory mortgage lien on the System, ranking on a parity with the revenue pledge and lien securing the Current Bonds, provided:

(a) That the facility or facilities to be constructed from the proceeds of the additional parity bonds is or are made a part of the System and its or their revenues are pledged as additional security for the additional parity bonds and for the outstanding Current Bonds.

(b) The District is in compliance with all covenants and undertakings in connection with the Current Bonds (and any parity bonds).

(c) The annual net revenues (defined as gross revenues less essential operation and maintenance expenses) of the then existing System for the fiscal year preceding the year in which such parity bonds are to be issued, shall equal at least one hundred twenty percent (120%) of the average annual debt service requirements for principal of and interest on all outstanding bonds payable from the revenues of the System, including such requirements of both the Current Bonds and any parity bonds then outstanding plus the anticipated requirements of the additional parity bonds then proposed to be issued. The calculation of average annual debt service requirements of principal and interest on the additional bonds to be issued shall, regardless of whether such additional bonds are to be serial or term bonds, be determined on the basis of the principal of and interest on such bonds being payable in approximately equal annual installments.

(d) The "annual net revenues" referred to above may be adjusted for the purpose of the foregoing computations to reflect:

- (1) any revision in the schedule of rates or charges being imposed at the time of the issuance of any such additional parity bonds, and
- (2) any increase in the "annual net revenues" to be realized from the proposed extensions, additions, and/or improvements being financed (in whole or in part) by such additional parity bonds; provided all such adjustments shall be based upon and included in a certification of an Independent Consulting Engineer, as defined herein.

(e) Compliance with Section 603(a) through (d) shall not be necessary for the issuance of parity bonds if the District has obtained (i) the written consent of the FmHA for the issuance of such parity bonds, if the FmHA is the owner of any of the Current Bonds herein authorized at the time of issuance of such parity bonds; or (ii) the written consent of the holders of three-fourths in amount of the then outstanding Current Bonds and any parity bonds. Provided that if the District obtains the written consent of the holders of all bonds outstanding against the System, no other prerequisite need be complied with by the District in order to issue parity bonds.

(f) Reference is made to Section 605 hereof as to the necessity of obtaining the written consent of the FmHA for the issuance of future bonds encumbering the System while the FmHA holds any bonds payable from the revenues of the System.

Section 604. Covenants to be Complied With at Time of Issuance of Parity Bonds.

The District hereby covenants and agrees that in the event any additional parity bonds are issued, the District shall:

(1) Adjust the monthly deposits into the Sinking Fund on the same basis as that prescribed in the provisions establishing such Fund, to reflect the average annual debt service requirements on the additional parity bonds;

(2) Adjust the minimum annual amount to be deposited monthly into the Reserve Fund on the same basis as that prescribed in the provisions establishing such Fund, taking into account the future replacement costs of the facilities to be constructed and acquired (in whole or in part) with the proceeds of such additional parity bonds; and

(3) Make such additional parity bonds payable as to principal on January 1 of each year in which principal falls due and payable as to interest on January 1 and July 1 of each year until the final maturity of such parity bonds.

Section 605. District Shall Not Issue Any Future Bonds or Obligations Against the System Without the Written Consent of the FmHA, So Long as the FmHA Holds Any Bonds Against the System.

Notwithstanding any other provisions of this Resolution, the District agrees that so long as the FmHA holds any bonds outstanding against and/or payable from the revenues of the System, the District will not issue any future Bonds, Notes, or other obligations against, secured by, or payable from the revenues of the System without the written consent of the FmHA.

Section 606. Priority of Lien; Permissible Disposition of Surplus or Obsolete Facilities; Conditions.

The District covenants and agrees that so long as any of the Current Bonds are outstanding, the District will not sell or otherwise dispose of any of the facilities of the System, or any part thereof, and, except as provided for above, the District will not create or permit to be created any charge or lien on the revenues thereof ranking equal or prior to the charge or lien of the Current Bonds. Notwithstanding the foregoing, the District may at any time permanently abandon the use of, or sell at the fair market value, any part of the facilities of the System, provided that:

- (a) The District is in compliance with all covenants and undertakings in connection with all of the bonds then outstanding and payable from the revenues of the System, and the Sinking Fund Reserve(s) for such respective bonds has (have) been fully established.
- (b) It will, in the event of any such sale, apply the proceeds to either (1) redemption of outstanding bonds in accordance with the provisions governing prepayment of bonds in advance of maturity, or (2) replacement of the facility so disposed of by another facility, the revenues of which shall be incorporated into the System, as hereinbefore provided;
- (c) It certifies, in good faith, prior to any abandonment of use, that the facility or facilities to be abandoned are no longer economically feasible of producing net revenues; and
- (d) It certifies, in good faith, that the estimated net revenues of the remaining facilities of the System for the then next succeeding fiscal year, plus the estimated net revenues of the facility or facilities, if any, to be added to the System, comply with the earnings requirements hereinbefore provided in the provisions and conditions governing the issuance of additional parity bonds;
- (e) Notwithstanding any other provisions hereof, so long as any of the Bonds are held by the Government, the District shall not dispose of its title to the System or of any part thereof, without first obtaining the written consent of the Government.



ARTICLE 7

DEFAULT; CONSEQUENCES.

Section 701. Events of Default.

The following items shall constitute an "event of default" on the part of the District:

- (a) The failure to pay principal of the Current Bonds when due and payable, either at maturity or by proceedings for redemption.
- (b) The failure to pay any installment of interest on the Current Bonds when the same shall become due and payable or within 30 days thereafter.
- (c) The failure of the District to fulfill its obligations pursuant to this Resolution.
- (d) The failure to promptly repair, replace, or reconstruct facilities of the System that have been damaged and/or destroyed.
- (e) The entering of any order or decree with the consent or the acquiescence of the District appointing a receiver of all or any part of the System or any revenues thereof; or if such order or decree shall have been entered without the acquiescence or consent of the District, the failure of the District to have the order vacated, discharged, or stayed on appeal within 60 days after entry.
- (f) The default by the District in the due or punctual performance of any other of the covenants, conditions, agreements, and provisions contained in the Bonds or in this Resolution.

Section 702. Consequences of Act of Default.

Any holder of the Current Bonds may enforce and compel the performance of all duties and obligations of the District as set forth herein. Upon the occurrence of an event of default, then upon the filing of a suit by any holder of said Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the District with power to charge and collect rates sufficient to provide for the payment of principal of and interest on the Current Bonds, and for the payment of operation and maintenance expenses of the System, and to provide and apply the income and revenues in conformity with this Resolution and with the laws of the Commonwealth of Kentucky.

The District hereby agrees to transfer to any bona fide Receiver or other subsequent operator of the System, pursuant to any valid court order in a proceeding brought to enforce collection or payment of the District's obligations, all contracts (including specifically the Water Purchase Contract between the District and the Bath County Water District) and other rights of the District pertaining to the System, conditionally, for such time only as such Receiver or operator shall operate by authority of the Court. Upon the occurrence of an event of default, the holder of any of the Current Bonds may require the Commission by injunction to raise the rates a reasonable amount, consistent with the requirements of this Resolution.

#### ARTICLE 8

##### CONTRACTUAL PROVISIONS; GRANT APPROVALS; STATUTORY MORTGAGE LIEN; MISCELLANEOUS PROVISIONS.

##### Section 801. This Resolution Contractual with Bondholders.

The provisions of this Resolution constitute a contract between the District and its Commission and the holders of the Current Bonds as may be outstanding from time to time; and after the issuance of any of the Bonds, no change, alteration, or variation of any kind, of the provisions of this Resolution, shall be made in any manner which will affect a holder's rights except with the written consent of all bondholders until such time as all of said Current Bonds and the interest thereon have been paid in full or fully provided for, provided that the Commission of the District may adopt any Resolution for any purpose not inconsistent with the terms of this Resolution and which shall not impair the security of the holders of the Current Bonds and/or for the purpose of curing any ambiguity, or of curing, correcting, or supplementing any defective or inconsistent provisions contained herein or in any Resolution or other proceedings pertaining hereto; and provided further, that the holders of seventy-five percent (75%) in principal amount of the Current Bonds at any time outstanding shall have the right to consent to, and approve the adoption of resolutions or other proceedings, modifying or amending any of the terms or provisions contained in this Resolution, subject to the conditions that (a) this Resolution shall not be so modified in any manner that may adversely affect the rights of any certain holders without similarly affecting the rights of all holders of the Current Bonds (and any parity bonds) then outstanding, or to reduce the percentage of the number of holders whose consent is required to effect a further modification; and (b) no such change may be effected without the consent of the FmRA, so long as the FmRA holds any of the Current Bonds.

Section 802. District Obligated to Refund Bonds Held by the Government Whenever Same is Feasible; Defeasement Prohibited.

So long as the Government is the holder of any of the Current Bonds, if it appears to the Government that the District is able to refund such Bonds, in whole or in part, by obtaining a loan for such purposes from responsible co-operative or private credit sources, or to sell bonds of the District in the open market, at reasonable rates and terms, for loans or bond issues for similar purposes and periods of time, the District will, upon request of the Government, obtain such loan and/or issue such bonds in sufficient amount to repay the Government, and will take all such action as may be required in connection with such loan and/or issuance of bonds.

Also, so long as the Government is the holder of any of the Current Bonds, the District shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating the lien of the Current Bonds, without immediately prepaying all of the then Outstanding Bonds.

Section 803. Statutory Mortgage Lien.

For the further protection of the holders of the Bonds, a statutory mortgage lien upon the System and all properties connected therewith, and all appurtenances thereof and extensions, additions, and improvements thereto, is granted and created by Section 96.400 of the Kentucky Revised Statutes and by this Resolution, which statutory mortgage lien is hereby recognized and declared to be valid and binding upon the District and upon all of the properties constituting said System; and said lien shall take effect immediately upon the delivery of the Current Bonds.

Section 804. Approval of FmHA Grant Agreement.

As set out in Section 104 hereof, the Farmers Home Administration has agreed to make a grant to the District in the amount of \$485,500, to supplement the proceeds of the Bonds and grants in order to provide the total cost of the refinancing (refunding) of the Prior Bonds and the construction of the Project, and in that connection the FmHA has requested the District to approve, accept, and execute a certain Grant Agreement (FmHA Form 1942-31) setting out the terms and conditions upon which said grant will be made. Said Grant Agreement is hereby approved, the grant specified therein is hereby accepted, and the Chairman and the Secretary of the District are authorized to execute said Grant Agreement on behalf of the District; and any steps previously taken by said Chairman and Secretary in connection with the acceptance and/or approval of said Grant and/or the execution of such Grant Agreement are hereby authorized, approved, ratified, and confirmed.

Section 805. Approval of HUD Grant Agreement.

As set out in Section 104 hereof, the Department of Housing and Urban Development has agreed to make a grant to the District in the amount of \$450,700 to supplement the proceeds of the Bonds and grants in order to provide the total cost of the refinancing (refunding) of the Prior Bonds and the construction of the Project, and in that connection the HUD has requested the

District to execute a certain Grant Agreement setting out the terms and conditions upon which said grant will be made. Said Grant Agreement is hereby approved, the grant specified therein is hereby accepted, and the Chairman and the Secretary of the District are authorized to execute said Grant Agreement and/or the acceptance thereof on behalf of the District; and any steps previously taken by said Chairman and Secretary in connection with the acceptance and/or approval said Grant and/or the execution of such Grant Agreement are hereby authorized, approved, ratified, and confirmed.

Section 806. Approval of ADF Grant Agreement.

As set out in Section 104 hereof, the Gateway Area Development District Development has agreed to make a grant to the District in the amount of \$50,000 to supplement the proceeds of the Bonds and grants in order to provide the total cost of the refinancing (refunding) of the Prior Bonds and the construction of the Project, and in that connection the ADF has requested the District to execute a certain Grant Agreement setting out the terms and conditions upon which said grant will be made. Said Grant Agreement is hereby approved, the grant specified therein is hereby accepted, and the Chairman and the Secretary of the District are authorized to execute said Grant Agreement and/or the acceptance thereof on behalf of the District; and any steps previously taken by said Chairman and Secretary in connection with the acceptance and/or approval said Grant and/or the execution of such Grant Agreement are hereby authorized, approved, ratified, and confirmed.

Section 807. Authorization of Condemnation to Acquire Easements and/or Sites.

In the event that (a) any necessary deeds of easement to allow water line construction over the property of any property owner or (b) any necessary deed to the necessary site of any water facility of the Construction Project shall not be obtained through negotiation within 10 days after the date of adoption of this Resolution and in the event that (1) such water lines cannot be located within the right-of-way of the State and/or County road involved, and/or (2) such water facilities cannot be located on a site already owned by the District, Local Counsel employed by the District is hereby authorized and directed to file condemnation actions to obtain such necessary rights-of-way and/or sites forthwith, without further authorization or direction from this Commission. Local Counsel is further directed to follow the same condemnation procedure in the event that it becomes necessary, through change orders, line extensions, and/or errors in the location of property lines and property owners, to obtain additional easements, rights-of-way, and/or sites for completion of the Construction Project and whenever the necessary deed of easement and/or deed to site is not obtained by negotiation at least 10 days prior to the date on which construction is contemplated in or on the respective easement, right-of-way, and/or site.

The District further approves the payment from the funds available therefor (proceeds of Bonds, grants, and other funds) allocated to the costs of the System to pay any judgment, award, or compromise, determined by Local Counsel with the acquiescence of this Commission, toward the costs of such easements, rights-of-way, and/or sites, provided, in each instance, that the payment of such funds to satisfy any judgment, award, or compromise, must first

be approved by the FmHA; and this Commission further determines that if and to whatever extent the funds available from the proceeds of the Current Bonds, grants, and other supplemental funds, shall be inadequate to pay any judgment, award, or compromise amount for such easements, rights-of-way, and/or sites, or if the District is unable to obtain the approval of the FmHA for any such payments, the Commission shall take all reasonably necessary actions, within the powers and authority of the Commission, to make such additional amount available from all other available District resources.

## ARTICLE 9

### SALE OF CURRENT BONDS

#### Section 901. Sale of Current Bonds.

The Secretary of the Commission is hereby authorized and directed to cause notice of the receipt of bids for the purchase of said Current Bonds to be published pursuant to all applicable Kentucky Revised Statutes. Said Notice shall state the name and amount of the Bonds to be sold, the time of the sale, and other details concerning the Bonds and the sale, and shall inform prospective bidders that a copy of the Official Notice of Sale of Bonds, setting out the schedule of principal instalments, security of the Bonds, provisions as to prepayment prior to maturity, the Official Bid Form, and related information, may be obtained from the District. Such Official Notice shall contain the following bidding requirements:

- A. Bidders are required to bid a cash price of not less than par value (\$189,000) for the Bonds.
- B. Bidders may name a separate, single interest rate for each of the two Series of Bonds, and each rate must be in a multiple of 1/8% or 1/10%. No specific maximum interest rate is applicable to either Series.
- C. Bids will be considered only for the entire \$189,000 of Bonds authorized herein.
- D. Bidders (except the FmHA) are required to deposit a good faith check by cashier's check or certified check in the minimum amount of \$3,780 (2% of the face amount of the Bonds), which good faith check will be applied as partial payment for the Bonds, or as liquidated damages in the event that the successful bidder fails to comply with the terms of such bid.

- E. The FmHA will submit a bid for the purchase of the Bonds. In the event that a bid(s) from non-governmental bidder(s) shall be received, the rate(s) and terms of which are determined by the FmHA to be reasonable, then said FmHA bid will be withdrawn.
- F. The lowest net interest cost will be determined by deducting the total amount of any premium bid for each Series of Bonds from the aggregate amount of interest upon the respective Series of Bonds, computed from the first day of the month following the date of sale of the Bonds (even though the Bonds will bear interest only from the date of delivery) to the final maturity of the Bonds.
- G. The successful bidder shall take delivery of the Bond Issue in the form of a single or series of Fully Registered Bond(s), for each Series of Bonds, payable to the successful bidder or his assignee, in amounts consistent with the schedule of principal installments.
- H. Bids (except a bid of the FmHA) must be made on uniform Bid Forms, and bidders interested in bidding for the Bonds with knowledge that the last maturity of the Bonds is January 1, 2024, may obtain Bid Forms and the Statement of Essential Facts from the Secretary of the District. All bids must be made unconditionally and in conformity with the terms of the sale. Bids must be enclosed in sealed envelopes marked "Bid for Sharpsburg Water District Waterworks Revenue Bonds of 1984," and bids must be received by the Secretary prior to the date and hour stated in the Notice of Bond Sale.
- I. The District expects to deliver, and the successful bidder must be prepared to accept delivery of and pay for, the Bonds at the office of the District within 45 days after notice is given of the award. If the Bonds are not ready for delivery and payment within forty-five days from the aforesaid date of sale, the successful bidder shall be relieved of any liability to accept delivery of the Bonds, except that additional time may be required for delivery if the Bonds are purchased by the FmHA.
- J. The District reserves the right, in its discretion, to determine the best bid or bids, to waive any informality or irregularity and to reject any or all bids. Bidders will be notified within 24 hours from the time fixed for the receipt of bids as to whether the District has accepted or rejected a bid.
- K. The District will furnish the printed Bonds, together with evidence of approval of the Bond Issue by the Public Service Commission of Kentucky, pursuant to the requirements of KRS Chapter 278.

- L. The Bonds will be tendered within said 45-day period, and the purchaser will receive the approving legal opinion of Rubin & Hays, Municipal Bond Attorneys, Louisville, Kentucky, as to the legality and tax-exemption of the Bonds, without additional cost to the purchaser.

In the event that there is no bid or that all bids are rejected, the District may readvertise the sale pursuant to this Resolution.

Section 902. Possible Adjustment in Date of Bonds, Maturities, Prepayment Provisions, and Other Dates.

In the event that delivery of the Bonds authorized herein is delayed for any reason until after January 1, 1985, (or January 1, 1986), the name of the Bonds may, pursuant to Resolution adopted by the Commission with the written consent of the purchaser of the Bonds, be changed to "Sharpsburg Water District Waterworks Refunding and Improvement Revenue Bonds of 1985" (or "Bonds of 1986"), with the applicable prepayment date and all other dates (possibly including the maturities) being adjusted accordingly.

## ARTICLE 10

### CONCLUDING PROVISIONS

Section 1001. Severability Clause.

If any section, paragraph, clause, or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause, or provision shall not affect any of the remaining provisions of this Resolution.

Section 1002. All Provisions in Conflict Repealed.

All motions, resolutions, and orders, or parts thereof, in conflict with the provisions of this Resolution, are to the extent of such conflict hereby repealed. It is hereby specifically ordered and provided that any proceedings heretofore taken for the issuance of other bonds of the District payable or secured in any manner by all or any part of the income and revenues of said System or any part thereof, and which have not been heretofore issued and delivered, are hereby revoked and rescinded, and none of such other bonds shall be issued and delivered. If part hereof is invalid, the remainder shall continue in effect. The District covenants to repeat any required procedure previously taken invalidly.

Section 1003. Effective Immediately.

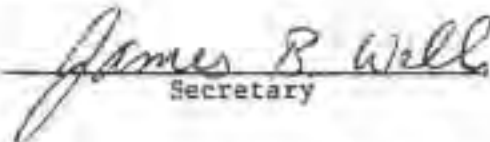
This Resolution shall take effect and be effective immediately upon its adoption.

Adopted this 13th day of June, 1984.

  
Chairman

(Seal of District)

Attest:

  
Secretary

CERTIFICATION

*James B. Wells*  
I, ~~PAUL COYON~~, hereby certify that I am the duly qualified and acting Secretary of the Sharpsburg Water District, that the foregoing Resolution is a true copy of a Resolution duly adopted by the Commission of said District, signed by the Chairman of said Commission and attested under Seal by me as Secretary, at a properly convened meeting of said Commission held on June 13, 1984, as shown by the official records of said Commission in my custody and under my control, that said meeting was duly held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820, and 61.825, that a quorum was present at said meeting, that said Resolution has not been modified, amended, revoked, or repealed, and that same is now in full force and effect and appears as a matter of public record in said official records.

IN TESTIMONY WHEREOF, witness my signature as Secretary and the official Seal of said District this 13th day of June, 1984.

  
Secretary

(Seal of District)



BOND RESOLUTION

SHARPSBURG WATER DISTRICT

AUTHORIZING

SHARPSBURG WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 1990

IN THE AMOUNT OF

\$335,000

I N D E X

| <u>SECTION</u> | <u>TITLE</u>   | <u>PAGE</u> |
|----------------|--|-------------|
|                | ARTICLE 1. DEFINITIONS; PURPOSE; AUTHORIZATION OF BONDS; SECURITY  |             |
| 101            | Definitions  | 3           |
| 102            | Purpose; Construction Project  | 8           |
| 103            | Construction Award Approved; Work Authorized   | 8           |
| 104            | Declaration of Period of Usefulness  | 8           |
| 105            | Authorization of Bonds   | 8           |
| 106            | Recognition of Prior Bonds   | 9           |
| 107            | Current Bonds Shall be Payable Out of Gross Revenues, and Secured by Statutory Mortgage Lien on a Parity with the Prior Bonds  | 9           |
| 108            | Lien on Contracts  | 8           |
|                | ARTICLE 2. THE BONDS; PRINCIPAL INSTALLMENTS; BOND FORM; EXECUTION; PREPAYMENT   |             |
| 201            | Principal Installments   | 11          |
| 202            | Issuance of Current Bonds; Bond Form   | 11          |
| 203            | Place of Payment and Manner of Execution   | 11          |
| 204            | Provisions as to Prepayment  | 11          |
|                | ARTICLE 3. CONSTRUCTION ACCOUNT; INTERIM FINANCING; APPLICATION OF PROCEEDS; ARBITRAGE LIMITATIONS   |             |
| 301            | The Construction Account; Fidelity Bond of Treasurer; Covenants Applicable if FmHA Purchases the Bonds; Application of Proceeds of Bonds; Other Transfers and Deposits | 12          |
|                | A. Covenants Applicable if FmHA Purchases Bonds  | 12          |
|                | B. Application of Proceeds of Current Bonds  | 13          |

| <u>SECTION</u> | <u>TITLE</u>   | <u>PAGE</u> |
|----------------|--|-------------|
|                | (1) Payment of Interim Financing, Costs of Construction Project, and Costs of Issuance of Bonds              | 13          |
|                | (2) Construction Account; Grant Proceeds and District Contribution   | 13          |
|                | (3) Withdrawal of Funds From Construction Account  | 13          |
|                | (4) Transfer of Capitalized Interest to Prior Sinking Fund   | 14          |
|                | (5) Investment of Funds in Construction Account  | 15          |
|                | (6) Statement of Contractors, Engineers, and Attorneys as to Payment   | 15          |
|                | (7) Disposition of Balance in Construction Account After Completion of Construction Project                  | 15          |
| 302            | Interim Financing Authorization  | 16          |
|                | A. Interim Financing   | 16          |
|                | B. Multiple Advances by FmHA   | 17          |
| 303            | Arbitrage Limitations on Investment of Proceeds  | 18          |
|                | ARTICLE 4. CURRENT BONDS ON A PARITY WITH PRIOR BONDS; FLOW OF FUNDS   |             |
| 401            | Current Bonds on a Parity with Prior Bonds   | 22          |
| 402            | Provisions of Prior Bond Resolution Incorporated Herein; Adjustments in Required Deposits                    | 22          |
|                | A. Revenue Fund  | 23          |
|                | B. Adjustments in Required Prior Sinking Fund Deposits   | 23          |
|                | C. Monthly Principal and Interest Payments if Requested by the FmHA, or Other Owner of All Outstanding Bonds | 24          |
|                | D. Operation and Maintenance Fund  | 24          |
|                | E. Adjustment in Depreciation Fund Deposits  | 25          |
|                | F. Surplus Funds   | 26          |
|                | G. General Requirements as to Funds  | 26          |

| <u>SECTION</u>                             | <u>TITLE</u>   | <u>PAGE</u> |
|--|--|-------------|
| ARTICLE 5. COVENANTS OF DISTRICT           |  |             |
| 501  | Rates and Charges  | 28          |
| 502  | Books and Accounts; Audit  | 28          |
| 503  | System to Continue to be Operated on Fiscal<br>Year Basis; Annual Budget       | 29          |
| 504  | General Covenants  | 30          |
| 505  | Other Covenants Applicable So Long as FmHA<br>Owns Any Bonds                   | 31          |
| 506  | Insurance on Motors, Tanks and Structures                                      | 31          |
| ARTICLE 6. INFERIOR BONDS AND PARITY BONDS |  |             |
| 601  | Inferior Bonds   | 33          |
| 602  | Parity Bonds to Complete the Construction Project                              | 33          |
| 603  | Parity Bonds to Finance Future Improvements                                    | 34          |
| 604  | Covenants to be Complied with at Time of Issuance<br>of Parity Bonds           | 35          |
| 605  | Prepayment Provisions Applicable to Parity Bonds                               | 36          |
| 606  | Consent of the FmHA Regarding Future Bonds                                     | 36          |
| 607  | Priority of Lien; Permissible Disposition of<br>Surplus or Obsolete Facilities | 36          |
| ARTICLE 7. DEFAULT AND CONSEQUENCES        |  |             |
| 701  | Events of Default  | 38          |
| 702  | Consequences of Act of Default   | 38          |

| <u>SECTION</u> | <u>TITLE</u>   | <u>PAGE</u> |
|----------------|--|-------------|
|                | ARTICLE 8. CONTRACTUAL PROVISIONS; GRANT APPROVAL;<br>AND MISCELLANEOUS PROVISIONS   |             |
| 801            | Resolution Contractual with Bondowners   | 40          |
| 802            | All Current Bonds are Equal  | 40          |
| 803            | District Obligated to Refund Current Bonds Owned<br>by Government Whenever Feasible; Defeasement<br>Prohibited   | 40          |
| 804            | Approval and Acceptance of FmHA Grant Agreement  | 41          |
| 805            | Approval and Acceptance of ARC Grant Agreement   | 41          |
| 806            | Approval and Acceptance of ADF Grant Agreement   | 41          |
| 807            | Approval and Acceptance of DHUD Grant Agreement  | 42          |
| 808            | Alternate Statutory Authority  | 42          |
| 809            | Authorization, Ratification, and Confirmation of<br>Approval and Execution of Various Documents  | 42          |
| 810            | Authorization of Condemnation to Acquire Easements<br>and/or Sites   | 43          |
|                | ARTICLE 9. SALE OF CURRENT BONDS   |             |
| 901            | Sale of Current Bonds  | 44          |
| 902            | Possible Adjustment in Date of Current Bonds,<br>Maturities, Prepayment Provisions and Other<br>Dates, with Consent of Purchaser if Delivery<br>is Delayed | 44          |
|                | ARTICLE 10. CONCLUDING PROVISIONS  |             |
| 1001           | Covenant of District to Take All Necessary Action<br>to Assure Compliance with Internal Revenue Code   | 45          |
| 1002           | Severability Clause  | 46          |
| 1003           | All Provisions in Conflict Repealed  | 46          |
| 1004           | Effective Immediately Upon Adoption  | 46          |
|                | CERTIFICATION  |             |
|                | EXHIBIT A - Schedule of Principal Maturities   |             |
|                | EXHIBIT B - Form of Fully Registered Bond  |             |
|                | EXHIBIT C - Requisition Certificate  |             |

BOND RESOLUTION

RESOLUTION OF THE SHARPSBURG WATER DISTRICT OF BATH AND NICHOLAS COUNTIES, KENTUCKY, AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$335,000 PRINCIPAL AMOUNT OF SHARPSBURG WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 1990 FOR THE PURPOSE OF FINANCING THE COST (NOT OTHERWISE PROVIDED) OF THE CONSTRUCTION OF EXTENSIONS, ADDITIONS AND IMPROVEMENTS TO THE EXISTING WATERWORKS SYSTEM OF SAID DISTRICT; PROVIDING FOR SAID BONDS TO RANK ON A PARITY WITH CERTAIN OUTSTANDING REVENUE BONDS, PREVIOUSLY ISSUED BY SAID DISTRICT; SETTING FORTH TERMS AND CONDITIONS UPON WHICH SAID BONDS MAY BE ISSUED AND OUTSTANDING; PROVIDING FOR THE COLLECTION, SEGREGATION AND DISTRIBUTION OF THE REVENUES OF SAID WATERWORKS SYSTEM; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF SAID BONDS.

WHEREAS, the waterworks system (the "System") of the Sharpsburg Water District (the "District") is owned and operated by said District pursuant to Chapters 74 and 106 and Sections 58.010 through 58.140, inclusive, of the Kentucky Revised Statutes (the "Act"), and

WHEREAS, the District presently has outstanding certain Prior Bonds (as hereinafter defined), which Prior Bonds are payable from and secured by a first pledge of the revenues derived from the operation of and by a first statutory mortgage lien against the System, and

WHEREAS, all of the Prior Bonds presently outstanding are current as to payment of both principal and interest, and for the security of which a certain Sinking Fund and certain reserves are being maintained in the manner and by the means prescribed in the Prior Bond Resolution (as hereinafter defined) of the District, authorizing the Prior Bonds, and

WHEREAS, it is the desire and intent of the District at this time to adopt this Resolution pursuant to the Act, to authorize and provide for the issuance of revenue bonds in the principal amount of \$335,000 (the "Current Bonds"), for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the System of the District, in accordance with plans and specifications prepared by Woolpert Consultants, now on file in the office of the Secretary of the District, and to prescribe the covenants of the District, the rights of Bondowners and the

details of the issuance and sale of the proposed Current Bonds,  
and

WHEREAS, the District desires and intends that the Current Bonds be issued so as to rank on a parity basis with the Prior Bonds, and

WHEREAS, the Prior Bonds were issued to and are now held by the Farmers Home Administration of the Department of Agriculture of the United States of America (the "FmHA"), and

WHEREAS, the FmHA, as the Owner of the Prior Bonds, has consented to the issuance by the District of the Current Bonds, and

WHEREAS, the Public Service Commission of Kentucky has granted to the District a Certificate of Public Convenience and Necessity, authorizing the construction of said extensions, additions and improvements, and

WHEREAS, the proceeds of the Current Bonds will be supplemented by Grant Proceeds (as hereinafter defined) in the amount of approximately \$1,194,180, and by water connection charges and contributions in the amount of at least \$40,820, to provide the total cost of such construction, and

WHEREAS, the District has entered into a Water Purchase Contract (as hereinafter defined) with the Bath County Water District, assuring the District an adequate supply of water for as long as any of the proposed Current Bonds shall be outstanding,

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF THE SHARPSBURG WATER DISTRICT OF BATH AND NICHOLAS COUNTIES, KENTUCKY, AS FOLLOWS:

## ARTICLE 1

### DEFINITIONS; PURPOSE; AUTHORIZATION OF BONDS; SECURITY.

Section 101. Definitions. As used in this Resolution, unless the context requires otherwise:

"ACT" refers to Chapters 74 and 106 and Sections 58.010 through 58.140, inclusive, of the Kentucky Revised Statutes.

"ADF GRANT" refers to the Area Development Fund grant described in Section 806 of this Resolution.

"ARC GRANT" refers to the Appalachian Regional Commission grant described in Section 805 of this Resolution.

"BEGINNING MONTH" means the month following the month in which the Current Bonds authorized herein are issued, sold and delivered to the Purchaser thereof.

"BOND COUNSEL" refers to an attorney or firm of attorneys recognized nationally as experts in the field of municipal bond law and shall be deemed to refer to Rubin Hays & Foley, Louisville, Kentucky, or their successors.

"BONDOWNER" or "OWNER" mean and contemplate the registered Owners of the Current Bonds at the time issued and outstanding hereunder.

"BONDS" refers to the outstanding Prior Bonds and the Current Bonds.

"BONDS OF 1984" refers to the original authorized issue of \$189,000 of bonds designated as "Sharpsburg Water District Waterworks Refunding and Improvement Revenue Bonds of 1984", dated July 25, 1984, of which there are presently outstanding \$184,600 of Bonds, scheduled to mature on January 1 in each of the years, 1991 through 2024, inclusive.

"BOND RESOLUTION OF 1984" or "1984 BOND RESOLUTION" refers to the Resolution authorizing the Bonds of 1984, duly adopted by the Board of Commissioners of the District on June 13, 1984.

"CHAIRMAN" refers to the elected or appointed Chairman or Chairperson of the Commission.



"CODE" refers to the Internal Revenue Code of 1986, as amended, and the Treasury Regulations relating thereto.

"COMMISSION" means the Board of Commissioners of the District, or such other body as shall be the governing body of said District under the laws of Kentucky at any given time.

"CONSTRUCTION ACCOUNT" refers to the Sharpsburg Water District Waterworks Construction Account, created in Section 301(B) of this Current Bond Resolution.

"CONSTRUCTION PROJECT" refers specifically to the construction of the currently proposed extensions, additions and improvements to the System of the District, which Construction Project is being financed by the Current Bonds and by other funds.

"CONTRACTORS" means the general contractors who have been employed by the District to construct the Construction Project.

"CURRENT BOND RESOLUTION" or "RESOLUTION" refers to this Resolution authorizing the Current Bonds.

"CURRENT BONDS" refers to the \$335,000 of Sharpsburg Water District Waterworks Revenue Bonds, Series 1990 authorized by this Resolution, to be dated as of the date of issuance thereof.

"DEPOSITORY BANK" means the bank, which shall be a member of the FDIC, at which the principal of and interest on the Prior Bonds are payable and which has served and shall continue to serve as the depository of all of the Funds created in the Prior Bond Resolution and this Current Bond Resolution, which bank is Citizens Bank, Sharpsburg, Kentucky, or its successor.

"DEPRECIATION FUND" refers to the Sharpsburg Water District Waterworks Depreciation Fund, created in Section 401(D) of the Prior Bond Resolution.

"DHUD GRANT" refers to the Department of Housing and Urban Development grant described in Section 807 of this Resolution.

"DISTRICT" refers to the Sharpsburg Water District of Bath and Nicholas Counties, Kentucky.

"ENGINEERS" refers to the Engineers or any one of them, who prepared the plans and specifications for the construction of the Construction Project and who will supervise the construction thereof and/or will furnish full time resident inspection of the construction of the Construction Project, and shall be deemed to refer to Woolpert Consultants, or a member of said firm, or their successors.

"EVENT OF DEFAULT" refers to one or more of the Events of Default set forth in Section 701 of this Resolution.

"FDIC" refers to the Federal Deposit Insurance Corporation, or its successors.

"FISCAL YEAR" refers to the annual accounting period of the District, beginning on January 1 and ending on December 31 of each year.

"FmHA" means the Farmers Home Administration of the Department of Agriculture of the United States of America.

"FmHA GRANT" refers to the FmHA grant described in Section 804 of this Resolution.

"FUNDS" refers to the Revenue Fund, the Prior Sinking Fund, the Depreciation Fund and the Operation and Maintenance Fund.

"GOVERNMENT" means the United States of America, or any agency thereof, including the FmHA.

"GRANT PROCEEDS" refers to the proceeds of the FmHA Grant, the ARC Grant, the ADF Grant and the DHUD Grant.

"INDEPENDENT CONSULTING ENGINEER" refers to a consulting engineer or a firm of consulting engineers of recognized excellent reputation in the field of waterworks system engineering, and such definition includes the Engineers named above.

"INTERIM LENDER" means Farmers Home Administration, Lexington, Kentucky, its successors or assigns; or any other financial institution or governmental agency approved by the District.

"LOCAL COUNSEL" refers to Billy G. Hopkins, Carlisle, Kentucky, or any other attorney or firm of attorneys designated by the District.

"MULTIPLE ADVANCES" refers to the advance of loan funds from the FmHA as described in Section 302 of this Resolution.

"NOTE" refers to a single note or any number of notes, in such form as may be prescribed by the Interim Lender, including any revenue bond anticipation notes issued pursuant to Section 58.150 of the Kentucky Revised Statutes, including any renewal or extensions of the Note, issued by the District evidencing the interim financing for the Construction Project as prescribed in Section 302 of this Resolution.

"OPERATION AND MAINTENANCE FUND" refers to the Sharpsburg Water District Waterworks Operation and Maintenance Fund described in Section 401(C) of the Prior Bond Resolution.

"OUTSTANDING BONDS" refers to the outstanding Prior Bonds and Current Bonds, and any additional outstanding Parity Bonds, and does not refer to, nor include, any Bonds for the payment of the principal and interest of which sufficient funds will have been deposited and earmarked for payment of Bonds; provided all Outstanding Bonds of any series held by the FmHA shall be deemed to constitute Outstanding Bonds until paid regardless of the deposit of funds to pay for same.

"PARITY BONDS" means bonds which may be issued in the future, in addition to the Prior Bonds and the Current Bonds, which Parity Bonds issued in the future will, pursuant to the provisions of the Prior Bond Resolution and of this Current Resolution, rank on a basis of parity with said outstanding Prior Bonds and Current Bonds, as to priority, security and source of payment, and does not refer to bonds which might be issued so as to rank inferior to the security and source of payment of the outstanding Prior Bonds and Current Bonds.

"PRIOR BONDS" refers to the outstanding Sharpsburg Water District Waterworks Refunding and Improvement Revenue Bonds of 1984, dated July 25, 1984, originally issued in the amount of

\$189,000 and scheduled to mature on January 1 in each of the respective years, 1991 through 2024, inclusive.

"PRIOR BOND RESOLUTION" refers to the Resolution authorizing the Prior Bonds, duly adopted by the Commission on June 13, 1984.

"PRIOR SINKING FUND" refers to the Sharpsburg Water District Waterworks Bond and Interest Sinking Fund, created in Section 401(A) of the Prior Bond Resolution.

"PURCHASER" means the agency, person, firm or firms, or their successors, to whom the Current Bonds herein authorized are awarded at the public sale of the Current Bonds, and such definition shall refer to the FmHA if it is the Purchaser of the Current Bonds at said public sale.

"REQUIRED SIGNATURES" refers to the signatures necessary to be obtained with reference to the approval of the expenditures to be made from the Construction Account, which required signatures shall consist of the signatures of (1) the Chairman, (2) the Engineers and (3) the Purchaser; provided, however, any expenditures for issuance and administrative costs and the costs of any equipment which is not permanently affixed to the real estate shall not require the signature or the approval of the Engineers.

"REVENUE FUND" refers to the Sharpsburg Water District Waterworks Revenue Fund, created in Section 401 of the Prior Bond Resolution.

"SECRETARY" refers to the elected or appointed Secretary of the Commission.

"SYSTEM" refers to the existing waterworks system of the District, together with all extensions, additions and improvements to said System.

"TREASURER" refers to the elected or appointed Treasurer of the Commission.

"U.S. OBLIGATIONS" means bonds or notes which are the direct obligations of the United States of America, or obligations the principal of and interest on which are guaranteed by the United States of America.

"WATER PURCHASE CONTRACT" refers to the contract for purchase of treated water by and between the District and the Bath County Water District, as amended and supplemented.

All words and terms importing the singular number shall, where the context requires, import the plural number and vice versa. Unless otherwise indicated, references to Articles or Sections refers to those in this Resolution.

**Section 102. Purpose; Construction Project.** The Current Bonds shall be issued for the purpose of financing the cost (not otherwise provided) of the Construction Project, as set out in the plans and specifications prepared by the Engineers. The Commission hereby declares the System of the District, including the extensions, additions and improvements to be constructed, to constitute a revenue producing public project, and said System shall continue to be owned, controlled, operated and maintained by the District as a revenue producing public project pursuant to the Act, so long as any of the Prior Bonds, the Current Bonds or any additional Parity Bonds remain outstanding.

**Section 103. Construction Award Approved; Work Authorized.** The Commission hereby authorizes, approves, ratifies and confirms its previous action in advertising for and taking steps toward awarding the contracts for the construction of the Construction Project to the lowest and best bidders, and further approves the action of the District officials in entering into formal contracts with said bidders, subject to the necessary approvals being obtained. Authority is hereby given for undertaking the construction of the Construction Project according to the plans and specifications heretofore prepared by the Engineers for the District, after all necessary approvals have been obtained.

**Section 104. Declaration of Period of Usefulness.** The Commission hereby declares that the period of usefulness of the System is more than forty (40) years from the date of completion of the Construction Project.

**Section 105. Authorization of Bonds.** The District has heretofore determined that the total cost of the Construction Project, including preliminary expenses, land and rights-of-way, engineering expense, capitalized interest during construction, legal and administrative costs, publication costs, initial deposits required and all incidental expenses, will not exceed \$1,570,000. Therefore, it is hereby determined to be necessary in order for the District to finance the cost (not otherwise provided) of the Construction Project that the District issue a total of \$335,000 of Current Bonds, based on the following calculation:

|   |               |                    |
|---|---------------|--------------------|
| Total cost of Construction Project      |               | \$1,570,000        |
| Less:                                   |               |                    |
| FmHA Grant                              | \$525,000     |                    |
| ARC Grant                               | 159,000       |                    |
| ADF Grant                               | 16,500        |                    |
| DHUD Grant                              | 493,680       |                    |
| Connection Charges<br>and Contributions | <u>40,820</u> |                    |
| Total Non-Bond Funds:                   |               | <u>(1,235,000)</u> |
| Balance to be financed by Current Bonds |               | \$335,000          |

Accordingly, for the purpose of financing the cost (not otherwise provided) of the Construction Project, under the provisions of the Act, there is hereby authorized to be issued and sold \$335,000 principal amount of Sharpsburg Water District Waterworks Revenue Bonds, Series 1990.

The Current Bonds shall be dated as of the date of delivery to the Purchaser thereof; shall bear interest from such date at such interest rate as may be fixed by supplemental resolution as a result of the advertised sale and competitive bidding for such Current Bonds, as hereinafter provided; and shall be issued and delivered as prescribed in Section 202 hereof.

Interest on the Current Bonds shall be payable semi-annually on January 1 and July 1 of each year, provided that the first interest payment period will cover interest only from the date of delivery of the Current Bonds to the ensuing January 1 or July 1, as the case may be. Principal of the Current Bonds shall be payable on January 1 of each of the respective years until maturity, as set out in Section 201 hereof.

**Section 106. Recognition of Prior Bonds.** The District hereby expressly recognizes and acknowledges that the District has previously created for the benefit and protection of the owners of the Prior Bonds, a certain statutory mortgage lien and pledge and certain security rights relating to the System, all as set forth in the Prior Bonds and in the Prior Bond Resolution.

**Section 107. Current Bonds Shall be Payable Out of Gross Revenues and Secured by Statutory Mortgage Lien on a Parity with the Prior Bonds.** All of the Current Bonds, the Prior Bonds and any additional Parity Bonds that may be issued under the conditions and restrictions herein set forth, shall be (i) secured on a parity first lien basis by and payable solely from the gross revenues of the System; (ii) a valid claim of the Owners thereof against the Prior Sinking Fund created for the benefit of such Owners; and (iii) further secured, on a parity first lien basis, by a statutory mortgage lien as provided in Section 106.080 of

the Kentucky Revised Statutes, which statutory mortgage lien is hereby recognized to be valid and binding upon the District and upon all of the properties constituting the System. Such lien shall take effect immediately upon delivery of the Current Bonds.

**Section 108. Lien on Contracts.** In addition to the revenue pledge and statutory mortgage lien securing the Bonds, a first lien is hereby created and granted in favor of the Current Bonds on all contracts, including specifically the Water Purchase Contract, and on all other rights of the District pertaining to the System, enforceable by assignment to any receiver or other operator proceeding by authority of any court.

## ARTICLE 2

### THE BONDS; PRINCIPAL INSTALLMENTS; BOND FORM; EXECUTION; PREPAYMENT.

Section 201. Principal Installments. Principal installments due on the Current Bonds shall be as set forth in the schedule of maturities set out in Exhibit A attached to this Resolution and incorporated herein.

Section 202. Issuance of Current Bonds; Bond Form. The Purchaser of the Current Bonds at the public sale shall take delivery of the Current Bonds in the form of one or more fully registered bonds, as set forth in Exhibit B attached hereto and incorporated herein, amounting in the aggregate to the principal amount of the Current Bonds authorized herein, maturing as to principal in installments as set out above. The Current Bonds shall be numbered R-1 and consecutively upward thereafter. Such Current Bonds shall, upon appropriate execution on behalf of the District as prescribed, constitute the entire bond issue herein authorized, shall be negotiable (subject to registration requirements as to transferability), registered as to principal and interest and payable as directed by the registered Owner.

Section 203. Place of Payment and Manner of Execution. Both principal of and interest on the Current Bonds shall be payable at the place and in the manner set out in the form of such Current Bond. The Current Bonds shall be executed on behalf of the District by being signed manually by the Chairman of the District, with the Corporate Seal of the District affixed thereto and attested by the manual signature of the Secretary of said District.

