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APPLICATION FOR RATE ADJUSTMENT
BEFORE THE PUBLIC SERVICE COMMISSION

For Small Utilities Pursuant to 807 KAR 5:076
(Alternative Rate Filing)

Garrison Quincy-Ky-O-Heights Water District

(Name of Utility)

284 Murphys Ln

(Business Mailing Address - Number and Street, or P.O. Box)

Garrison, KY 41141

(Business Mailing Address - City, State, and Zip)

606-757-4898

(Telephone Number)

BASIC INFORMATION

NAME, TITLE, ADDRESS, TELEPHONE NUMBER and E-MAIL ADDRESS of the person to whom correspondence or communications concerning this application should be directed:

Trent Underwood

(Name)

284 Murphys Ln

(Address - Number and Street or P.O. Box)

Garrison, KY 41141

(Address - City, State, Zip)

606-757-4898

(Telephone Number)

teunderwood@windstream.net

(Email Address)

**(For each statement below, the Applicant should check either "YES", "NO", or
"NOT APPLICABLE" (N/A))**

- | | YES | NO | N/A |
|---|-------------------------------------|-------------------------------------|--------------------------|
| 1. a. In its immediate past calendar year of operation, Applicant had \$5,000,000 or less in gross annual revenue. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Applicant operates two or more divisions that provide different types of utility service. In its immediate past calendar year of operation, Applicant had \$5,000,000 or less in gross annual revenue from the division for which a rate adjustment is sought. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 2. a. Applicant has filed an annual report with the Public Service Commission for the past year. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Applicant has filed an annual report with the Public Service Commission for the two previous years. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Applicant's records are kept separate from other commonly-owned enterprises. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

YES NO N/A

4. a. Applicant is a corporation that is organized under the laws of the state of _____, is authorized to operate in, and is in good standing in the state of Kentucky.
- b. Applicant is a limited liability company that is organized under the laws of the state of _____, is authorized to operate in, and is in good standing in the state of Kentucky.
- c. Applicant is a limited partnership that is organized under the laws of the state of _____, is authorized to operate in, and is in good standing in the state of Kentucky.
- d. Applicant is a sole proprietorship or partnership.
- e. Applicant is a water district organized pursuant to KRS Chapter 74.
- f. Applicant is a water association organized pursuant to KRS Chapter 273.
5. a. A paper copy of this application has been mailed to Office of Rate Intervention, Office of Attorney General, 1024 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601-8204.
- b. An electronic copy of this application has been electronically mailed to Office of Rate Intervention, Office of Attorney General at rateintervention@ag.ky.gov.
6. a. Applicant has 20 or fewer customers and has mailed written notice of the proposed rate adjustment to each of its customers no later than the date this application was filed with the Public Service Commission. A copy of this notice is attached to this application. **(Attach a copy of customer notice.)**
- b. Applicant has more than 20 customers and has included written notice of the proposed rate adjustment with customer bills that were mailed by the date on which the application was filed. A copy of this notice is attached to this application. **(Attach a copy of customer notice.)**
- c. Applicant has more than 20 customers and has made arrangements to publish notice once a week for three (3) consecutive weeks in a prominent manner in a newspaper of general circulation in its service area, the first publication having been made by the date on which this Application was filed. A copy of this notice is attached to this application. **(Attach a copy of customer notice.)**
7. Applicant requires a rate adjustment for the reasons set forth in the attachment entitled "Reasons for Application." **(Attach completed "Reasons for Application" Attachment.)**

YES NO N/A

8. Applicant proposes to charge the rates that are set forth in the attachment entitled "Current and Proposed Rates." **(Attach completed "Current and Proposed Rates" Attachment.)**
9. Applicant proposes to use its annual report for the immediate past year as the test period to determine the reasonableness of its proposed rates. This annual report is for the 12 months ending December 31, 2022.
10. Applicant has reason to believe that some of the revenue and expense items set forth in its most recent annual report have or will change and proposes to adjust the test period amount of these items to reflect these changes. A statement of the test period amount, expected changes, and reasons for each expected change is set forth in the attachment "Statement of Adjusted Operations." **(Attach a completed copy of appropriate "Statement of Adjusted Operations" Attachment and any invoices, letters, contracts, receipts or other documents that support the expected change in costs.)**
11. Based upon test period operations, and considering any known and measurable adjustments, Applicant requires additional revenues of \$ 141,239 and total revenues from service rates of \$ 588,311. The manner in which these amounts were calculated is set forth in "Revenue Requirement Calculation" Attachment. **(Attach a completed "Revenue Requirement Calculation" Attachment.)**
12. As of the **date of the filing of this application**, Applicant had _____ customers.
13. A billing analysis of Applicant's current and proposed rates is attached to this application. **(Attach a completed "Billing Analysis" Attachment.)**
14. Applicant's depreciation schedule of utility plant in service is attached. **(Attach a schedule that shows per account group: the asset's original cost, accumulated depreciation balance as of the end of the test period, the useful lives assigned to each asset and resulting depreciation expense.)**
15. a. Applicant has outstanding evidences of indebtedness, such as mortgage agreements, promissory notes, or bonds.
- b. Applicant has attached to this application a copy of each outstanding evidence of indebtedness (e.g., mortgage agreement, promissory note, bond resolution).
- c. Applicant has attached an amortization schedule for each outstanding evidence of indebtedness.

- | | YES | NO | N/A |
|--|-------------------------------------|-------------------------------------|-------------------------------------|
| 16. a. Applicant is not required to file state and federal tax returns. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| b. Applicant is required to file state and federal tax returns. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | |
| c. Applicant's most recent state and federal tax returns are attached to this Application. (Attach a copy of returns.) | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| 17. Approximately <u>0</u> (Insert dollar amount or percentage of total utility plant) of Applicant's total utility plant was recovered through the sale of real estate lots or other contributions. | <input type="checkbox"/> | <input checked="" type="checkbox"/> | |
| 18. Applicant has attached a completed Statement of Disclosure of Related Party Transactions for each person who 807 KAR 5:076, §4(h) requires to complete such form. | <input type="checkbox"/> | <input type="checkbox"/> | |

By submitting this application, the Applicant consents to the procedures set forth in 807 KAR 5:076 and waives any right to place its proposed rates into effect earlier than six months from the date on which the application is accepted by the Public Service Commission for filing.

I am authorized by the Applicant to sign and file this application on the Applicant's behalf, have read and completed this application, and to the best of my knowledge all the information contained in this application and its attachments is true and correct.

Signed *Trent Underwood*
 Officer of the Company/Authorized Representative
 Title *Manager*
 Date *12-11-23*

COMMONWEALTH OF KENTUCKY

COUNTY OF *Lewis*

Before me appeared Trent Underwood, who after being duly sworn, stated that he/she had read and completed this application, that he/she is authorized to sign and file this application on behalf of the Applicant, and that to the best of his/her knowledge all the information contained in this application and its attachments is true and correct.

Andrea Johnson #KYWP 35491
 Notary Public
 My commission expires: *9/2/25*

LIST OF ATTACHMENTS
(Indicate all documents submitted by checking box)

- Customer Notice of Proposed Rate Adjustment
- "Reasons for Application" Attachment
- Current and Proposed Rates" Attachment
- "Statement of Adjusted Operations" Attachment
- "Revenue Requirements Calculation" Attachment
- Attachment Billing Analysis" Attachment
- Depreciation Schedules
- Outstanding Debt Instruments (i.e., Bond Resolutions, Mortgages, Promissory Notes, Amortization Schedules.)
- State Tax Return
- Federal Tax Return
- Statement of Disclosure of Related Party Transactions - ARF Form 3

REASONS FOR APPLICATION

(In the space below list all reasons why the Applicant requires a rate adjustment. Describe any event or occurrence of significance that may affect the Applicant's present or future financial condition, including but not limited to excessive water line losses, regulatory changes, major repairs, planned construction, and increases in wholesale water costs.)

Garrison Quincy Water District is requesting an increase in its water rates to its customers. The water rate increase is necessary to ensure the financial integrity of the District. The district believes that based on the allocations performed in the rate study, no increase to sewer rates is necessary at this time.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT

CUSTOMER NOTICE

Notice is hereby given that the Garrison-Quincy-Ky-O-Heights Water District expects to file an application with the Kentucky Public Service Commission on or about November 15, 2023, seeking approval of a proposed adjustment to its water rates. The proposed rates shall not become effective until the Public Service Commission has issued an order approving these rates.

CURRENT AND PROPOSED MONTHLY WATER RATES

Garrison-Quincy-Ky-O-Heights Water District

Minimum Bills Based on Meter Size

<u>Meter Size</u>	<u>Gals. Incl'd. in Minimum</u>	<u>Minimum Bills</u>		<u>Dollar</u>	<u>Percent</u>
		<u>Current</u>	<u>Proposed</u>	<u>Increase</u>	<u>Increase</u>
5/8 x 3/4 inch	2,000	\$23.12	\$30.43	\$7.31	31.6%
1 inch	10,000	88.33	116.23	27.9	31.6%
2 inch	50,000	328.31	432.23	103.92	31.7%

Rates for Water Usage in Addition to Minimum

<u>No. of Gallons per Month:</u>	<u>Charge per 1,000 Gals.</u>		<u>Dollar</u>	<u>Percent</u>
	<u>Current</u>	<u>Proposed</u>	<u>Increase</u>	<u>Increase</u>
First 2,000 Gallons	\$23.12	\$30.43	\$7.31	31.6%
Next 3,000 Gallons	\$9.08	\$11.95	2.87	31.6%
Next 5,000 Gallons	\$7.59	\$9.99	2.4	31.6%
Over 10,000 Gallons	\$6.00	\$7.90	1.9	31.7%

Bulk Water

All Purchases	\$9.89	\$13.02	\$3.13	31.6%
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Water Loss Reduction Surcharge

All Customers	\$1.73 per Customer per Month
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If the Public Service Commission approves the proposed water rates, then the monthly water bill for a customer using an average of 3,000 gallons per month will increase from \$32.20 to \$42.38. This is an increase of \$10.18 or 31.62%.

The rates contained in this notice are the rates proposed by Garrison-Quincy-Ky-O-Heights Water District. However, the Public Service Commission may order rates to be charged that differ from these proposed rates. Such action may result in rates for consumers other than the rates shown in this notice.

Garrison-Quincy-Ky-O-Heights Water District has available for inspection at its office the application which it submitted to the Public Service Commission. A person may examine this application at the District's office located at 284 Murphys Ln, Garrison, KY 41141. You may contact the office at 606-757-4898.

A person may also examine the application at the Public Service Commission's offices located at 211 Sower Boulevard, Frankfort, Kentucky, 40601, Monday through Friday, 8:00 a.m. to 4:30 p.m., or through the Public Service Commission's website at <http://psc.ky.gov>. Comments regarding the

application may be submitted to the Public Service Commission through its website or by mail to Public Service Commission, PO Box 615, Frankfort, Kentucky, 40602. You may contact the Public Service Commission at 502-564-3940.

A person may submit a timely written request for intervention to the Public Service Commission, PO Box 615, Frankfort, KY, 40602, establishing the grounds for the request including the status and interest of the party. If the Public Service Commission does not receive a written request for intervention within thirty (30) days of the initial publication of this notice, the Public Service Commission may take final action on the application.

Appendix A
CURRENT AND PROPOSED MONTHLY RATES
Garrison-Quincy Water District
WATER DIVISION

CURRENT RATE SCHEDULE

5/8" x 3/4" Meters

First	2,000 gallons	\$ 23.12	Minimum Bill
Next	3,000 gallons	9.08	per 1,000 gallons
Next	5,000 gallons	7.59	per 1,000 gallons
Over	10,000 gallons	6.00	per 1,000 gallons

1" Meters

First	10,000 gallons	\$ 88.33	Minimum Bill
Over	10,000 gallons	6.00	per 1,000 gallons

2" Meters

First	50,000 gallons	\$ 328.31	Minimum Bill
Over	50,000 gallons	6.00	per 1,000 gallons

Bulk Water

All purchases	\$ 9.89	per 1,000 gallons
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Wholesale Customers

First	1.0 mil gallons	\$ 2,000	Minimum Bill
Next	2.0 mil gallons	2.00	per 1,000 gallons
Over	3.0 mil gallons	2.20	per 1,000 gallons

Water Loss Reduction Surcharge

\$ 1.73	per Customer
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PROPOSED RATE SCHEDULE

5/8" x 3/4" Meters

First	2,000 gallons	\$ 30.43	Minimum Bill
Next	3,000 gallons	11.95	per 1,000 gallons
Next	5,000 gallons	9.99	per 1,000 gallons
Over	10,000 gallons	7.90	per 1,000 gallons

1" Meters

First	10,000 gallons	\$ 116.23	Minimum Bill
Over	10,000 gallons	7.90	per 1,000 gallons

2" Meters

First	50,000 gallons	\$ 432.23	Minimum Bill
Over	50,000 gallons	7.90	per 1,000 gallons

Bulk Water

All purchases	\$ 13.02	per 1,000 gallons
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Wholesale Customers

First	1.0 mil gallons	\$ 2,000	Minimum Bill
Next	2.0 mil gallons	2.00	per 1,000 gallons
Over	3.0 mil gallons	2.20	per 1,000 gallons

Water Loss Reduction Surcharge

\$ 0.73	per Customer
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SCHEDULE OF ADJUSTED OPERATIONS
Garrison-Quincy Water District
Water Division

	<u>Test Year</u>	<u>Adjustments</u>	<u>Ref.</u>	<u>Pro Forma</u>
<u>Operating Revenues</u>				
Metered Sales to Retail Customers	\$ 572,507	(76,679)	A	
		(7,950)	B	
		(88,505)	C	
		(960)	D	\$ 398,413
Bulk Sales				-
Sales for Resale	-	48,660	A	48,660
Other Water Revenues:				
Forfeited Discounts	-	23,429	A	23,429
Misc. Service Revenue	-	4,590	A	4,590
Other Water Revenue	-	-	A	-
Total Operating Revenues	\$ 572,507	(97,415)		\$ 475,092
<u>Operating Expenses</u>				
Operation and Maintenance				
Salaries and Wages - Employees	189,192	(3,975)	E	185,217
Salaries and Wages - Officers	8,139			8,139
Employee Pensions and Benefits	36,181			36,181
Purchased Water	32,351	(3,627)	F	28,724
Purchased Power	37,230	(4,174)	F	33,056
Chemicals	13,258	(1,486)	F	11,772
Materials and Supplies	25,980	(3,975)	E	22,005
Contractual Services	10,396			10,396
Transportation Expenses	10,812			10,812
Insurance - General Liability & Other	29,058			29,058
Advertising Expenses	79			79
Miscellaneous Expenses	32,007			32,007
Total Operation and Mnt. Expenses	424,683			407,446
Depreciation Expense	101,505	9,854	G	111,359
Taxes Other Than Income	<u>20,083</u>	<u>(3,864)</u>	H	<u>16,219</u>
Total Operating Expenses	\$ 546,271	(11,247)		\$ 535,024
Net Utility Operating Income	\$ 26,236	(86,168)		\$ (59,932)

REVENUE REQUIREMENTS

Pro Forma Operating Expenses		\$	535,024
Plus: Avg. Annual Principal and Interest Payments		I	92,003
Additional Working Capital		J	<u>18,401</u>
Total Revenue Requirement		\$	645,427
Less: Other Operating Revenue			(28,019)
Other Income - Phase II & III Surcharges	24,239		(24,239)
Nonutility Income	4,820		(4,820)
Interest Income	38		<u>(38)</u>
Revenue Required From Water Sales		\$	588,311
Less: Revenue from Sales at Present Rates			<u>(447,073)</u>
Required Revenue Increase		\$	141,239
Percent Increase			31.6%

SCHEDULE OF ADJUSTED OPERATIONS
Garrison-Quincy Water District
Sewer Division

	<u>Test Year</u>	<u>Adjustments</u>	<u>Ref.</u>	<u>Pro Forma</u>
<u>Operating Revenues</u>				
Total Sewer Sales	207,248	40,488	C	247,736
Other Sewer Revenues	-	960	D	960
Total Operating Revenues	207,248			248,696
<u>Operating Expenses</u>				
Operation Expenses				
Collection - Labor, Materials and Expenses	50,515			50,515
Pumping - Labor, Materials and Expenses	-			-
Power for Pumping and Treatment	21,906			21,906
Chemicals	4,830			4,830
Miscellaneous Supplies and Expenses	7,800			7,800
Treatment & Disposal	-			-
Maintenance Expenses				
Maintenance of Collection Sewer System	-			-
Maintenance of Pumping System	12,306			12,306
Maintenance of Treatment and Disposal Plant	-			-
Administrative and General Expenses				
Office Supplies and Other Expenses	4,435			4,435
Outside Services Employed	329			329
Employee Pensions and Benefits	7,747			-
Insurance	3,193			3,193
Transportation Expense	3,004			3,004
Miscellaneous General Expenses	6,460			6,460
Rents	-			-
Maintenance of General Plant	-			-
Total Sewer Operation and Mnt. Expenses	122,525			114,778
Depreciation Expense	77,810	15,339	G	93,149
Taxes Other Than Income	-	3,864	H	3,864
	-			-
Total Operating Expenses	200,335			211,791
Net Utility Operating Income	6,913			36,905

REVENUE REQUIREMENTS

Pro Forma Operating Expenses		\$ 211,791
Plus: Avg. Annual Principal and Interest Pmts.	I	30,961
Additional Working Capital	J	<u>6,192</u>
Total Revenue Requirement		\$ 248,944
Less: Other Operating Revenue		(960)
Interest & Investment Income		<u>-</u>
Revenue Required From Sewer Sales		\$ 247,984
Less: Revenue from Sales at Present Rates		<u>(247,736)</u>
Required Revenue Increase		\$ 248
Percent Increase		0.1%

REFERENCES

- A. Other Water Revenues of \$76,679 were reclassified from Metered Sales to the proper accounts.
- B. Decreased Metered Sales by \$7,950 to reflect amounts collected for meter taps installed in the test period.
- C. The Current Billing Analysis results in pro forma water sales revenue of \$398,413 and pro forma sewer sales revenue of \$247,736. This reflects a full year at the retail rates that were effective in 2022 and indicates a decrease to water sales of \$88,505 and an increase to sewer sales of \$40,488 are required.
- D. Sewer connection fees of \$960 that were improperly recorded as water sales were reclassified to the Sewer Division.
- E. Reduced Salaries and Wages expense and Materials and Supplies expense, by \$3,975 respectively to reflect amounts expended to install meter taps during the test period.
- F. Garrison-Quincy Water District's total water loss for 2022 was 26.211 percent. A reduction of \$9,287 to Purchased Water, Power and Chemicals is necessary to align with Commission precedent.
- G. The PSC requires adjustments to a water utility's depreciation expense when asset lives fall outside the ranges recommended by NARUC in its publication titled "Depreciation Practices for Small Utilities" and by Commission on Rural Water in its publication titled "Average Service Lifetimes, Major Systems Components – Wastewater Systems". Therefore, adjustments are included to bring asset lives to the midpoint of the recommended ranges resulting in an increase in depreciation expense of \$9,854 for the water division and an increase of \$15,339 for the sewer system, as shown in Table A.
- H. Taxes Other than Income of \$3,864 was reclassified from the water division to the sewer division for payroll taxes attributable to salaries paid for the sewer division.
- I. The annual debt service payments for the District's loans are shown in Table B. The five-year average of these payments is added in the revenue requirement calculation.
- J. The amount shown in Table B for coverage on long term debt is required by the Authority's loan documents. This is included in the revenue requirement as Additional Working Capital.

Table A
DEPRECIATION EXPENSE ADJUSTMENTS
Garrison-Quincy Water District

<u>Asset</u>	<u>Date in Service</u>	<u>Original Cost *</u>	<u>Reported Life</u>	<u>Depr. Exp.</u>	<u>Proforma Life</u>	<u>Depr. Exp.</u>	<u>Depreciation Expense Adjustment</u>
<u>WATER SYSTEM</u>							
Buildings - Water							
Entire Group	various	\$ 392,303	varies	\$ 8,793	37.5	\$ 10,461	\$ 1,668
Vehicles & Heavy Equipment							
Xmark Lazor Z	07/04/05	8,585	15.0	2,862	12.5	-	(2,862)
Equipment/Tools/Office							
Telemetry Equipment	2008	17,845	20.0	892	10.0	1,785	893
Wells & Springs and Collecting Reservoirs							
Collecting Reservoirs	1990	42,579	45.0	946	45.0	946	-
Wells & Springs	various	136,851	45.0	3,041	30.0	4,562	1,521
Well & Plant Upgrades	2016	821,721	45.0	18,260	35.0	23,478	5,218
Pumping Equipment							
Entire Group	Various	68,902	varies	2,629	20.0	3,445	816
Transmission & Distribution							
Entire Group	various	4,225,540	65.0	65,008	62.5	67,609	2,601
TOTALS - WATER SYSTEM				\$ 102,431		\$ 112,285	\$ 9,854

* Includes only costs associated with assets that contributed to depreciation expense in the test year.

