



May 23, 2000

Mr. Larry Arnett  
President, Judy Water Association, Inc.  
5031 Maysville Road  
Mt. Sterling, Kentucky 40353

Re: Letter of Conditions Dated November 16, 1998

Dear Mr. Arnett:

This letter shall serve as Amendment No. 1 to the Letter of Conditions dated November 16, 1998. The purpose of this amendment is to (1) revise the total cost of the project due to a construction bid overrun; (2) revise the funding source and amounts; (3) revise the rates and charges; (4) add the Funded Depreciation Reserve Account requirements; and (5) make other editorial changes in accordance with current Rural Utilities Service (RUS) Instructions.

The Second Paragraph on the first page is revised to read as follows:

“ This letter is not to be considered as loan or grant approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS loan not to exceed \$1,337,000, a Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) of \$1,000,000, a cash contribution from Bourbon County Fiscal Court in the amount of \$126,000, a cash contribution from Harrison County Water Association in the amount of \$110,000, and a cash contribution from Highlands Farms, Inc, in the amount of \$12,500. ”

Paragraph numbered "1" is revised to read as follows:

"1. Number of Users and Their Contribution:

There shall be 1,277 water users, of which 914 are existing users and 313 are new users contributing \$55,500 in connection fees toward the cost of the project. The connection fees will be collected prior to advertising for construction bids and will be placed in the construction account at loan pre-closing, unless spent for authorized purposes prior to loan pre-closing. The Rural Development Manager will review and authenticate the number of users and amount of connection fees prior to advertising for construction bids.”

Judy Water Association, Inc.

Paragraph numbered "3" is revised to read as follows:

“ 3. Funded Depreciation Reserve Account

The Association will be required to deposit \$685.00 per month into a "Funded Depreciation Reserve Account". The per month deposits are for the life of the loan.

The required deposits to the Reserve Account are in addition to the requirements of the Association's prior note resolutions.

The monthly deposits to the Reserve Account are required to commence the first full fiscal year after the facility becomes operational."

Paragraph number "10 ( c )" is revised to read as follows:

"10. Insurance and Bonding

C. Fidelity Bond - The Association will provide Fidelity Bond Coverage for all persons who have access to funds. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing protection for all appropriate employees and/or officials. The amount of coverage required for all RUS loans is \$131,000."

Paragraph number "20" is revised to read as follows:

"20. Cost of Facility:

Breakdown of Costs:

Development	\$2,133,500
Land and Rights	1,700
Legal and Administrative	56,200
Engineering	361,000
Interest	25,000
Contingencies	63,600

TOTAL	<u>\$2,641,000</u>
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Judy Water Association, Inc.

Financing:

RUS Loan	\$1,337,000
Bourbon County Fiscal Court	126,000
HUD-CDBG	1,000,000
Harrison County Water Association	110,000
Highlands Farms, Inc.	12,500
Applicant Contribution	55,500
TOTAL	<u>\$2,641,000"</u>

Paragraph numbered "21" is revised to read as follows:

"

21. Use of Remaining Project Funds:

The applicant contribution, Bourbon County Fiscal Court; Harrison County Water Association and Highlands Farms, Inc. funds, shall be considered as the first funds expended. After providing for all authorized costs, any remaining project funds will be considered to be RUS/CDBG grant funds and refunded in proportion to participation in the project. If the amount of unused grant funds exceeds the grants, that part would be RUS loan funds."

Paragraph numbered "22" is revised to read as follows:

"22. Rates and Charges:

Rates and charges for facilities and services rendered by the Association must be at least adequate to meet cost of maintaining, repairing and operating the water system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water Rates will be at least:

First	1,000 gallons @ \$12.000 - Minimum Bill
Next	4,000 gallons @ \$ 5.00 - per 1,000 gallons
Next	5,000 gallons @ \$ 4.50 - per 1,000 gallons
All Over	10,000 gallons @ \$ 4.00 - per 1,000 gallons

A surcharge of \$16.77 per month will be assessed to all new users served by the proposed Bourbon County Waterline Extension Project.

The above mentioned surcharge will be in effect for the period of the loans unless Discontinued with the concurrence of RUS and the Public Service Commission.

Water Connection Fees - \$350.00"

Judy Water Association, Inc.

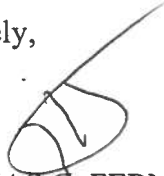
Paragraph numbered "24" is revised to read as follows:

"24. Commitment of HUD Grant, Bourbon County Fiscal Court, Harrison County Water Association and Highlands Farms, Inc. Cash Contributions

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the HUD Grant in the amount of \$1,000,000, for the Bourbon County Fiscal Court contribution in the amount of \$126,000, for the Harrison County Water Association contribution in the amount of \$110,000, and for the Highlands Farms, Inc. contribution in the amount of \$12,500."

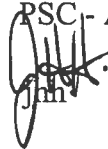
All other provisions of the referenced Letter of Conditions remain in full force and unchanged.

Sincerely,



THOMAS G. FERN  
State Director  
Rural Development

- cc: Rural Development Manager - Shelbyville, Kentucky
- Community Development Manager - Winchester, Kentucky
- Gateway ADD - Owingsville, Kentucky
- Bluegrass ADD - Lexington, Kentucky
- Carolyn Kenton - Lexington, Kentucky
- PSC - ATTN: Bob Amato - Frankfort, Kentucky

cc: 



3/18

November 16, 1998

Mr. Larry Arnett  
President, Judy Water Association, Inc.  
5031 Maysville Road  
Mt. Sterling, Kentucky 40353

Dear Mr. Arnett:

This letter establishes conditions which must be understood and agreed to by you before further consideration may be given to the application. The loan will be administered on behalf of the Rural Utilities Service (RUS) by the State and Area Office staff of USDA, Rural Development. Any changes in project cost, source of funds, scope of services or any other significant changes in the project or applicant must be reported to and approved by USDA, Rural Development, by written amendment to this letter. Any changes not approved by Rural Development shall be cause for discontinuing processing of the application. It should also be understood that Rural Development is under no obligation to provide additional funds to meet an overrun in construction costs.

This letter is not to be considered as loan approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS loan not to exceed \$1,237,000, a Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) of \$999,800, a cash contribution from Bourbon County Fiscal Court in the amount of \$126,000, and a cash contribution from Harrison County Water Association in the amount of \$110,000.

If Rural Development makes the loan, you may make a written request that the interest rate be the lower of the rate in effect at the time of loan approval or the time of loan closing. If you do not request the lower of the two interest rates, the interest rate charged will be the rate in effect at the time of loan approval. The loan will be considered approved on the date a signed copy of Form RD 1940-1, "Request for Obligation of Funds," is mailed to you. If you want the lower of the two rates, your written request should be submitted to Rural Development as soon as practical. In order to avoid possible delays in loan closing, such a request should ordinarily be submitted at least 30 days before loan closing.

Please complete and return the attached Form RD 1942-46, "Letter of Intent to Meet Conditions," if you desire that further consideration be given to your application.

The "Letter of Intent to Meet Conditions" must be executed within three weeks from the date of this letter or it becomes invalid unless a time extension is granted by Rural Development.

If the conditions set forth in this letter are not met within 240 days from the date hereof, Rural Development reserves the right to discontinue the processing of the application.

In signing Form RD 1942-46, you are agreeing to complete the following as expeditiously as possible:

1. Number of Users and Their Contribution:

There shall be 1,227 water users, of which 914 are existing users and 313 are new users contributing \$46,600 in connection fees toward the cost of the project. The connection fees will be collected prior to advertising for construction bids and will be placed in the construction account at loan pre-closing, unless spent for authorized purposes prior to loan pre-closing. The Rural Development Manager will review and authenticate the number of users and amount of connection fees prior to advertising for construction bids.

2. Repayment Period:

The loan will be scheduled for repayment over a period not to exceed 40 years from the date of the Promissory Note. Principal payment will not be deferred for a period in excess of two (2) years from the date of the Promissory Note. The Association will be required to adopt a supplemental payment agreement providing for monthly payments of principal and interest so long as the Promissory Note is held or insured by RUS.

Rural Development encourages the use of the Preauthorized Debit (PAD) payment process, which authorizes the electronic withdrawal of funds from your bank account on the exact installment payment due date (contact the Rural Development Manager for further information).

3. Funded Depreciation Reserve Account:

The Association will be required to deposit \$625.00 per month into a "Funded Depreciation Reserve Account". The per month deposits are for the life of the loan.

The required deposits to the Reserve Account are in addition to the requirements of the Association's prior note resolutions.

The monthly deposits to the Reserve Account are required to commence the first full fiscal year after the facility becomes operational.

4. Security Requirements:

The loan will be secured by a real estate mortgage, a financing statement, and pledge of gross water revenue, in the Loan Resolution and Financing Statement.

5. Land Rights and Real Property:

The Association will be required to furnish satisfactory title, easements, etc., necessary to install, maintain and operate the facility to serve the intended users. The pipelines will be on private rights-of-way where feasible. Easements and options are to be secured prior to advertising for construction bids.

6. Organization:

The Association will be legally organized under applicable KRS which will permit them to perform this service, borrow and repay money.

7. Business Operations:

The Association will be required to operate the system under a well-established set of resolutions, rules and regulations. A budget must be established annually and adopted by the Association after review by Rural Development. At no later than loan pre-closing, the Association will be required to furnish a prior approved management plan to include, as a minimum, provisions for management, maintenance, meter reading, miscellaneous services, billing, collecting, bookkeeping, making and delivering required reports and audits.

8. Accounts, Records and Audits:

The Association will be required to maintain adequate records and accounts and submit statistical and financial reports in accordance with subsection 1780.47 of RUS Instruction 1780 and RUS Staff Instruction 1780-4, a copy of which is enclosed. Annual audits, budgets, and reports will be submitted to Rural Development showing separate accounts, if applicable.

9. Accomplish Audits for Years in Which Federal Financial Assistance is Received:

The Association will accomplish audits in accordance with OMB Circular A-133, during the years in which federal funds are received. The Association will provide copies of the audits to the Area Office and the appropriate Federal cognizant agency as designated by OMB Circular A-133.

10. Insurance and Bonding:

The following insurance and bonding will be required:

- A. Adequate Liability and Property Damage Insurance including vehicular coverage, if applicable, must be obtained and maintained by the Association. The Association should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.
- B. Worker's Compensation - The Association will carry worker's compensation insurance for employees in accordance with applicable state laws.
- C. Fidelity Bond - The Association will provide Fidelity Bond Coverage for all persons who have access to funds. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing protection for all appropriate employees and/or officials. The amount of coverage required for all RUS loans is \$124,000.

- D. Real Property Insurance - The Association will obtain and maintain adequate fire and extended coverage on all structures including major items of equipment or machinery located in the structures. The amounts of coverage should be based on recommendations obtained by the Association from its attorney, consulting engineer and/or insurance provider. Subsurface lift stations do not have to be covered except for the value of electrical and pumping equipment therein.
- E. Flood Insurance - The Association will obtain and maintain adequate coverage on any facilities located in a special flood and mudslide prone areas.

11. Planning and Performing Development:

- A. The engineer should not be authorized to commence work on final plans and specifications until a determination has been made that the project can be planned and constructed within the estimated cost shown in paragraph "20" of this letter. The engineer may then proceed to develop final plans and specifications to be completed no later than 210 days from this date, and prepare bid documents. The Rural Development Manager is prepared to furnish the necessary guide for him to follow so as to keep the project plans and documents within our guidelines and requirements. The project should not be advertised for construction bids until all easements and enforceable options have been obtained, and total funds are committed or available for the project.
- B. The following documents will be submitted to Rural Development for review and must be concurred in by Rural Development prior to advertisement for construction bids:
  - 1. Final plans, specifications and bid documents.
  - 2. Applicant's letter on efforts to encourage small business and minority-owned business participation.
  - 3. Legal Service Agreements.
  - 4. Engineering Agreements.