If either of the officers whose signatures appear on the Current Bonds ceases to be such officer before delivery of said Current Bonds, such signatures shall nevertheless be valid for all purposes the same as if such officers had remained in office until delivery.

Section 204. Provisions as to Prepayment. Except when all of the Current Bonds are held by the Government, installments of principal falling due prior to January 1, 2000, shall not be subject to prepayment. Installments of principal falling due on and after January 1, 2000, shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 1999, at par plus accrued interest, without any prepayment penalty.

So long as all of the Current Bonds are owned by the Government, all or any of the Current Bonds, or installments in a multiple of \$1,000, may be prepaid at any time in inverse chronological order of the installments due, at par plus accrued interest without any prepayment penalty.



### ARTICLE 3

#### CONSTRUCTION ACCOUNT; INTERIM FINANCING; APPLICATION OF PROCEEDS; ARBITRAGE LIMITATIONS.

Section 301. The Construction Account; Fidelity Bond of Treasurer; Covenants Applicable if FmHA Purchases the Bonds; Application of Proceeds of Bonds; Other Transfers and Deposits. The Treasurer of the District, or such other District official as shall be designated by the Commission, shall be the custodian of all funds belonging to and associated with the System, and such funds shall be deposited in the Depository Bank. All moneys in excess of the amount insured by the FDIC in the Construction Account shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The officials of the District entrusted with the receipt and disbursement of funds of the System and the custody of valuable property shall be covered by a fidelity bond in the amount of not less than \$40,000 (the "Fidelity Bond"), or such larger amount as the FmHA may require, which Fidelity Bond shall be effective and secured by a surety company approved by the FmHA so long as it is owner of any of the Bonds; the FmHA and the District shall be named co-obligees in such Fidelity Bond; and the amount thereof shall not be reduced without the written consent of the FmHA; provided that whenever sums in the various accounts referred to herein (other than the Construction Account) shall exceed \$40,000, the Fidelity Bond shall be increased accordingly as requested by and with the approval of the FmHA.

In like manner, the officials of the District entrusted with the receipt and disbursement of moneys in the Construction Account shall be covered by a separate fidelity bond (the "Construction Account Fidelity Bond") with the FmHA and the District named as co-obligees in the maximum amount anticipated to be on deposit in the Construction Account at any one time as determined by the Chairman, with the approval of the FmHA. The District will segregate and earmark its various funds, consistent with this Resolution, in such manner as to enable the District to obtain the lowest possible surety premium rate on such Fidelity Bond and Construction Account Fidelity Bond.

A. Covenants Applicable if FmHA Purchases Bonds. It is acknowledged that all covenants herein with reference to the necessity for approval of the FmHA, the necessity of observing FmHA procedure and the necessity of using FmHA forms (the "FmHA Forms"), shall apply only if the FmHA is the Purchaser of the Current Bonds and only so long as the FmHA holds the Bonds thereafter. In the event that the FmHA shall not be the Purchaser of the Current Bonds, or, after purchasing same, shall sell or transfer the Current Bonds to an Owner who shall not be the Government, all covenants herein with reference to the necessity for approval of the FmHA, the necessity of observing FmHA

procedure, and the necessity of using FmHA Forms, shall not be applicable.

**B. Application of Proceeds of Current Bonds.** The proceeds of the Current Bonds shall be applied as follows:

(1) **Payment of Interim Financing, Costs of Construction Project, and Costs of Issuance of Bonds.** Simultaneously with the delivery of the Bonds (to the extent of part or all of the proceeds of the Bonds), there shall immediately be paid to the Interim Lender (or the FmHA if Multiple Advances are made) an amount sufficient to pay principal of and interest on any temporary loans borrowed by the District in anticipation of the sale and delivery of the Current Bonds and/or of the receipt of Grant Proceeds. Also, at the time of delivery of the Current Bonds, there shall be paid all amounts then due and payable in connection with the costs of the Construction Project and in connection with the issuance of the Current Bonds.

(2) **Construction Account; Grant Proceeds and District Contribution.** If and to the extent that the proceeds of the Current Bonds shall be in excess of the amount necessary to pay the interest, principal and costs referred to in subparagraph B(1) of this Section, such excess amount shall immediately be deposited in the "Sharpsburg Water District Waterworks Construction Account" hereby created, which shall be established at the Depository Bank. There shall also be deposited in said Construction Account the Grant Proceeds, as and when received, or said Grant Proceeds may be applied, to the extent necessary, to liquidate or reduce any interim financing owed by the District at the time of receipt of Grant Proceeds. Simultaneously with or prior to the delivery of the Bonds, there shall also be deposited in the Construction Account the proceeds of the District contribution in the minimum amount of \$41,820 (less any amounts theretofore used for authorized purposes), to supplement the proceeds of the Bonds and Grant Proceeds in order to assure completion of the Construction Project.

(3) **Withdrawal of Funds From Construction Account.** Prior to the expenditure by the District of any moneys from the Construction Account, the District must obtain written approval from the FmHA as to such expenditures, if the FmHA is the Owner of any Outstanding Bonds. The proceeds of said Construction Account shall be withdrawn only on checks signed by the Treasurer (or by such other official of the District as may be authorized by the Commission), provided such Treasurer or such other official shall be covered by the Construction Account Fidelity Bond required by

Section 301 of this Resolution, in payment for services and/or materials supplied in connection with the Construction Project, as evidenced by (1) a Requisition Certificate and (2) invoices and/or partial payment estimates bearing the written approval of the Engineers and the Chairman (or by such other official of the District as may be authorized by the Commission), and which invoices and/or partial payment estimates must have been reviewed and approved for payment by the designated FmHA official.

Written approval or certification of the Engineers shall not be required for matters not under the jurisdiction of the Engineers, such as legal fees, land acquisition and related items. The executed Requisition Certificates shall be retained by the Treasurer and need not be furnished to the Depository Bank, which shall be authorized to honor checks signed by the Treasurer.

During construction, the District shall disburse Construction Account funds in a manner consistent with FmHA Instruction 1942.17(p)(5) of Appendix "A" to FmHA Instruction 1942-A. Form FmHA 424-18, "Partial Payment Estimate" or similar form approved by FmHA, shall be used for the purpose of documenting periodic construction estimates, and shall be submitted to FmHA for review and acceptance. Form SF-271, "Outlay Report and Request for Reimbursement for Construction Programs," shall be prepared and submitted to FmHA to account for funds expended in the last 30 day period.

After the Bonds are delivered, the District shall prepare and submit Form SF-272, "Report of Federal Cash Transactions", to report the status of federal cash received during each prior monthly period. Form FmHA 440-11, "Estimate of Funds Needed for 30-Day Period Commencing \_\_\_\_\_", will be prepared by the District and submitted to FmHA in order that a periodic Advance of Federal Cash may be requested. Forms FmHA 440-11 and SF-272 will be submitted to FmHA simultaneously.

Periodic audits of the District's Construction Account records shall be made by FmHA as determined by it to be necessary.

**(4) Transfer of Capitalized Interest to Prior Sinking Fund.** There shall be transferred from the Construction Account an amount sufficient to provide for capitalized interest (initially estimated at \$12,500) during the construction of the Construction Project, as approved by the Engineers and by the FmHA. If and to the extent not theretofore expended in paying

interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Construction Project, such amount so transferred from the Construction Account shall be deposited in the Prior Sinking Fund.

**(5) Investment of Funds in Construction Account.** Pending disbursement of amounts on deposit in the Construction Account, all such funds, or such portion of said amounts on deposit in said Construction Account as is designated by the Commission, shall be invested for the benefit of such Construction Account in Certificates of Deposit, savings accounts or U.S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for costs of the Construction Project (as determined by the Engineers, the Chairman and the representative of the FmHA), provided that to the extent that any amounts on deposit in said Depository Bank shall cause the total deposits of the District in said Depository Bank to exceed the amount insured by the FDIC, the same shall be continuously secured by a valid pledge of U.S. Obligations, having an equivalent market value, in conformity with Section 66.480 of the Kentucky Revised Statutes. Investments in Certificates of Deposit may be made only if a separate FmHA Form 402-4 Agreement is executed, if the FmHA has purchased any of the Bonds, and investments in Certificates of Deposit or savings accounts may be made only in such Certificates or accounts of an FDIC bank. Any such investments will be a part of the Construction Account, and income from such investments will be credited to the Construction Account. All such investments shall be subject to the limitations set out in Section 303 hereof.

**(6) Statements of Contractors, Engineers, and Attorneys as to Payment.** Prior to the delivery of the Current Bonds, if the FmHA is the Purchaser of the Current Bonds, the District will be required to provide the FmHA with statements from the Contractors, Engineers, and attorneys for the District that they have been paid to date in accordance with their contract or other agreements and, in the case of any Contractor, that he has paid his suppliers and subcontractors. Any exceptions must be authorized under FmHA Instructions 1942-A, Subsection 1942.17(n)(2).

**(7) Disposition of Balance in Construction Account After Completion of Construction Project.** When the Construction Project has been completed and all construction costs have been paid in full, as certified by the Engineers for the District and/or by the FmHA,

any balance then remaining in the Construction Account may, with the consent of the State Director of the PmHA, be applied to the cost of constructing additional extensions, additions and improvements to the System (the "Additional Construction"). If such Additional Construction is to be undertaken by the Contractors previously engaged in the Construction Project, such Additional Construction may be authorized by a change order.

If there is a balance remaining in the Construction Account after such Additional Construction, such balance (subject to legal requirements as to possible refund of any allocated portion of the balance derived from Grant Proceeds) shall be transferred to the Prior Sinking Fund, whereupon said Construction Account shall be closed. Such remaining balance in the Construction Account so transferred to the Prior Sinking Fund shall be used by the District immediately to prepay principal installments due on the Current Bonds in the inverse order of maturities without prepayment penalty, provided further that any balance insufficient to prepay at least \$1,000 of the principal payment falling due in any year on the Bonds will be transferred to the Depreciation Fund.

#### Section 302. Interim Financing Authorization.

**A. Interim Financing.** The District shall use interim financing for the Construction Project during construction of that portion of the cost of the Construction Project financed by the Current Bonds, if available at reasonable rates and terms.

The borrowing of up to the aggregate sum of \$335,000 from the Interim Lender is hereby authorized; and the Chairman is hereby authorized to execute the Note in the name and on behalf of the District. Each advance under the Note shall evidence a loan by the Interim Lender to the District for services rendered and/or materials supplied in connection with the Construction Project, as evidenced by a Requisition Certificate.

Interim financing shall be disbursed as follows:

(1) At the direction of the District, the Interim Lender shall disburse the proceeds of the Note by cashier's checks directly to the parties entitled thereto as set forth in the Requisition Certificate; or

(2) At the direction of the District, the Interim Lender shall deposit the proceeds of the Note in the Construction Account, in which event amounts of the District on deposit therein shall, until expended to the extent that same shall exceed the amount insured by

the FDIC, be fully secured by a pledge of U.S. Obligations.

The aggregate of the principal amount of all Notes shall not exceed \$335,000. Each Note which is renewed or superseded shall be simultaneously cancelled by the Interim Lender and transmitted to the Treasurer. The rate of interest applicable to each Note shall not exceed a reasonable rate, which rate is subject to the approval of the FmHA.

The total authorized interim financing of \$335,000 shall be the maximum indebtedness which the District may owe at any one time to the Interim Lender; provided, however, that the District may reduce the amount owed by the District to the Interim Lender from time to time as and when funds are available to the District, whether derived from the proceeds of the Grant Proceeds, the proceeds of the sale of the Current Bonds or otherwise, and may reborrow from the Interim Lender additional amounts in anticipation of the further receipt by the District of additional proceeds from the Current Bonds and/or Grant Proceeds.

The District hereby covenants and agrees with the Interim Lender that upon the issuance and delivery of the Current Bonds and/or the receipt of said Grant Proceeds, the District will apply the proceeds thereof, to whatever extent may be necessary, in payment of the principal amount of the Note, together with accrued interest thereon to the date of such payment; and the proceeds of the Current Bonds and Grant Proceeds are hereby pledged therefor, and such pledge shall constitute a first and prior charge against said proceeds.

Although the proceeds of the Current Bonds and Grant Proceeds are pledged to the repayment of said interim financing, it is recognized that the Grant Proceeds may be applied to the extent required at the time of receipt of the Grant Proceeds, to the payment of costs of the Construction Project due and owing by the District at the time of receipt of such Grant Proceeds, rather than to the repayment of portions of the interim financing at that time. If and to the extent that the Grant Proceeds are in excess of any costs of the Construction Project due and owing at the time of receipt thereof, such Grant Proceeds may be applied, in the same manner as set out hereinabove, to the reduction of the amount of the interim financing, after which, such interim financing may again be increased as theretofore.

It is understood that the foregoing constitutes an alternative method of obtaining interim financing, and does not preclude the authorization and sale, by public advertisement or otherwise, of bond anticipation notes and/or grant anticipation notes to the most favorable bidder on the open market, by concurrent or subsequent proceedings of the District.

**B. Multiple Advances by FmHA.** In the event the Current Bonds are purchased by the FmHA, and in the event the

District is unable to obtain a commitment for interim financing for the Construction Project from any Interim Lender at reasonable rates and terms, the Chairman is authorized to request Multiple Advances of loan funds from the FmHA.

If the FmHA agrees to make Multiple Advances to the District pending the delivery of the Current Bonds, the Chairman is hereby authorized to execute in the name and on behalf of the District any number of Notes. Each such Note, evidencing an advance of funds by the FmHA to the District, shall be in the form prescribed by the FmHA.

Each request for an advance from the FmHA shall be accompanied by a Requisition Certificate. The District will also furnish to the FmHA, prior to the receipt of each Multiple Advance, whatever additional documentation shall be requested by the FmHA, including an updated supplemental title opinion of Local Counsel and an updated supplemental preliminary legal opinion of Bond Counsel.

The proceeds of any Multiple Advances shall be either (i) disbursed directly to the parties entitled thereto for services and/or materials supplied in connection with the Construction Project or (ii) deposited into the Construction Account and disbursed in accordance with the provisions of Section 301B(3) hereof, in which event amounts on deposit in such Construction Account shall, until expended, to the extent that same shall exceed the amount insured by the FDIC, be fully secured by a pledge of U.S. Obligations.

The proceeds of the Current Bonds are hereby pledged to the repayment of such Multiple Advances, and such pledge shall constitute a first and prior pledge against such proceeds. The District further pledges the gross revenues of the System to the repayment of said Multiple Advances, subject to the priority of the pledges securing the Prior Bonds.

**Section 303. Arbitrage Limitations on Investment of Proceeds.** The District covenants and certifies, in compliance with the Code, as follows:

(a) The District certifies, on the basis of known facts and reasonable expectations on the date of adoption of this Resolution, that it is not expected that the proceeds of the Current Bonds will be used in a manner which would cause the Current Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. The District covenants to the Purchaser and/or Owners of the Current Bonds that (1) the District will make no use of the proceeds of said Current Bonds which, if such use had been reasonably expected on the date of issue of such Current Bonds, would have caused such Current Bonds to be "arbitrage bonds" and (2) the District will comply with all of the

requirements of the Code to whatever extent is necessary to assure that the Current Bonds shall not be treated as or constitute "arbitrage bonds" and that the interest on the Bonds shall be excludable from gross income for Federal income tax purposes.

(b) The District certifies, based on information furnished by the Engineers, and on known facts and reasonable expectations at this time, as follows:

- (1) that the District has entered into a contract with the Engineers for engineering services in connection with the Construction Project financed by the Current Bonds and the fees to be paid to such Engineers will exceed 2-1/2% of the total cost of the Construction Project;
- (2) that work on the Construction Project has commenced or will commence within six months from the date of issuance of the Current Bonds or from the date of the first interim financing loan made under this Resolution, whichever occurs first;
- (3) that the construction of said Construction Project will proceed thereafter to completion with due diligence on the part of the District;
- (4) that all of the proceeds of the Current Bonds, with the possible exception of five percent (5%) of the proceeds of the Bonds, will be expended on the costs of the Construction Project within less than three years from the date of issuance of the Current Bonds;
- (5) that it is anticipated that amounts on deposit in the Prior Sinking Fund will be used within thirteen (13) months from the date of deposit for the payment of debt service on the Outstanding Bonds, and that, except for an amount equal to not more than the greater of (i) one-twelfth (1/12) of debt service requirements of the Outstanding Bonds for the then ensuing year or (ii) one year's earnings on the Prior Sinking Fund, such Prior Sinking Fund will be depleted through such application for current debt service requirements of the Outstanding Bonds;
- (6) that it is not anticipated that amounts will be accumulated in any reserve fund



anticipated to be used for debt service on the Outstanding Bonds in excess of an amount reasonably required to sell the Current Bonds; provided, however, in no event shall such amount exceed the lesser of (i) the maximum annual debt service on all Outstanding Bonds, (ii) 1.25 times the average annual debt service for principal and interest on all Outstanding Bonds, or (iii) more than 10% of the face amount (par) of the Current Bonds, plus 10% of the face amount of all Prior Bonds (15% as to any Prior Bonds issued prior to August 16, 1986);

- (7) that it is not reasonably anticipated that amounts accumulated in the Depreciation Fund will be used for payment of the debt service on any Outstanding Bonds, even though such Depreciation Fund will be available if necessary to prevent a default in the payment of principal and interest on the Bonds; and
- (8) that the District has not been advised of any listing or contemplated listing by the Internal Revenue Service determining that the foregoing type of certification with respect to the District's obligations may not be relied on.

(c) The District covenants that neither the proceeds of the Bonds, nor Non-Exempt Revenues (hereinafter defined) of the District will be invested in investments which will produce a net adjusted yield in excess of the net interest cost (effective yield) of the Current Bonds, if such investment would cause the Current Bonds to be treated as "arbitrage bonds"; provided, however, that such proceeds and/or revenues may be invested to whatever extent and whenever such Code permits same to be invested without causing the Current Bonds to be treated as "arbitrage bonds".

"Non-Exempt Revenues" within the meaning of the foregoing shall be deemed to refer to revenues of the District deposited in any of the funds earmarked for or reasonably expected to be used for the payment of debt service on the Outstanding Bonds, in excess of Exempt Revenues (hereinafter defined).

"Exempt Revenues" shall consist of the following:

- (1) amounts deposited in the Prior Sinking Fund for the purpose of paying debt service on any Outstanding Bonds within 13 months from the date of deposit;

- (2) amounts deposited in any reserve earmarked for or anticipated to be used for debt service on Outstanding Bonds, to the extent that such deposits do not cause the total amount of such reserves, deposits and other excess Non-Exempt Revenues, to exceed the limitations referred to in Section 303(b)(6) above, for which adequate provision will have been made to comply with such limitations;
- (3) amounts deposited in the Depreciation Fund, Operation and Maintenance Fund, or any other fund (however designated) reasonably expected to be used for extensions, additions, improvements, repairs or replacements to the System, and not reasonably expected to be used to pay debt service (even if pledged to be used to pay debt service in the event of the unexpected inadequacy of other funds pledged for that purpose) of Outstanding Bonds; and
- (4) an amount of the original proceeds of the Current Bonds if such amount does not exceed the lesser of five percent (5%) of the proceeds of the Current Bonds or \$100,000.

If and to the extent that any Non-Exempt Revenues are on deposit and are available for investment, such funds shall be subject to the investment limitation referred to in Section 303(a) above.

Prior to or at the time of delivery of the Current Bonds, the Chairman and/or the Treasurer (who are jointly and severally charged with the responsibility for the issuance of the Current Bonds) are authorized to execute the appropriate certification with reference to the matters referred to above, setting out all known and contemplated facts concerning such anticipated construction, expenditures and investments, including the execution of necessary and/or desirable certifications of the type contemplated by Section 148 of the Code in order to assure that interest on the Current Bonds shall be excludable from gross income for Federal income tax purposes and that the Current Bonds will not be treated as "arbitrage bonds".

## ARTICLE 4

### CURRENT BONDS ON A PARITY WITH PRIOR BONDS; FLOW OF FUNDS.

**Section 401. Current Bonds on a Parity with Prior Bonds.** It is hereby certified and declared that prior to the issuance of any of the Current Bonds, there will have been procured and filed with the Secretary of the District (a) a letter from the FmHA to the effect that the FmHA agrees to the issuance of the Current Bonds ranking on a parity as to security and source of payment with the Prior Bonds, all of which are owned by the FmHA, together with (b) a certification signed by the FmHA to the effect that a legend has been typed, stamped or otherwise affixed on each of the Prior Bonds held by the FmHA, evidencing the agreement of the FmHA as the then Owner of the Prior Bonds, to the issuance of the Current Bonds so as to rank on a parity with the Prior Bonds, such legend to be in substantially the following form:

The holder of this Bond has consented to the issuance of \$335,000 of Sharpsburg Water District Waterworks Revenue Bonds, Series 1990 ranking on a parity as to security and source of payment with this Bond.

Accordingly, it is hereby found and declared that the Current Bonds shall rank and be payable on a parity with said outstanding Prior Bonds from the gross income and revenues of the System.

**Section 402. Provisions of Prior Bond Resolution Incorporated Herein; Adjustments in Required Deposits.** All proceedings preliminary to and in connection with the issuance of said outstanding Prior Bonds of the District, including provisions made for (i) the receipt, custody and application of the proceeds of said Prior Bonds; (ii) the operation of the System on a revenue-producing basis; (iii) the segregation, allocation and custody of the revenues derived from the operation of the System; (iv) the enforcement and payment of said Prior Bonds and (v) the depreciation of the System; and all other covenants for the benefit of bondowners set out in the Prior Bond Resolution, are hereby ratified and confirmed and shall continue in force and inure to the security and benefit of the Current Bonds, as well as of the Prior Bonds, the same as if such provisions and proceedings were set out in full herein; provided, further, that the amount of the revenues of the System, to be paid into the Prior Sinking Fund during each of the fiscal years so long as any of the Prior Bonds and Current Bonds are outstanding, shall be sufficient to pay when due the interest upon and principal of all of the Prior Bonds and of all of the Current Bonds, as hereinafter specified.

**A. Revenue Fund.** A separate and special fund or account of the District, distinct and apart from all other funds and accounts, was heretofore created by the Prior Bond Resolution, which fund has been and is designated and identified as the Sharpsburg Water District Waterworks Revenue Fund, in the custody of the Treasurer, which Fund has been deposited with and shall continue to be maintained and deposited with the Depository Bank, so long as any of the Prior Bonds, the Current Bonds or any Parity Bonds are outstanding. The District covenants and agrees that it will continue to deposit therein, promptly as received from time to time, all revenues of the System, as same may be extended and improved from time to time. The moneys in the Revenue Fund from time to time shall continue to be used, disbursed and applied by the District only for the purpose and in the manner and order of priorities specified in the Prior Bond Resolution, as hereinafter modified by this Resolution, all as permitted by the Act, and in accordance with previous contractual commitments.

**B. Adjustments in Required Prior Sinking Fund Deposits.** In accordance with the requirements of Sections 401(A) of the Prior Bond Resolution, it is hereby recognized that the District is obligated upon the issuance of the Current Bonds to provide for additional debt service requirements of the Current Bonds.

Accordingly, it is hereby provided that Section 401(A) of the Prior Bond Resolution is amended and supplemented to provide further as follows:

At or after the delivery of the Current Bonds, there shall be transferred from the Construction Account to the Prior Sinking Fund an amount sufficient to provide for capitalized interest (initially estimated at \$12,500) on the Current Bonds during the construction of the Construction Project, if and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Construction Project.

Until the expiration of the month in which interest on the Current Bonds is last payable out of the sum set aside into the Prior Sinking Fund as capitalized interest, there shall continue to be transferred and deposited (as heretofore required by Section 401(A) of the Prior Bond Resolution) in each month from the Revenue Fund created in Section 401 of the Prior Bond Resolution and into which Revenue Fund all cash income and revenues derived from the operation of the System are required to be deposited, into the Prior Sinking Fund on or before the 20th day of each month, for payment of interest on and principal of the Prior Bonds, a sum equal to the total of the following:

- (a) An amount equal to one-sixth (or such larger amount as is necessary) of the next succeeding six

month interest installment to become due on the Prior Bonds, plus

- (b) A sum equal to one-twelfth of the principal of any Prior Bonds maturing on the next succeeding January 1.

After the expiration of the month in which interest on the Current Bonds is last payable out of the sum set aside into the Prior Sinking Fund as capitalized interest, the deposits required by subsections (a) and (b) above shall be superseded, and thenceforth and thereafter, there shall be transferred in each month from the Revenue Fund and deposited into the Prior Sinking Fund on or before the 20th day of each month, for payment of interest on and principal of all of the Outstanding Bonds, a sum equal to the total of the following:

- (1) An amount equal to one-sixth (or such larger amount as is necessary) of the next succeeding six month interest installment to become due on the Outstanding Bonds, plus
- (2) A sum equal to one-twelfth (or such larger amount as is necessary) of the principal of the Outstanding Bonds maturing on the next succeeding January 1.

If the District for any reason shall fail to make any monthly deposit as required, then an amount equal to the deficiency shall be set apart and deposited into the Prior Sinking Fund out of the first available revenues in the ensuing months, which amount shall be in addition to the monthly deposit otherwise required during such succeeding months. Whenever there shall accumulate in the Prior Sinking Fund amounts in excess of the requirements during the next twelve months for paying the principal of and interest due on the Outstanding Bonds, as same fall due, such excess may be used for redemption or prepayment of any of such Outstanding Bonds prior to maturity, as set forth in Section 204 hereof and as provided in the Prior Bond Resolution.

**C. Monthly Principal and Interest Payments if Requested by the FmHA, or Other Owner of All Outstanding Bonds.** So long as any of the Prior Bonds and Current Bonds are held or insured by the FmHA, the District shall, if requested by the FmHA, make the payments required by the preceding Section 402(B), in monthly installments to the FmHA or to the insured Owners of the Prior Bonds and Current Bonds; provided further that at the option of any other Owner of all of the Prior Bonds and Current Bonds, such payments shall similarly be made in monthly payments to such Owner.

**D. Operation and Maintenance Fund.** After the completion of the transfers required in this Section 402 to be made in each month, there shall next be transferred monthly from

the Revenue Fund and deposited into said Operation and Maintenance Fund, sums sufficient to meet the current expenses of operating and maintaining the System. The balance maintained in said Operation and Maintenance Fund shall not be in excess of the amount required to cover anticipated expenditures for a two-month period pursuant to the District's annual budget.

**E. Adjustment in Depreciation Fund Deposits.** It is hereby recognized that in Section 401(D) of the Prior Bond Resolution, provision was made for the accumulation of a Depreciation Fund to which, from the balance of the funds remaining after the current Prior Sinking Fund deposit requirements are satisfied, there shall be set aside and paid in each month, as the next payment from the Revenue Fund, the sum of \$128 in each month, until there has been accumulated in such Depreciation Fund the sum of \$15,360, after which no further deposits are required by the Prior Bond Resolution to be made into such Depreciation Fund except to replace withdrawals.

Pursuant to the provisions of Section 401(D) of the Prior Bond Resolution which requires that an adjustment be made in the Depreciation Fund upon the issuance of bonds ranking on a parity with the Prior Bonds, it is hereby determined that upon the issuance of the Current Bonds, and upon completion of the Construction Project, as certified by the Engineers and by the FmHA, the sum of \$293 (increased from \$128) each month shall be deposited into the Depreciation Fund until there is accumulated in such Depreciation Fund the sum of \$35,160 (increased from \$15,360), which amount shall be maintained, and when necessary, restored to said sum of \$35,160, so long as any of the Prior Bonds and/or Current Bonds are outstanding and unpaid.

In accordance with the provisions of Section 401(D) of the Prior Bond Resolution, and as further security for the Bondowners and for the benefit of the District, it has been and is hereby provided that in addition to the monthly transfers required to be made from the Revenue Fund into the Depreciation Fund, there shall be deposited into said Depreciation Fund all proceeds of connection fees collected from potential customers (except the amounts necessary to pay the actual costs and service connections applicable to said potential customers) to aid in the financing of the cost of future extensions, additions and improvements to the System, plus the proceeds of any property damage insurance (not otherwise used to replace damaged or destroyed property); and any such amounts or proceeds so deposited shall be used solely and only for the purposes intended.

Moneys in the Depreciation Fund may be withdrawn and used by the District, upon appropriate certification of the Commission, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals and replacements not included in the annual budget of current expenses and/or of paying the costs of constructing future extensions, additions and

improvements to the System which will either enhance its revenue-producing capacity or will provide a higher degree of service, and when necessary, for the purpose of making payments of principal and interest on the Prior Bonds and/or Current Bonds if the amount on deposit in the Prior Sinking Fund is not sufficient to make such payments.

All funds in the Prior Sinking Fund and the Depreciation Fund shall be deposited in the Depository Bank, or such portion thereof as is designated by the Commission. All funds in the Prior Sinking Fund and the Depreciation Fund shall be invested for the benefit of such respective Funds in Certificates of Time Deposit or savings accounts of the Depository Bank or in U.S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for the purposes for which such funds may be expended, provided that to the extent that any amount of the District on deposit in the Depository Bank shall cause the total deposits of the District in said Depository Bank to exceed the amount insured by the FDIC, such excess amount shall be continuously secured by a valid pledge of U.S. Obligations, having an equivalent market value, in conformity with Section 56.480 of the Kentucky Revised Statutes.

If the FmHA has purchased any of the Outstanding Bonds, investments in Certificates of Deposit may be made only if a separate FmHA Form 402-4 Agreement is executed. Any such investments will be a part of the respective Funds from which the proceeds invested are derived, and income from such investments will be credited to such respective Funds. All investments of funds derived from proceeds of the Outstanding Bonds shall be subject to the applicable limitations set out in Section 303 hereof.

**F. Surplus Funds.** Subject to the provisions for the disposition of the income and revenues of the System as set forth hereinabove, which provisions are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred within sixty days after the end of each fiscal year, to the Prior Sinking Fund, the balance of excess funds in the Revenue Fund on such date, to be applied to the maximum extent feasible, to the prompt purchase or redemption of Outstanding Bonds.

**G. General Requirements as to Funds.** All payments into the Funds shall be made on or before the twentieth (20th) day of each month, except that when the twentieth (20th) day of any month shall be a Saturday, Sunday or a legal holiday, then such payment shall be made on the next succeeding business day.

All moneys held in any of the Funds shall be kept apart from all other District funds and shall be deposited in the Depository Bank, and all such deposits which cause the aggregate

of all deposits of the District therein to be in excess of the amount secured by FDIC, shall (unless invested as herein authorized) be secured by a surety bond or bonds or by a pledge of U.S. Obligations, having a market value equivalent to such deposit.



## ARTICLE 5

### COVENANTS OF DISTRICT

**Section 501. Rates and Charges.** The District shall charge such rates and charges for all services and facilities rendered by the System, which rates and charges shall be reasonable and just, taking into account and consideration the cost and value of the System, the cost of maintaining, repairing and operating the same and the amounts necessary for the payment of principal of and interest on Outstanding Bonds against the System. The District shall charge such rates and charges as shall be adequate to meet the requirements of Articles 4 and 5 hereof.

The District covenants that it will not reduce the rates and charges for the services rendered by the System without first filing with the Secretary a certification of an Independent Consulting Engineer that the annual net revenues (defined as gross revenues less current expenses) of the then existing System for the fiscal year preceding the year in which such reduction is proposed, as such annual net revenues are adjusted, after taking into account the projected reduction in annual net revenues anticipated to result from any such proposed rate decrease, are equal to not less than 120% of the average annual debt service requirements for principal and interest on all of the then Outstanding Bonds payable from the revenues of the System, calculated in the manner specified in Section 603 hereof.

**Section 502. Books and Accounts; Audit.** If and to the extent not now fully required by the Prior Bond Resolution, the District shall maintain proper records and accounts relating to the operation of the System and the District's financial affairs; and the Owners of any of the Prior Bonds or the Current Bonds, or their authorized representatives, shall have the right at all reasonable times to inspect the facilities of the System and all records, accounts and data relating thereto. An annual audit shall be made of the books and accounts pertinent to the System by a Certified Public Accountant licensed in Kentucky. No later than sixty days after the close of each Fiscal Year, copies of such audit reports certified by such Certified Public Accountant shall be promptly mailed to the FmHA without request, so long as the Government is the Owner of any of the Current Bonds, and to any Bondowner that may have made a written request for same.

Monthly operating reports shall be furnished to the FmHA and to any Bondowner requesting same, during the first two years of operation after completion of the Construction Project, and whenever and so long as the District is delinquent in any of the covenants set out in the Prior Bond Resolution or this Current Bond Resolution. Thereafter, quarterly operating reports shall be furnished at all other times to the FmHA and to any Bondowner requesting the same.

Section 503. System to Continue to be Operated on Fiscal Year Basis; Annual Budget. While any of the Prior Bonds, the Current Bonds, and any Parity Bonds are outstanding and unpaid, and to the extent permitted by law, the System shall continue to be operated and maintained on a Fiscal Year basis.

Not later than sixty days after the end of each Fiscal Year, beginning immediately after the issuance of the Current Bonds, the District agrees to cause to be prepared a detailed statement of income and expenditures for the Fiscal Year, a current financial statement and a proposed annual budget of current expenses (the "Proposed Budget") of the System for the then ensuing Fiscal Year, itemized on the basis of monthly requirements. A copy of said Proposed Budget shall be mailed to any Bondowner who may request in writing a copy of such Proposed Budget and to the FMHA without request if the Government is the Owner of any of the Current Bonds.

For the purpose of the Proposed Budget, current expenses shall include all reasonable and necessary expenses of operating, repairing, maintaining and insuring the System, but shall exclude depreciation and payments into the Prior Sinking Fund and the Depreciation Fund. The District covenants that the current expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that the District will not expend any amount or incur any obligation for operation or maintenance and repair in excess of the amounts provided for current expenses in the annual budget, except upon resolution by the District that such expenses are necessary to operate and maintain the System.

Not later than sixty days after the end of each Fiscal Year, the District shall prepare an estimate of gross revenues to be derived from the operation of the System for said Fiscal Year, and, to the extent that said gross revenues are insufficient (a) to pay debt service requirements on all Outstanding Bonds during the ensuing Fiscal Year, (b) to accumulate and maintain all required reserves enumerated herein and (c) to pay current expenses, the District shall revise the rates and charges sufficiently to provide the funds required.

If the Owners of at least 50% of the principal amount of the Outstanding Bonds, or the Government so long as it is the Owner of any of said Outstanding Bonds, so request, the Commission shall hold an open hearing not later than thirty days before the beginning of the ensuing Fiscal Year, at which time any Bondowner may appear by agent or attorney and may file written objections to such proposed budget. Notice of the time and place of such hearing shall be mailed at least fifteen days prior to the hearing to each registered Bondowner and to the Government.

The District covenants that annually before the first day of January, the annual budget for the then current Fiscal Year will be adopted substantially in accordance with the

Proposed Budget, and that no expenditures for operation and maintenance expenses of the System in excess of the budgeted amount shall be made during such Fiscal Year unless directed by said District by a specific resolution duly adopted.

Section 504. General Covenants. The District, through its Commission, hereby covenants and agrees with the Owners of the Current Bonds that:

- (1) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky;
- (2) It will make and collect reasonable and sufficient rates and charges for services and facilities rendered by the System;
- (3) It will segregate the revenues and income from the System and make application thereof consistent with and as provided by this Resolution;
- (4) Unless the written consent of the Owners of a majority of the principal amount of the Outstanding Bonds has been obtained, the District agrees not to sell, lease, mortgage or in any manner dispose of any integral part of the System, including any and all appurtenances thereto and extensions, additions and improvements that may be made thereto, until all of the Outstanding Bonds shall have been paid or provided for in full, as provided herein; subject to the provisions of Section 607 hereof;
- (5) It will maintain in good condition and continuously operate the System and appurtenances thereto and will charge such rates and charges for the services rendered thereby so that the gross income and revenues will be sufficient at all times (i) to pay the interest on and principal of the Outstanding Bonds as same become due, (ii) to pay the cost of operating and maintaining the System, and (iii) to provide for an adequate depreciation account;
- (5) It will maintain in good condition and continuously operate said System and appurtenances thereto and will charge such rates and charges for the services rendered thereby so that the gross income and revenues will be sufficient at all times (i) to pay the cost and expense of operating and maintaining the System, (ii) to pay the interest on and principal of the Outstanding Bonds

and (iii) to provide for an adequate depreciation account;

- (6) It will carry and maintain insurance on properties of the System subject to loss or damage in amounts and against hazards substantially in accordance with the practices of other districts, cities or corporations which own and maintain waterworks systems under similar conditions; and so long as the Government is the Owner of any of the Outstanding Bonds, the Government will be listed as co-beneficiary on any such policy; and the District shall further comply with the insurance requirements of Section 506 hereof (involving insurance on motors, tanks and structures); and
- (7) It will, pursuant to Section 96.394 of the Kentucky Revised Statutes and other applicable legal provisions, cause rates and charges for sewer services provided by the System to be billed simultaneously with rates and charges for water service furnished to sewer customers by the System, and will provide that water service will be discontinued to any premises where there is a failure to pay any part of the aggregate charges so billed, including such penalties and fees for disconnection and/or reconnection as be prescribed from time to time.

**Section 505. Other Covenants Applicable So Long as FmHA Owns Any Bonds.** So long as the FmHA shall own any of the Current Bonds, the District shall comply with such FmHA regulations, requirements and requests as shall be made by the FmHA, including the furnishing of operating and other financial statements, in such form and substance and for such periods as may be requested by the FmHA, the carrying of insurance of such types and in such amounts as the FmHA may specify, with insurance carriers acceptable to the FmHA and compliance with all of the terms and conditions of the Loan Resolution (FmHA Form 442-47) adopted and executed by the District, which is hereby authorized, approved, ratified and confirmed.

**Section 506. Insurance on Motors, Tanks and Structures.** If and to the extent not now fully required by the Prior Bond Resolution, the District shall (a) immediately after the adoption of this Resolution and (b) at the time of final acceptance of the Construction Project from the Contractors, insure all electric motors, elevated water storage tanks, pumping stations and major structures of the System in an amount recommended by the Engineers and approved by the FmHA, so long as the FmHA is the Owner of any of the Current Bonds, for the hazards usually covered in such area, and shall similarly insure same in an amount recommended by the Engineers, without the necessity of approval by the FmHA if and whenever the District has Outstanding

Bonds against the System and none of such Outstanding Bonds are owned by the FmHA.

## ARTICLE 6

### INFERIOR BONDS AND PARITY BONDS

**Section 601. Inferior Bonds.** Except as provided below in this Article, the District shall not, so long as any of the Prior Bonds, Current Bonds and/or Parity Bonds are outstanding, issue any additional bonds payable from the revenues of the System unless the security and/or pledge of the revenues and statutory mortgage lien to secure such additional bonds are made inferior and subordinate in all respects to the security of the Prior Bonds, the Current Bonds and any Parity Bonds.

The District expressly reserves the right at any time to issue its bonds or other obligations payable from the revenues of the System and not ranking on a parity basis with the Current Bonds, without any proof of previous earnings or net revenues, provided that the consent of the FmHA must be obtained prior to the issuance of any inferior bonds so long as the FmHA owns any of the Prior Bonds, the Current Bonds or any Parity Bonds, and provided further that, after the initial completion of the Construction Project, such inferior bonds may be issued only for the purpose of providing for future extensions, additions and improvements to the System, and only in express recognition of the priorities, liens and rights created and existing for the security, source of payment and protection of the Prior Bonds, the Current Bonds and any Parity Bonds; provided further, that nothing in this Section is intended to restrict or shall be construed as a restriction upon, the ordinary refunding of the Prior Bonds, the Current Bonds and any other Parity Bonds.

**Section 602. Parity Bonds to Complete the Construction Project.** The District hereby certifies, covenants and agrees that in the event that the cost of completion of the construction of the Construction Project shall exceed the moneys available to the District from any and all sources, the District shall have the right, if necessary, to provide for such excess, and only such excess, through the issuance of Parity Bonds, provided the District has obtained a certification from the Engineers to the effect that it is necessary to issue the desired amount of Parity Bonds in order to enable the District to pay the cost (not otherwise provided) of the completion of the Construction Project, and provided the District has complied with the provisions of Section 603 below or has obtained:

- (a) the consent of the FmHA as the Owner of the Prior Bonds at that time or the consent of any other Owners of the Prior Bonds, and
- (b) the consent of (1) the FmHA if the Government is the purchaser of the Current Bonds or (2) the Owners of at least 75% of the principal amount of the Current Bonds outstanding, if the Current

Bonds have been issued, sold and delivered and are held by Owners other than the Government.

**Section 603. Parity Bonds to Finance Future**

**Improvements.** In the Prior Bond Resolution, the District reserved the right and privilege, and does hereby reserve the right and privilege, of issuing additional Parity Bonds, but only under the conditions specified in the Prior Bond Resolution, which conditions are hereinafter repeated, taking into account the issuance of the Current Bonds, as follows:

The District further reserves the right to add new waterworks facilities and/or to finance future extensions, additions and improvements to the System by the issuance of one or more additional series of Parity Bonds to be secured by a parity lien on and ratably payable on a parity with the Current Bonds, from the revenues of the System, and also secured by a parity statutory mortgage lien on the System, subject to the priority of the Prior Bonds, provided:

(a) The facilities to be constructed from the proceeds of the additional Parity Bonds are made a part of the System and their revenues are pledged as additional security for the additional Parity Bonds and for the outstanding Prior Bonds and Current Bonds.

(b) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds and payable from the revenues of the System or any part thereof.

(c) The annual net revenues (defined as gross revenues less operation and maintenance expenses), of the then existing System for the Fiscal Year preceding the year in which such Parity Bonds are to be issued, adjusted as hereinafter provided, shall be certified by an independent Certified Public Accountant to be equal at least one hundred twenty percent (120%) of the average annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the System, including such requirements of the Prior Bonds, the Current Bonds, any Parity Bonds then outstanding plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued. The calculation of average annual debt service requirements of principal and interest on the additional Parity Bonds to be issued shall, regardless of whether such additional Parity Bonds are to be serial or term bonds, be determined on the basis of the principal of and interest on such Parity Bonds being payable in approximately equal annual installments.

(d) The annual net revenues referred to above may be adjusted for the purpose of the foregoing computations to reflect:

(1) any revisions in the schedule of rates or charges being imposed at the time of the issuance of any such additional Parity Bonds, and

(2) any increase in the annual net revenues to be realized from the proposed extensions, additions and improvements being financed (in whole or in part) by such additional Parity Bonds;

provided all such adjustments shall be based upon and included in a certification of an Independent Consulting Engineer.

(e) Compliance with Section 603(a) through (d) shall not be necessary for the issuance of Parity Bonds if the District has obtained (1) the written consent of the FmHA for the issuance of such Parity Bonds, if the FmHA is the Owner of any of the Prior Bonds or any of the Current Bonds at the time of issuance of such Parity Bonds; (2) the written consent of the Owners of all of the then outstanding Prior Bonds and (3) the written consent of the Owners of 75% of the principal amount of the then outstanding Current Bonds and any other Parity Bonds; provided, however, that if the District obtains the written consent of the Owners of all Current Bonds and of all Parity Bonds outstanding against the System, no other prerequisite need be complied with by the District in order to issue Parity Bonds.

(f) Reference is made to Section 606 hereof as to the necessity of obtaining the written consent of the FmHA for the issuance of future bonds encumbering the System while the FmHA owns any Bonds payable from the revenues of the System.

**Section 604. Covenants to be Complied with at Time of Issuance of Parity Bonds.** The District hereby covenants and agrees that in the event any Parity Bonds are issued, the District shall:

(a) Adjust the monthly amount to be deposited into the Prior Sinking Fund on the same basis as that prescribed in the provisions establishing such Prior Sinking Fund, to reflect the average annual debt service requirements of the Parity Bonds; and

(b) Make such Parity Bonds payable as to principal on January 1 of each year in which principal



falls due and payable as to interest on January 1 and July 1 of each year until the final maturity of such Parity Bonds.

**Section 605. Prepayment Provisions Applicable to Parity Bonds.** If, in connection with any subsequently issued series of Parity Bonds, it is provided that excess revenues in the Revenue Fund shall be used to prepay Outstanding Bonds in advance of scheduled maturity, or if the District at its option undertakes to prepay Outstanding Bonds in advance of scheduled maturity, it is agreed and understood, for so long as the Government owns any of the Outstanding Bonds, that no such prepayment will be effected without the approval of the FmHA.

