

BOND RESOLUTION

POWELL'S VALLEY WATER DISTRICT

AUTHORIZING

POWELL'S VALLEY WATER DISTRICT WATERWORKS REVENUE BONDS OF 1987

IN THE AMOUNT OF

\$239,000

I N D E X

<u>SECTION</u>	<u>TITLE</u>	<u>PAGE</u>
	ARTICLE 1. DEFINITIONS; PURPOSE; AUTHORITY; CONSTRUCTION PROJECT; AUTHORIZATION OF BONDS; SECURITY	
101	Definitions	3
102	Purpose; Construction of Construction Project; System to Continue to be Operated as a Revenue- Producing Public Project; Authority	6
103	Construction Award Approved; Work Authorized	6
104	Declaration of Period of Usefulness	7
105	Authorization of Bonds	7
106	Current Bonds Shall be Payable Out of Gross Revenues, and Secured by Statutory Mortgage Lien on a Parity with the Prior Bonds	8
107	Lien on Water Purchase Contract	8
	ARTICLE 2. THE BONDS; PRINCIPAL INSTALLMENTS; EXECUTION; PREPAYMENT; AND BOND FORM	
201	Principal Installments	9
202	Issuance of Current Bonds	10
203	Place of Payment and Manner of Execution	10
204	Provisions as to Prepayment	10
205	Bond Form	10
	ARTICLE 3. CONSTRUCTION ACCOUNT; INTERIM FINANCING; APPLICATION OF PROCEEDS; ARBITRAGE LIMITATIONS	
301	The Construction Account; Fidelity Bond of Treasurer; Covenants Applicable if FmHA Purchases the Bonds; Application of Proceeds of Bonds; Other Transfers and Deposits	16
	A. Covenants Applicable if FmHA Purchases Bonds	16
	B. Application of Proceeds of Current Bonds	16
	(1) Immediate Repayment of Interim Financing	16
	(2) Balance to be Deposited in Construction Account; Grant Proceeds and District Contribution to be Deposited in the Construction Account	17
	(3) Procedure for Withdrawal of Funds From Construction Account	17

<u>SECTION</u>	<u>TITLE</u>	<u>PAGE</u>
	(4) Transfer of Capitalized Interest to Current Sinking Fund	18
	(5) Investment of Funds in Construction Account	18
	(6) Statement of Contractors, Engineers, and Attorneys as to Payment Required Prior to Delivery of Current Bonds, if Current Bonds Purchased by FmHA	19
	(7) Disposition of Balance in Construction Account After Completion of Construction Project	19
302	Interim Financing Authorization	20
	(a) Commercial Interim Financing	20
	(b) Possible Multiple Advances by FmHA if Current Bonds Shall be Purchased by FmHA	22
	(c) Interim Financing From Source Other Than a Financial Institution or FmHA	22
303	Arbitrage Limitations on Investment of Proceeds	23
	ARTICLE 4. FLOW OF FUNDS; CURRENT BONDS ON A PARITY WITH PRIOR BONDS; MONTHLY PAYMENTS OF PRINCIPAL AND INTEREST, IF REQUESTED BY FmHA, SO LONG AS FmHA OWNS OR INSURES ANY OF THE BONDS	
401	Current Bonds on a Parity with Prior Bonds	27
402	Provisions of Prior Bond Resolution Incorporated Herein; Adjustments in Required Deposits	27
	A. Adjustments in Required Sinking Fund Deposits	28
	B. District to Make Principal and Interest Payments on Prior Bonds and Current Bonds on a Monthly Basis, if Requested by the FmHA, so Long as FmHA Owns or Insures Any of the Prior Bonds and Current Bonds	29
	C. Operation and Maintenance Fund	29
	D. Adjustment in Depreciation Fund Deposits	29
	E. Surplus Funds	31
	ARTICLE 5. COVENANTS OF DISTRICT	
501	Rates and Charges	32
502	Books and Accounts	32
503	System to Continue to be Operated on Calendar Year Basis	33

<u>SECTION</u>	<u>TITLE</u>	<u>PAGE</u>
504	General Covenants	34
505	Other Covenants Applicable So Long as FmHA Owns Any Bonds; Loan Resolution	34
506	Insurance on Motors, Tanks, and Structures	35
ARTICLE 6. INFERIOR BONDS AND PARITY BONDS		
601	Inferior Bonds	36
602	Parity Bonds to Complete the Construction Project	36
603	Parity Bonds to Finance Future Improvements; Conditions of Showings Required	37
604	Covenants to be Complied with at Time of Issuance of Parity Bonds	38
605	Prepayment Provisions Applicable to Parity Bonds	38
606	District Shall Not Issue Any Future Bonds or Obligations Against the System Without the Written Consent of the FmHA, So Long as the Government Owns Any Bonds Against the System	39
607	Priority of Lien; Permissible Disposition of Surplus or Obsolete Facilities; Conditions	39
ARTICLE 7. DEFAULT AND CONSEQUENCES		
701	Events of Default	40
702	Consequences of Act of Default	40
ARTICLE 8. CONTRACTUAL PROVISIONS; GRANT APPROVAL; AND MISCELLANEOUS PROVISIONS		
801	This Resolution Contractual with Bondowners	42
802	All Current Bonds are Equal	42
803	District Obligated to Refund Current Bonds Owned by Government Whenever Same is Feasible; Defeasement Prohibited	42
804	Approval and Acceptance of FmHA Grant Agreement	43
805	Approval and Acceptance of EDA Grant Agreement	43
806	Alternate Statutory Authority	43
807	Authorization, Ratification, and Confirmation of Approval and Execution of Various Documents, Including Legal Services Agreements of Bond Counsel and Local Counsel; Agreement for Engineering Services; Letter of Intent to Meet Conditions of Letter of Conditions of FmHA; Loan Resolution; and Water Purchase Contract(s)	44

<u>SECTION</u>	<u>TITLE</u>	<u>PAGE</u>
808	Authorization of Condemnation to Acquire Easements and/or Sites	44
ARTICLE 9. SALE OF CURRENT BONDS		
901	Sale of Current Bonds	46
902	Possible Adjustment in Date of Current Bonds, Maturities, Prepayment Provisions, and Other Dates, with Consent of Purchaser if Delivery is Delayed	46
ARTICLE 10. CONCLUDING PROVISIONS		
1001	Covenant of District to Take All Action Necessary to Assure Compliance with the Internal Revenue Code of 1986	47
1002	Severability Clause	47
1003	All Provisions in Conflict Repealed	48
1004	Effective Ten Days From Adoption	48
	CERTIFICATION	49

BOND RESOLUTION

RESOLUTION OF THE POWELL'S VALLEY WATER DISTRICT OF POWELL AND ESTILL COUNTIES, KENTUCKY, AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$239,000 PRINCIPAL AMOUNT OF POWELL'S VALLEY WATER DISTRICT WATERWORKS REVENUE BONDS OF 1987, FOR THE PURPOSE OF FINANCING THE COST (NOT OTHERWISE PROVIDED) OF THE CONSTRUCTION OF EXTENSIONS, ADDITIONS, AND IMPROVEMENTS TO THE EXISTING WATERWORKS SYSTEM OF SAID DISTRICT; PROVIDING FOR SAID BONDS TO RANK ON A PARITY WITH CERTAIN OUTSTANDING REVENUE BONDS, PREVIOUSLY ISSUED BY SAID DISTRICT; SETTING FORTH TERMS AND CONDITIONS UPON WHICH SAID BONDS MAY BE ISSUED AND OUTSTANDING; PROVIDING FOR THE COLLECTION, SEGREGATION, AND DISTRIBUTION OF THE REVENUES OF SAID WATERWORKS SYSTEM; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF SAID BONDS.