Revision in these documents will be subject to Rural Development concurrence. Any agreements, contracts, etc. not reviewed and approved by Rural Development will not be eligible for payment from project funds or revenues from facilities financed by this Agency.

12. Compliance with Section 504 of the Rehabilitation Act of 1973:

The Association will be required to comply with Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), in order to make sure no handicapped individual, solely by reason of their handicap, is excluded from participation in the use of the water system, be denied the benefits of the water system, or be subjected to discrimination.

13. Closing Instructions:

The Office of General Counsel, our Regional Attorney, will be required to write closing instructions in connection with this loan. Conditions listed therein must be met by the Association.



14. Compliance with Special Laws and Regulations:

The Association will be required to conform with any and all state and local laws and regulations affecting this type project.

15. System Operator:

The Association is reminded that the system operator must have an Operator's Certificate issued by the State.

16. Prior to Pre-Closing the Loan, the Association will be Required to Adopt:

- A. Form RD 1942-8, "Resolution of Members or Stockholders."
- B. Form RD 1942-9, "Association Loan Resolution."
- C. Form RD 400-1, "Equal Opportunity Agreement."
- D. Form RD 400-4, "Assurance Agreement."
- E. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- F. Form RD 1910-11, "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts."
- G. FmHA Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."

The Association must offer the opportunity for all residents in the service area to become users of the facilities regardless of race, creed, color, religion, sex, national origin, marital status, physical or mental handicap or level of income.

17. Refinancing and Graduation Requirements:

The Association is reminded that if at any time it shall appear to the Government that the Association is able to refinance the amount of the RUS indebtedness then outstanding, in whole or in part, by obtaining a loan from commercial sources at reasonable rates and terms, upon the request of the Government, the Association will apply for and accept such loan in sufficient amount to repay the Government.

18. Commercial Interim Financing:

The Association will be required to use commercial interim financing for the project during construction for the RUS loan portion of the financing, if available at reasonable rates and terms.

Before the loan is closed, the Association will be required to provide Rural Development with statements from the contractor, engineer and attorneys that they have been paid to date in accordance with their contract or other agreements and, in the case of the contractor, that he has paid his suppliers and sub-contractors.

19. Disbursement of Project Funds:

A construction account for the purpose of disbursement of project funds (RUS) will be established by the Association prior to start of construction. The position of officials entrusted with the receipt and disbursement of RUS project funds will be covered by a "Fidelity Bond," with USDA-Rural Development as Co-Obligee, in the amount of construction funds on hand at any one time during the construction phase.

During construction, the Association shall disburse project funds in a manner consistent with subsection 1780.76 (e) of RUS Instruction 1780. Form RD 1924-18, "Partial Payment Estimate," or similar form approved by Rural Development, shall be used for the purpose of documenting periodic construction estimates, and shall be submitted to Rural Development for review and acceptance. Prior to disbursement of funds by the Association, the Board of Directors shall review and approve each payment estimate. All bills and vouchers must be approved by Rural Development prior to payment by the Association.

Form RD 440-11, "Estimate of Funds Needed for 30-Day Period Commencing \_\_\_\_\_," will be prepared by the Association and submitted to Rural Development in order that a periodic advance of federal cash may be requested.

Monthly audits of the Association's construction account records shall be made by Rural Development.

20. Cost of Facility:

Breakdown of Costs:

Development	\$ 2,054,800
Land and Rights	13,400
Legal and Administrative	47,200
Engineering	236,400
Interest	25,000
Contingencies	<u>142,600</u>
TOTAL	\$ 2,519,400

Financing:

RUS Loan	\$ 1,237,000
Bourbon County Fiscal Court	126,000
HUD-CDBG	999,800
Harrison County Water Association	110,000
Applicant Contribution	<u>46,600</u>
TOTAL	\$ 2,519,400

21. Use of Remaining Project Funds:

The applicant contribution, Bourbon County Fiscal Court and Harrison County Water Association funds, shall be considered as the first funds expended. After providing for all authorized costs, any remaining project funds will be considered to be RUS/CDBG grant funds and refunded in proportion to participation in the project. If the amount of unused grant funds exceeds the grants, that part would be RUS loan funds.

22. Rates and Charges:

Rates and charges for facilities and services rendered by the Association must be at least adequate to meet cost of maintaining, repairing and operating the water system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

First	1,000	gallons @ \$	12.00 - Minimum Bill.
Next	4,000	gallons @ \$	5.00 - per 1,000 gallons.
Next	5,000	gallons @ \$	4.50 - per 1,000 gallons.
All Over	10,000	gallons @ \$	4.00 - per 1,000 gallons.

A surcharge of \$14.37 per month will be assessed to all new users served by the proposed Bourbon County Waterline Extension Project.

Water Connection Fees - \$350.00.

23. Water Purchase Contracts:

The Association will submit Water Purchase Contracts for approval by Rural Development before advertising for construction bids. If the contracts are not on Form RD 442-30, "Water Purchase Contract," the contract will require approval by our Regional Attorney. The contract must meet the requirements of subsection 1780.62 of RUS Instruction 1780.

24. Commitment of HUD Grant, Bourbon County Fiscal Court and Harrison County Water Association Cash Contributions:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the HUD Grant in the amount of \$999,800, for the Bourbon County Fiscal Court contribution in the amount of \$126,000, and for the Harrison County Water Association contribution in the amount of \$110,000.

25. Floodplain Construction:

The Association will be required to pass and adopt a Resolution or amend its By-Laws whereby the Association will deny any water service to any future customer wishing to build on or develop property located within a designated floodplain. If a customer or developer requests service for construction in a designated floodplain, the customer or developer must provide evidence and a justification for approval by the Association and Rural Development officials that there are no other alternatives to construction or development within the designated floodplain. The community must be a participant in the National Flood Insurance Program (NFIP) and the customer or developer must obtain the required permits prior to the tap on restrictions being waived.

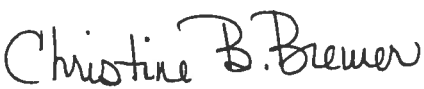
26. Final Approval Conditions:

Final approval of this loan will depend on your willingness, with the assistance of all your co-workers, to meet the conditions of this letter in an orderly and systematic manner. Then too, final approval will depend on funds being available.

In accordance with the intent of Congress as expressed in the FY 1998 Appropriations Act, recipients of Water and Waste assistance provided by the Rural Utilities Service are encouraged, in expending the assistance, to purchase only American-made equipment and products.

If you desire to proceed with your application, the Rural Development Manager will allot a reasonable portion of his time to provide guidance in application processing.

Sincerely,

*for*   
THOMAS G. FERN  
State Director  
Rural Development

Enclosures

cc: Rural Development Manager - Shelbyville, Kentucky  
Community Development Manager - Winchester, Kentucky  
Gateway ADD - Owingsville, Kentucky  
Bluegrass ADD - Lexington, Kentucky  
Carolyn Kenton - Lexington, Kentucky  
✓PSC - ATTN: Claude Rhorer - Frankfort, Kentucky

**PROMISSORY NOTE**  
(ASSOCIATION OR ORGANIZATION)

State KENTUCKY			
County MONTGOMERY			
Case No. 20-87-611057445			
<b>FINANCE OFFICE USE ONLY</b>			
F	LN	LC	IA

KIND OF LOAN:

- ASSOCIATION- ORGANIZATION
- HOUSING-ORGANIZATION
- PUBLIC BODY
- OTHER

Date June 14, 2000

FOR VALUE RECEIVED, JUDY WATER ASSOCIATION, INC.  
(herein called "Borrower") promises to pay to the order of the United States of America, acting through the Rural Housing Service, Rural Business-Cooperative Service, or Rural Utilities Service within the Rural Development Mission Area, the Farm Service Agency, or their successor Agencies, United States Department of Agriculture, (herein called the "Government") at its office in \_\_\_\_\_

SHELBYVILLE, KENTUCKY, or at such other place as the Government may hereafter designate in

writing, the principal amount of ONE HUNDRED THOUSAND AND NO/100'S dollars

(\$ 100,000.00), plus interest on the unused principal balance at the rate of FIVE AND SEVEN EIGHTH percent

(5 7/8 %) per annum. The said principal and interest shall be paid in the following installments on or before the following dates:

- \$ INTEREST ONLY on JUNE 14, 2001,
- \$ INTEREST ONLY on JUNE 14, 2002,
- \$ \_\_\_\_\_ on \_\_\_\_\_,
- \$ \_\_\_\_\_ on \_\_\_\_\_, and
- \$ 6,633.00 thereafter on the 14th of JUNE of each YEAR

until the principal and interest are fully paid except that the final installment of the entire indebtedness evidenced hereby,

if not sooner paid, shall be due and payable FORTY (40) years from the date of this note, and except that prepayments may be made as provided below. The consideration herefor shall support any agreement modifying the foregoing schedule of payments.

If the total amount of the loan is not advanced at the time of loan closing, the loan shall be advanced to Borrower as requested by Borrower and approved by the Government and interest shall accrue on the amount of each advance from its actual date as shown on the reverse hereof.

Every payment made on any indebtedness evidenced by this note shall be applied first to interest computed to the effective date of the payment and then to principal.

Prepayments of scheduled installments, or any portion thereof, may be made at any time at the option of Borrower. Refunds and extra payments, as defined in the regulations of the Government according to the source of funds involved, shall, after payment of interest, be applied to the installments last to become due under this note and shall not affect the obligation of Borrower to pay the remaining installments as scheduled herein.

If the Government at any time assigns this note and insures the payment thereof, Borrower shall continue to make payments to the Government as collection agent for the holder. No assignment of this note shall be effective unless the Borrower is notified in writing of the name and address of the assignee. The Borrower shall thereupon duly note in its records the occurrence of such assignment, together with the name and address of the assignee.

While this note is held by an insured lender, prepayments as above authorized made by Borrower may, at the option of the Government, be remitted by the Government to the holder promptly or, except for final payment, be retained by the Government and remitted to the holder on either a calendar quarter basis or an annual installment due date basis. The effective date of every payment made by Borrower, except payments retained and remitted by the Government on an annual installment due date basis, shall be the date of the United States Treasury check by which the Government remits the payment to the holder. The effective date of any prepayment retained and remitted by the Government to the holder on an annual installment due date basis shall be the date of the prepayment of Borrower, and the Government will pay the interest to which the holder is entitled accruing between the effective date of any such prepayment and the date of the Treasury check to the holder.

Any amount advanced or expended by the Government for the collection hereof or to preserve or protect any security hereto, or otherwise under the terms of any security or other instrument executed in connection with the loan evidenced hereby, at the option of the Government shall become a part of and bear interest at the same rate as the principal of the debt evidenced hereby and be immediately due and payable by Borrower to the Government without demand. Borrower agrees to use the loan evidenced hereby solely for purposes authorized by the Government.

Borrower hereby certifies that it is unable to obtain sufficient credit elsewhere to finance its actual needs at reasonable rates and terms, taking into consideration prevailing private and cooperative rates and terms in or near its community for loans for similar purposes and periods of time.

If at any time it shall appear to the Government that Borrower may be able to obtain a loan from a responsible cooperative or private credit source at reasonable rates and terms for loans for similar purposes and periods of time, Borrower will, at the Government's request, apply for and accept such loan in sufficient amount to repay the Government.

Default hereunder shall constitute default under any other instrument evidencing a debt or other obligation of Borrower to the Government or securing such a debt or other obligation and default under any such other instrument shall constitute default hereunder. Upon any such default, the Government at its option may declare all or any part of any such indebtedness immediately due and payable.

This note is given as evidence of a loan to Borrower made or insured by the Government pursuant to the Consolidated Farm and Rural Development Act if the box opposite "Association" is checked under the heading "KIND OF LOAN," or pursuant to Title V of the Housing Act of 1949 if the box opposite "HOUSING-ORGANIZATION" is checked. This note shall be subject to the present regulations of the Government and to its future regulations not inconsistent with the express provisions hereof.