<u>SEWER SYSTEM</u>							
Buildings - Sewer							
Entire Group - Package WWTP	various	1,151,175	varies	23,034	30.0	38,373	15,339
Sewer Lines							
Entire Group	2011	4,100,000	75.0	54,667	75.0	54,667	-
TOTALS - SEWER SYSTEM				\$ 77,701		\$ 93,040	\$ 15,339

Table B
DEBT SERVICE SCHEDULE
Garrison-Quincy County Water District
CY 2023 - 2027

	<u>CY 2023</u>		<u>CY 2024</u>		<u>CY 2025</u>		<u>CY 2026</u>		<u>CY 2027</u>		<u>TOTALS</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
Water Division											
RD Series 1987A	\$ 14,000	\$ 4,718	\$ 15,000	\$ 3,793	\$ 16,000	\$ 2,805	\$ 17,000	\$ 1,753	\$ 19,000	\$ 606	\$ 94,675
RD Series 1987B	2,500	755	2,600	605	2,800	447	3,000	276	3,200	94	16,277
RD Series 1996	8,500	7,369	9,500	6,964	9,500	6,536	10,000	6,098	10,500	5,636	80,603
RD Series 2002	8,000	11,293	9,000	10,913	9,000	10,508	9,000	10,102	10,000	9,675	97,491
KIA Loan 2015	29,990	4,335	30,215	4,035	30,442	3,732	30,671	3,427	31,001	3,120	170,968
Totals	62,990	28,470	66,315	26,310	67,742	24,028	69,671	21,656	73,701	19,131	\$ 460,014
Average Annual Principal & Interest - Water											\$ 92,003
Average Annual Debt Service Coverage											\$ 18,401
Sewer Division											
RD Series 2010	16,500	14,237	17,000	13,860	17,500	13,472	18,000	13,073	18,500	12,662	154,804
Average Annual Principal & Interest - Sewer											\$ 30,961
Average Annual Debt Service Coverage											\$ 6,192

CURRENT BILLING ANALYSIS - 2019 USAGE & EXISTING RATES
Garrison-Quincy Water District - Water Division

SUMMARY

	No. of Bills	Gallons Sold	Revenue
5/8" X 3/4" Meters	10,273	33,372,810	\$ 379,186
1" Meters	-	-	-
2" Meters	<u>24</u>	<u>2,975,300</u>	<u>19,226</u>
Totals	10,297	36,348,110	\$ 398,413

Pro Forma Retail Sales Revenue	\$ 398,413
Pro Forma Sales for Resale	<u>48,660</u>
Total Water Sales Revenue	\$ 447,073

5/8" x 3/4" METERS

	USAGE	BILLS	GALLONS	FIRST 2,000	NEXT 3,000	NEXT 5,000	ALL OVER 10,000	TOTAL
FIRST	2,000	4,163	3,966,086	3,966,086	-	-	-	3,966,086
NEXT	3,000	4,418	14,276,870	8,836,000	5,440,870	-	-	14,276,870
NEXT	5,000	1,345	8,865,724	2,690,000	4,035,000	2,140,724	-	8,865,724
ALL OVER	10,000	347	6,264,130	694,000	1,041,000	1,735,000	2,794,130	6,264,130
		<u>10,273</u>	<u>33,372,810</u>	<u>16,186,086</u>	<u>10,516,870</u>	<u>3,875,724</u>	<u>2,794,130</u>	<u>33,372,810</u>

REVENUE BY RATE INCREMENT

	BILLS	GALLONS	RATE	REVENUE
FIRST	2,000	10,273	\$ 23.12	\$ 237,512
NEXT	3,000	10,516,870	9.08	95,493
NEXT	5,000	3,875,724	7.59	29,417
ALL OVER	10,000	2,794,130	6.00	16,765
TOTAL	10,273	33,372,810		\$ 379,186

1" METERS

	USAGE	BILLS	GALLONS	FIRST 10,000	ALL OVER 10,000	TOTAL
FIRST	10,000			-	-	-
ALL OVER	10,000			-	-	-
		-	-	-	-	-

REVENUE BY RATE INCREMENT

	BILLS	GALLONS	RATE	REVENUE
FIRST	10,000	-	\$ 78.30	\$ -
ALL OVER	10,000	-	5.32	-
TOTAL	-	-		\$ -

2" METERS

	USAGE	BILLS	GALLONS	FIRST 50,000	ALL OVER 50,000	TOTAL
FIRST	50,000	4	84,200	84,200	-	84,200
ALL OVER	50,000	20	2,891,100	1,000,000	1,891,100	2,891,100
		24	2,975,300	1,084,200	1,891,100	2,975,300

REVENUE BY RATE INCREMENT

	BILLS	GALLONS	RATE	REVENUE
FIRST	50,000	24	1,084,200	\$ 328.31 \$ 7,879
ALL OVER	50,000		1,891,100	6.00 11,347
TOTAL	24	2,975,300		\$ 19,226

WHOLESALE SALES - City of South Shore

	USAGE	BILLS	GALLONS	FIRST 1,000,000	NEXT 2,000,000	ALL OVER 3,000,000	TOTAL
FIRST	1,000,000			-	-	-	-
NEXT	2,000,000	12	24,330,000	12,000,000	12,330,000	-	24,330,000
ALL OVER	3,000,000			-	-	-	-
		12	24,330,000	12,000,000	12,330,000	-	24,330,000

REVENUE BY RATE INCREMENT

	BILLS	GALLONS	RATE	REVENUE
FIRST	1,000,000	12	12,000,000	\$ 2,000.00 \$ 24,000
NEXT	2,000,000		12,330,000	\$ 2.00 24,660
ALL OVER	3,000,000			2.20 -
TOTAL	12	24,330,000		\$ 48,660

**PROPOSED BILLING ANALYSIS - 2019 USAGE & PROPOSED RATES
Garrison-Quincy Water District - Water Division**

SUMMARY

	No. of Bills	Gallons Sold	Revenue
5/8" X 3/4" Meters	10,273	33,372,810	\$ 499,076
1" Meters	-	-	-
2" Meters	24	2,975,300	25,313
Totals	10,297	36,348,110	\$ 524,389

Projected Retail Sales Revenue	\$ 524,389
Projected Bulk Sales	3,947
Pro Forma Sales for Resale	48,660
Total Water Sales Revenue	\$ 576,996

5/8" x 3/4" METERS

	USAGE	BILLS	GALLONS	FIRST 2,000	NEXT 3,000	NEXT 5,000	ALL OVER 10,000	TOTAL
FIRST	2,000	4,163	3,966,086	3,966,086	-	-	-	3,966,086
NEXT	3,000	4,418	14,276,870	8,836,000	5,440,870	-	-	14,276,870
NEXT	5,000	1,345	8,865,724	2,690,000	4,035,000	2,140,724	-	8,865,724
ALL OVER	10,000	347	6,264,130	694,000	1,041,000	1,735,000	2,794,130	6,264,130
		10,273	33,372,810	16,186,086	10,516,870	3,875,724	2,794,130	33,372,810

REVENUE BY RATE INCREMENT

	USAGE	BILLS	GALLONS	RATE	REVENUE
FIRST	2,000	10,273	16,186,086	\$ 30.43	\$ 312,607
NEXT	3,000		10,516,870	11.95	125,677
NEXT	5,000		3,875,724	9.99	38,718
ALL OVER	10,000		2,794,130	7.90	22,074
TOTAL		10,273	33,372,810		\$ 499,076

1" METERS

	USAGE	BILLS	GALLONS	FIRST 10,000	ALL OVER 10,000	TOTAL
FIRST	10,000			-	-	-
ALL OVER	10,000			-	-	-
		-	-	-	-	-

REVENUE BY RATE INCREMENT

	USAGE	BILLS	GALLONS	RATE	REVENUE
FIRST	10,000	-	-	\$ 116.23	\$ -
ALL OVER	10,000			7.90	-
TOTAL		-	-		\$ -

2" METERS

	USAGE	BILLS	GALLONS	FIRST 50,000	ALL OVER 50,000	TOTAL
FIRST	50,000	4	84,200	84,200	-	84,200
ALL OVER	50,000	20	2,891,100	1,000,000	1,891,100	2,891,100
		24	2,975,300	1,084,200	1,891,100	2,975,300

REVENUE BY RATE INCREMENT

	BILLS	GALLONS	RATE	REVENUE
FIRST	50,000	24	1,084,200 \$ 432.23	\$ 10,374
ALL OVER	50,000		1,891,100 7.90	14,940
TOTAL	24	2,975,300		\$ 25,313

WHOLESALE SALES - City of South Shore

	USAGE	BILLS	GALLONS	FIRST 1,000,000	NEXT 2,000,000	ALL OVER 3,000,000	TOTAL
FIRST	1,000,000			-	-	-	-
NEXT	2,000,000	12	24,330,000	12,000,000	12,330,000		24,330,000
ALL OVER	3,000,000			-	-	-	-
		12	24,330,000	12,000,000	12,330,000	-	24,330,000

REVENUE BY RATE INCREMENT

	BILLS	GALLONS	RATE	REVENUE
FIRST	1,000,000	12	12,000,000 \$ 2,000.00	\$ 24,000
NEXT	2,000,000		12,330,000 \$ 2.00	\$ 24,660
ALL OVER	3,000,000		- 2.20	-
TOTAL	12	24,330,000		\$ 48,660

CURRENT BILLING ANALYSIS - 2019 USAGE & EXISTING RATES
Garrison-Quincy Water District - Sewer Division

SUMMARY

	No. of Bills	Gallons Sold	Revenue
All Sewer Customers	3,625	11,961,530	\$ 247,736

Pro Forma Sewer Sales Revenue \$ 247,736

All Sewer Customers

	USAGE	BILLS	GALLONS	FIRST 2,000	ALL OVER 2,000	TOTAL
FIRST	2,000	1,539	1,533,560	1,533,560	-	1,533,560
ALL OVER	2,000	2,086	10,427,970	4,172,000	6,255,970	10,427,970
		3,625	11,961,530	5,705,560	6,255,970	11,961,530

REVENUE BY RATE INCREMENT

	BILLS	GALLONS	RATE	REVENUE
FIRST	2,000	3,625	5,705,560	\$ 36.69 \$ 133,001
ALL OVER	2,000		6,255,970	18.34 114,734
TOTAL	3,625	11,961,530		\$ 247,736

**PROPOSED BILLING ANALYSIS - 2019 USAGE & PROPOSED RATES
Garrison-Quincy Water District - Sewer Division**

SUMMARY

	No. of Bills	Gallons Sold	Revenue
All Sewer Customers	3,695	11,936,710	\$ 249,142
Projected Sewer Sales Revenue			\$ 249,142

All Sewer Customers

	USAGE	BILLS	GALLONS	FIRST 2,000	ALL OVER 2,000	TOTAL
FIRST	2,000	1,643	1,654,910	1,654,910	-	1,654,910
ALL OVER	2,000	2,052	10,281,800	4,104,000	6,177,800	10,281,800
		3,695	11,936,710	5,758,910	6,177,800	11,936,710

REVENUE BY RATE INCREMENT

	BILLS	GALLONS	RATE	REVENUE
FIRST	2,000	3,695	\$ 36.73	\$ 135,717
ALL OVER	2,000	6,177,800	18.36	113,424
TOTAL	3,695	11,936,710		\$ 249,142

Number	Property Description	Acquired	Method	Life	Cost/Basis	Accum Deprec @ 12/31/17	2018 Deprec	Accum Deprec @ 12/31/18	2019 Deprec	Accum Deprec @ 12/31/19	2020 Deprec	Accum Deprec @ 12/31/20	2021 Deprec	Accum Deprec @ 12/31/21	2022 Deprec	Accum Deprec @ 12/31/22	Book Value
LAND & EASEMENTS																	
Water																	
	Land & Land Rights	1990			3,576.00												3,576.00
	Land & Land Rights	1966			240,000.00												240,000.00
	Thayer Easement	2002			12.00												12.00
	Skidmore Easement	2010			4,500.00												4,500.00
	Lemaster Easement	2010			500.00												500.00
	Bivens Easement	2002			1,200.00												1,200.00
	Adams Easement	1987			3,500.00												3,500.00
	Chapman Easement	2007			7,500.00												7,500.00
	Mefford Easement	2002			1,000.00												1,000.00
Total Water					261,788.00	-	-	-	-	-	-	-	-	-	-	-	261,788.00
Sewer																	
	Plant Easement	2011			15,000.00												15,000.00
	Sewer Plant Land	2011			35,000.00												35,000.00
Total Sewer					50,000.00	-	-	-	-	-	-	-	-	-	-	-	50,000.00
Total Land & Easements					311,788.00	-	-	-	-	-	-	-	-	-	-	-	311,788.00
Buildings																	
Water																	
	Structures & Improvements	1991	SL	35	48,666.00	37,542.34	1,390.46	38,932.80	1,390.46	40,323.26	1,390.46	41,713.71	1,390.46	43,104.17	1,390.46	44,494.63	4,171.37
	2002 Gile Double Wide Vin#GM203A	2010	SL	35	32,200.00	7,360.00	920.00	8,280.00	920.00	9,200.00	920.00	10,120.00	920.00	11,040.00	920.00	11,960.00	20,240.00
	Pump House	1987	SL	50	300,000.00	186,000.00	6,000.00	192,000.00	6,000.00	198,000.00	6,000.00	204,000.00	6,000.00	210,000.00	6,000.00	216,000.00	84,000.00
	New Deck	2020	SL	20	7,250.00	-	-	-	-	-	362.50	362.50	362.50	725.00	362.50	1,087.50	6,162.50
	New Roof	2022	SL	35	4,186.92									119.63	119.63	4,067.29	
Total Water					392,302.92	230,902.34	8,310.46	239,212.80	8,310.46	247,523.26	8,672.96	256,196.21	8,672.96	264,869.17	8,792.58	273,661.75	118,641.17
Sewer																	
	Sewer Plant	2011	SL	50	1,150,000.00	161,000.00	23,000.00	184,000.00	23,000.00	207,000.00	23,000.00	230,000.00	23,000.00	253,000.00	23,000.00	276,000.00	874,000.00
	Shed on Sewer Building	2019	SL	35	1,175.23				33.58	33.58	33.58	67.16	33.58	100.73	33.58	134.31	1,040.92
Total Sewer					1,151,175.23	161,000.00	23,000.00	184,000.00	23,033.58	207,033.58	23,033.58	230,067.16	23,033.58	253,100.73	23,033.58	276,134.31	875,040.92
Total Buildings					1,543,478.15	391,902.34	31,310.46	423,212.80	31,344.04	454,556.84	31,706.54	486,263.37	31,706.54	517,969.91	31,826.16	549,796.07	993,682.08
Vehicles & Heavy Equipment																	
	07 Ford F-150	2006	SL	10	15,938.00	15,938.00	-	15,938.00	-	15,938.00	-	15,938.00	-	15,938.00	-	15,938.00	-
	Chevy F-150	2003	SL	10	17,756.00	17,756.00	-	17,756.00	-	17,756.00	-	17,756.00	-	17,756.00	-	17,756.00	-
	JD 850 Tractor	1996	SL	10	3,500.00	3,500.00	-	3,500.00	-	3,500.00	-	3,500.00	-	3,500.00	-	3,500.00	-
	Ingersoll Rand 185 Air Comp.	2003	SL	10	12,000.00	12,000.00	-	12,000.00	-	12,000.00	-	12,000.00	-	12,000.00	-	12,000.00	-
	07 Chevy Dumptruck	2007	SL	15	22,000.00	16,133.33	1,466.67	17,600.00	1,466.67	19,066.67	1,466.67	20,533.33	1,466.67	22,000.00	-	22,000.00	-
	07 Yanmar Loader CBL40	2007	SL	15	33,450.00	24,530.00	2,230.00	26,760.00	2,230.00	28,990.00	2,230.00	31,220.00	2,230.00	33,450.00	-	33,450.00	-
	Exmark Lazor Z 60" Deck 27hp	2012	SL	15	8,585.00	3,434.00	572.33	4,066.33	572.33	4,578.67	572.33	5,151.00	572.33	5,723.33	2,861.67	8,585.00	(0.00)
Total Vehicles					113,229.00	93,291.33	4,269.00	97,560.33	4,269.00	101,829.33	4,269.00	106,098.33	4,269.00	110,367.33	2,861.67	113,229.00	(0.00)
Equipment/Tools/Office																	
	Telemetry Equipment	2008	SL	20	\$ 17,845	8,922.50	892.25	9,814.75	892.25	10,707.00	892.25	11,599.25	892.25	12,491.50	892.25	13,383.75	\$ 4,461.25
	Computer System - Other Office Equip	2013	SL	5	8,250	8,250.00	-	8,250.00	-	8,250.00	-	8,250.00	-	8,250.00	-	8,250.00	-
	DLXT Locator	2008	SL	10	4,060	4,060.00	-	4,060.00	-	4,060.00	-	4,060.00	-	4,060.00	-	4,060.00	-
Total Equipment					30,155.00	21,232.50	892.25	22,124.75	892.25	23,017.00	892.25	23,909.25	892.25	24,801.50	892.25	25,693.75	4,461.25
Wells & Springs and Collecting Reservoirs																	
	Collecting Reservoirs	1990	SL	45	42,579.00	26,493.60	946.20	27,439.80	946.20	28,386.00	946.20	29,332.20	946.20	30,278.40	946.20	31,224.60	11,354.40
	Well & Plant Upgrades	2016	SL	45	821,721.47	36,520.95	18,260.48	54,781.43	18,260.48	73,041.91	18,260.48	91,302.39	18,260.48	109,562.86	18,260.48	127,823.34	693,898.13
	Wells & Springs	1994	SL	45	42,622.00	22,731.73	947.16	23,678.89	947.16	24,626.04	947.16	25,573.20	947.16	26,520.36	947.16	27,467.51	15,154.49
	Wells & Springs	2006	SL	45	94,229.00	25,127.73	2,093.98	27,221.71	2,093.98	29,315.69	2,093.98	31,409.67	2,093.98	33,503.64	2,093.98	35,597.62	58,631.38
Total Wells & Springs					1,001,151.47	110,874.02	22,247.81	133,121.83	22,247.81	155,369.64	22,247.81	177,617.45	22,247.81	199,865.26	22,247.81	222,113.07	779,038.40
Pumping Equipment																	
	Pumping Equipment	1997	SL	20	167,282.00	167,282.00	-	167,282.00	-	167,282.00	-	167,282.00	-	167,282.00	-	167,282.00	-
	CR15-5 10HP	2017	SL	10	2,787.00	274.72	278.70	553.42	278.70	832.12	278.70	1,110.82	278.70	1,389.52	278.70	1,668.22	1,118.78
	Pumping Equipment	2022	SL	20	66,114.98									2,350.43	2,350.43	63,764.55	
Total Pumping Equipment					236,183.98	167,556.72	278.70	167,835.42	278.70	168,114.12	278.70	168,392.82	278.70	168,671.52	2,629.13	171,300.65	64,883.33

ASSOCIATION WATER OR SEWER SYSTEM GRANT AGREEMENT

THIS AGREEMENT dated May 14, 1987, between Garrison-

Quincy-FY-O-Beights Water District

a public corporation organized and operating under Chapter 74 and 106 of the Kentucky
Revised Statutes

(Authorizing Statute)

herein called "Grantee," and the United States of America acting through the Farmers Home Administration, Department of Agriculture, herein called "Grantor," WITNESSETH:

WHEREAS

Grantee has determined to undertake a project of acquisition, construction, enlargement, or capital improvement of a (water) (sewer) system to serve the area under its jurisdiction at an estimated cost of \$ 550,000 and has duly authorized the undertaking of such project.

Grantee is able to finance not more than \$ 300,000 of the development costs through revenues, charges, taxes or assessments, or funds otherwise available to Grantee resulting in a reasonable user charge.

Said sum of \$ 300,000 has been committed to and by Grantee for such project development costs.

Grantor has agreed to grant the Grantee a sum not to exceed \$ 250,000 or 45.45 percent of said development costs, whichever is the lesser, subject to the terms and conditions established by the Grantor. Provided, however, that the proportionate share of any grant funds actually advanced and not needed for grant purposes shall be returned immediately to the Grantor. The Grantor may terminate the grant in whole, or in part, at any time before the date of completion, whenever it is determined that the Grantee has failed to comply with the conditions of the grant.

NOW, THEREFORE, In consideration of said grant by Grantor to Grantee, to be made pursuant to Section 306 (a) of the Consolidated Farm and Rural Development Act for the purpose only of defraying a part not to exceed 45.45 percent of the development costs, as defined by applicable Farmers Home Administration instructions.

GRANTEE AGREES THAT GRANTEE WILL:

- A. Cause said project to be constructed within the total sums available to it, including said grant, in accordance with the project plans and specifications and any modifications thereof prepared by Grantee and approved by Grantor.
- B. Permit periodic inspection of the construction by a representative of Grantor during construction.
- C. Comply with all applicable state and federal laws and regulations and manage, operate and maintain the system, including this project if less than the whole of said system, continuously in an efficient and economical manner.

D. Make the services of said system available within its capacity to all persons in Grantee's service area without discrimination as to race, color, religion, sex, national origin, age, marital status, or physical or mental handicap (possess capacity to enter into legal contract for services) at reasonable charges, including assessments, taxes, or fees in accordance with a schedule

of such charges, whether for one or more classes of service, adopted by resolution date 5-22, 1987, as may be modified from time to time by Grantee. The initial rate schedule must be approved by Grantor. Thereafter, Grantee may make such modifications to the rate system as long as the rate schedule remains reasonable and nondiscriminatory.

E. Adjust its operating costs and service charges from time to time to provide for adequate operation and maintenance, emergency repair reserves, obsolescence reserves, debt service and debt service reserves.

F. Expand its system from time to time to meet reasonably anticipated growth or service requirements in the area within its jurisdiction.

G. Provide Grantor with such periodic reports as it may require and permit periodic inspection of its operations by a representative of the Grantor.

H. To execute Forms FmHA 400-1, "Equal Opportunity Agreement," and FmHA 400-4, "Assurance Agreement," and any other agreements required by Grantor which Grantee is legally authorized to execute. If any such forms have been executed by Grantee as a result of a loan being made to Grantee by Grantor contemporaneously with the making of this Grant, another form of the same type need not be executed in connection with this Grant.

I. Upon any default under its representations or agreements set forth in this instrument, or in the instruments incident to the awarding of the grant, Grantee, at the option and demand of Grantor, to the extent legally permissible, will repay to grantor forthwith the original amount of the grant received with the interest accruing thereon from the date of default at the market rate for water and waste disposal loan assistance in effect on the date hereof or at the time the default occurred, whichever is greater. Default by the Grantee will constitute termination of the grant thereby causing cancellation of Federal assistance under the grant. The provisions of this Grant Agreement may be enforced by Grantor, at its option and without regard to prior waivers by it of previous defaults of Grantee, by judicial proceedings to require specific performance of the terms of this Grant Agreement or by such other proceedings in law or equity, in either Federal or State courts, as may be deemed necessary by Grantor to assure compliance with the provisions of this Grant Agreement and the laws and regulations under which this grant is made.