WHEREAS, the waterworks system (the "System") of the Powell's Valley Water District (the "District") is owned and operated by said District under Chapters 74 and 106 of the Kentucky Revised Statutes (the "Act"), and

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

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

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

WHEREAS, the FmHA, as the Owner of the Prior Bonds, has consented to the issuance by the District of \$239,000 of bonds (the "Current Bonds"), ranking on a parity with the Prior Bonds, and

WHEREAS, it is the desire and intent of the District at this time to adopt this Resolution pursuant to the Act, to authorize and provide for the issuance of revenue bonds in the principal amount of \$239,000, for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions, and improvements to the System of the District, in accordance with plans and specifications prepared by Mayes, Sudderth & Etheredge, Inc., now on file in the office of the Secretary of the District, and to prescribe the covenants of the District, the rights of Bondowners, and the details of the issuance and sale of the proposed Current Bonds, and

WHEREAS, the Public Service Commission of Kentucky has issued an Order on August 21, 1987, granting to the District a Certificate of Public Convenience and Necessity, authorizing the construction of said extensions, additions, and improvements, and

WHEREAS, the proceeds of the Current Bonds will be supplemented by Grant Proceeds (as hereinafter defined) in the amount of approximately \$807,500, and by water connection charges in the amount of at least \$73,500, to provide the total cost of such construction, and

WHEREAS, the District has entered into an amended contract for purchase of treated water (the "Water Purchase Contract") with the City of Clay City, Kentucky, assuring the District an adequate supply of water for as long as any of the proposed Current Bonds shall be outstanding,

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF THE POWELL'S VALLEY WATER DISTRICT OF POWELL AND ESTILL COUNTIES, KENTUCKY, AS FOLLOWS:

ARTICLE 1

DEFINITIONS; PURPOSE; AUTHORITY; CONSTRUCTION PROJECT;
AUTHORIZATION OF BONDS; SECURITY.

Section 101. Definitions.

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

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

"ALL BONDS" refers to the outstanding Bonds of 1970 and the Current Bonds.

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

"BONDOWNER" or "OWNER" mean and contemplate, unless the context otherwise indicates, the registered Owners of the Current Bonds at the time issued and outstanding hereunder, or any of them.

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

"BONDS OF 1970" refers to the original authorized issue of \$278,000 of bonds designated as "Powell's Valley Water District Waterworks Revenue Bonds of 1970", of which there are presently outstanding \$240,000 of Bonds, scheduled to mature on January 1 in each of the years, 1988 through 2010, inclusive.

"BOND RESOLUTION OF 1970" or "1970 BOND RESOLUTION" refers to the Resolution authorizing the Bonds of 1970, duly adopted by the Board of Commissioners of the District on August 11, 1970.

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

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

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

"CURRENT BONDS" refers to the \$239,000 of Powell's Valley Water District Waterworks Revenue Bonds of 1987 authorized by this Resolution, to be dated as of the date of issuance thereof.

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

"DEPOSITORY BANK" means the bank at which the principal of and interest on the Prior Bonds have been and will continue to be payable and which has served and shall continue to serve as the depository of all of the various funds created in the Prior Bond Resolution, and which funds will be continued pursuant to this Resolution, and as the depository of the various funds created in this Current Bond Resolution, which bank is Powell County Bank, Stanton, Kentucky, or its successor.

"DEPRECIATION FUND" refers to the Powell's Valley Water District Depreciation Reserve Fund, created in Section 11C of the Prior Bond Resolution.

"DISTRICT" refers to the Powell's Valley Water District, of Powell and Estill Counties, Kentucky.

"EDA GRANT" refers to the Economic Development Administration grant described in Section 805 of this Resolution.

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

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

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

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

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

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

"GRANT PROCEEDS" refers to the proceeds of the FmHA Grant and the EDA Grant.

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

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

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

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

"PRIOR BONDS" refers to the Bonds of 1970.

"PRIOR BOND RESOLUTION" refers to the 1970 Bond Resolution.

"SINKING FUND" refers to the "Powell's Valley Water District Waterworks Bond and Interest Sinking Fund of 1970", created in Section 11B of the 1970 Bond Resolution, the title of which Fund is changed herein to "Powell's Valley Water District Waterworks Bond and Interest Sinking Fund".

"STATUTES" refers to the Act.

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

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

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

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

The Current Bonds shall be issued for the purpose of financing the cost (not otherwise provided) of the Construction Project, as set out in the plans and specifications prepared by the Consulting Engineers. The Commission hereby declares the System of the District, including the extensions, additions, and improvements to be constructed, to constitute a revenue-producing public project, and said System shall continue to be owned, controlled, operated, and maintained by the District as a revenue-producing public project pursuant to the Act, so long as any of the Prior Bonds, the Current Bonds, or any additional Parity Bonds remain outstanding, for the security and source of payment of all of such Bonds, which are payable from and secured by a first pledge of the gross revenues (changed from "net revenues" as required by the Prior Bond Resolution, with the consent of the owner of the Prior Bonds) of and by a first statutory mortgage lien against the System, all ranking on a parity.

Section 103. Construction Award Approved; Work Authorized.

The Commission hereby authorizes, approves, ratifies, and confirms its previous action in advertising for and taking steps toward awarding the contracts for the construction of the Construction Project to the lowest and best bidders, and further approves the action of the District officials in entering into formal contracts with said bidders, subject to the necessary

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

Section 104. Declaration of Period of Usefulness.

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

Section 105. Authorization of Bonds.

The District has heretofore determined that the total cost of the Construction Project, including preliminary expenses, land and rights-of-way, engineering expense, capitalized interest during construction, legal and administrative costs, publication costs, initial deposits required, and all incidental expenses, will be not exceeding \$1,120,000. Therefore, it is hereby determined to be necessary in order for the District to finance the cost, not otherwise provided, of the Construction Project that the District issue a total of \$239,000 of Current Bonds, based on the following calculation:

Total cost of Construction Project		\$1,120,000
Less:		
FmHA Grant	\$607,500	
EDA Grant	200,000	
Connection Charges	<u>73,500</u>	
Total Non-Bond Funds:		<u>881,000</u>
Balance to be financed by Current Bonds		\$ 239,000

Accordingly, for the purpose of financing the cost (not otherwise provided) of the Construction Project, under the provisions of the Act, there are hereby authorized to be issued and sold Two Hundred Thirty-Nine Thousand Dollars (\$239,000) principal amount of Powell's Valley Water District Waterworks Revenue Bonds of 1987.

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

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

Section 106. Current Bonds Shall be Payable Out of Gross Revenues and Secured by Statutory Mortgage Lien on a Parity with the Prior Bonds.

All of the Current Bonds, together with the interest thereon, the Prior Bonds, and any additional Parity Bonds that may be issued under the conditions and restrictions herein set forth, shall, with the consent of the owner of all of the Prior Bonds, be secured on a parity first lien basis by and payable solely from the gross revenues of the System, instead of the net revenues of the System, as provided in the Prior Bond Resolution, shall be a valid claim of the Owners of such Bonds against the Sinking Fund created for the benefit of such Owners, and shall be further secured, on a parity first lien basis, by a statutory mortgage lien as provided in Section 106.080 of the Kentucky Revised Statutes, which statutory mortgage lien is hereby recognized to be valid and binding upon the District and upon all of the properties constituting the System; and such lien shall take effect immediately upon delivery of the Current Bonds.