Presentment, protest, and notice are hereby waived.

JUDY WATER ASSOCIATION, INC.

(Name of Borrower)

(CORPORATE SEAL)

Larry N. Arnett  
 (Signature of Executive Official)

President

(Title of Executive Official)

ATTEST:

Larry Lee  
 (Signature of Attesting Official)  
 Secretary/Treasurer  
 (Title of Attesting Official)

P. O. Box 781

(Post Office Box No. or Street Address)

Mt. Sterling, KY 40353

(City, State, and Zip Code)

RECORD OF ADVANCES

AMOUNT	DATE	AMOUNT	DATE
(1) \$		(6) \$	
(2) \$		(7) \$	
(3) \$		(8) \$	
(3) \$		(9) \$	
(5) \$		(10) \$	
TOTAL			

PAY TO THE ORDER OF \_\_\_\_\_

UNITED STATES OF AMERICA

(Name of Agency)

BY \_\_\_\_\_

**PROMISSORY NOTE**  
(ASSOCIATION OR ORGANIZATION)

State KENTUCKY			
County MONTGOMERY			
Case No. 20-87-611057445			
FINANCE OFFICE USE ONLY			
F 91	LN 05	LC	IA

- KIND OF LOAN:  
 ASSOCIATION- ORGANIZATION  
 HOUSING-ORGANIZATION  
 PUBLIC BODY  
 OTHER

Date June 14, 2000

FOR VALUE RECEIVED, JUDY WATER ASSOCIATION, INC.  
(herein called "Borrower") promises to pay to the order of the United States of America, acting through the Rural Housing Service, Rural Business-Cooperative Service, or Rural Utilities Service within the Rural Development Mission Area, the Farm-Service Agency, or their successor Agencies, United States Department of Agriculture, (herein called the "Government") at its office in \_\_\_\_\_

SHELBYVILLE, KENTUCKY, or at such other place as the Government may hereafter designate in writing, the principal amount of ONE MILLION TWO HUNDRED THIRTY SEVEN THOUSAND AND NO/100'S dollars (\$ 1,237,000.00 ), plus interest on the unused principal balance at the rate of FIVE percent (5 %) per annum. The said principal and interest shall be paid in the following installments on or before the following dates:

- \$ INTEREST ONLY on JUNE 14, 2001,
- \$ INTEREST ONLY on JUNE 14, 2002,
- \$ \_\_\_\_\_ on \_\_\_\_\_,
- \$ \_\_\_\_\_ on \_\_\_\_\_, and
- \$ 73,342.00 thereafter on the FOURTEENTH of JUNE of each YEAR

until the principal and interest are fully paid except that the final installment of the entire indebtedness evidenced hereby,

if not sooner paid, shall be due and payable FORTY (40) years from the date of this note, and except that prepayments may be made as provided below. The consideration herefor shall support any agreement modifying the foregoing schedule of payments.

If the total amount of the loan is not advanced at the time of loan closing, the loan shall be advanced to Borrower as requested by Borrower and approved by the Government and interest shall accrue on the amount of each advance from its actual date as shown on the reverse hereof.

Every payment made on any indebtedness evidenced by this note shall be applied first to interest computed to the effective date of the payment and then to principal.

Prepayments of scheduled installments, or any portion thereof, may be made at any time at the option of Borrower. Refunds and extra payments, as defined in the regulations of the Government according to the source of funds involved, shall, after payment of interest, be applied to the installments last to become due under this note and shall not affect the obligation of Borrower to pay the remaining installments as scheduled herein.

If the Government at any time assigns this note and insures the payment thereof, Borrower shall continue to make payments to the Government as collection agent for the holder. No assignment of this note shall be effective unless the Borrower is notified in writing of the name and address of the assignee. The Borrower shall thereupon duly note in its records the occurrence of such assignment, together with the name and address of the assignee.

While this note is held by an insured lender, prepayments as above authorized made by Borrower may, at the option of the Government, be remitted by the Government to the holder promptly or, except for final payment, be retained by the Government and remitted to the holder on either a calendar quarter basis or an annual installment due date basis. The effective date of every payment made by Borrower, except payments retained and remitted by the Government on an annual installment due date basis, shall be the date of the United States Treasury check by which the Government remits the payment to the holder. The effective date of any prepayment retained and remitted by the Government to the holder on an annual installment due date basis shall be the date of the prepayment of Borrower, and the Government will pay the interest to which the holder is entitled accruing between the effective date of any such prepayment and the date of the Treasury check to the holder.

Any amount advanced or expended by the Government for the collection hereof or to preserve or protect any security hereto, or otherwise under the terms of any security or other instrument executed in connection with the loan evidenced hereby, at the option of the Government shall become a part of and bear interest at the same rate as the principal of the debt evidenced hereby and be immediately due and payable by Borrower to the Government without demand. Borrower agrees to use the loan evidenced hereby solely for purposes authorized by the Government.

Borrower hereby certifies that it is unable to obtain sufficient credit elsewhere to finance its actual needs at reasonable rates and terms, taking into consideration prevailing private and cooperative rates and terms in or near its community for loans for similar purposes and periods of time.

If at any time it shall appear to the Government that Borrower may be able to obtain a loan from a responsible cooperative or private credit source at reasonable rates and terms for loans for similar purposes and periods of time, Borrower will, at the Government's request, apply for and accept such loan in sufficient amount to repay the Government.

Default hereunder shall constitute default under any other instrument evidencing a debt or other obligation of Borrower to the Government or securing such a debt or other obligation and default under any such other instrument shall constitute default hereunder. Upon any such default, the Government at its option may declare all or any part of any such indebtedness immediately due and payable.

This note is given as evidence of a loan to Borrower made or insured by the Government pursuant to the Consolidated Farm and Rural Development Act if the box opposite "Association" is checked under the heading "KIND OF LOAN," or pursuant to Title V of the Housing Act of 1949 if the box opposite "HOUSING-ORGANIZATION" is checked. This note shall be subject to the present regulations of the Government and to its future regulations not inconsistent with the express provisions hereof.

Presentment, protest, and notice are hereby waived.

JUDY WATER ASSOCIATION, INC.

(Name of Borrower)

  
 Larry N. Arnett (Signature of Executive Official)

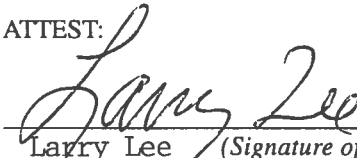
President (Title of Executive Official)

P. O. Box 781 (Post Office Box No. or Street Address)

Mt. Sterling, KY 40353 (City, State, and Zip Code)

(CORPORATE SEAL)

ATTEST:

  
 Larry Lee (Signature of Attesting Official)  
 Secretary/Treasurer (Title of Attesting Official)

RECORD OF ADVANCES

AMOUNT	DATE	AMOUNT	DATE
(1) \$		(6) \$	
(2) \$		(7) \$	
(3) \$		(8) \$	
(3) \$		(9) \$	
(5) \$		(10) \$	
		TOTAL	

PAY TO THE ORDER OF \_\_\_\_\_

UNITED STATES OF AMERICA

(Name of Agency)

BY \_\_\_\_\_



5/43

Position 5

USDA-FmHA  
FORM FmHA 427-1KY  
(Rev. 6-91)

00 JUN 14 PM 2:59

**REAL ESTATE MORTGAGE FOR KENTUCKY**

THIS MORTGAGE is made and entered into by JUDY WATER ASSOCIATION, INC. residing in MONTGOMERY County, Kentucky, whose post office address is P. O. Box 781. Mt. Sterling, Kentucky 40353, herein called "Borrower," and:

WHEREAS Borrower is indebted to the United States of America, acting through the Farmers Home Administration, United States Department of Agriculture, herein call the "Government," as evidenced by one or more promissory note(s) or assumption agreement(s) or any shared appreciation or recapture agreement, herein call "note," which has been executed by Borrower, is payable to the order of the Government. authorizes acceleration of the entire indebtedness at the option of the Government upon any default by Borrower. and is described as follows:

<u>Date of Instrument</u>	<u>Principal Amount</u>	<u>Annual Rate of Interest</u>	<u>Due Date of Final Installment</u>
October 19, 1990	\$ 647,000.00	5.00%	October 19, 2030
July 25, 1995	\$ 198,000.00	4.50%	July 25, 2035
June 14, 2000	\$1,237,000.00	5.00%	June 14, 2040
June 14, 2000	\$ 100,000.00	5.875%	June 14, 2040

(The interest rate for limited resource farm ownership or limited resource operating loan(s) secured by this instrument may be increased as provided in the Farmers Home Administration regulations and the note.)

And the note evidences a loan to Borrower, and the Government, at any time, may assign the note and insure the payment thereof pursuant to the Consolidated Farm and Rural Development Act, Title V of the Housing Act of 1949 or any other statute administered by the Farmers Home Administration.

And it is the purpose and intention of this instrument that among other things, at all times when the note is held by the Government, or in the event the Government should assign this instrument without insurance of the note, this instrument shall secure payment of the note; but when the note is held by an insured holder this instrument shall not secure payment of the note or attach to the debt evidenced thereby, but as to the note and such debt shall constitute an indemnity mortgage to secure the Government against loss under its insurance contract by reason of any default by Borrower.

And this instrument also secures the recapture of any interest credit or subsidy which may be granted to the Borrower by the Government pursuant to 42 U.S. C. 1490 a, or any amounts due under any Shared Appreciation Agreement/Recapture Agreement entered into pursuant to 7 U.S.C. 2001.

NOW, THEREFORE, in consideration of the loan(s) and (a) at all times when the note is held by the Government, or in the event the Government should assign this instrument without insurance of the payment of the note, to secure prompt payment of the note and any renewals and extensions thereof and any agreements contained therein, including any provision for the payment of an insurance or other charge. (b) at all times when the note is held by an insured holder, to secure performance of Borrower's agreement herein to indemnify and save harmless the Government against loss under its insurance contract by reason of any default by Borrower. and (c) in any event and at all times to secure the prompt payment of all advances and expenditures made by the Government, with interest, as hereinafter described, and the performance of every covenant and agreement of Borrower contained herein or in any supplementary agreement, Borrower does hereby sell, convey, and assign, and with general warranty, unto the Government the following property situated in the State of Kentucky, County(ies) of BOURBON:

WATER TOWER SITE - C

A certain tract or parcel of land lying and being on

the northerly side of Stone Road, approximately 1000 feet easterly of North Middletown-Cane Ridge Road/College Road in Bourbon County, Kentucky. A plat of which is hereby incorporated by reference as recorded in ~~plat cabinet~~ Deed Book 236, Page 344 in the Bourbon county Court Clerk's Office, and more fully described and bounded as follows to wit.

The iron pins referred to herein are 18 inch #5 rebar with a yellow plastic cap stamped "PLS 3263" that were set on 17 March 1999. All bearings are based on the initial call of Tract 2, Deed Book 204, Page 46.

Beginning at a point, an iron pin located by the following two calls from the intersection of the centerline of Stone Road and North Middletown-Cane Ridge Road/College Road: S 83-50 E 986.63 feet along Stone Road; thence N 07-07-36 E 146.15 feet. Said point of beginning is in the lands of William W. Rogers; thence, from the point of beginning with a new made division line in the Rogers property, N 03-05-16 W 100.00 feet to an iron pin, corner to Rogers; thence S 86-54-44 W 100.00 feet to an iron pin, corner to Rogers; thence S 03-05-16 E 100.00 feet to an iron pin, corner to Rogers; thence N 86-54-44 E 100.00 feet to the point of beginning containing 0.23 acres.