**Section 606. Consent of the FmHA Regarding Future Bonds.** Notwithstanding any other provisions of this Resolution, the District agrees that so long as the Government owns any Outstanding Bonds against and/or payable from the revenues of the System, the District will not issue any future bonds, notes or other obligations against, secured by or payable from the revenues of the System without the written consent of the FmHA.

**Section 607. Priority of Lien; Permissible Disposition of Surplus or Obsolete Facilities.** The District covenants and agrees that so long as any of the Prior Bonds and/or Current Bonds are outstanding, the District will not sell or otherwise dispose of any of the facilities of the System, or any part thereof, and, except as provided above, the District will not create or permit to be created any charge or lien on the revenues thereof ranking equal or prior to the charge or lien of the Prior Bonds or Current Bonds. Notwithstanding the foregoing, the District may at any time permanently abandon the use of, or sell at fair market value, any part of the facilities of the System, provided that:

- (a) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds, and the required reserves for such Outstanding Bonds will have been accumulated;
- (b) The District will, in the event of any such sale, apply the proceeds to either (1) redemption of Outstanding Bonds in accordance with the provisions governing prepayment of bonds in advance of maturity or (2) replacement of the facility so disposed of by another facility, the revenues of which shall be incorporated into the System, as hereinbefore provided;
- (c) The District certifies, in good faith, prior to any abandonment of use, that the facilities to be abandoned are no longer economically feasible of producing net revenues; and

- (d) The District certifies, in good faith, that the estimated net revenues of the remaining facilities of the System for the then next succeeding Fiscal Year, plus the estimated net revenues of the facilities, if any, to be added to the System, comply with the earnings requirements hereinbefore provided in the provisions and conditions governing the issuance of Parity Bonds.

Notwithstanding any other provisions hereof, so long as any of the Prior Bonds and/or Current Bonds are held by the Government, the District shall not dispose of its title to the System or to any part thereof, without first obtaining the written consent of the FMHA.

## ARTICLE 7

### DEFAULT AND CONSEQUENCES

**Section 701. Events of Default.** The following items shall constitute an Event of Default on the part of the District:

- (a) The failure to pay principal of the Current Bonds or the Prior Bonds as and when same shall become due and payable, either at maturity or by proceedings for redemption.
- (b) The failure to pay any installment of interest on the Current Bonds or the Prior Bonds when the same shall become due and payable or, if any or all of the Outstanding Bonds are owned by the FMHA, within 30 days thereafter.
- (c) The default by the District in the due or punctual performance of any of the covenants, conditions, agreements and provisions contained in the Current Bonds, the Prior Bonds, the Prior Bond Resolution or in this Resolution.
- (d) The failure to promptly repair, replace or reconstruct facilities of the System that have been damaged and/or destroyed.
- (e) The entering of any order or decree with the consent or the acquiescence of the District, appointing a receiver of all or any part of the System or any revenues thereof; or if such order or decree shall be entered without the acquiescence or consent of the District, its failure to have the order vacated, discharged or stayed on appeal within 60 days after entry.

**Section 702. Consequences of Event of Default.** Any Owner of the Current Bonds may enforce and compel the performance of all duties and obligations of the District set forth herein. Upon the occurrence of an Event of Default, then upon the filing of a suit by any Owner of said Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the District with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal of and interest on the Prior Bonds and the Current Bonds and to provide and apply the income and revenues in conformity with this Resolution and with the laws of the Commonwealth of Kentucky.

The District hereby agrees to transfer to any bona fide receiver or other subsequent operator of the System, pursuant to any valid court order in a proceeding brought to enforce collection or payment of the District's obligations, all contracts,

including specifically the Water Purchase Contract, and other rights of the District pertaining to the System, conditionally, for such time only as such receiver or operator shall operate by authority of the court. Upon the occurrence of an Event of Default, the Owner of any of the Prior Bonds or the Current Bonds may require the governing body of the District by appropriate order to raise the rates a reasonable amount consistent with the requirements of this Resolution.

## ARTICLE 8

### CONTRACTUAL PROVISIONS; GRANT APPROVAL; MISCELLANEOUS PROVISIONS.

#### Section 801. Resolution Contractual with Bondowners.

The provisions of this Resolution constitute a contract between the District and its Commission and the Owners of the Current Bonds as may be outstanding from time to time; and after the issuance of any of said Current Bonds, no change, alteration or variation of any kind of the provisions of this Resolution shall be made in any manner which will affect an Owner's rights except as herein provided or except with the written consent of all Bondowners until such time as all of the Current Bonds and the interest thereon have been paid in full or fully provided for; provided that the Commission may adopt any resolution for any purpose not inconsistent with the terms of this Resolution and which shall not impair the security of the Owners of the Current Bonds and/or for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provisions contained herein or in any resolution or other proceedings pertaining hereto.

It is further agreed that the Owners of 80% in principal amount of the Current Bonds at any time outstanding shall have the right to consent to and approve the adoption of resolutions or other proceedings, modifying or amending any of the terms or provisions contained in this Resolution, subject to the conditions that (a) this Resolution shall not be so modified in any manner that may adversely affect the rights of the Owners of any of the Prior Bonds, nor in any manner that may adversely affect the rights of any certain Owners of the Prior Bonds and Current Bonds without similarly affecting the rights of all Owners of such Prior Bonds, Current Bonds and any Parity Bonds then outstanding, or to reduce the percentage of the number of Owners whose consent is required to effect a further modification and (b) no such change may be effected without the consent of the FmHA so long as the FmHA owns any of the Outstanding Bonds.

Section 802. All Current Bonds are Equal. The Current Bonds authorized herein shall not be entitled to priority one over the other in the application of the income and revenues of the System, or with respect to the security for their payment, regardless of the time or times of their issuance, it being the intention that there shall be no priority among any of the Current Bonds regardless of the fact that they may be actually issued and delivered at different times.

Section 803. District Obligated to Refund Current Bonds Owned by Government Whenever Feasible; Defeasement Prohibited. So long as the Government is the Owner of any of the Current Bonds, if it appears to the Government that the District is able to refund such Current Bonds in whole or in part, by obtaining a loan for such purposes from responsible cooperative

or private credit sources, or to sell bonds of the District in the open market, at reasonable rates and terms, for loans or bond issues for similar purposes and periods of time, the District will, upon request of the Government, obtain such loan and/or issue such bonds in sufficient amount to repay the Government and will take all such action as may be required in connection therewith.

In addition, so long as the Government is the Owner of any of the Current Bonds, the District shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating the lien of the Current Bonds without immediately prepaying all of the then outstanding Current Bonds.

**Section 804. Approval and Acceptance of FmHA Grant**

**Agreement.** As set out in Section 105 hereof, the FmHA has agreed to make a grant to the District in the amount of \$525,000 (the "FmHA Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Construction Project, and the FmHA has requested the District to approve, accept and execute FmHA Form 1942-31 (the "FmHA Grant Agreement"), setting out the terms and conditions upon which said FmHA Grant will be made. Said FmHA Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said FmHA Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other FmHA Grants offered to the District in connection with the Construction Project and to execute any and all FmHA Grant Agreements and any other documents as may be requested by the FmHA in connection with FmHA Grants which have been and/or which may hereafter be approved for such Construction Project.

**Section 805. Approval and Acceptance of ARC Grant**

**Agreement.** As set out in Section 105 hereof, the Appalachian Regional Commission (the "ARC") has agreed to make a grant to the District in the amount of \$159,000 (the "ARC Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Construction Project, and the ARC has requested the District to approve, accept and execute a certain ARC Grant Agreement (the "ARC Grant Agreement"), setting out the terms and conditions upon which said ARC Grant will be made. Said ARC Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said ARC Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other ARC Grants offered to the District in connection with the Construction Project and to execute any and all ARC Grant Agreements and any other documents as may be requested by the ARC in connection with ARC Grants which have been and/or which may hereafter be approved for such Construction Project.

**Section 806. Approval and Acceptance of ADF Grant**

**Agreement.** As set out in Section 105 hereof, the Area

Development District (the "ADF") has agreed to make a grant to the District in the amount of \$16,500 (the "ADF Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Construction Project, and the ADF has requested the District to approve, accept and execute a certain ADF Grant Agreement (the "ADF Grant Agreement"), setting out the terms and conditions upon which said ADF Grant will be made. Said ADF Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said ADF Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other ADF Grants offered to the District in connection with the Construction Project and to execute any and all ADF Grant Agreements and any other documents as may be requested by the ADF in connection with ADF Grants which have been and/or which may hereafter be approved for such Construction Project.

**Section 807. Approval and Acceptance of DHUD Grant Agreement.** As set out in Section 105 hereof, the Department of Housing and Urban Development (the "DHUD") has agreed to make a grant to the District in the amount of \$493,680 (the "DHUD Grant"), to supplement the proceeds of the Current Bonds in order to provide the total cost of the Construction Project, and the DHUD has requested the District to approve, accept and execute a certain DHUD Grant Agreement (the "DHUD Grant Agreement") setting out the terms and conditions upon which said DHUD Grant will be made. Said DHUD Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said DHUD Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other DHUD Grants offered to the District in connection with the Construction Project and to execute any and all DHUD Grant Agreements and any other documents as may be requested by the DHUD in connection with DHUD Grants which have been and/or which may hereafter be approved for such Construction Project.

**Section 808. Alternate Statutory Authority.** If it shall ever be held that the District did not have the authority to issue said Current Bonds and/or to construct the Construction Project under the provisions of Chapter 106 of the Kentucky Revised Statutes, then this Resolution shall be deemed to have been authorized under the provisions of Section 74.370 and Sections 96.350 through 96.510, inclusive, of the Kentucky Revised Statutes, with said Current Bonds being secured by a statutory mortgage lien as provided in Section 96.400 of the Kentucky Revised Statutes.

**Section 809. Authorization, Ratification and Confirmation of Approval and Execution of Various Documents.** The Commission hereby authorizes, approves, ratifies and confirms the previous action of the officers of the District in approving and executing various documents related to the financing of the Project, including the following:

- (a) Legal Services Agreement with Bond Counsel.
- (b) Legal Services Agreement with Local Counsel.
- (c) Letter of Intent to Meet Conditions of FmHA Letter of Conditions (FmHA Form 442-46).
- (d) Loan Resolution (FmHA Form 442-47).
- (e) Agreement for Engineering Services with the Engineers.

**Section 810. Authorization of Condemnation to Acquire Easements and/or Sites.** In the event that (a) any necessary deeds of easement to allow construction of the Construction Project over the property of any property owner or (b) any necessary deed to the necessary site of any waterworks facility of the Construction Project shall not be obtained through negotiation within 10 days after the date of adoption of this Resolution and in the event that (1) such waterworks lines cannot be located within the right-of-way of the State and/or County road involved, and/or (2) such waterworks facilities cannot be located on a site already owned by the District, Local Counsel is hereby authorized and directed to file condemnation actions to obtain such necessary rights-of-way and/or sites forthwith, without further authorization or direction from the District or the Commission. Local Counsel is further directed to follow the same condemnation procedure in the event that it becomes necessary, through change orders, line extensions and/or errors in the location of property lines and/or property owners, to obtain additional easements, rights-of-way and/or sites for completion of the Construction Project and whenever the necessary deed is not obtained by negotiation at least 10 days prior to the date on which construction is contemplated in the respective easement, right-of-way and/or site.

The District further approves the payment from the funds available therefor (proceeds of Current Bonds, Grant Proceeds and other funds) allocated to the costs of the Construction Project to pay any judgment award, or compromise, determined by Local Counsel with the acquiescence of the Commission, toward the costs of such easements, rights-of-way and/or sites; provided, in each instance, that the payment of such funds to satisfy any judgment, award or compromise must first be approved by the FmHA; and the Commission further determines that if and to whatever extent the funds available from the proceeds of the Bonds, Grant Proceeds and other supplemental funds, shall be inadequate to pay any judgment, award or compromise amount for such easements, rights-of-way and/or sites, or if the District is unable to obtain the approval of the FmHA for any such payment, the Commission shall take all reasonably necessary actions, within the powers and authority of the Commission, to make such additional amount available from all other available District resources.



## ARTICLE 9

### SALE OF CURRENT BONDS

**Section 901. Sale of Current Bonds.** The Current Bonds shall be offered publicly for sale upon the basis of sealed, competitive bids at such time as the Commission shall designate.

A suggested form of "Notice of Bond Sale", a suggested form of "Official Notice of Sale of Bonds" and a suggested form of "Bid Form", having been prepared in advance by Bond Counsel, and a suggested form of Statement of Essential Facts having been prepared in advance by the Engineers, and all of such documents having been found to be in satisfactory form, the same are hereby approved, and a copy of each is hereby ordered to be filed in the records of the Secretary with the Minutes of the meeting at which this Resolution is adopted. The Notice of Bond Sale shall be signed by the Secretary and may be used for the purpose of publishing notice of the sale of the Current Bonds. Copies of such documents shall be furnished to any interested parties who may request same.

In the event that there is no bid or that all bids are rejected, the District may readvertise the sale pursuant to this Resolution.

**Section 902. Possible Adjustment in Date of Current Bonds, Maturities, Prepayment Provisions and Other Dates, with Consent of Purchaser if Delivery is Delayed.** In the event that delivery of the Current Bonds authorized herein is delayed for any reason until after January 1, 1991, the name of the Current Bonds may, pursuant to Resolution adopted by the Commission with the written consent of the Purchaser of the Current Bonds, be changed to reflect the year in which the Current Bonds will be issued, with maturities, the applicable prepayment date and all other dates being adjusted accordingly, if so desired.

## ARTICLE 10

### CONCLUDING PROVISIONS

#### Section 1001. Covenant of District to Take All Necessary Action To Assure Compliance with Internal Revenue Code.

In order to assure the Purchaser and any subsequent owner of the Current Bonds that such Current Bonds shall continue to be legal and that interest thereon will continue to be excludable from gross income for Federal income tax purposes and exempt from all Kentucky income taxation, the District covenants to and with the owners of the Current Bonds to take the following action:

(a) The District will (1) take all actions necessary to comply with the provisions of the Code necessary to assure that interest on the Current Bonds will be excludable from gross income for Federal income tax purposes, (2) will take no actions which will violate any of the provisions of the Code, and (3) not use the proceeds of the Current Bonds for any purpose which will cause interest on the Current Bonds or on interim financing obligations, including but not limited to the Note, issued pursuant to Section 302 hereof to become includable in gross income for Federal income tax purposes.

(b) The District hereby certifies that it does not reasonably anticipate that the total principal amount of "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code which the District, or any subordinate entity of the District, will issue during the calendar year during which the Current Bonds are issued, will exceed \$10,000,000; and therefore the District hereby designates the Current Bonds and all interim financing obligations, including but not limited to the Note, issued pursuant to Section 302 hereof as "qualified tax-exempt obligations".

(c) The District further certifies that the Current Bonds and any and all interim financing obligations of the District are not "private activity bonds" within the meaning of the Code.

(d) The District covenants and agrees to comply with the rebate requirements on certain excess earnings imposed by Section 148 of the Code, and in the event it is determined by the District, upon the advice of Bond Counsel, that the Construction Account, or any other Fund established hereunder, is subject to said rebate requirements and does in fact generate earnings from "non-purpose investments" in excess of the amount which said investments would have earned at a rate equal to the "yield" on the Current Bonds, plus any income


attributable to such excess, there shall be established a separate and special fund with the Depository Bank, which fund shall be designated the "Excess Earnings and Rebate Fund", which shall be utilized for the collection and payment of any excess generated from investments and the remittance thereof to the United States of America on or before the anniversary of the fifth year from the date of the Current Bonds, and once every five years thereafter until the final retirement of the Current Bonds; the last installment, to the extent required, to be made no later than sixty days following the date on which funds sufficient for the complete retirement of the Current Bonds are deposited with the Depository Bank. The District further covenants to file any and all reports, if any, as may be required to be filed with the Government with regard to the liability or non-liability of the District as to any such rebate requirements and to maintain records in regard thereto for the period of time required by applicable Treasury regulations.

**Section 1002. Severability Clause.** If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Resolution, which shall continue in full force and effect.

**Section 1003. All Provisions in Conflict Repealed.** All motions, resolutions and orders, or parts thereof, in conflict with the provisions of this Resolution, are to the extent of such conflict hereby repealed. It is hereby specifically ordered and provided that any proceedings heretofore taken for the issuance of other bonds of the District payable or secured in any manner by all or any part of the income and revenues of said System or any part thereof, and which have not been heretofore issued and delivered, are hereby revoked and rescinded, and none of such other bonds shall be issued and delivered. The District covenants to correct by appropriate proceedings any required procedure previously taken invalidly.

**Section 1004. Effective Immediately Upon Adoption.** This Resolution shall take effect and be effective immediately upon its adoption.

Adopted this December 20, 1990.

  
\_\_\_\_\_  
Chairman

(Seal of District)

Attest:

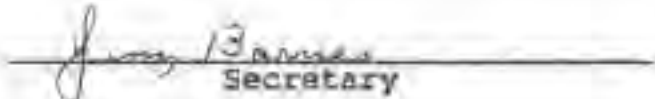
  
\_\_\_\_\_  
Secretary

#### CERTIFICATION

I, Jim Barnes, hereby certify that I am the duly qualified and acting Secretary of the Sharpsburg Water District of Bath and Nicholas Counties, Kentucky, and that the foregoing Resolution is a true copy of a Resolution duly adopted by the Board of Commissioners of said District, signed by the Chairman of said District and attested under Seal by me as Secretary, at a properly convened meeting of said Board of Commissioners held on December 20, 1990, 1990, as shown by the official records of said District in my custody and under my control.

I further certify that said meeting was duly held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825, that a quorum was present at said meeting, that said Resolution has not been modified, amended, revoked or repealed, and that same is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature as Secretary and the official Seal of the District this December 20, 1990.

  
\_\_\_\_\_  
Secretary

(Seal of District)

## EXHIBIT A

## Schedule of Principal Maturities

| <u>Payment Due</u><br><u>January 1,</u> | <u>Principal</u><br><u>Installments</u> |
|---|---|
| 1993                                    | 3,000                                   |
| 1994                                    | 3,000                                   |
| 1995                                    | 4,000                                   |
| 1996                                    | 4,000                                   |
| 1997                                    | 4,000                                   |
| 1998                                    | 4,000                                   |
| 1999                                    | 4,000                                   |
| 2000                                    | 5,000                                   |
| 2001                                    | 5,000                                   |
| 2002                                    | 5,000                                   |
| 2003                                    | 5,000                                   |
| 2004                                    | 5,000                                   |
| 2005                                    | 6,000                                   |
| 2006                                    | 6,000                                   |
| 2007                                    | 6,000                                   |
| 2008                                    | 7,000                                   |
| 2009                                    | 7,000                                   |
| 2010                                    | 7,000                                   |
| 2011                                    | 8,000                                   |
| 2012                                    | 8,000                                   |
| 2013                                    | 8,000                                   |
| 2014                                    | 9,000                                   |
| 2015                                    | 9,000                                   |
| 2016                                    | 9,000                                   |
| 2017                                    | 10,000                                  |
| 2018                                    | 10,000                                  |
| 2019                                    | 11,000                                  |
| 2020                                    | 11,000                                  |
| 2021                                    | 12,000                                  |
| 2022                                    | 13,000                                  |
| 2023                                    | 13,000                                  |
| 2024                                    | 14,000                                  |
| 2025                                    | 15,000                                  |
| 2026                                    | 15,000                                  |
| 2027                                    | 16,000                                  |
| 2028                                    | 17,000                                  |
| 2029                                    | 18,000                                  |
| 2030                                    | 19,000                                  |

EXHIBIT B

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
COUNTIES OF BATH AND NICHOLAS  
SHARPSBURG WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 1990

No. R- \_\_\_\_\_ INTEREST RATE: \_\_\_\_\_ % \$ \_\_\_\_\_

KNOW ALL MEN BY THESE PRESENTS:

That the Sharpsburg Water District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Bath and Nicholas Counties, Kentucky, for value received, hereby promises to pay to

\_\_\_\_\_ the registered owner hereof, or to its registered assigns, solely from the fund hereinafter identified, the sum of

\_\_\_\_\_ DOLLARS (\$ \_\_\_\_\_ ),

on the first day of January, in years and installments as follows:

| <u>Year</u> | <u>Principal</u> | <u>Year</u> | <u>Principal</u> | <u>Year</u> | <u>Principal</u> |
|-------------|------------------|-------------|------------------|-------------|------------------|
|-------------|------------------|-------------|------------------|-------------|------------------|

[Here the printer of the Current Bond will print the maturities of the Current Bonds purchased by the individual Purchaser (registered Owner)]

and in like manner, solely from said fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, at the Interest Rate specified above, semiannually on the first days of January and July in each year, beginning with the first January or July after the date of this Bond, until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable, without deduction for exchange or collection charges, in lawful money of the United States of America, at the address of the registered owner shown on the registration book of the District.

This Bond is issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 74 and 106 and Sections 58.010 and 58.140, inclusive, of the Kentucky Revised Statutes

(collectively the "Act"), and pursuant to a duly adopted Bond Resolution of the District authorizing same (the "Current Bond Resolution"), to which Current Bond Resolution reference is hereby made for a description of the nature and extent of the security thereby created, the rights and limitations of rights of the registered owner of this Bond, and the rights, obligations and duties of the District, for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing waterworks system of the District (said existing waterworks system, together with said extensions, additions and improvements, being hereinafter referred to as the "System").

This Bond ranks on a parity as to security and source of payment with certain outstanding Sharpsburg Water District Waterworks Refunding and Improvement Revenue Bonds of 1984, dated July 25, 1984 (the "Prior Bonds"), authorized by a Resolution adopted by the Commission of the District on June 13, 1984 (the "Prior Bond Resolution").

This Bond has been issued in full compliance with the Prior Bond Resolution; and this Bond, together with said Prior Bonds, and any bonds ranking on a parity therewith that may be issued and outstanding under the conditions and restrictions of the Current Bond Resolution and Prior Bond Resolution, are and will continue to be payable from and secured by a pledge of the gross revenues to be derived from the operation of said System, which revenues shall be sufficient to pay the principal of and interest on the Prior Bonds, this Bond and any additional bonds ranking on a parity therewith, as may be issued and outstanding under the conditions and restrictions set out in said Current Bond Resolution and the Prior Bond Resolution, as and when the same become due and payable, and a sufficient portion of which revenues shall be set aside in a fund for that purpose and identified as the "Sharpsburg Water District Waterworks Bond and Interest Sinking Fund", created in said Prior Bond Resolution.

This Bond does not constitute an indebtedness of the District within the meaning of any constitutional or statutory provisions or limitations and is payable solely out of the revenues of the System. As provided in the Current Bond Resolution, the District covenants that so long as any of the Prior Bonds and/or this Bond, are outstanding, the System will be continuously owned and operated by the District as a revenue producing public undertaking within the meaning of the aforesaid Act for the security and source of payment of the Prior Bonds and of this Bond, and that the District will fix, and if necessary adjust, from time to time, such rates for the services and facilities of the System and will collect and account for the revenues therefrom sufficient to pay promptly the principal of and interest on the Prior Bonds, this Bond and all other bonds ranking on a parity therewith as may be outstanding from time to

time, to pay the cost of operation and maintenance of the System and to provide for the depreciation thereof.

A first statutory mortgage lien has been created and granted by the District in the Current Bond Resolution pursuant to the Act, and more specifically by Section 106.080 of the Kentucky Revised Statutes, to and in favor of the registered owner of this Bond, ranking on a parity with the Prior Bonds; and the System and all appurtenances thereof and extensions thereto shall remain subject to such statutory mortgage lien until payment in full of the principal of and interest on the Prior Bonds and on this Bond.

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with this Bond in order to complete the Project, provided the District has complied with the parity requirements of the Current Bond Resolution, and to finance future extensions, additions and improvements to the System, provided the necessary calculations as to the earnings coverage required by the Current Bond Resolution are in existence and properly certified.

This Bond shall be registered as to principal and interest in the name of the owner hereof, after which it shall be transferable only upon presentation to the Secretary of the District as the Bond Registrar, with a written transfer duly acknowledged by the registered owner or his duly authorized attorney, which transfer shall be noted upon this Bond and upon the book of the District kept for that purpose.

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 1999, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple of One Thousand Dollars (\$1,000), as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or his assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States of America, or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$1,000, may be prepaid at any time in inverse chronological order of the installments due.

Upon default in the payment of any principal or interest payment on this Bond, or upon failure by the District to comply with any other provision of this Bond or with any provision of the Current Bond Resolution, the registered owner may, at



his option, institute all rights and remedies provided by law or by said Current Bond Resolution.

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 issuance of this Bond, do exist, have happened and have been performed in due time, form and manner as required by law, and that the face amount of this Bond, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF said Sharpsburg Water District, by its Board of Commissioners, has caused this Bond to be executed by its Chairman, its corporate seal to be hereunto affixed, and attested by its Secretary, on the date of this Bond, which is

SHARPSBURG WATER DISTRICT  
Bath and Nicholas Counties,  
Kentucky

By \_\_\_\_\_  
Chairman

Attest:

\_\_\_\_\_  
Secretary

(Seal of District)

#### PROVISION FOR REGISTRATION

This Bond shall be registered on the registration book of the District kept for that purpose by the Secretary, as Bond Registrar, upon presentation hereof to said Secretary, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered owner or his attorney, such transfer to be made on said book and endorsed hereon.

(FORM OF REGISTRATION)

| Date of<br>Registration | Name of<br>Registered Owner | Signature of Secretary<br>of the Sharpsburg<br>Water District,<br>Bond Registrar |
|-------------------------|-----------------------------|--|
| :                       | :                           | :  |
| :                       | :                           | :  |
| :                       | :                           | :  |
| :                       | :                           | :  |
| :                       | :                           | :  |
| :                       | :                           | :  |

(FORM OF ASSIGNMENT)

For value received, this Bond is hereby assigned,  
without recourse and subject to all of its terms and conditions,  
unto \_\_\_\_\_, this \_\_\_\_ day of \_\_\_\_\_,  
\_\_\_\_\_.

\_\_\_\_\_  
By: \_\_\_\_\_

EXHIBIT C

REQUISITION CERTIFICATE

Re: Sharpsburg Water District Waterworks Revenue Bonds, Series 1990, in the original amount of \$335,000.

The undersigned hereby certify as follows:

1. That they are the signatories required for construction and/or administrative draws pursuant to the Bond Resolution adopted by the Sharpsburg Water District (the "District") of Bath and Nicholas Counties, Kentucky.

2. That the following named firms and/or persons are now entitled to the aggregate sum of \$\_\_\_\_\_, itemized as set forth below and as per approved invoices attached hereto:

Firm/Person

Amount

3. That upon said amount being lent to said District and/or obtained by said District from the proceeds of the Current Bonds and/or other sources, the undersigned approve such expenditure and the payment of said amounts to said firms and/or persons, either directly or from amounts deposit in the "Sharpsburg Water District Waterworks Construction Account", at the Citizens Bank, Sharpsburg, Kentucky.

4. That we hereby certify that we have carefully inspected the work and, as a result of our inspection and to the best of our knowledge and belief, the amounts shown in this Requisition Certificate are correct and the work has been performed in accordance with the agreements between the District and the parties requesting payment.

IN TESTIMONY WHEREOF, witness the signature of the undersigned, this \_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

WOOLPERT CONSULTANTS

By \_\_\_\_\_  
Registered Professional  
Engineer  
State of Kentucky No. \_\_\_\_\_

Approved on \_\_\_\_\_

SHARPSBURG WATER DISTRICT

By \_\_\_\_\_  
Chairman

Approved on \_\_\_\_\_

By \_\_\_\_\_  
Authorized FmHA Official

Amount expended heretofore \$ \_\_\_\_\_

Amount approved herein \_\_\_\_\_

Total \$ \_\_\_\_\_

BOND RESOLUTION

SHARPSBURG WATER DISTRICT

AUTHORIZING

SHARPSBURG WATER DISTRICT WATERWORKS  
REVENUE BONDS, SERIES 1996

IN THE AMOUNT OF

\$289,000

## TABLE OF CONTENTS

|              |  |    |
|--------------|--|----|
| ARTICLE 1.   | DEFINITIONS; PURPOSE; AUTHORIZATION OF BONDS;<br>SECURITY .....                                  | 3  |
| Section 101. | Definitions .....  | 3  |
| Section 102. | Purpose .....  | 6  |
| Section 103. | Construction Award Approved; Work Authorized .....   | 6  |
| Section 104. | Declaration of Period of Usefulness .....  | 7  |
| Section 105. | Authorization of Bonds .....   | 7  |
| Section 106. | Recognition of Prior Bonds .....   | 7  |
| Section 107. | Current Bonds Shall be Payable on Out of Gross Revenues .....                                    | 8  |
| Section 108. | Lien on Contracts .....  | 8  |
| ARTICLE 2.   | THE BONDS; BOND FORM; PREPAYMENT .....   | 9  |
| Section 201. | Principal Payments .....   | 9  |
| Section 202. | Issuance of Current Bonds; Bond Form .....   | 9  |
| Section 203. | Place of Payment and Manner of Execution .....   | 9  |
| Section 204. | Provisions as to Prepayment .....  | 9  |
| ARTICLE 3.   | CONSTRUCTION ACCOUNT; INTERIM FINANCING;<br>APPLICATION OF PROCEEDS; ARBITRAGE LIMITATIONS. .... | 10 |
| Section 301. | Construction Account; Application of Proceeds of Bonds;<br>Other Transfers and Deposits .....    | 10 |
| A.           | Covenants Applicable if RECD Purchases Current Bonds .....                                       | 10 |
| B.           | Application of Proceeds of Current Bonds .....   | 10 |
| Section 302. | Interim Financing Authorization .....  | 12 |
| A.           | Interim Financing .....  | 12 |
| B.           | Multiple Advances by RECD .....  | 14 |
| Section 303. | Arbitrage Limitations on Investment of Proceeds .....  | 14 |
| ARTICLE 4.   | FLOW OF FUNDS .....  | 16 |
| Section 401. | Funds .....  | 16 |
| Section 402. | Flow of Funds .....  | 16 |
| A.           | Revenue Fund .....   | 16 |
| B.           | Sinking Fund .....   | 16 |
| C.           | Depreciation Fund .....  | 17 |

|              |   |    |
|--------------|---|----|
| D.           | Operation and Maintenance Fund .....  | 17 |
| E.           | Monthly Principal and Interest Payments if Requested by the<br>RECD .....   | 18 |
| G.           | Surplus Funds .....   | 18 |
| H.           | Investment and Miscellaneous Provisions .....   | 18 |
| Section 403. | Current Bonds on a Parity with Prior Bonds .....  | 19 |
| ARTICLE 5.   | COVENANTS OF DISTRICT .....   | 20 |
| Section 501. | Rates and Charges .....   | 20 |
| Section 502. | Books and Accounts; Audit .....   | 20 |
| Section 503. | System to Continue to be Operated on Fiscal Year Basis;<br>Annual Budget .....                                    | 20 |
| Section 504. | General Covenants .....   | 21 |
| Section 505. | Other Covenants Applicable So Long as RECD Owns Any Bonds .....   | 22 |
| Section 506. | Insurance on Motors, Tanks and Structures .....   | 22 |
| ARTICLE 6.   | INFERIOR BONDS AND PARITY BONDS .....   | 23 |
| Section 601. | Inferior Bonds .....  | 23 |
| Section 602. | Parity Bonds to Complete the Project .....  | 23 |
| Section 603. | Parity Bonds to Finance Future Improvements .....   | 23 |
| Section 604. | Covenants to be Complied with at Time of Issuance of Parity<br>Bonds .....  | 24 |
| Section 605. | Prepayment Provisions Applicable to Parity Bonds .....  | 25 |
| Section 606. | Consent of the RECD Regarding Future Bonds .....  | 25 |
| Section 607. | Priority of Lien; Permissible Disposition of Surplus or<br>Obsolete Facilities .....                              | 25 |
| ARTICLE 7.   | DEFAULT AND CONSEQUENCES .....  | 27 |
| Section 701. | Events of Default .....   | 27 |
| Section 702. | Consequences of Event of Default .....  | 27 |
| ARTICLE 8.   | CONTRACTUAL PROVISIONS; GRANT APPROVAL;<br>MISCELLANEOUS PROVISIONS. ....   | 28 |
| Section 801. | Resolution Contractual with Bondowners .....  | 28 |
| Section 802. | All Current Bonds are Equal .....   | 28 |
| Section 803. | District Obligated to Refund Current Bonds Owned by<br>Government Whenever Feasible; Defeasement Prohibited ..... | 28 |
| Section 804. | Approval and Acceptance of RECD Grant Agreement .....   | 29 |
| Section 805. | Approval and Acceptance of ARC Grant Agreement .....  | 29 |
| Section 806. | Authorization, Ratification and Confirmation of Approval and<br>Execution of Various Documents .....              | 29 |

|  |   |    |
|--|---|----|
| Section 807.                               | Authorization of Condemnation to Acquire Easements and/or Sites .....   | 29 |
| ARTICLE 9.                                 | SALE OF CURRENT BONDS .....   | 31 |
| Section 901.                               | Sale of Current Bonds .....   | 31 |
| Section 902.                               | Adjustment in Maturities, Prepayment Provisions and Other Dates, with Consent of Purchaser if Delivery is Delayed ..... | 31 |
| ARTICLE 10.                                | CONCLUDING PROVISIONS .....   | 32 |
| Section 1001.                              | Covenant of District to Take All Necessary Action To Assure Compliance with the Code .....                              | 32 |
| Section 1002.                              | Severability Clause .....   | 33 |
| Section 1003.                              | All Provisions in Conflict Repealed .....   | 33 |
| Section 1004.                              | Effective Immediately Upon Adoption .....   | 33 |
| EXHIBIT A - Schedule of Principal Payments |   |    |
| EXHIBIT B - Form of Fully Registered Bond  |   |    |
| EXHIBIT C - Requisition Certificate        |   |    |



## BOND RESOLUTION

RESOLUTION OF THE SHARPSBURG WATER DISTRICT OF BATH AND NICHOLAS COUNTIES, KENTUCKY, AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$289,000 PRINCIPAL AMOUNT OF SHARPSBURG WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 1996 FOR THE PURPOSE OF FINANCING THE COST (NOT OTHERWISE PROVIDED) OF THE CONSTRUCTION OF EXTENSIONS, ADDITIONS AND IMPROVEMENTS TO THE EXISTING WATERWORKS SYSTEM OF SAID DISTRICT; SETTING FORTH TERMS AND CONDITIONS UPON WHICH SAID BONDS MAY BE ISSUED AND OUTSTANDING; PROVIDING FOR THE COLLECTION, SEGREGATION AND DISTRIBUTION OF THE REVENUES OF SAID WATERWORKS SYSTEM; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF SAID BONDS.

WHEREAS, the waterworks system (the "System") of the Sharpsburg Water District (the "District") is owned and operated by said District pursuant to Chapters 58 and 74 of the Kentucky Revised Statutes (the "Act"), and

WHEREAS, the District presently has outstanding certain Prior Bonds (as hereinafter defined), which Prior Bonds are payable from and secured by a pledge of the revenues derived from the operation of the System, and

WHEREAS, all of the Prior Bonds presently outstanding are current as to payment of both principal and interest, and for the security of which a certain Sinking Fund and certain reserves are being maintained in the manner and by the means prescribed in the Prior Bond Resolution (as hereinafter defined) of the District, authorizing the Prior Bonds, and

WHEREAS, it is the desire and intent of the District at this time to authorize and provide for the issuance of revenue bonds in the principal amount of \$289,000 (the "Current Bonds"), for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the System of the District, in accordance with plans and specifications prepared by Woolpert Consultants and to prescribe the covenants of the District, the rights of Bondowners and the details of the issuance and sale of the proposed Current Bonds, and

WHEREAS, the District desires and intends that the Current Bonds be issued so as to rank on a parity basis with the Prior Bonds, and

WHEREAS, the Prior Bonds were issued to and are now held by the Rural Economic and Community Development of the Department of Agriculture of the United States of America (the "RECD"), and

WHEREAS, the RECD, as the Owner of the Prior Bonds, has consented to the issuance by the District of the Current Bonds, and

WHEREAS, the Public Service Commission of Kentucky has granted to the District a Certificate of Public Convenience and Necessity, authorizing the construction of said extensions, additions and improvements, and

WHEREAS, the proceeds of the Current Bonds will be supplemented by Grant Proceeds (as hereinafter defined) in the amount of approximately \$492,000, and by connection charges in the amount of at least \$35,000, to provide the total cost of such construction,

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF THE SHARPSBURG WATER DISTRICT OF BATH AND NICHOLAS COUNTIES, KENTUCKY, AS FOLLOWS:

**ARTICLE I. DEFINITIONS; PURPOSE; AUTHORIZATION OF BONDS;  
SECURITY.**

**Section 101. Definitions.** As used in this Resolution, unless the context requires otherwise:

*"Act"* refers to Chapters 58 and 74 of the Kentucky Revised Statutes.

*"ARC Grant"* refers to the Appalachian Regional Commission grant described in Section 805 of this Resolution.

*"Beginning Month"* refers to the month following the month in which the Current Bonds authorized herein are issued, sold and delivered to the Purchaser thereof.

*"Bond Counsel"* refers to an attorney or firm of attorneys recognized nationally as experts in the field of municipal bond law and shall be deemed to refer to Rubin Hays & Foley, Louisville, Kentucky, or their successors.

*"Bondowner" or "Owner"* refer to registered Owners of the Current Bonds at the time issued and outstanding hereunder.

*"Bonds"* collectively refers to the outstanding Current Bonds, Prior Bonds and the Parity Bonds.

*"Bonds of 1984" or "Series 1984 Bonds"* refer to the outstanding Sharpsburg Water District Waterworks Refunding and Improvement Revenue Bonds of 1984, dated July 25, 1984, in the original authorized principal amount of \$189,000.

*"Bonds of 1990" or "Series 1990 Bonds"* refer to the outstanding Sharpsburg Water District Waterworks Revenue Bonds, Series 1990, dated November 8, 1991, in the original authorized principal amount of \$335,000.

*"Bond Resolution of 1984" or "1984 Bond Resolution"* refer to the Resolution authorizing the Bonds of 1984, duly adopted by the Board of Commissioners of the District on June 13, 1984.

*"Bond Resolution of 1990" or "1990 Bond Resolution"* refer to the Resolution authorizing the Bonds of 1990, duly adopted by the Board of Commissioners of the District on December 20, 1990.

*"Chairman"* refers to the elected or appointed Chairman or Chairperson of the Commission.

*"Code"* refers to the Internal Revenue Code of 1986, as amended, and the Treasury Regulations relating thereto.

"*Commission*" refers to the Board of Commissioners of the District, or such other body as shall be the governing body of said District under the laws of Kentucky at any given time.

"*Construction Account*" refers to the Sharpsburg Water District Construction Account, created in Section 301(B) of this Current Bond Resolution.

"*Contractors*" refers to the general contractors who have been employed by the District to construct the Project.

"*Current Bond Resolution*" or "*Resolution*" refer to this Resolution authorizing the Current Bonds.

"*Current Bonds*" refers to the \$289,000 of Sharpsburg Water District Waterworks Revenue Bonds, Series 1996 authorized by this Resolution, to be dated as of the date of issuance thereof.

"*Depository Bank*" refers to the bank, which shall be a member of the FDIC, which bank is Citizens Bank, Sharpsburg, Kentucky, or its successor.

"*Depreciation Fund*" refers to the Sharpsburg Water District Waterworks Depreciation Fund, described in Section 402 of this Resolution.

"*District*" refers to the Sharpsburg Water District of Bath and Nicholas Counties, Kentucky.

"*Engineers*" refers to the Engineers or any one of them, who prepared the plans and specifications for the construction of the Project and who will supervise the construction thereof and/or will furnish full time resident inspection of the construction of the Project, and shall be deemed to refer to Woolpert Consultants, or a member of said firm, or their successors.

"*Event of Default*" refers to one or more of the Events of Default set forth in Section 701 of this Resolution.

"*FDIC*" refers to the Federal Deposit Insurance Corporation, or its successors.

"*Fiscal Year*" refers to the annual accounting period of the District, beginning on January 1 and ending on December 31 of each year.

"*Funds*" refers to the Construction Account, the Revenue Fund, the Sinking Fund, the Depreciation Fund and the Operation and Maintenance Fund.

"*Government*" refers to the United States of America, or any agency thereof, including the RECD.

"*Grant Proceeds*" refers to the proceeds of the RECD Grant and the ARC Grant.

*"Independent Consulting Engineer"* refers to a consulting engineer or a firm of consulting engineers of recognized excellent reputation in the field of waterworks system engineering, and such definition includes the Engineers named above.

*"Interim Lender"* refers to Rural Economic and Community Development, Lexington, Kentucky, its successors or assigns, or any other financial institution or governmental agency approved by the District.

*"Local Counsel"* refers to Billy G. Hopkins, Esq., Carlisle, Kentucky, or any other attorney or firm of attorneys designated by the District.

*"Multiple Advances"* refers to the advance of loan funds from the RECD as described in Section 302 of this Resolution.

*"Note"* refers to a single note or any number of notes, in such form as may be prescribed by the Interim Lender, including any revenue bond anticipation notes issued pursuant to Chapter 58 of the Kentucky Revised Statutes, including any renewal or extensions of the Note, issued by the District evidencing the interim financing for the Project as prescribed in Section 302 of this Resolution.

*"Operation and Maintenance Fund"* refers to the Sharpsburg Water District Waterworks Operation and Maintenance Fund described in Section 401 of this Resolution.

*"Outstanding Bonds"* refers to the outstanding Bonds, and does not refer to, nor include, any Bonds for the payment of the principal and interest of which sufficient funds will have been deposited and earmarked for payment of Bonds; provided all Outstanding Bonds of any series held by the RECD shall be deemed to constitute Outstanding Bonds until paid regardless of the deposit of funds to pay for same.

*"Parity Bonds"* refers to bonds which may be issued in the future which, pursuant to this Resolution, rank on a basis of parity with the outstanding Bonds, as to priority, security and source of payment, and does not refer to bonds which might be issued so as to rank inferior to the security and source of payment of the outstanding Bonds.

*"Prior Bonds"* refers collectively to the Series 1984 Bonds and the Series 1990 Bonds.

*"Prior Bond Resolution"* refers collectively to the 1984 Bond Resolution and the 1990 Bond Resolution.

*"Project"* refers specifically to the construction of the currently proposed extensions, additions and improvements to the System of the District, which Project is being financed by the Current Bonds and by other funds.

*"Purchaser"* refers to the agency, person, firm or firms, or their successors, to whom the Current Bonds herein authorized are awarded at the public sale of the Current Bonds.

"RECD" refers to the Rural Economic and Community Development of the Department of Agriculture of the United States of America.

"RECD Grant" refers to the RECD grant described in Section 804 of this Resolution.

"Required Signatures" refers to the signatures necessary to be obtained with reference to the approval of the expenditures to be made from the Construction Account, which required signatures shall consist of the signatures of (1) the Chairman; (2) the Engineers; and (3) the Purchaser, provided, however, any expenditures for issuance and administrative costs and the costs of any equipment which is not permanently affixed to the real estate shall not require the signature or the approval of the Engineers.

"Revenue Fund" refers to the Sharpsburg Water District Waterworks Revenue Fund, described in Section 401 of this Resolution.

"Secretary" refers to the elected or appointed Secretary of the Commission.

"Sinking Fund" refers to the Sharpsburg Water District Waterworks Bond and Interest Sinking Fund, described in Section 401 of this Resolution.

"System" refers to the existing waterworks system of the District, together with all extensions, additions and improvements to said System.

"Treasurer" refers to the elected or appointed Treasurer of the Commission.

"U.S. Obligations" refers to bonds or notes which are the direct obligations of the United States of America, or obligations the principal of and interest on which are guaranteed by the United States of America.

All words and terms importing the singular number shall, where the context requires, import the plural number and vice versa. Unless otherwise indicated, references to Articles or Sections refers to those in this Resolution.

**Section 102. Purpose.** The Current Bonds shall be issued for the purpose of financing the cost (not otherwise provided) of the Project, as set out in the plans and specifications prepared by the Engineers. The Commission hereby declares the System of the District, including the extensions, additions and improvements to be constructed, to constitute a revenue producing public project, and said System shall continue to be owned, controlled, operated and maintained by the District as a revenue producing public project pursuant to the Act, so long as any Bonds remain outstanding.

**Section 103. Construction Award Approved; Work Authorized.** The Commission hereby authorizes, approves, ratifies and confirms its previous action in advertising for and taking steps toward awarding the contracts for the construction of the Project to the lowest and best bidders, and further approves the action of the District officials in entering into formal contracts with said bidders, subject to the necessary approvals being obtained. Authority is hereby given

for undertaking the construction of the Project according to the plans and specifications heretofore prepared by the Engineers for the District, after all necessary approvals have been obtained.