Section 107. Lien on Water Purchase Contract.

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

ARTICLE 2

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

Section 201. Principal Installments.

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

<u>Payment Due</u> <u>January 1,</u>	<u>Principal</u> <u>Installments</u>
1990	\$ 2,000
1991	2,500
1992	2,500
1993	2,500
1994	2,500
1995	3,000
1996	3,000
1997	3,000
1998	3,000
1999	3,500
2000	3,500
2001	4,000
2002	4,000
2003	4,000
2004	4,500
2005	4,500
2006	5,000
2007	5,000
2008	5,500
2009	5,500
2010	6,000
2011	6,000
2012	6,500
2013	7,000
2014	7,000
2015	7,500
2016	8,000
2017	8,500
2018	9,000
2019	9,000
2020	9,500
2021	10,000
2022	10,500
2023	11,000
2024	11,500
2025	12,500
2026	13,000
2027	13,500

Section 202. Issuance of Current Bonds.

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

Section 203. Place of Payment and Manner of Execution.

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

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

Section 204. Provisions as to Prepayment.

Except when all of the Current Bonds are held by the Government, installments of principal falling due prior to January 1, 1999, shall not be subject to prepayment. Installments of principal falling due on and after January 1, 1999, shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 1998, at par plus accrued interest, without any prepayment penalty.

So long as all of the Current Bonds are owned by the Government, all or any of the Current Bonds, or installments in a multiple of \$500, may be prepaid at any time in inverse chronological order of the installments due, at par plus accrued interest without any prepayment penalty.

Section 205. Bond Form.

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

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
COUNTIES OF POWELL AND ESTILL
POWELL'S VALLEY WATER DISTRICT WATERWORKS REVENUE BONDS OF 1987

No. R-1 ANNUAL INTEREST RATE: _____ % \$239,000

KNOW ALL MEN BY THESE PRESENTS:

That the Powell's Valley Water District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Powell and Estill Counties, for value received, hereby promises to pay to

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

TWO HUNDRED THIRTY-NINE THOUSAND DOLLARS (\$239,000),

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

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

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

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

This Bond* is issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 74 and 106 of the Kentucky Revised Statutes (the "Act"), and pursuant to a duly adopted Bond Resolution of the District authorizing same (the

*If more than one Fully Registered Bond is issued, all references to "this Bond" will be changed to "these Bonds".

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

This Bond ranks on a parity as to security and source of payment with certain outstanding Powell's Valley Water District Waterworks Revenue Bonds of 1970 (the "Prior Bonds"), authorized by a Resolution adopted by the Commission of the District on August 11, 1970 (the "Prior Bond Resolution").

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

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

A first statutory mortgage lien, which is hereby recognized as valid and binding on the System, has been created and granted by the District by the Current Bond Resolution pursuant to said Statutes, and more specifically Section 106.080 of the Kentucky Revised Statutes, to and in favor of the registered owner of this Bond, ranking on a parity with the Prior Bonds; and

the System and all appurtenances thereof and extensions thereto shall remain subject to such statutory mortgage lien until payment in full of the principal of and interest on the Prior Bonds and on this Bond.

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

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

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 1998, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple of Five Hundred Dollars (\$500), as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or his assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States of America, or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$500, may be prepaid at any time in inverse chronological order of the installments due.

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

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

It is hereby certified, recited, and declared that all acts, conditions, and things required to exist, happen, and be performed precedent to and in the issuance of this Bond, do exist, have happened, and have been performed in due time, form, and manner as required by law, and that the face amount of this Bond, together with all other obligations of the District, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

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

POWELL'S VALLEY WATER DISTRICT
Powell and Estill Counties, Kentucky

By Rev. Marion Brewer
Chairman

Attest:

Simpson Barnett
Secretary

(Seal of District)

PROVISION FOR REGISTRATION

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

(FORM OF REGISTRATION)

Date of Registration	Name of Registered Owner	Signature of Secretary of the Powell's Valley Water District, Bond Registrar
:	:	:
:	:	:
:	:	:
:	:	:
:	:	:

(FORM OF ASSIGNMENT)

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

By: _____

ARTICLE 3

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

Section 301. The Construction Account; Fidelity Bond of Treasurer; Covenants Applicable if FmHA Purchases the Bonds; Application of Proceeds of Bonds; Other Transfers and Deposits.

The Treasurer of the District, or such other District official(s) as shall be designated by the Commission (herein referred to as the "Treasurer"), shall be the custodian of all funds belonging to and associated with the System, and such funds shall be deposited in Powell County Bank, Stanton, Kentucky (the "Depository Bank"), which bank is a member of the Federal Deposit Insurance Corporation. All moneys in excess of the amount insured by the FDIC in the Construction Account (hereinafter referred to) shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The Treasurer shall execute a Fidelity Bond in the amount of not less than \$50,000, or such larger amount as the FmHA may require, which Fidelity Bond shall be effective and secured by a surety company approved by the FmHA so long as it is Owner of any of the Bonds; the FmHA and the District shall be named co-obligees in such surety bond; and the amount thereof shall not be reduced without the written consent of the FmHA; provided that whenever sums in the various accounts referred to herein (other than the Construction Account) shall exceed \$50,000, the Fidelity Bond shall be increased accordingly as requested by and with the approval of the FmHA. The District will segregate and earmark its various funds, consistent with this Resolution, in such manner as to enable the District to obtain the lowest possible surety premium rate on such Fidelity Bond(s).

A. Covenants Applicable if FmHA Purchases Bonds.

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

B. Application of Proceeds of Current Bonds.

The proceeds of the Current Bonds shall be applied as follows:

(1) Immediate Repayment of Interim Financing.

There shall immediately be paid to the Lenders (hereinafter defined) and/or the FmHA entitled thereto an amount sufficient to pay interest on and principal of any temporary loans (if any), and/or any Multiple Advances

furnished by the FmHA pursuant to Section 302(b) hereof, borrowed by the District in anticipation of the sale and delivery of the Current Bonds and/or of the receipt of Grant Proceeds, or the interest on and principal of such temporary loans may be paid simultaneously with the delivery of the Current Bonds, to the extent of part or all of the proceeds of the Current Bonds, as may be required by said Banks, and/or by the FmHA, in which event the amount to be so deposited into the Construction Account shall be reduced by such amount so paid. Also, at the time of delivery of the Current Bonds, there shall be paid all amounts then due and payable in connection with the costs of the Construction Project and in connection with the issuance of the Current Bonds.

(2) Balance to be Deposited in Construction Account; Grant Proceeds and District Contribution to be Deposited in the Construction Account.

If and to the extent that the proceeds of the Current Bonds shall be in excess of the amount necessary to pay the interest, principal, and costs referred to in Subparagraph B(1) of this Section, such excess amount shall immediately be deposited in the "Powell's Valley Water District Waterworks Construction Account" (the "Construction Account"), hereby created, which shall be established at the Depository Bank. There shall also be deposited in said Construction Account the Grant Proceeds, as and when received, or said Grant Proceeds may be applied, to the extent necessary, to liquidate or reduce any interim financing owed by the District at the time of receipt of Grant Proceeds. Simultaneously with or prior to the delivery of the Bonds, there shall also be deposited in the Construction Account the proceeds of the District contribution in the minimum amount of \$73,500 (less any amounts theretofore used for authorized purposes), to supplement the proceeds of the Bonds and Grant Proceeds in order to assure completion of the Construction Project.