The above described parcel of land, which is in accordance with a survey made by Shannon L. Pickett, L.S. #3263 or Commonwealth Technology, Inc. on 17 March 1999, is a part of Tract 2, a 130.573 acre tract, conveyed to William W. Rogers from Otis C. and Irene Hume, and Janet F. Hume on 22 December 1988, and of record in Deed Book 204, Page 46 of the Bourbon County Court Clerk's Office. The said William W. Rogers having died testate on July 28, 1998. The Will having been probated on August 13, 1998, of record in Will Book QQ, Page 380 in the Bourbon County Court Clerk's Office.

The deed of conveyance to Judy Water Association being executed the 4<sup>th</sup> day of May, 1999 and recorded in Deed Book 236, Page 340 of the Bourbon County Clerk, Paris, Kentucky.

#### PUMP STATION SITE

A certain tract or parcel of land lying and being on the easterly side of College Street, approximately 0.2 mile north of Highway 460 in North Middletown, Bourbon County, Kentucky. A plat of which is hereby incorporated by reference as recorded in ~~plat cabinet~~ Deed Book 237, Page 167 in the Bourbon county Court Clerk's office, and more fully described and bounded as follows to wit. OK

The iron pins referred to herein are 18 inch #5 rebar set on 16 April 1999. All bearings are based on the state plane coordinates observed with global positioning system equipment.

Beginning at a point, an iron pin S 61-23-24 E 37.82 feet from a PK nail in the center of College Street and corner to North Middletown School District (DB 105 pg 555) and Kenny Hubert and Susan Rose Devasher (DB 210 pg 579). Said point of beginning is in the lands of North Middletown School District; thence, from the point of beginning with a new made division line in the North Middletown School District property, S 83-19-05 E 30.00 feet to an iron pin, corner to North Middletown School District; thence S 06-40-55 W 30.00 feet to an iron pin, corner to North Middletown School District; thence N 83-19-05 W 30.00 feet to an iron pin, corner to North Middletown School District; thence N 06-40-55 to North Middletown School District; then N 06-40-55 to North Middletown School District; containing 900 square feet.

The deed of conveyance to Judy Water Association being executed the 30<sup>th</sup> day of July 1999 and recorded in Deed Book 237, Page 157 in the Bourbon County Clerk's Office, Paris, Kentucky.

being the same (or part of the same) land conveyed together with all rights to mining products, gravel, oil, gas, coal or other minerals), interests, easements, hereditaments and appurtenances therunto belonging, the rents, issues and profits thereof and revenues and income therefrom, all improvements and personal property not or later attached thereto or reasonably necessary to the use thereof, including, but not limited to, ranges, refrigerators, clothes washers, clothes dryers, or carpeting purchased or financed in whole or in part with loan funds, all water, water rights, and water stock pertaining thereto, and all payments at any time owing to Borrower by virtue of any sale, lease, transfer, conveyance, or condemnation of any part thereof or interest there-in-all of which are herein call "the property"; All rents, profits and income from the property covered by this mortgage are hereby assigned to the mortgagee for the purpose of discharging the debt hereby secured. Permission is hereby given to the mortgagor, so long as no default exists hereunder, to collect such rents, profits and income for use in accordance with Farmers Home Administration regulations.

TO HAVE AND TO HOLD the property unto the Government and its assigns forever in fee simple BORROWER for Borrower's self, Borrower's heirs, executors, administrators, successors and assigns WARRANTS THE TITLE to the property to the Government against all lawful claims and demands whatsoever except any liens, encumbrances, easements, reservations, or conveyances specified hereinabove, and COVENANTS AND AGREES as follows:

(1) To pay promptly when due any indebtedness to the Government hereby secured and to indemnify and save harmless the Government against any loss under its insurance of payment of the note by reason of any

default by Borrower. At all times when the note is held by an insured holder, Borrower shall continue to make payments on the note to the Government, as collection agent for the holder.

(2) To pay to the Government such fees and other charges as may now or hereafter be required by regulations of the Farmers Home Administration.

(3) If Required by the Government, to make additional monthly payments of 1/12 of the estimated annual taxed, assessments, insurance premiums and other charges upon the mortgaged premises.

(4) Whether or not the note is insured by the Government, the Government may at any time pay any other amounts required herein to be paid by Borrower and not paid by Borrower when due, as well as any costs and expenses for the preservation, protection, or enforcement of this lien, as advances for the account of Borrower. All such advances shall bear interest at the rate borne by the note which has the highest interest rate.

(5) All advances by the Government as described in this instrument, with interest, shall be immediately due and payable by Borrower to the Government without demand at the place designated in the latest note and shall be secured hereby. No such advance by the Government shall relieve Borrower from breach of Borrower's covenant to pay. Any payment made by Borrower may be applied on the note or any indebtedness to the Government secured hereby, in any order the Government determines.

(6) To use the loan evidence by the note solely for purposes authorized by the Government.

(7) To pay when due all taxes, liens, judgments encumbrances, and assessments lawfully attaching to or assessed against the property, including all charges and assessments in connection with water, water rights and water stock pertaining to or reasonably necessary to the use of the real property described above, and promptly deliver to the Government without demand receipts evidencing such payments.

(8) To keep the property insured as required by and under insurance policies approved by the Government and at its request, to deliver such policies to the Government.

(9) To maintain improvements in good repair and make repairs required by the Government; operate the property in a good and husbandmanlike manner; comply with such farm conservation practices and farm and home management plans as the Government from time to time may prescribe, and not to abandon the property, or cause or permit waste, lessening or impairment of the security covered hereby, or without the written consent of the Government, cut, remove, or lease any timber, gravel, oil, gas, coal, or other minerals except as may be necessary for ordinary domestic purposes.

(10) To comply with all laws, ordinances and regulations affecting the property.

(11) To pay or reimburse the Government for expenses reasonably necessary or incidental to the protection of the lien and priority hereof and to the enforcement of or the compliance with the provisions hereof and of the note and any supplementary agreement (whether before or after default), including but not limited to costs of evidence of title to and survey of the property, costs of recording this and other instruments attorney's fees, trustees' fees, court costs, and expenses of advertising, selling, and conveying the property. Upon termination of this mortgage, after payment in full, the mortgagee at the mortgagor's expense, shall execute and file or record such instruments of release, satisfaction and termination in proper form pursuant to the requirements contained in KRS 382.365.

(12) Except as otherwise provided by the Farmers Home administration regulations, neither the property nor any portion thereof or interest therein shall be leased, assigned, sold, transferred, or encumbered voluntarily or otherwise, without the written consent of the Government. The Government shall have the sole and exclusive rights as mortgagee hereunder, including but not limited to the power to grant consents, partial releases, subordinations, and satisfaction, and no insured holder shall have any right, title or interest in or to the lien or any benefits hereof.

(13) At all reasonable times the Government and its agents may inspect the property to ascertain whether the covenants and agreements contained herein or in any supplementary agreement are being performed.

(14) The Government may (a) adjust the interest rate, payment, terms or balance due on the loan, (b) increase the mortgage by an amount equal to deferred interest on the outstanding principal balance, (c) extend or defer the maturity of and renew and reschedule the payments on, the debt evidenced by the note or any indebtedness to the Government secured by this instrument, (d) release any party who is liable under the note or for the debt from liability to the Government, (e) release portions of the property and subordinate its lien and (f) waive any other of its rights under this instrument. Any and all this can and will be done without affecting the lien or the priority of this instrument or Borrower's or any other party's liability to the Government for payment of the note or debt secured by this instrument unless the Government says otherwise in writing. HOWEVER, any forbearance by

the Government— whether once or often — in exercising any right or remedy under this instrument, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any such right or remedy.

(15) If at any time it shall appear to the Government that Borrower may be able to obtain a loan from a production credit association, a Federal land bank, or other responsible cooperative or private credit source, at reasonable rates and terms for loans for similar purposes and periods of time, Borrower will, upon the Government's request, apply for and accept such loan in sufficient amount to pay the note and any indebtedness secured hereby and to pay for any stock necessary to be purchased in a cooperative lending agency in connection with such loan.

(16) Default hereunder shall constitute default under any other real estate, or under any personal property, or other security instrument held or insured by the Government and executed or assumed by Borrower, and default under any such other security instrument shall constitute default hereunder.

(17) SHOULD DEFAULT occur in the performance or discharge of any obligation in this instrument or secured by this instrument, or should any one of the parties named as Borrower die or be declared an incompetent, or should any one of the parties named as Borrower be discharged in bankruptcy or declared an insolvent, or make an assignment for the benefit of creditors, the Government, at its option, with or without notice, may" (a) declare the entire amount unpaid under the note and any indebtedness to the Government hereby secured immediately due and payable, (b) for the account of Borrower incur and pay reasonable expenses for repair or maintenance of and take possession of, operate or rent the property, (c) upon application by it and production of this instrument, without other evidence and without notice of hearing of said application, have a receiver appointed for the property, with the usual powers of receivers in like cases, (d) foreclose this instrument as provided herein or by law, and (e) enforce any and all other rights and remedies provided herein or by present or future laws.

(18) The proceeds of foreclosure sale shall be applied in the following order to the payment of: (a) costs and expenses incident to enforcing or complying with the provisions hereof, (b) any prior liens required by law or a competent court to be so paid, (c) the debt evidenced by the note and all indebtedness to the Government secured hereby, (d) inferior liens of record required by law or a competent court to be so paid, (e) at the Government's option, any other indebtedness of Borrower owing to or insured by the Government, and (f) any balance to Borrower. At foreclosure or other sale of all or any part of the property, the Government and its agents may bid and purchase as a stranger and may pay the Government's share of the purchase price by crediting such amount on any debts of Borrower owing to or insured by the Government, in the order prescribe above.

(19) Borrower agrees that the Government will not be bound by any present or future State laws, (a) providing for valuation, appraisal, homestead or exemption of the property, (b) prohibiting maintenance of an action for a deficiency judgment or limiting the amount thereof or the time within which such action may be brought, (c) prescribing any other statute or limitations, (d) allowing any right of redemption or possession following any foreclosure sale, or (e) limiting the conditions which the Government may by regulation impose, including the interest rate it may charge, as a condition of approving a transfer of the property to a new Borrower. Borrower expressly waives the benefit of any such State law. Borrower hereby relinquishes, waives, and conveys all rights, inchoate or consummate, of descent, dower, and curtesy.

(20) If any part of the loan for which this instrument is given shall be used to finance the purchase, construction or repair of property to be used as an owner-occupied dwelling (herein call "the dwelling") and if Borrower intends to sell or rent the dwelling and has obtained the Government's consent to do so (a) neither Borrower nor anyone authorized to act for Borrower will, after receipt of a bonafide offer, refuse to negotiate for the sale or rental of the dwelling or will otherwise make unavailable or deny the dwelling to anyone because of race, color, religion, sex, handicap, familial status, age or national origin, and (b) Borrower recognizes as illegal and hereby disclaims and will not comply with or attempt to enforce any restrictive covenants on the dwelling relating to race, color, religion, sex, handicap, familial status, age or national origin.

(21) Borrower further agrees that the loan(s) secured by this instrument will be in default should any loan proceeds be used for a purpose that will contribute to excessive erosion of highly erodible land or to the conversion of wetlands to produce an agricultural commodity, as further explained in 7 DFR Part 1940, Subpart G, Exhibit M.

(22) This instrument shall be subject to the present regulations of the Farmers Home Administration, and to its future regulations not inconsistent with the express provisions hereof.

(23) Notices given hereunder shall be sent by certified mail, unless otherwise required by law, addressed, unless and until some other address is designated in a notice so given in the case of Borrower at the address shown in the Farmers Home Administration Finance Office records (which normally will be the same as

the post office address shown above).

(24) If any provision of this instrument or application thereof to any person or circumstances is held invalid, such invalidity will not affect other provisions or applications of the instrument which can be given effect without the invalid provision or application, and to that end the provisions hereof are declared to be severable.

(25) Whenever "Farmers Home Administration," "FmHA," "Rural Development Administration," or "RDA" may appear, the term "United States of America, acting through the U.S. Department of Agriculture" is substituted.

Given under the hand(s) and seal(s) of Borrower this the 14 day of June, 2000.

