

SERIES 2005
- SEWER REVENUE BOND-AUTHORIZING RESOLUTION -

A RESOLUTION OF THE COMMISSION OF EDMONSON COUNTY WATER DISTRICT PROVIDING FOR THE CONSTRUCTION AND INSTALLATION OF THE DISTRICT'S SANITARY SEWER SYSTEM; AUTHORIZING THE ISSUANCE OF THE DISTRICT'S \$100,000 SEWER SYSTEM REVENUE BONDS, SERIES 2005, TO PAY THE COSTS THEREOF (TO THE EXTENT NOT OTHERWISE PROVIDED TO BE PAID); MAKING PROVISIONS FOR THE COLLECTION, SEGREGATION, DISTRIBUTION AND DISBURSEMENT OF THE INCOME AND REVENUES OF THE SANITARY SEWER SYSTEM AND FOR THE ALLOCATION THEREOF TO VARIOUS SPECIAL FUNDS HEREIN CREATED IN ORDER TO PROVIDE FOR THE ORDERLY PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE BONDS HEREIN AUTHORIZED; SETTING FORTH CONDITIONS AND RESTRICTIONS UNDER WHICH ADDITIONAL BONDS MAY BE ISSUED IN THE FUTURE, PAYABLE FROM THE INCOME AND REVENUES OF THE SYSTEM AND RANKING ON A BASIS OF PARITY WITH THE BONDS HEREIN AUTHORIZED; PROVIDING FOR THE RIGHTS OF THE HOLDERS OF THE BONDS HEREIN AUTHORIZED AND THE ENFORCEMENT THEREOF; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF THE BONDS HEREIN AUTHORIZED.

Adopted June 14, 2005

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aggregate of all costs and expenses in connection with the Project will be \$1,600,000, and to provide a portion of such funds the District has received from the U.S. Department of Agriculture, Rural Development ("USDA"), an offer to make a loan to the District in the amount of \$100,000 which, together with an ARC grant (\$400,000) and three Kentucky Infrastructure Authority grants (totaling \$1,100,000), will be sufficient to pay the estimated costs and expenses; and

WHEREAS, it is now appropriate for the District to provide for borrowing such sum of \$100,000 through issuance and sale of its Sewer System Revenue Bonds, Series 2005 (the "Bonds"), according to authority of Kentucky Revised Statutes ("KRS") Chapters 74 and 96; and

WHEREAS, the Bonds will be payable as to both principal and interest solely (except as to capitalized interest) from the income and revenues to be derived from the operation of the System and will not constitute an indebtedness of the District within the meaning of debt-limiting provisions of the Constitution of Kentucky;

NOW, THEREFORE, THE COMMISSION OF EDMONSON COUNTY WATER DISTRICT DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1

AFFIRMATION OF PREAMBLE RECITALS; AUTHORIZATION OF THE PROJECT; DECLARATION OF NECESSITY

All statements and recitals set forth in the preamble of this Resolution, including the terms defined therein, are hereby affirmed and adopted as a part of this Resolution.

It is hereby further determined and declared to be necessary in the interests of the general welfare of the citizens and inhabitants of the District that the District undertake at this time the construction and installation of the Project, all substantially according to the plans, specifications and designs prepared for the District by the Engineers and on file with the District. Immediate undertaking of such construction and installation is hereby authorized.

SECTION 2

SYSTEM TO BE MUNICIPALLY OWNED AND OPERATED

The construction and installation of the Project is undertaken by the District for public purposes and the same shall constitute and be a part of the System, and so long as any of the Bonds hereinafter authorized, or bonds issued on a parity therewith, shall remain outstanding and unpaid as to principal or interest, the System shall be owned, controlled, operated and maintained by the District for the security and source of payment of the Bonds and all other parity bonds hereafter issued. The Project is to be constructed, installed and acquired and the System is to be operated pursuant to the provisions of KRS 74.407 and KRS 96.350 through 96.510, now in full force and effect.

SECTION 3

BONDS AUTHORIZED; CERTAIN TERMS AND DETAILS

(A) For the purpose of providing funds to defray the costs of the Project (to the extent not otherwise provided to be paid), including all necessary and proper appurtenances, and expenses incident thereto and incident to the issuance of the Bonds, there are hereby authorized to be issued the District's Sewer System Revenue Bonds, Series 2005, in the principal amount of \$100,000 (the "Bonds"), with reservation of right on the part of the District to issue additional bonds in the future, payable from the income and revenues of the System, subject to the conditions and restrictions hereinafter prescribed and set forth. The Bonds hereby authorized shall be offered at public sale as provided in Section 4 hereof and shall be issuable in the form of a single fully registered bond as provided in Section 5 hereof.

The Bonds shall be dated as of the date of delivery to the original purchaser thereof; shall mature as to principal in installments on January 1 in each of the years 2008 to 2045, inclusive, as set forth in the schedule appearing below; and shall bear interest from their date until payment of principal, such interest to the respective principal maturity dates to be payable semiannually on January 1 and July 1 of each year, and such interest to be at such rate as may be established by a supplemental Resolution upon the basis of competitive sale of the Bonds as hereinafter provided. The installments of principal of the Bonds, in fully registered form as aforesaid, shall be as set forth in the following schedule:

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
2008	\$1,100	2021	\$1,900	2034	\$3,200
2009	1,100	2022	2,000	2035	3,400
2010	1,200	2023	2,100	2036	3,500
2011	1,200	2024	2,100	2037	3,700
2012	1,300	2025	2,200	2038	3,800
2013	1,400	2026	2,300	2039	4,000
2014	1,400	2027	2,400	2040	4,200
2015	1,500	2028	2,500	2041	4,300
2016	1,500	2029	2,600	2042	4,500
2017	1,600	2030	2,700	2043	4,700
2018	1,700	2031	2,900	2044	4,900
2019	1,700	2032	3,000	2045	5,500
2020	1,800	2033	3,100		