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

(a) Prior to the expenditure by the District of any funds from the Construction Account derived from the proceeds of the Current Bonds, the District must obtain written approval from the FmHA as to such expenditures. The proceeds of said Construction Account shall be withdrawn only on checks signed by the District Treasurer (or by such other official of the District as may be authorized by the Commission, provided such District Treasurer or such other official shall execute an appropriate Fidelity Bond in an amount equal to not less than the maximum amount anticipated to be on deposit in said Construction Account at any one time, as determined by the Chairman, with the approval of the FmHA, apart from the Fidelity Bond required by Section 301 of this Resolution), in payment for services and/or materials supplied in connection with the Construction Project, as evidenced by (1) a certification of the Engineers designated herein, and (2) written approval of the Chairman (or by such other official of the District as may be authorized by the Commission).

(b) Prior to the expenditure by the District of any funds from the Construction Account derived from interim financing or from multiple advances from the FmHA, the District must obtain approved invoices and/or

partial payment estimates bearing the written approval of the Contractors, the Engineers, and the Chairman, and which invoices and/or partial payment estimates must have been reviewed and approved for payment by the designated FmHA official.

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

During construction, the District shall disburse Construction Project funds in a manner consistent with FmHA Instruction 1942.17(p)(5) of Appendix "A" to FmHA Instruction 1942-A. Form FmHA 424-18, "Partial Payment Estimate" or similar form approved by FmHA, shall be used for the purpose of documenting periodic construction estimates, and shall be submitted to FmHA for review and acceptance. Prior to disbursement of funds by the District, the Commission shall review and approve each payment estimate. All bills and vouchers must be approved by the FmHA prior to payment by the District.

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

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

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

There shall be transferred from the Construction Account an amount sufficient to provide for capitalized interest (initially estimated at \$25,000) during the construction of the Construction Project, as approved by the Engineers and by the FmHA. If and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Construction Project, such amount so transferred from the Construction Account shall be deposited in the Sinking Fund.

(5) Investment of Funds in Construction Account.

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

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

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

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

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

When the Construction Project has been completed and all construction costs have been paid in full, as certified by the Engineers for the District and/or by the FmHA, any balance then remaining in the Construction Account may, with the consent of the State Director of the FmHA, be applied to the cost of constructing additional extensions, additions, and improvements to the System, and/or such balance (subject to legal requirements as to possible refund of any allocated portion of the balance derived from Grant Proceeds) shall be transferred to the Current Sinking Fund hereinafter created, whereupon said Construction Account shall be closed. If such construction of additional extensions, additions, and improvements is to be undertaken by the Contractors previously engaged in the Construction Project, such additional construction may be authorized by a change order. Such balance so transferred shall be used by the District immediately to prepay installments due on the Bonds in the inverse order of maturities without prepayment penalty, provided further that any balance insufficient to prepay at least \$500 of the principal payment falling due in any year on the Bonds will be transferred to the Depreciation Fund.

Section 302. Interim Financing Authorization.

(a) Commercial Interim Financing.

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

The borrowing of up to the aggregate sum of \$239,000 from Powell County Bank, Stanton, Kentucky (either alone or through its correspondent bank), or from any other financial institutions (hereinafter collectively and individually referred to as the "Lenders"), is hereby authorized; and the Chairman of the District, Reverend Marion Brewer, or his successor, is hereby authorized to execute in the name and on behalf of the District (1) a single note (the "Note") in the amount of the interim loan with provision for advances against the amount of such Note, or (2) any number of notes (the "Notes"), in such form as may be prescribed by the Lenders, including Revenue Bond Anticipation Notes pursuant to Section 58.150 of the Kentucky Revised Statutes. Each advance or Note shall evidence a loan of cash funds by the Lenders to the District for services and/or materials supplied in connection with the aforesaid Construction Project, as evidenced by (i) a certification of the Engineers designated herein, (ii) written approval of the Chairman or by such other official of the District as may be authorized by the Commission, and (iii) written approval of the FmHA; provided, however, that written approval of the Engineers shall not be required for matters not under the jurisdiction of the Engineers, such as legal fees, land acquisition, and related items.

Interim financing shall be disbursed as follows:

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

(B) At the request of the District, the Lenders are and shall be authorized to deposit the proceeds of such Note or Notes in the Construction Account, in which event amounts of the District on deposit therein shall, until expended to the extent that same shall exceed the amount insured by the FDIC, be fully secured by a pledge of U. S. Obligations, and a Fidelity Bond in an amount equal to not less than the maximum amount deposited in such Construction Account must be furnished by the proper official of the District, as provided in Section 301 hereof; or

(C) The proceeds of such Note or Notes deposited in the Construction Account shall be disbursed only on checks signed by the District Treasurer (or such other District official as may be designated by the Commission), as provided in Section 301(B)(3) hereof, and subject to all the provisions of such Section.

The authority hereby granted to the Chairman includes the execution of renewal Notes in evidence of the renewal and extension of Note(s) becoming due, provided the aggregate of the principal amount of all such Note(s) shall not exceed \$239,000, and provided each Note which is renewed or superseded is simultaneously cancelled by the Lenders and transmitted to the District Treasurer. The rate of interest applicable to each Note and to each renewal Note shall not exceed a reasonable rate, which rate is subject to the approval of the FmHA.

Authority is hereby given for said total authorized interim financing of \$239,000 to be the maximum indebtedness which the District may owe to said Lenders; provided, however, that the District may reduce the amount owed by the District to said Lenders from time to time as and when funds are available to the District, whether derived from the proceeds of the Grant Proceeds, the proceeds of the sale of the Current Bonds, or otherwise, and may reborrow from said Lenders additional amounts in anticipation of the further receipt by the District of additional proceeds from the Bonds and/or Grant Proceeds, in order thus to enable the District to save interest costs by applying the proceeds of the Bonds and/or Grant Proceeds and/or other funds as received and which are not immediately needed for the payment of costs of the Construction Project, toward the liquidation and/or reduction of said interim financing loans until such time as additional interim financing loans are needed to provide additional funds for costs of the Construction Project as required by the District, subject to the limitation that the total aggregate amount owed to said Lenders shall not be in excess of \$239,000.

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

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

It is understood that the foregoing constitutes an alternative method of obtaining interim financing, and does not preclude the authorization and sale, by public advertisement or otherwise, of Bond Anticipation Notes,

Grant Anticipation Notes, and/or Bond and Grant Anticipation Notes, to the most favorable bidder on the open market, by concurrent or subsequent proceedings of the District.

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

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

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

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

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

The first proceeds of the Current Bonds are hereby pledged to the repayment of such Multiple Advances, and such pledge shall constitute a first and prior pledge against such proceeds.

(c) Interim Financing From Source Other Than a Financial Institution or FmHA.