JUDY WATER ASSOCIATION, INC.

(SEAL)

BY: [Signature]  
Larry D. Arnett, President

(SEAL)

BY: [Signature]  
Larry Lee, Secretary

STATE OF KENTUCKY  
COUNTY OF FAYETTE

Before me, Carolyn L. Kenton, a Notary Public in and for the County of Fayette personally appeared Larry N. Arnett, President of Judy Water Association, Inc. who acknowledged that he executed the foregoing instrument on the 14 day of June, 2000, as his free act and deed.

WITNESS my hand and official seal this the 14 day of June, 2000.

(SEAL)

[Signature]  
Notary Public, State at Large  
My commission Expires: 08-10-2002

PREPARER'S STATEMENT

The form of this instrument was drafted by the Office of the General counsel of the United States Department of Agriculture, and the substantive material was inserted by or under the direction of CAROLYN L. KENTON, 109 NORTH MILL STREET, LEXINGTON, KENTUCKY 40507

State of Kentucky, County of Bourbon, Sct.  
I, RICHARD STIPP EADS, Clerk of Bourbon  
County Court, do certify that the foregoing

Mortgage  
was, on the 14 day of June, 2000  
at 2:59 P.M., lodged in my office for record,  
and that it has been duly recorded in my said  
office, together with this and the certificate  
thereon endorsed. Given under my hand.

[Signature]  
Richard Stipp Eads, BCC

[Signature]  
Signature

221-215  
6-14-00  
5/43

Position 5

USDA-FmHA  
FORM FmHA 427-1KY  
(Rev. 6-91)

**REAL ESTATE MORTGAGE FOR KENTUCKY**

THIS MORTGAGE is made and entered into by JUDY WATER ASSOCIATION, INC. residing in MONTGOMERY County, Kentucky, whose post office address is P. O. Box 781, Mt. Sterling, Kentucky 40353, herein called "Borrower," and:

WHEREAS Borrower is indebted to the United States of America, acting through the Farmers Home Administration, United States Department of Agriculture, herein call the "Government," as evidenced by one or more promissory note(s) or assumption agreement(s) or any shared appreciation or recapture agreement, herein call "note," which has been executed by Borrower, is payable to the order of the Government, authorizes acceleration of the entire indebtedness at the option of the Government upon any default by Borrower, and is described as follows:

<u>Date of Instrument</u>	<u>Principal Amount</u>	<u>Annual Rate of Interest</u>	<u>Due Date of Final Installment</u>
October 19, 1990	\$ 647,000.00	5.00%	October 19, 2030
July 25, 1995	\$ 198,000.00	4.50%	July 25, 2035
June 14, 2000	\$1,237,000.00	5.00%	June 14, 2040
June 14, 2000	\$ 100,000.00	5.875%	June 14, 2040

(The interest rate for limited resource farm ownership or limited resource operating loan(s) secured by this instrument may be increased as provided in the Farmers Home Administration regulations and the note.)

And the note evidences a loan to Borrower, and the Government, at any time, may assign the note and insure the payment thereof pursuant to the Consolidated Farm and Rural Development Act, Title V of the Housing Act of 1949 or any other statute administered by the Farmers Home Administration.

And it is the purpose and intention of this instrument that among other things, at all times when the note is held by the Government, or in the event the Government should assign this instrument without insurance of the note, this instrument shall secure payment of the note; but when the note is held by an insured holder this instrument shall not secure payment of the note or attach to the debt evidenced thereby, but as to the note and such debt shall constitute an indemnity mortgage to secure the Government against loss under its insurance contract by reason of any default by Borrower.

And this instrument also secures the recapture of any interest credit or subsidy which may be granted to the Borrower by the Government pursuant to 42 U.S. C. 1490 a, or any amounts due under any Shared Appreciation Agreement/Recapture Agreement entered into pursuant to 7 U.S.C. 2001.

NOW, THEREFORE, in consideration of the loan(s) and (a) at all times when the note is held by the Government, or in the event the Government should assign this instrument without insurance of the payment of the note, to secure prompt payment of the note and any renewals and extensions thereof and any agreements contained therein, including any provision for the payment of an insurance or other charge, (b) at all times when the note is held by an insured holder, to secure performance of Borrower's agreement herein to indemnify and save harmless the Government against loss under its insurance contract by reason of any default by Borrower, and (c) in any event and at all times to secure the prompt payment of all advances and expenditures made by the Government, with interest, as hereinafter described, and the performance of every covenant and agreement of Borrower contained herein or in any supplementary agreement, Borrower does hereby sell, convey, and assign, and with general warranty, unto the Government the following property situated in the State of Kentucky, County(ies) of BOURBON:

WATER TOWER SITE - C

A certain tract or parcel of land lying and being on

Return to preparer

18.00

the northerly side of Stone Road, approximately 1000 feet easterly of North Middletown-Cane Ridge Road/College Road in Bourbon County, Kentucky. A plat of which is hereby incorporated by reference as recorded in ~~plat cabinet~~ Deed Book 236, Page 344 in the Bourbon county Court Clerk's Office, and more fully described and bounded as follows to wit.

The iron pins referred to herein are 18 inch #5 rebar with a yellow plastic cap stamped "PLS 3263" that were set on 17 March 1999. All bearings are based on the initial call of Tract 2, Deed Book 204, Page 46.

Beginning at a point, an iron pin located by the following two calls from the intersection of the centerline of Stone Road and North Middletown-Cane Ridge Road/College Road: S 83-50 E 986.63 feet along Stone Road; thence N 07-07-36 E 146.15 feet. Said point of beginning is in the lands of William W. Rogers; thence, from the point of beginning with a new made division line in the Rogers property, N 03-05-16 W 100.00 feet to an iron pin, corner to Rogers; thence S 86-54-44 W 100.00 feet to an iron pin, corner to Rogers; thence S 03-05-16 E 100.00 feet to an iron pin, corner to Rogers; thence N 86-54-44 E 100.00 feet to the point of beginning containing 0.23 acres.

The above described parcel of land, which is in accordance with a survey made by Shannon L. Pickett, L.S. #3263 or Commonwealth Technology, Inc. on 17 March 1999, is a part of Tract 2, a 130.573 acre tract, conveyed to William W. Rogers from Otis C. and Irene Hume, and Janet F. Hume on 22 December 1988, and of record in Deed Book 204, Page 46 of the Bourbon County Court Clerk's Office. The said William W. Rogers having died testate on July 28, 1998. The Will having been probated on August 13, 1998, of record in Will Book QQ, Page 380 in the Bourbon County Court Clerk's Office.

The deed of conveyance to Judy Water Association being executed the 4<sup>th</sup> day of May, 1999 and recorded in Deed Book 236, Page 340 of the Bourbon County Clerk, Paris, Kentucky.

#### PUMP STATION SITE

A certain tract or parcel of land lying and being on the easterly side of College Street, approximately 0.2 mile north of Highway 460 in North Middletown, Bourbon County, Kentucky. A plat of which is hereby incorporated by reference as recorded in ~~plat cabinet~~ Deed Book 237, Page 161 in the Bourbon county Court Clerk's office, and more fully described and bounded as follows to wit. CK



The iron pins referred to herein are 18 inch #5 rebar with a yellow plastic cap stamped "PLS 3263" that were set on 16 April 1999. All bearings are based on the state plane coordinates observed with global positioning system equipment.

Beginning at a point, an iron pin S 61-23-24 E 37.82 feet from a PK nail in the center of College Street and corner to North Middletown School District (DB 105 pg 555) and Kenny Hubert and Susan Rose Devasher (DB 210 pg 579). Said point of beginning is in the lands of North Middletown School District; thence, from the point of beginning with a new made division line in the North Middletown School District property, S 83-19-05 E 30.00 feet to an iron pin, corner to North Middletown School District; thence S 06-40-55 W 30.00 feet to an iron pin, corner to North Middletown School District; thence N 83-19-05 W 30.00 feet to an iron pin, corner to North Middletown School District; thence N 06-40-55 E 30.00 feet to the point of beginning, containing 900 square feet.

The above described parcel of land, which is in accordance with a survey made by Shannon L. Pickett, L.S. #3263 or Commonwealth Technology, Inc. on 16 April 1999, is a part of the same property conveyed to The Board of Education of Bourbon county, Kentucky by the County of Bourbon, Kentucky on October 12, 1989 and of record in Deed Book 205, Page 679 of the Bourbon County Court Clerk's Office.

The deed of conveyance to Judy Water Association being executed the 30<sup>th</sup> day of July 1999 and recorded in Deed Book 237, Page 157 in the Bourbon County Clerk's Office, Paris, Kentucky.

being the same(or part of the same) land conveyed together with all rights to mining products. gravel. oil. gas. coal or other minerals), interests, easements, hereditaments and appurtenances thereunto belonging. the rents. issues and profits thereof and revenues and income therefrom. all improvements and personal property not or later attached thereto or reasonably necessary to the use thereof. including. but not limited to. ranges. refrigerators. clothes washers, clothes dryers. or carpeting purchased or financed in whole or in part with loan funds. all water. water rights, and water stock pertaining thereto. and all payments at any time owing to Borrower by virtue of any sale, lease, transfer, conveyance, or condemnation of any part thereof or interest there-in-all of which are herein call "the property": All rents, profits and income from the property covered by this mortgagee are hereby assigned to the mortgagee for the purpose of discharging the debt hereby secured. Permission is hereby given to the mortgagor, so long as no default exists hereunder. to collect such rents. profits and income for use in accordance with Farmers Home Administration regulations .

TO HAVE AND TO HOLD the property unto the Government and its assigns forever in fee simple.

BORROWER for Borrower's self, Borrower's heirs, executors, administrators, successors and assigns WARRANTS THE TITLE to the property to the Government against all lawful claims and demands whatsoever except any liens, encumbrances, easements, reservations, or conveyances specified hereinabove. and COVENANTS AND AGREES as follows:

(1) To pay promptly when due any indebtedness to the Government hereby secured and to indemnify and save harmless the Government against any loss under its insurance of payment of the note by reason of any

default by Borrower. At all times when the note is held by an insured holder, Borrower shall continue to make payments on the note to the Government, as collection agent for the holder.

(2) To pay to the Government such fees and other charges as may now or hereafter be required by regulations of the Farmers Home Administration.

(3) If Required by the Government, to make additional monthly payments of 1/12 of the estimated annual taxed, assessments, insurance premiums and other charges upon the mortgaged premises.

(4) Whether or not the note is insured by the Government, the Government may at any time pay any other amounts required herein to be paid by Borrower and not paid by Borrower when due, as well as any costs and expenses for the preservation, protection, or enforcement of this lien, as advances for the account of Borrower. All such advances shall bear interest at the rate borne by the note which has the highest interest rate.

(5) All advances by the Government as described in this instrument, with interest, shall be immediately due and payable by Borrower to the Government without demand at the place designated in the latest note and shall be secured hereby. No such advance by the Government shall relieve Borrower from breach of Borrower's covenant to pay. Any payment made by Borrower may be applied on the note or any indebtedness to the Government secured hereby, in any order the Government determines.

(6) To use the loan evidence by the note solely for purposes authorized by the Government.

(7) To pay when due all taxes, liens, judgments encumbrances, and assessments lawfully attaching to or assessed against the property, including all charges and assessments in connection with water, water rights and water stock pertaining to or reasonably necessary to the use of the real property described above, and promptly deliver to the Government without demand receipts evidencing such payments.

(8) To keep the property insured as required by and under insurance policies approved by the Government and at its request, to deliver such policies to the Government.

(9) To maintain improvements in good repair and make repairs required by the Government; operate the property in a good and husbandmanlike manner; comply with such farm conservation practices and farm and home management plans as the Government from time to time may prescribe, and not to abandon the property, or cause or permit waste, lessening or impairment of the security covered hereby, or without the written consent of the Government, cut, remove, or lease any timber, gravel, oil, gas, coal, or other minerals except as may be necessary for ordinary domestic purposes.