J. Return immediately to Grantor, as required by the regulations of Grantor, any grant funds actually advanced and not needed by Grantee for approved purposes.

K. Use the real property including land, land improvements, structures, and appurtenances thereto, for authorized purposes of the grant as long as needed.

1. Title to real property shall vest in the recipient subject to the condition that the Grantee shall use the real property for the authorized purpose of the original grant as long as needed.

2. The Grantee shall obtain approval by the Grantor agency for the use of the real property in other projects when the Grantee determines that the property is no longer needed for the original grant purposes. Use in other projects shall be limited to those under other Federal grant programs or programs that have purposes consistent with those authorized for support by the Grantor.

3. When the real property is no longer needed as provided in 1 and 2 above, the Grantee shall request disposition instructions from the Grantor agency or its successor Federal agency. The Grantor agency shall observe the following rules in the disposition instructions:

(a) The Grantor may be permitted to retain title after it compensates the Federal Government in an amount computed by applying the Federal percentage of participation in the cost of the original project to the fair market value of the property.

(b) The Grantee may be directed to sell the property under guidelines provided by the Grantor agency and pay the Federal Government an amount computed by applying the Federal percentage of participation in the cost of the original project to the proceeds from sale (after deducting actual and reasonable selling and fix-up expenses, if any, from the sale proceeds). When the Grantee is authorized or required to sell the property, proper sales procedures shall be established that provide for competition to the extent practicable and result in the highest possible return.

(c) The Grantee may be directed to transfer title to the property to the Federal Government provided that in such cases the Grantee shall be entitled to compensation computed by applying the Grantee's percentage of participation in the cost of the program or project to the current fair market value of the property.

This Grant Agreement covers the following described real property (use continuation sheets as necessary).

Refer to Attachment

L. Abide by the following conditions pertaining to nonexpendable personal property which is furnished by the Grantor or acquired wholly or in part with grant funds. Nonexpendable personal property means tangible personal property having a useful life of more than one year and an acquisition cost of \$300 or more per unit. A Grantee may use its own definition of nonexpendable personal property provided such definition would at least include all tangible personal property as defined above.

1. Use of nonexpendable property.

(a) The Grantee shall use the property in the project for which it was acquired as long as needed. When no longer needed for the original project, the Grantee shall use the property in connection with its other Federally sponsored activities, if any, in the following order of priority:

- (1) Activities sponsored by the FMHA.
 - (2) Activities sponsored by other Federal agencies.
- (b) During the time that nonexpendable personal property is held for use on the project for which it was acquired, the Grantee shall make it available for use on other projects if such other use will not interfere with the work on the project for which the property was originally acquired. First preference for such other use shall be given to FMHA sponsored projects. Second preference will be given to other Federally sponsored projects.

2. Disposition of nonexpendable property. When the Grantee no longer needs the property as provided in paragraph (a) above, the property may be used for other activities in accordance with the following standards:

- (a) Nonexpendable property with a unit acquisition cost of less than \$1,000. The Grantee may use the property for other activities without reimbursement to the Federal Government or sell the property and retain the proceeds.
- (b) Nonexpendable personal property with a unit acquisition cost of \$1,000 or more. The Grantee may retain the property for other uses provided that compensation is made to the original Grantee agency or its successor. The amount of compensation shall be computed by applying the percentage of Federal participation in the cost of the original project or program to the current fair market value of the property. If the Grantee has no need for the property and the property has further use value, the Grantee shall request disposition instructions from the original Grantee agency.

The Grantee shall determine whether the property can be used to meet the agency's requirements. If no requirement exists within that agency, the availability of the property shall be reported, in accordance with the guidelines of the Federal Property Management Regulations (FPMR), to the General Services Administration by the Grantee agency to determine whether a requirement for the property exists in other Federal agencies. The Grantee shall issue instructions to the Grantee no later than 120 days after the Grantee request and the following procedures shall govern:

- (1) If so instructed or if disposition instructions are not issued within 120 calendar days after the Grantee's request, the Grantee shall sell the property and reimburse the Grantee an amount computed by applying to the sales proceeds the percentage of Federal participation in the cost of the original project or program. However, the Grantee shall be permitted to deduct and retain from the Federal share \$100 or ten percent of the proceeds, whichever is greater, for the Grantee's selling and handling expenses.
- (2) If the Grantee is instructed to ship the property elsewhere the Grantee shall be reimbursed by the benefiting Federal agency with an amount which is computed by applying the percentage of the Grantee participation in the cost of the original grant or program to the current fair market value of the property, plus any reasonable shipping or interim storage costs incurred.
- (3) If the Grantee is instructed to otherwise dispose of the property, the Grantee shall be reimbursed by the Grantee agency for such costs incurred in its disposition.

3. The Grantee's property management standards for nonexpendable personal property shall also include:

- (a) Property records which accurately provide for: a description of the property; manufacturer's serial number or other identification number; acquisition date and cost; source of the property; percentage (at the end of budget year) of Federal participation in the cost of the project for which the property was acquired; location, use and condition of the property and the date the information was reported; and ultimate disposition data including sales price or the method used to determine current fair market value if the Grantee reimburses the Grantee for its share.
- (b) A physical inventory of property shall be taken and the results reconciled with the property records at least once every two years to verify the existence, current utilization, and continued need for the property.
- (c) A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft of nonexpendable property shall be investigated and fully documented.
- (d) Adequate maintenance procedures shall be implemented to keep the property in good condition.
- (e) Proper sales procedures shall be established for unneeded property which would provide for competition to the extent practicable and result in the highest possible return.

This Grant Agreement covers the following described nonexpendable property (use continuation sheets as necessary).

None

- M. Provide Financial Management Systems which will include:
1. Accurate, current, and complete disclosure of the financial results of each grant. Financial reporting will be on an accrual basis.
 2. Records which identify adequately the source and application of funds for grant-supported activities. Those records shall contain information pertaining to grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays, and income.

3. Effective control over and accountability for all funds, property and other assets. Grantees shall adequately safeguard all such assets and shall assure that they are used solely for authorized purposes.

4. Accounting records supported by source documentation.

N. Retain financial records, supporting documents, statistical records, and all other records pertinent to the grant for a period of at least three years after grant closing except that the records shall be retained beyond the three-year period if audit findings have not been resolved. Microfilm copies may be substituted in lieu of original records. The Grantor and the Comptroller General of the United States, or any of their duly authorized representatives, shall have access to any books, documents, papers, and records of the Grantee's government which are pertinent to the specific grant program for the purpose of making audits, examinations, excerpts and transcripts.

O. Provide information as requested by the Grantor to determine the need for and complete any necessary Environmental Impact Statements.

P. Provide an audit report prepared in sufficient detail to allow the Grantor to determine that funds have been used in compliance with the proposal, any applicable laws and regulations and this Agreement.

Q. Agree to account for and to return to Grantor interest earned on grant funds pending their disbursement for program purposes when the Grantee is a unit of local government or a nonprofit organization. States and agencies or instrumentalities of states shall not be held accountable for interest earned on grant funds pending their disbursement.

R. Not encumber, transfer or dispose of the property or any part thereof, furnished by the Grantor or acquired wholly or in part with Grantor funds without the written consent of the Grantor except as provided in items K and L above.

S. Include in all contracts for construction or repair a provision for compliance with the Copeland "Anti-Kick Back" Act (18 U.S.C. 874) as supplemented in Department of Labor regulations (29 CFR, Part 3). The Grantee shall report all suspected or reported violations to the Grantor.

T. In construction contracts in excess of \$2,000 and in other contracts in excess of \$2,500 which involve the employment of mechanics or laborers, to include a provision for compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations (29 CFR, Part 5).

U. To include in all contracts in excess of \$100,000 a provision that the contractor agrees to comply with all the requirements of Section 114 of the Clean Air Act (42 U.S.C. §1875C-9) and Section 308 of the Water Pollution Control Act (33 U.S.C. §1318) relating to inspection, monitoring, entry, reports, and information, as well as all other requirements specified in Section 114 of the Clean Air Act and Section 308 of the Water Pollution Control Act and all regulations and guidelines issued thereunder after the award of the contract. Such regulations and guidelines can be found in 40 CFR 15.4 and 40 FR 17126 dated April 16, 1975. In so doing the Contractor further agrees:

1. As a condition for the award of contract, to notify the Owner of the receipt of any communication from the Environmental Protection Agency (EPA) indicating that a facility to be utilized in the performance of the contract is under consideration to be listed on the EPA list of Violating Facilities. Prompt notification is required prior to contract award.

2. To certify that any facility to be utilized in the performance of any nonexempt contractor subcontract is not listed on the EPA list of Violating Facilities pursuant to 40 CFR 15.20 as of the date of contract award.

3. To include or cause to be included the above criteria and the requirements in every nonexempt subcontract and that the Contractor will take such action as the Government may direct as a means of enforcing such provisions.

As used in these paragraphs the term "facility" means any building, plan, installation, structure, mine, vessel or other floating craft, location, or site of operations, owned, leased, or supervised by a Grantee, cooperator, contractor, or subcontractor, to be utilized in the performance of a grant, agreement, contract, subgrant, or subcontract. Where a location or site of operation contains or includes more than one building, plant, installation, or structure, the entire location shall be deemed to be a facility except where the Director, Office of Federal Activities, Environmental Protection Agency, determines that independent facilities are co-located in one geographical area.

V. The following clause is applicable to nonprofit organizations:

As a condition of this Grant or Cooperative Agreement, the recipient assures and certifies that it is in compliance with and will comply in the course of the Agreement with all applicable laws, regulations, Executive Orders and other generally applicable requirements, including those set out in 7 CFR 3015.205(b), which hereby are incorporated in this Agreement by reference, and such statutory provisions as are specifically set forth herein.

GRANTOR AGREES THAT IT:

A. Will make available to Grantee for the purpose of this Agreement not to exceed \$ 250,000.

which it will advance to Grantee to meet not to exceed 45.45 percent of the development costs of the project in accordance with the actual needs of Grantee as determined by Grantor.

B. Will assist Grantee, within available appropriations, with such technical assistance as Grantor deems appropriate in planning the project and coordinating the plan with local official comprehensive plans for sewer and water and with any State or area plans for the area in which the project is located.

C. At its sole discretion and at any time may give any consent, deferment, subordination, release, satisfaction, or termination of any or all of Grantee's grant obligations, with or without valuable consideration, upon such terms and conditions as Grantor may determine to be (1) advisable to further the purpose of the grant or to protect Grantor's financial interest therein and (2) consistent with both the statutory purposes of the grant and the limitations of the statutory authority under which it is made.

TERMINATION OF THIS AGREEMENT

This Agreement may be terminated for cause in the event of default on the part of the Grantee as provided in paragraph 1 above or for convenience of the Grantor and Grantee prior to the date of completion of the grant purpose. Termination for convenience will occur when both the Grantee and Grantor agree that the continuation of the project will not produce beneficial results commensurate with the further expenditure of funds.

IN WITNESS WHEREOF Grantee on the date first above written has caused these presence to be executed by its duly authorized Chairman

and attested and its corporate seal affixed by its duly authorized Secretary

ATTEST:

By James Vergne
James Vergne
Secretary

(Title)

By William E. Ruggles
William E Ruggles
Chairman

(Title)

UNITED STATES OF AMERICA
FARMERS HOME ADMINISTRATION
By Thomas G Fern
Thomas G Fern
District Director

(Title)

UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION

ASSOCIATION WATER OR SEWER SYSTEM GRANT AGREEMENT

THIS AGREEMENT dated August 22, 19 96, between

Garrison, Quincy, Ky-0-Heights Water District

a public corporation organized and operating under KRS Chapter 273

(Authorizing Statute)

herein called "Grantee," and the United States of America acting through the Farmers Home Administration, Department of Agriculture, herein called "Grantor," WITNESSETH:

WHEREAS

Grantee has determined to undertake a project of acquisition, construction, enlargement, or capital improvement of a (water ~~system~~) system to serve the area under its jurisdiction at an estimated cost of \$ 872,000.00 and has duly authorized the undertaking of such project.

Grantee is able to finance not more than \$ 295,000.00 of the development costs through revenues, charges, taxes or assessments, or funds otherwise available to Grantee resulting in a reasonable user charge.

Said sum of \$ 577,000.00 has been committed to and by Grantee for such project development costs.

Grantor has agreed to grant the Grantee a sum not to exceed \$ 290,000.00 or 34 percent of said development costs, whichever is the lesser, subject to the terms and conditions established by the Grantor. Provided, however, that the proportionate share of any grant funds actually advanced and not needed for grant purposes shall be returned immediately to the Grantor. The Grantor may terminate the grant in whole, or in part, at any time before the date of completion, whenever it is determined that the Grantee has failed to comply with the conditions of the grant.

NOW, THEREFORE, In consideration of said grant by Grantor to Grantee, to be made pursuant to Section 306 (a) of the Consolidated Farm and Rural Development Act for the purpose only of defraying a part not to exceed 75 percent of the development costs, as defined by applicable Farmers Home Administration instructions.

GRANTEE AGREES THAT GRANTEE WILL:

- A. Cause said project to be constructed within the total sums available to it, including said grant, in accordance with the project plans and specifications and any modifications thereof prepared by Grantee and approved by Grantor.
- B. Permit periodic inspection of the construction by a representative of Grantor during construction.
- C. Comply with any measures identified in the Government's environmental impact analysis for this facility for the purpose of avoiding or reducing the adverse environmental impacts of the facility's construction or operation.
- D. Comply with all applicable state and federal laws and regulations and manage, operate and maintain the system, including this project if less than the whole of said system, continuously in an efficient and economical manner.
- E. Make the services of said system available within its capacity to all persons in Grantee's service area without discrimination as to race, color, religion, sex, national origin, age, marital status, or physical or mental handicap (possess capacity to enter into legal contract for services) at reasonable charges, including assessments, taxes, or fees in accordance with a schedule of such charges,

whether for one or more classes of service, adopted by resolution date May 1, 19 95, as may be modified from time to time by Grantee. The initial rate schedule must be approved by Grantor. Thereafter, Grantee may make such modifications to the rate system as long as the rate schedule remains reasonable and nondiscriminatory.

Public reporting burden for this collection of information is estimated to average 2 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Department of Agriculture, Clearance Officer, OIRM, Room 404-W, Washington, DC 20250, and to the Office of Management and Budget, Paperwork Reduction Project (OMB No. 0575-0074), Washington, D.C. 20503.

F. Adjust its operating costs and service charges from time to time to provide for adequate operation and maintenance, emergency repair reserves, obsolescence reserves, debt service and debt service reserves.

G. Expand its system from time to time to meet reasonably anticipated growth or service requirements in the area within its jurisdiction.

H. Provide Grantor with such periodic reports as it may require and permit periodic inspection of its operations by a representative of the Grantor.

I. To execute Forms FmHA 400-1, "Equal Opportunity Agreement," and FmHA 400-4, "Assurance Agreement," and any other agreements required by Grantor which Grantee is legally authorized to execute. If any such forms have been executed by Grantee as a result of a loan being made to Grantee by Grantor contemporaneously with the making of this Grant, another form of the same type need not be executed in connection with this Grant.

J. Upon any default under its representations or agreements set forth in this instrument, or in the instruments incident to the awarding of the grant, Grantee, at the option and demand of Grantor, to the extent legally permissible, will repay to grantor forthwith the original amount of the grant received with the interest accruing thereon from the date of default at the market rate for water and waste disposal loan assistance in effect on the date hereof or at the time the default occurred, whichever is greater. Default by the Grantee will constitute termination of the grant thereby causing cancellation of Federal assistance under the grant. The provisions of this Grant Agreement may be enforced by Grantor, at its option and without regard to prior waivers by it of previous defaults of Grantee, by judicial proceedings to require specific performance of the terms of this Grant Agreement or by such other proceedings in law or equity, in either Federal or State courts, as may be deemed necessary by Grantor to assure compliance with the provisions of this Grant Agreement and the laws and regulations under which this grant is made.

K. Return immediately to Grantor, as required by the regulations of Grantor, any grant funds actually advanced and not needed by Grantee for approved purposes.

L. Use the real property including land, land improvements, structures, and appurtenances thereto, for authorized purposes of the grant as long as needed.

1. Title to real property shall vest in the recipient subject to the condition that the Grantee shall use the real property for the authorized purpose of the original grant as long as needed.

2. The Grantee shall obtain approval by the Grantor agency for the use of the real property in other projects when the Grantee determines that the property is no longer needed for the original grant purposes. Use in other projects shall be limited to those under other Federal grant programs or programs that have purposes consistent with those authorized for support by the Grantor.

3. When the real property is no longer needed as provided in 1 and 2 above, the Grantee shall request disposition instructions from the Grantor agency or its successor Federal agency. The Grantor agency shall observe the following rules in the disposition instructions:

(a) The Grantor may be permitted to retain title after it compensates the Federal Government in an amount computed by applying the Federal percentage of participation in the cost of the original project to the fair market value of the property.

(b) The Grantee may be directed to sell the property under guidelines provided by the Grantor agency and pay the Federal Government an amount computed by applying the Federal percentage of participation in the cost of the original project to the proceeds from sale (after deducting actual and reasonable selling and fix-up expenses, if any, from the sale proceeds). When the Grantee is authorized or required to sell the property, proper sales procedures shall be established that provide for competition to the extent practicable and result in the highest possible return.

(c) The Grantee may be directed to transfer title to the property to the Federal Government provided that in such cases the Grantee shall be entitled to compensation computed by applying the Grantee's percentage of participation in the cost of the program or project to the current fair market value of the property.

The Grant Agreement covers the following described real property (use continuation sheets as necessary).

M. Abide by the following conditions pertaining to nonexpendable personal property which is furnished by the Grantor or acquired wholly or in part with grant funds. Nonexpendable personal property means tangible personal property having a useful life of more than one year and an acquisition cost of \$300 or more per unit. A Grantee may use its own definition of nonexpendable personal property provided such definition would at least include all tangible personal property as defined above.

1. Use of nonexpendable property.

(a) The Grantee shall use the property in the project for which it was acquired as long as needed. When no longer needed for the original project, the Grantee shall use the property in connection with its other Federally sponsored activities, if any, in the following order of priority:

- (1) Activities sponsored by FmHA.
- (2) Activities sponsored by other Federal agencies.

(b) During the time that nonexpendable personal property is held for use on the project for which it was acquired, the Grantee shall make it available for use on other projects if such other use will not interfere with the work on the project for which the property was originally acquired. First preference for such other use shall be given to FmHA sponsored projects. Second preference will be given to other Federally sponsored projects.

2. Disposition of nonexpendable property. When the Grantee no longer needs the property as provided in paragraph (a) above, the property may be used for other activities in accordance with the following standards:

(a) Nonexpendable property with a unit acquisition cost of less than \$1,000. The Grantee may use the property for other activities without reimbursement to the Federal Government or sell the property and retain the proceeds.

(b) Nonexpendable personal property with a unit acquisition cost of \$1,000 or more. The Grantee may retain the property for other uses provided that compensation is made to the original Grantor agency or its successor. The amount of compensation shall be computed by applying the percentage of Federal participation in the cost of the original project or program to the current fair market value of the property. If the Grantee has no need for the property and the property has further use value, the Grantee shall request disposition instructions from the original Grantor agency.

The Grantor agency shall determine whether the property can be used to meet the agency's requirements. If no requirement exists within that agency, the availability of the property shall be reported, in accordance with the guidelines of the Federal Property Management Regulations (FPMR), to the General Services Administration by the Grantor agency to determine whether a requirement for the property exists in other Federal agencies. The Grantor agency shall issue instructions to the Grantee no later than 120 days after the Grantee request and the following procedures shall govern:

(1) If so instructed or if disposition instructions are not issued within 120 calendar days after the Grantee's request, the Grantee shall sell the property and reimburse the Grantor agency an amount computed by applying to the sales proceeds the percentage of Federal participation in the cost of the original project or program. However, the Grantee shall be permitted to deduct and retain from the Federal share \$100 or ten percent of the proceeds, whichever is greater, for the Grantee's selling and handling expenses.

(2) If the Grantee is instructed to ship the property elsewhere the Grantee shall be reimbursed by the benefitting Federal agency with an amount which is computed by applying the percentage of the Grantee participation in the cost of the original grant project or program to the current fair market value of the property, plus any reasonable shipping or interim storage costs incurred.

(3) If the Grantee is instructed to otherwise dispose of the property, the Grantee shall be reimbursed by the Grantor agency for such costs incurred in its disposition.

3. The Grantee's property management standards for nonexpendable personal property shall also include:

(a) Property records which accurately provide for: a description of the property; manufacturer's serial number or other identification number; acquisition date and cost; source of the property; percentage (at the end of budget year) of Federal participation in the cost of the project for which the property was acquired; location, use and condition of the property and the date the information was reported; and ultimate disposition data including sales price or the method used to determine current fair market value if the Grantee reimburses the Grantor for its share.

(b) A physical inventory of property shall be taken and the results reconciled with the property records at least once every two years to verify the existence, current utilization, and continued need for the property.

(c) A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft of nonexpendable property shall be investigated and fully documented.

(d) Adequate maintenance procedures shall be implemented to keep the property in good condition.

(e) Proper sales procedures shall be established for unneeded property which would provide for competition to the extent practicable and result in the highest possible return.

This Grant Agreement covers the following described nonexpendable property (use continuation sheets as necessary).

N. Provide Financial Management Systems which will include:

1. Accurate, current, and complete disclosure of the financial results of each grant. Financial reporting will be on an accrual basis.

2. Records which identify adequately the source and application of funds for grant-supported activities. Those records shall contain information pertaining to grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays, and income.