In the event that the District is able to obtain interim financing at a reasonable rate and on reasonable terms from any source (the "Alternate Lender"), other than a financial institution or the FmHA, including any State

or Federal Agency, the provisions of subsection (a) above shall apply in all respects to such interim financing, with the reference to Lenders in said subsection (a) being deemed to refer to the Alternate Lender. In addition, the Chairman and the Secretary of the District are hereby authorized to execute any additional documents required by the Alternate Lender and approved by Bond Counsel, without any further action of the Commission.

Section 303. Arbitrage Limitations on Investment of Proceeds.

The District covenants and certifies, in compliance with the Internal Revenue Code, as amended (the "Code"), and the applicable Regulations relating thereto (the "Regulations"), as follows:

(a) The District certifies, on the basis of known facts and reasonable expectations on the date of adoption of this Resolution, that it is not expected that the proceeds of the Current Bonds will be used in a manner which would cause the Current Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and the applicable Regulations. The District covenants to the Purchasers and/or Owners of the Current Bonds that (1) the District will make no use of the proceeds of said Bonds, which, if such use had been reasonably expected on the date of issue of such Current Bonds, would have caused such Current Bonds to be arbitrage bonds, and (2) that the District will comply with (i) all of the requirements of Section 148 of the Code, and (ii) all of the requirements of the applicable Treasury Regulations relating thereto, to whatever extent is necessary to assure that the Current Bonds shall not be treated as or constitute arbitrage bonds.

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

- (1) that the District has entered into a contract with the Engineers for engineering services in connection with the Construction Project financed by the Current Bonds and the fees to be paid to such Engineers will exceed 2-1/2% of the total cost of the Construction Project;
- (2) that work on the Construction Project has commenced or will commence within six months from the date of issuance of the Current Bonds;
- (3) that the construction of said Construction Project will proceed thereafter to completion with due diligence on the part of the District;
- (4) that all of the proceeds of the Current Bonds, with the possible exception of the lesser of five percent (5%) of the proceeds of the Bonds or \$100,000, will be expended on the costs of the Construction Project within less than three years from the date of issuance of the Current Bonds;

- (5) that it is anticipated that amounts on deposit in the Current Sinking Fund will be used within thirteen (13) months from the date of deposit for the payment of debt service on the Outstanding Bonds, and that, except for an amount equal to not more than the greater of (i) one-twelfth (1/12) of debt service requirements of the Outstanding Bonds for the then ensuing year, or (ii) one year's earnings on the Current Sinking Fund, such Current Sinking Fund will be depleted through such application for current debt service requirements of the Outstanding Bonds;
- (6) that it is not anticipated that amounts will be accumulated in any reserve fund anticipated to be used for debt service on the Outstanding Bonds in excess of an amount reasonably required to sell the Current Bonds; however, in no event shall such amount exceed the lesser of (a) the maximum annual debt service on all Outstanding Bonds, (b) 1.25 times the average annual debt service for principal and interest on all Outstanding Bonds, or (c) 15% of (i) the face amounts (par) of the original authorized issue or series, or (ii) the net proceeds thereof if sold at less than 98% of par, of whatever bonds are outstanding against and payable from the revenues of the System; and it is not anticipated that an amount in excess of 10% of the proceeds (or any amount of the proceeds) from the sale of the Current Bonds will be deposited in any such reserve fund;
- (7) that it is not reasonably anticipated that amounts accumulated in the Depreciation Fund will be used for payment of the debt service on any Outstanding Bonds, even though such Depreciation Fund will be available if necessary to prevent a default in the payment of principal and interest on the Bonds;
- (8) that the original proceeds of the Current Bonds will not exceed the amount required (after deducting the amount of available Grant Proceeds, connection charges, and other funds provided by the District) for the costs of the Construction Project by more than the lesser of five percent (5%) of the proceeds of the Bonds or \$100,000; and there has therefore been no overissuance of the Current Bonds; and
- (9) that the District has not been advised of any listing or contemplated listing by the Internal Revenue Service determining that the foregoing type of certification with respect to the District's obligations may not be relied on.

(c) The District covenants that neither the proceeds of the Bonds, nor "Non-Exempt Revenues of the District" (hereinafter defined), will be invested in investments which will produce a net adjusted yield in excess of the net interest cost (effective yield) of the Current Bonds, if such investment would cause the Current Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code and the applicable Treasury Regulations relating thereto; provided, however, that such proceeds and/or revenues may be invested to whatever extent and whenever such Code and/or such applicable Regulations relating thereto permit same to be invested without causing the Current Bonds to be treated as "arbitrage bonds".

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

- (1) amounts deposited in the Sinking Fund for the purpose of paying debt service on any Outstanding Bonds within 13 months from the date of deposit;
- (2) amounts deposited in any reserve earmarked for or anticipated to be used for debt service on Outstanding Bonds, to the extent that such deposits do not cause the total amount of such revenues, deposits, and other excess Non-Exempt Revenues, to exceed (a) 15% of the Outstanding Bonds for which adequate provision was made to obtain the appropriate 15% exemption; or (b) such other maximum as set out above in Subsection 303(b)(6) of this Section; and
- (3) amounts deposited in a Depreciation Fund, Operation and Maintenance Fund, or any other fund (however designated) reasonably expected to be used for extensions, additions, improvements, repairs, or replacements to the System, and not reasonably expected to be used to pay debt service (even if pledged to be used to pay debt service in the event of the unexpected inadequacy of other funds pledged for that purpose) of Outstanding Bonds.

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

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

Prior to or at the time of delivery of the Bonds, the Chairman and/or the District Treasurer (who are jointly and severally charged with the responsibility for the issuance of the Current Bonds) is authorized to execute

the appropriate certification with reference to the matters referred to above, setting out all known and contemplated facts concerning such anticipated construction, expenditures, and investments, including the execution of necessary and/or desirable certifications of the type contemplated by Section 148 of the Code and the Treasury Regulations relating thereto, in order to assure that interest on the Current Bonds will be exempt from all Federal income taxes and that the Current Bonds will not be treated as arbitrage bonds.

ARTICLE 4

FLOW OF FUNDS; CURRENT BONDS ON A PARITY WITH PRIOR BONDS; MONTHLY PAYMENTS OF PRINCIPAL AND INTEREST, IF REQUESTED BY FmHA, SO LONG AS FmHA OWNS OR INSURES ANY OF THE BONDS.

Section 401. Current Bonds on a Parity with Prior Bonds.

In accordance with the requirements of Section 21C(3) of the Prior Bond Resolution, it is hereby certified, covenanted, and declared that prior to the issuance of the Current Bonds there will have been procured and filed with the Secretary of the District (a) a letter from the FmHA to the effect that the FmHA agrees to the issuance of the Current Bonds ranking on a parity as to security and source of payment with the Prior Bonds, all of which are held by the FmHA, together with (b) a certification signed by the FmHA to the effect that a legend has been typed, stamped, or otherwise affixed on each of the Prior Bonds held by the FmHA, evidencing the agreement of the FmHA as the then Owner of said Prior Bonds, to the issuance of the Current Bonds so as to rank on a parity with said Prior Bonds; provided that the District agrees further, at the request of and with the approval of the FmHA that both the Prior Bonds and the Current Bonds will henceforth be secured by a first pledge of the gross revenues, instead of (as heretofore provided for the Prior Bonds) the net revenues of the System. The District and the FmHA have both agreed that such legend shall be in substantially the following form:

The holder of this Bond has consented to the issuance of \$239,000 of Bonds of 1987 ranking on a parity as to security and source of payment with this Bond, and has further covenanted that such security shall consist of a first pledge of the gross revenues, instead of the net revenues, of the System.