(10) To comply with all laws, ordinances and regulations affecting the property.

(11) To pay or reimburse the Government for expenses reasonably necessary or incidental to the protection of the lien and priority hereof and to the enforcement of or the compliance with the provisions hereof and of the note and any supplementary agreement (whether before or after default), including but not limited to costs of evidence of title to and survey of the property, costs of recording this and other instruments attorney's fees, trustees' fees, court costs, and expenses of advertising, selling, and conveying the property. Upon termination of this mortgage, after payment in full, the mortgagee at the mortgagor's expense, shall execute and file or record such instruments of release, satisfaction and termination in proper form pursuant to the requirements contained in KRS 382.365.

(12) Except as otherwise provided by the Farmers Home administration regulations, neither the property nor any portion thereof or interest therein shall be leased, assigned, sold, transferred, or encumbered voluntarily or otherwise, without the written consent of the Government. The Government shall have the sole and exclusive rights as mortgagee hereunder, including but not limited to the power to grant consents, partial releases, subordinations, and satisfaction, and no insured holder shall have any right, title or interest in or to the lien or any benefits hereof.

(13) At all reasonable times the Government and its agents may inspect the property to ascertain whether the covenants and agreements contained herein or in any supplementary agreement are being performed.

(14) The Government may (a) adjust the interest rate, payment, terms or balance due on the loan, (b) increase the mortgage by an amount equal to deferred interest on the outstanding principal balance, (c) extend or defer the maturity of and renew and reschedule the payments on, the debt evidenced by the note or any indebtedness to the Government secured by this instrument, (d) release any party who is liable under the note or for the debt from liability to the Government, (e) release portions of the property and subordinate its lien and (f) waive any other of its rights under this instrument. Any and all this can and will be done without affecting the lien or the priority of this instrument or Borrower's or any other party's liability to the Government for payment of the note or debt secured by this instrument unless the Government says otherwise in writing. HOWEVER, any forbearance by

the Government— whether once or often — in exercising any right or remedy under this instrument, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any such right or remedy.

(15) If at any time it shall appear to the Government that Borrower may be able to obtain a loan from a production credit association, a Federal land bank, or other responsible cooperative or private credit source, at reasonable rates and terms for loans for similar purposes and periods of time, Borrower will, upon the Government's request, apply for and accept such loan in sufficient amount to pay the note and any indebtedness secured hereby and to pay for any stock necessary to be purchased in a cooperative lending agency in connection with such loan.

(16) Default hereunder shall constitute default under any other real estate, or under any personal property, or other security instrument held or insured by the Government and executed or assumed by Borrower, and default under any such other security instrument shall constitute default hereunder.

(17) SHOULD DEFAULT occur in the performance or discharge of any obligation in this instrument or secured by this instrument, or should any one of the parties named as Borrower die or be declared an incompetent, or should any one of the parties named as Borrower be discharged in bankruptcy or declared an insolvent, or make an assignment for the benefit of creditors, the Government, at its option, with or without notice, may" (a) declare the entire amount unpaid under the note and any indebtedness to the Government hereby secured immediately due and payable, (b) for the account of Borrower incur and pay reasonable expenses for repair or maintenance of and take possession of, operate or rent the property, (c) upon application by it and production of this instrument, without other evidence and without notice of hearing of said application, have a receiver appointed for the property, with the usual powers of receivers in like cases, (d) foreclose this instrument as provided herein or by law, and (e) enforce any and all other rights and remedies provided herein or by present or future laws.

(18) The proceeds of foreclosure sale shall be applied in the following order to the payment of: (a) costs and expenses incident to enforcing or complying with the provisions hereof, (b) any prior liens required by law or a competent court to be so paid, (c) the debt evidenced by the note and all indebtedness to the Government secured hereby, (d) inferior liens of record required by law or a competent court to be so paid, (e) at the Government's option, any other indebtedness of Borrower owing to or insured by the Government, and (f) any balance to Borrower. At foreclosure or other sale of all or any part of the property, the Government and its agents may bid and purchase as a stranger and may pay the Government's share of the purchase price by crediting such amount on any debts of Borrower owing to or insured by the Government, in the order prescribe above.

(19) Borrower agrees that the Government will not be bound by any present or future State laws, (a) providing for valuation, appraisal, homestead or exemption of the property, (b) prohibiting maintenance of an action for a deficiency judgment or limiting the amount thereof or the time within which such action may be brought, (c) prescribing any other statute or limitations, (d) allowing any right of redemption or possession following any foreclosure sale, or (e) limiting the conditions which the Government may by regulation impose, including the interest rate it may charge, as a condition of approving a transfer of the property to a new Borrower. Borrower expressly waives the benefit of any such State law. Borrower hereby relinquishes, waives, and conveys all rights, inchoate or consummate, of descent, dower, and curtesy.

(20) If any part of the loan for which this instrument is given shall be used to finance the purchase, construction or repair of property to be used as an owner-occupied dwelling (herein call "the dwelling") and if Borrower intends to sell or rent the dwelling and has obtained the Government's consent to do so (a) neither Borrower nor anyone authorized to act for Borrower will, after receipt of a bonafide offer, refuse to negotiate for the sale or rental of the dwelling or will otherwise make unavailable or deny the dwelling to anyone because of race, color, religion, sex, handicap, familial statue, age or national origin, and (b) Borrower recognizes as illegal and hereby disclaims and will not comply with or attempt to enforce any restrictive covenants on the dwelling relating to race, color, religion, sex, handicap, familial statue, age or national origin.

(21) Borrower further agrees that the loan(s) secured by this instrument will be in default should any loan proceeds be used for a purpose that will contribute to excessive erosion of highly erodible land or to the conversion of wetlands to produce an agricultural commodity, as further explained in 7 DFR Part 1940, Subpart G, Exhibit M.

(22) This instrument shall be subject to the present regulations of the Farmers Home Administration, and to its future regulations not inconsistent with the express provisions hereof.

(23) Notices given hereunder shall be sent by certified mail, unless otherwise required by law, addressed, unless and until some other address is designated in a notice so given in the case of Borrower at the address shown in the Farmers Home Administration Finance Office records (which normally will be the same as

the post office address shown above).

(24) If any provision of this instrument or application thereof to any person or circumstances is held invalid, such invalidity will not affect other provisions or applications of the instrument which can be given effect without the invalid provision or application, and to that end the provisions hereof are declared to be severable.

(25) Whenever "Farmers Home Administration," "FmHA," "Rural Development Administration," or "RDA" may appear, the term "United States of America, acting through the U.S. Department of Agriculture" is substituted.

Given under the hand (s) and seal (s) of Borrower this the 14 day of June, 2000.

JUDY WATER ASSOCIATION, INC.

BY: [Signature]  
Larry N. Arnett, President

BY: [Signature]  
Larry Lee, Secretary

STATE OF KENTUCKY  
COUNTY OF FAYETTE

Before me, Carolyn L. Kenton, a Notary Public in and for the County of Fayette personally appeared Larry N. Arnett, President of Judy Water Association, Inc. who acknowledged that he executed the foregoing instrument on the 14 day of June, 2000, as his free act and deed.

WITNESS my hand and official seal this the 14 day of June, 2000

[Signature]  
Carolyn L. Kenton

Notary Public, State at Large  
My commission Expires: 8-10-2002

PREPARER'S STATEMENT

The form of this instrument was drafted by the Office of the General counsel of the United States Department of Agriculture, and the substantive material was inserted by or under the direction of CAROLYN L. KENTON, 109 North Mill Street, Lexington, Kentucky 40507

[Signature]  
signature

STATE OF KENTUCKY  
SCT  
MONTGOMERY COUNTY  
I, Mrs. Judy Long Witt, clerk of Montgomery County  
aforesaid, do hereby certify that the  
foregoing yma was on 14 day of  
June 2000 at AM 4:15 PM  
lodged for record in my office: whereupon the same with  
this and the foregoing certificate have been duly recorded.  
Witness my hand this 15 day of June 2000  
[Signature] Clerk

END OF DOCUMENT

S///  
5/48

LOAN RESOLUTION SECURITY AGREEMENT

A RESOLUTION OF THE Board of Directors

OF THE Judy Water Association, Inc.

AUTHORIZING AND PROVIDING FOR THE INCURRENCE OF INDEBTEDNESS IN THE

PRINCIPAL AMOUNT OF \$1,237,000.00 FOR THE PURPOSE  
PROVIDING A PORTION OF THE COST OF ACQUIRING AND CONSTRUCTING A

Water Distribution System, PROVIDING FOR THE COLLECTION, HANDLING, AND  
DISPOSITION OF REVENUES THEREFROM, AND AUTHORIZING MAKINGS OF PROMISSORY NOTES,  
SECURITY INSTRUMENTS, AND PLEDGES OF REVENUES TO EVIDENCE AND SECURE THE PAYMENT  
OF SAID INDEBTEDNESS AND FOR RELATED PURPOSES.

WHEREAS, the Judy Water Association, Inc., (hereinafter

referred to as the "Organization"), was organized under Kentucky Revised Statutes

\_\_\_\_\_ for the purpose of providing a

Water supply system capable of providing a safe and adequate supply of  
potable household water for the Bourbon County area.

\_\_\_\_\_ (hereinafter referred to as the  
"Facility") to serve the members of the said Organization; and

WHEREAS, a meeting of the members of the said Organization was held on the \_\_\_\_\_ day of \_\_\_\_\_  
pursuant to proper notice thereof to consider plans for the acquisition, construction, and methods of financing the Facility:

and, as shown by the minutes of said meeting, of the \_\_\_\_\_ members of record of the Organization there were present and voting

\_\_\_\_\_, and by a recorded vote, the Facility and its financing were authorized; and,

WHEREAS, the proposed Facility is to be constructed and in accordance with plans and specifications

prepared by the Meridian Engineering Firm

and in order to finance the Facility, the Board of Directors

(hereinafter referred to as the "Board") is authorized and empowered, in their discretion, for and in the name of the Organization, to make application to the United States of America, through the United States Department of Agriculture, (hereinafter referred to as the "Government"), for financial assistance; to cause the execution and delivery of an installment promissory note or notes or other evidence of indebtedness (hereinafter referred to as the "Note"), and appropriate security instruments to secure any loan or loans made or insured by the Government; to comply with any requirements, terms or conditions prescribed by the Government or by Government regulations; and to execute contracts or enter into agreements and, without limitation, to take any and all other action as may be necessary, incidental or appropriate to finance, acquire, construct, complete, or equip the Facility for and on behalf of the Organization.

NOW THEREFORE, it is hereby resolved by the Board as follows:

Section 1. (Determination of Board). That it is necessary to defray a portion of the costs of financing the Facility by obtaining a loan made or insured by the Government in accordance with applicable provisions of the Consolidated Farm and Rural Development Act, it being determined that the Organization is unable to obtain sufficient credit elsewhere to finance the Facility, taking into consideration prevailing private and cooperative rates and terms currently available:

*Public reporting for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Department of Agriculture, Clearance Officer, OIRM, STOP 7630, Washington, D.C. 20250. Please DO NOT RETURN this form to this address. Forward to the local USDA office only. You are not required to respond to this collection of information unless it displays a currently valid OMB control number.*

Section 2. (Terms of Loan). That the Organization borrow \$ 1,237,000.00 and issue as evidence thereof Note in the form prescribed by the Government for the full principal amount of the loan. The note shall be signed by the President, attested by the Secretary and if necessary, have the corporate seal of the Organization affixed thereto, and shall bear interest from its date, which shall be the date of delivery, at a rate not to exceed 5 percent per annum;

the principal and interest shall be paid over a period of 40 years in accordance with the payment schedule set forth in the Note, until the principal and interest are fully paid except the final payment of the entire indebtedness, if not sooner paid, shall be due and payable 40 years from the date of the Note. Each payment shall be applied first to the payment of the accrued interest and second to the payment of the principal. Prepayments of any installment may be made in any amount at any time at the option of the Organization.