3. Effective control over and accountability for all funds, property and other assets. Grantees shall adequately safeguard all such assets and shall assure that they are used solely for authorized purposes.

4. Accounting records supported by source documentation.

O. Retain financial records, supporting documents, statistical records, and all other records pertinent to the grant for a period of at least three years after grant closing except that the records shall be retained beyond the three-year period if audit findings have not been resolved. Microfilm copies may be substituted in lieu of original records. The Grantor and the Comptroller General of the United States, or any of their duly authorized representatives, shall have access to any books, documents, papers, and records of the Grantee's government which are pertinent to the specific grant program for the purpose of making audits, examinations, excerpts and transcripts.

P. Provide information as requested by the Grantor to determine the need for and complete any necessary Environmental Impact Statements.

Q. Provide an audit report prepared in sufficient detail to allow the Grantor to determine that funds have been used in compliance with the proposal, any applicable laws and regulations and this Agreement.

R. Agree to account for and to return to Grantor interest earned on grant funds pending this disbursement for program purposes when the Grantee is a unit of local government or a nonprofit organization, States and agencies or instrumentalities of states shall not be held accountable for interest earned on grant funds pending their disbursement.

S. Not encumber, transfer or dispose of the property or any part thereof, furnished by the Grantor or acquired wholly or in part with Grantor funds without the written consent of the Grantor except as provided in items K and L above.

T. Include in all contracts for construction or repair a provision for compliance with the Copeland "Anti-Kick Back" Act (18 U.S.C. 874) as supplemented in Department of Labor regulations (29 CFR, Part 3). The Grantee shall report all suspected or reported violations to the Grantor.

U. In construction contracts in excess of \$2,000 and in other contracts in excess of \$2,500 which involve the employment of mechanics or laborers, to include a provision for compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations (29 CFR, Part 5).

V. To include in all contracts in excess of \$100,000 a provision that the contractor agrees to comply with all the requirements of Section 114 of the Clean Air Act (42 U.S.C. §1875C-9) and Section 308 of the Water Pollution Control Act (33 U.S.C. §1318) relating to inspection, monitoring, entry, reports, and information, as well as all other requirements specified in Section 114 of the Clean Air Act and Section 308 of the Water Pollution Control Act and all regulations and guidelines issued thereunder after the award of the contract. Such regulations and guidelines can be found in 40 CFR 15.4 and 40 FR 17126 dated April 16, 1975. In so doing the Contractor further agrees:

1. As a condition for the award of contract, to notify the Owner of the receipt of any communication from the Environmental Protection Agency (EPA) indicating that a facility to be utilized in the performance of the contract is under consideration to be listed on the EPA list of Violating Facilities. Prompt notification is required prior to contract award.
2. To certify that any facility to be utilized in the performance of any nonexempt contractor subcontract is not listed on the EPA list of Violating Facilities pursuant to 40 CFR 15.20 as of the date of contract award.
3. To include or cause to be included the above criteria and the requirements in every nonexempt subcontract and that the Contractor will take such action as the Government may direct as a means of enforcing such provisions.

As used in these paragraphs the term "facility" means any building, plan, installation, structure, mine, vessel or other floating craft, location, or site of operations, owned, leased, or supervised by a Grantee, cooperator, contractor, or subcontractor, to be utilized in the performance of a grant, agreement, contract, subgrant, or subcontract. Where a location or site of operation contains or includes more than one building, plant, installation, or structure, the entire location shall be deemed to be a facility except where the Director, Office of Federal Activities, Environmental Protection Agency, determines that independent facilities are co-located in one geographical area.

W. The following clause is applicable to nonprofit organizations:

As a condition of this Grant or Cooperative Agreement, the recipient assures and certifies that it is in compliance with and will comply in the course of the Agreement with all applicable laws, regulations, Executive Orders and other generally applicable requirements, including those set out in 7 CFR 3015.205(b), which hereby are incorporated in this Agreement by reference, and such statutory provisions as are specifically set forth herein.

GRANTOR AGREES THAT IT:

A. Will make available to Grantee for the purpose of this Agreement not to exceed \$ 290,000.00

which it will advance to Grantee to meet not to exceed 75 percent of the development costs of the project in accordance with the actual needs of Grantee as determined by Grantor.

B. Will assist Grantee, within available appropriations, with such technical assistance as Grantor deems appropriate in planning the project and coordinating the plan with local official comprehensive plans for sewer and water and with any State or area plans for the area in which the project is located.

C. At its sole discretion and at any time may give any consent, deferment, subordination, release, satisfaction, or termination of any or all of Grantee's grant obligations, with or without valuable consideration, upon such terms and conditions as Grantor may determine to be (1) advisable to further the purpose of the grant or to protect Grantor's financial interest therein and (2) consistent with both the statutory purposes of the grant and the limitations of the statutory authority under which it is made.

TERMINATION OF THIS AGREEMENT

This Agreement may be terminated for cause in the event of default on the part of the Grantee as provided in Paragraph 1 above or for convenience of the Grantor and Grantee prior to the date of completion of the grant purpose. Termination for convenience will occur when both the Grantee and Grantor agree that the continuation of the project will not produce beneficial results commensurate with the further expenditure of funds.

IN WITNESS WHEREOF Grantee on the date first above written has caused these presence to be executed by its duly authorized

Chairperson

and attested and its corporate seal affixed by its duly authorized Secretary

ATTEST:

By Richard Christy

Secretary

(Title)

Garrison, Quincy, Ky-O-Heights
Water District

By Mary J. Horsley

Chairperson

(Title)

Garrison Quincy, Ky-O-Heights Water District
UNITED STATES OF AMERICA
FARMERS HOME ADMINISTRATION

By Edward Howe

Rural Development Specialist

(Title)

5/20

LOAN RESOLUTION
(Public Bodies)

A RESOLUTION OF THE Commissioners
OF THE Garrison, Quincy, Ky-0-Heights Water District
AUTHORIZING AND PROVIDING FOR THE INCURRENCE OF INDEBTEDNESS FOR THE PURPOSE OF PROVIDING A
PORTION OF THE COST OF ACQUIRING, CONSTRUCTING, ENLARGING, IMPROVING, AND/OR EXTENDING ITS
Water System
FACILITY TO SERVE AN AREA LAWFULLY WITHIN ITS JURISDICTION TO SERVE.

WHEREAS, it is necessary for the Garrison, Quincy, Ky-0-Heights Water District
(Public Body)
(herein after called Association) to raise a portion of the cost of such undertaking by issuance of its bonds in the principal amount of
Two hundred Ninety Five Thousand Dollars (\$295,000)

pursuant to the provisions of KRS Chapter 273; and

WHEREAS, the Association intends to obtain assistance from the Farmers Home Administration, United States Department of Agriculture, (herein called the Government) acting under the provisions of the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.) in the planning, financing, and supervision of such undertaking and the purchasing of bonds lawfully issued, in the event that no other acceptable purchaser for such bonds is found by the Association:

NOW THEREFORE in consideration of the premises the Association hereby resolves:

1. To have prepared on its behalf and to adopt an ordinance or resolution for the issuance of its bonds containing such items and in such forms as are required by State statutes and as are agreeable and acceptable to the Government.
2. To refinance the unpaid balance, in whole or in part, of its bonds upon the request of the Government if at any time it shall appear to the Government that the Association is able to refinance its bonds by obtaining a loan for such purposes from responsible cooperative or private sources at reasonable rates and terms for loans for similar purposes and periods of time as required by section 333(c) of said Consolidated Farm and Rural Development Act (7 U.S.C. 1983(c)).
3. To provide for, execute, and comply with Form FmHA 400-4, "Assurance Agreement," and Form FmHA 400-1, "Equal Opportunity Agreement," including an "Equal Opportunity Clause," which clause is to be incorporated in, or attached as a rider to, each construction contract and subcontract involving in excess of \$10,000.
4. To indemnify the Government for any payments made or losses suffered by the Government on behalf of the Association. Such indemnification shall be payable from the same source of funds pledged to pay the bonds or any other legal permissible source.
5. That upon default in the payments of any principal and accrued interest on the bonds or in the performance of any covenant or agreement contained herein or in the instruments incident to making or insuring the loan, the Government at its option may (a) declare the entire principal amount then outstanding and accrued interest immediately due and payable, (b) for the account of the Association (payable from the source of funds pledged to pay the bonds or any other legally permissible source), incur and pay reasonable expenses for repair, maintenance, and operation of the facility and such other reasonable expenses as may be necessary to cure the cause of default, and/or (c) take possession of the facility, repair, maintain, and operate or rent it. Default under the provisions of this resolution or any instrument incident to the making or insuring of the loan may be construed by the Government to constitute default under any other instrument held by the Government and executed or assumed by the Association, and default under any such instrument may be construed by the Government to constitute default hereunder.
6. Not to sell, transfer, lease, or otherwise encumber the facility or any portion thereof, or interest therein, or permit others to do so without the prior written consent of the Government.
7. Not to defease the bonds, or to borrow money, enter into any contract or agreement, or otherwise incur any liabilities for any purpose in connection with the facility (exclusive of normal maintenance) without the prior written consent of the Government if such undertaking would involve the source of funds pledged to pay the bonds.
8. To place the proceeds of the bonds on deposit in an account and in a manner approved by the Government. Funds may be deposited in institutions insured by the State or Federal Government or invested in readily marketable securities backed by the full faith and credit of the United States. Any income from these accounts will be considered as revenues of the system.
9. To comply with all applicable State and Federal laws and regulations and to continually operate and maintain the facility in good condition.
10. To provide for the receipt of adequate revenues to meet the requirements of debt service, operation and maintenance, and the establishment of adequate reserves. Revenue accumulated over and above that needed to pay operating and maintenance, debt service and reserves may only be retained or used to make prepayments on the loan. Revenue cannot be used to pay any expenses which are not directly incurred for the facility financed by FmHA. No free service or use of the facility will be permitted.

- 11. To acquire and maintain such insurance and fidelity bond coverage as may be required by the Government.
- 12. To establish and maintain such books and records relating to the operation of the facility and its financial affairs and to provide for required audit thereof as required by the Government, to provide the Government a copy of each such audit without its request, and to forward to the Government such additional information and reports as it may from time to time require.
- 13. To provide the Government at all reasonable times access to all books and records relating to the facility and access to the property of the system so that the Government may ascertain that the Association is complying with the provisions hereof and of the instruments incident to the making or insuring of the loan.
- 14. That if the Government requires that a reserve account be established and maintained, disbursements from that account may be used when necessary for payments due on the bond if sufficient funds are not otherwise available. With the prior written approval of the Government, funds may be withdrawn for:
 - (a) Paying the cost of repairing or replacing any damage to the facility caused by catastrophe.
 - (b) Repairing or replacing short-lived assets.
 - (c) Making extensions or improvements to the facility.
 Any time funds are disbursed from the reserve account, additional deposits will be required until the reserve account has reached the required funded level.
- 15. To provide adequate service to all persons within the service area who can feasibly and legally be served and to obtain FmHA's concurrence prior to refusing new or adequate services to such persons. Upon failure to provide services which are feasible and legal, such person shall have a direct right of action against the Association or public body.
- 16. To comply with the measures identified in the Government's environmental impact analysis for this facility for the purpose of avoiding or reducing the adverse environmental impacts of the facility's construction or operation.
- 17. To accept a grant in an amount not to exceed \$ 290,000 RECD and \$225,000 ARC

under the terms offered by the Government; that the Chairperson

and Secretary of the Association are hereby authorized and empowered to take all action necessary or appropriate in the execution of all written instruments as may be required in regard to or as evidence of such grant; and to operate the facility under the terms offered in said grant agreement(s).

The provisions hereof and the provisions of all instruments incident to the making or the insuring of the loan, unless otherwise specifically provided by the terms of such instrument, shall be binding upon the Association as long as the bonds are held or insured by the Government or assignee. The provisions of sections 6 through 17 hereof may be provided for in more specific detail in the bond resolution or ordinance; to the extent that the provisions contained in such bond resolution or ordinance should be found to be inconsistent with the provisions hereof, these provisions shall be construed as controlling between the Association and the Government or assignee

The vote was: Yeas 7 Nays 0 Absent 0

IN WITNESS WHEREOF, the Commissioners of the Garrison, Quincy, Ky-0-Heights Water District has duly adopted this resolution and caused it to be executed by the officers below in duplicate on this 10th day of May, 1996

Garrison, Quincy, Ky-0-Heights Water District

(SEAL) By Mary J. Horsley Mary Horsley
 Title Chairperson

Attest: Richard N. Christy
 Title Secretary

LOAN AGREEMENT

By and Between

KENTUCKY RURAL WATER FINANCE CORPORATION

and

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT

dated June 25, 2002

LOAN AGREEMENT

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LOAN AGREEMENT

This Loan Agreement made and entered into as of the 25th day of June, 2002 (the "Loan Agreement") by and between the Kentucky Rural Water Finance Corporation, a non-profit corporation instrumentality of the various entities of the Commonwealth of Kentucky (the "Corporation") and the Garrison-Quincy-KY-O-Heights Water District (the "Governmental Agency"):

WITNESSETH

WHEREAS, the Corporation has established its Public Projects Construction Financing Program (the "Program") designed to provide financing of construction to governmental entities under which the Corporation has determined to issue under its Public Projects Construction Notes, Series 2001, dated December 1, 2001 (the "Notes") pursuant to a Trust Indenture dated as of December 1, 2001 (the Indenture") between the Corporation and Fifth Third Bank, trustee (the "Trustee"), the net proceeds of which will be applied for the benefit of such governmental entities by making Loans, pursuant to Loan Agreements for Construction of their Projects, in order to provide a centralized source of interim construction financing and to reduce interest costs financing expenses of such governmental entities; and

WHEREAS, the Governmental Agency has obtained a commitment for Permanent Financing for its Project as hereinafter defined, from RD; and

WHEREAS, the Governmental Agency has determined that it is necessary and desirable to acquire, construct, and finance the Project, and the Corporation has determined that the Project is a project within the meaning of the Act and the Indenture, thereby qualifying for financial assistance from the Corporation; and

WHEREAS RD has or will appropriate funds in amounts sufficient to enable it to honor said commitments for Permanent Financing of such Projects; and

WHEREAS, the Corporation has found and determined that the construction of the Project will be in furtherance of the purposes of the Corporation and the Governmental Agency under the Act; and

WHEREAS, pursuant to this Loan Agreement the Governmental Agency will proceed with the construction of the Project; and

WHEREAS, pursuant to this Loan Agreement the Governmental Agency will irrevocably assign to the Trustee, for the benefit of the Corporation, all right, title and interest in and to monies to be received pursuant to the Permanent Financing, which monies will be used by the Trustee to pay principal of and interest on the Notes; and

WHEREAS, the Corporation is willing to cooperate with the Governmental Agency in making available the Loan pursuant to the Act and the Indenture to be applied to the Project upon

the conditions hereinafter enumerated and the covenants by the Governmental Agency herein contained; and

WHEREAS, the Corporation and the Governmental Agency have determined to enter into this Loan Agreement pursuant to the terms of the Act and the Indenture and to set forth their respective duties, rights, covenants, and obligations with respect to the construction and financing of the Project subject to the repayment of the Loan and the interest thereon and subject to the terms of the commitment for Permanent Financing;

NOW, THEREFORE, FOR AN IN CONSIDERATION OF THE MUTUAL COVENANTS HEREIN SET FORTH, THE LOAN HEREBY EFFECTED AND OTHER GOOD AND VALUABLE CONSIDERATION, THE RECEIPT OF WHICH IS HEREBY ACKNOWLEDGED BY EACH PARTY, THE PARTIES HERETO MUTUALLY COVENANT AND AGREE, EACH WITH THE OTHER AS FOLLOWS:

ARTICLE I
DEFINITIONS

Section 1.1. Definitions. All of the terms utilized in this Loan Agreement will have the same definitions and meaning as ascribed to them in the Act and the Indenture, which Act and Indenture are hereby incorporated in this Loan Agreement by reference, the same as if set forth hereby verbatim provided, however, that those definitions utilized in the Act and the Indenture having general application are hereby modified in certain instances to apply specifically to the Governmental Agency and its Project.

"*Act*" shall mean Chapter 58 of the Kentucky Revised Statutes, as amended.

"*Application*" means those specific details of the Project identified in Exhibit A hereto, all of which are incorporated by reference in this Loan Agreement.

"*Authorized Officer*" shall mean the President, Vice-President, Treasurer or Secretary of the Corporation, and any other of its members, officers, agents, or employees duly authorized by resolution of the Corporation to perform the act or sign the document in question.

"*Business Day*" shall mean any day other than a Saturday, Sunday or other legal holiday on which the main corporate trust office of the Trustee is closed.

"*Code*" shall mean the Internal Revenue Code of 1986, as amended, and shall include the Regulations of the United States Department of the Treasury promulgated thereunder.

"*Commitment Letter*" means the RD Commitment Letter evidencing the approval by RD of Permanent Financing for the Project.

"*Commonwealth*" or "*State*" shall mean the Commonwealth of Kentucky.

"*Corporation*" shall mean the Kentucky Rural Water Finance Corporation, a non-profit corporation and an instrumentality of the Governmental Agency and other governmental entities.

"*Costs*" or "*Project Costs*" shall mean the costs of the Project as approved by RD including interest during the construction of the Project.

"*Engineers*" means the firm of consulting engineers employed by the Governmental Agency in connection with the Project identified in the Application.

"*Governmental Agency*" shall mean any agency or unit of government within the Commonwealth, now having or hereafter granted the authority and power to finance, acquire, construct, and operate a Project, including specifically but not by way of limitation, incorporated

cities, counties, sanitation districts, water districts, public authorities, sewer construction districts, metropolitan sewer districts, sanitation taxing districts, and any other agencies, commissions, districts, or authorities (either acting alone, or in combination with one another pursuant to any regional or area compact, or multi-municipal agreement), now or hereafter established pursuant to the laws of the Commonwealth having and possessing such described powers; and for the purposes of this Loan Agreement shall mean the Governmental Agency identified in the Application.

"Governmental Agency's Account" shall mean the separate accounts within the Program Fund under the Indenture, established for each particular Project.

"Indenture" shall mean the Trust Indenture dated as of December 1, 2001, between the Corporation and the Trustee, outstanding to which the Notes have been issued and are secured.

"Investment Earnings" shall mean interest earned on amounts on deposit in the Governmental Agency's Account established for the Governmental Agency.

"Loan" shall mean the loan effected, pursuant to one or more draws, under this Loan Agreement from the Corporation to the Governmental Agency in the principal amount set forth in the Application, for the purpose of defraying the costs incidental to the Construction of the Project.

"Loan Agreement" shall mean this agreement made and entered into by and between a Governmental Agency and the Corporation, providing for a Loan to the Governmental Agency by the Corporation, and for the repayment thereof to the Corporation by the Governmental Agency.

"Loan Note" shall mean the notes of the Governmental Agency to the Corporation dated as of their respective dates assigned to the Trustee representing the loan obligations of the Governmental Agency set forth in this Loan Agreement.

"Loan Payment Date" shall mean the Business Day agreed to by the Trustee which day shall be no more than three (3) Business Days after receipt by the Governmental Agency of the proceeds of the Permanent Financing.

"Loan Payments" shall mean all payments to the Corporation by the Governmental Agency under this Loan Agreement.

"Maturity Date" shall mean the Maturity Date for the Loan.

"Note" or "Notes" shall mean any of the Corporation's \$35,000,000 Public Projects Construction Notes, Series 2001, dated December 1, 2001.

"Permanent Financing" shall mean bonds issued by the Governmental Agency and delivered to RD as purchaser.

"*Person*" shall mean any individual, firm, partnership, association, corporation or Governmental Agency.

"*Program*" shall mean the Public Projects Construction Financing Program of the Corporation as distinguished from any other programs of the Corporation.

"*Project*" shall mean, when used generally, an infrastructure project as defined in the Act, and when used in specific reference to the Governmental Agency, the Project described in the Application.

"*RD*" means the Rural Development of the United States Department of Agriculture or its successors or assigns.

"*Requisition for Funds*" means the form attached hereto as Exhibit B to be utilized by the Governmental Agency in obtaining disbursements of the Loan from the Corporation as construction of the Project progresses.

"*System*" shall mean the utility system owned and operated by the Governmental Agency of which the Project shall become a part.

"*Trustee*" shall mean Fifth Third Bank, Cincinnati Ohio, and its successor or successors, and any other corporation acting at any time as Trustee under the Indenture.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1. Representations and Warranties of Corporation. The Corporation represents and warrants for the benefit of the Governmental Agency as follows:

(A) The Corporation is a non-profit corporation and an instrumentality of the Governmental Agency and other governmental entities, has all necessary power and authority to enter into, and perform its obligations under, this Loan Agreement, and has duly authorized the execution and delivery of this Loan Agreement.

(B) Neither the execution and delivery hereof, nor the fulfillment of or compliance with the terms and conditions hereof, nor the consummation of the transactions contemplated hereby, conflicts with or results in a breach of the terms, conditions and provisions of any restriction or any agreement or instrument to which the Corporation is now a party or by which the Corporation is bound, or constitutes a default under any of the foregoing.

(C) To the knowledge of the Corporation, there is no litigation or proceeding pending or threatened against the Corporation or any other person affecting the right of the Corporation to execute or deliver this Loan Agreement or to comply with its obligations under this Loan Agreement. Neither the execution and delivery of this Loan Agreement by the Corporation, nor compliance by the Corporation with its obligations under this Loan Agreement, require the approval of any regulatory body, or any other entity, which approval has not been obtained.

(D) The authorization, execution and delivery of this Loan Agreement and all actions of the Corporation with respect thereto, are in compliance with the Act and any regulations issued thereunder.

Section 2.2. Representations and Warranties of Governmental Agency. The Governmental Agency hereby represents and warrants for the benefit of the Corporation as follows:

(A) The Governmental Agency is a duly organized and validly existing Governmental Agency, as described in the Act, with full power to own its properties, conduct its affairs, enter into this Loan Agreement and consummate the transactions contemplated hereby.