The Bonds shall be issued as a single fully registered Bond, numbered R-1, maturing in principal installments in annual amounts corresponding to the schedule immediately above, provided, however, that installments of principal of Bonds maturing on and after January 1, 2016, shall be subject to prepayment at the option of the District prior to maturity in whole or from time to time in part in inverse order of maturities (less than all of a single maturity to be selected by lot) on any interest payment date on and after January 1, 2015, upon terms of par plus accrued interest without any prepayment premium, upon thirty (30) days' prior written notice mailed to the registered holder or holders of the Bonds; provided, that so long as USDA is the owner of any of

the Bonds, the same may be prepaid in whole or in part at any time at par plus accrued interest, and without notice or prepayment premium. The Bonds may be prepaid only in increments of \$100.

Both principal of and interest on the Bonds shall be payable, without deduction for exchange or collection charges, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of debts due the United States of America, to the registered holder at the address shown on the registration books of the District or, so long as USDA is the registered holder, at the office or address as may be designated by USDA from time to time.

If any District officer whose signature appears on any Bond shall cease to be such officer prior to delivery, such signature shall nevertheless be valid and binding for all purposes, the same as if such officer had continued in office until the time of delivery of such Bond. The Bonds, together with any bonds which may hereafter be issued on a basis of parity therewith, shall be payable as to principal and interest only out of the Sewer System Revenue Bond and Interest Sinking Fund, as hereinafter more specifically provided, and shall be a valid claim of the holder thereof only against said Fund and the fixed portion or amount of the revenues of the System which the District has pledged to said Fund, subject to the terms hereof.

SECTION 4

PROVISIONS RELATING TO SALE OF BOND ISSUE

The Bonds authorized by this Resolution shall be publicly offered for sale according to a Notice of Sale of Bonds conforming to the requirements of KRS Chapter 424 (and particularly KRS 424.140(3) and KRS 424.360), which shall be published one time, not less than seven (7) days nor more than twenty-one (21) days prior to the date therein specified (by and at the discretion of the Chairman of the Commission of the District) for the opening and consideration of purchase bids, in each of the following: (a) the legal newspaper published in Edmonson County, Kentucky, which is qualified under KRS 424.120 to publish advertisements for the District; and (b) The Courier-Journal, Louisville, Kentucky, a legal newspaper having statewide circulation.

Said Notice shall state the name and amount of Bonds to be sold, the time of the sale and other details concerning the Bonds and the sale, and shall inform prospective bidders that a copy of the Official Notice of Bond Sale, setting out the maturities, security of the Bonds, provisions as to redemption prior to maturity and related information, may be obtained from the District. Such Official Notice shall contain, *inter alia*, substantially the following bidding requirements:

(A) Bidders shall be limited to institutions or persons having knowledge and experience in financial and business matters who are capable of evaluating the merits and risks of the Bonds and who are not purchasing for more than one account and do not intend to redistribute the Bonds. The District will make available to any such qualified bidder, upon written request, any financial or other material information regarding the District and the System in the District's possession. Bidders are required to bid a cash price of not less than par value for the Bonds.

(B) The single interest rate must be in a multiple of 1/8 or 1/10 of one percent.

(C) Bids will be considered only for the entire Bond issue.

(D) Bidders (except USDA) are required to deposit a good faith check by cashier's check or certified check in the minimum amount of 2% of the face amount of the Bonds, which good faith deposit may be applied as partial payment for such Bonds, or as liquidated damage in the event that such bidder, if successful, fails to comply with the terms of his bid.

(E) Preference in award will be given to the bid resulting in the lowest net interest cost to the District.

(F) The lowest net interest cost will be determined by deducting the total amount of any premium bid from the aggregate amount of interest upon the Bonds bid for, computed from the first day of the month following the date of sale of the Bonds (even though the Bonds will bear interest only from the date of delivery) to the final maturity specified in each bid.

(G) The District expects to deliver, and the successful bidder must be prepared to accept delivery of and pay for, the Bonds at the office of the District within 45 days after notice is given of the award. If the Bonds are not ready for delivery and payment within 45 days from the aforesaid date of sale, the successful bidder shall be relieved of any liability to accept delivery of the Bonds, except that Bonds purchased by any agency of the federal government will be delivered to it at a place and time designated by such agency in accordance with its established practices and procedures.

(H) The District reserves the right, in its discretion, to determine the best bid or bids, to waive any informality or irregularity and to reject any or all bids.

(I) The District will furnish the Bonds, together with evidence of approval of the Bond issue by the Public Service Commission of Kentucky pursuant to the requirements of KRS Chapter 278, and customary closing documents, including a no-litigation certificate.

(J) The successful bidder will receive the approving legal opinion of Ogden Newell & Welch PLLC, Bond Counsel, Louisville, Kentucky, as to the legality of and tax-exempt status of interest on the Bonds, without additional cost to the successful bidder.

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

Bond Counsel having submitted to the Commission of the District forms of the Notice of Sale of Bonds and the Official Notice of Bond Sale, together with an Official Bid Form for use by all bidders except USDA, said documents are hereby approved and authorized for use in connection with the aforesaid sale of the Bonds.