**Section 104. Declaration of Period of Usefulness.** The Commission hereby declares that the period of usefulness of the System is more than forty (40) years from the date of completion of the Project.

**Section 105. Authorization of Bonds.** The District has heretofore determined that the total cost of the Project, including preliminary expenses, land and rights-of-way, engineering expense, capitalized interest during construction, legal and administrative costs, publication costs, initial deposits required and all incidental expenses, will not exceed \$816,000. Therefore, it is hereby determined to be necessary in order for the District to finance the cost (not otherwise provided) of the Project that the District issue a total of \$289,000 of Current Bonds, based on the following calculation:

|   |               |                  |
|---|---------------|------------------|
| Total cost of Project                   |               | \$816,000        |
| Less:                                   |               |                  |
| RECD Grant                              | \$342,000     |                  |
| ARC Grant                               | 150,000       |                  |
| Connection Charges                      | <u>35,000</u> |                  |
| Total Non-Bond Funds:                   |               | <u>(527,000)</u> |
| Balance to be financed by Current Bonds |               | \$289,000        |

Accordingly, for the purpose of financing the cost (not otherwise provided) of the Project, under the provisions of the Act, there is hereby authorized to be issued and sold \$289,000 principal amount of Sharpsburg Water District Waterworks Revenue Bonds, Series 1996.

The Current Bonds shall be dated as of the date of delivery to the Purchaser thereof; shall bear interest from such date at such interest rate as may be fixed by supplemental resolution as a result of the advertised sale and competitive bidding for such Current Bonds, as hereinafter provided; and shall be issued and delivered as prescribed in Section 202 hereof.

Interest on the Current Bonds shall be payable semiannually on January 1 and July 1 of each year, provided that the first interest payment period will cover interest only from the date of delivery of the Current Bonds to the ensuing January 1 or July 1, as the case may be. Principal of the Current Bonds shall be payable on January 1 of each of the respective years until maturity, as set out in Section 201 hereof.

**Section 106. Recognition of Prior Bonds.** The District hereby expressly recognizes and acknowledges that the District has previously created for the benefit and protection of the owners of the Prior Bonds, a certain lien and pledge and certain security rights relating to the System, all as set forth in the Prior Bonds and in the Prior Bond Resolution.

**Section 107. Current Bonds Shall be Payable on Out of Gross Revenues.** The Current Bonds and any additional Parity Bonds that may be issued under the conditions and restrictions hereinafter set forth, shall be payable solely on a first lien basis out of the gross revenues of the System, on a parity with the Prior Bonds.

**Section 108. Lien on Contracts.** In addition to the revenue pledge securing the Bonds, a lien is hereby created and granted in favor of the Bondowners on all contracts, and on all other rights of the District pertaining to the System, enforceable by assignment to any receiver or other operator proceeding by authority of any court.



## **ARTICLE 2. THE BONDS; BOND FORM; PREPAYMENT.**

**Section 201. Principal Payments.** Principal payments due on the Current Bonds shall be as set forth in the schedule of maturities set out in **Exhibit A** attached to this Resolution and incorporated herein.

**Section 202. Issuance of Current Bonds; Bond Form.** The Purchaser of the Current Bonds at the public sale shall take delivery of the Current Bonds in the form of one or more fully registered bonds, as set forth in **Exhibit B** attached hereto and incorporated herein, amounting in the aggregate to the principal amount of the Current Bonds authorized herein, maturing as to principal as set out in Section 201. The Current Bonds shall be numbered R-1 and consecutively upward thereafter. Such Current Bonds shall, upon appropriate execution on behalf of the District as prescribed, constitute the entire bond issue herein authorized, shall be negotiable (subject to registration requirements as to transferability), registered as to principal and interest and payable as directed by the registered Owner.

**Section 203. Place of Payment and Manner of Execution.** Both principal of and interest on the Current Bonds shall be payable at the place and in the manner set out in the form of such Current Bond. The Current Bonds shall be executed on behalf of the District by the manual or facsimile signature of the Chairman of the District, with the Corporate Seal of the District affixed thereto and attested by the manual or facsimile signature of the Secretary of said District.

If either of the officers whose signatures appear on the Current Bonds ceases to be such officer before delivery of said Current Bonds, such signatures shall nevertheless be valid for all purposes the same as if such officers had remained in office until delivery.

**Section 204. Provisions as to Prepayment.** Except when all of the Current Bonds are held by the Government, principal maturities falling due prior to January 1, 2006, shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2006, shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 2005, at par plus accrued interest, without any prepayment penalty.

So long as all of the Current Bonds are owned by the Government, all or any of the Current Bonds, or in a multiple of \$100, may be prepaid at any time in inverse chronological order of the principal maturities due, at par plus accrued interest without any prepayment penalty.

Notice of such prepayment shall be given by certified mail to the Bondowner or his assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the Bondowner.

**ARTICLE 3. CONSTRUCTION ACCOUNT; INTERIM FINANCING;  
APPLICATION OF PROCEEDS; ARBITRAGE LIMITATIONS.**

**Section 301. Construction Account; Application of Proceeds of Bonds; Other Transfers and Deposits.** The Treasurer, or such other District official as shall be designated by the Commission, shall be the custodian of all funds belonging to and associated with the System. All moneys in excess of the amount insured by the FDIC in the Construction Account shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The officials of the District entrusted with the receipt and disbursement of revenues of the System and the custody of valuable property shall be covered by a fidelity bond in the amount of not less than \$52,000 (the "Fidelity Bond"), or such larger amount as the RECD may require, which Fidelity Bond shall be effective and secured by a surety company approved by the RECD so long as it is owner of any of the Current Bonds. The RECD and the District shall be named co-obligees in such Fidelity Bond and the amount thereof shall not be reduced without the written consent of the RECD. Whenever sums in the Funds shall exceed \$52,000, the Fidelity Bond shall be increased accordingly as requested by and with the approval of the RECD.

**A. Covenants Applicable if RECD Purchases Current Bonds.** It is acknowledged that all covenants herein with reference to the necessity for approval of the RECD, the necessity of observing RECD regulations and procedures and the necessity of using RECD forms (the "RECD Forms"), shall apply only if the RECD is the Purchaser of the Current Bonds and only so long as the RECD holds the Current Bonds thereafter. In the event that the RECD shall not be the Purchaser of the Current Bonds, or, after purchasing same, shall sell or transfer the Current Bonds to an Owner who shall not be the Government, all covenants herein with reference to the necessity for approval of the RECD, the necessity of observing RECD regulations and procedures, and the necessity of using RECD Forms, shall not be applicable.

**B. Application of Proceeds of Current Bonds.** The proceeds of the Current Bonds shall be applied as follows:

**(1) Payment of Interim Financing, Costs of Project and Costs of Issuance.** Simultaneously with the delivery of the Current Bonds, there shall immediately be paid to the Interim Lender (or the RECD if Multiple Advances are made) an amount sufficient to pay principal of and interest on any temporary loans borrowed by the District in anticipation of the sale and delivery of the Current Bonds and/or of the receipt of Grant Proceeds. Also, at the time of delivery of the Current Bonds, there shall be paid all amounts then due and payable in connection with the costs of the Project and in connection with the issuance of the Current Bonds.

**(2) Construction Account.** If and to the extent that the proceeds of the Current Bonds shall be in excess of the amount necessary to pay the interest, principal and costs referred to in subparagraph B(1) of this Section, such excess amount shall immediately be deposited in the "Sharpsburg Water District Construction Account" hereby created, which shall be established at the Depository Bank. There shall also be deposited in said Construction Account the Grant Proceeds, as and when received, or said Grant Proceeds may be applied, to the extent necessary, to liquidate or reduce any interim financing owed by the District at the time of receipt of Grant Proceeds. Simultaneously

with or prior to the delivery of the Current Bonds, there shall also be deposited in the Construction Account the proceeds of the District contribution in the minimum amount of \$35,000 (less any amounts theretofore used for authorized purposes), to supplement the proceeds of the Current Bonds and Grant Proceeds in order to assure completion of the Project.

**(3) Withdrawal of Funds From Construction Account.** Prior to the expenditure by the District of any moneys from the Construction Account, the District must obtain written approval from the RECD as to such expenditures, if the RECD is the Owner of any Outstanding Bonds. The proceeds of said Construction Account shall be withdrawn only on checks signed by the Chairman, the Treasurer (or by such other official of the District as may be authorized by the Commission), provided such official shall be covered by the Fidelity Bond required by Section 301 of this Resolution, in payment for services and/or materials supplied in connection with the Project, as evidenced by (1) a Requisition Certificate; and (2) invoices and/or partial payment estimates bearing the written approval of the Engineers and the Chairman (or by such other official of the District as may be authorized by the Commission), and which invoices and/or partial payment estimates must have been reviewed and approved for payment by the designated RECD official.

Written approval or certification of the Engineers shall not be required for matters not under the jurisdiction of the Engineers, such as legal fees, land acquisition and related items.

During construction, the District shall disburse Construction Account funds in a manner consistent with RECD Instruction 1942-A.

The District shall prepare and submit any and all RECD Forms required by the RECD. Periodic audits of the District's Construction Account records shall be made by RECD as determined by it to be necessary.

**(4) Transfer of Capitalized Interest to Sinking Fund.** There shall be transferred from the Construction Account an amount sufficient to provide for capitalized interest (initially estimated at \$10,000) during the construction of the Project, as approved by the Engineers and by the RECD. If and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project, such amount so transferred from the Construction Account shall be deposited in the Sinking Fund.

**(5) Investment of Funds in Construction Account.** Pending disbursement of amounts on deposit in the Construction Account, all such funds, or such portion of said amounts on deposit in said Construction Account as is designated by the Commission, shall be invested for the benefit of such Construction Account in Certificates of Deposit, savings accounts or U.S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for costs of the Project (as determined by the Engineers, the Chairman and the RECD), provided that to the extent that any amounts on deposit in said Depository Bank shall

cause the total deposits of the District in said Depository Bank to exceed the amount insured by the FDIC, the same shall be continuously secured by a valid pledge of U.S. Obligations, having an equivalent market value, in conformity with Section 66.480 of the Kentucky Revised Statutes. Investments in Certificates of Deposit may be made only if a separate RECD Form 402-4 Agreement is executed, if the RECD has purchased any of the Bonds, and investments in Certificates of Deposit or savings accounts may be made only in such Certificates or accounts of an FDIC bank. Any such investments will be a part of the Construction Account, and income from such investments will be credited to the Construction Account. All such investments shall be subject to the limitations set out in Section 303 hereof.

**(6) Statements of Contractors, Engineers and Attorneys as to Payment.** Prior to the delivery of the Current Bonds, if the RECD is the Purchaser of the Current Bonds, the District will be required to provide the RECD with statements from the Contractors, Engineers and attorneys for the District that they have been paid to date in accordance with their contract or other agreements and, in the case of any Contractor, that he has paid his suppliers and subcontractors. Any exceptions must be authorized under RECD Instruction 1942-A.

**(7) Disposition of Balance in Construction Account After Completion of Project.** When the Project has been completed and all construction costs have been paid in full, as certified by the Engineers for the District and/or by the RECD, any balance then remaining in the Construction Account may, with the consent of the RECD, be applied to the cost of constructing additional extensions, additions and improvements to the System (the "Additional Construction"). If such Additional Construction is to be undertaken by the Contractors previously engaged in the Project, such Additional Construction may be authorized by a change order.

If there is a balance remaining in the Construction Account after such Additional Construction, such balance (subject to legal requirements as to possible refund of any allocated portion of the balance derived from Grant Proceeds) shall be transferred to the Sinking Fund, whereupon said Construction Account shall be closed. Such remaining balance in the Construction Account so transferred to the Sinking Fund shall be used by the District immediately to prepay principal installments due on the Current Bonds in the inverse order of maturities without prepayment penalty, provided further that any balance insufficient to prepay at least \$100 of the principal payment falling due in any year on the Bonds will be transferred to the Depreciation Fund.

#### **Section 302. Interim Financing Authorization.**

**A. Interim Financing.** The District shall use interim financing for the Project during construction of that portion of the cost of the Project financed by the Current Bonds, if available at reasonable rates and terms.

The borrowing of up to the aggregate sum of \$289,000 from the Interim Lender is hereby authorized; and the Chairman is hereby authorized to execute the Note in the name and on behalf of the District. Each advance under the Note shall evidence a loan by the Interim

Lender to the District for services rendered and/or materials supplied in connection with the Project, as evidenced by a Requisition Certificate.

Interim financing shall be disbursed as follows:

(1) At the direction of the District, the Interim Lender shall disburse the proceeds of the Note by cashier's checks directly to the parties entitled thereto as set forth in the Requisition Certificate; or

(2) At the direction of the District, the Interim Lender shall deposit the proceeds of the Note in the Construction Account, in which event amounts of the District on deposit therein shall, until expended to the extent that same shall exceed the amount insured by the FDIC, be fully secured by a pledge of U.S. Obligations.

The aggregate of the principal amount of all Notes shall not exceed \$289,000. Each Note which is renewed or superseded shall be simultaneously cancelled by the Interim Lender and transmitted to the Treasurer. The rate of interest applicable to each Note shall not exceed a reasonable rate, which rate is subject to the approval of the RECD.

The total authorized interim financing of \$289,000 shall be the maximum indebtedness which the District may owe at any one time to the Interim Lender for the purpose of providing temporary construction financing for the Project; provided, however, that the District may reduce the amount owed by the District to the Interim Lender from time to time as and when funds are available to the District, whether derived from the proceeds of the Grant Proceeds, the proceeds of the sale of the Current Bonds or otherwise, and may reborrow from the Interim Lender additional amounts in anticipation of the further receipt by the District of additional proceeds from the Current Bonds and/or Grant Proceeds.

The District hereby covenants and agrees with the Interim Lender that upon the issuance and delivery of the Current Bonds and/or the receipt of said Grant Proceeds, the District will apply the proceeds thereof, to whatever extent may be necessary, in payment of the principal amount of the Note, together with accrued interest thereon to the date of such payment; and the proceeds of the Current Bonds and Grant Proceeds are hereby pledged therefor, and such pledge shall constitute a first and prior charge against said proceeds.

Although the proceeds of the Current Bonds and Grant Proceeds are pledged to the repayment of said interim financing, it is recognized that the Grant Proceeds may be applied to the extent required at the time of receipt of the Grant Proceeds, to the payment of costs of the Project due and owing by the District at the time of receipt of such Grant Proceeds, rather than to the repayment of portions of the interim financing at that time. If and to the extent that the Grant Proceeds are in excess of any costs of the Project due and owing at the time of receipt thereof, such Grant Proceeds may be applied, in the same manner as set out hereinabove, to the reduction of the amount of the interim financing, after which, such interim financing may again be increased as theretofore. The District further pledges the revenues of the System to the repayment of said interim financing, subject to the vested rights and priorities of the pledges securing the Outstanding Bonds.

It is understood that the foregoing constitutes an alternative method of obtaining interim financing, and does not preclude the authorization and sale, by public advertisement or otherwise, of bond anticipation notes and/or grant anticipation notes to the most favorable bidder on the open market, by concurrent or subsequent proceedings of the District.

**B. Multiple Advances by RECD.** In the event the Current Bonds are purchased by the RECD, and in the event the District is unable to obtain a commitment for interim financing for the Project from any Interim Lender at reasonable rates and terms, the Chairman is authorized to request Multiple Advances of loan funds from the RECD.

If the RECD agrees to make Multiple Advances to the District pending the delivery of the Current Bonds, the Chairman is hereby authorized to execute in the name and on behalf of the District any number of Notes. Each such Note, evidencing an advance of funds by the RECD to the District, shall be in the form prescribed by the RECD.

Each request for an advance from the RECD shall be accompanied by a Requisition Certificate. The District will also furnish to the RECD, prior to the receipt of each Multiple Advance, whatever additional documentation shall be requested by the RECD, including an updated supplemental title opinion of Local Counsel and an updated supplemental preliminary legal opinion of Bond Counsel.

The proceeds of any Multiple Advances shall be either (i) disbursed directly to the parties entitled thereto for services and/or materials supplied in connection with the Project; or (ii) deposited into the Construction Account and disbursed in accordance with the provisions of Section 301 hereof, in which event amounts on deposit in such Construction Account shall, until expended, to the extent that same shall exceed the amount insured by the FDIC, be fully secured by a pledge of U.S. Obligations.

The proceeds of the Current Bonds are hereby pledged to the repayment of such Multiple Advances, and such pledge shall constitute a first and prior pledge against such proceeds. The District further pledges the revenues of the System to the repayment of said Multiple Advances, subject to the vested rights and priorities of the pledges securing the Outstanding Bonds.

**Section 303. Arbitrage Limitations on Investment of Proceeds.** The District covenants and certifies, in compliance with the Code, on the basis of known facts and reasonable expectations on the date of adoption of this Resolution, that it is not expected that the proceeds of the Current Bonds will be used in a manner which would cause the Current Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. The District covenants to the Owners of the Current Bonds that (1) the District will make no use of the proceeds of said Current Bonds which, if such use had been reasonably expected on the date of issue of such Current Bonds, would have caused such Current Bonds to be "arbitrage bonds"; and (2) the District will comply with all of the requirements of the Code to whatever extent is necessary to assure that the Current Bonds shall not be treated as or constitute "arbitrage bonds" and that the interest on the Bonds shall be excludable from gross income for federal income tax purposes.

Prior to or at the time of delivery of the Current Bonds, the Chairman and/or the Treasurer (who are jointly and severally charged with the responsibility for the issuance of the Current Bonds) are authorized to execute such certifications as shall be required by Bond Counsel, setting out all known and contemplated facts concerning the anticipated construction, expenditures and investments, including the execution of necessary and/or desirable certifications of the type contemplated by Section 148 of the Code in order to assure that interest on the Current Bonds shall be excludable from gross income for federal income tax purposes and that the Current Bonds will not be treated as "arbitrage bonds".

## ARTICLE 4. FLOW OF FUNDS.

**Section 401. Funds.** There was heretofore created in the 1984 Bond Resolution the following funds and accounts:

- (a) Sharpsburg Water District Waterworks Revenue Fund
- (b) Sharpsburg Water District Waterworks Bond and Interest Sinking Fund
- (c) Sharpsburg Water District Waterworks Depreciation Fund
- (d) Sharpsburg Water District Waterworks Operation and Maintenance Fund

All of the Funds shall be maintained with the Depository Bank so long as any Bonds remain outstanding.

**Section 402. Flow of Funds.** All proceedings preliminary to and in connection with the issuance of the Outstanding Bonds, including provisions made for (i) the receipt, custody and application of the proceeds of the Outstanding Bonds; (ii) the operation of the System on a revenue-producing basis; (iii) the segregation, allocation and custody of the revenues derived from the operation of the System; (iv) the enforcement and payment of the Outstanding Bonds and (v) the depreciation of the System; and all other covenants for the benefit of Bondowners set out in the Prior Bond Resolution, are hereby ratified and confirmed and shall continue in force and inure to the security and benefit of the Outstanding Bonds, the same as if such provisions and proceedings were set out in full herein; provided, further, that after the issuance of the Current Bonds, the income and revenues of the System shall be collected, segregated, accounted for and distributed as follows:

**A. Revenue Fund.** The District covenants and agrees that it will continue to deposit in the Revenue Fund, promptly as received from time to time, all revenues of the System, as same may be extended and improved from time to time. The moneys in the Revenue Fund shall continue to be used, disbursed and applied by the District only for the purpose and in the manner and order of priorities specified in the Prior Bond Resolution, as hereinafter modified by this Resolution, all as permitted by the Act, and in accordance with previous contractual commitments.

**B. Sinking Fund.** It is hereby recognized that the District is obligated upon the issuance of the Current Bonds to provide for additional debt service requirements of the Current Bonds.

At or after the delivery of the Current Bonds, there shall be transferred from the Construction Account to the Sinking Fund an amount sufficient to provide for capitalized interest (initially estimated at \$10,000) on the Current Bonds during the construction of the Project, if and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project.

There shall be transferred from the Revenue Fund and deposited into the Sinking Fund on or before the 20th day of each month, for payment of interest on and principal of the Outstanding Bonds, a sum equal to the total of the following:



- (1) An amount equal to one-sixth (1/6) of the next succeeding six-month interest payment to become due on the Bonds, plus
- (2) A sum equal to one-twelfth (1/12) of the principal of any Bonds maturing on the next succeeding January 1.

If the District for any reason shall fail to make any monthly deposit as required, then an amount equal to the deficiency shall be set apart and deposited into the Sinking Fund out of the first available revenues in the ensuing months, which amount shall be in addition to the monthly deposit otherwise required during such succeeding months. Whenever there shall accumulate in the Sinking Fund amounts in excess of the requirements during the next twelve months for paying the principal of and interest due on the Outstanding Bonds, as same fall due, such excess may be used for redemption or prepayment of any Outstanding Bonds, subject to the terms and conditions set forth therein, prior to maturity.

**C. Depreciation Fund.** Pursuant to the provisions of the Prior Bond Resolution which requires that an adjustment be made in the Depreciation Fund upon the issuance of bonds ranking on a parity with the Prior Bonds, it is hereby determined that upon the issuance of the Current Bonds, and upon completion of the Project, as certified by the Engineers and by the RECD, there shall next be transferred from the Revenue Fund the sum of at least \$428 (increased from \$293) each month which shall be deposited into the Depreciation Fund until there is accumulated in such Depreciation Fund the sum of at least \$51,360 (increased from \$35,160), which amount shall be maintained, and when necessary, restored to said sum of \$51,360, so long as any of the Bonds are outstanding and unpaid.

As further security for the Bondowners and for the benefit of the District, it has been and is hereby provided that in addition to the monthly transfers required to be made from the Revenue Fund into the Depreciation Fund, there shall be deposited into said Depreciation Fund all proceeds of connection fees collected from potential customers (except the amounts necessary to pay the actual costs and service connections applicable to said potential customers) to aid in the financing of the cost of future extensions, additions and improvements to the System, plus the proceeds of any property damage insurance (not otherwise used to replace damaged or destroyed property); and any such amounts or proceeds so deposited shall be used solely and only for the purposes intended.

Moneys in the Depreciation Fund may be withdrawn and used by the District, upon appropriate certification of the Commission, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals and replacements not included in the annual budget of current expenses and/or of paying the costs of constructing future extensions, additions and improvements to the System which will either enhance its revenue-producing capacity or will provide a higher degree of service, and when necessary, for the purpose of making payments of principal and interest on the Bonds if the amount on deposit in the Sinking Fund is not sufficient to make such payments.

**D. Operation and Maintenance Fund.** There shall next be transferred monthly from the Revenue Fund and deposited into said Operation and Maintenance Fund, sums sufficient to meet the current expenses of operating and maintaining the System. The balance

maintained in said Operation and Maintenance Fund shall not be in excess of the amount required to cover anticipated System expenditures for a two-month period pursuant to the District's annual budget.

**E. Monthly Principal and Interest Payments if Requested by the RECD.**

So long as any of the Bonds are held or insured by the RECD, the District shall, if requested by the RECD, make the payments required by this Section 402, in monthly installments to the RECD or to the insured Owners of the Bonds.

**F. Surplus Funds.** Subject to the provisions for the disposition of the income and revenues of the System as set forth hereinabove, which provisions are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred, within sixty days after the end of each fiscal year, the balance of excess funds in the Revenue Fund on such date, to the Depreciation Fund for application in accordance with the terms of this Resolution or to the Sinking Fund to be applied to the maximum extent feasible, to the prompt purchase or redemption of Outstanding Bonds.

**G. Investment and Miscellaneous Provisions.** All monies in the Sinking Fund and the Depreciation Fund shall be deposited in the Depository Bank, or such portion thereof as is designated by the Commission. All monies in the Sinking Fund and the Depreciation Fund shall be invested for the benefit of such respective Funds in Certificates of Time Deposit or savings accounts of the Depository Bank or in U.S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for the purposes for which such funds may be expended, provided that to the extent that any amount of the District on deposit in the Depository Bank shall cause the total deposits of the District in said Depository Bank to exceed the amount insured by the FDIC, such excess amount shall be continuously secured by a valid pledge of U.S. Obligations, having an equivalent market value, in conformity with Section 66.480 of the Kentucky Revised Statutes.

If the RECD has purchased any of the Outstanding Bonds, investments in Certificates of Deposit may be made only if a separate RECD Form 402-4 Agreement is executed. Any such investments will be a part of the respective Funds from which the proceeds invested are derived, and income from such investments will be credited to such respective Funds. All investments of funds derived from proceeds of the Outstanding Bonds shall be subject to the applicable limitations set out in Section 303 hereof.

All payments into the Funds shall be made on or before the twentieth (20th) day of each month, except that when the twentieth (20th) day of any month shall be a Saturday, Sunday or a legal holiday, then such payment shall be made on the next succeeding business day.

All monies held in any of the Funds shall be kept apart from all other District funds and shall be deposited in the Depository Bank, and all such deposits which cause the aggregate of all deposits of the District therein to be in excess of the amount secured by FDIC, shall (unless invested as herein authorized) be secured by a surety bond or bonds or by a pledge of U.S. Obligations, having a market value equivalent to such deposit.

The Treasurer shall keep appropriate records as to payment of principal and interest installments and as to payment of principal of and interest on any Bonds.

**Section 403. Current Bonds on a Parity with Prior Bonds.** It is hereby certified and declared that prior to the issuance of any of the Current Bonds, there will have been procured and filed with the District (i) a letter from the RECD to the effect that the RECD agrees to the issuance of the Current Bonds ranking on a parity as to security and source of payment with the Prior Bonds, all of which are owned by the RECD, together with (ii) a certification signed by the RECD to the effect that a legend has been typed, stamped or otherwise affixed on each of the Prior Bonds held by the RECD, evidencing the agreement of the RECD as the then Owner of the Prior Bonds, to the issuance of the Current Bonds so as to rank on a parity with the Prior Bonds, such legend to be in substantially the following form:

The holder of this Bond has consented to the issuance of \$289,000 of Sharpsburg Water District Waterworks Revenue Bonds, Series 1996 ranking on a parity as to security and source of payment with this Bond.

Accordingly, it is hereby found and declared that the Current Bonds shall rank and be payable on a parity with said outstanding Prior Bonds from the gross income and revenues of the System.

## ARTICLE 5. COVENANTS OF DISTRICT

**Section 501. Rates and Charges.** The District shall charge such rates and charges for all services and facilities rendered by the System, which rates and charges shall be reasonable, taking into account and consideration the cost and value of the System, the cost of maintaining, repairing and operating same and the amounts necessary for the payment of principal of and interest on Outstanding Bonds against the System. The District shall charge such rates and charges as shall be adequate to meet the requirements of Articles 4 and 5 hereof.

The District covenants that it will not reduce the rates and charges for the services rendered by the System without first filing with the Secretary a certification of an Independent Consulting Engineer that the annual net revenues (defined as gross revenues less operating expenses) of the then existing System for the fiscal year preceding the year in which such reduction is proposed, as such annual net revenues are adjusted, after taking into account the projected reduction in annual net revenues anticipated to result from any such proposed rate decrease, are equal to not less than 120% of the average annual debt service requirements for principal and interest on all of the then Outstanding Bonds payable from the revenues of the System, calculated in the manner specified in Section 603 hereof.

**Section 502. Books and Accounts; Audit.** The District shall maintain proper records and accounts relating to the operation of the System and the District's financial affairs; and the Bondowners, or their authorized representatives, shall have the right at all reasonable times to inspect the facilities of the System and all records, accounts and data relating thereto. An annual audit shall be made of the books and accounts pertinent to the System by a Certified Public Accountant licensed in Kentucky. No later than ninety (90) days after the close of each Fiscal Year, copies of such audit reports certified by such Certified Public Accountant shall be promptly mailed to the RECD without request, so long as the Government is the Owner of any of the Bonds, and to any Bondowner that may have made a written request for same.

Monthly operating reports shall be furnished to the RECD and to any Bondowner requesting same, during the first two (2) years of operation after completion of the Project, and whenever and so long as the District is delinquent in any of the covenants set out in the Prior Bond Resolution or this Current Bond Resolution. Thereafter, quarterly operating reports shall be furnished at all other times to the RECD and to any Bondowner requesting the same.

**Section 503. System to Continue to be Operated on Fiscal Year Basis; Annual Budget.** While any of the Bonds are outstanding and unpaid, and to the extent permitted by law, the System shall continue to be operated and maintained on a Fiscal Year basis.

Not later than sixty (60) days before the end of each Fiscal Year, the District agrees to cause to be prepared a proposed annual budget of operating expenses (the "Proposed Budget") of the System for the then ensuing Fiscal Year, itemized on the basis of monthly requirements. A copy of said Proposed Budget shall be mailed to any Bondowner who may request in writing a copy of such Proposed Budget and to the RECD without request, if the Government is the Owner of any of the Bonds.

For the purpose of the Proposed Budget, operating expenses shall include all reasonable and necessary expenses of operating, repairing, maintaining and insuring the System, but shall exclude depreciation and debt service payments. The District covenants that the operating expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that the District will not expend any amount or incur any obligation for operation or maintenance and repair in excess of the amounts provided for operating expenses in the annual budget, except upon resolution by the District that such expenses are necessary to operate and maintain the System.

Not later than sixty (60) days before the end of each Fiscal Year, the District shall prepare an estimate of gross revenues to be derived from the operation of the System for said Fiscal Year, and, to the extent that said gross revenues are insufficient (a) to pay debt service requirements on all Outstanding Bonds during the ensuing Fiscal Year, (b) to accumulate and maintain all required reserves enumerated herein and (c) to pay operating expenses, the District shall revise the rates and charges sufficiently to provide the funds so required.

If the Owners of at least 50% of the principal amount of the Outstanding Bonds, or the Government so long as it is the Owner of any of said Outstanding Bonds, so request, the Commission shall hold an open hearing not later than thirty (30) days before the beginning of the ensuing Fiscal Year, at which time any Bondowner may appear by agent or attorney and may file written objections to such proposed budget. Notice of the time and place of such hearing shall be mailed at least fifteen (15) days prior to the hearing to each registered Bondowner and to the Government.

The District covenants that annually before the first day of the Fiscal Year, the annual budget for the upcoming Fiscal Year will be adopted substantially in accordance with the Proposed Budget, and that no expenditures for operation and maintenance expenses of the System in excess of the budgeted amount shall be made during such Fiscal Year unless directed by said District by a specific resolution duly adopted.

**Section 504. General Covenants.** The District, through its Commission, hereby covenants and agrees with the Owners of the Bonds that:

- (1) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky;
- (2) It will make and collect reasonable and sufficient rates and charges for services and facilities rendered by the System;
- (3) It will segregate the revenues and income from the System and make application thereof consistent with and as provided by this Resolution;
- (4) Unless the written consent of the Owners of a majority of the principal amount of the Outstanding Bonds has been obtained, the District agrees not to sell, lease, mortgage or in any manner dispose of any integral part of the System, including any and all appurtenances thereto and extensions,

additions and improvements that may be made thereto, until all of the Outstanding Bonds shall have been paid or provided for in full, as provided herein; subject to the provisions of Section 607 hereof;

- (5) It will maintain in good condition and continuously operate the System and appurtenances thereto and will charge such rates and charges for the services rendered thereby so that the gross income and revenues will be sufficient at all times (i) to pay the interest on and principal of the Outstanding Bonds as same become due; (ii) to pay the cost of operating and maintaining the System; and (iii) to provide for an adequate depreciation account; and
- (6) It will carry and maintain insurance on properties of the System subject to loss or damage in amounts and against hazards substantially in accordance with the practices of other districts, cities or corporations which own and maintain waterworks systems under similar conditions; and so long as the Government is the Owner of any of the Outstanding Bonds, the Government will be listed as co-beneficiary on any such policy; and the District shall further comply with the insurance requirements of Section 506 hereof (involving insurance on motors, tanks and structures).

**Section 505. Other Covenants Applicable So Long as RECD Owns Any Bonds.** So long as the RECD shall own any of the Bonds, the District shall comply with such RECD regulations, requirements and requests as shall be made by the RECD, including the furnishing of operating and other financial statements, in such form and substance and for such periods as may be requested by the RECD, the carrying of insurance of such types and in such amounts as the RECD may specify, with insurance carriers acceptable to the RECD and compliance with all of the terms and conditions of the Loan Resolution (RECD Form 1942-47) adopted and executed by the District, which is hereby authorized, approved, ratified and confirmed.

**Section 506. Insurance on Motors, Tanks and Structures.** The District shall (a) immediately after the adoption of this Resolution and (b) at the time of final acceptance of the Project, insure all electric motors, elevated water storage tanks, pumping stations and major structures of the System in an amount recommended by the Engineers and approved by the RECD, so long as the RECD is the Owner of any of the Bonds, for the hazards usually covered in such area, and shall similarly insure same in an amount recommended by the Engineers, without the necessity of approval by the RECD if and whenever the District has Outstanding Bonds against the System and none of such Outstanding Bonds are owned by the RECD.

## **ARTICLE 6. INFERIOR BONDS AND PARITY BONDS**

**Section 601. Inferior Bonds.** Except as hereinafter provided below in this Article, the District shall not, so long as any Bonds are outstanding, issue any additional bonds payable from the revenues of the System unless the security and/or pledge of the revenues and statutory mortgage lien to secure such additional bonds are made inferior and subordinate in all respects to the security of the Bonds.

The District expressly reserves the right at any time to issue its bonds or other obligations payable from the revenues of the System and not ranking on a parity basis with the Current Bonds, without any proof of previous earnings or net revenues, provided that the consent of the RECD must be obtained prior to the issuance of any inferior bonds so long as the RECD owns any of the Bonds, and provided further that, after the initial completion of the Project, such inferior bonds may be issued only for the purpose of providing for future extensions, additions and improvements to the System, and only in express recognition of the priorities, liens and rights created and existing for the security, source of payment and protection of the Outstanding Bonds; provided further, that nothing in this Section is intended to restrict or shall be construed as a restriction upon, the ordinary refunding all or a portion of the Outstanding Bonds.

**Section 602. Parity Bonds to Complete the Project.** The District hereby certifies, covenants and agrees that in the event that the cost of completion of the construction of the Project shall exceed the moneys available to the District from any and all sources, the District shall have the right, if necessary, to provide for such excess, and only such excess, through the issuance of Parity Bonds, provided the District has obtained a certification from the Engineers to the effect that it is necessary to issue the desired amount of Parity Bonds in order to enable the District to pay the cost (not otherwise provided) of the completion of the Project, and provided the District has complied with the provisions of Section 603 below or has obtained:

- (a) the consent of the RECD if the Government is as the Owner of the Prior Bonds at that time or the consent of any other Owners of the Prior Bonds, and
- (b) the consent of (1) the RECD if the Government is the purchaser of the Current Bonds; or (2) the Owners of at least 75% of the principal amount of the Current Bonds outstanding, if the Current Bonds have been issued, sold and delivered and are held by Owners other than the Government.

**Section 603. Parity Bonds to Finance Future Improvements.** The District reserved the right and privilege, and does hereby reserve the right and privilege, of issuing additional Parity Bonds, but only under the conditions specified in the Current Bond Resolution, which conditions are as follows:

The District further reserves the right to add new waterworks facilities and/or to finance future extensions, additions and improvements to the System by the issuance of one or more additional series of Parity Bonds to be secured by a parity lien on and ratably payable on a parity with the Current Bonds, from the revenues of the System, provided:

(a) The facilities to be constructed from the proceeds of the additional Parity Bonds are made a part of the System and their revenues are pledged as additional security for the additional Parity Bonds and for the Outstanding Bonds.

(b) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds.

(c) The annual net revenues (defined as gross revenues less operating expenses), of the then existing System for the Fiscal Year preceding the year in which such Parity Bonds are to be issued, adjusted as hereinafter provided, shall be certified by an independent Certified Public Accountant to be equal at least one hundred twenty percent (120%) of the average annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the System, plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued. The calculation of average annual debt service requirements of principal and interest on the additional Parity Bonds to be issued shall, regardless of whether such additional Parity Bonds are to be serial or term bonds, be determined on the basis of the principal of and interest on such Parity Bonds being payable in approximately equal annual installments.

(d) The annual net revenues referred to above may be adjusted for the purpose of the foregoing computations to reflect:

(1) any revisions in the System's schedule of rates or charges being imposed on or before the time of the issuance of any such additional Parity Bonds, and

(2) any increase in the annual net revenues to be realized from the proposed extensions, additions and improvements being financed (in whole or in part) by such additional Parity Bonds;

provided all such adjustments shall be based upon and included in a certification of an Independent Consulting Engineer.

(e) Compliance with Section 603(a) through (d) shall not be necessary for the issuance of Parity Bonds if the District has obtained (1) the written consent of the RECD for the issuance of such Parity Bonds, if the Government is the Owner of any Bonds at the time of issuance of such Parity Bonds; and (2) the written consent of the Owners of all of the then outstanding Prior Bonds, and no other prerequisite need be complied with by the District in order to issue Parity Bonds.

**Section 604. Covenants to be Complied with at Time of Issuance of Parity Bonds.**

The District hereby covenants and agrees that in the event any Parity Bonds are issued, the District shall:

(a) Adjust the monthly amount to be deposited into the Sinking Fund on the same basis as that prescribed in the provisions establishing such Sinking Fund, to reflect the average annual debt service requirements of the Parity Bonds;



(b) Adjust the minimum annual amount to be deposited monthly into the Depreciation Fund on the same basis as that prescribed in the provisions establishing such Depreciation Fund, taking into account the future debt service requirements of all Bonds which will then be outstanding against the System; and

(c) Make such Parity Bonds payable as to principal on January 1 of each year in which principal falls due and payable as to interest on January 1 and July 1 of each year until the final maturity of such Parity Bonds.

**Section 605. Prepayment Provisions Applicable to Parity Bonds.** If, in connection with any subsequently issued series of Parity Bonds, it is provided that excess revenues in the Revenue Fund shall be used to prepay Outstanding Bonds in advance of scheduled maturity, or if the District at its option undertakes to prepay Outstanding Bonds in advance of scheduled maturity, it is agreed and understood, for so long as the Government owns any of the Outstanding Bonds, that no such prepayment will be effected without the approval of the RECD.

**Section 606. Consent of the RECD Regarding Future Bonds.** Notwithstanding any other provisions of this Resolution, the District agrees that so long as the Government owns any Outstanding Bonds against and/or payable from the revenues of the System, the District will not issue any future bonds, notes or other obligations against, secured by or payable from the revenues of the System without the written consent of the RECD.

**Section 607. Priority of Lien; Permissible Disposition of Surplus or Obsolete Facilities.** The District covenants and agrees that so long as any of the Prior Bonds and/or Bonds are outstanding, the District will not sell or otherwise dispose of any of the facilities of the System, or any part thereof, and, except as provided above, the District will not create or permit to be created any charge or lien on the revenues thereof ranking equal or prior to the charge or lien of the Outstanding Bonds. Notwithstanding the foregoing, the District may at any time permanently abandon the use of, or sell at fair market value, any part of the facilities of the System, provided that:

- (a) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds, and the required reserves for such Outstanding Bonds will have been accumulated;
- (b) The District will, in the event of any such sale, apply the proceeds to either (1) redemption of Outstanding Bonds in accordance with the provisions governing prepayment of bonds in advance of maturity; or (2) replacement of the facility so disposed of by another facility, the revenues of which shall be incorporated into the System, as hereinbefore provided;
- (c) The District certifies, in good faith, prior to any abandonment of use, that the facilities to be abandoned are no longer economically feasible of producing net revenues; and

- (d) The District certifies, in good faith, that the estimated net revenues of the remaining facilities of the System for the then next succeeding Fiscal Year, plus the estimated net revenues of the facilities, if any, to be added to the System, comply with the earnings requirements hereinbefore provided in the provisions and conditions governing the issuance of Parity Bonds.

Notwithstanding any other provisions hereof, so long as any Bonds are held by the Government, the District shall not dispose of its title to the System or to any part thereof, without first obtaining the written consent of the RECD.

## ARTICLE 7. DEFAULT AND CONSEQUENCES

**Section 701. Events of Default.** The following items shall constitute an Event of Default on the part of the District:

- (a) The failure to pay principal of the Bonds as and when same shall become due and payable, either at maturity or by proceedings for redemption.
- (b) The failure to pay any installment of interest on the Bonds when the same shall become due and payable or, if any or all of the Outstanding Bonds are owned by the RECD, within thirty (30) days thereafter.
- (c) The default by the District in the due or punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds, the Prior Bond Resolution or in this Resolution.
- (d) The failure to promptly repair, replace or reconstruct facilities of the System that have been damaged and/or destroyed.
- (e) The entering of any order or decree with the consent or the acquiescence of the District, appointing a receiver of all or any part of the System or any revenues thereof; or if such order or decree shall be entered without the acquiescence or consent of the District, its failure to have the order vacated, discharged or stayed on appeal within sixth (60) days after entry.

**Section 702. Consequences of Event of Default.** Any Owner of the Current Bonds may enforce and compel the performance of all duties and obligations of the District set forth herein. Upon the occurrence of an Event of Default, then upon the filing of a suit by any Owner of said the Current Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the District with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal of and interest on the Outstanding Bonds and to provide and apply the income and revenues in conformity with this Resolution and with the laws of the Commonwealth of Kentucky.

The District hereby agrees to transfer to any bona fide receiver or other subsequent operator of the System, pursuant to any valid court order in a proceeding brought to enforce collection or payment of the District's obligations, all contracts and other rights of the District pertaining to the System, conditionally, for such time only as such receiver or operator shall operate by authority of the court. Upon the occurrence of an Event of Default, the Owner of any of the Outstanding Bonds may require the governing body of the District by appropriate order to raise the rates a reasonable amount consistent with the requirements of this Resolution.

**ARTICLE 8. CONTRACTUAL PROVISIONS; GRANT APPROVAL;  
MISCELLANEOUS PROVISIONS.**

**Section 801. Resolution Contractual with Bondowners.** The provisions of this Resolution constitute a contract between the District and its Commission and the Owners of the Current Bonds as may be outstanding from time to time; and after the issuance of any of said Current Bonds, no change, alteration or variation of any kind of the provisions of this Resolution shall be made in any manner which will affect an Owner's rights except as herein provided or except with the written consent of all Bondowners until such time as all of the Current Bonds and the interest thereon have been paid in full or fully provided for, provided that the Commission may adopt any resolution for any purpose not inconsistent with the terms of this Resolution and which shall not impair the security of the Owners of the Current Bonds and/or for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provisions contained herein or in any resolution or other proceedings pertaining hereto.

It is further agreed that the Owners of 75% in principal amount of the Current Bonds at any time outstanding shall have the right to consent to and approve the adoption of resolutions or other proceedings, modifying or amending any of the terms or provisions contained in this Resolution, subject to the conditions that (a) this Resolution shall not be so modified in any manner that may adversely affect the rights of the Owners of any of the Prior Bonds, nor in any manner that may adversely affect the rights of any certain Owners of the Outstanding Bonds without similarly affecting the rights of all Owners of such Outstanding Bonds, or to reduce the percentage of the number of Owners whose consent is required to effect a further modification and (b) no such change may be effected without the consent of the RECD so long as the RECD owns any of the Outstanding Bonds.

**Section 802. All Current Bonds are Equal.** The Current Bonds authorized herein shall not be entitled to priority one over the other in the application of the income and revenues of the System, or with respect to the security for their payment, regardless of the time or times of their issuance, it being the intention that there shall be no priority among any of the Current Bonds regardless of the fact that they may be actually issued and delivered at different times.

**Section 803. District Obligated to Refund Current Bonds Owned by Government Whenever Feasible; Defeasement Prohibited.** So long as the Government is the Owner of any of the Current Bonds, if it appears to the Government that the District is able to refund such Current Bonds in whole or in part, by obtaining a loan for such purposes from responsible cooperative or private credit sources, or to sell bonds of the District in the open market, at reasonable rates and terms, for loans or bond issues for similar purposes and periods of time, the District will, upon request of the Government, obtain such loan and/or issue such bonds in sufficient amount to repay the Government and will take all such action as may be required in connection therewith.

In addition, so long as the Government is the Owner of any of the Current Bonds, the District shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating the lien of the Current Bonds without immediately prepaying all of the then outstanding Current Bonds.

**Section 804. Approval and Acceptance of RECD Grant Agreement.** The RECD has agreed to make a grant to the District in the amount of \$342,000 (the "RECD Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the RECD has requested the District to approve, accept and execute RECD Form 1942-31 (the "RECD Grant Agreement"), setting out the terms and conditions upon which said RECD Grant will be made. Said RECD Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said RECD Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other RECD Grants offered to the District in connection with the Project and to execute any and all RECD Grant Agreements and any other documents as may be requested by the RECD in connection with RECD Grants which have been and/or which may hereafter be approved for such Project.