(B) The negotiation, execution and delivery of this Loan Agreement and the consummation of the transactions contemplated hereby have all been duly authorized by requisite action of the governing body of the Governmental Agency.

(C) This Loan Agreement and the Loan Note has been duly executed and delivered by the Governmental Agency and are valid and binding obligations of the Governmental Agency enforceable in accordance with their terms, except to the extent that the enforceability thereof may

be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.

(D) There is no controversy or litigation of any nature pending or threatened, in any court or before any board, tribunal or administrative body, to challenge in any manner the authority of the Governmental Agency or its governing body to make payments under this Loan Agreement or to construct the Project, or to challenge in any manner the authority of the Governmental Agency or its governing body to take any of the actions which have been taken in the authorization or delivery of this Loan Agreement or the construction of the Project, or in any way contesting or affecting the validity of this Loan Agreement, or in any way questioning any proceedings taken with respect to the authorization or delivery by the Governmental Agency of this Loan Agreement, or the application of the proceeds thereof or the pledge or application of any monies or security provided therefor, or in any way questioning the due existence or powers of the Governmental Agency, or otherwise wherein an unfavorable decision would have an adverse impact on the transactions authorized in connection with this Loan Agreement.

(E) The authorization and delivery of this Loan Agreement and the consummation of the transactions contemplated hereby will not constitute an event of default or violation or breach, nor an event which, with the giving of notice or the passage of time or both, would constitute an event of default or violation or breach, under any contract, agreement, instrument, indenture, lease, judicial or administrative order, decree, rule or regulation or other document or law affecting the Governmental Agency or its governing body.

(F) Attached hereto as Exhibit D is a true, accurate and complete copy of the resolution or ordinance of the governing body of the Governmental Agency approving and authorizing the execution and delivery of this Loan Agreement. Such resolution or ordinance was duly enacted or adopted at a meeting of the governing body of the Governmental Agency at which a quorum was present and acting throughout; such resolution or ordinance is in full force and effect and has not been superseded, altered, amended or repealed as of the date hereof; and such meeting was duly called and held in accordance with law.

(G) All actions taken by the Governmental Agency in connection with this Loan Agreement, the Loan Note and the Loan described herein and the Project have been in full compliance with the provisions of the Kentucky Open Meeting Law, KRS 61.805 to 61.850.

(H) The Governmental Agency has all licenses, permits and other governmental approvals (including, but not limited to, all required approvals of the Kentucky Public Service Commission) required to own, occupy, operate and maintain the Project, and to enter into this Loan Agreement, is not in violation of and has not received any notice of an alleged violation of any zoning or land use laws applicable to the Project, and has full right, power and authority to perform the acts and things as provided for in this Loan Agreement.

(I) Legal counsel to the Governmental Agency has duly executed and delivered the opinion of legal counsel substantially in the form set forth in Exhibit E hereto.

Section 2.3. Representations and Warranties of the Governmental Agency Concerning the Commitment Letter. The Governmental Agency additionally represents and warrants that the Governmental Agency has (i) received all approvals of RD required in connection with the Construction of the Project, (ii) received a commitment for Permanent Financing of its Project with presently obligated funds on or before the Maturity Date and (iii) if the Permanent Financing is to be provided by RD, sold its obligations representing the Permanent Financing to RD, as evidenced by an opinion of bond counsel.

Section 2.4. Representations Concerning the Permanent Financing. The Governmental Agency acknowledges and agrees that the Corporation has relied upon the establishment of the Permanent Financing by the Governmental Agency and RD, and that the Corporation and its officers, agents and employees have made an independent investigation thereof or otherwise attempted to verify the circumstances regarding the Permanent Financing. The Governmental Agency further represents to the Corporation that such Permanent Financing has been established by the Governmental Agency and RD with all due regard for the character and nature of the Project, including the potential impact of foreseeable occurrences that reasonably might be expected to delay the scheduled completion of the Project.

Section 2.5. Representations, Warranties and Covenants Concerning RD. If the Permanent Financing is to be provided by RD, the Governmental Agency further represents, warrants and covenants, as follows:

(A) The Governmental Agency is not in breach of or in default under any of the provisions of the loan documents or any instruments, proceedings or other documentation authorizing the issuance of or securing the payment of the Permanent Financing.

(B) The execution and delivery of the RD loan documents and the compliance with the provisions thereof, do not and will not in any material respect conflict with or constitute on the part of the Governmental Agency a breach of or default under any contract, agreement, instrument, indenture or proceedings or any law, regulation, court order or consent decree to which the Governmental Agency is now subject.

(C) The RD loan documents have been duly authorized, executed and delivered by the Governmental Agency and are valid and binding obligations of the Governmental Agency.

(D) The Permanent Financing has been duly authorized and sold to RD pursuant to law and shall constitute a valid and binding obligation of the Governmental Agency upon delivery to RD and the payment therefor in accordance with the terms of sale.

(E) There is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body known to be pending or threatened against the Governmental Agency in any way contesting or affecting any authority for the issuance of or the validity of the Permanent Financing or the RD loan documents or in any way adversely affecting the transactions contemplated thereby.

(F) The Governmental Agency will comply in all respects with the terms and provisions of the RD loan documents.

(G) The Governmental Agency will promptly remit, in accordance with the provisions of the RD loan documents, each disbursement from its Governmental Agency's Account to the person or persons to whom payment is then due and owing.

(H) The Governmental Agency will not unilaterally terminate, or enter into any agreement to terminate, any of the RD loan documents and will give to the Corporation and the Trustee prompt written notice, appropriately documented, of any amendment to or modification of any of the RD loan documents.

ARTICLE III

CORPORATION'S AGREEMENT TO MAKE LOAN; TERMS

Section 3.1. Determination of Eligibility. Pursuant to the terms of the Act and the Indenture, the Corporation has determined that the Governmental Agency's Project is a project under the Act and the Governmental Agency is entitled to financial assistance from the Corporation in connection with financing the Construction of the Project.

Section 3.2. Principal Amount Of Loan Established; Loan Payments; Disbursement of Funds. The principal amount of the Loan shall be \$356,000 (the "Loan Amount"). Principal shall be paid in full on or before November 1, 2002 (the "Maturity Date"). The Loan shall bear interest at a per annum rate not to exceed 4.50%, and shall accrue on the outstanding principal amount of the Loan disbursed pursuant to one or more Loan Notes from the respective dates of disbursement and shall be payable on the Loan Payment Date. The Loan shall be evidenced by the execution by the Governmental Agency of the Loan Note and delivery and assignment thereof to the Trustee.

The proceeds of the Loan shall be deposited in a Governmental Agency's Account established for the Governmental Agency. The Corporation shall disburse amounts from such Governmental Agency's Account as Construction of the Project progresses upon the submission by the Governmental Agency of a Requisition for Funds in substantially the same form as Exhibit B hereto.

Payment of principal of the Loan shall be made at the principal corporate trust office of the Trustee on the Loan Payment Date, which date shall not be after the Maturity Date. In addition to the payment of principal of and interest on the Loan, the Governmental Agency shall pay to the Corporation all of the expenses and fees, including any share of investment earnings required to be rebated to the United States of America pursuant to the Code, arising from the making of the Loan by the Corporation to the Governmental Agency. The Governmental Agency shall receive a credit against its payment of principal hereunder in an amount equal to (i) amounts remaining in its Governmental Agency's Account on the date the Loan is paid in full and (ii) Investment Earnings.

Section 3.3. Rebate to Governmental Agency. Within ninety (90) days following the payment in full of the Notes of the Corporation issued under the Indenture, the Corporation shall rebate or cause to be rebated to the Governmental Agency a portion of the monies remaining in the accounts held by the Trustee under the Indenture after repayment of or provision for repayment of all necessary fees, costs and expenses of the Trustee and the Administrative Costs of the Program (the "Rebate Amount"), on the following basis:

- (A) All interest paid on the Loans provided that if the remaining Rebate Amount is not sufficient to rebate all interest paid on all Loans, the rebate will be equal to the remaining Rebate Amount multiplied by a ratio whose numerator is the Governmental Agency's Loan amount and whose denominator is the total Loan amounts on all Governmental Agency's Accounts.

Section 3.4. Covenant Regarding Permanent Financing. The Governmental Agency does hereby separately covenant that if for any reason RD fails to provide the Permanent Financing by accepting delivery thereof on or before the Maturity Date, the Governmental Agency shall continue to pay interest on the Loan at the rate set forth in Section 3.2 from amounts in its Governmental Agency's Account or its own funds, as determined by the Corporation, and if RD has not purchased the Permanent Financing by November 1, 2002 retire the Loan on such date. Such retirement shall be effected from the proceeds of other temporary or Permanent Financing or other borrowing of whatever nature or from any other legally available funds of the Governmental Agency.

The Governmental Agency will give to the Corporation and the Trustee prompt written notice, appropriately documented, of any modification, suspension, termination, annulment or other change in status of the RD commitment for Permanent Financing. In such event the Corporation shall provide express written instructions to the Trustee specifically detailing to the Trustee the manner in which the duties of the Trustee under the Indenture will change as a result of such modification, suspension, annulment or other change.

ARTICLE IV

CONDITIONS PRECEDENT TO DISBURSEMENT; REQUISITION FOR FUNDS

Section 4.1. Covenants of Governmental Agency and Conditions of Loan. By the execution of this Loan Agreement, the Governmental Agency agrees that prior to any requests for the disbursement of all or a portion of the Loan made hereunder, the Governmental Agency shall supply the Corporation, if requested, appropriate documentation, satisfactory to the Corporation, in its sole discretion, indicating the following:

(A) That the Corporation and any appropriate regulatory agency of the Commonwealth as may be designated by the Corporation, and their respective duly authorized agents, shall have the right at all reasonable times, subject to prior notice to the Governmental Agency, to enter upon the Project and to examine and inspect same.

(B) All real estate and interest in real estate and all personal property constituting the Project and the Project sites heretofore or hereafter acquired shall at all times be and remain the property of the Governmental Agency and constitute a part of the System.

(C) In the event the Governmental Agency is required to provide financing for the Project from sources other than the Corporation (as described in the Application) the Corporation shall have the right to receive such reasonable proofs as it may require of the ability of the Governmental Agency to finance the costs of construction of the Project over and above the Loan, prior to the disbursement by the Corporation of any portion of the Loan.

(D) The Governmental Agency shall do all things necessary to acquire all proposed and necessary sites, easements and rights of way necessary or required in respect of the Project and demonstrate its ability to construct the Project in accordance with the plans, design and specifications prepared for the Governmental Agency by its Engineers.

(E) Actual construction and installation incident to the Project shall be performed by either the lump-sum (fixed price) or unit price contract method, and adequate legal methods of obtaining public, competitive bidding will be employed prior to the awarding of the construction contract for the Project in accordance with Kentucky law.

(F) Unless construction of the Project has already been initiated as of the date of this Loan Agreement, pursuant to due compliance with state law and applicable regulations, the Project will not be advertised or placed on the market for construction bidding by the Governmental Agency until the final plans, designs and specifications therefor have been approved by such state and federal agencies and authorities as may be legally required, and until written notification of such approvals has been received by the Governmental Agency and furnished to the Corporation.

(G) Duly authorized representatives of the Corporation and such other agencies of the Commonwealth as may be charged with responsibility will have reasonable access to the construction work whenever it is in preparation or progress, and the Governmental Agency will assure that the contractor or contractors will provide facilities for such access and inspection.

(H) The construction contract or contracts shall require the contractor to comply with all provisions of federal and state law legally applicable to such work, and any amendments or modifications thereto, together with all other applicable provisions of law, to cause appropriate provisions to be inserted in subcontracts to insure compliance therewith by all subcontractors subject thereto, and to be responsible for the submission of any statements required of subcontractors thereunder.

(I) A work progress schedule utilizing a method of standard acceptance in the engineering community shall be prepared prior to the institution of construction in connection with each construction contract, or, if construction has already been initiated as of the date of this Loan Agreement, at the earliest practicable date, to indicate the proposed schedule as to completion of the Project, and same shall be maintained monthly thereafter to indicate the actual construction progress of the Project.

(J) All construction contracts will be so prepared that federal participation costs, if any, and state participation costs may be readily segregated from local participation costs, if any, and from each other, and in such manner that all materials and equipment furnished to the Governmental Agency may be readily itemized.

(K) The construction, including the letting of contracts in connection therewith, will conform in all respects to applicable requirements of federal, state and local laws, ordinances, rules and regulations.

(L) The Governmental Agency will proceed expeditiously with and complete the Project in accordance with the approved surveys, plans specifications and designs or amendments thereto, prepared by the Engineers to the Governmental Agency and approved by state and federal agencies, but only to the extent such approvals may be required.

(M) If requested, the Governmental Agency will erect at the Project sites, signs satisfactory to the Corporation noting the participation of the Corporation in the financing of the Project.

(N) Except as otherwise provided in this Loan Agreement, the Governmental Agency shall have the sole and exclusive charge of all details of the Construction.

(O) The Governmental Agency shall keep complete and accurate records of the costs of acquiring the Project sites and the costs of Construction. The Governmental Agency shall permit the Corporation, acting by and through its duly authorized representatives, and the duly authorized representatives of state and/or federal agencies to inspect all books, documents, papers and records

relating to the Project at any and all reasonable times for the purpose of audit and examination, and the Governmental Agency shall submit to the Corporation such documents and information as such public bodies may reasonably require in connection with the administration of any federal or state grants.

(P) The Governmental Agency shall require that any bid for any portion of the Construction of the Project be accompanied by a bid bond, certified check or other negotiable instrument payable to the Governmental Agency, as assurance that the bidder will, upon acceptance of such bid, execute the necessary contractual documents within the required time.

(Q) The Governmental Agency shall require that each construction contractor or contractors furnish a performance and payment bond in an amount at least equal to one hundred percent (100%) of the contract price or the portion of the project covered by the particular contract as security for the faithful performance of such contract.

(R) The Governmental Agency shall require that each of its contractors and all subcontractors maintain during the life of the construction contract, worker's compensation insurance, public liability insurance, property damage insurance and vehicle liability insurance in amounts and on terms satisfactory to the Corporation. Until the Project facilities are completed and accepted by the Governmental Agency, the contractor, shall maintain builders risk insurance (fire and extended coverage) on a one hundred percent (100%) basis (completed value form) on the insurable portion of the Project, such insurance to be made payable to the order of the Corporation, the Governmental Agency, the prime contractor, and all subcontractors, as their interests may appear.

(S) The Governmental Agency shall provide and maintain competent and adequate resident engineering services covering the supervision and inspection of the development and construction of the Project, and bearing the responsibility of assuring that Construction conforms to the approved plans, specifications and designs prepared by the Engineers. Such resident engineer shall certify to the Corporation, any involved state or federal agencies, and the Governmental Agency at the completion of construction that construction is in accordance with the approved plans, specifications and designs, or, approved amendments thereto.

Section 4.2. Disbursements of Loan; Requisition for Funds. The Governmental Agency shall submit to the Trustee a Loan Note and a Requisition for Funds during the first five days of each month (or such other designated period as is acceptable to the Trustee). The Loan Note shall be in substantially the same form as that attached to this Loan Agreement as Exhibit C and made a part hereof and the Requisition of Funds shall be in substantially the same form as that attached to this Loan Agreement as Exhibit B and made a part hereof.

Upon the Corporation's receipt of the Loan Note and the Requisition for Funds, and such additional documentation as it may require, the Corporation may direct the Trustee to remit the amount requested to the Governmental Agency as a draw upon the Loan.

ARTICLE V

ASSIGNMENT AND GENERAL COVENANTS OF THE GOVERNMENTAL AGENCY

Section 5.1. Pledge and Assignment. The Governmental Agency does hereby irrevocably assign and pledge to the Corporation and its successors or assigns, for the benefit of the owners of all Notes issued under the Indenture, all right, title and interest of the Governmental Agency in and to the proceeds of the Permanent Financing and all monies to be received from RD, as applicable, pursuant to RD's expressed intention to provide Permanent Financing for the Project. The Governmental Agency acknowledges and agrees that the Corporation pursuant to the Indenture has assigned and pledged to the Trustee for the benefit and security of the owners of the Notes all of its rights under the provisions of this Loan Agreement and the Loan Note. Accordingly, this Loan Agreement shall not be terminated, modified or changed by the Corporation or the Governmental Agency except with the consent of the Trustee in the manner and subject to the conditions permitted by the terms and provisions of the Indenture.

Section 5.2. Further Assurance. At any time and all times the Governmental Agency shall, so far as it maybe authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, assets and revenues herein pledged or assigned, or intended so to be, or which the Governmental Agency may hereafter become bound to pledge or assign.

Section 5.3. Completion of Project. The Governmental Agency hereby covenants and agrees to proceed expeditiously with and promptly complete the Project in accordance with the plans, designs and specifications prepared by the Engineers for the Governmental Agency so that the Permanent Financing can be delivered on or prior to the Maturity Date.

Section 5.4. Tax Covenant. The Governmental Agency shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure such exclusion and shall take such actions as may be directed by the Corporation in order to accomplish the foregoing. The Governmental Agency shall not permit (i) the proceeds of the Loan to be used directly or indirectly in any trade or business, (ii) its payments hereunder to be secured directly or indirectly by property to be used in a trade or business, (iii) any management agreement for the operation of the System or (iv) any federal guarantee of its obligations hereunder without the prior written consent of the Corporation. The Governmental Agency will not acquire or pledge any obligations which would cause the Bonds to be "arbitrage bonds" within the meaning of the Code.

Section 5.5 Accounts and Reports. The Governmental Agency shall at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all its transactions relating to the Project, which shall at all reasonable times be subject to the inspection of the Corporation.

Section 5.6. General. The Governmental Agency shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Governmental Agency under the provisions of any agreements regarding the Permanent Financing and under any provisions of the Act and this Loan Agreement in accordance with the terms of such provisions.

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

Section 6.1. Events of Default Defined. The following will be "Events of Default" under this Loan Agreement and the term "Event of Default" or "Default" will mean, whenever it is used in this Loan Agreement, any one or more of the following events:

(A) Failure by the Governmental Agency to pay any Loan payments at the times specified herein including the principal and interest due on the Loan Note.

(B) Failure by the Governmental Agency to observe or perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in subsection (A) of this Section, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied will have been given to the Governmental Agency by the Corporation unless the Corporation agrees in writing to an extension of such time prior to its expiration provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Corporation will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Governmental Agency within the applicable period and diligently pursued until such failure is corrected.

(C) The dissolution or liquidation of the Governmental Agency, or the voluntary initiation by the Governmental Agency of any proceeding under any federal or state law relating to bankruptcy, insolvency, arrangement, reorganization, readjustment of debt or any other form of debtor relief, or the initiation against the Governmental Agency of any such proceeding which will remain undismissed for sixty (60) days, or the entry by the Governmental Agency into an agreement of composition with creditors or the failure generally by the Governmental Agency to pay its debts as they become due.

Section 6.2. Remedies on Default. Whenever any Event of Default referred to in Section 6.1 has occurred and is continuing, the Corporation may, without any further demand or notice, take one or any combination of the following remedial steps:

(A) Declare all payments due hereunder, as set forth in the Schedule of Payments to be immediately due and payable.

(B) Exercise all the rights and remedies of the Corporation set forth in the Act.

(C) Take whatever action at law or in equity appear necessary or desirable to enforce its rights under this Loan Agreement.

Section 6.3. Appointment of Receiver. Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of Judicial proceedings to enforce the rights of the Corporation under this Loan Agreement, the Corporation shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the System and all receipts therefrom, pending such proceedings, with such power as the court making such appointment shall confer; provided, however, that the Corporation may, with or without action under this Section, pursue any available remedy to enforce the payment obligations hereunder, or to remedy any Event of Default.

Section 6.4. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Corporation is intended to be exclusive, and every such remedy will be cumulative and will be in addition to every other remedy given hereunder and every remedy now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power and any such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 6.5. Consent to Powers of Corporation Under Act and this Loan Agreement. The Governmental Agency hereby acknowledges to the Corporation its understanding of the provisions of the Act and this Loan Agreement, vesting in the Corporation certain powers, rights and privileges in respect of the Project upon the occurrence of an Event of Default, and the Governmental Agency hereby covenants and agrees that if the Corporation should in the future have recourse to said rights and powers, the Governmental Agency shall take no action of any nature whatsoever calculated to inhibit, nullify, void, delay or render nugatory such actions of the Corporation in the due and prompt implementation of this Loan Agreement.

Section 6.6. Waivers. In the event that any agreement contained herein should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach hereunder.

Section 6.7. Agreement to Pay Attorneys' Fees and Expenses. In the event that either party hereto is in default under any of the provisions hereof and the nondefaulting party employs attorneys or incurs other expenses for the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will pay on demand therefor to the nondefaulting party the fees of such attorneys and such other expenses so incurred by the nondefaulting party.

ARTICLE VII

MISCELLANEOUS PROVISIONS

Section 7.1. Approval not to be Unreasonably Withheld. Any approval of the Corporation required by this Loan Agreement shall not be unreasonably withheld and shall be deemed to have been given on the thirtieth (30th) day following the submission of any matter requiring approval to the Corporation, unless disapproved in writing prior to such thirtieth (30th) day. Any provision of this Loan Agreement requiring the approval of the Corporation or the satisfaction or the evidence of satisfaction of the Corporation shall be interpreted as requiring action by an authorized officer of the Corporation granting, authorizing or expressing such approval or satisfaction, as the case may be, unless such provision expressly provides otherwise.

Section 7.2. Effective Date. This Loan Agreement shall become effective as of the date first set forth herein above and shall continue to full force and effect until the date the obligations of the Governmental Agency pursuant to the provisions of this Loan Agreement have been fully satisfied.