Section 402. Provisions of Prior Bond Resolution Incorporated Herein; Adjustments in Required Deposits.

All proceedings preliminary to and in connection with the issuance of said outstanding Prior Bonds of the District, including provisions made for (i) the receipt, custody, and application of the proceeds of said Bonds; (ii) the operation of the System on a revenue-producing basis; (iii) the segregation, allocation, and custody of the revenues derived from the operation of the System; (iv) the enforcement and payment of said Prior Bonds; and (v) the depreciation of the System; and all other covenants for the benefit of bondowners set out in the Prior Bond Resolution, except the change, as set out in Section 401 above, from a net pledge of the revenues of the System to a gross pledge of such revenues, with the approval of the FmHA as the owner of all of the Prior Bonds, are hereby ratified and confirmed and shall continue in force and inure to the security and benefit of the Current Bonds, as well as of the Prior Bonds, the same as if such provisions and proceedings were set out in full herein; provided, further, that the amount of the Cash Income and Revenues of the System, to be paid into the Sinking Fund during each of the fiscal years so long as any of the Prior Bonds and Current Bonds are outstanding, shall be sufficient to pay when due the interest upon and principal of all of the Prior Bonds and of all of the Current Bonds, as hereinafter specified.

A. Adjustments in Required Sinking Fund Deposits.

In accordance with the requirements of Sections 11B and 21D of the Prior Bond Resolution, it is hereby recognized that the District is obligated upon the issuance of the Current Bonds, ranking on a parity with the Prior Bonds, to provide for additional debt service requirements of the Current Bonds.

Accordingly, it is hereby provided that Section 11B of the Prior Bond Resolution is amended and supplemented to provide further as follows:

At or after the delivery of the Current Bonds, there shall be transferred from the Construction Account to the Sinking Fund an amount sufficient to provide for capitalized interest (initially estimated at \$25,000) on the Current Bonds during the construction of the Construction Project, as approved by the Engineers and by the FmHA, if and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Construction Project.

Until the expiration of the month in which interest on the Current Bonds is last payable out of the sum set aside into the Sinking Fund as capitalized interest, there shall continue to be transferred and deposited (as heretofore required by Section 11B of the Prior Bond Resolution) in each month from the Revenue Fund created in Section 11 of the Prior Bond Resolution and into which Revenue Fund all cash income and revenues derived from the operation of the System are required to be deposited, into the Sinking Fund on or before the 20th day of each month, for payment of interest on and principal of the Prior Bonds, a sum equal to the total of the following:

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

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

- (1) An amount equal to one-sixth (or such larger amount as is necessary) of the next succeeding six month interest installment to become due on the Outstanding Bonds (including the Prior Bonds, the Current Bonds, and any other outstanding Parity Bonds), plus

- (2) A sum equal to one-twelfth (or such larger amount as is necessary) of the principal of the Outstanding Bonds maturing on the next succeeding January 1.

If the District for any reason shall fail to make any monthly deposit as required, then an amount equal to the deficiency shall be set apart and deposited into the Sinking Fund out of the first available revenues in the ensuing month(s), which amount shall be in addition to the monthly deposit otherwise required during such succeeding month(s). Whenever there shall accumulate in the Sinking Fund amounts in excess of the requirements during the next twelve months for paying the principal of and interest due on the Outstanding Bonds, as same fall due, such excess may be used for redemption or prepayment of any of such Outstanding Bonds prior to maturity, as set forth in Section 205 hereof and as provided in the Prior Bond Resolution.

- B. District to Make Principal and Interest Payments on Prior Bonds and Current Bonds on a Monthly Basis, if Requested by the FmHA, so Long as FmHA Owns or Insures Any of the Prior Bonds and Current Bonds.

So long as any of the Prior Bonds and Current Bonds are held or insured by the FmHA, the District shall, if requested by the FmHA, make payments of amounts equal to the total of the payments required by subsections (1) and (2) of the preceding Section 401(A), being the total of the monthly principal and interest requirements of the Prior Bonds and Current Bonds, or of either issue, in monthly payments to the FmHA or to the insured Owners of the Prior Bonds and Current Bonds, out of the Sinking Fund; provided further that at the option of any other Owner of all of the Prior Bonds and Current Bonds, or of either issue, such payments shall similarly be made in monthly payments to such Owner.

- C. Operation and Maintenance Fund.

After the completion of the transfers required in this Section to be made in each month, there shall next be transferred monthly from the Revenue Fund and deposited into the Operation and Maintenance Fund, created in Section 11A of the Prior Bond Resolution, sums sufficient to meet the current expenses of operating and maintaining the System. The balance maintained in said Operation and Maintenance Fund shall not be in excess of the amount required to cover anticipated expenditures for a two-month period pursuant to the District's annual budget.

- D. Adjustment in Depreciation Fund Deposits.

It is hereby recognized that in Section 11C of the Prior Bond Resolution, provision was made for the accumulation of a Depreciation Reserve Fund to which, from the balance of the funds remaining after the current Sinking Fund deposit requirements are satisfied, there shall be set aside and paid in each month, as the next payment from the Revenue Fund, the sum of \$135 in each month, until there has been accumulated in such Depreciation Fund the sum of \$16,200, after which no further deposits are required by the Prior Bond Resolution to be made into such Depreciation Fund except to replace withdrawals.

Pursuant to the provisions of Section 21D of the Prior Bond Resolution which requires that an adjustment be made in the Depreciation Fund upon the issuance of bonds ranking on a parity with the Prior Bonds, it is hereby determined that upon the issuance of the Current Bonds, and upon completion of the Construction Project, as certified by the Engineers and by the FmHA, the sum of \$255 (increased from \$135) each month shall be deposited into the Depreciation Fund until there is accumulated in such Depreciation Fund the sum of \$30,600 (increased from \$16,200), which amount shall be maintained, and when necessary, restored to said sum of \$30,600, so long as any of the Prior Bonds and/or Current Bonds are outstanding and unpaid.

In accordance with the provisions of Section 11C of the Prior Bond Resolution, and as further security for the Bondowners and for the benefit of the District, it has been and is hereby provided that in addition to the monthly transfers required to be made from the Revenue Fund into the Depreciation Fund, there shall be deposited into said Depreciation Fund all proceeds of connection fees collected from potential customers (except the amounts necessary to pay the actual costs and service connections applicable to said potential customers) to aid in the financing of the cost of future extensions, additions, and improvements to the System, plus the proceeds of any property damage insurance (not otherwise used to replace damaged or destroyed property); and any such amounts or proceeds so deposited shall be used solely and only for the purposes intended. The term "Cash Income and Revenues" of the System, as used in Section 402 hereof, means all proceeds of waterworks service rates and charges, and does not include any of the other cash items enumerated in this paragraph.