**Section 805. Approval and Acceptance of ARC Grant Agreement.** The Appalachian Regional Commission (the "ARC") has agreed to make a grant to the District in the amount of \$150,000 (the "ARC Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the ARC has requested the District to approve, accept and execute a certain ARC Grant Agreement (the "ARC Grant Agreement"), setting out the terms and conditions upon which said ARC Grant will be made. Said ARC Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said ARC Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other ARC Grants offered to the District in connection with the Project and to execute any and all ARC Grant Agreements and any other documents as may be requested by the ARC in connection with ARC Grants which have been and/or which may hereafter be approved for such Project.

**Section 806. Authorization, Ratification and Confirmation of Approval and Execution of Various Documents.** The Commission hereby authorizes, approves, ratifies and confirms the previous action of the officers of the District in approving and executing various documents related to the financing of the Project, including the following:

- (a) Legal Services Agreement with Bond Counsel.
- (b) Legal Services Agreement with Local Counsel.
- (c) Letter of Intent to Meet Conditions of RECD Letter of Conditions (RECD Form 1942-46).
- (d) Loan Resolution (RECD Form 1942-47).
- (e) Agreement for Engineering Services with the Engineers.

**Section 807. Authorization of Condemnation to Acquire Easements and/or Sites.** In the event that (a) any necessary deeds of easement to allow construction of the Project over the property of any property owner or (b) any necessary deed to the necessary site of any waterworks facility of the Project shall not be obtained through negotiation within ten (10) days after the date of adoption of this Resolution and in the event that (1) such waterworks lines cannot be located

within the right-of-way of the State and/or County road involved; and/or (2) such waterworks facilities cannot be located on a site already owned by the District, Local Counsel is hereby authorized and directed to file condemnation actions to obtain such necessary rights-of-way and/or sites forthwith, without further authorization or direction from the District or the Commission. Local Counsel is further directed to follow the same condemnation procedure in the event that it becomes necessary, through change orders, line extensions and/or errors in the location of property lines and/or property owners, to obtain additional easements, rights-of-way and/or sites for completion of the Project and whenever the necessary deed is not obtained by negotiation at least ten (10) days prior to the date on which construction is contemplated in the respective easement, right-of-way and/or site.

The District further approves the payment from the funds available therefor allocated to the costs of the Project to pay any judgment award, or compromise, determined by Local Counsel with the acquiescence of the Commission, toward the costs of such easements, rights-of-way and/or sites; provided, in each instance, that the payment of such funds to satisfy any judgment, award or compromise must first be approved by the RECD; and the Commission further determines that if and to whatever extent the funds available from the proceeds of the financing contemplated by this Resolution shall be inadequate to pay any judgment, award or compromise amount for such easements, rights-of-way and/or sites, or if the District is unable to obtain the approval of the RECD for any such payment, the Commission shall take all reasonably necessary actions, within the powers and authority of the Commission, to make such additional amount available from all other available District resources.

## **ARTICLE 9. SALE OF CURRENT BONDS**

**Section 901. Sale of Current Bonds.** The Current Bonds shall be offered publicly for sale upon the basis of sealed, competitive bids at such time as the Commission shall designate.

A suggested form of "Notice of Bond Sale", a suggested form of "Official Notice of Sale of Bonds" and a suggested form of "Bid Form", having been prepared in advance by Bond Counsel, and all of such documents having been found to be in satisfactory form, a copy of each is hereby ordered to be filed in the records of the Secretary with the Minutes of the meeting at which this Resolution is adopted. The Notice of Bond Sale shall be signed by the Secretary and may be used for the purpose of publishing notice of the sale of the Current Bonds. Copies of such documents shall be furnished to any interested parties who may request same.

In the event that there is no bid or that all bids are rejected, the District may readvertise the sale pursuant to this Resolution.

**Section 902. Adjustment in Maturities, Prepayment Provisions and Other Dates, with Consent of Purchaser if Delivery is Delayed.** In the event that delivery of the Current Bonds authorized herein is delayed for any reason and the District, with the consent of the Purchaser of the Current Bonds, determines it is in the District's best interest to change the maturities, the applicable prepayment date or any other dates, the District may adjust the same by a Resolution of the Commission approving the adjustments.

## ARTICLE 10. CONCLUDING PROVISIONS

**Section 1001. Covenant of District to Take All Necessary Action To Assure Compliance with the Code.** In order to assure the Owners of the Current Bonds that such Current Bonds shall continue to be legal and that interest thereon will continue to be excludable from gross income for federal income tax purposes and exempt from all Kentucky income taxation, the District covenants to and with the Owners of the Current Bonds to take the following action:

(a) The District will (1) take all actions necessary to comply with the provisions of the Code necessary to assure that interest on the Current Bonds will be excludable from gross income for federal income tax purposes; (2) will take no actions which will violate any of the provisions of the Code; and (3) not use the proceeds of the Current Bonds for any purpose which will cause interest on the Current Bonds or on interim financing obligations, including, but not limited to the Note, issued pursuant to Section 302 hereof to become includable in gross income for federal income tax purposes.

(b) The District hereby certifies that it does not reasonably anticipate that the total principal amount of "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code which the District, or any subordinate entity of the District, will issue during the calendar year during which the Current Bonds are issued, will exceed \$10,000,000; and therefore the District hereby designates the Current Bonds and all interim financing obligations, including, but not limited to the Note, issued pursuant to Section 302 hereof as "qualified tax-exempt obligations".

(c) The District further certifies that the Current Bonds and any and all interim financing obligations of the District are not "private activity bonds" within the meaning of the Code.

(d) The District covenants and agrees to comply with the rebate requirements on certain excess earnings imposed by Section 148 of the Code, and in the event it is determined by the District, upon the advice of Bond Counsel, that the Construction Account, or any other Fund established hereunder, is subject to said rebate requirements and does in fact generate earnings from "non-purpose investments" in excess of the amount which said investments would have earned at a rate equal to the "yield" on the Current Bonds, plus any income attributable to such excess, there shall be established a separate and special fund with the Depository Bank, which fund shall be designated the "Excess Earnings and Rebate Fund", which shall be utilized for the collection and payment of any excess generated from investments and the remittance thereof to the United States of America on or before the anniversary of the fifth (5th) year from the date of the Current Bonds, and once every five (5) years thereafter until the final retirement of the Current Bonds, the last installment, to the extent required, to be made no later than sixty (60) days following the date on which funds sufficient for the complete retirement of the Current Bonds are deposited with any escrow agent. The District further covenants to file any and all reports, if any, as may be required to be filed with the Government with regard to the liability or non-liability of the District as to any such rebate



requirements and to maintain records in regard thereto for the period of time required by applicable Treasury regulations.

**Section 1002. Severability Clause.** If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Resolution, which shall continue in full force and effect.

**Section 1003. All Provisions in Conflict Repealed.** All motions, resolutions and orders, or parts thereof, in conflict with the provisions of this Resolution, are to the extent of such conflict hereby repealed. It is hereby specifically ordered and provided that any proceedings heretofore taken for the issuance of other bonds of the District payable or secured in any manner by all or any part of the income and revenues of said System or any part thereof, and which have not been heretofore issued and delivered, are hereby revoked and rescinded, and none of such other bonds shall be issued and delivered. The District covenants to correct by appropriate proceedings any required procedure previously taken invalidly.

**Section 1004. Effective Immediately Upon Adoption.** This Resolution shall take effect and be effective immediately upon its adoption.

Adopted this January 10, 1996.

SHARPSBURG WATER DISTRICT

  
\_\_\_\_\_

Chairman

(Seal of District)

Attest:

  
\_\_\_\_\_


Secretary

CERTIFICATION

I, Jim Barnes, hereby certify that I am the duly qualified and acting Secretary of the Sharpsburg Water District of Bath and Nicholas Counties, Kentucky, and that the foregoing Resolution is a true copy of a Resolution duly adopted by the Board of Commissioners of said District, signed by the Chairman of said District and attested under Seal by me as Secretary, at a properly convened meeting of said Board of Commissioners held on January 10, 1996, as shown by the official records of said District in my custody and under my control.

I further certify that said meeting was duly held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825, that a quorum was present at said meeting, that said Resolution has not been modified, amended, revoked or repealed, and that same is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature as Secretary and the official Seal of the District this January 10, 1996.

  
Secretary

(Seal of District)

**EXHIBIT A****Schedule of Principal Payments**

| <u>Payment Due<br/>January 1,</u> | <u>Principal<br/>Payment</u> | <u>Payment Due<br/>January 1,</u> | <u>Principal<br/>Payment</u> |
|-----------------------------------|------------------------------|-----------------------------------|------------------------------|
| 1998                              | 3,000                        | 2017                              | 6,900                        |
| 1999                              | 3,100                        | 2018                              | 7,300                        |
| 2000                              | 3,300                        | 2019                              | 7,500                        |
| 2001                              | 3,400                        | 2020                              | 7,900                        |
| 2002                              | 3,600                        | 2021                              | 8,300                        |
| 2003                              | 3,700                        | 2022                              | 8,600                        |
| 2004                              | 3,900                        | 2023                              | 9,000                        |
| 2005                              | 4,100                        | 2024                              | 9,400                        |
| 2006                              | 4,300                        | 2025                              | 9,900                        |
| 2007                              | 4,400                        | 2026                              | 10,300                       |
| 2008                              | 4,700                        | 2027                              | 10,800                       |
| 2009                              | 4,900                        | 2028                              | 11,200                       |
| 2010                              | 5,100                        | 2029                              | 11,800                       |
| 2011                              | 5,300                        | 2030                              | 12,300                       |
| 2012                              | 5,600                        | 2031                              | 12,800                       |
| 2013                              | 5,800                        | 2032                              | 13,400                       |
| 2014                              | 6,100                        | 2033                              | 14,000                       |
| 2015                              | 6,300                        | 2034                              | 14,700                       |
| 2016                              | 6,700                        | 2035                              | 15,600                       |

EXHIBIT B

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
COUNTIES OF BATH AND NICHOLAS  
SHARPSBURG WATER DISTRICT WATERWORKS  
REVENUE BONDS, SERIES 1996

No. R-\_\_\_\_\_

Interest Rate: 4.50%

\$289,000

KNOW ALL MEN BY THESE PRESENTS:

That the Sharpsburg Water District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Bath and Nicholas Counties, Kentucky, for value received, hereby promises to pay to

\_\_\_\_\_

the registered owner hereof, or to its registered assigns, solely from the fund hereinafter identified, the sum of

\_\_\_\_\_ DOLLARS (\$\_\_\_\_\_ ),

on the first day of January, in years and installments as follows:

| <u>Year</u> | <u>Principal</u> | <u>Year</u> | <u>Principal</u> | <u>Year</u> | <u>Principal</u> |
|-------------|------------------|-------------|------------------|-------------|------------------|
|-------------|------------------|-------------|------------------|-------------|------------------|

[Here the printer of the Current Bond will print the maturities of the Current Bonds purchased by the registered Owner]

and in like manner, solely from said fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, at the Interest Rate specified above, semiannually on the first days of January and July in each year, beginning with the first January or July after the date of this Bond, until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable, without deduction for exchange or collection charges, in lawful money of the United States of America, at the address of the registered owner shown on the registration book of the District.

This Bond is issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 58 and 74 of the Kentucky Revised Statutes (collectively the "Act"), and pursuant to a duly adopted Bond Resolution of the District authorizing same (the "Current Bond Resolution"), to which Current Bond Resolution reference is hereby made for a description of the nature and extent of the security thereby created, the rights and limitations of rights of the registered owner of this Bond, and the rights, obligations and duties of the District, for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing waterworks system of the District (said existing waterworks system, together with said extensions, additions and improvements, being hereinafter referred to as the "System").

This Bond ranks on a parity as to security and source of payment with certain outstanding Sharpsburg Water District Waterworks Refunding and Improvement Revenue Bonds of 1984, dated July 25, 1984 (the "Bonds of 1984"), authorized by a Resolution adopted by the Commission of the District on June 13, 1984 (the "1984 Bond Resolution"); and the outstanding Sharpsburg Water District Waterworks Revenue Bonds, Series 1990, dated November 8, 1991 (the "Bonds of 1990"), authorized by a Resolution adopted by the Commission of the District on December 20, 1990 (the "1990 Bond Resolution"); [hereinafter the Bonds of 1984 and the Bonds of 1990, shall be collectively referred to as the "Prior Bonds" and the 1984 Bond Resolution and the 1990 Bond Resolution shall be collectively referred to as the "Prior Bond Resolution"]. Accordingly, this Bond, together with any bonds ranking on a parity herewith, is payable from and secured on a rank on a parity with lien basis by a pledge of the gross revenues to be derived from the operation of the System.

This Bond has been issued in full compliance with the Current Bond Resolution and the Prior Bond Resolution; and this Bond, and any bonds ranking on a parity therewith that may be issued and outstanding under the conditions and restrictions of the Current Bond Resolution and the Prior Bond Resolution, are and will continue to be payable from revenues which shall be set aside in a fund for that purpose and identified as the "Sharpsburg Water District Waterworks Bond and Interest Sinking Fund", created in the Prior Bond Resolution.

This Bond does not constitute an indebtedness of the District within the meaning of any constitutional or statutory provisions or limitations and is payable solely out of the revenues of the System. As provided in the Current Bond Resolution, the District covenants that so long as any of the Prior Bonds and/or this Bond, are outstanding, the System will be continuously owned and operated by the District as a revenue producing public undertaking within the meaning of the aforesaid Act for the security and source of payment of the Prior Bonds and of this Bond, and that the District will fix, and if necessary adjust, from time to time, such rates for the services and facilities of the System and will collect and account for the revenues therefrom sufficient to pay promptly the principal of and interest on the Prior Bonds, this Bond and all other bonds ranking on a parity therewith as may be outstanding from time to time, to pay the cost of operation and maintenance of the System and to provide for the depreciation thereof.

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with this Bond in order to complete the Project, and to finance future extensions, additions and improvements to the System, provided the necessary requirements of the Current Bond Resolution have been complied with by the District.

This Bond shall be registered as to principal and interest in the name of the owner hereof, after which it shall be transferable only upon presentation to the Secretary of the District as the Bond Registrar, with a written transfer duly acknowledged by the registered owner or his duly authorized attorney, which transfer shall be noted upon this Bond and upon the book of the District kept for that purpose.

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2005, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple of One Hundred Dollars (\$100), as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or his assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States of America, or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$100, may be prepaid at any time in inverse chronological order of the installments due.

Upon default in the payment of any principal or interest payment on this Bond, or upon failure by the District to comply with any other provision of this Bond or with any provision of the Current Bond Resolution, the registered owner may, at his option, institute all rights and remedies provided by law or by said Current Bond Resolution.

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 issuance of this Bond, do exist, have happened and have been performed in due time, form and manner as required by law, and that the face amount of this Bond, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF said Sharpsburg Water District, by its Board of Commissioners, has caused this Bond to be executed by its Chairman, its corporate seal to be hereunto affixed, and attested by its Secretary, on the date of this Bond, which is

SHARPSBURG WATER DISTRICT

By \_\_\_\_\_  
Chairman

Attest:

\_\_\_\_\_  
Secretary

(Seal of District)

PROVISION FOR REGISTRATION

This Bond shall be registered on the registration book of the District kept for that purpose by the Secretary, as Bond Registrar, upon presentation hereof to said Secretary, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered owner or its attorney, such transfer to be made on said book and endorsed hereon.

ASSIGNMENT

| Date of<br>Registration | Name of<br>Registered Owner | Signature<br>of Bond Registrar |
|-------------------------|-----------------------------|--------------------------------|
|                         |                             |                                |
|                         |                             |                                |
|                         |                             |                                |

For value received, this Bond is hereby assigned, without recourse and subject to all of its terms and conditions, unto \_\_\_\_\_, this \_\_\_\_ day of \_\_\_\_\_,

\_\_\_\_\_  
By: \_\_\_\_\_



EXHIBIT C

REQUISITION CERTIFICATE

Re: Sharpsburg Water District Waterworks Revenue Bonds, Series 1996, in the amount of \$289,000

The undersigned hereby certify as follows:

1. That they are the signatories required for construction and/or administrative draws pursuant to the Bond Resolution adopted by the Sharpsburg Water District (the "District") of Bath and Nicholas Counties, Kentucky.

2. That the named firms and/or persons set forth on Exhibit A attached hereto are now entitled to the aggregate sum of \$\_\_\_\_\_, itemized as set forth in said Exhibit A and as per approved invoices attached hereto:

3. That upon said amount being lent to said District and/or obtained by said District from the proceeds of the Current Bonds and/or other sources, the undersigned approve such expenditure and the payment of said amounts to said firms and/or persons, either directly or from amounts deposit in the "Sharpsburg Water District Construction Account", at the Citizens Bank, Sharpsburg, Kentucky.

4. That we hereby certify that we have carefully inspected the work and, as a result of our inspection and to the best of our knowledge and belief, the amounts shown in this Requisition Certificate are correct and the work has been performed in accordance with the agreements between the District and the parties requesting payment.

IN TESTIMONY WHEREOF, witness the signature of the undersigned, this \_\_\_\_\_, 1996.

SHARPSBURG WATER DISTRICT

WOOLPERT CONSULTANTS

By \_\_\_\_\_  
Chairman

By \_\_\_\_\_  
Registered Professional Engineer  
State of Kentucky No. \_\_\_\_\_

Approved on \_\_\_\_\_

Approved on \_\_\_\_\_

Rural Economic and Community  
Development

Amount expended heretofore \$ \_\_\_\_\_

By \_\_\_\_\_  
Authorized RECD Official

Amount approved herein \_\_\_\_\_

Approved on \_\_\_\_\_

Total \_\_\_\_\_

**EXHIBIT A TO REQUISITION CERTIFICATE**

Name of Entity/Person

Amount

BOND RESOLUTION

SHARPSBURG WATER DISTRICT

AUTHORIZING

SHARPSBURG WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 2006

IN THE PRINCIPAL AMOUNT OF

\$258,000

## TABLE OF CONTENTS

|              |  |    |
|--------------|--|----|
| ARTICLE 1.   | DEFINITIONS; PURPOSE; AUTHORIZATION OF BONDS;<br>SECURITY. ....                                  | 3  |
| Section 101. | Definitions .....  | 3  |
| Section 102. | Purpose .....  | 6  |
| Section 103. | Construction Award Approved; Work Authorized .....   | 6  |
| Section 104. | Declaration of Period of Usefulness .....  | 7  |
| Section 105. | Authorization of Bonds .....   | 7  |
| Section 106. | Recognition of Prior Bonds .....   | 7  |
| Section 107. | Current Bonds Shall be Payable on Out of Gross Revenues .....                                    | 8  |
| Section 108. | Lien on Contracts .....  | 8  |
| ARTICLE 2.   | THE BONDS; BOND FORM; PREPAYMENT. ....   | 9  |
| Section 201. | Principal Payments .....   | 9  |
| Section 202. | Issuance of Current Bonds; Bond Form .....   | 9  |
| Section 203. | Place of Payment and Manner of Execution .....   | 9  |
| Section 204. | Provisions as to Prepayment .....  | 9  |
| ARTICLE 3.   | CONSTRUCTION ACCOUNT; INTERIM FINANCING;<br>APPLICATION OF PROCEEDS; ARBITRAGE LIMITATIONS. .... | 10 |
| Section 301. | Construction Account; Application of Proceeds of Bonds; Other<br>Transfers and Deposits .....    | 10 |
| A.           | Covenants Applicable if RD Purchases Current Bonds .....   | 10 |
| B.           | Application of Proceeds of Current Bonds .....   | 10 |
| Section 302. | Interim Financing Authorization .....  | 12 |
| A.           | Interim Financing .....  | 12 |
| B.           | Multiple Advances by RD .....  | 14 |
| Section 303. | Arbitrage Limitations on Investment of Proceeds .....  | 14 |
| ARTICLE 4.   | FLOW OF FUNDS .....  | 16 |
| Section 401. | Funds .....  | 16 |
| Section 402. | Flow of Funds .....  | 16 |
| A.           | Revenue Fund .....   | 16 |
| B.           | Sinking Fund .....   | 16 |

|              |   |    |
|--------------|---|----|
| C.           | Depreciation Fund .....   | 17 |
| D.           | Operation and Maintenance Fund .....  | 17 |
| E.           | Monthly Principal and Interest Payments if Requested by RD .....  | 18 |
| F.           | Surplus Funds .....   | 18 |
| G.           | Investment and Miscellaneous Provisions .....   | 18 |
| Section 403. | Current Bonds on a Parity with Prior Bonds .....  | 19 |
| ARTICLE 5.   | COVENANTS OF DISTRICT .....   | 20 |
| Section 501. | Rates and Charges .....   | 20 |
| Section 502. | Books and Accounts; Audit .....   | 20 |
| Section 503. | System to Continue to be Operated on Fiscal Year Basis; Annual<br>Budget .....                                    | 20 |
| Section 504. | General Covenants .....   | 21 |
| Section 505. | Other Covenants Applicable So Long as RD Owns Any Bonds .....   | 22 |
| Section 506. | Insurance on Motors, Tanks and Structures .....   | 22 |
| ARTICLE 6.   | INFERIOR BONDS AND PARITY BONDS .....   | 23 |
| Section 601. | Inferior Bonds .....  | 23 |
| Section 602. | Parity Bonds to Complete the Project .....  | 23 |
| Section 603. | Parity Bonds to Finance Future Improvements .....   | 23 |
| Section 604. | Covenants to be Complied with at Time of Issuance of Parity<br>Bonds .....  | 24 |
| Section 605. | Prepayment Provisions Applicable to Parity Bonds .....  | 25 |
| Section 606. | Consent of the RD Regarding Future Bonds .....  | 25 |
| Section 607. | Priority of Lien; Permissible Disposition of Surplus or Obsolete<br>Facilities .....                              | 25 |
| ARTICLE 7.   | DEFAULT AND CONSEQUENCES .....  | 27 |
| Section 701. | Events of Default .....   | 27 |
| Section 702. | Consequences of Event of Default .....  | 27 |
| ARTICLE 8.   | CONTRACTUAL PROVISIONS; GRANT APPROVAL;<br>MISCELLANEOUS PROVISIONS. ....   | 28 |
| Section 801. | Resolution Contractual with Bondowners .....  | 28 |
| Section 802. | All Current Bonds are Equal .....   | 28 |
| Section 803. | District Obligated to Refund Current Bonds Owned by<br>Government Whenever Feasible; Defeasement Prohibited ..... | 28 |
| Section 804. | Approval and Acceptance of RD Grant Agreement .....   | 29 |
| Section 805. | Approval and Acceptance of ARC Grant Agreement .....  | 29 |

|               |   |    |
|---------------|---|----|
| Section 806.  | Authorization, Ratification and Confirmation of Approval and Execution of Various Documents .....                       | 29 |
| Section 807.  | Authorization of Condemnation to Acquire Easements and/or Sites .....   | 29 |
| ARTICLE 9.    | SALE OF CURRENT BONDS .....   | 31 |
| Section 901.  | Sale of Current Bonds .....   | 31 |
| Section 902.  | Adjustment in Maturities, Prepayment Provisions and Other Dates, with Consent of Purchaser if Delivery is Delayed ..... | 31 |
| ARTICLE 10.   | CONCLUDING PROVISIONS .....   | 32 |
| Section 1001. | Covenant of District to Take All Necessary Action To Assure Compliance with the Code .....                              | 32 |
| Section 1002. | Severability Clause .....   | 33 |
| Section 1003. | All Provisions in Conflict Repealed .....   | 33 |
| Section 1004. | Effective Immediately Upon Adoption .....   | 33 |

EXHIBIT A - Schedule of Principal Payments

EXHIBIT B - Form of Fully Registered Bond

EXHIBIT C - Requisition Certificate

## BOND RESOLUTION

**RESOLUTION OF THE SHARPSBURG WATER DISTRICT OF BATH AND NICHOLAS COUNTIES, KENTUCKY, AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$258,000 PRINCIPAL AMOUNT OF SHARPSBURG WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 2006 FOR THE PURPOSE OF FINANCING THE COST (NOT OTHERWISE PROVIDED) OF THE CONSTRUCTION OF EXTENSIONS, ADDITIONS AND IMPROVEMENTS TO THE EXISTING WATERWORKS SYSTEM OF SAID DISTRICT; SETTING FORTH TERMS AND CONDITIONS UPON WHICH SAID BONDS MAY BE ISSUED AND OUTSTANDING; PROVIDING FOR THE COLLECTION, SEGREGATION AND DISTRIBUTION OF THE REVENUES OF SAID WATERWORKS SYSTEM; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF SAID BONDS.**

WHEREAS, the waterworks system (the "System") of the Sharpsburg Water District (the "District") is owned and operated by said District pursuant to Chapters 58 and 74 of the Kentucky Revised Statutes (the "Act"), and

WHEREAS, the District presently has outstanding certain Prior Bonds (as hereinafter defined), which Prior Bonds are payable from and secured by a pledge of the revenues derived from the operation of the System, and

WHEREAS, all of the Prior Bonds presently outstanding are current as to payment of both principal and interest, and for the security of which a certain Sinking Fund and certain reserves are being maintained in the manner and by the means prescribed in the Prior Bond Resolution (as hereinafter defined) of the District, authorizing the Prior Bonds, and

WHEREAS, it is the desire and intent of the District at this time to authorize and provide for the issuance of revenue bonds in the principal amount of \$258,000 (the "Current Bonds"), for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the System of the District, in accordance with plans and specifications prepared by Woolpert, Inc. and to prescribe the covenants of the District, the rights of Bondowners and the details of the issuance and sale of the proposed Current Bonds, and

WHEREAS, the District desires and intends that the Current Bonds be issued so as to rank on a parity basis with the Prior Bonds, and

WHEREAS, the Prior Bonds were issued to and are now held by the Rural Development of the Department of Agriculture of the United States of America (the "RD"), and

WHEREAS, the RD, as the Owner of the Prior Bonds, has consented to the issuance by the District of the Current Bonds, and

WHEREAS, the Public Service Commission of Kentucky has granted to the District a Certificate of Public Convenience and Necessity, authorizing the construction of said extensions, additions and improvements, and

WHEREAS, the proceeds of the Current Bonds will be supplemented by Grant Proceeds (as hereinafter defined) and by a contribution by the District in the amount of at least \$7,000, to provide the total cost of such construction,

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF THE SHARPSBURG WATER DISTRICT OF BATH AND NICHOLAS COUNTIES, KENTUCKY, AS FOLLOWS:



**ARTICLE 1. DEFINITIONS; PURPOSE; AUTHORIZATION OF BONDS;  
SECURITY.**

**Section 101. Definitions.** As used in this Resolution, unless the context requires otherwise:

*"Act"* refers to Chapters 58 and 74 of the Kentucky Revised Statutes.

*"ARC Grant"* refers to the Appalachian Regional Commission grant described in Section 805 of this Resolution.

*"Beginning Month"* refers to the month following the month in which the Current Bonds authorized herein are issued, sold and delivered to the Purchaser thereof.

*"Bond Counsel"* refers to an attorney or firm of attorneys recognized nationally as experts in the field of municipal bond law and shall be deemed to refer to Rubin & Hays, Louisville, Kentucky, or their successors.

*"Bondowner" or "Owner"* refer to registered Owners of the Current Bonds at the time issued and outstanding hereunder.

*"Bonds"* collectively refers to the outstanding Current Bonds, Prior Bonds and the Parity Bonds.

*"Bonds of 1984" or "Series 1984 Bonds"* refer to the outstanding Sharpsburg Water District Waterworks Refunding and Improvement Revenue Bonds of 1984, dated July 25, 1984, in the original authorized principal amount of \$189,000.

*"Bonds of 1990" or "Series 1990 Bonds"* refer to the outstanding Sharpsburg Water District Waterworks Revenue Bonds, Series 1990, dated November 8, 1991, in the original authorized principal amount of \$335,000.

*"Bonds of 1996" or "Series 1996 Bonds"* refer to the outstanding Sharpsburg Water District Waterworks Revenue Bonds, Series 1996, dated June 6, 1996, in the original authorized principal amount of \$289,000.

*"Bond Resolution of 1984" or "1984 Bond Resolution"* refer to the Resolution authorizing the Bonds of 1984, duly adopted by the Board of Commissioners of the District on June 13, 1984.

*"Bond Resolution of 1990" or "1990 Bond Resolution"* refer to the Resolution authorizing the Bonds of 1990, duly adopted by the Board of Commissioners of the District on December 20, 1990.

*"Bond Resolution of 1996" or "1996 Bond Resolution"* refer to the Resolution authorizing the Bonds of 1996, duly adopted by the Board of Commissioners of the District on January 10, 1996.

*"Chairman" or "Chairperson"* refers to the elected or appointed Chairman or Chairperson of the Commission.

*"Code"* refers to the Internal Revenue Code of 1986, as amended, and the Treasury Regulations relating thereto.

*"Commission"* refers to the Board of Commissioners of the District, or such other body as shall be the governing body of said District under the laws of Kentucky at any given time.

*"Construction Account"* refers to the Sharpsburg Water District Construction Account, created in Section 301(B) of this Current Bond Resolution.

*"Contractors"* refers to the general contractors who have been employed by the District to construct the Project.

*"Current Bond Resolution" or "Resolution"* refer to this Resolution authorizing the Current Bonds.

*"Current Bonds"* refers to the \$258,000 of Sharpsburg Water District Waterworks Revenue Bonds, Series 2006 authorized by this Resolution, to be dated as of the date of issuance thereof.

*"Depository Bank"* refers to the bank, which shall be a member of the FDIC, which bank is Citizens Bank, Sharpsburg, Kentucky, or its successor.

*"Depreciation Fund"* refers to the Sharpsburg Water District Waterworks Depreciation Fund, described in Section 402 of this Resolution.

*"District"* refers to the Sharpsburg Water District of Bath and Nicholas Counties, Kentucky.

*"Engineers"* refers to the Engineers or any one of them, who prepared the plans and specifications for the construction of the Project and who will supervise the construction thereof and/or will furnish full time resident inspection of the construction of the Project, and shall be deemed to refer to Woolpert, Inc., or a member of said firm, or their successors.

*"Event of Default"* refers to one or more of the Events of Default set forth in Section 701 of this Resolution.

*"FDIC"* refers to the Federal Deposit Insurance Corporation, or its successors.

*"Fiscal Year"* refers to the annual accounting period of the District, beginning on January 1, and ending on December 31, of each year.

*"Funds"* refers to the Construction Account, the Revenue Fund, the Sinking Fund, the Depreciation Fund and the Operation and Maintenance Fund.

*"Government"* refers to the United States of America, or any agency thereof, including RD.

*"Grant Proceeds"* refers to the proceeds of the RD Grant and the ARC Grant.

*"Independent Consulting Engineer"* refers to a consulting engineer or a firm of consulting engineers of recognized excellent reputation in the field of waterworks system engineering, and such definition includes the Engineers named above.

*"Interim Lender"* refers to any financial institution or governmental agency approved by the District.

*"Local Counsel"* refers to Earl Rogers III, Esq., Morehead, Kentucky, or any other attorney or firm of attorneys designated by the District.

*"Multiple Advances"* refers to the advance of loan funds from the RD as described in Section 302 of this Resolution.

*"Note"* refers to a single note or any number of notes, in such form as may be prescribed by the Interim Lender, including any revenue bond anticipation notes issued pursuant to Chapter 58 of the Kentucky Revised Statutes, including any renewal or extensions of the Note, issued by the District evidencing the interim financing for the Project as prescribed in Section 302 of this Resolution.

*"Operation and Maintenance Fund"* refers to the Sharpsburg Water District Waterworks Operation and Maintenance Fund described in Section 401 of this Resolution.

*"Outstanding Bonds"* refers to the outstanding Bonds, and does not refer to, nor include, any Bonds for the payment of the principal and interest of which sufficient funds will have been deposited and earmarked for payment of Bonds; provided all Outstanding Bonds of any series held by the RD shall be deemed to constitute Outstanding Bonds until paid regardless of the deposit of funds to pay for same.

*"Parity Bonds"* refers to bonds which may be issued in the future which, pursuant to this Resolution, rank on a basis of parity with the outstanding Bonds, as to priority, security and source of payment, and does not refer to bonds which might be issued so as to rank inferior to the security and source of payment of the outstanding Bonds.

*"Prior Bonds"* refers collectively to the Series 1984 Bonds, the Series 1990 Bonds and the Series 1996 Bonds.

*"Prior Bond Resolution"* refers collectively to the 1984 Bond Resolution, the 1990 Bond Resolution and the 1996 Bond Resolution.

*"Project"* refers specifically to the construction of the currently proposed extensions, additions and improvements to the System of the District, which Project is being financed by the Current Bonds and by other funds.

"*Purchaser*" refers to the agency, person, firm or firms, or their successors, to whom the Current Bonds herein authorized are awarded at the public sale of the Current Bonds.

"*RD*" refers to the Rural Development of the Department of Agriculture of the United States of America.

"*RD Grant*" refers to the RD grant described in Section 804 of this Resolution.

"*Required Signatures*" refers to the signatures necessary to be obtained with reference to the approval of the expenditures to be made from the Construction Account, which required signatures shall consist of the signatures of (1) the Chairperson; (2) the Engineers; and (3) the Purchaser; provided, however, any expenditures for issuance and administrative costs and the costs of any equipment which is not permanently affixed to the real estate shall not require the signature or the approval of the Engineers.

"*Revenue Fund*" refers to the Sharpsburg Water District Waterworks Revenue Fund, described in Section 401 of this Resolution.

"*Secretary*" refers to the elected or appointed Secretary of the Commission.

"*Sinking Fund*" refers to the Sharpsburg Water District Waterworks Bond and Interest Sinking Fund, described in Section 401 of this Resolution.

"*System*" refers to the existing waterworks system of the District, together with all extensions, additions and improvements to said System.

"*Treasurer*" refers to the elected or appointed Treasurer of the Commission.

"*U.S. Obligations*" refers to bonds or notes which are the direct obligations of the United States of America, or obligations the principal of and interest on which are guaranteed by the United States of America.

All words and terms importing the singular number shall, where the context requires, import the plural number and vice versa. Unless otherwise indicated, references to Articles or Sections refers to those in this Resolution.

**Section 102. Purpose.** The Current Bonds shall be issued for the purpose of financing the cost (not otherwise provided) of the Project, as set out in the plans and specifications prepared by the Engineers. The Commission hereby declares the System of the District, including the extensions, additions and improvements to be constructed, to constitute a revenue producing public project, and said System shall continue to be owned, controlled, operated and maintained by the District as a revenue producing public project pursuant to the Act, so long as any Bonds remain outstanding.

**Section 103. Construction Award Approved; Work Authorized.** The Commission hereby authorizes, approves, ratifies and confirms its previous action in advertising for and taking steps toward awarding the contracts for the construction of the Project to the lowest and best bidders,

and further approves the action of the District officials in entering into formal contracts with said bidders, subject to the necessary approvals being obtained. Authority is hereby given for undertaking the construction of the Project according to the plans and specifications heretofore prepared by the Engineers for the District, after all necessary approvals have been obtained.

**Section 104. Declaration of Period of Usefulness.** The Commission hereby declares that the period of usefulness of the System is more than forty (40) years from the date of completion of the Project.

**Section 105. Authorization of Bonds.** The District has heretofore determined that the total cost of the Project, including preliminary expenses, land and rights-of-way, engineering expense, capitalized interest during construction, legal and administrative costs, publication costs, initial deposits required and all incidental expenses, will not exceed \$1,025,000. Therefore, it is hereby determined to be necessary in order for the District to finance the cost (not otherwise provided) of the Project that the District issue a total of \$258,000 of Current Bonds, based on the following calculation:

|   |              |                  |
|---|--------------|------------------|
| Total cost of Project                   |              | \$1,025,000      |
| Less:                                   |              |                  |
| RD Grant                                | \$160,000    |                  |
| ARC Grant                               | 500,000      |                  |
| Tobacco Settlement Grant                | 100,000      |                  |
| Connection Charges                      | <u>7,000</u> |                  |
| Total Non-Bond Funds:                   |              | <u>(767,000)</u> |
| Balance to be financed by Current Bonds |              | \$258,000        |

Accordingly, for the purpose of financing the cost (not otherwise provided) of the Project, under the provisions of the Act, there is hereby authorized to be issued and sold \$258,000 principal amount of Sharpsburg Water District Waterworks Revenue Bonds, Series 2006.

The Current Bonds shall be dated as of the date of delivery to the Purchaser thereof; shall bear interest from such date at such interest rate as may be fixed by supplemental resolution as a result of the advertised sale and competitive bidding for such Current Bonds, as hereinafter provided; and shall be issued and delivered as prescribed in Section 202 hereof.

Interest on the Current Bonds shall be payable semiannually on January 1 and July 1 of each year, provided that the first interest payment period will cover interest only from the date of delivery of the Current Bonds to the ensuing January 1 or July 1, as the case may be. Principal of the Current Bonds shall be payable on January 1 of each of the respective years until maturity, as set out in Section 201 hereof.

**Section 106. Recognition of Prior Bonds.** The District hereby expressly recognizes and acknowledges that the District has previously created for the benefit and protection of the owners of the Prior Bonds, a certain lien and pledge and certain security rights relating to the System, all as set forth in the Prior Bonds and in the Prior Bond Resolution.

**Section 107. Current Bonds Shall be Payable on Out of Gross Revenues.** The Current Bonds and any additional Parity Bonds that may be issued under the conditions and restrictions hereinafter set forth, shall be payable solely on a first lien basis out of the gross revenues of the System, on a parity with the Prior Bonds.

**Section 108. Lien on Contracts.** In addition to the revenue pledge securing the Bonds, a lien is hereby created and granted in favor of the Bondowners on all contracts, and on all other rights of the District pertaining to the System, enforceable by assignment to any receiver or other operator proceeding by authority of any court.

## **ARTICLE 2. THE BONDS; BOND FORM; PREPAYMENT.**

**Section 201. Principal Payments.** Principal payments due on the Current Bonds shall be as set forth in the schedule of maturities set out in **Exhibit A** attached to this Resolution and incorporated herein.

**Section 202. Issuance of Current Bonds; Bond Form.** The Purchaser of the Current Bonds at the public sale shall take delivery of the Current Bonds in the form of one or more fully registered bonds, as set forth in **Exhibit B** attached hereto and incorporated herein, amounting in the aggregate to the principal amount of the Current Bonds authorized herein, maturing as to principal as set out in Section 201. The Current Bonds shall be numbered R-1 and consecutively upward thereafter. Such Current Bonds shall, upon appropriate execution on behalf of the District as prescribed, constitute the entire bond issue herein authorized, shall be negotiable (subject to registration requirements as to transferability), registered as to principal and interest and payable as directed by the registered Owner.

**Section 203. Place of Payment and Manner of Execution.** Both principal of and interest on the Current Bonds shall be payable at the place and in the manner set out in the form of such Current Bond. The Current Bonds shall be executed on behalf of the District by the manual or facsimile signature of the Chairperson of the District, with the Corporate Seal of the District affixed thereto and attested by the manual or facsimile signature of the Secretary of said District.

If either of the officers whose signatures appear on the Current Bonds ceases to be such officer before delivery of said Current Bonds, such signatures shall nevertheless be valid for all purposes the same as if such officers had remained in office until delivery.

**Section 204. Provisions as to Prepayment.** Except when all of the Current Bonds are held by the Government, principal maturities falling due prior to January 1, 2015, shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2015, shall be subject to prepayment by the District on any date falling on and after January 1, 2016, at par plus accrued interest, without any prepayment penalty.

So long as all of the Current Bonds are owned by the Government, all or any of the Current Bonds, or in a multiple of \$100, may be prepaid at any time in inverse chronological order of the principal maturities due, at par plus accrued interest without any prepayment penalty.

Notice of such prepayment shall be given by certified mail to the Bondowner or his assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the Bondowner.

**ARTICLE 3. CONSTRUCTION ACCOUNT; INTERIM FINANCING;  
APPLICATION OF PROCEEDS; ARBITRAGE LIMITATIONS.**

**Section 301. Construction Account; Application of Proceeds of Bonds; Other Transfers and Deposits.** The Treasurer, or such other District official as shall be designated by the Commission, shall be the custodian of all funds belonging to and associated with the System. All moneys in excess of the amount insured by the FDIC in the Construction Account shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The officials of the District entrusted with the receipt and disbursement of revenues of the System and the custody of valuable property shall be covered by a fidelity bond in the amount of not less than \$64,000 (the "Fidelity Bond"), or such larger amount as the RD may require, which Fidelity Bond shall be effective and secured by a surety company approved by the RD so long as it is owner of any of the Current Bonds. The RD and the District shall be named co-obligees in such Fidelity Bond and the amount thereof shall not be reduced without the written consent of the RD. Whenever sums in the Funds shall exceed \$64,000, the Fidelity Bond shall be increased accordingly as requested by and with the approval of the RD.

**A. Covenants Applicable if RD Purchases Current Bonds** It is acknowledged that all covenants herein with reference to the necessity for approval of the RD, the necessity of observing RD regulations and procedures and the necessity of using RD forms (the "RD Forms"), shall apply only if the RD is the Purchaser of the Current Bonds and only so long as the RD holds the Current Bonds thereafter. In the event that the RD shall not be the Purchaser of the Current Bonds, or, after purchasing same, shall sell or transfer the Current Bonds to an Owner who shall not be the Government, all covenants herein with reference to the necessity for approval of the RD, the necessity of observing RD regulations and procedures, and the necessity of using RD Forms, shall not be applicable.

**B. Application of Proceeds of Current Bonds.** The proceeds of the Current Bonds shall be applied as follows:

**(1) Payment of Interim Financing, Costs of Project and Costs of Issuance.** Simultaneously with the delivery of the Current Bonds, there shall immediately be paid to the Interim Lender (or the RD if Multiple Advances are made) an amount sufficient to pay principal of and interest on any temporary loans borrowed by the District in anticipation of the sale and delivery of the Current Bonds and/or of the receipt of Grant Proceeds. Also, at the time of delivery of the Current Bonds, there shall be paid all amounts then due and payable in connection with the costs of the Project and in connection with the issuance of the Current Bonds.

**(2) Construction Account.** If and to the extent that the proceeds of the Current Bonds shall be in excess of the amount necessary to pay the interest, principal and costs referred to in subparagraph B(1) of this Section, such excess amount shall immediately be deposited in the "Sharpsburg Water District Construction Account" hereby created, which shall be established at the Depository Bank. There shall also be deposited in said Construction Account the Grant Proceeds, as and when received, or said Grant Proceeds may be applied, to the extent necessary, to liquidate or reduce any interim financing owed by the



District at the time of receipt of Grant Proceeds. Simultaneously with or prior to the delivery of the Current Bonds, there shall also be deposited in the Construction Account the proceeds of the District contribution in the minimum amount of \$7,000 (less any amounts theretofore used for authorized purposes), to supplement the proceeds of the Current Bonds and Grant Proceeds in order to assure completion of the Project.

**(3) Withdrawal of Funds From Construction Account.** Prior to the expenditure by the District of any moneys from the Construction Account, the District must obtain written approval from the RD as to such expenditures, if the RD is the Owner of any Outstanding Bonds. The proceeds of said Construction Account shall be withdrawn only on checks signed by the Chairperson, the Treasurer (or by such other official of the District as may be authorized by the Commission), provided such official shall be covered by the Fidelity Bond required by Section 301 of this Resolution, in payment for services and/or materials supplied in connection with the Project, as evidenced by (1) a Requisition Certificate; and (2) invoices and/or partial payment estimates bearing the written approval of the Engineers and the Chairperson (or by such other official of the District as may be authorized by the Commission), and which invoices and/or partial payment estimates must have been reviewed and approved for payment by the designated RD official.

Written approval or certification of the Engineers shall not be required for matters not under the jurisdiction of the Engineers, such as legal fees, land acquisition and related items.

During construction, the District shall disburse Construction Account funds in a manner consistent with RD Instruction 1780.

The District shall prepare and submit any and all RD Forms required by the RD. Periodic audits of the District's Construction Account records shall be made by RD as determined by it to be necessary.

**(4) Transfer of Capitalized Interest to Sinking Fund.** There shall be transferred from the Construction Account an amount sufficient to provide for capitalized interest (initially estimated at \$10,000) during the construction of the Project, as approved by the Engineers and by the RD. If and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project, such amount so transferred from the Construction Account shall be deposited in the Sinking Fund.