Section 3. (Assignment and Pledge of Revenue). The indebtedness hereby authorized to be incurred, together with the interest thereon, shall be payable from the gross income and revenue to be derived from the operation of the Facility, a sufficient portion of which, to pay the principal and interest as and when the same shall become due, is hereby assigned, and pledged and shall be set aside for that purpose and this assignment and pledge shall extend to and include any assessments that may be levied pursuant to Section 5 (d) hereof.

Section 4. (Protection and Disposition of Funds). The treasurer of the Organization shall be the custodian of all funds of the Organization. Funds may be deposited in institutions insured by the State or Federal Government or invested in readily marketable securities backed by the full faith and credit of the United States. Any income from these accounts will be considered as revenues of the system.

The treasurer is hereby directed to establish the following accounts into which the current funds of the Organization, Note proceeds, the revenues from the Facility and any other income shall be deposited, which accounts shall be continually maintained, except as otherwise provided, so long as the indebtedness hereby authorized remains unpaid:

(a) Construction Account.

The proceeds of the Note, hereby authorized not disbursed contemporaneously with loan closing for incurred Facility costs, and at least the amount of \$ 282,600 to be contributed by the Organization from the collection of initial connection fees, membership fees or contributions shall be deposited in an account designated as the Construction Account which shall be established as required by the Government. Withdrawals from the construction account shall be made only on checks signed by the treasurer of the Organization as authorized by the Board from time to time, and with prior concurrence of the Government. At the option of the Government, the construction account may be established as a "supervised bank account". Amounts in the supervised bank account exceeding \$100,000 shall be secured by the depository bank in advance in accordance with 31 C.F.R. part 22. Withdrawals from a supervised bank account shall be made only on checks signed by the treasurer of the Organization and countersigned by an authorized official of the Government. The Organization's share of any insurance or liquidated damages and other monies paid by defaulting contractors or their sureties will be deposited in the Construction Account to assure completion of the Facility. When all construction costs have been paid in full, any balance remaining in the Construction Account may be applied on the loan or used for other authorized purposes that have been approved by the Government and the Construction Account shall be closed.

(b) General Account

As soon as the Facility becomes revenue producing, all funds received shall be set aside in an account to be designated as the General Account Disbursements and transfers from this account shall be for: debt service, operations and maintenance, and transfers to an account designated as the Reserve Account. Monies deposited in the General Account shall be used only in the manner and order as follows:

(1) Organizations making monthly Government debt service payments shall use the General Account for making such payments plus operating and maintenance expenses. Any remaining funds will be transferred from this account to the Reserve Account in accordance with (d) below.

(2) Borrowers making other than monthly Government debt service payments shall first use the General Account to pay operating and maintenance expenses. Then other transfers from this account will be made in the following order: (i) To an account designated as the Debt Service Account will be made in accordance with (c) below, (ii) Transfers to the Reserve Account will be made in accordance with (d) below.

(c) Debt Service Account

Organizations making other than monthly debt service payments, shall transfer subject to income availability from the General Account to the Debt Service Account, a sum not to increase the next installment on the note.

(d) Reserve Account

From the remaining funds in the General Account, after transfers and payments required in (b) (1) or (b) (2) and (c), there shall be set aside into the Reserve Account the sum of \$ 625.00 each month until there is accumulated in that account the sum of \$ \_\_\_\_\_ after which deposits may be suspended, except to replace withdrawals. When necessary, disbursements may be used for payments due on the Note if sufficient funds are not available in the General or Debt Service Account. With the prior written approval of the Government, funds may be withdrawn for:

- (1) paying the cost of repairing or replacing any damage to the Facility which may have been caused by catastrophe, or
- (2) making extensions or improvements to the Facility.

Whenever disbursements are made from the Reserve Account, monthly deposits shall then be resumed until there is again

accumulated the amount \$ \_\_\_\_\_, at which time deposits may be discontinued. Whenever there shall accumulate in the General Account, amounts in excess of those required in subsections (b)(1) and (2), (c), and (d), such excess will be used by the Organization to make prepayments on the loan or retained in the General Account. The accounts required in subsections (b) (1) and (2), (c) and (d) may be established and maintained as bookkeeping accounts or as separate bank accounts at the election of the Organization, unless otherwise directed by the Government.

Section 5. (Other Covenants and Agreements of the Organization). The Organization covenants and agrees that so long as the indebtedness hereby authorized remains unpaid:

- (a) It will indemnify the Government for any payments made or losses suffered by the Government.
- (b) It will comply with applicable state laws and regulations and continually operate and maintain the Facility in good condition.
- (c) It will impose and collect such rates and charges that gross revenues will be sufficient at all times to provide for the payment of the operation and maintenance thereof and the installment payments on the Note and the maintenance of the various accounts herein created. All service rendered by or use of the Facility shall be subject to the full rates prescribed in the rules and regulations of the Organization.
- (d) If, for any reason, gross revenues are insufficient, it will cause to be levied and collected such assessments as may be necessary to operate and maintain the Facility in good condition and meet installment payments on the Note as the same become due.
- (e) It will (i) establish and maintain such books and records relating to the operation of the Facility and its financial affairs, (ii) will provide for the annual audit thereof in such manner as may be required by the Government, (iii) will provide the Government without its request a copy of each such audit, and (iv) will make and forward to the Government such additional information and reports as it may from time to time require.
- (f) It will provide the Government, at all reasonable times, access to the Facility and all its books and records so that the Government may ascertain that the Organization is complying with the provisions hereof and with the provisions of other instruments incident to the making or insuring of the loan.
- (g) It will maintain at least such insurance and fidelity bond or employee dishonesty coverage as may be required by the Government.
- (h) It will not borrow any money from any source or enter into any contract or agreement or incur any other liabilities in connection with making extensions or improvements to the Facility, exclusive of normal maintenance, without obtaining the prior written consent of the Government.
- (i) It will not cause or permit any voluntary dissolution of the Organization or merge or consolidate with an other organization, without obtaining the prior written consent of the Government. It will not dispose of, or transfer title to the Facility or any part thereof, including lands and interest in lands by sale, security instrument, lease or other encumbrance, without obtaining the prior written consent of the Government. Revenue, in excess of the amount required to maintain the accounts described by Section 4 herein, will not be distributed or transferred to any other organization or legal entity.
- (j) It will not modify or amend its organizational documents, including any articles of incorporation or bylaws without the written consent of the Government.
- (k) It will provide adequate service to all persons within the service area who can feasibly and legally be served and will obtain Government's concurrence prior to refusing new or adequate services to such persons. Upon failure to provide services which are feasible and legal, such person shall have a direct right of action against the Organization or public body.
- (l) All present and future contract rights, accounts receivable, and general intangibles arising in connection with the Facility are pledged as security for the loan.

(m) It will comply with the measures identified in the Government's environmental impact analysis for this Facility for the purpose of avoiding or reducing the adverse environmental impacts of the Facility's construction or operation.

Section 6. (Security Instruments). In order to secure the payment of the principal and interest of the Note, the President and Secretary of the Organization are hereby authorized and directed to execute and deliver good and sufficient lien instruments, where necessary, encumbering the properties and assets, both real and personal, constituting said Facility, as completed, or as the same may be thereafter extended, including an assignment and pledge of revenues and such other instruments as may be prescribed by the Government.

Section 7. (Refinancing). If at any time it shall appear to the Government that the Organization is able to refinance the amount of the indebtedness then outstanding, in whole or in part, by obtaining a loan for such purposes from responsible cooperative or private credit sources, at reasonable rates and terms for loans for similar purposes and periods of time the Organization will, upon request of the Government, apply for, and accept, such loan in sufficient amount to repay the Government and will take all such actions as may be required in connection with such loan.

Section 8. ("Equal Employment Opportunity under Construction Contracts and Nondiscrimination"). The President and the Secretary be and they are hereby authorized and directed to execute for and on behalf of the Organization, Form FmHA 400-1, "Equal Opportunity Agreement", and Form FmHA 400-4, "Assurance Agreement".

Section 9. (Authorization of Officials). In the case of a grant in the sum not to exceed \$ \_\_\_\_\_, the Organization hereby accepts the grant under the terms as offered by the Government and that the \_\_\_\_\_ and \_\_\_\_\_ of the Organization are hereby authorized and empowered to take all action necessary or appropriate in the execution of all written instruments as may be required in regard to or as evidence of such grant and the Organization hereby resolves to operate the Facility under the terms as offered in said grant agreements.

Section 10. (Cross Default). Default under the provisions of this agreement or any instrument incident to the making or issuing of the loan may be construed by the Government to constitute default under any other instrument held by the Government and executed or assumed by the Organization, and default under any such instrument may be construed by the Government to constitute default hereunder.

Section 11. (Resolution of Contract). The provisions hereof and the provisions of all instruments incident to the making or the insuring of the loan, unless otherwise specifically provided by the terms of such instruments, shall constitute a contract between the Organization and the Government or assignee so long as the note hereby authorized remains unpaid.

Section 12. (Effective Date). This resolution shall take effect and be in force from and after the 21 day of December, 1998, being the date of its enactment.

The vote was: Yeas 5 Nays 0 Absent 0

Judy Water Association, Inc.  
By [Signature]  
Title Pres. Judy Water

(SEAL) (if applicable)

Attest:  
[Signature: Charles P. Dale]  
Title Sec. - Treas.

CERTIFICATION

I, the undersigned, as secretary of the Judy Water Association, Inc. hereby certify that the Board of Directors of such Organization or Corporation is composed of 5 members present members of whom \_\_\_\_\_, constituting a quorum, were present at a meeting thereof duly called and held on the 21 day of December, 1998; that the foregoing resolution was adopted at such meeting by the vote shown above, and that said resolution has not been rescinded or amended in any way.

Dated, this 1st day of March, 1999.

14th June, 2000

[Signature: Charles P. Dale]  
Secretary of Judy Water Association



LOAN RESOLUTION SECURITY AGREEMENT

A RESOLUTION OF THE Board of Directors  
OF THE Judy Water Association, Inc.  
AUTHORIZING AND PROVIDING FOR THE INCURRENCE OF INDEBTEDNESS IN THE  
PRINCIPAL AMOUNT OF \$100,000.00 FOR THE PURPOSE  
PROVIDING A PORTION OF THE COST OF ACQUIRING AND CONSTRUCTING A  
Water Distribution System, PROVIDING FOR THE COLLECTION, HANDLING, AND  
DISPOSITION OF REVENUES THEREFROM, AND AUTHORIZING MAKINGS OF PROMISSORY NOTES,  
SECURITY INSTRUMENTS, AND PLEDGES OF REVENUES TO EVIDENCE AND SECURE THE PAYMENT  
OF SAID INDEBTEDNESS AND FOR RELATED PURPOSES.

WHEREAS, the Judy Water Association, Inc., (hereinafter  
referred to as the "Organization"), was organized under Kentucky Revised Statutes  
\_\_\_\_\_ for the purpose of providing a  
Water supply system capable of providing a safe and adequate supply of potable  
household water for the Bourbon County area.

\_\_\_\_\_ (hereinafter referred to as the  
"Facility") to serve the members of the said Organization; and

WHEREAS, a meeting of the members of the said Organization was held on the 25<sup>TH</sup> day of MAY  
pursuant to proper notice thereof to consider plans for the acquisition, construction, and methods of financing the Facility:

and, as shown by the minutes of said meeting, of the Four members of record of the Organization there were present and voting  
YES, and by a recorded vote, the Facility and its financing were authorized; and,

WHEREAS, the proposed Facility is to be constructed and in accordance with plans and specifications  
prepared by Commonwealth Technology, Inc.

and in order to finance the Facility, the Bourbon Co Water Project  
(hereinafter referred to as the "Board") is authorized and empowered, in their discretion, for and in the name of the Organization, to make application  
to the United States of America, through the United States Department of Agriculture, (hereinafter referred to as the "Government"), for financial  
assistance; to cause the execution and delivery of an installment promissory note or notes or other evidence of indebtedness (hereinafter referred to  
as the "Note"), and appropriate security instruments to secure any loan or loans made or insured by the Government; to comply with any requirements,  
terms or conditions prescribed by the Government or by Government regulations; and to execute contracts or enter into agreements and, without  
limitation, to take any and all other action as may be necessary, incidental or appropriate to finance, acquire, construct, complete, or equip the  
Facility for and on behalf of the Organization.