SECTION 5

BONDS TO BE ISSUED IN FULLY REGISTERED FORM:
FULLY REGISTERED BOND FORM

Upon the sale of the Bonds, the District shall issue a single fully registered Bond numbered R-1 (hereinafter referred to as the "Fully Registered Bond"). The Fully Registered Bond shall be in the aggregate principal amount of the Bonds it represents, maturing as to principal in installments as set out in Section 3 hereof. The Fully Registered Bond shall be of type composition, on paper of sufficient weight and strength to prevent deterioration until the last day of maturity of any installment of principal as stated therein, and shall conform in size to standard practice. The Fully Registered Bond shall, upon execution on behalf of the District (which execution shall be by manual signatures of the Chairman and Secretary-Treasurer of the Commission, and actual impression of the corporate seal), constitute the Bond issue herein authorized and referred to, shall be non-negotiable, without interest coupons, registered as to principal and interest, payable as directed by the payee, and be in substantially the form hereinafter set forth.

The District hereby directs that books for the registration and for the transfer of the Fully Registered Bond shall be kept by the Secretary-Treasurer, who is hereby appointed as Bond Registrar in connection with such Bond. The Fully Registered Bond shall be transferable only upon said Bond Registrar's books at the request of the registered holder thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Bond Registrar duly executed by the registered holder or his duly authorized attorney. Upon such transfer of the Fully Registered Bond, the Bond Registrar shall complete (with the name of the transferee), date and execute the registration schedule appearing on the Fully Registered Bond and deliver the Fully Registered Bond to such transferee. The person in whose name the Fully Registered Bond shall be properly registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of either principal thereof or interest thereon shall be made only to or upon the order of the registered holder thereof or his legal representative, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon the Fully Registered Bond to the extent of the sum or sums so paid. The face amount of the Fully Registered Bond, portions of which mature on different dates, will be reduced upon the payment of each maturity, and the Secretary-Treasurer shall keep appropriate records of all payments (both principal and interest) with respect to the Fully Registered Bond.

The Fully Registered Bond shall be in substantially the following form (with appropriate insertions):

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
EDMONSON COUNTY WATER DISTRICT
SEWER SYSTEM REVENUE BOND, SERIES 2005

KNOW ALL MEN BY THESE PRESENTS:

That Edmonson County Water District (the "District"), acting by and through its Commission, a public body corporate created and existing pursuant to Chapter 74 of the Kentucky Revised Statutes and situated in Edmonson, Warren, Grayson and Hart Counties, Kentucky, for value received, hereby promises to pay to the registered holder hereof, as hereinafter provided, solely from the special fund hereinafter identified, the sum of ONE HUNDRED THOUSAND DOLLARS (\$100,000) on the first day of January in years and installments as follows:

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
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(Here the printer will print the principal maturities of the Bonds.)

without deduction for exchange or collection charges, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of debts due the United States of America, and in like manner, solely from said special fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, without deduction for exchange or collection charges and in like coin or currency, at the rate of _____% per annum, semiannually on the first days of January and July in each year hereafter until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable to the registered holder hereof at the address shown on the registration books of the District or, so long as the United States of America, Department of Agriculture, is the registered holder of this Bond, at the office or address as may be designated by said Department of Agriculture from time to time.

This Bond is the Bond in fully registered form representing a total authorized issue of Bonds in the principal amount of \$100,000 issued by the District pursuant to the Constitution and Statutes of the Commonwealth of Kentucky, including Sections 74.407 and 96.350 through 96.510 of the Kentucky Revised Statutes, and pursuant to a duly adopted Resolution of the District, for the purpose of paying the costs (to the extent not otherwise provided to be paid) of the construction and installation of the District's municipal sanitary sewer system (the "System"), together with appurtenant facilities, and incidental expenses.

This Bond and the issue which it represents, together with such additional bonds ranking on a parity therewith that may subsequently be issued and outstanding from time to time in accordance with the conditions and restrictions set forth in the Resolution authorizing the issuance of this Bond, are payable from and secured by a pledge of a fixed portion of the income and revenues to be derived from the operation of the System, which fixed portion shall be sufficient to pay the principal of and interest on this Bond and the issue of which it forms a part, and any outstanding parity bonds, as and when the same shall become due and payable, and which shall be set aside as a special fund for that purpose and identified as the "Sewer System Revenue Bond and Interest Sinking Fund."

A statutory mortgage lien upon the System and appurtenant facilities, together with all future additions and improvements thereto, and extensions thereof, is created by Sections 74.407 and 96.400 of the Kentucky Revised Statutes and by the aforesaid Resolution for the benefit and protection of the holder of this Bond, and the same shall remain in effect until payment in full of the principal of and interest on this Bond.

This Bond does not in any manner constitute an indebtedness of the District within the meaning of the Statutes and Constitution of Kentucky, and the District is not and shall not be obligated to pay this Bond or the interest hereon except from said special fund. The District, acting by and through its Commission, covenants that it will fix, and if necessary adjust from time to time, such rates and charges for use of the services and facilities of the System and will collect and account for the income and revenues therefrom sufficient to pay promptly the interest on and principal of this issue of Bonds and all other bonds ranking on a parity therewith that may be outstanding from time to time, as well as to pay the costs of operation and maintenance of the System.

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

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2015, in the inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof in multiples of One Hundred Dollars (\$100) as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered holder of the Bond at least thirty (30) days prior to the date fixed for prepayment. Provided, however, that so long as the United States of America, Department of Agriculture, is the registered holder of this Bond, this Bond may be prepaid at any time in whole or in part, at par or face value and without notice or prepayment premium.

Upon default in the payment of any principal or interest payment on this Bond or upon failure by the District to comply with any other provisions of this Bond or with the provisions of the resolution authorizing the issuance of this Bond, the registered holder may, at his option, institute proceedings to enforce all rights and remedies provided by law or by said resolution.