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

All funds in the Sinking Fund and the Depreciation Fund shall be deposited in the Depository Bank, or such portion thereof as is designated by the Commission. All funds in the Sinking Fund and the Depreciation Fund shall be invested for the benefit of such respective Funds in Certificates of Time Deposit or savings accounts of the Depository Bank, or in U. S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for meeting interest and/or principal payments, to mature or be called, provided that to the extent that any amount of the District on deposit in the Depository Bank shall cause the total deposits of the District in said Depository Bank to exceed the amount insured by the FDIC, such excess amount shall be continuously secured by a valid pledge of U. S. Obligations, having an equivalent market value, in conformity with Section 66.480 of the Kentucky Revised Statutes. If the FmHA has purchased any of the Outstanding Bonds, investments in Certificates of Time Deposit may be

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

E. Surplus Funds.

Subject to the provisions for the disposition of the income and revenues of the System as set forth hereinabove, which provisions are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred within sixty days after the end of each fiscal year, to the Depreciation Fund, to be earmarked for the purpose of paying or financing the cost of extensions, additions, or improvements to the System, or, at the option of the District, the balance of excess funds in the Revenue Fund on such date, to be applied to the maximum extent feasible, to the prompt purchase or redemption of Outstanding Bonds.

ARTICLE 5

COVENANTS OF DISTRICT

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

Section 501. Rates and Charges.

The rates and charges for all services and facilities rendered by the System shall be reasonable and just, taking into account and consideration the cost and value of the System (including all extensions, additions, and improvements thereto), the cost of maintaining, repairing, and operating the same, and the amounts necessary for the payment of principal of and interest on Outstanding Bonds against the System. Notwithstanding the District shall charge such rates and charges as shall be adequate to meet the requirements of this Article 5 and Article 4 hereof.

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

Section 502. Books and Accounts.

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

Monthly operating reports shall be furnished to the FmHA and to any Bondowner requesting same whenever and so long as the District is delinquent in any of the covenants set out in the Prior Bond Resolution or this Current Bond Resolution.

Quarterly operating reports shall be furnished to such parties at all other times.

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

While any of the Prior Bonds, the Current Bonds, and any Parity Bonds are outstanding and unpaid and to the extent not now prohibited by law, the System shall continue to be operated and maintained on a calendar year basis commencing on January 1 of each year and ending on December 31 of the succeeding year (the "Fiscal Year").

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

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

At the same time and in like manner, the District shall prepare an estimate of gross revenues to be derived from the operation of the System for said Fiscal Year, and, to the extent that said gross revenues are insufficient (a) to pay debt service requirements on all Outstanding Bonds during the ensuing fiscal year, (b) to accumulate and maintain all required reserves enumerated herein, and (c) to pay current expenses, the District shall revise the rates and charges sufficiently to provide the funds required.

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

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

Section 504. General Covenants.

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

- (1) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky;
- (2) It will make and collect reasonable and sufficient rates and charges for services and facilities rendered by the System;
- (3) It will segregate the revenues and income from the System and make application thereof consistent with and as provided by this Resolution;
- (4) Unless the written consent of the Owners of a majority of the principal amount of the Outstanding Bonds has been obtained, the District agrees not to sell, lease, mortgage, or in any manner dispose of any integral part of the System, including any and all appurtenances thereto and extensions, additions, and improvements that may be made thereto, until all of the Outstanding Bonds shall have been paid or provided for in full, as provided herein; subject to the provisions of Section 605 hereof;
- (5) It will maintain in good condition and continuously operate the System and appurtenances thereto and will charge such rates and charges for the services rendered thereby so that the gross income and revenues will be sufficient at all times (i) to pay the interest on and principal of the Prior Bonds, the Current Bonds, and any additional Parity Bonds, as same become due, (ii) to pay the cost of operating and maintaining the System, and (iii) to provide for an adequate depreciation account;
- (6) It will carry and maintain insurance on properties of the System subject to loss or damage in amounts and against hazards substantially in accordance with the practices of other districts, cities, or corporations which own and maintain waterworks systems under similar conditions; and so long as the Government is the Owner of any of the Outstanding Bonds, the Government will be listed as co-beneficiary on any such policy; and the District shall further comply with the insurance requirements of Section 506 hereof (involving insurance on motors, tanks, and structures); and

Section 505. Other Covenants Applicable So Long as FmHA Owns Any Bonds; Loan Resolution.

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

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

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

If and to the extent not now fully required by the Prior Bond Resolution, the District shall (a) immediately after the adoption of this Resolution, and (b) at the time of final acceptance of the Construction Project from the Contractors, insure all electric motors, elevated water storage tanks, pumping stations, and major structures of the System, in an amount recommended by the District's Engineers and approved by the FmHA, so long as the FmHA is the Owner of any of the Current Bonds, for the hazards usually covered in such area, and shall similarly insure same in an amount recommended by the District's Engineers, without the necessity of approval by the FmHA if and whenever the District has Bonds outstanding against the System and none of such Bonds are owned by the FmHA.

ARTICLE 6

INFERIOR BONDS AND PARITY BONDS

Section 601. Inferior Bonds.

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

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

Section 602. Parity Bonds to Complete the Construction Project.

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

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

Section 603. Parity Bonds to Finance Future Improvements;
Conditions or Showings Required.

In the Prior Bond Resolution, the District reserved the right and privilege, and does hereby reserve the right and privilege, of issuing additional Parity Bonds, but only under the conditions specified in Section 21C of the Prior Bond Resolution, which conditions are hereinafter repeated, taking into account the issuance of the Current Bonds, as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 605. Prepayment Provisions Applicable to Parity Bonds.

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

Section 606. District Shall Not Issue Any Future Bonds or Obligations Against the System Without the Written Consent of the FmHA, So Long as the Government Owns Any Bonds Against the System.

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

Section 607. Priority of Lien; Permissible Disposition of Surplus or Obsolete Facilities; Conditions.

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

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

ARTICLE 7

DEFAULT AND CONSEQUENCES

Section 701. Events of Default.

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

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

Section 702. Consequences of Act of Default.

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

The District hereby agrees to transfer to any bona fide receiver or other subsequent operator of the System, pursuant to any valid court order in a proceeding brought to enforce collection or payment of the District's obligations, all contracts, including specifically the Water Purchase Contract, and other rights of the District pertaining to the System, conditionally, for such time only as such receiver or operator shall operate by authority of the Court.

Upon the occurrence of an event of default, the Owner of any of the Prior Bonds or the Current Bonds may require the governing body of the District by injunction to raise the rates a reasonable amount consistent with the requirements of this Resolution.

ARTICLE 8

CONTRACTUAL PROVISIONS; GRANT APPROVAL; AND MISCELLANEOUS PROVISIONS

Section 801. This Resolution Contractual with Bondowners.

The provisions of this Resolution constitute a contract between the District and its Commission and the Owners of the Current Bonds as may be outstanding from time to time; and after the issuance of any of said Current Bonds, no change, alteration, or variation of any kind of the provisions of this Resolution shall be made in any manner which will affect an Owner's rights except as herein provided or except with the written consent of all Bondowners until such time as all of the Current Bonds and the interest thereon have been paid in full or fully provided for; provided that the Commission may adopt any resolution for any purpose not inconsistent with the terms of this Resolution and which shall not impair the security of the Owners of the Current Bonds, and/or for the purpose of curing any ambiguity, or of curing, correcting, or supplementing any defective or inconsistent provisions contained herein or in any resolution or other proceedings pertaining hereto; and provided further, that the Owners of eighty percent (80%) in principal amount of the Current Bonds at any time outstanding shall have the right to consent to, and approve the adoption of resolutions or other proceedings, modifying, or amending any of the terms or provisions contained in this Resolution, subject to the conditions that (a) this Resolution shall not be so modified in any manner that may adversely affect the rights of the Owners of any of the Prior Bonds, nor in any manner that may adversely affect the rights of any certain Owners of the Prior Bonds and Current Bonds without similarly affecting the rights of all Owners of such Bonds (and any Parity Bonds) then outstanding, or to reduce the percentage of the number of Owners whose consent is required to effect a further modification; and (b) no such change may be effected without the consent of the FmHA so long as the FmHA owns any of the Outstanding Bonds.