Section 7.3. Binding Effect. This Loan Agreement shall be binding upon, and shall inure to the benefit of the parties hereto, and to any person, officer, board, department, agency, municipal corporation, or body politic and corporate succeeding by operation of law to the powers and duties of either of the parties hereto. This Loan Agreement shall not be revocable by either of the parties, nor assignable by either parties without the written consent of the other party.

Section 7.4. Severability. In the event that any provision of this Loan Agreement will be held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

Section 7.5. Execution in Counterparts. This Loan Agreement may be simultaneously executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

Section 7.6. Applicable Law. This Loan Agreement will be governed by and construed in accordance with the laws of the Commonwealth.

Section 7.7. Captions. The captions or headings herein are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Loan Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Loan Agreement to be executed by their respective duly authorized officers as of the day and year above written.

KENTUCKY RURAL WATER FINANCE
CORPORATION

By _____

Title _____

GARRISON-QUINCY-KY-O-HEIGHTS
WATER DISTRICT

By Mary Howley Barman

Title Chairman

LOAN AGREEMENT

By and Between

KENTUCKY RURAL WATER FINANCE CORPORATION

and

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
Borrower

dated August 11, 2010

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LOAN AGREEMENT

This Loan Agreement made and entered into as of August 11, 2010 (the "Loan Agreement") by and between the Kentucky Rural Water Finance Corporation, a non-profit corporation and instrumentality of various entities of the Commonwealth of Kentucky (the "Corporation") and the Garrison-Quincy-KY-O-Heights Water District (the "Borrower"):

WITNESSETH

WHEREAS, the Corporation has established its Public Projects Construction Financing Program (the "Program") to offer interim financing to governmental entities for construction of public projects for the purpose of providing a centralized source of interim construction financing and to reduce interest costs financing expenses of such governmental entities; and

WHEREAS, the Corporation has issued its Public Projects Construction Notes, Series B-2009-2, (the "Notes") pursuant to a Trust Indenture dated as of February 1, 2009, as supplemented by Supplemental Trust Indenture No. 2, dated December 22, 2009 (collectively, the "Indenture") between the Corporation and Regions Bank, trustee (the "Trustee"), to finance the Program and to make Loans to governmental agencies for construction of their projects; and

WHEREAS, the Borrower has obtained a commitment for Permanent Financing for its Project as hereinafter defined, from the United States Department of Agriculture, acting through Rural Development ("RD"); and

WHEREAS, the Borrower has determined that it is necessary and desirable to acquire, construct, and finance the Project, and the Corporation has determined that the Project is a project within the meaning of the Act and the Indenture, thereby qualifying for financial assistance from the Corporation; and

WHEREAS, pursuant to this Loan Agreement the Borrower will proceed with the construction of the Project; and

WHEREAS, pursuant to this Loan Agreement the Borrower will irrevocably assign to the Trustee, for the benefit of the Corporation, all right, title and interest in and to monies to be received pursuant to the Permanent Financing, which monies will be used by the Trustee to pay principal of and interest on the Notes; and

WHEREAS, the Corporation is willing to cooperate with the Borrower in making available the Loan to be applied to the construction of the Project upon the conditions hereinafter enumerated and the covenants by the Borrower herein contained; and

WHEREAS, the Corporation and the Borrower have determined to enter into this Loan Agreement to set forth their respective duties, rights, covenants, and obligations with respect to the construction and financing of the Project and the repayment of the Loan;

NOW, THEREFORE, FOR AND IN CONSIDERATION OF THE MUTUAL COVENANTS HEREIN SET FORTH, THE LOAN HEREBY EFFECTED AND OTHER GOOD AND VALUABLE CONSIDERATION, THE RECEIPT OF WHICH IS HEREBY ACKNOWLEDGED BY EACH PARTY, THE PARTIES HERETO MUTUALLY COVENANT AND AGREE, EACH WITH THE OTHER AS FOLLOWS:

ARTICLE I
DEFINITIONS

Section 1.1. Definitions. Except as set forth below, all of the capitalized terms utilized in this Loan Agreement will have the same definitions and meaning as ascribed to them in the Indenture. Terms defined in the Indenture and applicable to all borrowers under the Program shall when used in this Loan Agreement relate solely to the Borrower, who is a party hereto, unless otherwise expressly stated.

"Act" shall mean Chapter 58 of the Kentucky Revised Statutes, as amended.

"Application" shall mean an application in substantially the form attached hereto as Exhibit A.

"Authorized Officer" shall mean with respect to the Corporation, its President, Vice-President, Treasurer, Secretary or Assistant Secretary, and any other of its members, officers, agents, or employees duly authorized by resolution of the Corporation to perform the act or sign the document in question; and with respect to any Borrower, its Chairperson, Secretary and Treasurer if such Borrower is a water district or water association, or its Mayor, City Clerk and Treasurer if such Borrower is a municipality and any other of its members, officers, agents, or employees duly authorized by resolution of the Borrower to perform the act or sign the document in question.

"Borrower's Account" shall mean the separate accounts within the Program Fund under the Indenture, established for the Borrower's Project and Loan.

"Business Day" means any day other than a Saturday, a Sunday, or a day on which banking institutions in the Commonwealth of Kentucky or the State of New York or the Office of the Trustee is closed as authorized or obligated by law or administrative order or a day on which the New York Stock Exchange is closed.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and shall include the Regulations of the United States Department of the Treasury promulgated thereunder.

"Commitment Letter" means the RD Commitment Letter evidencing the approval by RD of Permanent Financing for the Project.

"Commonwealth" or *"State"* shall mean the Commonwealth of Kentucky.

"Corporation" shall mean the Kentucky Rural Water Finance Corporation, a non-profit corporation and an instrumentality of the Borrower and other governmental entities.

"Costs" or "Project Costs" shall mean the costs of the Project as approved by RD including interest during the construction of the Project.

"Engineers" means the firm of consulting engineers employed by the Borrower in connection with the Project, as identified in the Application.

"Immediate Notice" shall mean notice given by telephone, telecopy, telegraph or other electronic means, promptly confirming in writing in accordance with the requirements of the Indenture.

"Indenture" shall mean the Trust Indenture dated as of February 1, 2009, between the Corporation and the Trustee, as supplemented and amended from time to time.

"Interest Rate" shall mean 2.90% per annum accruing from the date of this Loan Agreement to the Maturity Date.

"Investment Earnings" shall mean interest earned on amounts on deposit in the Borrower's Account established for the Borrower.

"Loan" shall mean the loan effected pursuant to this Loan Agreement.

"Loan Agreement" shall mean this agreement made and entered into by and between the Borrower and the Corporation, providing for a Loan to the Borrower by the Corporation, and for the repayment thereof to the Corporation by the Borrower.

"Loan Note" shall mean the notes of the Borrower to the Corporation dated as of their respective dates assigned to the Trustee representing the loan obligations of the Borrower set forth in this Loan Agreement.

"Loan Payment Date" shall mean the earlier of (i) the Business Day following the Borrower's receipt of the proceeds of the Permanent Financing or (ii) the Maturity Date.

"Loan Payments" shall mean all payments required to be made to the Corporation by the Borrower under this Loan Agreement.

"Maturity Date" shall mean December 1, 2010.

"Note" or "Notes" shall mean any of the Corporation's Public Projects Construction Notes, Series B-2009-2, issued from time to time in one or more series.

"Permanent Financing" shall mean bonds issued by the Borrower and delivered to RD as purchaser.

"*Person*" shall mean any individual, firm, partnership, association, corporation or governmental entity.

"*Project*" shall mean the Project described in the Application.

"*Remarketing Agent*" shall mean the remarketing agent appointed under the Indenture.

"*RD*" means the United States Department of Agriculture acting through Rural Development or its successors or assigns.

"*Requisition for Funds*" shall mean the form attached hereto as Exhibit B to be utilized by the Borrower in obtaining disbursements of the Loan from the Trustee.

"*System*" shall mean the utility system owned and operated by the Borrower of which the Project shall become a part.

"*Trustee*" shall mean Regions Bank, Nashville, Tennessee, and its successor or successors, and any other corporation acting at any time as Trustee under the Indenture.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1. Representations and Warranties of Corporation. The Corporation represents and warrants for the benefit of the Borrower as follows:

(a) The Corporation is a non-profit corporation and an instrumentality of the Borrower and other governmental entities, has all necessary power and authority to enter into, and perform its obligations under, this Loan Agreement, and has duly authorized the execution and delivery of this Loan Agreement.

(b) Neither the execution and delivery hereof, nor the fulfillment of or compliance with the terms and conditions hereof, nor the consummation of the transactions contemplated hereby, conflicts with or results in a breach of the terms, conditions and provisions of any restriction or any agreement or instrument to which the Corporation is now a party or by which the Corporation is bound, or constitutes a default under any of the foregoing.

(c) To the knowledge of the Corporation, there is no litigation or proceeding pending or threatened against the Corporation or any other person affecting the right of the Corporation to execute or deliver this Loan Agreement or to comply with its obligations under this Loan Agreement. Neither the execution and delivery of this Loan Agreement by the Corporation, nor compliance by the Corporation with its obligations under this Loan Agreement, require the approval of any regulatory body, or any other entity, which approval has not been obtained.

(d) The authorization, execution and delivery of this Loan Agreement and all actions of the Corporation with respect thereto, are in compliance with the Act and any regulations issued thereunder.

Section 2.2. Representations and Warranties of Borrower. The Borrower hereby represents and warrants for the benefit of the Corporation as follows:

(a) The Borrower is a duly organized and validly existing governmental agency, as described in the Act, with full power to own its properties, conduct its affairs, enter into this Loan Agreement and consummate the transactions contemplated hereby.

(b) The negotiation, execution and delivery of this Loan Agreement and the consummation of the transactions contemplated hereby have all been duly authorized by requisite action of the governing body of the Borrower.

(c) This Loan Agreement and the Loan Note has been duly executed and delivered by the Borrower and are valid and binding obligations of the Borrower enforceable in accordance with their terms, except to the extent that the enforceability thereof may be limited by equitable principles and

by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.

(d) There is no litigation of any nature pending or threatened, in any court or before any board, tribunal or administrative body, to challenge in any manner the authority of the Borrower or its governing body to make payments under this Loan Agreement or to construct the Project, or to challenge in any manner the authority of the Borrower or its governing body to take any of the actions which have been taken in the authorization or delivery of this Loan Agreement or the construction of the Project, or in any way contesting or affecting the validity of this Loan Agreement, or in any way questioning any proceedings taken with respect to the authorization or delivery by the Borrower of this Loan Agreement, or the application of the proceeds thereof or the pledge or application of any monies or security provided therefor, or in any way questioning the due existence or powers of the Borrower, or otherwise wherein an unfavorable decision would have an adverse impact on the transactions authorized in connection with this Loan Agreement.

(e) The authorization and delivery of this Loan Agreement and the consummation of the transactions contemplated hereby will not constitute an event of default or violation or breach, nor an event which, with the giving of notice or the passage of time or both, would constitute an event of default or violation or breach, under any contract, agreement, instrument, indenture, lease, judicial or administrative order, decree, rule or regulation or other document or law affecting the Borrower or its governing body.

(f) Attached hereto as Exhibit D is a true, accurate and complete copy of the resolution or ordinance of the governing body of the Borrower approving and authorizing the execution and delivery of this Loan Agreement. Such resolution or ordinance was duly enacted or adopted at a meeting of the governing body of the Borrower at which a quorum was present and acting throughout; such resolution or ordinance is in full force and effect and has not been superseded, altered, amended or repealed as of the date hereof; and the meeting at which the resolution or ordinance was duly enacted or adopted was held in full compliance with Sections 61.805 to 61.850 of the Kentucky Revised Statutes.

(g) The Borrower has all licenses, permits and other governmental approvals required to own, occupy, operate and maintain the Project, and to enter into this Loan Agreement; is not in violation of and has not received any notice of an alleged violation of any zoning or land use laws applicable to the Project; and has full right, power and authority to perform the acts and things as provided for in this Loan Agreement.

Section 2.3. Representations, Warranties and Covenants Concerning Permanent Financing. The Borrower represents, warrants and covenants as follows:

(a) The Borrower has (i) received all approvals of RD required in connection with the construction of the Project, and (ii) received a commitment for Permanent Financing of its Project with presently obligated funds to be paid on or before the Maturity Date.

The Borrower acknowledges and agrees that, in making this Loan, the Corporation has relied upon the receipt of the Permanent Financing commitment from RD.

(b) The Borrower is not in breach of or in default under any of the provisions of the loan documents or any instruments, proceedings or other documentation authorizing the issuance of or securing the payment of the Permanent Financing (the "Permanent Financing Documents").

(c) The execution and delivery of the Permanent Financing Documents and the compliance with the provisions thereof, do not and will not in any material respect conflict with or constitute on the part of the Borrower a breach of or default under any contract, agreement, instrument, indenture or proceedings or any law, regulation, court order or consent decree to which the Borrower is now subject.

(d) The Permanent Financing Documents have been duly authorized, executed and delivered by the Borrower and are valid and binding obligations of the Borrower.

(e) There is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body known to be pending or threatened against the Borrower in any way contesting or affecting any authority for the issuance of or the validity of the Permanent Financing or the Permanent Financing Documents or in any way adversely affecting the transactions contemplated thereby.

(f) The Borrower will comply in all respects with the terms and provisions of the Permanent Financing Documents.

(g) The Borrower will promptly remit, in accordance with the provisions of the Permanent Financing Documents, each disbursement from its Borrower's Account to the person or persons to whom payment is then due and owing.

(h) The Borrower will not unilaterally terminate, or enter into any agreement to terminate, any of the Permanent Financing Documents and will give to the Corporation and the Trustee prompt written notice, appropriately documented, of any material amendment to or modification of any of the Permanent Financing Documents.

ARTICLE III

CORPORATION'S AGREEMENT TO MAKE LOAN; TERMS

Section 3.1. Determination of Eligibility. The Corporation has determined that the Borrower's Project is a project eligible for Program financing.

Section 3.2. Loan Amount; Loan Payments and Prepayments; Disbursement of Funds. The principal amount of the Loan shall be \$798,000 (the "Loan Amount"). Principal shall be paid in full on or before the Loan Payment Date.

The Loan shall bear interest from the date of this Loan Agreement at the Interest Rate and shall accrue on the outstanding principal amount of the Loan. The principal of and interest on the Loan shall be payable solely on the Loan Payment Date or upon earlier prepayment. The Loan shall be evidenced by the execution by the Borrower of the Loan Note and delivery and assignment by the Corporation thereof to the Trustee.

The principal amount of the Loan may be prepaid on any date upon 30 days prior written notice to the Corporation and the Trustee in accordance with the following schedule: (i) if the Loan is prepaid prior to June 30, 2010, a 1% prepayment premium may be assessed; (ii) if the Loan is prepaid on and after July 1, 2010 through September 30, 2010, a .25% prepayment premium may be assessed; and (iii) if the Loan is prepaid on and after October 1, 2010, no prepayment premium will be assessed. The Corporation reserves the right to waive any and all prepayment premiums.

The Loan Note shall be in substantially the same form as that attached to this Loan Agreement as Exhibit C and made a part hereof.

The proceeds of the Loan shall be deposited in a Borrower's Account established for the Borrower. The Corporation shall cause the Trustee to disburse amounts from such Borrower's Account upon the submission by the Borrower of a Requisition for Funds in substantially the same form as Exhibit B hereto. Upon receipt of a properly submitted Requisition for Funds by no later than 12:00 pm Eastern time on Tuesday of any week, the Trustee shall disburse the amounts so requested on the following Thursday. The Corporation does not make any warranty, either express or implied, that the moneys which will be paid into the Borrower's Account and which, under the provisions of this Loan Agreement, will be available for payment of the cost of the Project, will be sufficient to pay all of the cost of the Project.

Payment of principal of the Loan shall be made at the principal corporate trust office of the Trustee on the Loan Payment Date, or upon earlier prepayment. In addition to the payment of principal of and interest on the Loan, the Borrower shall pay to the Corporation all of the expenses and fees, including any share of investment earnings required to be rebated to the United States of America pursuant to the Code, arising from the making of the Loan by the Corporation to the Borrower. The Borrower shall receive a credit against its payment of principal hereunder in an

amount equal to (i) amounts remaining in its Borrower's Account on the date the Loan is paid in full and (ii) Investment Earnings.

Section 3.3. Rebate to Borrower. Within ninety (90) days following the payment in full of the Notes of the Corporation issued under the Indenture, the Corporation shall rebate or cause to be rebated to the Borrower a portion of the monies remaining in the accounts held by the Trustee under the Indenture after repayment of or provision for repayment of all necessary fees, costs and expenses of the Trustee and the Administrative Costs of the Program (the "Rebate Amount"), on the following basis:

(a) All interest paid on the Loans of the Program provided that if the remaining Rebate Amount is not sufficient to rebate all interest paid on all Loans of the Program, the rebate will be equal to the remaining Rebate Amount multiplied by a ratio whose numerator is the Borrower's Loan Amount and whose denominator is the total Loan Amounts of all Program Loans.

Section 3.4. Covenant Regarding Permanent Financing. The Borrower does hereby separately covenant that if for any reason RD fails to provide the Permanent Financing by accepting delivery thereof on or before the Maturity Date, the Borrower shall continue to pay interest on the Loan at the rate set forth in Section 3.2 from amounts in its Borrower's Account or its own funds, as determined by the Corporation, and if RD has not purchased the Permanent Financing by the Maturity Date, the Borrower shall pay the Loan in full on such date. Such payment shall be effected from the proceeds of other temporary or Permanent Financing or other borrowing of whatever nature or from any other legally available funds of the Borrower.

The Borrower will give to the Corporation and the Trustee prompt written notice, appropriately documented, of any modification, suspension, termination, annulment or other change in status of the RD commitment for Permanent Financing. In such event the Corporation shall provide express written instructions to the Trustee specifically detailing to the Trustee the manner in which the duties of the Trustee under the Indenture will change as a result of such modification, suspension, annulment or other change.

Section 3.5. Conversion to RD Multiple Advance Loan. This Loan Agreement and the Loan Note may be assigned to RD in the event that the Notes cannot be remarketed, or the Notes are required to be called for redemption, as described in the Indenture. In such event, the Corporation or its designee will notify the Borrower that this Loan Agreement and the Loan Note will be assigned to RD, and the effective date of such assignment, which notification shall be not less than 14 days prior to the assignment date. On or before such assignment date, RD will cause the full amount of the Borrower's Loan Payment (as of such assignment date) to be wired to the Borrower's construction fund, and the Borrower agrees that it will immediately wire such funds to the Trustee, as directed by the Corporation. On such assignment date, and without further action of the Borrower, the Corporation or RD, the Corporation shall be deemed to have assigned to RD, and RD shall be deemed to have assumed, the Corporation's rights under the Loan Note (and this Loan Agreement

shall be of no further force or effect). Thereafter, the Loan Note shall bear interest at the then-applicable RD multiple-advance rate in effect for the Borrower.

ARTICLE IV

ASSIGNMENT AND GENERAL COVENANTS OF BORROWER

Section 4.1. Repayment of Loan. The Borrower hereby agrees to pay the principal of and interest on the Loan, as and when due. The obligations of the Borrower to repay the Loan and to perform and observe the other agreements contained herein shall be absolute and unconditional and shall not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach by the Corporation or the Trustee of any obligation to the Borrower, whether hereunder or otherwise, or as a result of the failure of the Borrower to complete the acquisition, construction, improving and equipping of the Project, the failure of RD to provide Permanent Financing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Project, the taking by eminent domain of title to or temporary use of any or all of the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either thereof or any failure of the Corporation or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Loan Agreement.

Section 4.2. Security for Repayment of Loan. (a) The Loan and the Loan Note shall be repaid from, and repayment of the Loan and the Loan Note shall be secured by the proceeds of the Permanent Financing. In the event that Permanent Financing is not available on the Loan Payment Date, or insufficient to repay the Loan in full, this Loan and the Loan Note shall be payable from and be secured by a pledge of the revenues of the System, subject to the pledge thereof in favor of any prior lien bonds.

(b) The Borrower does hereby irrevocably assign and pledge to the Corporation and its successors or assigns, for the benefit of the owners of all Notes issued under the Indenture, all right, title and interest of the Borrower in and to the proceeds of the Permanent Financing and all monies to be received from RD, as applicable, pursuant to RD's expressed intention to provide Permanent Financing for the Project. The Borrower acknowledges and agrees that the Corporation pursuant to the Indenture has assigned and pledged to the Trustee for the benefit and security of the owners of the Notes all of its rights under the provisions of this Loan Agreement and the Loan Note. Accordingly, this Loan Agreement shall not be terminated, modified or changed by the Corporation or the Borrower except with the consent of the Trustee in the manner and subject to the conditions permitted by the terms and provisions of the Indenture.

Section 4.3. Further Assurance. At any time and all times the Borrower shall, so far as it maybe authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be

necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, assets and revenues herein pledged or assigned, or intended so to be, or which the Borrower may hereafter become bound to pledge or assign.

Section 4.4. Completion of Project. The Borrower hereby covenants and agrees to proceed expeditiously with and promptly complete the Project in accordance with the plans, designs and specifications prepared by the Engineers for the Borrower so that the Permanent Financing can be delivered on or prior to the Maturity Date.

Section 4.5. Tax Covenant. The Borrower shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure such exclusion and shall take such actions as may be directed by the Corporation in order to accomplish the foregoing. The Borrower shall not permit (i) the proceeds of the Loan to be used directly or indirectly in any trade or business, (ii) its payments hereunder to be secured directly or indirectly by property to be used in a trade or business, (iii) any management agreement for the operation of the Project any system of which it is a part, or (iv) any federal guarantee of its obligations hereunder without the prior written consent of the Corporation. The Borrower will not acquire or pledge any obligations that would cause the Bonds to be "arbitrage bonds" within the meaning of the Code.

Section 4.6. Accounts and Reports. The Borrower shall at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all its transactions relating to the Project, which shall at all reasonable times be subject to the inspection of the Corporation.