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

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the face amount of this Bond, being the total authorized amount of Bonds of the issue of which this Bond is a part, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

SECTION 6

DISPOSITION OF BOND PROCEEDS; CONSTRUCTION FUND

The Secretary-Treasurer of the District shall be the custodian of all funds belonging to and associated with the System, as expanded and improved from time to time, and such funds shall be deposited in a bank or banks in Kentucky as the Commission of the District may from time to time designate (hereinafter sometimes referred to, singularly and collectively, as the "Depository Bank"). All such moneys of the District deposited in the Depository Bank in excess of the amount insured by the Federal Deposit Insurance Corporation ("FDIC") shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The Secretary-Treasurer shall execute a fidelity bond in an amount and with a surety company approved by USDA so long as it is the holder of any of the Bonds; and USDA and the District shall be named co-obligees in such surety bond, and the amount thereof shall not be reduced without the written consent of USDA. The proceeds of the Bonds shall be applied as follows:

Upon the issuance and delivery of the Bonds authorized by this Resolution, the entire proceeds thereof shall be deposited in an account designated "Edmonson County Water District 2005 Sewer Construction Fund" (the "Construction Fund"), hereby created. Said Bond proceeds shall constitute a part of the Construction Fund and shall be applied, to the extent necessary, in paying the costs incident to constructing, installing and acquiring the Project, including expenses incurred in the issuance of the Bonds and paying any interim financing obligations (both principal and interest) incurred in connection with the Project; provided, however, any Bond proceeds so used to pay such interim financing obligations may be disbursed directly to the appropriate lending institution(s) without the requirement of being deposited to the Construction Fund.

A sum in the Construction Fund estimated to be equal to interest which will accrue on the Bonds (following delivery thereof) during construction and development of the System shall be earmarked, used and applied to the payment of interest on the Bonds next becoming due.

Disbursements from the Construction Fund shall be made by checks signed by the District Secretary-Treasurer, and such disbursements shall be authorized and approved in writing by the District Chairman and, if USDA is the purchaser of the Bonds, by USDA (if USDA so requires). Reference is made in this connection to the provisions of the separate interim financing Resolution adopted concurrently herewith.

Pending disbursement, the Bond proceeds shall be deposited, as aforesaid, in the Construction Fund, and to the extent that such deposit causes the aggregate deposits by the District in the Depository Bank to be in excess of the amount insured by FDIC, the same shall be secured by a surety bond or bonds furnished by a surety company or companies qualified to do business in Kentucky and approved by the Commission of the District, or by a valid pledge of direct obligations of the United States Government, or obligations as to which the payment of principal and interest are guaranteed by the United States Government, having a market value at least equivalent to such deposit.

Where the moneys on deposit in the Construction Fund exceed the estimated disbursements on account of the System for the next 60 days, the District shall direct the Depository Bank to invest such excess funds in direct obligations of, or obligations the principal of and interest on which are guaranteed by, the United States Government, which shall mature not later than six months after the date of such investment and which shall be subject to redemption at any time by the holder thereof. The earnings from any such investments shall be deposited in the Construction Fund by the District, unless otherwise authorized by USDA.

In the event any unexpected balance shall remain in the Construction Fund after completion of the System, and payment of all of the costs thereof, as certified by the Engineers, such unexpended balance, subject to the terms and conditions of the aforesaid USDA loan, and to USDA approval, shall be transferred and deposited in the Sewer System Revenue Bond and Interest Sinking Fund hereinafter referred to, and shall be used at the earliest practicable date for the retirement of Bonds by purchase thereof (or principal prepayment) in inverse maturity order.

In the event that the amount hereinabove provided to be set aside from Bond proceeds for payment for interest during the construction and development of the System should prove to be insufficient for such purpose, additional moneys may, upon approval by USDA, be withdrawn from the Construction Fund and so applied, inasmuch as interest during such period is a proper part of the cost of the System, to the extent authorized by USDA.

Pending disbursements for the authorized purposes, the proceeds of all Bonds at any time issued pursuant to this Resolution shall be subject to a first and paramount lien and charge in favor of the holders of Bonds issued and outstanding hereunder and for their further security.

SECTION 7

OPERATION OF SYSTEM; FLOW OF FUNDS; ACCUMULATION OF REVENUES

From and after issuance and delivery of the Bonds, and so long as any thereof remain outstanding and unpaid, the System shall be operated on a fiscal year basis beginning each January 1 and ending on the next December 31, and on that basis the income and revenues shall be collected, segregated, accounted for and distributed as provided in this Section.

A separate and special fund or account of the District, distinct and apart from all other funds and accounts, is hereby created and is designated and identified as the "Edmonson County Sewer System Revenue Fund" (the "Revenue Fund"), which shall be maintained in the Depository Bank; and the District covenants and agrees that it will deposit therein, promptly as received from time to time, all income and revenues of the System as hereinafter defined. The moneys in the Revenue Fund from time to time shall be used and disbursed and applied by the District only for the purposes, and in the manner and order of priorities, specified in the succeeding subsections of this Section 7, all as permitted by applicable statutes, as follows:

(A) A separate and special fund or account of the District is hereby created and is designated and identified as the "Edmonson County Water District Sewer System Operation and Maintenance Fund" (the "Operation and Maintenance Fund"), which shall be maintained for the benefit of the System and all bonds payable from the income and revenues of the System. The

District covenants that it will transfer monthly from the funds in the Revenue Fund to the Operation and Maintenance Fund sums sufficient to pay as they accrue the Current Expenses of operating and maintaining the System pursuant to the Annual Budget, for which provision is hereafter made.

(B) A separate and special fund or account of the District is hereby created, distinct and apart from all other funds and accounts, and is designated and identified as the "Edmonson County Water District Sewer System Revenue Bond and Interest Sinking Fund" (the "Bond Fund" or "Sinking Fund"), which shall be maintained, so long as any of the Bonds or parity bonds herein permitted to be issued are outstanding, in the Depository Bank, and all moneys deposited therein from time to time shall be used and disbursed and applied, and are hereby irrevocably pledged, solely for the purpose of paying the principal of and interest on bonds issued and outstanding from time to time pursuant to this Resolution, including the Bonds and additional parity bonds, if any are issued.