**(5) Investment of Funds in Construction Account.** Pending disbursement of amounts on deposit in the Construction Account, all such funds, or such portion of said amounts on deposit in said Construction Account as is designated by the Commission, shall be invested for the benefit of such Construction Account in Certificates of Deposit, savings accounts or U.S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for costs of the Project (as determined by the Engineers, the Chairperson and the RD), provided that to the extent that any amounts on deposit in said Depository Bank shall cause the total deposits

of the District in said Depository Bank to exceed the amount insured by the FDIC, the same shall be continuously secured by a valid pledge of U.S. Obligations, having an equivalent market value, in conformity with Section 66.480 of the Kentucky Revised Statutes. Investments in Certificates of Deposit may be made only if a separate RD Form 402-4 Agreement is executed, if the RD has purchased any of the Bonds, and investments in Certificates of Deposit or savings accounts may be made only in such Certificates or accounts of an FDIC bank. Any such investments will be a part of the Construction Account, and income from such investments will be credited to the Construction Account. All such investments shall be subject to the limitations set out in Section 303 hereof.

**(6) Statements of Contractors, Engineers and Attorneys as to Payment.** Prior to the delivery of the Current Bonds, if the RD is the Purchaser of the Current Bonds, the District will be required to provide the RD with statements from the Contractors, Engineers and attorneys for the District that they have been paid to date in accordance with their contract or other agreements and, in the case of any Contractor, that he has paid his suppliers and subcontractors. Any exceptions must be authorized under RD Instruction 1780.

**(7) Disposition of Balance in Construction Account After Completion of Project.** When the Project has been completed and all construction costs have been paid in full, as certified by the Engineers for the District and/or by the RD, any balance then remaining in the Construction Account may, with the consent of the RD, be applied to the cost of constructing additional extensions, additions and improvements to the System (the "Additional Construction"). If such Additional Construction is to be undertaken by the Contractors previously engaged in the Project, such Additional Construction may be authorized by a change order.

If there is a balance remaining in the Construction Account after such Additional Construction, such balance (subject to legal requirements as to possible refund of any allocated portion of the balance derived from Grant Proceeds) shall be transferred to the Sinking Fund, whereupon said Construction Account shall be closed. Such remaining balance in the Construction Account so transferred to the Sinking Fund shall be used by the District immediately to prepay principal installments due on the Current Bonds in the inverse order of maturities without prepayment penalty, provided further that any balance insufficient to prepay at least \$100 of the principal payment falling due in any year on the Bonds will be transferred to the Depreciation Fund.

### **Section 302. Interim Financing Authorization.**

**A. Interim Financing.** The District shall use interim financing for the Project during construction of that portion of the cost of the Project financed by the Current Bonds, if available at reasonable rates and terms;

The borrowing of up to the aggregate sum of \$258,000 from the Interim Lender is hereby authorized; and the Chairperson is hereby authorized to execute the Note in the name and on behalf of the District. Each advance under the Note shall evidence a loan by the Interim Lender to

the District for services rendered and/or materials supplied in connection with the Project, as evidenced by a Requisition Certificate.

Interim financing shall be disbursed as follows:

(1) At the direction of the District, the Interim Lender shall disburse the proceeds of the Note by cashier's checks directly to the parties entitled thereto as set forth in the Requisition Certificate; or

(2) At the direction of the District, the Interim Lender shall deposit the proceeds of the Note in the Construction Account, in which event amounts of the District on deposit therein shall, until expended to the extent that same shall exceed the amount insured by the FDIC, be fully secured by a pledge of U.S. Obligations.

The aggregate of the principal amount of all Notes shall not exceed \$258,000. Each Note which is renewed or superseded shall be simultaneously cancelled by the Interim Lender and transmitted to the Treasurer. The rate of interest applicable to each Note shall not exceed a reasonable rate, which rate is subject to the approval of the RD.

The total authorized interim financing of \$258,000 shall be the maximum indebtedness which the District may owe at any one time to the Interim Lender for the purpose of providing temporary construction financing for the Project; provided, however, that the District may reduce the amount owed by the District to the Interim Lender from time to time as and when funds are available to the District, whether derived from the proceeds of the Grant Proceeds, the proceeds of the sale of the Current Bonds or otherwise, and may reborrow from the Interim Lender additional amounts in anticipation of the further receipt by the District of additional proceeds from the Current Bonds and/or Grant Proceeds.

The District hereby covenants and agrees with the Interim Lender that upon the issuance and delivery of the Current Bonds and/or the receipt of said Grant Proceeds, the District will apply the proceeds thereof, to whatever extent may be necessary, in payment of the principal amount of the Note, together with accrued interest thereon to the date of such payment; and the proceeds of the Current Bonds and Grant Proceeds are hereby pledged therefor, and such pledge shall constitute a first and prior charge against said proceeds.

Although the proceeds of the Current Bonds and Grant Proceeds are pledged to the repayment of said interim financing, it is recognized that the Grant Proceeds may be applied to the extent required at the time of receipt of the Grant Proceeds, to the payment of costs of the Project due and owing by the District at the time of receipt of such Grant Proceeds, rather than to the repayment of portions of the interim financing at that time. If and to the extent that the Grant Proceeds are in excess of any costs of the Project due and owing at the time of receipt thereof, such Grant Proceeds may be applied, in the same manner as set out hereinabove, to the reduction of the amount of the interim financing, after which, such interim financing may again be increased as theretofore. The District further pledges the revenues of the System to the repayment of said interim financing, subject to the vested rights and priorities of the pledges securing the Outstanding Bonds.

It is understood that the foregoing constitutes an alternative method of obtaining interim financing, and does not preclude the authorization and sale, by public advertisement or otherwise, of bond anticipation notes and/or grant anticipation notes to the most favorable bidder on the open market, by concurrent or subsequent proceedings of the District.

**B. Multiple Advances by RD.** In the event the Current Bonds are purchased by the RD, and in the event the District is unable to obtain a commitment for interim financing for the Project from any Interim Lender at reasonable rates and terms, the Chairperson is authorized to request Multiple Advances of loan funds from the RD.

If the RD agrees to make Multiple Advances to the District pending the delivery of the Current Bonds, the Chairperson is hereby authorized to execute in the name and on behalf of the District any number of Notes. Each such Note, evidencing an advance of funds by the RD to the District, shall be in the form prescribed by the RD.

Each request for an advance from the RD shall be accompanied by a Requisition Certificate. The District will also furnish to the RD, prior to the receipt of each Multiple Advance, whatever additional documentation shall be requested by the RD, including an updated supplemental title opinion of Local Counsel and an updated supplemental preliminary legal opinion of Bond Counsel.

The proceeds of any Multiple Advances shall be either (i) disbursed directly to the parties entitled thereto for services and/or materials supplied in connection with the Project; or (ii) deposited into the Construction Account and disbursed in accordance with the provisions of Section 301 hereof, in which event amounts on deposit in such Construction Account shall, until expended, to the extent that same shall exceed the amount insured by the FDIC, be fully secured by a pledge of U.S. Obligations.

The proceeds of the Current Bonds are hereby pledged to the repayment of such Multiple Advances, and such pledge shall constitute a first and prior pledge against such proceeds. The District further pledges the revenues of the System to the repayment of said Multiple Advances, subject to the vested rights and priorities of the pledges securing the Outstanding Bonds.

**Section 303. Arbitrage Limitations on Investment of Proceeds.** The District covenants and certifies, in compliance with the Code, on the basis of known facts and reasonable expectations on the date of adoption of this Resolution, that it is not expected that the proceeds of the Current Bonds will be used in a manner which would cause the Current Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. The District covenants to the Owners of the Current Bonds that (1) the District will make no use of the proceeds of said Current Bonds which, if such use had been reasonably expected on the date of issue of such Current Bonds, would have caused such Current Bonds to be "arbitrage bonds"; and (2) the District will comply with all of the requirements of the Code to whatever extent is necessary to assure that the Current Bonds shall not be treated as or constitute "arbitrage bonds" and that the interest on the Bonds shall be excludable from gross income for federal income tax purposes.

Prior to or at the time of delivery of the Current Bonds, the Chairperson and/or the Treasurer (who are jointly and severally charged with the responsibility for the issuance of the Current Bonds) are authorized to execute such certifications as shall be required by Bond Counsel, setting out all known and contemplated facts concerning the anticipated construction, expenditures and investments, including the execution of necessary and/or desirable certifications of the type contemplated by Section 148 of the Code in order to assure that interest on the Current Bonds shall be excludable from gross income for federal income tax purposes and that the Current Bonds will not be treated as "arbitrage bonds".

## ARTICLE 4. FLOW OF FUNDS.

**Section 401. Funds.** There was heretofore created in the Prior Bond Resolution the following funds and accounts:

- (a) Sharpsburg Water District Waterworks Revenue Fund
- (b) Sharpsburg Water District Waterworks Bond and Interest Sinking Fund
- (c) Sharpsburg Water District Waterworks Depreciation Fund
- (d) Sharpsburg Water District Waterworks Operation and Maintenance Fund

All of the Funds shall be maintained with the Depository Bank so long as any Bonds remain outstanding.

**Section 402. Flow of Funds.** All proceedings preliminary to and in connection with the issuance of the Outstanding Bonds, including provisions made for (i) the receipt, custody and application of the proceeds of the Outstanding Bonds; (ii) the operation of the System on a revenue-producing basis; (iii) the segregation, allocation and custody of the revenues derived from the operation of the System; (iv) the enforcement and payment of the Outstanding Bonds and (v) the depreciation of the System; and all other covenants for the benefit of Bondowners set out in the Prior Bond Resolution, are hereby ratified and confirmed and shall continue in force and inure to the security and benefit of the Outstanding Bonds, the same as if such provisions and proceedings were set out in full herein; provided, further, that after the issuance of the Current Bonds, the income and revenues of the System shall be collected, segregated, accounted for and distributed as follows:

**A. Revenue Fund.** The District covenants and agrees that it will continue to deposit in the Revenue Fund, promptly as received from time to time, all revenues of the System, as same may be extended and improved from time to time. The moneys in the Revenue Fund shall continue to be used, disbursed and applied by the District only for the purpose and in the manner and order of priorities specified in the Prior Bond Resolution, as hereinafter modified by this Resolution, all as permitted by the Act, and in accordance with previous contractual commitments.

**B. Sinking Fund.** It is hereby recognized that the District is obligated upon the issuance of the Current Bonds to provide for additional debt service requirements of the Current Bonds.

At or after the delivery of the Current Bonds, there shall be transferred from the Construction Account to the Sinking Fund an amount sufficient to provide for capitalized interest (initially estimated at \$10,000) on the Current Bonds during the construction of the Project, if and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project.

There shall be transferred from the Revenue Fund and deposited into the Sinking Fund on or before the 20th day of each month, for payment of interest on and principal of the Outstanding Bonds, a sum equal to the total of the following:

- (1) An amount equal to one-sixth ( $1/6$ ) of the next succeeding six-month interest payment to become due on the Bonds, plus
- (2) A sum equal to one-twelfth ( $1/12$ ) of the principal of any Bonds maturing on the next succeeding January 1.

If the District for any reason shall fail to make any monthly deposit as required, then an amount equal to the deficiency shall be set apart and deposited into the Sinking Fund out of the first available revenues in the ensuing months, which amount shall be in addition to the monthly deposit otherwise required during such succeeding months. Whenever there shall accumulate in the Sinking Fund amounts in excess of the requirements during the next twelve months for paying the principal of and interest due on the Outstanding Bonds, as same fall due, such excess may be used for redemption or prepayment of any Outstanding Bonds, subject to the terms and conditions set forth therein, prior to maturity.

**C. Depreciation Fund.** Pursuant to the provisions of the Prior Bond Resolution which requires that an adjustment be made in the Depreciation Fund upon the issuance of bonds ranking on a parity with the Prior Bonds, it is hereby determined that upon the issuance of the Current Bonds, and upon completion of the Project, as certified by the Engineers and by the RD, there shall next be transferred from the Revenue Fund the sum of at least \$120 each month which shall be deposited into the Depreciation Fund until there is accumulated in such Depreciation Fund the sum of at least \$14,400, which amount shall be maintained, and when necessary, restored to said sum of \$14,400, so long as any of the Bonds are outstanding and unpaid. These deposits are in addition to the deposits required by the Prior Bond Resolution.

As further security for the Bondowners and for the benefit of the District, it has been and is hereby provided that in addition to the monthly transfers required to be made from the Revenue Fund into the Depreciation Fund, there shall be deposited into said Depreciation Fund all proceeds of connection fees collected from potential customers (except the amounts necessary to pay the actual costs and service connections applicable to said potential customers) to aid in the financing of the cost of future extensions, additions and improvements to the System, plus the proceeds of any property damage insurance (not otherwise used to replace damaged or destroyed property); and any such amounts or proceeds so deposited shall be used solely and only for the purposes intended.

Moneys in the Depreciation Fund may be withdrawn and used by the District, upon appropriate certification of the Commission, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals and replacements not included in the annual budget of current expenses and/or of paying the costs of constructing future extensions, additions and improvements to the System which will either enhance its revenue-producing capacity or will provide a higher degree of service, and when necessary, for the purpose of making payments of principal and interest on the Bonds if the amount on deposit in the Sinking Fund is not sufficient to make such payments.

**D. Operation and Maintenance Fund.** There shall next be transferred monthly from the Revenue Fund and deposited into said Operation and Maintenance Fund, sums sufficient to meet the current expenses of operating and maintaining the System. The balance maintained in

said Operation and Maintenance Fund shall not be in excess of the amount required to cover anticipated System expenditures for a two-month period pursuant to the District's annual budget.

**E. Monthly Principal and Interest Payments if Requested by the RD.** So long as any of the Bonds are held or insured by the RD, the District shall, if requested by the RD, make the payments required by this Section 402, in monthly installments to the RD or to the insured Owners of the Bonds.

**F. Surplus Funds.** Subject to the provisions for the disposition of the income and revenues of the System as set forth hereinabove, which provisions are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred, within sixty days after the end of each fiscal year, the balance of excess funds in the Revenue Fund on such date, to the Depreciation Fund for application in accordance with the terms of this Resolution or to the Sinking Fund to be applied to the maximum extent feasible, to the prompt purchase or redemption of Outstanding Bonds.

**G. Investment and Miscellaneous Provisions.** All monies in the Sinking Fund and the Depreciation Fund shall be deposited in the Depository Bank, or such portion thereof as is designated by the Commission. All monies in the Sinking Fund and the Depreciation Fund shall be invested for the benefit of such respective Funds in Certificates of Time Deposit or savings accounts of the Depository Bank or in U.S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for the purposes for which such funds may be expended, provided that to the extent that any amount of the District on deposit in the Depository Bank shall cause the total deposits of the District in said Depository Bank to exceed the amount insured by the FDIC, such excess amount shall be continuously secured by a valid pledge of U.S. Obligations, having an equivalent market value, in conformity with Section 66.480 of the Kentucky Revised Statutes.

If the RD has purchased any of the Outstanding Bonds, investments in Certificates of Deposit may be made only if a separate RD Form 402-4 Agreement is executed. Any such investments will be a part of the respective Funds from which the proceeds invested are derived, and income from such investments will be credited to such respective Funds. All investments of funds derived from proceeds of the Outstanding Bonds shall be subject to the applicable limitations set out in Section 303 hereof.

All payments into the Funds shall be made on or before the twentieth (20th) day of each month, except that when the twentieth (20th) day of any month shall be a Saturday, Sunday or a legal holiday, then such payment shall be made on the next succeeding business day.

All monies held in any of the Funds shall be kept apart from all other District funds and shall be deposited in the Depository Bank, and all such deposits which cause the aggregate of all deposits of the District therein to be in excess of the amount secured by FDIC, shall (unless invested as herein authorized) be secured by a surety bond or bonds or by a pledge of U.S. Obligations, having a market value equivalent to such deposit.



The Treasurer shall keep appropriate records as to payment of principal and interest installments and as to payment of principal of and interest on any Bonds.

**Section 403. Current Bonds on a Parity with Prior Bonds.** It is hereby certified and declared that prior to the issuance of any of the Current Bonds, there will have been procured and filed with the District (i) a letter from the RD to the effect that the RD agrees to the issuance of the Current Bonds ranking on a parity as to security and source of payment with the Prior Bonds, all of which are owned by the RD, together with (ii) a certification signed by the RD to the effect that a legend has been typed, stamped or otherwise affixed on each of the Prior Bonds held by the RD, evidencing the agreement of the RD as the then Owner of the Prior Bonds, to the issuance of the Current Bonds so as to rank on a parity with the Prior Bonds, such legend to be in substantially the following form:

The holder of this Bond has consented to the issuance of \$258,000 of Sharpsburg Water District Waterworks Revenue Bonds, Series 2006 ranking on a parity as to security and source of payment with this Bond.

Accordingly, it is hereby found and declared that the Current Bonds shall rank and be payable on a parity with said outstanding Prior Bonds from the gross income and revenues of the System.

## ARTICLE 5. COVENANTS OF DISTRICT

**Section 501. Rates and Charges.** The District shall charge such rates and charges for all services and facilities rendered by the System, which rates and charges shall be reasonable, taking into account and consideration the cost and value of the System, the cost of maintaining, repairing and operating same and the amounts necessary for the payment of principal of and interest on Outstanding Bonds against the System. The District shall charge such rates and charges as shall be adequate to meet the requirements of Articles 4 and 5 hereof.

The District covenants that it will not reduce the rates and charges for the services rendered by the System without first filing with the Secretary a certification of an Independent Consulting Engineer that the annual net revenues (defined as gross revenues less operating expenses) of the then existing System for the fiscal year preceding the year in which such reduction is proposed, as such annual net revenues are adjusted, after taking into account the projected reduction in annual net revenues anticipated to result from any such proposed rate decrease, are equal to not less than 120% of the average annual debt service requirements for principal and interest on all of the then Outstanding Bonds payable from the revenues of the System, calculated in the manner specified in Section 603 hereof.

**Section 502. Books and Accounts; Audit.** The District shall maintain proper records and accounts relating to the operation of the System and the District's financial affairs; and the Bondowners, or their authorized representatives, shall have the right at all reasonable times to inspect the facilities of the System and all records, accounts and data relating thereto. An annual audit shall be made of the books and accounts pertinent to the System by a Certified Public Accountant licensed in Kentucky. No later than ninety (90) days after the close of each Fiscal Year, copies of such audit reports certified by such Certified Public Accountant shall be promptly mailed to the RD without request, so long as the Government is the Owner of any of the Bonds, and to any Bondowner that may have made a written request for same.

Monthly operating reports shall be furnished to the RD and to any Bondowner requesting same, during the first two (2) years of operation after completion of the Project, and whenever and so long as the District is delinquent in any of the covenants set out in the Prior Bond Resolution or this Current Bond Resolution. Thereafter, quarterly operating reports shall be furnished at all other times to the RD and to any Bondowner requesting the same.

**Section 503. System to Continue to be Operated on Fiscal Year Basis; Annual Budget.** While any of the Bonds are outstanding and unpaid, and to the extent permitted by law, the System shall continue to be operated and maintained on a Fiscal Year basis.

Not later than sixty (60) days before the end of each Fiscal Year, the District agrees to cause to be prepared a proposed annual budget of operating expenses (the "Proposed Budget") of the System for the then ensuing Fiscal Year, itemized on the basis of monthly requirements. A copy of said Proposed Budget shall be mailed to any Bondowner who may request in writing a copy of such Proposed Budget and to the RD without request, if the Government is the Owner of any of the Bonds.

For the purpose of the Proposed Budget, operating expenses shall include all reasonable and necessary expenses of operating, repairing, maintaining and insuring the System, but shall exclude depreciation and debt service payments. The District covenants that the operating expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that the District will not expend any amount or incur any obligation for operation or maintenance and repair in excess of the amounts provided for operating expenses in the annual budget, except upon resolution by the District that such expenses are necessary to operate and maintain the System.

Not later than sixty (60) days before the end of each Fiscal Year, the District shall prepare an estimate of gross revenues to be derived from the operation of the System for said Fiscal Year, and, to the extent that said gross revenues are insufficient (a) to pay debt service requirements on all Outstanding Bonds during the ensuing Fiscal Year, (b) to accumulate and maintain all required reserves enumerated herein and (c) to pay operating expenses, the District shall revise the rates and charges sufficiently to provide the funds so required.

If the Owners of at least 50% of the principal amount of the Outstanding Bonds, or the Government so long as it is the Owner of any of said Outstanding Bonds, so request, the Commission shall hold an open hearing not later than thirty (30) days before the beginning of the ensuing Fiscal Year, at which time any Bondowner may appear by agent or attorney and may file written objections to such proposed budget. Notice of the time and place of such hearing shall be mailed at least fifteen (15) days prior to the hearing to each registered Bondowner and to the Government.

The District covenants that annually before the first day of the Fiscal Year, the annual budget for the upcoming Fiscal Year will be adopted substantially in accordance with the Proposed Budget, and that no expenditures for operation and maintenance expenses of the System in excess of the budgeted amount shall be made during such Fiscal Year unless directed by said District by a specific resolution duly adopted.

**Section 504. General Covenants.** The District, through its Commission, hereby covenants and agrees with the Owners of the Bonds that:

- (1) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky;
- (2) It will make and collect reasonable and sufficient rates and charges for services and facilities rendered by the System;
- (3) It will segregate the revenues and income from the System and make application thereof consistent with and as provided by this Resolution;
- (4) Unless the written consent of the Owners of a majority of the principal amount of the Outstanding Bonds has been obtained, the District agrees not to sell, lease, mortgage or in any manner dispose of any integral part of the System, including any and all appurtenances thereto and extensions, additions and improvements that may be made thereto, until all of the Outstanding

Bonds shall have been paid or provided for in full, as provided herein; subject to the provisions of Section 607 hereof;

- (5) It will maintain in good condition and continuously operate the System and appurtenances thereto and will charge such rates and charges for the services rendered thereby so that the gross income and revenues will be sufficient at all times (i) to pay the interest on and principal of the Outstanding Bonds as same become due; (ii) to pay the cost of operating and maintaining the System; and (iii) to provide for an adequate depreciation account; and
- (6) It will carry and maintain insurance on properties of the System subject to loss or damage in amounts and against hazards substantially in accordance with the practices of other districts, cities or corporations which own and maintain waterworks systems under similar conditions; and so long as the Government is the Owner of any of the Outstanding Bonds, the Government will be listed as co-beneficiary on any such policy; and the District shall further comply with the insurance requirements of Section 506 hereof (involving insurance on motors, tanks and structures).

**Section 505. Other Covenants Applicable So Long as RD Owns Any Bonds.** So long as the RD shall own any of the Bonds, the District shall comply with such RD regulations, requirements and requests as shall be made by the RD, including the furnishing of operating and other financial statements, in such form and substance and for such periods as may be requested by the RD, the carrying of insurance of such types and in such amounts as the RD may specify, with insurance carriers acceptable to the RD and compliance with all of the terms and conditions of the Loan Resolution (RD Form 1780-27) adopted and executed by the District, which is hereby authorized, approved, ratified and confirmed.

**Section 506. Insurance on Motors, Tanks and Structures.** The District shall (a) immediately after the adoption of this Resolution and (b) at the time of final acceptance of the Project, insure all electric motors, elevated water storage tanks, pumping stations and major structures of the System in an amount recommended by the Engineers and approved by the RD, so long as the RD is the Owner of any of the Bonds, for the hazards usually covered in such area, and shall similarly insure same in an amount recommended by the Engineers, without the necessity of approval by the RD if and whenever the District has Outstanding Bonds against the System and none of such Outstanding Bonds are owned by the RD.

## **ARTICLE 6. INFERIOR BONDS AND PARITY BONDS**

**Section 601. Inferior Bonds.** Except as hereinafter provided below in this Article, the District shall not, so long as any Bonds are outstanding, issue any additional bonds payable from the revenues of the System unless the security and/or pledge of the revenues to secure such additional bonds are made inferior and subordinate in all respects to the security of the Bonds.

The District expressly reserves the right at any time to issue its bonds or other obligations payable from the revenues of the System and not ranking on a parity basis with the Current Bonds, without any proof of previous earnings or net revenues, provided that the consent of the RD must be obtained prior to the issuance of any inferior bonds so long as the RD owns any of the Bonds, and provided further that, after the initial completion of the Project, such inferior bonds may be issued only for the purpose of providing for future extensions, additions and improvements to the System, and only in express recognition of the priorities, liens and rights created and existing for the security, source of payment and protection of the Outstanding Bonds; provided further, that nothing in this Section is intended to restrict or shall be construed as a restriction upon, the ordinary refunding all or a portion of the Outstanding Bonds.

**Section 602. Parity Bonds to Complete the Project.** The District hereby certifies, covenants and agrees that in the event that the cost of completion of the construction of the Project shall exceed the moneys available to the District from any and all sources, the District shall have the right, if necessary, to provide for such excess, and only such excess, through the issuance of Parity Bonds, provided the District has obtained a certification from the Engineers to the effect that it is necessary to issue the desired amount of Parity Bonds in order to enable the District to pay the cost (not otherwise provided) of the completion of the Project, and provided the District has complied with the provisions of Section 603 below or has obtained:

- (a) the consent of the RD if the Government is as the Owner of the Prior Bonds at that time or the consent of any other Owners of the Prior Bonds, and
- (b) the consent of (1) the RD if the Government is the purchaser of the Current Bonds; or (2) the Owners of at least 75% of the principal amount of the Current Bonds outstanding, if the Current Bonds have been issued, sold and delivered and are held by Owners other than the Government.

**Section 603. Parity Bonds to Finance Future Improvements.** The District reserved the right and privilege, and does hereby reserve the right and privilege, of issuing additional Parity Bonds, but only under the conditions specified in the Current Bond Resolution, which conditions are as follows:

The District further reserves the right to add new waterworks facilities and/or to finance future extensions, additions and improvements to the System by the issuance of one or more additional series of Parity Bonds to be secured by a parity lien on and ratably payable on a parity with the Current Bonds, from the revenues of the System, provided:

(a) The facilities to be constructed from the proceeds of the additional Parity Bonds are made a part of the System and their revenues are pledged as additional security for the additional Parity Bonds and for the Outstanding Bonds.

(b) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds.

(c) The annual net revenues (defined as gross revenues less operating expenses), of the then existing System for the Fiscal Year preceding the year in which such Parity Bonds are to be issued, adjusted as hereinafter provided, shall be certified by an independent Certified Public Accountant to be equal at least one hundred twenty percent (120%) of the average annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the System, plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued. The calculation of average annual debt service requirements of principal and interest on the additional Parity Bonds to be issued shall, regardless of whether such additional Parity Bonds are to be serial or term bonds, be determined on the basis of the principal of and interest on such Parity Bonds being payable in approximately equal annual installments.

(d) The annual net revenues referred to above may be adjusted for the purpose of the foregoing computations to reflect:

(1) any revisions in the System's schedule of rates or charges being imposed on or before the time of the issuance of any such additional Parity Bonds, and

(2) any increase in the annual net revenues to be realized from the proposed extensions, additions and improvements being financed (in whole or in part) by such additional Parity Bonds;

provided all such adjustments shall be based upon and included in a certification of an Independent Consulting Engineer.

(e) Compliance with Section 603(a) through (d) shall not be necessary for the issuance of Parity Bonds if the District has obtained (1) the written consent of the RD for the issuance of such Parity Bonds, if the Government is the Owner of any Bonds at the time of issuance of such Parity Bonds; and (2) the written consent of the Owners of all of the then outstanding Prior Bonds, and no other prerequisite need be complied with by the District in order to issue Parity Bonds.

**Section 604. Covenants to be Complied with at Time of Issuance of Parity Bonds.** The District hereby covenants and agrees that in the event any Parity Bonds are issued, the District shall:

(a) Adjust the monthly amount to be deposited into the Sinking Fund on the same basis as that prescribed in the provisions establishing such Sinking Fund, to reflect the average annual debt service requirements of the Parity Bonds;

(b) Adjust the minimum annual amount to be deposited monthly into the Depreciation Fund on the same basis as that prescribed in the provisions establishing such Depreciation Fund, taking into account the future debt service requirements of all Bonds which will then be outstanding against the System; and

(c) Make such Parity Bonds payable as to principal on January 1 of each year in which principal falls due and payable as to interest on January 1 and July 1 of each year until the final maturity of such Parity Bonds.

**Section 605. Prepayment Provisions Applicable to Parity Bonds.** If, in connection with any subsequently issued series of Parity Bonds, it is provided that excess revenues in the Revenue Fund shall be used to prepay Outstanding Bonds in advance of scheduled maturity, or if the District at its option undertakes to prepay Outstanding Bonds in advance of scheduled maturity, it is agreed and understood, for so long as the Government owns any of the Outstanding Bonds, that no such prepayment will be effected without the approval of the RD.

**Section 606. Consent of the RD Regarding Future Bonds.** Notwithstanding any other provisions of this Resolution, the District agrees that so long as the Government owns any Outstanding Bonds against and/or payable from the revenues of the System, the District will not issue any future bonds, notes or other obligations against, secured by or payable from the revenues of the System without the written consent of the RD.

**Section 607. Priority of Lien; Permissible Disposition of Surplus or Obsolete Facilities.** The District covenants and agrees that so long as any of the Prior Bonds and/or Bonds are outstanding, the District will not sell or otherwise dispose of any of the facilities of the System, or any part thereof, and, except as provided above, the District will not create or permit to be created any charge or lien on the revenues thereof ranking equal or prior to the charge or lien of the Outstanding Bonds. Notwithstanding the foregoing, the District may at any time permanently abandon the use of, or sell at fair market value, any part of the facilities of the System, provided that:

- (a) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds, and the required reserves for such Outstanding Bonds will have been accumulated;
- (b) The District will, in the event of any such sale, apply the proceeds to either (1) redemption of Outstanding Bonds in accordance with the provisions governing prepayment of bonds in advance of maturity; or (2) replacement of the facility so disposed of by another facility, the revenues of which shall be incorporated into the System, as hereinbefore provided;
- (c) The District certifies, in good faith, prior to any abandonment of use, that the facilities to be abandoned are no longer economically feasible of producing net revenues; and
- (d) The District certifies, in good faith, that the estimated net revenues of the remaining facilities of the System for the then next succeeding Fiscal Year,

plus the estimated net revenues of the facilities, if any, to be added to the System, comply with the earnings requirements hereinbefore provided in the provisions and conditions governing the issuance of Parity Bonds.

Notwithstanding any other provisions hereof, so long as any Bonds are held by the Government, the District shall not dispose of its title to the System or to any part thereof, without first obtaining the written consent of the RD.



## ARTICLE 7. DEFAULT AND CONSEQUENCES

**Section 701. Events of Default.** The following items shall constitute an Event of Default on the part of the District:

- (a) The failure to pay principal of the Bonds as and when same shall become due and payable, either at maturity or by proceedings for redemption.
- (b) The failure to pay any installment of interest on the Bonds when the same shall become due and payable or, if any or all of the Outstanding Bonds are owned by the RD, within thirty (30) days thereafter.
- (c) The default by the District in the due or punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds, the Prior Bond Resolution or in this Resolution.
- (d) The failure to promptly repair, replace or reconstruct facilities of the System that have been damaged and/or destroyed.
- (e) The entering of any order or decree with the consent or the acquiescence of the District, appointing a receiver of all or any part of the System or any revenues thereof; or if such order or decree shall be entered without the acquiescence or consent of the District, its failure to have the order vacated, discharged or stayed on appeal within sixth (60) days after entry.

**Section 702. Consequences of Event of Default.** Any Owner of the Current Bonds may enforce and compel the performance of all duties and obligations of the District set forth herein. Upon the occurrence of an Event of Default, then upon the filing of a suit by any Owner of said the Current Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the District with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal of and interest on the Outstanding Bonds and to provide and apply the income and revenues in conformity with this Resolution and with the laws of the Commonwealth of Kentucky.

The District hereby agrees to transfer to any bona fide receiver or other subsequent operator of the System, pursuant to any valid court order in a proceeding brought to enforce collection or payment of the District's obligations, all contracts and other rights of the District pertaining to the System, conditionally, for such time only as such receiver or operator shall operate by authority of the court. Upon the occurrence of an Event of Default, the Owner of any of the Outstanding Bonds may require the governing body of the District by appropriate order to raise the rates a reasonable amount consistent with the requirements of this Resolution.

**ARTICLE 8. CONTRACTUAL PROVISIONS; GRANT APPROVAL;  
MISCELLANEOUS PROVISIONS.**

**Section 801. Resolution Contractual with Bondowners**The provisions of this Resolution constitute a contract between the District and its Commission and the Owners of the Current Bonds as may be outstanding from time to time; and after the issuance of any of said Current Bonds, no change, alteration or variation of any kind of the provisions of this Resolution shall be made in any manner which will affect an Owner's rights except as herein provided or except with the written consent of all Bondowners until such time as all of the Current Bonds and the interest thereon have been paid in full or fully provided for; provided that the Commission may adopt any resolution for any purpose not inconsistent with the terms of this Resolution and which shall not impair the security of the Owners of the Current Bonds and/or for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provisions contained herein or in any resolution or other proceedings pertaining hereto.

It is further agreed that the Owners of 75% in principal amount of the Current Bonds at any time outstanding shall have the right to consent to and approve the adoption of resolutions or other proceedings, modifying or amending any of the terms or provisions contained in this Resolution, subject to the conditions that (a) this Resolution shall not be so modified in any manner that may adversely affect the rights of the Owners of any of the Prior Bonds, nor in any manner that may adversely affect the rights of any certain Owners of the Outstanding Bonds without similarly affecting the rights of all Owners of such Outstanding Bonds, or to reduce the percentage of the number of Owners whose consent is required to effect a further modification and (b) no such change may be effected without the consent of the RD so long as the RD owns any of the Outstanding Bonds.

**Section 802. All Current Bonds are Equal.** The Current Bonds authorized herein shall not be entitled to priority one over the other in the application of the income and revenues of the System, or with respect to the security for their payment, regardless of the time or times of their issuance, it being the intention that there shall be no priority among any of the Current Bonds regardless of the fact that they may be actually issued and delivered at different times.

**Section 803. District Obligated to Refund Current Bonds Owned by Government Whenever Feasible; Defeasement Prohibited.** So long as the Government is the Owner of any of the Current Bonds, if it appears to the Government that the District is able to refund such Current Bonds in whole or in part, by obtaining a loan for such purposes from responsible cooperative or private credit sources, or to sell bonds of the District in the open market, at reasonable rates and terms, for loans or bond issues for similar purposes and periods of time, the District will, upon request of the Government, obtain such loan and/or issue such bonds in sufficient amount to repay the Government and will take all such action as may be required in connection therewith.

In addition, so long as the Government is the Owner of any of the Current Bonds, the District shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating the lien of the Current Bonds without immediately prepaying all of the then outstanding Current Bonds.

**Section 804. Approval and Acceptance of RD Grant Agreement.** The RD has agreed to make a grant to the District in the amount of \$160,000 (the "RD Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the RD has requested the District to approve, accept and execute RD Form 1780-12 (the "RD Grant Agreement"), setting out the terms and conditions upon which said RD Grant will be made. Said RD Grant Agreement is hereby approved, and the Chairperson and the Secretary are authorized to execute said RD Grant Agreement on behalf of the District. The Chairperson and Secretary are also authorized on behalf of the District to accept any and all other RD Grants offered to the District in connection with the Project and to execute any and all RD Grant Agreements and any other documents as may be requested by the RD in connection with RD Grants which have been and/or which may hereafter be approved for such Project.

**Section 805. Approval and Acceptance of ARC Grant Agreement.** The Appalachian Regional Commission (the "ARC") has agreed to make a grant to the District in the amount of \$500,000 (the "ARC Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the ARC has requested the District to approve, accept and execute a certain ARC Grant Agreement (the "ARC Grant Agreement"), setting out the terms and conditions upon which said ARC Grant will be made. Said ARC Grant Agreement is hereby approved, and the Chairperson and the Secretary are authorized to execute said ARC Grant Agreement on behalf of the District. The Chairperson and Secretary are also authorized on behalf of the District to accept any and all other ARC Grants offered to the District in connection with the Project and to execute any and all ARC Grant Agreements and any other documents as may be requested by the ARC in connection with ARC Grants which have been and/or which may hereafter be approved for such Project.

**Section 806. Authorization, Ratification and Confirmation of Approval and Execution of Various Documents.** The Commission hereby authorizes, approves, ratifies and confirms the previous action of the officers of the District in approving and executing various documents related to the financing of the Project, including the following:

- (a) Legal Services Agreement with Bond Counsel.
- (b) Legal Services Agreement with Local Counsel.
- (c) Letter of Intent to Meet Conditions of RD Letter of Conditions (RD Form 1942-46).
- (d) Loan Resolution (RD Form 1780-27).
- (e) Agreement for Engineering Services with the Engineers.

**Section 807. Authorization of Condemnation to Acquire Easements and/or Site** in the event that (a) any necessary deeds of easement to allow construction of the Project over the property of any property owner or (b) any necessary deed to the necessary site of any waterworks facility of the Project shall not be obtained through negotiation within ten (10) days after the date of adoption of this Resolution and in the event that (1) such waterworks lines cannot be located within the right-

of-way of the State and/or County road involved; and/or (2) such waterworks facilities cannot be located on a site already owned by the District, Local Counsel is hereby authorized and directed to file condemnation actions to obtain such necessary rights-of-way and/or sites forthwith, without further authorization or direction from the District or the Commission. Local Counsel is further directed to follow the same condemnation procedure in the event that it becomes necessary, through change orders, line extensions and/or errors in the location of property lines and/or property owners, to obtain additional easements, rights-of-way and/or sites for completion of the Project and whenever the necessary deed is not obtained by negotiation at least ten (10) days prior to the date on which construction is contemplated in the respective easement, right-of-way and/or site.

The District further approves the payment from the funds available therefor allocated to the costs of the Project to pay any judgment award, or compromise, determined by Local Counsel with the acquiescence of the Commission, toward the costs of such easements, rights-of-way and/or sites; provided, in each instance, that the payment of such funds to satisfy any judgment, award or compromise must first be approved by the RD; and the Commission further determines that if and to whatever extent the funds available from the proceeds of the financing contemplated by this Resolution shall be inadequate to pay any judgment, award or compromise amount for such easements, rights-of-way and/or sites, or if the District is unable to obtain the approval of the RD for any such payment, the Commission shall take all reasonably necessary actions, within the powers and authority of the Commission, to make such additional amount available from all other available District resources.

## **ARTICLE 9. SALE OF CURRENT BONDS**

**Section 901. Sale of Current Bonds.** The Current Bonds shall be offered publicly for sale upon the basis of sealed, competitive bids at such time as the Commission shall designate.

A suggested form of "Notice of Bond Sale", a suggested form of "Official Notice of Sale of Bonds" and a suggested form of "Bid Form", having been prepared in advance by Bond Counsel, and all of such documents having been found to be in satisfactory form, a copy of each is hereby ordered to be filed in the records of the Secretary with the Minutes of the meeting at which this Resolution is adopted. The Notice of Bond Sale shall be signed by the Secretary and may be used for the purpose of publishing notice of the sale of the Current Bonds. Copies of such documents shall be furnished to any interested parties who may request same.

In the event that there is no bid or that all bids are rejected, the District may readvertise the sale pursuant to this Resolution.

**Section 902. Adjustment in Maturities, Prepayment Provisions and Other Dates, with Consent of Purchaser if Delivery is Delayed.** In the event that delivery of the Current Bonds authorized herein is delayed for any reason and the District, with the consent of the Purchaser of the Current Bonds, determines it is in the District's best interest to change the maturities, the applicable prepayment date or any other dates, the District may adjust the same by a Resolution of the Commission approving the adjustments.

## ARTICLE 10. CONCLUDING PROVISIONS

**Section 1001. Covenant of District to Take All Necessary Action To Assure Compliance with the Code.** In order to assure the Owners of the Current Bonds that such Current Bonds shall continue to be legal and that interest thereon will continue to be excludable from gross income for federal income tax purposes and exempt from all Kentucky income taxation, the District covenants to and with the Owners of the Current Bonds to take the following action:

(a) The District will (1) take all actions necessary to comply with the provisions of the Code necessary to assure that interest on the Current Bonds will be excludable from gross income for federal income tax purposes; (2) will take no actions which will violate any of the provisions of the Code; and (3) not use the proceeds of the Current Bonds for any purpose which will cause interest on the Current Bonds or on interim financing obligations, including, but not limited to the Note, issued pursuant to Section 302 hereof to become includable in gross income for federal income tax purposes.

(b) The District hereby certifies that it does not reasonably anticipate that the total principal amount of "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code which the District, or any subordinate entity of the District, will issue during the calendar year during which the Current Bonds are issued, will exceed \$10,000,000; and therefore the District hereby designates the Current Bonds and all interim financing obligations, including, but not limited to the Note, issued pursuant to Section 302 hereof as "qualified tax-exempt obligations".

(c) The District further certifies that the Current Bonds and any and all interim financing obligations of the District are not "private activity bonds" within the meaning of the Code.

(d) The District covenants and agrees to comply with the rebate requirements on certain excess earnings imposed by Section 148 of the Code, and in the event it is determined by the District, upon the advice of Bond Counsel, that the Construction Account, or any other Fund established hereunder, is subject to said rebate requirements and does in fact generate earnings from "non-purpose investments" in excess of the amount which said investments would have earned at a rate equal to the "yield" on the Current Bonds, plus any income attributable to such excess, there shall be established a separate and special fund with the Depository Bank, which fund shall be designated the "Excess Earnings and Rebate Fund", which shall be utilized for the collection and payment of any excess generated from investments and the remittance thereof to the United States of America on or before the anniversary of the fifth (5th) year from the date of the Current Bonds, and once every five (5) years thereafter until the final retirement of the Current Bonds; the last installment, to the extent required, to be made no later than sixty (60) days following the date on which funds sufficient for the complete retirement of the Current Bonds are deposited with any escrow agent. The District further covenants to file any and all reports, if any, as may be required to be filed with the Government with regard to the liability or non-liability of the District as to any such rebate requirements and to maintain records in regard thereto for the period of time required by applicable Treasury regulations.

**Section 1002. Severability Clause.** If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Resolution, which shall continue in full force and effect.

**Section 1003. All Provisions in Conflict Repealed.** All motions, resolutions and orders, or parts thereof, in conflict with the provisions of this Resolution, are to the extent of such conflict hereby repealed. It is hereby specifically ordered and provided that any proceedings heretofore taken for the issuance of other bonds of the District payable or secured in any manner by all or any part of the income and revenues of said System or any part thereof, and which have not been heretofore issued and delivered, are hereby revoked and rescinded, and none of such other bonds shall be issued and delivered. The District covenants to correct by appropriate proceedings any required procedure previously taken invalidly.

**Section 1004. Effective Immediately Upon Adoption.** This Resolution shall take effect and be effective immediately upon its adoption.

Adopted this May 10, 2006.

SHARPSBURG WATER DISTRICT

  
\_\_\_\_\_  
Chairperson

(Seal of District)

Attest:

  
\_\_\_\_\_  
Secretary

CERTIFICATION

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Sharpsburg Water District of Bath and Nicholas Counties, Kentucky, and that the foregoing Resolution is a true copy of a Resolution duly adopted by the Board of Commissioners of said District, signed by the Chairperson of said District and attested under Seal by me as Secretary, at a properly convened meeting of said Board of Commissioners held on May 10, 2006, as shown by the official records of said District in my custody and under my control.

I further certify that said meeting was duly held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825, that a quorum was present at said meeting, that said Resolution has not been modified, amended, revoked or repealed, and that same is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature as Secretary and the official Seal of the District this May 10, 2006.