Section 4.7. General. The Borrower shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Borrower under the provisions of any agreements regarding the Permanent Financing and this Loan Agreement in accordance with the terms of such provisions.

Section 4.8. Designation of Authorized Officers. The Borrower hereby designates the Chairperson, Secretary and Treasurer as its Authorized Officers for purposes of this Loan Agreement and the Indenture, if the Borrower is a water district or water association; and the Mayor, City Clerk and Treasurer as its Authorized Officers for purposes of this Loan Agreement and the Indenture, if the Borrower is a municipality.

ARTICLE V

EVENTS OF DEFAULT AND REMEDIES

Section 5.1. Events of Default Defined. The following will be "Events of Default" under this Loan Agreement and the term "Event of Default" or "Default" will mean, whenever it is used in this Loan Agreement, any one or more of the following events:

(a) Failure by the Borrower to pay any Loan payments at the times specified herein including the principal and interest due on the Loan Note.

(b) Failure by the Borrower to observe or perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in subsection (a) of this Section, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied will have been given to the Borrower by the Corporation unless the Corporation agrees in writing to an extension of such time prior to its expiration provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Corporation will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Borrower within the applicable period and diligently pursued until such failure is corrected.

(c) The dissolution or liquidation of the Borrower, or the voluntary initiation by the Borrower of any proceeding under any federal or state law relating to bankruptcy, insolvency, arrangement, reorganization, readjustment of debt or any other form of debtor relief, or the initiation against the Borrower of any such proceeding which will remain undismissed for sixty (60) days, or the entry by the Borrower into an agreement of composition with creditors or the failure generally by the Borrower to pay its debts as they become due.

Section 5.2. Remedies on Default. Whenever any Event of Default referred to in Section 6.1 has occurred and is continuing, the Corporation may, without any further demand or notice, take one or any combination of the following remedial steps:

(a) Declare all payments due hereunder, as set forth in the Schedule of Payments to be immediately due and payable.

(b) Exercise all the rights and remedies of the Corporation set forth in the Act.

(c) Take whatever action at law or in equity appear necessary or desirable to enforce its rights under this Loan Agreement.

Section 5.3. Appointment of Receiver. Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of Judicial proceedings to enforce the rights of the Corporation under this Loan Agreement, the Corporation shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the System and all receipts therefrom, pending such proceedings, with such power as the court making such appointment shall confer; provided, however, that the Corporation may, with or without action under this Section, pursue any available remedy to enforce the payment obligations hereunder, or to remedy any Event of Default.

Section 5.4. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Corporation is intended to be exclusive, and every such remedy will be cumulative and will be in addition to every other remedy given hereunder and every remedy now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power and any such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 5.5. Consent to Powers of Corporation Under Act and this Loan Agreement. The Borrower hereby acknowledges to the Corporation its understanding of the provisions of the Act and this Loan Agreement, vesting in the Corporation certain powers, rights and privileges in respect of the Project upon the occurrence of an Event of Default, and the Borrower hereby covenants and agrees that if the Corporation should in the future have recourse to said rights and powers, the Borrower shall take no action of any nature whatsoever calculated to inhibit, nullify, void, delay or render nugatory such actions of the Corporation in the due and prompt implementation of this Loan Agreement.

Section 5.6. Non-Waivers by Corporation. No failure by the Corporation or by any assignee to insist upon the strict performance of any term hereof or to exercise any right, power or remedy consequent upon a breach thereof, and no acceptance of any payment hereunder, in full or in part, during the continuance of such breach, shall constitute waiver of such breach or of such term. No waiver of any breach shall affect or alter this Loan Agreement or constitute a waiver of a then existing or subsequent breach.

Section 5.7. Agreement to Pay Attorneys' Fees and Expenses. In the event that either party hereto is in default under any of the provisions hereof and the nondefaulting party employs attorneys or incurs other expenses for the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will pay on demand therefor to the nondefaulting party the fees of such attorneys and such other expenses so incurred by the nondefaulting party.

ARTICLE VI

MISCELLANEOUS PROVISIONS

Section 6.1. Approval not to be Unreasonably Withheld. Any approval of the Corporation required by this Loan Agreement shall not be unreasonably withheld and shall be deemed to have been given on the thirtieth (30th) day following the submission of any matter requiring approval to the Corporation, unless disapproved in writing prior to such thirtieth (30th) day. Any provision of this Loan Agreement requiring the approval of the Corporation or the satisfaction or the evidence of satisfaction of the Corporation shall be interpreted as requiring action by an authorized officer of the Corporation granting, authorizing or expressing such approval or satisfaction, as the case may be, unless such provision expressly provides otherwise.

Section 6.2. Effective Date. This Loan Agreement shall become effective as of the date first set forth herein above and shall continue to full force and effect until the date the obligations of the Borrower pursuant to the provisions of this Loan Agreement have been fully satisfied.

Section 6.3. Binding Effect. This Loan Agreement shall be binding upon, and shall inure to the benefit of the parties hereto, and to any person, officer, board, department, agency, municipal corporation, or body politic and corporate succeeding by operation of law to the powers and duties of either of the parties hereto. This Loan Agreement shall not be revocable by either of the parties, nor assignable by either parties without the written consent of the other party.

Section 6.4. Severability. In the event that any provision of this Loan Agreement will be held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

Section 6.5. Execution in Counterparts. This Loan Agreement may be simultaneously executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

Section 6.6. Applicable Law. This Loan Agreement will be governed by and construed in accordance with the laws of the Commonwealth of Kentucky.

Section 6.7. Captions. The captions or headings herein are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Loan Agreement.

Section 6.8. Notices. Any notices required hereunder shall be delivered in the manner and to the addresses set forth in the Indenture; provided that the Borrower's address shall be that listed on its Application.

Section 6.9. Discharge of Borrower's Obligations under the Loan Agreement. If the Borrower (a) deposits sufficient funds with the Trustee to pay the principal of and interest due hereunder to and including the date of redemption (or such lesser amount as shall be identified by the Remarketing Agent); and (b) informs the Corporation, the Remarketing Agent and the Trustee of its intention to prepay its obligations hereunder on such redemption date; and if the Borrower shall also pay or cause to be paid all other sums payable hereunder by the Borrower in accordance with Section 3.2 and any other section of this Loan Agreement, or make adequate provision therefor, then and in that case the indebtedness evidenced by this Loan Agreement and the Loan Note shall be discharged and satisfied and all covenants, agreements and obligations of the Borrower hereunder shall be fully discharged and satisfied and shall thereupon cease, terminate and become void.

Section 6.10. No Liability of Corporation's and Borrower's OfficersNo recourse under or upon any obligation, covenant or agreement contained in this Agreement shall be had against any incorporator, member, director or officer, as such, past, present or future, of the Corporation or the Borrower, either directly or through the Corporation or the Borrower. Any and all personal liability of every nature, whether at common law or in equity, or by statute or by constitution or otherwise, of any such incorporator, member, director or officer is hereby expressly waived and released by the Borrower and the Corporation against the other's incorporators, members, directors or officers as a condition of and consideration for the execution of this Loan Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Loan Agreement to be executed by their respective duly authorized officers as of the day and year above written.

KENTUCKY RURAL WATER FINANCE CORPORATION

By _____

Title _____

Garrison-Quincy-KY-O-Heights Water District
Borrower

By  _____
Chairman

ASSISTANCE AGREEMENT

BETWEEN THE KENTUCKY INFRASTRUCTURE AUTHORITY

AND

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT

TRANSCRIPT OF PROCEEDINGS

PECK, SHAFFER & WILLIAMS, A DIVISION OF
DINSMORE & SHOHL LLP
COVINGTON, KENTUCKY

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1. Opinion of Counsel to the Governmental Agency.
 2. General Closing Certificate of the Governmental Agency.
 3. Assistance Agreement.
 4. Resolution of the Governmental Agency authorizing the Assistance Agreement.
 5. Extract of Minutes of the Meeting of the Board of Directors adopting Resolution authorizing Assistance Agreement.
 6. Extract of Minutes of the Authority authorizing the Assistance Agreement.
 7. Commitment Letter, including Credit Analysis.

DISTRIBUTION LIST

Jonathon Bivens, Chairman
Garrison-Quincy-KY-O-Heights Water District
PO Box 279
Garrison, Kentucky 41141

Ms. Brandi Armstrong
Kentucky Infrastructure Authority
1024 Capital Center Drive, Suite 340
Frankfort, Kentucky 40601

Mr. Buddy Griffin
Water Infrastructure Branch
Energy and Environment Cabinet
200 Fair Oaks, 4th Floor
Frankfort, Kentucky 40601

Mr. Charles Lush, Jr.
U.S. Bank National Association
Corporate Trust Services
Locator CN-KY-0850
One Financial Square
Louisville, Kentucky 40202

Dirk M. Bedarff, Esq.
Peck, Shaffer & Williams,
a division of Dinsmore & Shohl LLP
50 E Rivercenter Blvd.
Suite 1150
Covington, Kentucky 41011

9592669v1

Re: Assistance Agreement between the Kentucky Infrastructure Authority ("KIA") and Garrison-Quincy-KY-O-Heights Water District (the "Governmental Agency"), dated as of April 1, 2015

GENERAL CLOSING CERTIFICATE OF GOVERNMENTAL AGENCY

In connection with the above-captioned Assistance Agreement (the "Assistance Agreement"), the Governmental Agency, through its undersigned duly authorized officer hereby certifies, represents, warrants and covenants as follows:

1. No event of default exists, or with the passage of time will exist, under the Assistance Agreement and the representations and warranties set forth in the Assistance Agreement are true and correct as of the date hereof.

2. The Governmental Agency has examined and is familiar with proceedings of the governing body of the Governmental Agency approving the Assistance Agreement and authorizing its negotiation, execution and delivery and such proceedings were duly enacted or adopted at a meeting of the governing body of the Governmental Agency at which a quorum was present and acting throughout; such proceedings are in full force and effect and have not been superseded, altered, amended or repealed as of the date hereof; and such meeting was duly called and held in accordance with law.

3. The Governmental Agency is a duly organized and validly existing political subdivision of the Commonwealth of Kentucky with full power to own its properties, conduct its affairs, enter into the Assistance Agreement and consummate the transactions contemplated thereby.

4. The negotiation, execution and delivery of the Assistance Agreement by the Governmental Agency and the consummation of the transactions contemplated thereby by the Governmental Agency have been duly authorized by all requisite action of the governing body of the Governmental Agency.

5. The Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.

6. There is no controversy or litigation of any nature pending, or to the knowledge of the Governmental Agency after diligent inquiry, threatened, in any court or before any board, tribunal or administrative body, to challenge in any manner the authority of the Governmental Agency or its governing body to make payments under the Assistance Agreement or to construct the Project, or to challenge in any manner the authority of the Governmental Agency or its governing body to take any of the actions which have been taken in the authorization or delivery of the Assistance Agreement or the construction of the Project, or in any way contesting or affecting the validity of the Assistance Agreement, or in any way questioning any proceedings taken with respect to the authorization or delivery by the Governmental Agency of the

Assistance Agreement, or the application of the proceeds thereof or the pledge or application of any monies or security provided therefor, or in any way questioning the due existence or powers of the Governmental Agency, or otherwise wherein an unfavorable decision would have an adverse impact on the transactions authorized in connection with the Assistance Agreement.

7. The authorization and delivery of the Assistance Agreement and the consummation of the transactions contemplated thereby will not constitute an event of default or violation or breach, nor an event which, with the giving of notice or the passage of time or both, would constitute an event of default or violation or breach, under any contract, agreement, instrument, indenture, lease, judicial or administrative order, decree, rule or regulation or other document or law affecting the Governmental Agency or its governing body.

8. All actions taken by the Governmental Agency in connection with the Assistance Agreement and the loan described therein and the Project, as defined in the Assistance Agreement, have been in full compliance with the provisions of the Kentucky Open Meetings Law, KRS 61.805 to 61.850.

9. The Governmental Agency has all licenses, permits and other governmental approvals required to own, occupy, operate and maintain the Project and to enter into the Assistance Agreement, is not in violation of and has not received any notice of an alleged violation of any zoning or land use laws applicable to the Governmental Agency Project, and has full right, power and authority to perform the acts and things as provided for in the Assistance Agreement.

10. The individuals named below are the duly elected or appointed qualified and acting incumbents in the office of the Governmental Agency indicated after their respective names and the signatures subscribed above their names are their genuine signatures.

WITNESS our signatures, this 12 day of May, 2015.

**GOVERNMENTAL AGENCY:
GARRISON-QUINCY-KY-O-HEIGHTS
WATER DISTRICT**

By: Jonathon Bivens
Name: Jonathon Bivens
Title: Chairman

Attest:
By: Karin Collier
Name: KARIN COLLIER
Title: Secretary

9589732v1

COMMONWEALTH OF KENTUCKY
OFFICE OF THE LEWIS COUNTY ATTORNEY
THOMAS M. BERTRAM II

112 SECOND STREET SUITE 207
COURTHOUSE
VANCEBURG, KENTUCKY 41179

TELEPHONE (606) 796-3201
FACSIMILE (606) 796-0722

May 13, 2015

AN EXTENDED COPY OF THE OPINION OF THE DISTRICT'S ATTORNEY

Kentucky Infrastructure Authority
1024 Capital Center Drive
Suite 340
Frankfort, Kentucky 40601

RE: Assistance Agreement by and between Kentucky Infrastructure Authority and
Garrison-Quincy-KY-O-Heights Water District, dated as of April 1, 2015

Ladies and Gentlemen:

The undersigned is an attorney at law duly admitted to the practice of law in the Commonwealth of Kentucky and is legal counsel to the Garrison-Quincy-Ky-O-Heights Water District, hereinafter referred to as the "Governmental Agency". I am familiar with the organization and existence of the Governmental Agency and the laws of the Commonwealth applicable thereto. Additionally, I am familiar with the drinking water supply project (the "Project") with respect to which the Assistance Agreement by and between the Kentucky Infrastructure Authority ("Authority") and the Governmental Agency is being authorized, executed and delivered.

I have reviewed the form of Assistance Agreement by and between the Authority and the Governmental Agency, the resolution or ordinance of the governing authority authorizing the execution and delivery of said Assistance Agreement.

Based upon my review I am of the opinion that:

- 1) The Governmental Agency is a duly organized and existing political subdivision or body politic of the Commonwealth of Kentucky validly existing under The Constitution and statutes of the Commonwealth of Kentucky.
- 2) The Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws

heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.

3) The Governmental Agency has all necessary power and authority (i) to enter into, perform and consummate all transactions contemplated by the Assistance Agreement, and (ii) to execute and deliver the documents and instruments to be executed and delivered by it in connection with the construction of the Project.

4) The Service Charges, as defined in the Assistance Agreement, are in full force and effect and have been duly and lawfully adopted by the Governmental Agency.

5) The execution and delivery of the Assistance Agreement and the performance by the Governmental Agency of its obligations thereunder does not and will not conflict with, violate or constitute a default under any court or administrative order, decree or ruling, or any law, statute, ordinance or regulation, or any agreement, indenture, mortgage, lease, note or other obligation or instrument, binding upon the Governmental Agency, or any of its properties or assets. The Governmental Agency has obtained each and every authorization, consent, permit, approval or license of or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality, or any specifically granted exemption from any of the foregoing, that is necessary to the valid execution, delivery or performance by the Governmental Agency of the Assistance Agreement and the imposition of the Service Charges.

6) To the best of my knowledge after due inquiry there is no action, suit, proceedings or investigation at law or in equity before any court, public board or body pending or threatened against, affecting or questioning (i) the valid existence of the Governmental Agency, (ii) the right or title of the members and officers of the Governmental Agency to their respective positions, (iii) the authorization, execution, delivery or enforceability of the Assistance Agreement or the application of any monies or security therefor, (iv) the construction of the Project, (v) the validity or enforceability of the Service Charges or (vi) that would have a material adverse impact on the ability of the Governmental Agency to perform its obligations under the Assistance Agreement.

7) None of the proceedings or authority heretofore had or taken by the Governmental Agency for the authorization, execution or delivery of the Assistance Agreement has or have been repealed, rescinded, or revoked.

8) To the best of my knowledge, the Governmental Agency has fully complied with all federal and state labor and procurement laws in connection with the construction of the Project.

9) All proceedings and actions of the Governmental Agency with respect to which the Assistance Agreement is to be delivered were had or taken at meetings properly convened and held in substantial compliance with the applicable provisions of Sections 61.805 to 61.850 of the Kentucky Revised Statutes.

Very truly yours,



Thomas M. Bertram II

TMBII/gle

KENTUCKY INFRASTRUCTURE AUTHORITY

ASSISTANCE AGREEMENT

FUND F

PROJECT NUMBER:	F13-034
BORROWER:	Garrison-Quincy-KY-O-Heights Water District
BORROWER'S ADDRESS:	PO Box 279 Garrison, Kentucky 41141
DATE OF ASSISTANCE AGREEMENT:	April 1, 2015
CFDA NO.:	66.458

ASSISTANCE AGREEMENT

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ASSISTANCE AGREEMENT

This Assistance Agreement made and entered into as of the date set forth on the cover page hereof (the "Assistance Agreement") by and between the KENTUCKY INFRASTRUCTURE AUTHORITY, a body corporate and politic, constituting a public corporation and governmental agency and instrumentality of the Commonwealth of Kentucky (the "Authority") and the Governmental Agency identified on the cover of this Assistance Agreement (the "Governmental Agency"):

WITNESSETH

WHEREAS, the General Assembly of the Commonwealth of Kentucky, being the duly and legally constituted legislature of Kentucky at its 1988 Regular Session, enacted House Bill 217 amending Chapter 224A of the Kentucky Revised Statutes (the "Act"), creating the "Kentucky Infrastructure Authority" to serve the public purposes identified in the Act; and

WHEREAS, the Authority has established its Program as hereinafter defined, for the purpose of providing financial assistance to Governmental Agencies, as defined in the Act, in connection with the acquisition and construction of Projects, as defined in the Act, in order to preserve, protect, upgrade, conserve, develop, utilize and manage the resources of the Commonwealth of Kentucky (the "Commonwealth") for the protection and preservation of the health, safety, convenience, and welfare of the Commonwealth and its citizens, and in that respect to assist and cooperate with Governmental Agencies in achieving such purposes; and

WHEREAS, the Program is funded in part, pursuant to the Capitalization Grant Operating Agreement between the Authority and the U.S. Environmental Protection Agency dated as of November 1, 1998, as amended, supplemented or restated from time to time (the "Federal Agreement") under which the Authority is responsible for providing certain "match funding" described in the Federal Agreement; and

WHEREAS, the Authority has issued, and will issue from time to time, its revenue bonds pursuant to a General Trust Indenture dated as of February 1, 2000 (the "Indenture") between the Authority and U.S. Bank, National Association, as lawful successor in interest to National City Bank of Kentucky (the "Trustee"), in order to provide the "match funding" for the Program; and

WHEREAS, the Governmental Agency has determined that it is necessary and desirable to finance the acquisition and construction of the Project, as hereinafter defined, and the Authority has determined that the Project is a Project within the meaning of the Act and the Indenture, thereby qualifying for financial assistance from the Authority; and

WHEREAS, the Governmental Agency desires to enter into this Assistance Agreement with the Authority for the purpose of securing from the Authority the repayable Loan hereinafter identified; and

WHEREAS, the Authority is willing to cooperate with the Governmental Agency in making available the Loan pursuant to the Act and the Indenture to be applied to the Project upon the conditions hereinafter enumerated and the covenants by the Governmental Agency herein contained to repay the Loan and the interest thereon from the sources herein provided, all as hereinafter more specifically provided; and

WHEREAS, the Authority and the Governmental Agency have determined to enter into this Assistance Agreement pursuant to the terms of the Act and the Indenture and to set forth their respective duties, rights, covenants, and obligations with respect to the acquisition, construction and financing of the Project and the repayment of the Loan and the interest thereon;

NOW, THEREFORE, FOR AND IN CONSIDERATION OF THE MUTUAL COVENANTS HEREIN SET FORTH, THE LOAN HEREBY EFFECTED AND OTHER GOOD AND VALUABLE CONSIDERATION, THE RECEIPT OF WHICH IS HEREBY ACKNOWLEDGED BY EACH PARTY, THE PARTIES HERETO MUTUALLY COVENANT AND AGREE, EACH WITH THE OTHER AS FOLLOWS:

ARTICLE I
DEFINITIONS

All of the terms utilized in this Assistance Agreement will have the same definitions and meaning as ascribed to them in the Act and the Indenture, which Act and Indenture are hereby incorporated in this Assistance Agreement by reference, the same as if set forth hereby verbatim; provided, however, that those definitions utilized in the Act and the Indenture having general application are hereby modified in certain instances to apply specifically to the Governmental Agency and its Project.

"*Act*" shall mean Chapter 224A of the Kentucky Revised Statutes, as amended.

"*Administrative Fee*" means the charge of the Authority for the servicing of the Loan, which is the annual percentage charged against the unpaid principal balance of the Loan as identified in the Project Specifics.

"*Architects*" means the firm of consulting architects employed by the Governmental Agency in connection with the Project identified in the Project Specifics.

"*Assistance Agreement*" shall mean this agreement made and entered into by and between a Governmental Agency and the Authority, as authorized by the Act, providing for a Loan to the Governmental Agency by the Authority, and for the repayment thereof to the Authority by the Governmental Agency.

"*Authority*" shall mean the Kentucky Infrastructure Authority created by the Act, a body corporate and politic, constituting a public corporation and a governmental agency and instrumentality of the Commonwealth of Kentucky, or such other designation as may be effected by future amendments to the Act.

"*Bond*" or "*Bonds*" or "*Revenue Bonds*" shall mean any Kentucky Infrastructure Authority Bond or Bonds, or the issue of such Bonds, as the case may be, authenticated and delivered under the Indenture.

"*Business Day*" shall mean any day other than a Saturday, Sunday or other legal holiday on which the general offices of the Commonwealth are closed.