Subject to subparagraph (A) of this Section 7, there shall to be transferred on or before the 15th day of each month from the Revenue Fund, as a first charge thereon, and deposited in the Bond Fund, sums not less than:

(i) beginning with and including the month in which interest shall last be payable from Bond proceeds, a sum equal to one-sixth (1/6) of the next succeeding interest installment to become due on all Bonds then outstanding; and

(ii) beginning on January 15, 2007, a sum equal to one-twelfth (1/12) of the principal of all Bonds maturing on the next succeeding January 1.

In the event additional parity bonds are issued pursuant to the conditions and restrictions set forth in this Resolution, the monthly deposits shall be increased to provide for payment of interest thereon and the principal thereof as the same respectively become due.

(C) A separate and special fund or account of the District is hereby created and is designated and identified as the "Edmonson County Water District Sewer System Depreciation Fund" (the "Depreciation Fund"). After observing the priority of deposits set forth in subparagraphs (A) and (B) above, there shall be set apart and paid into the Depreciation Fund each month 100% of the remaining funds in the Revenue Fund (at least \$50 per month, as required by USDA).

In addition to the above deposits from the Revenue Fund, there shall also be deposited in the Depreciation Fund, as received, the proceeds of all property damage insurance (except public liability) maintained in connection with the System, and the cash proceeds of any surplus, worn out or obsolescent properties of the System, if the same be sold upon order of the Commission. The term "income and revenues" of the System, as used in Section 7 hereof, means all proceeds of sewer service rates and charges and does not include any of the other cash items enumerated in this paragraph.

The Depreciation Fund shall be available and may be withdrawn and used by the District for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements, not included in the Annual Budget of Current Expenses, and the cost of

than \$200,000 for one person and \$500,000 for more than one person involved in one accident to protect the District from claims for bodily injury and/or death, and not less than \$200,000 against claims for damage to property of others which may arise from the District's operation of vehicles. Provided, notwithstanding (M), (N), (O) and (P) above, that so long as USDA holds any Bonds, the District will procure and maintain insurance of such types and amounts as USDA may specify, which shall not be less than the amounts specified in this Section 8 so long as the Bonds are outstanding.

(Q) So long as USDA is the holder of any bonds of the District, the District shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating the lien of such bonds held by USDA without immediately prepaying all of such bonds held by USDA.

(R) The District covenants that it will bill its customers for sewer services rendered at the same time as billing for water services is carried out, and that it will cut off, terminate and discontinue water services to any premises where the bill for sewer services is not promptly paid.

SECTION 9

PARITY BONDS PERMITTED; TERMS

The Bonds authorized to be issued hereunder and from time to time outstanding shall not be entitled to priority one over the other in the application of the revenues herein pledged, regardless of the time or times of their issuance, it being the intention that there shall be no priority among the Bonds authorized to be issued under the provisions of this Resolution, regardless of the fact that they may actually be issued and delivered at different times. No other bonds or other obligations shall be issued by the District and made payable from the income and revenues of the System unless the pledge of revenues for the same is expressly made subordinate and inferior to the lien and pledge herein created; provided, however, the District hereby reserves the right and privilege of issuing additional bonds, from time to time, payable from the revenues of the System, ranking on a basis of equality and parity as to security and source of payment with the Bonds herein authorized, for the following purposes and subject to the following conditions and restrictions:

(A) The District covenants and agrees that in the event the cost of construction or completion of the System, as hereinbefore described, shall exceed the estimated cost upon which the dollar amount of Bonds herein authorized has been computed, it shall deposit into the Construction Fund the amount of such excess out of funds available to it for such purpose. The District may provide such excess (but only such excess) through the issuance of parity bonds, provided that it has obtained the consent of the holder of the Bonds.

(B) The District shall have the right to add new sanitary sewer system facilities and related auxiliary facilities by the issuance of one or more additional series of bonds to be secured by a parity lien on and ratably payable from the revenues and any other security pledged to the Bonds, provided in each instance that:

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

(ii) the District is in compliance with all covenants and undertakings in connection with all of its bonds then outstanding and payable from the revenues of the System or any part thereof;

(iii) the net revenues (defined as gross revenues less essential operation and maintenance expenses) of the System for the fiscal year preceding the year of issuance of additional parity bonds (with adjustments as hereinafter provided) are certified by an independent certified public accountant to have been equal to at least one and twenty hundredths (1.20) times the maximum annual requirement for principal of and interest on all Bonds and parity bonds, if any, then outstanding and on the additional bonds proposed to be issued. Such net revenues may be adjusted for the purpose of the foregoing computations to reflect (a) any revisions in the schedule of sewer rates and charges being imposed at the time of the issuance of the additional bonds proposed to be issued and (b) any increase in such net revenues projected by reason of the revenues reasonably anticipated to be derived from the new sewer service facilities (to be made a part of the System) being financed in whole or in part by such additional bonds; provided that such latter adjustment shall be made only if a contract or contracts for the immediate construction and acquisition of such new sewer service facilities have been entered into prior to the issuance of such additional bonds. All of such adjustments shall be based upon the written certification of a recognized independent consulting engineer or firm of consulting engineers. The foregoing conditions and limitations prescribed in this subparagraph (iii) may be waived or modified by the written consent of the holders of at least seventy-five percent (75%) in principal amount of the outstanding Bonds and parity bonds, if any.