NOW THEREFORE, it is hereby resolved by the Board as follows:

Section 1. (Determination of Board). That it is necessary to defray a portion of the costs of financing the Facility by obtaining a loan made  
or insured by the Government in accordance with applicable provisions of the Consolidated Farm and Rural Development Act, it being determined  
that the Organization is unable to obtain sufficient credit elsewhere to finance the Facility, taking into consideration prevailing private and cooperative  
rates and terms currently available:

*Public reporting for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and  
maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information,  
including suggestions for reducing this burden, to Department of Agriculture, Clearance Officer, OIRM, STOP 7630, Washington, D.C. 20250. Please DO NOT RETURN this form to this  
address. Forward to the local USDA office only. You are not required to respond to this collection of information unless it displays a currently valid OMB control number.*

Section 2. (Terms of Loan). That the Organization borrow \$ 100,000.00 and issue as evidence thereof Note in the form prescribed by the Government for the full principal amount of the loan. The note shall be signed by the President, attested by the Secretary and if necessary, have the corporate seal of the Organization affixed thereto, and shall bear interest from its date, which shall be the date of delivery, at a rate not to exceed 5.875 percent per annum;

the principal and interest shall be paid over a period of 40 years in accordance with the payment schedule set forth in the Note, until the principal and interest are fully paid except the final payment of the entire indebtedness, if not sooner paid, shall be due and payable \_\_\_\_\_ years from the date of the Note. Each payment shall be applied first to the payment of the accrued interest and second to the payment of the principal. Prepayments of any installment may be made in any amount at any time at the option of the Organization.

Section 3. (Assignment and Pledge of Revenue). The indebtedness hereby authorized to be incurred, together with the interest thereon, shall be payable from the gross income and revenue to be derived from the operation of the Facility, a sufficient portion of which, to pay the principal and interest as and when the same shall become due, is hereby assigned, and pledged and shall be set aside for that purpose and this assignment and pledge shall extend to and include any assessments that may be levied pursuant to Section 5 (d) hereof.

Section 4. (Protection and Disposition of Funds). The Treasurer of the Organization shall be the custodian of all funds of the Organization. Funds may be deposited in institutions insured by the State or Federal Government or invested in readily marketable securities backed by the full faith and credit of the United States. Any income from these accounts will be considered as revenues of the system.

The Treasurer is hereby directed to establish the following accounts into which the current funds of the Organization, Note proceeds, the revenues from the Facility and any other income shall be deposited, which accounts shall be continually maintained, except as otherwise provided, so long as the indebtedness hereby authorized remains unpaid:

(a) Construction Account.

The proceeds of the Note, hereby authorized not disbursed contemporaneously with loan closing for incurred Facility costs, and at least the amount of \$ -0- to be contributed by the Organization from the collection of initial connection fees, membership fees or contributions shall be deposited in an account designated as the Construction Account which shall be established as required by the Government. Withdrawals from the

construction account shall be made only on checks signed by the Treasurer of the Organization as authorized by the Board from time to time, and with prior concurrence of the Government. At the option of the Government, the construction account may be established as a "supervised bank account". Amounts in the supervised bank account exceeding \$100,000 shall be secured by the depository bank in advance in accordance with 31 C.F.R. part 22. Withdrawals from a supervised bank account shall be made only on checks signed by the

Treasurer of the Organization and countersigned by an authorized official of the Government. The Organization's share of any insurance or liquidated damages and other monies paid by defaulting contractors or their sureties will be deposited in the Construction Account to assure completion of the Facility. When all construction costs have been paid in full, any balance remaining in the Construction Account may be applied on the loan or used for other authorized purposes that have been approved by the Government and the Construction Account shall be closed.

(b) General Account

As soon as the Facility becomes revenue producing, all funds received shall be set aside in an account to be designated as the General Account Disbursements and transfers from this account shall be for: debt service, operations and maintenance, and transfers to an account designated as the Reserve Account. Monies deposited in the General Account shall be used only in the manner and order as follows:

(1) Organizations making monthly Government debt service payments shall use the General Account for making such payments plus operating and maintenance expenses. Any remaining funds will be transferred from this account to the Reserve Account in accordance with (d) below.

(2) Borrowers making other than monthly Government debt service payments shall first use the General Account to pay operating and maintenance expenses. Then other transfers from this account will be made in the following order: (i) To an account designated as the Debt Service Account will be made in accordance with (c) below, (ii) Transfers to the Reserve Account will be made in accordance with (d) below.

(c) Debt Service Account

Organizations making other than monthly debt service payments, shall transfer subject to income availability from the General Account to the Debt Service Account, a sum not to increase the next installment on the note.

(d) Reserve Account

From the remaining funds in the General Account, after transfers and payments required in (b) (1) or (b) (2) and (c), there shall be set aside into the Reserve Account the sum of \$ 56.00 each month until there is accumulated in that account the sum of \$ N/A after which deposits may be suspended, except to replace withdrawals. When necessary, disbursements may be used for payments due on the Note if sufficient funds are not available in the General or Debt Service Account. With the prior written approval of the Government, funds may be withdrawn for:

- (1) paying the cost of repairing or replacing any damage to the Facility which may have been caused by catastrophe, or
- (2) making extensions or improvements to the Facility.

Whenever disbursements are made from the Reserve Account, monthly deposits shall then be resumed until there is again

accumulated the amount \$ N/A, at which time deposits may be discontinued. Whenever there shall accumulate in the General Account, amounts in excess of those required in subsections (b)(1) and (2), (c), and (d), such excess will be used by the Organization to make prepayments on the loan or retained in the General Account. The accounts required in subsections (b) (1) and (2), (c) and (d) may be established and maintained as bookkeeping accounts or as separate bank accounts at the election of the Organization, unless otherwise directed by the Government.

Section 5. (Other Covenants and Agreements of the Organization). The Organization covenants and agrees that so long as the indebtedness hereby authorized remains unpaid:

- (a) It will indemnify the Government for any payments made or losses suffered by the Government.
- (b) It will comply with applicable state laws and regulations and continually operate and maintain the Facility in good condition.
- (c) It will impose and collect such rates and charges that gross revenues will be sufficient at all times to provide for the payment of the operation and maintenance thereof and the installment payments on the Note and the maintenance of the various accounts herein created. All service rendered by or use of the Facility shall be subject to the full rates prescribed in the rules and regulations of the Organization.
- (d) If, for any reason, gross revenues are insufficient, it will cause to be levied and collected such assessments as may be necessary to operate and maintain the Facility in good condition and meet installment payments on the Note as the same become due.
- (e) It will (i) establish and maintain such books and records relating to the operation of the Facility and its financial affairs, (ii) will provide for the annual audit thereof in such manner as may be required by the Government, (iii) will provide the Government without its request a copy of each such audit, and (iv) will make and forward to the Government such additional information and reports as it may from time to time require.
- (f) It will provide the Government, at all reasonable times, access to the Facility and all its books and records so that the Government may ascertain that the Organization is complying with the provisions hereof and with the provisions of other instruments incident to the making or insuring of the loan.
- (g) It will maintain at least such insurance and fidelity bond or employee dishonesty coverage as may be required by the Government.
- (h) It will not borrow any money from any source or enter into any contract or agreement or incur any other liabilities in connection with making extensions or improvements to the Facility, exclusive of normal maintenance, without obtaining the prior written consent of the Government.
- (i) It will not cause or permit any voluntary dissolution of the Organization or merge or consolidate with an other organization, without obtaining the prior written consent of the Government. It will not dispose of, or transfer title to the Facility or any part thereof, including lands and interest in lands by sale, security instrument, lease or other encumbrance, without obtaining the prior written consent of the Government. Revenue, in excess of the amount required to maintain the accounts described by Section 4 herein, will not be distributed or transferred to any other organization or legal entity.
- (j) It will not modify or amend its organizational documents, including any articles of incorporation or bylaws without the written consent of the Government.
- (k) It will provide adequate service to all persons within the service area who can feasibly and legally be served and will obtain Government's concurrence prior to refusing new or adequate services to such persons. Upon failure to provide services which are feasible and legal, such person shall have a direct right of action against the Organization or public body.
- (l) All present and future contract rights, accounts receivable, and general intangibles arising in connection with the Facility are pledged as security for the loan.

(m) It will comply with the measures identified in the Government's environmental impact analysis for this Facility for the purpose of avoiding or reducing the adverse environmental impacts of the Facility's construction or operation.

Section 6. (Security Instruments). In order to secure the payment of the principal and interest of the Note, the President and Secretary of the Organization are hereby authorized and directed to execute and deliver good and sufficient lien instruments, where necessary, encumbering the properties and assets, both real and personal, constituting said Facility, as completed, or as the same may be thereafter extended, including an assignment and pledge of revenues and such other instruments as may be prescribed by the Government.

Section 7. (Refinancing). If at any time it shall appear to the Government that the Organization is able to refinance the amount of the indebtedness then outstanding, in whole or in part, by obtaining a loan for such purposes from responsible cooperative or private credit sources, at reasonable rates and terms for loans for similar purposes and periods of time the Organization will, upon request of the Government, apply for, and accept, such loan in sufficient amount to repay the Government and will take all such actions as may be required in connection with such loan.

Section 8. ("Equal Employment Opportunity under Construction Contracts and Nondiscrimination"). The President and the Secretary be and they are hereby authorized and directed to execute for and on behalf of the Organization, Form FmHA 400-1, "Equal Opportunity Agreement", and Form FmHA 400-4, "Assurance Agreement".

Section 9. (Authorization of Officials). In the case of a grant in the sum not to exceed \$ N/A, the Organization hereby accepts the grant under the terms as offered by the Government and that the N/A and N/A of the Organization are hereby authorized and empowered to take all action necessary or appropriate in the execution of all written instruments as may be required in regard to or as evidence of such grant and the Organization hereby resolves to operate the Facility under the terms as offered in said grant agreements.

Section 10. (Cross Default). Default under the provisions of this agreement or any instrument incident to the making or issuing of the loan may be construed by the Government to constitute default under any other instrument held by the Government and executed or assumed by the Organization, and default under any such instrument may be construed by the Government to constitute default hereunder.

Section 11. (Resolution of Contract). The provisions hereof and the provisions of all instruments incident to the making or the insuring of the loan, unless otherwise specifically provided by the terms of such instruments, shall constitute a contract between the Organization and the Government or assignee so long as the note hereby authorized remains unpaid.

Section 12. (Effective Date). This resolution shall take effect and be in force from and after the 25th day of May, ~~2000~~ being the date of its enactment.

The vote was: Yeas FOUR Nays 0 Absent 1

(SEAL) (if applicable)  
Attest: Larry Lee  
Larry Lee  
Title Secretary-Treasurer

Judy Water Association  
By [Signature]  
Larry Annett  
Title President

CERTIFICATION

I, the undersigned, as secretary of the Judy Water Association, Inc.  
hereby certify that the Board of Directors of such Organization or Corporation is composed of 4  
members of whom 3, constituting a quorum, were present at a meeting thereof duly called and held on the 25th day of May,  
~~2000~~ that the foregoing resolution was adopted at such meeting by the vote shown above, and that said resolution has not been rescinded or  
amended in any way.

Dated, this 14th day of June, 2000

[Signature]  
Larry Lee  
Secretary of Judy Water Association, Inc.