Section 802. All Current Bonds are Equal.

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

Section 803. District Obligated to Refund Current Bonds Owned by Government Whenever Same is Feasible; Defeasement Prohibited.

So long as the Government is the Owner of any of the Current Bonds, if it appears to the Government that the District is able to refund such Current Bonds in whole or in part, by obtaining a loan for such purposes from responsible cooperative or private credit sources, or to sell bonds of the District in the open market, at reasonable rates and terms, for loans or bond issues for similar purposes and periods of time, the District will, upon

request of the Government, obtain such loan and/or issue such bonds in sufficient amount to repay the Government, and will take all such action as may be required in connection with such loan.

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

Section 804. Approval and Acceptance of FmHA Grant Agreement.

As set out in Section 105 hereof, the FmHA has agreed to make a grant to the District in the amount of \$607,500 (the "FmHA Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Construction Project, and in that connection the FmHA has requested the District to approve, accept, and execute FmHA Form 1942-31 (the "FmHA Grant Agreement"), setting out the terms and conditions upon which said FmHA Grant will be made. Said FmHA Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said FmHA Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other FmHA Grants offered to the District in connection with the Construction Project and to execute any and all FmHA Grant Agreements and any other documents as may be requested by the FmHA in connection with FmHA Grants which have been and/or which may hereafter be approved for such Project.

Section 805. Approval and Acceptance of EDA Grant Agreement.

As set out in Section 105 hereof, the Economic Development Administration (the "EDA") has agreed to make a grant to the District in the amount of \$200,000 (the "EDA Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Construction Project, and in that connection the EDA has requested the District to approve, accept, and execute a certain EDA Grant Agreement (the "EDA Grant Agreement"), setting out the terms and conditions upon which said EDA Grant will be made. Said EDA Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said EDA Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other EDA Grants offered to the District in connection with the Construction Project and to execute any and all EDA Grant Agreements and any other documents as may be requested by the EDA in connection with EDA Grants which have been and/or which may hereafter be approved for such Project.

Section 806. Alternate Statutory Authority.

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

Section 807. Authorization, Ratification, and Confirmation of Approval and Execution of Various Documents, Including Legal Services Agreements of Bond Counsel and Local Counsel; Agreement for Engineering Services; Letter of Intent to Meet Conditions of Letter of Conditions of FmHA; Loan Resolution; and Water Purchase Contract(s).

The Commission hereby authorizes, approves, ratifies, and confirms the previous action of the officers of the District in approving and executing various documents related to the financing of the Project, including the following:

- (a) Legal Services Agreement with the firm of Rubin & Hays as Bond Counsel.
- (b) Legal Services Agreement with Robert T. Harrod as Local Counsel.
- (c) Letter of Intent to Meet Conditions of FmHA Letter of Conditions (FmHA Form 442-46).
- (d) Loan Resolution (FmHA Form 442-47).
- (e) Agreement for Engineering Services with Mayes, Sudderth & Etheredge, Inc. as Engineers for the Project.
- (f) Water Purchase Contract with the City of Clay City.

Section 808. Authorization of Condemnation to Acquire Easements and/or Sites.

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

The District further approves the payment from the funds available therefor (proceeds of Bonds, Grant Proceeds, and other funds) allocated to the costs of the Construction Project to pay any judgment, award, or compromise,

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

ARTICLE 9

SALE OF CURRENT BONDS

Section 901. Sale of Current Bonds.

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

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

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

Section 902. Possible Adjustment in Date of Current Bonds, Maturities, Prepayment Provisions, and Other Dates, with Consent of Purchaser if Delivery is Delayed.

In the event that delivery of the Current Bonds authorized herein is delayed for any reason until after January 1, 1988 (or January 1, 1989), the name of the Current Bonds may, pursuant to Resolution adopted by the Commission with the written consent of the Purchaser of the Current Bonds, be changed to "Powell's Valley Water District Waterworks Revenue Bonds of 1988" (or "Bonds of 1989"), with maturities, the applicable prepayment date, and all other dates being adjusted accordingly.

ARTICLE 10

CONCLUDING PROVISIONS

Section 1001. Covenant of District to Take All Action Necessary to Assure Compliance with the Internal Revenue Code of 1986.

In order to assure purchasers of the Bonds that such Bonds will continue to be legal and that interest thereon will continue to be exempt from all Federal and Kentucky income taxation (except that income from these Bonds may be subject to the corporate alternative minimum tax through inclusion in the calculation of the adjustments for book income for corporations), the District covenants to and with the owners of such Bonds that (a) the District will take all actions necessary to comply with the effective provisions of such Internal Revenue Code of 1986 (the "Code"), (b) the District will take no actions which will violate any of the provisions of such Code, and (c) none of the proceeds of the Bonds will be used for any purpose which will cause the interest on the Bonds to become subject to Federal income taxation under the provisions of the Code.

The District reserves the right to amend this Resolution without obtaining the consent of the owners of the Bonds (1) to whatever extent shall, in the opinion of Bond Counsel, be deemed necessary to assure that the interest on the Bonds shall be exempt from Federal income taxation, and (2) to whatever extent shall be permissible (without jeopardizing such tax exemption or the security of the Bonds) to eliminate or reduce any restrictions concerning the System, the project being financed with the proceeds of the Bonds, the investment of such proceeds, or the application of such proceeds or of the revenues of the System. The purchasers of the Bonds are deemed to have relied fully upon the foregoing covenants and undertakings on the part of the District as part of the consideration for the purchase of the Bonds.

To the extent that the District obtains an opinion of recognized bond counsel to the effect that non-compliance would not subject interest on the Bonds to Federal income taxes or Kentucky income taxes, the District shall not be required to comply with the foregoing provisions.

The District hereby designates the Bonds as "qualified tax-exempt obligations" as defined in Section 265(b)(3)(B) of the Code, since neither the District nor any subordinate entity thereof reasonably anticipates issuing "qualified tax-exempt obligations" (other than private activity bonds) in excess of \$10,000,000 in the calendar year in which these Bonds are being issued.

Section 1002. Severability Clause.

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

Section 1003. All Provisions in Conflict Repealed.

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

Section 1004. Effective Ten Days From Adoption.

This Resolution shall take effect and be effective ten days after its adoption in order to enable Notice of the adoption hereof to be published pursuant to Section 106.250 of the Kentucky Revised Statutes.

Adopted this September 29, 1987.

Rev. Marion Brewer
Chairman

(Seal of District)

Attest:

Simpson Barnett
Secretary

CERTIFICATION

I, Simpson Barnett, hereby certify that I am the duly qualified and acting Secretary of the Powell's Valley Water District of Powell and Estill Counties, Kentucky, and that the foregoing Resolution is a true copy of a Resolution duly adopted by the Board of Commissioners of said District, signed by the Chairman of said District and attested under Seal by me as Secretary, at a properly convened meeting of said Board of Commissioners held on September 29, 1987, as shown by the official records of said District in my custody and under my control.

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

IN TESTIMONY WHEREOF, witness my signature as Secretary and the official Seal of the District this September 29, 1987.


Secretary

(Seal of District)