(C) The District hereby covenants and agrees that in the event additional series of parity bonds are issued, it shall:

(i) adjust the monthly deposits into the Bond Fund on the same basis as that prescribed in Section 7(B) hereof to reflect the debt service on the additional bonds;

(ii) adjust and increase the maximum amount to be deposited into the Depreciation Fund on the same basis as that prescribed in Section 7(C) hereof; and

(iii) make such additional bonds payable as to principal on January 1 of each year in which principal falls due and payable as to interest on January 1 and July 1 of each year.

(D) If the District at its option undertakes to redeem outstanding bonds in advance of scheduled maturity, it is agreed and understood (a) that calls of bonds will be applied to each series of bonds on an equal pro rata basis (reflecting the proportion of the original amount of each series of bonds outstanding at the time of such call), and (b) that calls of bonds for each series of bonds will be in accordance with the call provisions of the respective bond series.

However, the District shall have the right to call, subject to the call provisions of the respective bond series, any or all outstanding bonds which may be called at par prior to calling any bonds that are callable at a premium.

The additional parity bonds (sometimes herein referred to as "permitted" to be issued), the issuance of which is restricted and conditioned by this Section, shall be understood to mean bonds payable from the revenues of the System on a basis of equality and parity with the Bonds, and shall not be deemed to include other bonds or obligations, the security and source of payment of which are subordinate and subject to the priority of the Bonds and parity bonds herein permitted to be issued. The District expressly reserves the right to issue its bonds or other obligations payable from the revenues herein pledged, and not ranking on a basis of equality and parity with the Bonds and parity bonds herein otherwise referred to, without any proof of previous earnings or net revenues, but only if such bonds or other obligations are issued to provide for additions or extensions or improvements of the System, and only if the same are issued in express recognition of the priorities, liens and rights created and existing for the security, source of payment and protection of the said bonds and parity bonds herein authorized and permitted to be issued. Provided, however, that nothing in this Section is intended or shall be construed as a restriction upon the ordinary refunding of the initially authorized Bonds, and/or of any bonds which may have been issued and are outstanding under any of the provisions of this Resolution, if such refunding does not operate to increase, in any year until the final maturity of the refunding bonds, the aggregate of the principal and interest requirements of the bonds to remain outstanding and the bonds proposed to be refunded.

SECTION 10

PROVISIONS OF RESOLUTION CONSTITUTE CONTRACT

The provisions of this Resolution shall constitute a contract between the District and the holders of the Bonds herein authorized and any parity bonds herein permitted to be issued, and after the issuance of any of the Bonds, no change, variation or alteration of any kind of the provisions of this Resolution shall be made in any manner without the written consent of the holder or holders of the Bonds, except as herein provided, until such time as all of the Bonds and parity bonds issued hereunder, and the interest thereon, have been paid in full.

SECTION 11

STATUTORY MORTGAGE LIEN ACKNOWLEDGED

A statutory mortgage lien upon the System, together with all appurtenances and additions thereto and extensions thereof, and including the revenues thereof, is granted and created by Sections 74.407 and 96.400 of the Kentucky Revised Statutes for the benefit and protection of the holders of the Bonds issued and parity bonds permitted to be issued under authority of this Resolution, and of the interest payable thereon; and said statutory mortgage lien is hereby recognized and shall be effective upon delivery of any of the Bonds and shall continue in full force and effect so long as there shall remain unpaid any part of the principal of or interest on the Bonds and any parity bonds.

SECTION 12

TAX COVENANTS AND REPRESENTATIONS

(A) The District certifies, covenants and agrees that the Project will be constructed expeditiously and the expenditure of the portion of the proceeds of the Bonds deposited in the Construction Fund for the payment of the costs of the Project will be made promptly in order that the Project will be completed and in operation at the earliest possible date. The District further certifies and covenants with the holders of the Bonds that so long as any of the Bonds remain outstanding, moneys on deposit in any fund or account in connection with the Bonds, whether or not such moneys were derived from the proceeds of the sale of the Bonds or from any other sources, will not be invested or used in a manner which will cause the Bonds to be "arbitrage bonds" within the meaning of Sections 103(b)(2) and 148 of the Internal Revenue Code of 1986, as amended (the "Code"), and any lawful regulations promulgated or proposed thereunder, as the same presently exist, or may from time to time hereafter be amended, supplemented or revised. The Chairman and/or Secretary-Treasurer as the officers of the District charged with the responsibility for issuing the Bonds, are authorized and directed, for and on behalf of the District, to execute all papers, documents, certificates and other instruments that may be required for evidencing compliance with federal "arbitrage bond" regulations, and any representations and certifications contained in such papers, documents, certificates and other instruments so executed shall be deemed to constitute representations and certifications of the District.

(B) The District further represents, warrants, agrees and covenants as follows:

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

(b) Within the meaning of Section 148(f)(4)(B), it is reasonably expected at least 75% of the net proceeds (including investment proceeds) of the Bonds will be used for construction expenditures with respect to property which is owned by a governmental unit, at least 10% of such proceeds will be spent for the governmental purposes of the issue within six months from

the date the Bonds are issued, at least 45% of such proceeds will be spent for such purposes within one year from such date, at least 75% of such proceeds will be spent for such purposes within eighteen months from such date, and at least 100% of such proceeds will be spent within two years from such date. It is also reasonably expected at least 50% of all proceeds (including investment proceeds) of the Bonds will be used for expenditures on the Project within six months, at least 60% will be so used within 12 months and 100% will be so used within 18 months from the date of issuance of the Bonds. If for any reason the arbitrage rebate requirements of Section 148(f) of the Code should be deemed to apply to the Bonds, the District will take all action necessary to comply therewith.

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

(d) The weighted average maturity of the Bonds does not exceed 120% of the weighted average useful life of the facilities comprising the Project.