  
Secretary

(Seal of District)



**EXHIBIT A**

**Schedule of Principal Payments**

| <u>Payment Due<br/>January 1,</u> | <u>Principal<br/>Payment</u> | <u>Payment Due<br/>January 1,</u> | <u>Principal<br/>Payment</u> |
|-----------------------------------|------------------------------|-----------------------------------|------------------------------|
| 2008                              | \$2,500                      | 2027                              | \$6,000                      |
| 2009                              | 3,000                        | 2028                              | 6,500                        |
| 2010                              | 3,000                        | 2029                              | 7,000                        |
| 2011                              | 3,000                        | 2030                              | 7,000                        |
| 2012                              | 3,000                        | 2031                              | 7,500                        |
| 2013                              | 3,500                        | 2032                              | 7,500                        |
| 2014                              | 3,500                        | 2033                              | 8,000                        |
| 2015                              | 3,500                        | 2034                              | 8,500                        |
| 2016                              | 4,000                        | 2035                              | 9,000                        |
| 2017                              | 4,000                        | 2036                              | 9,000                        |
| 2018                              | 4,000                        | 2037                              | 9,500                        |
| 2019                              | 4,500                        | 2038                              | 10,000                       |
| 2020                              | 4,500                        | 2039                              | 10,500                       |
| 2021                              | 5,000                        | 2040                              | 11,000                       |
| 2022                              | 5,000                        | 2041                              | 11,500                       |
| 2023                              | 5,000                        | 2042                              | 12,000                       |
| 2024                              | 5,500                        | 2043                              | 12,500                       |
| 2025                              | 5,500                        | 2044                              | 13,000                       |
| 2026                              | 6,000                        | 2045                              | 14,000                       |

**EXHIBIT B**

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
SHARPSBURG WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 2006

No. R- \_\_\_\_\_ Interest Rate: \_\_\_\_\_ % \$ \_\_\_\_\_

KNOW ALL PERSONS BY THESE PRESENTS:

That the Sharpsburg Water District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Bath and Nicholas Counties, Kentucky, for value received, hereby promises to pay to

\_\_\_\_\_ the registered owner hereof, or to its registered assigns, solely from the fund hereinafter identified, the sum of

\_\_\_\_\_ DOLLARS (\$ \_\_\_\_\_).

on the first day of January, in years and installments as follows:

| <u>Year</u> | <u>Principal</u> | <u>Year</u> | <u>Principal</u> | <u>Year</u> | <u>Principal</u> |
|-------------|------------------|-------------|------------------|-------------|------------------|
|-------------|------------------|-------------|------------------|-------------|------------------|

[Here the printer of the Current Bond will print the maturities of the Current Bonds purchased by the registered Owner]

and in like manner, solely from said fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, at the Interest Rate specified above, semiannually on the first days of January and July in each year, beginning with the first January or July after the date of this Bond, until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable, without deduction for exchange or collection charges, in lawful money of the United States of America, at the address of the registered owner shown on the registration book of the District.

This Bond is issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 58 and 74 of the Kentucky Revised Statutes (collectively the "Act"), and pursuant to a duly adopted Bond Resolution of the District

authorizing same (the "Current Bond Resolution"), to which Current Bond Resolution reference is hereby made for a description of the nature and extent of the security thereby created, the rights and limitations of rights of the registered owner of this Bond, and the rights, obligations and duties of the District, for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing waterworks system of the District (said existing waterworks system, together with said extensions, additions and improvements, being hereinafter referred to as the "System").

This Bond ranks on a parity as to security and source of payment with certain outstanding (i) Sharpsburg Water District Waterworks Refunding and Improvement Revenue Bonds of 1984, dated July 25, 1984 (the "1984 Bonds"), authorized by a Resolution adopted by the Commission of the District on June 13, 1984 (the "1984 Bond Resolution"); (ii) Sharpsburg Water District Waterworks Revenue Bonds, Series 1990, dated November 8, 1991 (the "1990 Bonds"), authorized by a Resolution adopted by the Commission of the District on December 20, 1990 (the "1990 Bond Resolution"); and (iii) Sharpsburg Water District Waterworks Revenue Bonds, Series 1996, dated June 6, 1996 (the "1996 Bonds"), authorized by a Resolution adopted by the Commission of the District on January 10, 1996 (the "1996 Bond Resolution"); [hereinafter the 1984 Bonds, the 1990 Bonds and the 1996 Bonds shall be collectively referred to as the "Prior Bonds", and the 1984 Bond Resolution, the 1990 Bond Resolution and the 1996 Bond Resolution shall be collectively referred to as the "Prior Bond Resolution"]. Accordingly, this Bond, the Prior Bonds and any bonds ranking on a parity therewith, are payable from and secured by a pledge of the gross revenues to be derived from the operation of the System.

This Bond has been issued in full compliance with the Current Bond Resolution and the Prior Bond Resolution; and this Bond, and any bonds ranking on a parity therewith that may be issued and outstanding under the conditions and restrictions of the Current Bond Resolution and the Prior Bond Resolution, are and will continue to be payable from revenues which shall be set aside in a fund for that purpose and identified as the "Sharpsburg Water District Waterworks Bond and Interest Sinking Fund", created in the Prior Bond Resolution.

This Bond does not constitute an indebtedness of the District within the meaning of any constitutional or statutory provisions or limitations and is payable solely out of the revenues of the System. As provided in the Current Bond Resolution, the District covenants that so long as any of the Prior Bonds and/or this Bond, are outstanding, the System will be continuously owned and operated by the District as a revenue producing public undertaking within the meaning of the aforesaid Act for the security and source of payment of the Prior Bonds and of this Bond, and that the District will fix, and if necessary adjust, from time to time, such rates for the services and facilities of the System and will collect and account for the revenues therefrom sufficient to pay promptly the principal of and interest on the Prior Bonds, this Bond and all other bonds ranking on a parity therewith as may be outstanding from time to time, to pay the cost of operation and maintenance of the System and to provide for the depreciation thereof.

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with this Bond in order to complete the Project, and to finance future extensions, additions and improvements to the System, provided the necessary requirements of the Current Bond Resolution have been complied with by the District.

This Bond shall be registered as to principal and interest in the name of the owner hereof, after which it shall be transferable only upon presentation to the Secretary of the District as the Bond Registrar, with a written transfer duly acknowledged by the registered owner or its duly authorized attorney, which transfer shall be noted upon this Bond and upon the registration book of the District kept for that purpose.

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2016, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple of One Hundred Dollars (\$100), as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or its assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States of America, or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$100, may be prepaid at any time in inverse chronological order of the installments due.

Upon default in the payment of any principal or interest payment on this Bond, or upon failure by the District to comply with any other provision of this Bond or with any provision of the Current Bond Resolution, the registered owner may, at its option, institute all rights and remedies provided by law or by said Current Bond Resolution.

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 issuance of this Bond, do exist, have happened and have been performed in due time, form and manner as required by law, and that the face amount of this Bond, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF said Sharpsburg Water District, by its Board of Commissioners, has caused this Bond to be executed by its Chairperson, its corporate seal to be hereunto affixed, and attested by its Secretary, on the date of this Bond, which is

SHARPSBURG WATER DISTRICT  
Bath and Nicholas Counties, Kentucky

By \_\_\_\_\_  
Chairperson

Attest:

\_\_\_\_\_  
Secretary

(Seal of District)

#### PROVISION FOR REGISTRATION

This Bond shall be registered on the registration book of the District kept for that purpose by the Secretary, as Bond Registrar, upon presentation hereof to said Secretary, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered owner or its attorney, such transfer to be made on said book and endorsed hereon.

ASSIGNMENT

| Date of<br>Registration | Name of<br>Registered Owner | Signature<br>of Bond Registrar |
|-------------------------|-----------------------------|--------------------------------|
|                         |                             |                                |
|                         |                             |                                |
|                         |                             |                                |

For value received, this Bond is hereby assigned, without recourse and subject to all of its terms and conditions, unto \_\_\_\_\_, this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
By: \_\_\_\_\_

EXHIBIT C

REQUISITION CERTIFICATE

Re: Sharpsburg Water District Waterworks Revenue Bonds, Series 2006, in the principal amount of \$258,000

The undersigned hereby certify as follows:

1. That they are the signatories required for construction and/or administrative draws pursuant to the Bond Resolution adopted by the Sharpsburg Water District (the "District").

2. That the named firms and/or persons set forth on Exhibit A attached hereto are now entitled to the aggregate sum of \$ \_\_\_\_\_, itemized as set forth in said Exhibit A and as per approved invoices attached hereto:

3. That upon said amount being lent to said District and/or obtained by said District from the proceeds of the Current Bonds and/or other sources, the undersigned approve such expenditure and the payment of said amounts to said firms and/or persons, either directly or from amounts deposit in the "Sharpsburg Water District Construction Account".

4. That we hereby certify that we have carefully inspected the work and, as a result of our inspection and to the best of our knowledge and belief, the amounts shown in this Requisition Certificate are correct and the work has been performed in accordance with the agreements between the District and the parties requesting payment.

IN TESTIMONY WHEREOF, witness the signature of the undersigned, this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

Sharpsburg Water District

Woolpert, Inc.

By \_\_\_\_\_

By \_\_\_\_\_

Registered Professional Engineer

State of Kentucky No. \_\_\_\_\_

Approved on \_\_\_\_\_

Approved on \_\_\_\_\_

Rural Development

Amount expended heretofore \$ \_\_\_\_\_

By \_\_\_\_\_

Amount approved herein \_\_\_\_\_

Authorized RD Official

Total \_\_\_\_\_

Approved on \_\_\_\_\_

**EXHIBIT A TO REQUISITION CERTIFICATE**

Name of Entity/Person

Amount



BOND RESOLUTION

SHARPSBURG WATER DISTRICT

AUTHORIZING

SHARPSBURG WATER DISTRICT

WATERWORKS REVENUE BONDS, SERIES 2011

IN THE PRINCIPAL AMOUNT OF

\$642,000

## TABLE OF CONTENTS

|              |   |    |
|--------------|---|----|
| ARTICLE 1.   | DEFINITIONS; PURPOSE; AUTHORIZATION OF BONDS;<br>SECURITY.....                                  | 3  |
| Section 101. | Definitions.....  | 3  |
| Section 102. | Purpose.....  | 7  |
| Section 103. | Construction Award Approved; Work Authorized.....   | 7  |
| Section 104. | Declaration of Period of Usefulness.....  | 7  |
| Section 105. | Authorization of Bonds.....   | 7  |
| Section 106. | Recognition of Prior Bonds.....   | 8  |
| Section 107. | Current Bonds Shall be Payable on Out of Gross Revenues.....                                    | 8  |
| Section 108. | Lien on Contracts.....  | 8  |
| ARTICLE 2.   | THE BONDS; BOND FORM; PREPAYMENT.....   | 9  |
| Section 201. | Principal Payments.....   | 9  |
| Section 202. | Issuance of Current Bonds; Bond Form.....   | 9  |
| Section 203. | Place of Payment and Manner of Execution.....   | 9  |
| Section 204. | Provisions as to Prepayment.....  | 9  |
| ARTICLE 3.   | CONSTRUCTION ACCOUNT; INTERIM FINANCING;<br>APPLICATION OF PROCEEDS; ARBITRAGE LIMITATIONS..... | 10 |
| Section 301. | Construction Account; Application of Proceeds of Bonds; Other<br>Transfers and Deposits.....    | 10 |
| A.           | Covenants Applicable if RD Purchases Current Bonds.....   | 10 |
| B.           | Application of Proceeds of Current Bonds.....   | 10 |
| Section 302. | Interim Financing Authorization.....  | 12 |
| A.           | Interim Financing.....  | 12 |
| B.           | Multiple Advances by RD.....  | 14 |
| Section 303. | Arbitrage Limitations on Investment of Proceeds.....  | 14 |
| ARTICLE 4.   | FLOW OF FUNDS.....  | 16 |
| Section 401. | Funds.....  | 16 |
| Section 402. | Flow of Funds.....  | 16 |

|              |  |    |
|--------------|--|----|
| A.           | Revenue Fund.....  | 16 |
| B.           | Sinking Fund.....  | 16 |
| C.           | Debt Reserve Fund.....   | 17 |
| D.           | Operation and Maintenance Fund.....  | 18 |
| E.           | Monthly Principal and Interest Payments if Requested by RD.....                  | 18 |
| F.           | Surplus Funds.....   | 18 |
| G.           | Investment and Miscellaneous Provisions.....                                     | 18 |
| Section 403. | Current Bonds on a Parity with Prior Bonds.....                                  | 19 |
| ARTICLE 5.   | COVENANTS OF DISTRICT.....   | 20 |
| Section 501. | Rates and Charges.....   | 20 |
| Section 502. | Books and Accounts; Audit.....   | 20 |
| Section 503. | System to Continue to be Operated on Fiscal Year Basis; Annual Budget.....       | 20 |
| Section 504. | General Covenants.....   | 21 |
| Section 505. | Other Covenants Applicable So Long as RD Owns Any Bonds.....                     | 22 |
| Section 506. | Insurance on Motors, Tanks and Structures.....                                   | 22 |
| ARTICLE 6.   | INFERIOR BONDS AND PARITY BONDS.....   | 23 |
| Section 601. | Inferior Bonds.....  | 23 |
| Section 602. | Parity Bonds to Complete the Project.....  | 23 |
| Section 603. | Parity Bonds to Finance Future Improvements.....                                 | 23 |
| Section 604. | Covenants to be Complied with at Time of Issuance of Parity Bonds.....           | 25 |
| Section 605. | Prepayment Provisions Applicable to Parity Bonds.....                            | 25 |
| Section 606. | Consent of the RD Regarding Future Bonds.....                                    | 25 |
| Section 607. | Priority of Lien; Permissible Disposition of Surplus or Obsolete Facilities..... | 25 |
| ARTICLE 7.   | DEFAULT AND CONSEQUENCES.....  | 27 |
| Section 701. | Events of Default.....   | 27 |
| Section 702. | Consequences of Event of Default.....  | 27 |
| ARTICLE 8.   | CONTRACTUAL PROVISIONS; GRANT APPROVAL; MISCELLANEOUS PROVISIONS.....            | 28 |
| Section 801. | Resolution Contractual with Bondowners.....                                      | 28 |
| Section 802. | All Current Bonds are Equal.....   | 28 |

|                    |  |           |
|--------------------|--|-----------|
| Section 803.       | District Obligated to Refund Current Bonds Owned by Government Whenever Feasible; Defeasement Prohibited. . . . .          | 28        |
| Section 804.       | Approval and Acceptance of RD Grant Agreement. . . . .   | 29        |
| Section 805.       | Approval and Acceptance of ARC Grant Agreement. . . . .  | 29        |
| Section 806.       | Authorization, Ratification and Confirmation of Approval and Execution of Various Documents. . . . .                       | 29        |
| Section 807.       | Authorization of Condemnation to Acquire Easements and/or Sites. . . . .   | 30        |
| <b>ARTICLE 9.</b>  | <b>SALE OF CURRENT BONDS. . . . .</b>  | <b>31</b> |
| Section 901.       | Sale of Current Bonds. . . . .   | 31        |
| Section 902.       | Adjustment in Maturities, Prepayment Provisions and Other Dates, with Consent of Purchaser if Delivery is Delayed. . . . . | 31        |
| <b>ARTICLE 10.</b> | <b>CONCLUDING PROVISIONS. . . . .</b>  | <b>32</b> |
| Section 1001.      | Covenant of District to Take All Necessary Action To Assure Compliance with the Code. . . . .                              | 32        |
| Section 1002.      | Severability Clause. . . . .   | 33        |
| Section 1003.      | All Provisions in Conflict Repealed. . . . .   | 33        |
| Section 1004.      | Effective Immediately Upon Adoption. . . . .   | 33        |

- EXHIBIT A - Schedule of Principal Payments
- EXHIBIT B - Form of Fully Registered Bond
- EXHIBIT C - Requisition Certificate

## BOND RESOLUTION

**RESOLUTION OF THE SHARPSBURG WATER DISTRICT OF BATH AND NICHOLAS COUNTIES, KENTUCKY, AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$642,000 PRINCIPAL AMOUNT OF SHARPSBURG WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 2011 FOR THE PURPOSE OF FINANCING THE COST (NOT OTHERWISE PROVIDED) OF THE CONSTRUCTION OF EXTENSIONS, ADDITIONS AND IMPROVEMENTS TO THE EXISTING WATERWORKS SYSTEM OF SAID DISTRICT; SETTING FORTH TERMS AND CONDITIONS UPON WHICH SAID BONDS MAY BE ISSUED AND OUTSTANDING; PROVIDING FOR THE COLLECTION, SEGREGATION AND DISTRIBUTION OF THE REVENUES OF SAID WATERWORKS SYSTEM; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF SAID BONDS.**

WHEREAS, the waterworks system (the "System") of the Sharpsburg Water District (the "District") is owned and operated by said District pursuant to Chapters 58 and 74 of the Kentucky Revised Statutes (the "Act"), and

WHEREAS, the District presently has outstanding certain Prior Bonds (as hereinafter defined), which Prior Bonds are payable from and secured by a pledge of the revenues derived from the operation of the System, and

WHEREAS, all of the Prior Bonds presently outstanding are current as to payment of both principal and interest, and for the security of which a certain Sinking Fund and certain reserves are being maintained in the manner and by the means prescribed in the Prior Bond Resolution (as hereinafter defined) of the District, authorizing the Prior Bonds, and

WHEREAS, it is the desire and intent of the District at this time to authorize and provide for the issuance of revenue bonds in the principal amount of \$642,000 (the "Current Bonds"), for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the System of the District, in accordance with plans and specifications prepared by HDR Engineering, Inc. and to prescribe the covenants of the District, the rights of Bondowners and the details of the issuance and sale of the proposed Current Bonds, and

WHEREAS, the District desires and intends that the Current Bonds be issued so as to rank on a parity basis with the Prior Bonds, and

WHEREAS, the Prior Bonds were issued to and are now held by the Rural Development of the Department of Agriculture of the United States of America (the "RD"), and

WHEREAS, the RD, as the Owner of the Prior Bonds, has consented to the issuance by the District of the Current Bonds, and

WHEREAS, the Public Service Commission of Kentucky has granted to the District a Certificate of Public Convenience and Necessity, authorizing the construction of said extensions, additions and improvements, and

WHEREAS, the proceeds of the Current Bonds will be supplemented by Grant Proceeds (as hereinafter defined) in the amount of approximately \$845,600, to provide the total cost of such construction,

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF THE SHARPSBURG WATER DISTRICT OF BATH AND NICHOLAS COUNTIES, KENTUCKY, AS FOLLOWS:

**ARTICLE 1. DEFINITIONS; PURPOSE; AUTHORIZATION OF BONDS;  
SECURITY.**

**Section 101. Definitions.** As used in this Resolution, unless the context requires otherwise:

*"Act"* refers to Chapters 58 and 74 of the Kentucky Revised Statutes.

*"ARC Grant"* refers to the Appalachian Regional Commission grant described in Section 805 of this Resolution.

*"Beginning Month"* refers to the month following the month in which the Current Bonds authorized herein are issued, sold and delivered to the Purchaser thereof.

*"Bond Counsel"* refers to an attorney or firm of attorneys recognized nationally as experts in the field of municipal bond law and shall be deemed to refer to Rubin & Hays, Louisville, Kentucky, or their successors.

*"Bondowner" or "Owner"* refer to registered Owners of the Current Bonds at the time issued and outstanding hereunder.

*"Bonds"* collectively refers to the outstanding Current Bonds, Prior Bonds and the Parity Bonds.

*"Bonds of 1984" or "Series 1984 Bonds"* refer to the outstanding Sharpsburg Water District Waterworks Refunding and Improvement Revenue Bonds of 1984, dated July 25, 1984, in the original authorized principal amount of \$189,000.

*"Bonds of 1990" or "Series 1990 Bonds"* refer to the outstanding Sharpsburg Water District Waterworks Revenue Bonds, Series 1990, dated November 8, 1991, in the original authorized principal amount of \$335,000.

*"Bonds of 1996" or "Series 1996 Bonds"* refer to the outstanding Sharpsburg Water District Waterworks Revenue Bonds, Series 1996, dated June 6, 1996, in the original authorized principal amount of \$289,000.

*"Bonds of 2006" or "Series 2006 Bonds"* refer to the outstanding Sharpsburg Water District Waterworks Revenue Bonds, Series 2006, dated January 24, 2007, in the original authorized principal amount of \$258,000.

*"Bond Resolution of 1984" or "1984 Bond Resolution"* refer to the Resolution authorizing the Bonds of 1984, duly adopted by the Board of Commissioners of the District on June 13, 1984.

*"Bond Resolution of 1990" or "1990 Bond Resolution"* refer to the Resolution authorizing the Bonds of 1990, duly adopted by the Board of Commissioners of the District on December 20, 1990.

*"Bond Resolution of 1996" or "1996 Bond Resolution"* refer to the Resolution authorizing the Bonds of 1996, duly adopted by the Board of Commissioners of the District on January 10, 1996.

*"Bond Resolution of 2006" or "2006 Bond Resolution"* refer to the Resolution authorizing the Bonds of 2006, duly adopted by the Board of Commissioners of the District on May 10, 2006.

*"Chairman"* refers to the elected or appointed Chairman or Chairperson of the Commission.

*"Code"* refers to the Internal Revenue Code of 1986, as amended, and the Treasury Regulations relating thereto.

*"Commission"* refers to the Board of Commissioners of the District, or such other body as shall be the governing body of said District under the laws of Kentucky at any given time.

*"Construction Account"* refers to the Sharpsburg Water District Construction Account, created in Section 301(B) of this Current Bond Resolution.

*"Contractors"* refers to the general contractors who have been employed by the District to construct the Project.

*"Current Bond Resolution" or "Resolution"* refer to this Resolution authorizing the Current Bonds.

*"Current Bonds"* refers to the \$642,000 of Sharpsburg Water District Waterworks Revenue Bonds, Series 2011 authorized by this Resolution, to be dated as of the date of issuance thereof.

*"Current Sinking Fund"* refers to the Sharpsburg Water District Sinking Fund, created in Section 401 of this Resolution.

*"Depository Bank"* refers to the bank, which shall be a member of the FDIC, which bank is Citizens Bank, Sharpsburg, Kentucky, or its successor.

*"Debt Reserve Fund"* refers to the Sharpsburg Water District Waterworks Debt Reserve Fund, described in Section 402 of this Resolution.

*"District"* refers to the Sharpsburg Water District of Bath and Nicholas Counties, Kentucky.

*"Engineers"* refers to the Engineers or any one of them, who prepared the plans and specifications for the construction of the Project and who will supervise the construction thereof.



and/or will furnish full time resident inspection of the construction of the Project, and shall be deemed to refer to HDR Engineering, Inc., or a member of said firm, or their successors.

*"Event of Default"* refers to one or more of the Events of Default set forth in Section 701 of this Resolution.

*"FDIC"* refers to the Federal Deposit Insurance Corporation, or its successors.

*"Fiscal Year"* refers to the annual accounting period of the District, beginning on January 1 and ending on December 31 of each year.

*"Funds"* refers to the Construction Account, the Revenue Fund, the Sinking Fund, the Debt Reserve Fund and the Operation and Maintenance Fund.

*"Government"* refers to the United States of America, or any agency thereof, including RD.

*"Grant Proceeds"* refers to the proceeds of the RD Grant and the ARC Grant.

*"Independent Consulting Engineer"* refers to a consulting engineer or a firm of consulting engineers of recognized excellent reputation in the field of waterworks system engineering, and such definition includes the Engineers named above.

*"Interim Lender"* refers to Kentucky Rural Water Finance Corporation, Bowling Green, Kentucky, its successors or assigns; or any other financial institution or governmental agency approved by the District.

*"Local Counsel"* refers to Earl Rogers III, Esq., Morehead, Kentucky, or any other attorney or firm of attorneys designated by the District.

*"Multiple Advances"* refers to the advance of loan funds from the RD as described in Section 302 of this Resolution.

*"Note"* refers to a single note or any number of notes, in such form as may be prescribed by the Interim Lender, including any revenue bond anticipation notes issued pursuant to Chapter 58 of the Kentucky Revised Statutes, including any renewal or extensions of the Note, issued by the District evidencing the interim financing for the Project as prescribed in Section 302 of this Resolution.

*"Operation and Maintenance Fund"* refers to the Sharpsburg Water District Waterworks Operation and Maintenance Fund described in Section 401 of this Resolution.

*"Outstanding Bonds"* refers to the outstanding Bonds, and does not refer to, nor include, any Bonds for the payment of the principal and interest of which sufficient funds will have been

deposited and earmarked for payment of Bonds; provided all Outstanding Bonds of any series held by the RD shall be deemed to constitute Outstanding Bonds until paid regardless of the deposit of funds to pay for same.

*"Parity Bonds"* refers to bonds which may be issued in the future which, pursuant to this Resolution, rank on a basis of parity with the outstanding Bonds, as to priority, security and source of payment, and does not refer to bonds which might be issued so as to rank inferior to the security and source of payment of the outstanding Bonds.

*"Prior Bonds"* refers collectively to the Series 1984 Bonds, the Series 1990 Bonds, the Series 1996 Bonds and the Series 2006 Bonds.

*"Prior Bond Resolution"* refers collectively to the 1984 Bond Resolution, the 1990 Bond Resolution, the 1996 Bond Resolution and the 2006 Bond Resolution.

*"Project"* refers specifically to the construction of the currently proposed extensions, additions and improvements to the System of the District, which Project is being financed by the Current Bonds and by other funds.

*"Purchaser"* refers to the agency, person, firm or firms, or their successors, to whom the Current Bonds herein authorized are awarded at the public sale of the Current Bonds.

*"RD"* refers to the Rural Development of the Department of Agriculture of the United States of America.

*"RD Grant"* refers to the RD grant described in Section 804 of this Resolution.

*"Required Signatures"* refers to the signatures necessary to be obtained with reference to the approval of the expenditures to be made from the Construction Account, which required signatures shall consist of the signatures of (1) the Chairman; (2) the Engineers; and (3) the Purchaser; provided, however, any expenditures for issuance and administrative costs and the costs of any equipment which is not permanently affixed to the real estate shall not require the signature or the approval of the Engineers.

*"Revenue Fund"* refers to the Sharpsburg Water District Waterworks Revenue Fund, described in Section 401 of this Resolution.

*"Secretary"* refers to the elected or appointed Secretary of the Commission.

*"Sinking Fund"* refers to the Sharpsburg Water District Waterworks Bond and Interest Sinking Fund, described in Section 401 of this Resolution.

"System" refers to the existing waterworks system of the District, together with all extensions, additions and improvements to said System.

"Treasurer" refers to the elected or appointed Treasurer of the Commission.

"U.S. Obligations" refers to bonds or notes which are the direct obligations of the United States of America, or obligations the principal of and interest on which are guaranteed by the United States of America.

All words and terms importing the singular number shall, where the context requires, import the plural number and vice versa. Unless otherwise indicated, references to Articles or Sections refers to those in this Resolution.

**Section 102. Purpose.** The Current Bonds shall be issued for the purpose of financing the cost (not otherwise provided) of the Project, as set out in the plans and specifications prepared by the Engineers. The Commission hereby declares the System of the District, including the extensions, additions and improvements to be constructed, to constitute a revenue producing public project, and said System shall continue to be owned, controlled, operated and maintained by the District as a revenue producing public project pursuant to the Act, so long as any Bonds remain outstanding.

**Section 103. Construction Award Approved; Work Authorized.** The Commission hereby authorizes, approves, ratifies and confirms its previous action in advertising for and taking steps toward awarding the contracts for the construction of the Project to the lowest and best bidders, and further approves the action of the District officials in entering into formal contracts with said bidders, subject to the necessary approvals being obtained. Authority is hereby given for undertaking the construction of the Project according to the plans and specifications heretofore prepared by the Engineers for the District, after all necessary approvals have been obtained.

**Section 104. Declaration of Period of Usefulness.** The Commission hereby declares that the period of usefulness of the System is more than forty (40) years from the date of completion of the Project.

**Section 105. Authorization of Bonds.** The District has heretofore determined that the total cost of the Project, including preliminary expenses, land and rights-of-way, engineering expense, capitalized interest during construction, legal and administrative costs, publication costs, initial deposits required and all incidental expenses, will not exceed \$1,487,600. Therefore, it is hereby determined to be necessary in order for the District to finance the cost (not otherwise provided) of the Project that the District issue a total of \$642,000 of Current Bonds, based on the following calculation:

|   |                |                  |
|---|----------------|------------------|
| Total cost of Project                   |                | \$1,487,600      |
| Less:                                   |                |                  |
| RD Grant                                | \$345,600      |                  |
| ARC Grant                               | <u>500,000</u> |                  |
| Total Non-Bond Funds:                   |                | <u>(845,600)</u> |
| Balance to be financed by Current Bonds |                | \$642,000        |

Accordingly, for the purpose of financing the cost (not otherwise provided) of the Project, under the provisions of the Act, there is hereby authorized to be issued and sold \$642,000 principal amount of Sharpsburg Water District Waterworks Revenue Bonds, Series 2011.

The Current Bonds shall be dated as of the date of delivery to the Purchaser thereof; shall bear interest from such date at such interest rate as may be fixed by supplemental resolution as a result of the advertised sale and competitive bidding for such Current Bonds, as hereinafter provided; and shall be issued and delivered as prescribed in Section 202 hereof.

Interest on the Current Bonds shall be payable semiannually on January 1 and July 1 of each year, provided that the first interest payment period will cover interest only from the date of delivery of the Current Bonds to the ensuing January 1 or July 1, as the case may be. Principal of the Current Bonds shall be payable on January 1 of each of the respective years until maturity, as set out in Section 201 hereof.

**Section 106. Recognition of Prior Bonds.** The District hereby expressly recognizes and acknowledges that the District has previously created for the benefit and protection of the owners of the Prior Bonds, a certain lien and pledge and certain security rights relating to the System, all as set forth in the Prior Bonds and in the Prior Bond Resolution.

**Section 107. Current Bonds Shall be Payable on Out of Gross Revenues.** The Current Bonds and any additional Parity Bonds that may be issued under the conditions and restrictions hereinafter set forth, shall be payable solely on a first lien basis out of the gross revenues of the System, on a parity with the Prior Bonds.

**Section 108. Lien on Contracts.** In addition to the revenue pledge securing the Bonds, a lien is hereby created and granted in favor of the Bondowners on all contracts, and on all other rights of the District pertaining to the System, enforceable by assignment to any receiver or other operator proceeding by authority of any court.

## **ARTICLE 2. THE BONDS; BOND FORM; PREPAYMENT.**

**Section 201. Principal Payments.** Principal payments due on the Current Bonds shall be as set forth in the schedule of maturities set out in **Exhibit A** attached to this Resolution and incorporated herein.

**Section 202. Issuance of Current Bonds; Bond Form.** The Purchaser of the Current Bonds at the public sale shall take delivery of the Current Bonds in the form of one or more fully registered bonds, as set forth in **Exhibit B** attached hereto and incorporated herein, amounting in the aggregate to the principal amount of the Current Bonds authorized herein, maturing as to principal as set out in Section 201. The Current Bonds shall be numbered R-1 and consecutively upward thereafter. Such Current Bonds shall, upon appropriate execution on behalf of the District as prescribed, constitute the entire bond issue herein authorized, shall be negotiable (subject to registration requirements as to transferability), registered as to principal and interest and payable as directed by the registered Owner.

**Section 203. Place of Payment and Manner of Execution.** Both principal of and interest on the Current Bonds shall be payable at the place and in the manner set out in the form of such Current Bond. The Current Bonds shall be executed on behalf of the District by the manual or facsimile signature of the Chairman of the District, with the Corporate Seal of the District affixed thereto and attested by the manual or facsimile signature of the Secretary of said District.

If either of the officers whose signatures appear on the Current Bonds ceases to be such officer before delivery of said Current Bonds, such signatures shall nevertheless be valid for all purposes the same as if such officers had remained in office until delivery.

**Section 204. Provisions as to Prepayment.** Except when all of the Current Bonds are held by the Government, principal maturities falling due prior to January 1, 2021, shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2021, shall be subject to prepayment by the District on any date falling on and after January 1, 2020, at par plus accrued interest, without any prepayment penalty.

So long as all of the Current Bonds are owned by the Government, all or any of the Current Bonds, or in a multiple of \$100, may be prepaid at any time in inverse chronological order of the principal maturities due, at par plus accrued interest without any prepayment penalty.

Notice of such prepayment shall be given by certified mail to the Bondowner or his assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the Bondowner.

**ARTICLE 3. CONSTRUCTION ACCOUNT; INTERIM FINANCING;  
APPLICATION OF PROCEEDS; ARBITRAGE LIMITATIONS.**

**Section 301. Construction Account; Application of Proceeds of Bonds; Other Transfers and Deposits.** The Treasurer, or such other District official as shall be designated by the Commission, shall be the custodian of all funds belonging to and associated with the System. All moneys in excess of the amount insured by the FDIC in the Construction Account shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The officials of the District entrusted with the receipt and disbursement of revenues of the System and the custody of valuable property shall be covered by a fidelity bond in the amount of not less than \$87,000 (the "Fidelity Bond"), or such larger amount as the RD may require, which Fidelity Bond shall be effective and secured by a surety company approved by the RD so long as it is owner of any of the Current Bonds. The RD and the District shall be named co-obligees in such Fidelity Bond and the amount thereof shall not be reduced without the written consent of the RD. Whenever sums in the Funds shall exceed \$87,000, the Fidelity Bond shall be increased accordingly as requested by and with the approval of the RD.

**A. Covenants Applicable if RD Purchases Current Bonds.** It is acknowledged that all covenants herein with reference to the necessity for approval of the RD, the necessity of observing RD regulations and procedures and the necessity of using RD forms (the "RD Forms"), shall apply only if the RD is the Purchaser of the Current Bonds and only so long as the RD holds the Current Bonds thereafter. In the event that the RD shall not be the Purchaser of the Current Bonds, or, after purchasing same, shall sell or transfer the Current Bonds to an Owner who shall not be the Government, all covenants herein with reference to the necessity for approval of the RD, the necessity of observing RD regulations and procedures, and the necessity of using RD Forms, shall not be applicable.

**B. Application of Proceeds of Current Bonds.** The proceeds of the Current Bonds shall be applied as follows:

**(1) Payment of Interim Financing, Costs of Project and Costs of Issuance.** Simultaneously with the delivery of the Current Bonds, there shall immediately be paid to the Interim Lender (or the RD if Multiple Advances are made) an amount sufficient to pay principal of and interest on any temporary loans borrowed by the District in anticipation of the sale and delivery of the Current Bonds and/or of the receipt of Grant Proceeds. Also, at the time of delivery of the Current Bonds, there shall be paid all amounts then due and payable in connection with the costs of the Project and in connection with the issuance of the Current Bonds.

**(2) Construction Account.** If and to the extent that the proceeds of the Current Bonds shall be in excess of the amount necessary to pay the interest, principal and costs referred to in subparagraph B(1) of this Section, such excess amount shall immediately be deposited in the "Sharpsburg Water District Construction Account" hereby created, which

shall be established at the Depository Bank. There shall also be deposited in said Construction Account the Grant Proceeds, as and when received, or said Grant Proceeds may be applied, to the extent necessary, to liquidate or reduce any interim financing owed by the District at the time of receipt of Grant Proceeds.

**(3) Withdrawal of Funds From Construction Account.** Prior to the expenditure by the District of any moneys from the Construction Account, the District must obtain written approval from the RD as to such expenditures, if the RD is the Owner of any Outstanding Bonds. The proceeds of said Construction Account shall be withdrawn only on checks signed by the Chairman, the Treasurer (or by such other official of the District as may be authorized by the Commission), provided such official shall be covered by the Fidelity Bond required by Section 301 of this Resolution, in payment for services and/or materials supplied in connection with the Project, as evidenced by (1) a Requisition Certificate; and (2) invoices and/or partial payment estimates bearing the written approval of the Engineers and the Chairman (or by such other official of the District as may be authorized by the Commission), and which invoices and/or partial payment estimates must have been reviewed and approved for payment by the designated RD official.

Written approval or certification of the Engineers shall not be required for matters not under the jurisdiction of the Engineers, such as legal fees, land acquisition and related items.

During construction, the District shall disburse Construction Account funds in a manner consistent with RD Instruction 1780.

The District shall prepare and submit any and all RD Forms required by the RD. Periodic audits of the District's Construction Account records shall be made by RD as determined by it to be necessary.

**(4) Transfer of Capitalized Interest to Sinking Fund.** There shall be transferred from the Construction Account an amount sufficient to provide for capitalized interest (initially estimated at \$15,000) during the construction of the Project, as approved by the Engineers and by the RD. If and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project, such amount so transferred from the Construction Account shall be deposited in the Sinking Fund.

**(5) Investment of Funds in Construction Account.** Pending disbursement of amounts on deposit in the Construction Account, all such funds, or such portion of said amounts on deposit in said Construction Account as is designated by the Commission, shall be invested for the benefit of such Construction Account in Certificates of Deposit, savings accounts or U.S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for costs of

the Project (as determined by the Engineers, the Chairman and the RD), provided that to the extent that any amounts on deposit in said Depository Bank shall cause the total deposits of the District in said Depository Bank to exceed the amount insured by the FDIC, the same shall be continuously secured by a valid pledge of U.S. Obligations, having an equivalent market value, in conformity with Section 66.480 of the Kentucky Revised Statutes. Investments in Certificates of Deposit or savings accounts may be made only in such Certificates or accounts of an FDIC bank. Any such investments will be a part of the Construction Account, and income from such investments will be credited to the Construction Account. All such investments shall be subject to the limitations set out in Section 303 hereof.

**(6) Statements of Contractors, Engineers and Attorneys as to Payment.** Prior to the delivery of the Current Bonds, if the RD is the Purchaser of the Current Bonds, the District will be required to provide the RD with statements from the Contractors, Engineers and attorneys for the District that they have been paid to date in accordance with their contract or other agreements and, in the case of any Contractor, that he has paid his suppliers and subcontractors. Any exceptions must be authorized under RD Instruction 1780.

**(7) Disposition of Balance in Construction Account After Completion of Project.** When the Project has been completed and all construction costs have been paid in full, as certified by the Engineers for the District and/or by the RD, any balance then remaining in the Construction Account may, with the consent of the RD, be applied to the cost of constructing additional extensions, additions and improvements to the System (the "Additional Construction"). If such Additional Construction is to be undertaken by the Contractors previously engaged in the Project, such Additional Construction may be authorized by a change order.

If there is a balance remaining in the Construction Account after such Additional Construction, such balance (subject to legal requirements as to possible refund of any allocated portion of the balance derived from Grant Proceeds) shall be transferred to the Sinking Fund, whereupon said Construction Account shall be closed. Such remaining balance in the Construction Account so transferred to the Sinking Fund shall be used by the District immediately to prepay principal installments due on the Current Bonds in the inverse order of maturities without prepayment penalty, provided further that any balance insufficient to prepay at least \$100 of the principal payment falling due in any year on the Bonds will be transferred to the Debt Reserve Fund.

### **Section 302. Interim Financing Authorization.**

**A. Interim Financing.** The District shall use interim financing for the Project during construction of that portion of the cost of the Project financed by the Current Bonds, if available at reasonable rates and terms.



The borrowing of up to the aggregate sum of \$642,000 from the Interim Lender is hereby authorized; and the Chairman is hereby authorized to execute the Note in the name and on behalf of the District. Each advance under the Note shall evidence a loan by the Interim Lender to the District for services rendered and/or materials supplied in connection with the Project, as evidenced by a Requisition Certificate.

Interim financing shall be disbursed as follows:

(1) At the direction of the District, the Interim Lender shall disburse the proceeds of the Note by cashier's checks directly to the parties entitled thereto as set forth in the Requisition Certificate; or

(2) At the direction of the District, the Interim Lender shall deposit the proceeds of the Note in the Construction Account, in which event amounts of the District on deposit therein shall, until expended to the extent that same shall exceed the amount insured by the FDIC, be fully secured by a pledge of U.S. Obligations.

The aggregate of the principal amount of all Notes shall not exceed \$642,000. Each Note which is renewed or superseded shall be simultaneously cancelled by the Interim Lender and transmitted to the Treasurer. The rate of interest applicable to each Note shall not exceed a reasonable rate, which rate is subject to the approval of the RD.

The total authorized interim financing of \$642,000 shall be the maximum indebtedness which the District may owe at any one time to the Interim Lender for the purpose of providing temporary construction financing for the Project; provided, however, that the District may reduce the amount owed by the District to the Interim Lender from time to time as and when funds are available to the District, whether derived from the proceeds of the Grant Proceeds, the proceeds of the sale of the Current Bonds or otherwise, and may reborrow from the Interim Lender additional amounts in anticipation of the further receipt by the District of additional proceeds from the Current Bonds and/or Grant Proceeds.

The District hereby covenants and agrees with the Interim Lender that upon the issuance and delivery of the Current Bonds and/or the receipt of said Grant Proceeds, the District will apply the proceeds thereof, to whatever extent may be necessary, in payment of the principal amount of the Note, together with accrued interest thereon to the date of such payment; and the proceeds of the Current Bonds and Grant Proceeds are hereby pledged therefor, and such pledge shall constitute a first and prior charge against said proceeds.

Although the proceeds of the Current Bonds and Grant Proceeds are pledged to the repayment of said interim financing, it is recognized that the Grant Proceeds may be applied to the extent required at the time of receipt of the Grant Proceeds, to the payment of costs of the Project due and owing by the District at the time of receipt of such Grant Proceeds, rather than to the repayment of portions of the interim financing at that time. If and to the extent that the Grant

Proceeds are in excess of any costs of the Project due and owing at the time of receipt thereof, such Grant Proceeds may be applied, in the same manner as set out hereinabove, to the reduction of the amount of the interim financing, after which, such interim financing may again be increased as theretofore. The District further pledges the revenues of the System to the repayment of said interim financing, subject to the vested rights and priorities of the pledges securing the Outstanding Bonds.

It is understood that the foregoing constitutes an alternative method of obtaining interim financing, and does not preclude the authorization and sale, by public advertisement or otherwise, of bond anticipation notes and/or grant anticipation notes to the most favorable bidder on the open market, by concurrent or subsequent proceedings of the District.

**B. Multiple Advances by RD.** In the event the Current Bonds are purchased by the RD, and in the event the District is unable to obtain a commitment for interim financing for the Project from any Interim Lender at reasonable rates and terms, the Chairman is authorized to request Multiple Advances of loan funds from the RD.

If the RD agrees to make Multiple Advances to the District pending the delivery of the Current Bonds, the Chairman is hereby authorized to execute in the name and on behalf of the District any number of Notes. Each such Note, evidencing an advance of funds by the RD to the District, shall be in the form prescribed by the RD.

Each request for an advance from the RD shall be accompanied by a Requisition Certificate. The District will also furnish to the RD, prior to the receipt of each Multiple Advance, whatever additional documentation shall be requested by the RD, including an updated supplemental title opinion of Local Counsel and an updated supplemental preliminary legal opinion of Bond Counsel.

The proceeds of any Multiple Advances shall be either (i) disbursed directly to the parties entitled thereto for services and/or materials supplied in connection with the Project; or (ii) deposited into the Construction Account and disbursed in accordance with the provisions of Section 301 hereof, in which event amounts on deposit in such Construction Account shall, until expended, to the extent that same shall exceed the amount insured by the FDIC, be fully secured by a pledge of U.S. Obligations.

The proceeds of the Current Bonds are hereby pledged to the repayment of such Multiple Advances, and such pledge shall constitute a first and prior pledge against such proceeds. The District further pledges the revenues of the System to the repayment of said Multiple Advances, subject to the vested rights and priorities of the pledges securing the Outstanding Bonds.

**Section 303. Arbitrage Limitations on Investment of Proceeds.** The District covenants and certifies, in compliance with the Code, on the basis of known facts and reasonable expectations on the date of adoption of this Resolution, that it is not expected that the proceeds of the Current

Bonds will be used in a manner which would cause the Current Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. The District covenants to the Owners of the Current Bonds that (1) the District will make no use of the proceeds of said Current Bonds which, if such use had been reasonably expected on the date of issue of such Current Bonds, would have caused such Current Bonds to be "arbitrage bonds"; and (2) the District will comply with all of the requirements of the Code to whatever extent is necessary to assure that the Current Bonds shall not be treated as or constitute "arbitrage bonds" and that the interest on the Bonds shall be excludable from gross income for federal income tax purposes.

Prior to or at the time of delivery of the Current Bonds, the Chairman and/or the Treasurer (who are jointly and severally charged with the responsibility for the issuance of the Current Bonds) are authorized to execute such certifications as shall be required by Bond Counsel, setting out all known and contemplated facts concerning the anticipated construction, expenditures and investments, including the execution of necessary and/or desirable certifications of the type contemplated by Section 148 of the Code in order to assure that interest on the Current Bonds shall be excludable from gross income for federal income tax purposes and that the Current Bonds will not be treated as "arbitrage bonds".

#### **ARTICLE 4. FLOW OF FUNDS.**

**Section 401. Funds.** There was heretofore created in the Prior Bond Resolution the following funds and accounts:

- (a) Sharpsburg Water District Waterworks Revenue Fund
- (b) Sharpsburg Water District Waterworks Bond and Interest Sinking Fund
- (c) Sharpsburg Water District Waterworks Debt Reserve Fund
- (d) Sharpsburg Water District Waterworks Operation and Maintenance Fund

All of the Funds shall be maintained with the Depository Bank so long as any Bonds remain outstanding.