(e) The District has not heretofore expended any sums on the Project which are to be reimbursed from the proceeds of the Bonds, other than (a) certain preliminary expenditures such as engineering and planning costs not exceeding 20% of the Bond proceeds, (b) expenditures made within 60 days prior to the date of adoption of this Resolution, and (c) expenditures prior to which the District had adopted an official intent resolution regarding reimbursement from tax-exempt bond proceeds.

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

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

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

(i) This Resolution is intended to and does constitute, in part, a declaration of official intent under applicable Income Tax Regulations.

SECTION 13

SEVERABILITY CLAUSE

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

SECTION 14

REPEAL OF INCONSISTENT PROVISIONS

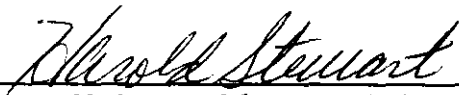
All resolutions and orders, or parts thereof, in conflict with the provisions of this Resolution are, to the extent of such conflict, hereby repealed.

SECTION 15

WHEN RESOLUTION EFFECTIVE

This Resolution shall be in full force and effect from and after its adoption, approval and attestation as provided by law.

ADOPTED BY THE COMMISSION OF THE EDMONSON COUNTY WATER DISTRICT, at a meeting held on the 14th day of June, 2005, on the same occasion signed by the Chairman, attested by the Secretary-Treasurer, and declared to be in full force and effect.



Chairman of the Commission

Attest:

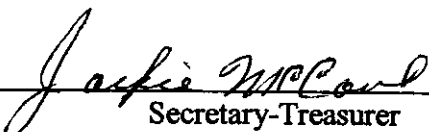


Secretary-Treasurer

Certification

The undersigned, Secretary-Treasurer of the Commission of Edmonson County Water District, hereby certifies that the foregoing is a true, complete and correct copy of a Resolution adopted by the Commission of the District at a properly convened meeting of the Commission of the District held on the 14th day of June, 2005, signed by the Chairman and attested by me as Secretary-Treasurer, as shown by the official records in my custody and under my control.

WITNESS my hand this 22nd day of June, 2005.


Secretary-Treasurer

constructing additions and improvements to the System which will either enhance its revenue-producing capacity or provide a high degree of service. The Depreciation Fund shall also be available for transfer to the Bond Fund in order to avoid default in connection with any Bonds payable from the Bond Fund or to prepay or redeem Bonds in advance of their maturity.

* * *

At any time when the accumulations in the Operation and Maintenance Fund, the Bond Fund and the Depreciation Fund shall exceed anticipated and foreseeable needs for authorized purposes, all or any portion of such excess may be invested and reinvested upon order of the Commission in interest-bearing obligations of, or obligations the principal of and interest on which are guaranteed by, the United States Government ("Government Obligations"), or in bank certificates of deposit fully collateralized by Government Obligations, maturing or subject to redemption at the option of the holder not later than the times the proceeds of such obligations will be needed; but as and when funds may be required for authorized purposes a sufficient portion thereof shall be converted into cash and so applied. All investments of money in any Fund shall be carried to the credit of such Fund; all income from investments and any profit from the sale thereof shall be credited thereto; and any expenses incident to investment or reinvestment, together with any loss from forced conversion of investments into cash, shall be charged thereto.

* * *

All payments into the above special funds shall be made on or before the fifteenth (15th) day of each month, except that when the fifteenth (15th) day of any month shall be a Sunday or a legal holiday, then such payment shall be made on the next succeeding business day.

All moneys held in any of the above special funds shall be kept apart from all other District funds and shall be deposited in the Depository Bank, and all such deposits which cause the aggregate of all deposits of the District therein to be in excess of the amount secured by FDIC shall (unless invested as herein authorized) be secured by a surety bond or bonds or by pledge of direct obligations or by guaranteed bonds or securities of the United States Government having a market value equivalent to such deposit.

SECTION 8

COVENANTS TO BONDHOLDERS

The District hereby irrevocably covenants and agrees with the holder or holders of any and all Bonds and parity bonds at any time issued and outstanding pursuant to authority of this Resolution that so long as the same or any part thereof or interest thereon remain outstanding and unpaid:

(A) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky, and by the terms and provisions of this Resolution.

(B) It will at all times operate the System on a revenue-producing basis, and will permit no free services to be rendered or afforded thereby.

(C) It will maintain the System in good condition through application of revenues accumulated and set aside for operation and maintenance, as herein provided; and will make unusual or extraordinary repairs, renewals and replacements, as the same may be required, through application of revenues accumulated and set aside for such purposes.

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

(i) it is in compliance with all covenants and undertakings in connection with all of its bonds then outstanding and payable from the revenues of the System;

(ii) it will, in the event of sale, apply the proceeds to either (1) redemption of outstanding Bonds or parity bonds in accordance with the provisions governing prepayment of bonds in advance of maturity, or (2) replacement of the facility so disposed of by another facility the revenues of which shall be incorporated into the System as hereinbefore provided;

(iii) it certifies, prior to any abandonment of use, that the facility to be abandoned is no longer economically feasible of producing net revenues; and

(iv) notwithstanding all of the foregoing, no such sale, abandonment or transfer of System facilities shall be made so long as USDA owns any of the Bonds herein authorized, without the written consent and approval of USDA.

(E) It will establish, enforce and collect rates and charges for services rendered and facilities afforded by the System; and the same shall be reasonable and just, taking into account and consideration the cost and value of the System, the costs of operating the same and maintaining it in a good state of repair, proper and necessary allowances for depreciation and for additions and extensions, and the amounts necessary for the orderly retirement of all outstanding bonds as aforesaid and the accruing interest thereon, and the accumulation of funds as herein provided; and such rates and charges shall be adequate to meet all such requirements as provided in this Resolution, and shall, if necessary, be adjusted from time to time in order to comply herewith; and such rates and charges shall be adequate to meet all such requirements as provided in this Resolution, and to provide 1.20 times coverage of principal and interest on all bonds payable from the Bond Fund, and shall, if necessary, be adjusted from time to time in order to comply herewith.