**Section 402. Flow of Funds.** All proceedings preliminary to and in connection with the issuance of the Outstanding Bonds, including provisions made for (i) the receipt, custody and application of the proceeds of the Outstanding Bonds; (ii) the operation of the System on a revenue-producing basis; (iii) the segregation, allocation and custody of the revenues derived from the operation of the System; (iv) the enforcement and payment of the Outstanding Bonds and (v) the depreciation of the System; and all other covenants for the benefit of Bondowners set out in the Prior Bond Resolution, are hereby ratified and confirmed and shall continue in force and inure to the security and benefit of the Outstanding Bonds, the same as if such provisions and proceedings were set out in full herein; provided, further, that after the issuance of the Current Bonds, the income and revenues of the System shall be collected, segregated, accounted for and distributed as follows:

**A. Revenue Fund.** The District covenants and agrees that it will continue to deposit in the Revenue Fund, promptly as received from time to time, all revenues of the System, as same may be extended and improved from time to time. The moneys in the Revenue Fund shall continue to be used, disbursed and applied by the District only for the purpose and in the manner and order of priorities specified in the Prior Bond Resolution, as hereinafter modified by this Resolution, all as permitted by the Act, and in accordance with previous contractual commitments.

**B. Sinking Fund.** It is hereby recognized that the District is obligated upon the issuance of the Current Bonds to provide for additional debt service requirements of the Current Bonds.

At or after the delivery of the Current Bonds, there shall be transferred from the Construction Account to the Sinking Fund an amount sufficient to provide for capitalized interest (initially estimated at \$15,000) on the Current Bonds during the construction of the Project, if and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project.

There shall be transferred from the Revenue Fund and deposited into the Sinking Fund on or before the 20th day of each month, for payment of interest on and principal of the Outstanding Bonds, a sum equal to the total of the following:

- (1) An amount equal to one-sixth (1/6) of the next succeeding six-month interest payment to become due on the Bonds, plus
- (2) A sum equal to one-twelfth (1/12) of the principal of any Bonds maturing on the next succeeding January 1.

If the District for any reason shall fail to make any monthly deposit as required, then an amount equal to the deficiency shall be set apart and deposited into the Sinking Fund out of the first available revenues in the ensuing months, which amount shall be in addition to the monthly deposit otherwise required during such succeeding months. Whenever there shall accumulate in the Sinking Fund amounts in excess of the requirements during the next twelve months for paying the principal of and interest due on the Outstanding Bonds, as same fall due, such excess may be used for redemption or prepayment of any Outstanding Bonds, subject to the terms and conditions set forth therein, prior to maturity.

**C. Debt Reserve Fund.** Pursuant to the provisions of the Prior Bond Resolution which requires that an adjustment be made in the Debt Reserve Fund upon the issuance of bonds ranking on a parity with the Prior Bonds, it is hereby determined that upon the issuance of the Current Bonds, and upon completion of the Project, as certified by the Engineers and by the RD, there shall next be transferred from the Revenue Fund the sum of at least \$220 each month which shall be deposited into the Debt Reserve Fund until there is accumulated in such Debt Reserve Fund the sum of at least \$26,400, which amount shall be maintained, and when necessary, restored to said sum of \$26,400, so long as any of the Current Bonds are outstanding and unpaid. These deposits are in addition to the deposits required by the Prior Bond Resolution.

As further security for the Bondowners and for the benefit of the District, it has been and is hereby provided that in addition to the monthly transfers required to be made from the Revenue Fund into the Debt Reserve Fund, there shall be deposited into said Debt Reserve Fund all proceeds of connection fees collected from potential customers (except the amounts necessary to pay the actual costs and service connections applicable to said potential customers) to aid in the financing of the cost of future extensions, additions and improvements to the System, plus the proceeds of any property damage insurance (not otherwise used to replace damaged or destroyed property); and any such amounts or proceeds so deposited shall be used solely and only for the purposes intended.

Moneys in the Debt Reserve Fund may be withdrawn and used by the District, upon appropriate certification of the Commission, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals and replacements not included in the annual budget of current expenses and/or of paying the costs of constructing future extensions, additions and improvements to the System which will either enhance its revenue-producing capacity or will

provide a higher degree of service, and when necessary, for the purpose of making payments of principal and interest on the Bonds if the amount on deposit in the Sinking Fund is not sufficient to make such payments.

**D. Operation and Maintenance Fund.** There shall next be transferred monthly from the Revenue Fund and deposited into said Operation and Maintenance Fund, sums sufficient to meet the current expenses of operating and maintaining the System. The balance maintained in said Operation and Maintenance Fund shall not be in excess of the amount required to cover anticipated System expenditures for a two-month period pursuant to the District's annual budget.

**E. Monthly Principal and Interest Payments if Requested by the RD.** So long as any of the Bonds are held or insured by the RD, the District shall, if requested by the RD, make the payments required by this Section 402, in monthly installments to the RD or to the insured Owners of the Bonds.

**F. Surplus Funds.** Subject to the provisions for the disposition of the income and revenues of the System as set forth hereinabove, which provisions are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred, within sixty days after the end of each fiscal year, the balance of excess funds in the Revenue Fund on such date, to the Debt Reserve Fund for application in accordance with the terms of this Resolution or to the Sinking Fund to be applied to the maximum extent feasible, to the prompt purchase or redemption of Outstanding Bonds.

**G. Investment and Miscellaneous Provisions.** All monies in the Sinking Fund and the Debt Reserve Fund shall be deposited in the Depository Bank, or such portion thereof as is designated by the Commission. All monies in the Sinking Fund and the Debt Reserve Fund shall be invested for the benefit of such respective Funds in Certificates of Time Deposit or savings accounts of the Depository Bank or in U.S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for the purposes for which such funds may be expended, provided that to the extent that any amount of the District on deposit in the Depository Bank shall cause the total deposits of the District in said Depository Bank to exceed the amount insured by the FDIC, such excess amount shall be continuously secured by a valid pledge of U.S. Obligations, having an equivalent market value, in conformity with Section 66.480 of the Kentucky Revised Statutes.

All investments of funds derived from proceeds of the Outstanding Bonds shall be subject to the applicable limitations set out in Section 303 hereof.

All payments into the Funds shall be made on or before the twentieth (20th) day of each month, except that when the twentieth (20th) day of any month shall be a Saturday, Sunday or a legal holiday, then such payment shall be made on the next succeeding business day.

All monies held in any of the Funds shall be kept apart from all other District funds and shall be deposited in the Depository Bank, and all such deposits which cause the aggregate of all deposits of the District therein to be in excess of the amount secured by FDIC, shall (unless invested as herein authorized) be secured by a surety bond or bonds or by a pledge of U.S. Obligations, having a market value equivalent to such deposit.

The Treasurer shall keep appropriate records as to payment of principal and interest installments and as to payment of principal of and interest on any Bonds.

**Section 403. Current Bonds on a Parity with Prior Bonds.** It is hereby certified and declared that prior to the issuance of any of the Current Bonds, there will have been procured and filed with the District (i) a letter from the RD to the effect that the RD agrees to the issuance of the Current Bonds ranking on a parity as to security and source of payment with the Prior Bonds, all of which are owned by the RD, together with (ii) a certification signed by the RD to the effect that a legend has been typed, stamped or otherwise affixed on each of the Prior Bonds held by the RD, evidencing the agreement of the RD as the then Owner of the Prior Bonds, to the issuance of the Current Bonds so as to rank on a parity with the Prior Bonds, such legend to be in substantially the following form:

The holder of this Bond has consented to the issuance of \$642,000 of Sharpsburg Water District Waterworks Revenue Bonds, Series 2011 ranking on a parity as to security and source of payment with this Bond.

Accordingly, it is hereby found and declared that the Current Bonds shall rank and be payable on a parity with said outstanding Prior Bonds from the gross income and revenues of the System.

## ARTICLE 5. COVENANTS OF DISTRICT

**Section 501. Rates and Charges.** The District shall charge such rates and charges for all services and facilities rendered by the System, which rates and charges shall be reasonable, taking into account and consideration the cost and value of the System, the cost of maintaining, repairing and operating same and the amounts necessary for the payment of principal of and interest on Outstanding Bonds against the System. The District shall charge such rates and charges as shall be adequate to meet the requirements of Articles 4 and 5 hereof.

The District covenants that it will not reduce the rates and charges for the services rendered by the System without first filing with the Secretary a certification of an Independent Consulting Engineer that the annual net revenues (defined as gross revenues less operating expenses) of the then existing System for the fiscal year preceding the year in which such reduction is proposed, as such annual net revenues are adjusted, after taking into account the projected reduction in annual net revenues anticipated to result from any such proposed rate decrease, are equal to not less than 120% of the average annual debt service requirements for principal and interest on all of the then Outstanding Bonds payable from the revenues of the System, calculated in the manner specified in Section 603 hereof.

**Section 502. Books and Accounts; Audit.** The District shall maintain proper records and accounts relating to the operation of the System and the District's financial affairs; and the Bondowners, or their authorized representatives, shall have the right at all reasonable times to inspect the facilities of the System and all records, accounts and data relating thereto. An annual audit shall be made of the books and accounts pertinent to the System by a Certified Public Accountant licensed in Kentucky. No later than ninety (90) days after the close of each Fiscal Year, copies of such audit reports certified by such Certified Public Accountant shall be promptly mailed to the RD without request, so long as the Government is the Owner of any of the Bonds, and to any Bondowner that may have made a written request for same.

Monthly operating reports shall be furnished to the RD and to any Bondowner requesting same, during the first two (2) years of operation after completion of the Project, and whenever and so long as the District is delinquent in any of the covenants set out in the Prior Bond Resolution or this Current Bond Resolution. Thereafter, quarterly operating reports shall be furnished at all other times to the RD and to any Bondowner requesting the same.

**Section 503. System to Continue to be Operated on Fiscal Year Basis; Annual Budget.** While any of the Bonds are outstanding and unpaid, and to the extent permitted by law, the System shall continue to be operated and maintained on a Fiscal Year basis.

Not later than sixty (60) days before the end of each Fiscal Year, the District agrees to cause to be prepared a proposed annual budget of operating expenses (the "Proposed Budget") of the System for the then ensuing Fiscal Year, itemized on the basis of monthly requirements. A copy of said Proposed Budget shall be mailed to any Bondowner who may request in writing a copy of such



Proposed Budget and to the RD without request, if the Government is the Owner of any of the Bonds.

For the purpose of the Proposed Budget, operating expenses shall include all reasonable and necessary expenses of operating, repairing, maintaining and insuring the System, but shall exclude depreciation and debt service payments. The District covenants that the operating expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that the District will not expend any amount or incur any obligation for operation or maintenance and repair in excess of the amounts provided for operating expenses in the annual budget, except upon resolution by the District that such expenses are necessary to operate and maintain the System.

Not later than sixty (60) days before the end of each Fiscal Year, the District shall prepare an estimate of gross revenues to be derived from the operation of the System for said Fiscal Year, and, to the extent that said gross revenues are insufficient (a) to pay debt service requirements on all Outstanding Bonds during the ensuing Fiscal Year, (b) to accumulate and maintain all required reserves enumerated herein and (c) to pay operating expenses, the District shall revise the rates and charges sufficiently to provide the funds so required.

If the Owners of at least 50% of the principal amount of the Outstanding Bonds, or the Government so long as it is the Owner of any of said Outstanding Bonds, so request, the Commission shall hold an open hearing not later than thirty (30) days before the beginning of the ensuing Fiscal Year, at which time any Bondowner may appear by agent or attorney and may file written objections to such proposed budget. Notice of the time and place of such hearing shall be mailed at least fifteen (15) days prior to the hearing to each registered Bondowner and to the Government.

The District covenants that annually before the first day of the Fiscal Year, the annual budget for the upcoming Fiscal Year will be adopted substantially in accordance with the Proposed Budget, and that no expenditures for operation and maintenance expenses of the System in excess of the budgeted amount shall be made during such Fiscal Year unless directed by said District by a specific resolution duly adopted.

**Section 504. General Covenants.** The District, through its Commission, hereby covenants and agrees with the Owners of the Bonds that:

- (1) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky;
- (2) It will make and collect reasonable and sufficient rates and charges for services and facilities rendered by the System;
- (3) It will segregate the revenues and income from the System and make application thereof consistent with and as provided by this Resolution;

- (4) Unless the written consent of the Owners of a majority of the principal amount of the Outstanding Bonds has been obtained, the District agrees not to sell, lease, mortgage or in any manner dispose of any integral part of the System, including any and all appurtenances thereto and extensions, additions and improvements that may be made thereto, until all of the Outstanding Bonds shall have been paid or provided for in full, as provided herein; subject to the provisions of Section 607 hereof;
- (5) It will maintain in good condition and continuously operate the System and appurtenances thereto and will charge such rates and charges for the services rendered thereby so that the gross income and revenues will be sufficient at all times (i) to pay the interest on and principal of the Outstanding Bonds as same become due; (ii) to pay the cost of operating and maintaining the System; and (iii) to provide for an adequate depreciation account; and
- (6) It will carry and maintain insurance on properties of the System subject to loss or damage in amounts and against hazards substantially in accordance with the practices of other districts, cities or corporations which own and maintain waterworks systems under similar conditions; and so long as the Government is the Owner of any of the Outstanding Bonds, the Government will be listed as co-beneficiary on any such policy; and the District shall further comply with the insurance requirements of Section 506 hereof (involving insurance on motors, tanks and structures).

**Section 505. Other Covenants Applicable So Long as RD Owns Any Bonds.** So long as the RD shall own any of the Bonds, the District shall comply with such RD regulations, requirements and requests as shall be made by the RD, including the furnishing of operating and other financial statements, in such form and substance and for such periods as may be requested by the RD, the carrying of insurance of such types and in such amounts as the RD may specify, with insurance carriers acceptable to the RD and compliance with all of the terms and conditions of the Loan Resolution (RD Form 1780-27) adopted and executed by the District, which is hereby authorized, approved, ratified and confirmed.

**Section 506. Insurance on Motors, Tanks and Structures.** The District shall (a) immediately after the adoption of this Resolution and (b) at the time of final acceptance of the Project, insure all electric motors, elevated water storage tanks, pumping stations and major structures of the System in an amount recommended by the Engineers and approved by the RD, so long as the RD is the Owner of any of the Bonds, for the hazards usually covered in such area, and shall similarly insure same in an amount recommended by the Engineers, without the necessity of approval by the RD if and whenever the District has Outstanding Bonds against the System and none of such Outstanding Bonds are owned by RD.

## **ARTICLE 6. INFERIOR BONDS AND PARITY BONDS**

**Section 601. Inferior Bonds.** Except as hereinafter provided below in this Article, the District shall not, so long as any Bonds are outstanding, issue any additional bonds payable from the revenues of the System unless the security and/or pledge of the revenues to secure such additional bonds are made inferior and subordinate in all respects to the security of the Bonds.

The District expressly reserves the right at any time to issue its bonds or other obligations payable from the revenues of the System and not ranking on a parity basis with the Current Bonds, without any proof of previous earnings or net revenues, provided that the consent of the RD must be obtained prior to the issuance of any inferior bonds so long as the RD owns any of the Bonds, and provided further that, after the initial completion of the Project, such inferior bonds may be issued only for the purpose of providing for future extensions, additions and improvements to the System, and only in express recognition of the priorities, liens and rights created and existing for the security, source of payment and protection of the Outstanding Bonds; provided further, that nothing in this Section is intended to restrict or shall be construed as a restriction upon, the ordinary refunding all or a portion of the Outstanding Bonds.

**Section 602. Parity Bonds to Complete the Project.** The District hereby certifies, covenants and agrees that in the event that the cost of completion of the construction of the Project shall exceed the moneys available to the District from any and all sources, the District shall have the right, if necessary, to provide for such excess, and only such excess, through the issuance of Parity Bonds, provided the District has obtained a certification from the Engineers to the effect that it is necessary to issue the desired amount of Parity Bonds in order to enable the District to pay the cost (not otherwise provided) of the completion of the Project, and provided the District has complied with the provisions of Section 603 below or has obtained:

- (a) the consent of the RD if the Government is as the Owner of the Prior Bonds at that time or the consent of any other Owners of the Prior Bonds, and
- (b) the consent of (1) the RD if the Government is the purchaser of the Current Bonds; or (2) the Owners of at least 75% of the principal amount of the Current Bonds outstanding, if the Current Bonds have been issued, sold and delivered and are held by Owners other than the Government.

**Section 603. Parity Bonds to Finance Future Improvements.** The District reserved the right and privilege, and does hereby reserve the right and privilege, of issuing additional Parity Bonds, but only under the conditions specified in the Current Bond Resolution, which conditions are as follows:

The District further reserves the right to add new waterworks facilities and/or to finance future extensions, additions and improvements to the System by the issuance of one or more

additional series of Parity Bonds to be secured by a parity lien on and ratably payable on a parity with the Current Bonds, from the revenues of the System, provided:

(a) The facilities to be constructed from the proceeds of the additional Parity Bonds are made a part of the System and their revenues are pledged as additional security for the additional Parity Bonds and for the Outstanding Bonds.

(b) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds.

(c) The annual net revenues (defined as gross revenues less operating expenses), of the then existing System for the Fiscal Year preceding the year in which such Parity Bonds are to be issued, adjusted as hereinafter provided, shall be certified by an independent Certified Public Accountant to be equal at least one hundred twenty percent (120%) of the average annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the System, plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued. The calculation of average annual debt service requirements of principal and interest on the additional Parity Bonds to be issued shall, regardless of whether such additional Parity Bonds are to be serial or term bonds, be determined on the basis of the principal of and interest on such Parity Bonds being payable in approximately equal annual installments.

(d) The annual net revenues referred to above may be adjusted for the purpose of the foregoing computations to reflect:

(1) any revisions in the System's schedule of rates or charges being imposed on or before the time of the issuance of any such additional Parity Bonds, and

(2) any increase in the annual net revenues to be realized from the proposed extensions, additions and improvements being financed (in whole or in part) by such additional Parity Bonds;

provided all such adjustments shall be based upon and included in a certification of an Independent Consulting Engineer.

(e) Compliance with Section 603(a) through (d) shall not be necessary for the issuance of Parity Bonds if the District has obtained (1) the written consent of the RD for the issuance of such Parity Bonds, if the Government is the Owner of any Bonds at the time of issuance of such Parity Bonds; and (2) the written consent of the Owners of all of the then outstanding Prior Bonds, and no other prerequisite need be complied with by the District in order to issue Parity Bonds.

**Section 604. Covenants to be Complied with at Time of Issuance of Parity Bonds.** The District hereby covenants and agrees that in the event any Parity Bonds are issued, the District shall:

- (a) Adjust the monthly amount to be deposited into the Sinking Fund on the same basis as that prescribed in the provisions establishing such Sinking Fund, to reflect the average annual debt service requirements of the Parity Bonds;
- (b) Adjust the minimum annual amount to be deposited monthly into the Debt Reserve Fund on the same basis as that prescribed in the provisions establishing such Debt Reserve Fund, taking into account the future debt service requirements of all Bonds which will then be outstanding against the System; and
- (c) Make such Parity Bonds payable as to principal on January 1 of each year in which principal falls due and payable as to interest on January 1 and July 1 of each year until the final maturity of such Parity Bonds.

**Section 605. Prepayment Provisions Applicable to Parity Bonds.** If, in connection with any subsequently issued series of Parity Bonds, it is provided that excess revenues in the Revenue Fund shall be used to prepay Outstanding Bonds in advance of scheduled maturity, or if the District at its option undertakes to prepay Outstanding Bonds in advance of scheduled maturity, it is agreed and understood, for so long as the Government owns any of the Outstanding Bonds, that no such prepayment will be effected without the approval of the RD.

**Section 606. Consent of the RD Regarding Future Bonds.** Notwithstanding any other provisions of this Resolution, the District agrees that so long as the Government owns any Outstanding Bonds against and/or payable from the revenues of the System, the District will not issue any future bonds, notes or other obligations against, secured by or payable from the revenues of the System without the written consent of the RD.

**Section 607. Priority of Lien; Permissible Disposition of Surplus or Obsolete Facilities.** The District covenants and agrees that so long as any of the Prior Bonds and/or Bonds are outstanding, the District will not sell or otherwise dispose of any of the facilities of the System, or any part thereof, and, except as provided above, the District will not create or permit to be created any charge or lien on the revenues thereof ranking equal or prior to the charge or lien of the Outstanding Bonds. Notwithstanding the foregoing, the District may at any time permanently abandon the use of, or sell at fair market value, any part of the facilities of the System, provided that:

- (a) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds, and the required reserves for such Outstanding Bonds will have been accumulated;
- (b) The District will, in the event of any such sale, apply the proceeds to either (1) redemption of Outstanding Bonds in accordance with the provisions:

governing prepayment of bonds in advance of maturity, or (2) replacement of the facility so disposed of by another facility, the revenues of which shall be incorporated into the System, as hereinbefore provided;

- (c) The District certifies, in good faith, prior to any abandonment of use, that the facilities to be abandoned are no longer economically feasible of producing net revenues; and
- (d) The District certifies, in good faith, that the estimated net revenues of the remaining facilities of the System for the then next succeeding Fiscal Year, plus the estimated net revenues of the facilities, if any, to be added to the System, comply with the earnings requirements hereinbefore provided in the provisions and conditions governing the issuance of Parity Bonds.

Notwithstanding any other provisions hereof, so long as any Bonds are held by the Government, the District shall not dispose of its title to the System or to any part thereof, without first obtaining the written consent of the RD.

## **ARTICLE 7. DEFAULT AND CONSEQUENCES**

**Section 701. Events of Default.** The following items shall constitute an Event of Default on the part of the District:

- (a) The failure to pay principal of the Bonds as and when same shall become due and payable, either at maturity or by proceedings for redemption.
- (b) The failure to pay any installment of interest on the Bonds when the same shall become due and payable or, if any or all of the Outstanding Bonds are owned by the RD, within thirty (30) days thereafter.
- (c) The default by the District in the due or punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds, the Prior Bond Resolution or in this Resolution.
- (d) The failure to promptly repair, replace or reconstruct facilities of the System that have been damaged and/or destroyed.
- (e) The entering of any order or decree with the consent or the acquiescence of the District, appointing a receiver of all or any part of the System or any revenues thereof; or if such order or decree shall be entered without the acquiescence or consent of the District, its failure to have the order vacated, discharged or stayed on appeal within sixth (60) days after entry.

**Section 702. Consequences of Event of Default.** Any Owner of the Current Bonds may enforce and compel the performance of all duties and obligations of the District set forth herein. Upon the occurrence of an Event of Default, then upon the filing of a suit by any Owner of said the Current Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the District with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal of and interest on the Outstanding Bonds and to provide and apply the income and revenues in conformity with this Resolution and with the laws of the Commonwealth of Kentucky.

The District hereby agrees to transfer to any bona fide receiver or other subsequent operator of the System, pursuant to any valid court order in a proceeding brought to enforce collection or payment of the District's obligations, all contracts and other rights of the District pertaining to the System, conditionally, for such time only as such receiver or operator shall operate by authority of the court. Upon the occurrence of an Event of Default, the Owner of any of the Outstanding Bonds may require the governing body of the District by appropriate order to raise the rates a reasonable amount consistent with the requirements of this Resolution.

**ARTICLE 8. CONTRACTUAL PROVISIONS; GRANT APPROVAL;  
MISCELLANEOUS PROVISIONS.**

**Section 801. Resolution Contractual with Bondowners.** The provisions of this Resolution constitute a contract between the District and its Commission and the Owners of the Current Bonds as may be outstanding from time to time; and after the issuance of any of said Current Bonds, no change, alteration or variation of any kind of the provisions of this Resolution shall be made in any manner which will affect an Owner's rights except as herein provided or except with the written consent of all Bondowners until such time as all of the Current Bonds and the interest thereon have been paid in full or fully provided for; provided that the Commission may adopt any resolution for any purpose not inconsistent with the terms of this Resolution and which shall not impair the security of the Owners of the Current Bonds and/or for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provisions contained herein or in any resolution or other proceedings pertaining hereto.

It is further agreed that the Owners of 75% in principal amount of the Current Bonds at any time outstanding shall have the right to consent to and approve the adoption of resolutions or other proceedings, modifying or amending any of the terms or provisions contained in this Resolution, subject to the conditions that (a) this Resolution shall not be so modified in any manner that may adversely affect the rights of the Owners of any of the Prior Bonds, nor in any manner that may adversely affect the rights of any certain Owners of the Outstanding Bonds without similarly affecting the rights of all Owners of such Outstanding Bonds, or to reduce the percentage of the number of Owners whose consent is required to effect a further modification and (b) no such change may be effected without the consent of the RD so long as the RD owns any of the Outstanding Bonds.

**Section 802. All Current Bonds are Equal.** The Current Bonds authorized herein shall not be entitled to priority one over the other in the application of the income and revenues of the System, or with respect to the security for their payment, regardless of the time or times of their issuance, it being the intention that there shall be no priority among any of the Current Bonds regardless of the fact that they may be actually issued and delivered at different times.

**Section 803. District Obligated to Refund Current Bonds Owned by Government Whenever Feasible; Defeasement Prohibited.** So long as the Government is the Owner of any of the Current Bonds, if it appears to the Government that the District is able to refund such Current Bonds in whole or in part, by obtaining a loan for such purposes from responsible cooperative or private credit sources, or to sell bonds of the District in the open market, at reasonable rates and terms, for loans or bond issues for similar purposes and periods of time, the District will, upon request of the Government, obtain such loan and/or issue such bonds in sufficient amount to repay the Government and will take all such action as may be required in connection therewith.

In addition, so long as the Government is the Owner of any of the Current Bonds, the District shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating



the lieu of the Current Bonds without immediately prepaying all of the then outstanding Current Bonds.

**Section 804. Approval and Acceptance of RD Grant Agreement.** The RD has agreed to make a grant to the District in the amount of \$345,600 (the "RD Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the RD has requested the District to approve, accept and execute RD Form 1780-12 (the "RD Grant Agreement"), setting out the terms and conditions upon which said RD Grant will be made. Said RD Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said RD Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other RD Grants offered to the District in connection with the Project and to execute any and all RD Grant Agreements and any other documents as may be requested by the RD in connection with RD Grants which have been and/or which may hereafter be approved for such Project.

**Section 805. Approval and Acceptance of ARC Grant Agreement.** The Appalachian Regional Commission (the "ARC") has agreed to make a grant to the District in the amount of \$500,000 (the "ARC Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the ARC has requested the District to approve, accept and execute a certain ARC Grant Agreement (the "ARC Grant Agreement"), setting out the terms and conditions upon which said ARC Grant will be made. Said ARC Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said ARC Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other ARC Grants offered to the District in connection with the Project and to execute any and all ARC Grant Agreements and any other documents as may be requested by the ARC in connection with ARC Grants which have been and/or which may hereafter be approved for such Project.

**Section 806. Authorization, Ratification and Confirmation of Approval and Execution of Various Documents.** The Commission hereby authorizes, approves, ratifies and confirms the previous action of the officers of the District in approving and executing various documents related to the financing of the Project, including the following:

- (a) Legal Services Agreement with Bond Counsel.
- (b) Legal Services Agreement with Local Counsel.
- (c) Letter of Intent to Meet Conditions of RD Letter of Conditions (RD Form 1942-46).
- (d) Loan Resolution (RD Form 1780-27).
- (e) Agreement for Engineering Services with the Engineers.

**Section 807. Authorization of Condemnation to Acquire Easements and/or Sites.** In the event that (a) any necessary deeds of easement to allow construction of the Project over the property of any property owner or (b) any necessary deed to the necessary site of any waterworks facility of the Project shall not be obtained through negotiation within ten (10) days after the date of adoption of this Resolution and in the event that (1) such waterworks lines cannot be located within the right-of-way of the State and/or County road involved; and/or (2) such waterworks facilities cannot be located on a site already owned by the District, Local Counsel is hereby authorized and directed to file condemnation actions to obtain such necessary rights-of-way and/or sites forthwith, without further authorization or direction from the District or the Commission. Local Counsel is further directed to follow the same condemnation procedure in the event that it becomes necessary, through change orders, line extensions and/or errors in the location of property lines and/or property owners, to obtain additional easements, rights-of-way and/or sites for completion of the Project and whenever the necessary deed is not obtained by negotiation at least ten (10) days prior to the date on which construction is contemplated in the respective easement, right-of-way and/or site.

The District further approves the payment from the funds available therefor allocated to the costs of the Project to pay any judgment award, or compromise, determined by Local Counsel with the acquiescence of the Commission, toward the costs of such easements, rights-of-way and/or sites; provided, in each instance, that the payment of such funds to satisfy any judgment, award or compromise must first be approved by the RD; and the Commission further determines that if and to whatever extent the funds available from the proceeds of the financing contemplated by this Resolution shall be inadequate to pay any judgment, award or compromise amount for such easements, rights-of-way and/or sites, or if the District is unable to obtain the approval of the RD for any such payment, the Commission shall take all reasonably necessary actions, within the powers and authority of the Commission, to make such additional amount available from all other available District resources.

**Section 808. Authorization to File Required Financing Statements.** In the event that it is determined by Bond Counsel or Local Counsel that the District is required to file any financing statements under the Kentucky Uniform Commercial Code in order to perfect the pledge of the gross revenues of the District's System as security for the Current Bonds, Bond Counsel and/or Local Counsel are hereby authorized to prepare and file with the appropriate officials such financing statements as they deem necessary.

## **ARTICLE 9. SALE OF CURRENT BONDS**

**Section 901. Sale of Current Bonds.** The Current Bonds shall be offered publicly for sale upon the basis of sealed, competitive bids at such time as the Commission shall designate.

A suggested form of "Notice of Bond Sale", a suggested form of "Official Notice of Sale of Bonds" and a suggested form of "Bid Form", having been prepared in advance by Bond Counsel, and all of such documents having been found to be in satisfactory form, a copy of each is hereby ordered to be filed in the records of the Secretary with the Minutes of the meeting at which this Resolution is adopted. The Notice of Bond Sale shall be signed by the Secretary and may be used for the purpose of publishing notice of the sale of the Current Bonds. Copies of such documents shall be furnished to any interested parties who may request same.

In the event that there is no bid or that all bids are rejected, the District may readvertise the sale pursuant to this Resolution.

**Section 902. Adjustment in Maturities, Prepayment Provisions and Other Dates, with Consent of Purchaser if Delivery is Delayed.** In the event that delivery of the Current Bonds authorized herein is delayed for any reason and the District, with the consent of the Purchaser of the Current Bonds, determines it is in the District's best interest to change the maturities, the applicable prepayment date or any other dates, the District may adjust the same by a Resolution of the Commission approving the adjustments.

## ARTICLE 10. CONCLUDING PROVISIONS

**Section 1001. Covenant of District to Take All Necessary Action To Assure Compliance with the Code.** In order to assure the Owners of the Current Bonds that such Current Bonds shall continue to be legal and that interest thereon will continue to be excludable from gross income for federal income tax purposes and exempt from all Kentucky income taxation, the District covenants to and with the Owners of the Current Bonds to take the following action:

(a) The District will (1) take all actions necessary to comply with the provisions of the Code necessary to assure that interest on the Current Bonds will be excludable from gross income for federal income tax purposes; (2) will take no actions which will violate any of the provisions of the Code; and (3) not use the proceeds of the Current Bonds for any purpose which will cause interest on the Current Bonds or on interim financing obligations, including, but not limited to the Note, issued pursuant to Section 302 hereof to become includable in gross income for federal income tax purposes.

(b) The District hereby certifies that it does not reasonably anticipate that the total principal amount of "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code which the District, or any subordinate entity of the District, will issue during the calendar year during which the Current Bonds are issued, will exceed \$10,000,000; and therefore the District hereby designates the Current Bonds and all interim financing obligations, including, but not limited to the Note, issued pursuant to Section 302 hereof as "qualified tax-exempt obligations".

(c) The District further certifies that the Current Bonds and any and all interim financing obligations of the District are not "private activity bonds" within the meaning of the Code.

(d) The District covenants and agrees to comply with the rebate requirements on certain excess earnings imposed by Section 148 of the Code, and in the event it is determined by the District, upon the advice of Bond Counsel, that the Construction Account, or any other Fund established hereunder, is subject to said rebate requirements and does in fact generate earnings from "non-purpose investments" in excess of the amount which said investments would have earned at a rate equal to the "yield" on the Current Bonds, plus any income attributable to such excess, there shall be established a separate and special fund with the Depository Bank, which fund shall be designated the "Excess Earnings and Rebate Fund", which shall be utilized for the collection and payment of any excess generated from investments and the remittance thereof to the United States of America on or before the anniversary of the fifth (5th) year from the date of the Current Bonds, and once every five (5) years thereafter until the final retirement of the Current Bonds; the last installment, to the extent required, to be made no later than sixty (60) days following the date on which funds sufficient for the complete retirement of the Current Bonds are deposited with any escrow agent. The District further covenants to file any and all reports, if any, as may be required

to be filed with the Government with regard to the liability or non-liability of the District as to any such rebate requirements and to maintain records in regard thereto for the period of time required by applicable Treasury regulations.

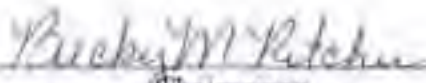
**Section 1002. Severability Clause.** If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Resolution, which shall continue in full force and effect.

**Section 1003. All Provisions in Conflict Repealed.** All motions, resolutions and orders, or parts thereof, in conflict with the provisions of this Resolution, are to the extent of such conflict hereby repealed. It is hereby specifically ordered and provided that any proceedings heretofore taken for the issuance of other bonds of the District payable or secured in any manner by all or any part of the income and revenues of said System or any part thereof, and which have not been heretofore issued and delivered, are hereby revoked and rescinded, and none of such other bonds shall be issued and delivered. The District covenants to correct by appropriate proceedings any required procedure previously taken invalidly.

**Section 1004. Effective Immediately Upon Adoption.** This Resolution shall take effect and be effective immediately upon its adoption.

Adopted this June 8, 2011.

SHARPSBURG WATER DISTRICT

  
Chairperson

(Seal of District)

Attest:

  
Secretary

CERTIFICATION

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Sharpsburg Water District of Bath and Nicholas Counties, Kentucky, and that the foregoing Resolution is a true copy of a Resolution duly adopted by the Board of Commissioners of said District, signed by the Chairperson of said District and attested under Seal by me as Secretary, at a properly convened meeting of said Board of Commissioners held on June 8, 2011, as shown by the official records of said District in my custody and under my control.

I further certify that said meeting was duly held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825, that a quorum was present at said meeting, that said Resolution has not been modified, amended, revoked or repealed, and that same is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature as Secretary and the official Seal of the District this June 8, 2011.

  
Secretary

(Seal of District)

**EXHIBIT A**

**Schedule of Principal Payments**

| <u>Payment Due</u><br><u>January 1</u> | <u>Principal</u><br><u>Payment</u> | <u>Payment Due</u><br><u>January 1</u> | <u>Principal</u><br><u>Payment</u> |
|--|------------------------------------|--|------------------------------------|
| 2013                                   | \$10,500                           | 2032                                   | \$16,500                           |
| 2014                                   | 11,000                             | 2033                                   | 17,000                             |
| 2015                                   | 11,000                             | 2034                                   | 17,500                             |
| 2016                                   | 11,500                             | 2035                                   | 18,000                             |
| 2017                                   | 11,500                             | 2036                                   | 18,000                             |
| 2018                                   | 12,000                             | 2037                                   | 18,500                             |
| 2019                                   | 12,000                             | 2038                                   | 19,000                             |
| 2020                                   | 12,500                             | 2039                                   | 19,500                             |
| 2021                                   | 13,000                             | 2040                                   | 20,000                             |
| 2022                                   | 13,000                             | 2041                                   | 20,500                             |
| 2023                                   | 13,500                             | 2042                                   | 21,000                             |
| 2024                                   | 13,500                             | 2043                                   | 21,500                             |
| 2025                                   | 14,000                             | 2044                                   | 22,000                             |
| 2026                                   | 14,500                             | 2045                                   | 22,500                             |
| 2027                                   | 14,500                             | 2046                                   | 23,000                             |
| 2028                                   | 15,000                             | 2047                                   | 23,500                             |
| 2029                                   | 15,500                             | 2048                                   | 24,000                             |
| 2030                                   | 16,000                             | 2049                                   | 24,500                             |
| 2031                                   | 16,000                             | 2050                                   | 25,000                             |

**EXHIBIT B**

(FORM OF FULLY REGISTERED BOND)

**UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
SHARPSBURG WATER DISTRICT  
WATERWORKS REVENUE BONDS, SERIES 2011**

No. R- \_\_\_\_\_

Interest Rate: \_\_\_\_\_ %

\$ \_\_\_\_\_

KNOW ALL PERSONS BY THESE PRESENTS:

That the Sharpsburg Water District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Bath and Nicholas Counties, Kentucky, for value received, hereby promises to pay to

\_\_\_\_\_ the registered owner hereof, or to its registered assigns, solely from the fund hereinafter identified, the sum of

\_\_\_\_\_ DOLLARS (\$ \_\_\_\_\_),

on the first day of January, in years and installments as follows:

| <u>Year</u> | <u>Principal</u> | <u>Year</u> | <u>Principal</u> | <u>Year</u> | <u>Principal</u> |
|-------------|------------------|-------------|------------------|-------------|------------------|
|-------------|------------------|-------------|------------------|-------------|------------------|

[Here the printer of the Current Bond will print the maturities of the Current Bonds purchased by the registered Owner]

and in like manner, solely from said fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, at the Interest Rate specified above, semiannually on the first days of January and July in each year, beginning with the first January or July after the date of this Bond, until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable, without deduction for exchange or collection charges, in lawful money of the United States of America, at the address of the registered owner shown on the registration book of the District.



This Bond is issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 58 and 74 of the Kentucky Revised Statutes (collectively the "Act"), and pursuant to a duly adopted Bond Resolution of the District authorizing same (the "Current Bond Resolution"), to which Current Bond Resolution reference is hereby made for a description of the nature and extent of the security thereby created, the rights and limitations of rights of the registered owner of this Bond, and the rights, obligations and duties of the District, for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing waterworks system of the District (said existing waterworks system, together with said extensions, additions and improvements, being hereinafter referred to as the "System").

This Bond is issued on a parity as to security and source of payment with the outstanding (i) Sharpsburg Water District Waterworks Refunding and Improvement Revenue Bonds of 1984, dated July 25, 1984 (the "1984 Bonds"), authorized by a Resolution adopted by the Commission of the District on June 13, 1984 (the "1984 Bond Resolution"); (ii) Sharpsburg Water District Waterworks Revenue Bonds, Series 1990, dated November 8, 1991 (the "1990 Bonds"), authorized by a Resolution adopted by the Commission of the District on December 20, 1990 (the "1990 Bond Resolution"); (iii) Sharpsburg Water District Waterworks Revenue Bonds, Series 1996, dated June 6, 1996 (the "1996 Bonds"), authorized by a Resolution adopted by the Commission of the District on January 10, 1996 (the "1996 Bond Resolution"); and (iv) Sharpsburg Water District Waterworks Revenue Bonds, Series 2006, dated January 24, 2007 (the "2006 Bonds"), authorized by a Resolution adopted by the Commission of the District on May 10, 2006 (the "2006 Bond Resolution"); [hereinafter the 1984 Bonds, the 1990 Bonds, the 1996 Bonds and the 2006 Bonds shall be collectively referred to as the "Prior Bonds", and the 1984 Bond Resolution, the 1990 Bond Resolution, the 1996 Bond Resolution and the 2006 Bond Resolution shall be collectively referred to as the "Prior Bond Resolution"]. Accordingly, this Bond, the Prior Bonds and any bonds ranking on a parity therewith, are payable from and secured by a pledge of the gross revenues to be derived from the operation of the System.

This Bond has been issued in full compliance with the Current Bond Resolution and the Prior Bond Resolution; and this Bond, and any bonds ranking on a parity therewith that may be issued and outstanding under the conditions and restrictions of the Current Bond Resolution and the Prior Bond Resolution, are and will continue to be payable from revenues which shall be set aside in a fund for that purpose and identified as the "Sharpsburg Water District Waterworks Bond and Interest Sinking Fund", created in the Prior Bond Resolution.

This Bond does not constitute an indebtedness of the District within the meaning of any constitutional or statutory provisions or limitations and is payable solely out of the revenues of the System. As provided in the Current Bond Resolution, the District covenants that so long as any of the Prior Bonds and/or this Bond, are outstanding, the System will be continuously owned and operated by the District as a revenue producing public undertaking within the meaning of the aforesaid Act for the security and source of payment of the Prior Bonds and of this Bond, and that the District will fix, and if necessary adjust, from time to time, such rates for the services and

facilities of the System and will collect and account for the revenues therefrom sufficient to pay promptly the principal of and interest on the Prior Bonds, this Bond and all other bonds ranking on a parity therewith as may be outstanding from time to time, to pay the cost of operation and maintenance of the System and to provide for the depreciation thereof.

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with this Bond in order to complete the Project, and to finance future extensions, additions and improvements to the System, provided the necessary requirements of the Current Bond Resolution have been complied with by the District.

This Bond shall be registered as to principal and interest in the name of the owner hereof, after which it shall be transferable only upon presentation to the Secretary of the District as the Bond Registrar, with a written transfer duly acknowledged by the registered owner or its duly authorized attorney, which transfer shall be noted upon this Bond and upon the registration book of the District kept for that purpose.

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2020, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple of One Hundred Dollars (\$100), as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or its assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States of America, or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$100, may be prepaid at any time in inverse chronological order of the installments due.

Upon default in the payment of any principal or interest payment on this Bond, or upon failure by the District to comply with any other provision of this Bond or with any provision of the Current Bond Resolution, the registered owner may, at its option, institute all rights and remedies provided by law or by said Current Bond Resolution.

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 issuance of this Bond, do exist, have happened and have been performed in due time, form and manner as required by law, and that the face amount of this Bond, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF said Sharpsburg Water District, by its Board of Commissioners, has caused this Bond to be executed by its Chairperson, its corporate seal to be hereunto affixed, and attested by its Secretary, on the date of this Bond, which is

SHARPSBURG WATER DISTRICT  
Bath and Nicholas Counties, Kentucky

By \_\_\_\_\_  
Chairperson

Attest:

\_\_\_\_\_  
Secretary

(Seal of District)

PROVISION FOR REGISTRATION

This Bond shall be registered on the registration book of the District kept for that purpose by the Secretary, as Bond Registrar, upon presentation hereof to said Secretary, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered owner or its attorney, such transfer to be made on said book and endorsed hereon.

| Date of<br>Registration | Name of<br>Registered Owner | Signature<br>of Bond Registrar |
|-------------------------|-----------------------------|--------------------------------|
|                         |                             |                                |
|                         |                             |                                |
|                         |                             |                                |

## ASSIGNMENT

For value received, this Bond is hereby assigned, without recourse and subject to all of its terms and conditions, unto \_\_\_\_\_, this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_

\_\_\_\_\_

By \_\_\_\_\_

**EXHIBIT C**

**REQUISITION CERTIFICATE**

Re: **Sharpsburg Water District Waterworks Revenue Bonds, Series 2011**, in the principal amount of \$642,000

The undersigned hereby certify as follows:

1. That they are the signatories required for construction and/or administrative draws pursuant to the Bond Resolution adopted by the Sharpsburg Water District (the "District").
2. That the named firms and/or persons set forth on Exhibit A attached hereto are now entitled to the aggregate sum of \$ \_\_\_\_\_, itemized as set forth in said Exhibit A and as per approved invoices attached hereto:
3. That upon said amount being lent to said District and/or obtained by said District from the proceeds of the Current Bonds and/or other sources, the undersigned approve such expenditure and the payment of said amounts to said firms and/or persons, either directly or from amounts deposit in the "Sharpsburg Water District Construction Account"
4. That we hereby certify that we have carefully inspected the work and, as a result of our inspection and to the best of our knowledge and belief, the amounts shown in this Requisition Certificate are correct and the work has been performed in accordance with the agreements between the District and the parties requesting payment.

IN TESTIMONY WHEREOF, witness the signature of the undersigned, this \_\_\_\_ day of \_\_\_\_\_, 20 \_\_\_\_:

Sharpsburg Water District

HDR Engineering, Inc.

By \_\_\_\_\_  
Chairperson

By \_\_\_\_\_  
Registered Professional Engineer  
State of Kentucky No. \_\_\_\_\_

Approved on \_\_\_\_\_

Approved on \_\_\_\_\_

Rural Development

Amount expended heretofore \$ \_\_\_\_\_

By \_\_\_\_\_  
Authorized RD Official

Amount approved herein \_\_\_\_\_

Total \_\_\_\_\_

Approved on \_\_\_\_\_

**EXHIBIT A TO REQUISITION CERTIFICATE**

Name of Entity/Person

Amount