On or before the date of issuance of the Bonds, the District will adopt a Budget of Current Expenses for the System for the remainder of the then current fiscal year of the System, and thereafter, on or before the first day of each fiscal year so long as any Bonds are outstanding, it will adopt an Annual Budget of Current Expenses for the ensuing fiscal year, and will file a

copy of each such Budget, and of any amendments thereto, in the office of the Secretary-Treasurer of the District, and furnish copies thereof to the holder of any Bond upon request. The term "Current Expenses," as herein used, includes all reasonable and necessary costs of operating, repairing, maintaining, and insuring the System, but shall exclude any allowance for depreciation, payments into the Depreciation Fund for extensions, improvements, and extraordinary repairs and maintenance, and payments into the Bond Fund. The District covenants that the Current Expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that it will not expend any amount or incur any obligations for operation, maintenance and repairs in excess of the amounts provided for Current Expenses in the Annual Budget, except upon resolution duly adopted by the Commission of the District determining that such expenses are necessary in order to operate and maintain the System. At the same time, and in like manner, the District agrees that it will prepare an estimate of gross revenues to be derived from operation of the System for each fiscal year, and to the extent that said gross revenues are insufficient to meet all requirements as provided in this Resolution, and to provide 1.20 times coverage of principal of and interest on all bonds payable from the Bond Fund, the District covenants and agrees that it will revise its rates and charges for services rendered by the System, so that the same will be adequate to meet all of such requirements.

(F) It will not at any time make any reduction in any prevailing schedule of rates and charges for use of the services and facilities of the System without first obtaining the written determination of a consulting engineer of national reputation that the proposed reduction will not adversely affect the ability of the District to meet all the requirements set forth in this Resolution.

(G) It will at all times segregate the revenues of the System from all other revenues, moneys, and funds of the District, and will promptly and regularly make application and distribution thereof into the special funds provided in this Resolution, in the amount and with due regard for the priorities herein attributed thereto.

(H) It will keep proper books of record and account, separate and clearly distinguishable from all other municipal records and accounts, showing complete and correct entries of all transactions relating to the System, and the same shall be available and open to inspection by any Bondholder, and any agent or representative of a Bondholder.

(I) It will, within ninety (90) days after the end of each fiscal year, cause an audit to be made of the books of record and account pertinent to the System, by an independent state-licensed certified public accountant not in the employ of the District on a monthly salary basis, showing all receipts and disbursements, and reflecting in reasonable detail the financing condition and records of the System, including the status of the several funds hereinbefore created, the status of the insurance and fidelity bonding, the number and type of connections, and the current rates and charges, with comments of the auditor concerning whether the books and records are being kept in compliance with this Resolution and in accordance with recognized accounting practices, and will promptly cause a copy of the audit report to be filed in the office of the Secretary-Treasurer where it will be available for public inspection, and will promptly mail a copy thereof to the original purchaser of Bonds issued hereunder. If requested to do so, the District will furnish to any Bondholder a condensed form of the balance sheet, and a condensed form of the operating report, in reasonable detail. All expenses incurred in causing such audits to be made, and copies distributed, shall constitute proper expenses of operating and

maintaining the System, and may be paid from revenues allocated for such purposes, as herein provided. Provided, so long as USDA holds any of the Bonds herein authorized, the District shall furnish operating and other financial statements in such form and substance and for such periods as may be requested by USDA.

(J) Any holder of Bonds may either at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance by the District and its officers and agents of all duties imposed or required by law or this Resolution in connection with the operation of the System, including the making and collecting of sufficient rates and segregation of the revenues and application thereof.

(K) If there be any default in the payment of the principal of or interest on any of the Bonds, then upon the filing of suit by any holder of the Bonds any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the District, with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against the System, and for the payment of Current Expenses, and to apply the revenues in conformity with this Resolution and the provisions of said statute laws of Kentucky aforesaid.

(L) The District will cause each municipal officer or other person (other than Depository Banks) having custody of any moneys administered under the provisions of this Resolution to be bonded at all times in an amount at least equal to the maximum amount of such moneys in his custody at any time, each such bond to have surety given by a surety corporation qualified to do business in Kentucky and approved by the Commission; and the premiums for such surety shall constitute a proper expense of operating the System, and may be paid from moneys available in the Operation and Maintenance Fund.

(M) It will procure, and at all times maintain in force, insurance of all insurable properties constituting parts of, or being appurtenant to, the System to the full insurable value thereof, against damage or destruction by fire, windstorm, and the hazards covered by the standard "extended coverage" policy endorsements or provisions, the premiums therefor to be paid from the Operation and Maintenance Fund; and will deposit all sums collected under the terms of such policies in a special Fund. Such insurance shall be in amounts sufficient to provide for not less than full recovery whenever a loss from perils insured against does not exceed eighty percentum (80%) of the full insurable value of the damaged facility.

(N) The District will procure and at all times maintain public liability insurance relating to the operation of the System, with limits of not less than \$200,000 for one person and \$500,000 for more than one person involved in one accident to protect the District from claims for bodily injury and/or death; and not less than \$200,000 from claims for damage to property of others which may arise from the District's operation of the System.

(O) The District will carry suitable worker's compensation insurance in accordance with law.

(P) If the District owns or operates a vehicle in the operation of the System, the District will procure and at all times maintain vehicular public liability insurance with limits of not less