"*Cabinet*" means the Energy and Environment Cabinet of the Commonwealth.

"*Code*" shall mean the Internal Revenue Code of 1986, as amended, and shall include the Regulations of the United States Department of the Treasury promulgated thereunder.

"*Commonwealth*" shall mean the Commonwealth of Kentucky.

"*Construction*" shall mean construction as defined in the Act.

"*Debt Obligations*" shall mean those outstanding obligations of the Governmental Agency identified in the Project Specifics outstanding as of the date of this Assistance Agreement or issued in the future in accordance with the terms hereof, payable from the income and revenues of the System.

"Drinking Water Supply Project" shall mean the planning, design and construction of drinking water treatment and distribution systems, including expenditures to address Federal Act health goals, or to address situations where compliance standards have been exceeded or to prevent future violations of rules, and may further include drinking water treatment plants, including basins for rapid mix, flocculation, coagulation, filtration, pre-treatment disinfection, and disinfection prior to entry to the distribution system; distribution systems; storage tanks; intake lines and short-term water storage; clearwells; drilled wells and wellhead areas; and any other structure or facility considered necessary by the Cabinet to the efficient and sanitary operation of a public water system and complies with the requirements of the Federal Act.

"Engineers" means the firm of consulting engineers employed by the Governmental Agency in connection with the Project identified in the Project Specifics.

"Federal Act" shall mean the Federal Safe Drinking Water Act, as amended, 42 U.S.C. Section 1401, et seq.

"Governmental Agency" shall mean any incorporated city or municipal corporation, or other agency or unit of government within the Commonwealth, now having or hereafter granted the authority and power to finance, acquire, construct, and operate infrastructure projects, including specifically but not by way of limitation, incorporated cities, counties, including any counties containing a metropolitan sewer district, sanitation districts, water districts, sewer construction districts, metropolitan sewer districts, sanitation taxing districts, and any other agencies, commissions, districts, or authorities (either acting alone, or in combination with one another pursuant to any regional or area compact, or multi-municipal agreement), now or hereafter established pursuant to the laws of the Commonwealth having and possessing such described powers; and for the purposes of this Assistance Agreement shall mean the Governmental Agency identified in the Project Specifics.

"Indenture" shall mean the General Trust Indenture dated as of February 1, 2000 between the Authority and the Trustee.

"Interagency Agreement" means the Memorandum of Understanding dated as of July 1, 1999 between the Authority and the Cabinet, as the same may be amended or supplemented from time to time.

"Loan" shall mean the loan effected under this Assistance Agreement from the Authority to the Governmental Agency in the principal amount set forth in the Project Specifics, for the purpose of defraying the costs incidental to the Construction of the Project.

"Loan Rate" means the rate of interest identified in the Schedule of Payments.

"Person" shall mean any individual, firm, partnership, association, corporation or Governmental Agency.

"Program" shall mean the program authorized by KRS 224A.1115 and the Indenture as the "federally assisted drinking water revolving fund" for financing Projects through Loans by the Authority to Governmental Agencies and shall not be deemed to mean or include any other programs of the Authority.

"*Project*" shall mean, when used generally, a Drinking Water Supply Project, and when used in specific reference to the Governmental Agency, the Project described in the Project Specifics.

"*Project Specifics*" means those specific details of the Project identified in Exhibit A hereto, all of which are incorporated by reference in this Assistance Agreement.

"*Requisition for Funds*" means the form attached hereto as Exhibit B to be utilized by the Governmental Agency in obtaining disbursements of the Loan from the Authority as the Construction of the Project progresses.

"*Resolution*" means the resolution of the Governmental Agency attached hereto as Exhibit D authorizing the execution of this Assistance Agreement.

"*Schedule of Payments*" means the principal and interest requirements of the Loan as set forth in Exhibit F hereto, to be established and agreed to upon or prior to the completion of the Project.

"*Schedule of Service Charges*" shall mean those general charges to be imposed by the Governmental Agency for services provided by the System, as set forth in Exhibit C hereto, and such other revenues identified in Exhibit C hereto from which the Loan is to be repaid, which Schedule of Service Charges shall be in full force and effect to the satisfaction of the Authority prior to the disbursement of any portion of the Loan hereunder.

"*Service Charges*" shall mean any monthly, quarterly, semi-annual, or annual charges, surcharges or improvement benefit assessments to be imposed by a Governmental Agency, or by the Authority, in respect of the System, which Service Charges arise by reason of the existence of, and requirement of, any Assistance Agreement and for the purposes of this Assistance Agreement said Service Charges shall be no less than those set forth in the Schedule of Service Charges.

"*System*" shall mean the water system owned and operated by the Governmental Agency of which the Project shall become a part and from the earnings of which (represented by the Service Charges) the Governmental Agency shall repay the Authority the Loan hereunder.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1. Representations and Warranties of Authority. The Authority represents and warrants for the benefit of the Governmental Agency as follows:

(A) The Authority is a body corporate and politic constituting a governmental agency and instrumentality of the Commonwealth, has all necessary power and Authority to enter into, and perform its obligations under, this Assistance Agreement, and has duly authorized the execution and delivery of this Assistance Agreement.

(B) Neither the execution and delivery hereof, nor the fulfillment of or compliance with the terms and conditions hereof, nor the consummation of the transactions contemplated hereby, conflicts with or results in a breach of the terms, conditions and provisions of any restriction or any agreement or instrument to which the Authority is now a party or by which the Authority is bound, or constitutes a default under any of the foregoing.

(C) To the knowledge of the Authority, there is no litigation or proceeding pending or threatened against the Authority or any other person affecting the right of the Authority to execute or deliver this Assistance Agreement or to comply with its obligations under this Assistance Agreement. Neither the execution and delivery of this Assistance Agreement by the Authority, nor compliance by the Authority with its obligations under this Assistance Agreement, require the approval of any regulatory body, or any other entity, which approval has not been obtained.

(D) The authorization, execution and delivery of this Assistance Agreement and all actions of the Authority with respect thereto, are in compliance with the Act and the Federal Act and any regulations issued thereunder.

Section 2.2. Representations and Warranties of the Governmental Agency. The Governmental Agency hereby represents and warrants for the benefit of the Authority as follows:

(A) The Governmental Agency is a duly organized and validly existing Governmental Agency, as described in the Act, with full power to own its properties, conduct its affairs, enter into this Assistance Agreement and consummate the transactions contemplated hereby.

(B) The negotiation, execution and delivery of this Assistance Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite action of the governing body of the Governmental Agency.

(C) This Assistance Agreement has been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in accordance with its terms, except to the extent that the enforceability hereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.

(D) To the knowledge of the Governmental Agency, there is no controversy or litigation of any nature pending or threatened, in any court or before any board, tribunal or

administrative body, to challenge in any manner the authority of the Governmental Agency or its governing body to make payments under this Assistance Agreement or to proceed with the Project, or to challenge in any manner the authority of the Governmental Agency or its governing body to take any of the actions which have been taken in the authorization or delivery of this Assistance Agreement or the Construction of the Project, or in any way contesting or affecting the validity of this Assistance Agreement, or in any way questioning any proceedings taken with respect to the authorization or delivery by the Governmental Agency of this Assistance Agreement, or the application of the proceeds thereof or the pledge or application of any monies or security provided therefor, or in any way questioning the due existence or powers of the Governmental Agency, or otherwise wherein an unfavorable decision would have an adverse impact on the transactions authorized in connection with this Assistance Agreement.

(E) The authorization and delivery of this Assistance Agreement and the consummation of the transactions contemplated hereby will not constitute an event of default or violation or breach, nor an event which, with the giving of notice or the passage of time or both, would constitute an event of default or violation or breach, under any contract, agreement, instrument, indenture, lease, judicial or administrative order, decree, rule or regulation or other document or law affecting the Governmental Agency or its governing body.

(F) Attached hereto as Exhibit D is a true, accurate and complete copy of the resolution or ordinance of the governing body of the Governmental Agency approving and authorizing the execution and delivery of this Assistance Agreement. Such resolution or ordinance was duly enacted or adopted at a meeting of the governing body of the Governmental Agency at which a quorum was present and acting throughout; such resolution or ordinance is in full force and effect and has not been superseded, altered, amended or repealed as of the date hereof; and such meeting was duly called and held in accordance with law.

(G) All actions taken by the Governmental Agency in connection with this Assistance Agreement and the Loan described herein and the Project have been in full compliance with the provisions of the Kentucky Open Meeting Law, KRS 61.805 to 61.850.

(H) The Governmental Agency has all licenses, permits and other governmental approvals (including but not limited to all required approvals of the Kentucky Public Service Commission) required to own, occupy, operate and maintain the Project, to charge and collect the Service Charges and to enter into this Assistance Agreement, is not in violation of and has not received any notice of an alleged violation of any zoning or land use laws applicable to the Project, and has full right, power and authority to perform the acts and things as provided for in this Assistance Agreement.

(I) Legal counsel to the Governmental Agency has duly executed and delivered the opinion of legal counsel substantially in the form set forth in Exhibit E hereto.

(J) The Governmental Agency is in full compliance with all federal and state labor and procurement laws in connection with the planning, design, acquisition and construction of the Project.

(K) Project is consistent with the water supply plan developed pursuant to 401 KAR 4:220 for the county in which the Governmental Agency is located.

ARTICLE III

AUTHORITY'S AGREEMENT TO MAKE LOAN; TERMS

Section 3.1. Determination of Eligibility. Pursuant to the terms of the Act and the Indenture, the Authority has determined that the Governmental Agency's Project is a Drinking Water Supply Project under the Act and the Governmental Agency is entitled to financial assistance from the Authority in connection with financing the Construction of the Project.

Section 3.2. Principal Amount of Loan Established; Loan Payments; Disbursement of Funds. The principal amount of the Loan shall be the Loan Amount as identified in the Project Specifics, subject to such adjustments as may be set forth in the Schedule of Payments. Principal payments shall be made semiannually in the amounts and on the dates to be established by the Schedule of Payments, which Schedule of Payments shall provide for approximately level debt service payments over the Repayment Term set forth in the Project Specifics, commencing with the Amortization Commencement Date set forth in the Project Specifics.

The Loan shall bear interest, payable semiannually, at the Loan Rate identified in the Project Specifics, and after the Amortization Commencement Date, in the amounts (based on such Loan Rate) and on the dates set forth in the Schedule of Payments; provided that, should an Event of Default occur, such payments of interest shall be made on the first day of each month during the continuation of such Event of Default.

The Authority shall advance the proceeds of the Loan as Construction of the Project progresses upon the submission by the Governmental Agency of a Requisition for Funds in substantially the same form as Exhibit B hereto. Each disbursement under a Requisition for Funds representing a portion of the principal amount of the Loan shall bear interest at the Loan Rate from the date of the disbursement; and shall be subject to the further requirements set forth in Article IV hereof.

Payments of principal and interest on the Loan shall be made at the principal office of the Authority or the Trustee, as designated by the Authority.

Section 3.3. Governmental Agency's Right to Prepay Loan. The Governmental Agency shall have the right to prepay and retire the entire amount of the Loan at any time without penalty upon written notice to the Authority no less than five (5) Business Days in advance of said prepayment.

Notwithstanding the foregoing, upon the determination by the Authority that it intends to issue revenue bonds secured by a pledge of the payments on the Loan, the Authority shall advise the Governmental Agency (i) of its intention to proceed with the authorization of such bonds (ii) of the limitation on prepayments after such bonds are issued and (iii) that the Governmental Agency has thirty (30) days from its receipt of said notice to exercise its option to prepay the Loan. Upon the expiration of said thirty day period the Governmental Agency's right to prepay the Loan shall be limited to the terms described in such notice.

Section 3.4. Subordination of Loan. The Authority hereby agrees that the security interest and source of payment for the Loan shall be inferior and subordinate to the security interest and source of payment for the Debt Obligations of the Governmental Agency payable from the revenues of the System outstanding at the time this Assistance Agreement is executed

as identified in the Project Specifics; provided, however, the Authority shall receive notice of any additional financings in accordance with Section 5.5(D) hereof.

ARTICLE IV

CONDITIONS PRECEDENT TO DISBURSEMENT; REQUISITION FOR FUNDS

Section 4.1. Covenants of Governmental Agency and Conditions of Loan. By the execution of this Assistance Agreement, the Governmental Agency agrees that prior to any requests for the disbursement of all or a portion of the Loan made hereunder, the Governmental Agency shall supply the Authority and the Cabinet appropriate documentation, satisfactory to the Authority indicating the following:

(A) That the Authority and the Cabinet and any appropriate regulatory agency of the Commonwealth as may be designated by the Authority or the Cabinet, and their respective duly authorized agents, shall have the right at all reasonable times, subject to prior notice to the Governmental Agency, to examine and inspect the Project.

(B) All real estate and interest in real estate and all personal property constituting the Project and the sites of the Project heretofore or hereafter acquired shall at all times be and remain the property of the Governmental Agency and constitute a part of the System.

(C) In the event the Governmental Agency is required to provide financing for the Project from sources other than the Authority (as described in the Project Specifics) the Authority shall have the right to receive such reasonable proofs as it may require of the ability of the Governmental Agency to finance the costs of the Construction of the Project over and above the Loan, prior to the disbursement by the Authority of any portion of the Loan.

(D) The Governmental Agency shall do all things necessary to acquire all proposed and necessary sites, easements and rights of way necessary or required in respect of the Project and demonstrate its ability to construct the Project in accordance with the plans, design and specifications prepared for the Governmental Agency by the Engineers.

(E) Actual construction and installation incident to the Project shall be performed by the lump-sum (fixed price) contract method, and adequate legal methods of obtaining public, competitive bidding will be employed prior to the awarding of the construction contract for the Project in accordance with Kentucky law.

(F) Unless construction of the Project has already been initiated as of the date of this Assistance Agreement, pursuant to due compliance with state law and applicable regulations, the Project will not be advertised or placed on the market for construction bidding by the Governmental Agency until the final plans, designs and specifications therefor have been approved by such state and federal agencies and authorities as may be legally required, and until written notification of such approvals has been received by the Governmental Agency and furnished to the Cabinet.

(G) Duly authorized representatives of the Cabinet and such other agencies of the Commonwealth and the United States Government as may be charged with responsibility will have reasonable access to the construction work whenever it is in preparation or progress, and the Governmental Agency will assure that the contractor or contractors will provide facilities for such access and inspection.

(H) The construction contract or contracts shall require the contractor to comply with all provisions of federal and state law legally applicable to such work, and any amendments or modifications thereto, together with all other applicable provisions of law, to cause appropriate provisions to be inserted in subcontracts to insure compliance therewith by all subcontractors subject thereto, and to be responsible for the submission of any statements required of subcontractors thereunder.

(I) A work progress schedule utilizing a method of standard acceptance in the engineering community shall be prepared prior to the institution of construction in connection with each construction contract, or, if construction has already been initiated as of the date of this Assistance Agreement, at the earliest practicable date, to indicate the proposed schedule as to completion of the Project, and same shall be maintained monthly thereafter to indicate the actual construction progress of the Project.

(J) Prior to the award of the construction contract and prior to the commencement of construction, the Governmental Agency will arrange and conduct a conference as to the Project said conference to include representatives of the Authority, the Governmental Agency, the Cabinet and any other participating federal or state agency, the Engineers, and all construction contractors, such conference to be held in accordance with guidelines established by the Authority and the Cabinet. A written brief of said conference summarizing the construction schedule, fund requirements schedule, payment authorizations, responsible parties for approval of all facets of the construction work and payment therefor, and other pertinent matters shall be prepared and distributed to each agency involved, and all construction contractors and Engineers. Provided, however, that in the event construction shall have been initiated as of the date of this Assistance Agreement, this provision may be waived.

(K) All construction contracts will be so prepared that federal participation costs, if any, and state participation costs may be readily segregated from local participation costs, if any, and from each other, and in such manner that all materials and equipment furnished to the Governmental Agency may be readily itemized.

(L) Any change or changes in a construction contract will be promptly submitted to the Cabinet and any state or federal agencies.

(M) The Construction, including the letting of contracts in connection therewith, will conform in all respects to applicable requirements of federal, state and local laws, ordinances, rules and regulations.

(N) The Governmental Agency will proceed expeditiously with and complete the Project in accordance with the approved surveys, plans specifications and designs or amendments thereto, prepared by the Engineers for the Governmental Agency and approved by state and federal agencies.

(O) If requested, the Governmental Agency will erect at the Project sites, signs satisfactory to the Authority and the United States Environmental Protection Agency noting the participation of the Authority and the U.S. Government, respectively, in the financing of the Project.

(P) Except as otherwise provided in this Assistance Agreement, the Governmental Agency shall have the sole and exclusive charge of all details of the Construction.

(Q) The Governmental Agency shall keep complete and accurate records of the costs of acquiring the Project sites and the costs of Construction. The Governmental Agency shall permit the Authority and the Cabinet, acting by and through their duly authorized representatives, and the duly authorized representatives of state and/or federal agencies to inspect all books, documents, papers and records relating to the Project at any and all reasonable times for the purpose of audit and examination, and the Governmental Agency shall submit to the Authority and the Cabinet such documents and information as such public bodies may reasonably require in connection with the administration of any federal or state assistance.

(R) The Governmental Agency shall require that each construction contractor or contractors furnish a performance and a payment bond in an amount at least equal to one hundred percent (100%) of the contract price or the portion of the Project covered by the particular contract as security for the faithful performance of such contract.

(S) The Governmental Agency shall require that each of its contractors and all subcontractors maintain during the life of the construction contract, worker's compensation insurance, public liability insurance, property damage insurance and vehicle liability insurance in amounts and on terms satisfactory to the Authority. Until the Project facilities are completed and accepted by the Governmental Agency, the contractor shall maintain builders risk insurance (fire and extended coverage) on a one hundred percent (100%) basis (completed value form) on the insurable portion of the Project, such insurance to be made payable to the order of the Authority, the Governmental Agency, the prime contractor, and all subcontractors, as their interests may appear.

(T) The Governmental Agency shall provide and maintain competent and adequate resident engineering services covering the supervision and inspection of the development and construction of the Project, and bearing the responsibility of assuring that Construction conforms to the approved plans, specifications and designs prepared by the Engineers. Such resident engineer shall certify to the Cabinet, any involved state or federal agencies, and the Governmental Agency at the completion of construction that construction is in accordance with the approved plans, specifications and designs, or, approved amendments thereto.

(U) The Governmental Agency shall demonstrate to the satisfaction of the Authority the legal capability of the Governmental Agency to enact, adopt, levy, charge, collect, enforce and remit to the Authority and the Cabinet the Service Charges of the Governmental Agency described in the Schedule of Service Charges attached to and made a part of this Assistance Agreement as Exhibit C and submit proof satisfactory to the Authority that the Service Charges are in full force and effect.

(V) The Governmental Agency shall require all laborers and mechanics employed by contractors and subcontractors on the Project shall be paid wages at rates not less than prevailing on projects of a character similar in the locality as determined by the Secretary of Labor in accordance with subchapter IV of Chapter 31 of title 40, United States Code.

(W) The Governmental Agency shall comply with all federal requirements applicable to the Loan (including those imposed by P.L. 113-76, Consolidated Appropriations Act, 2014 (the "2014 Appropriations Act") and related Program policy guidelines) which the Governmental Agency understands includes, among other requirements, that all of the iron and steel products used in the Project are to be produced in the United States ("American Iron and Steel

Requirement") unless (i) the Governmental Agency has requested and obtained a waiver from the United States Environmental Protection Agency pertaining to the Project or (ii) the Authority has otherwise advised the Participant in writing that the American Iron and Steel Requirement is not applicable to the Project.

(X) The Governmental Agency shall comply with all record keeping and reporting requirements under the Federal Act, including any reports required by a Federal agency or the Authority such as performance indicators of program deliverables, information on costs and project progress. The Governmental Agency understands that (i) each contract and subcontract related to the Project is subject to audit by appropriate federal and state entities and (ii) failure to comply with the Federal Act and this Agreement may be a default hereunder that results in a repayment of the Loan in advance of the maturity of the Bonds and/or other remedial actions.

Section 4.2. Additional Conditions to Disbursement Required Under the Federal Agreement. The Governmental Agency, in order to comply with the terms and conditions of the Federal Agreement, further covenants and further agrees to additional conditions to disbursement, as follows:

(A) Notwithstanding any other agreements contained herein regarding the maintenance of books and records, that it shall maintain Project accounts in accordance with generally accepted governmental accounting standards, as required by the Federal Agreement. The Governmental Agency shall retain such records for no less than three (3) years following the final payment by the Governmental Agency under this Assistance Agreement or if any portion of the Project is disposed of, until at least three (3) years after such disposition; provided that if any litigation, claim, appeal or audit is commenced prior to the end of such period such records shall be maintained until the completion of such action or until three (3) years after such commencement, whichever is later.

(B) That it has not and will not apply any other federal funding to the Project in a manner that would cause it to receive "double benefits" as described in Section 603 of the Water Quality Act of 1987.

(C) That all property required for the completion of the Project shall be obtained, by easement, purchase or other means acceptable to the Authority, prior to commencement of construction and that the relocation of any Person resulting therefrom be in accordance with 49 CFR24 for Uniform Relocation Assistance and Real Property Acquisition Act of 1970.

(D) That all Project contractors shall be required to retain Project records for the periods established for the retention of the Governmental Agency's records in Section 4.2(A).

(E) That no more than fifty percent (50%) of the proceeds of the Loan shall be disbursed until approval by the Cabinet of the final plan for operation for the Project.

(F) That no more than ninety percent (90%) of the proceeds of the Loan shall be disbursed until approval by the Cabinet of the draft operations and maintenance manual.

(G) That final disbursement will not be allowed until approval by the Cabinet of a final operations and maintenance manual.

(H) That, as required by 40 CFR 35.2218, all engineering services regarding construction and regarding the first year of operation of the Project shall be provided for, including the following:

(1) The operation of the Project and the revision of the operations and maintenance manual as necessary to accommodate actual operating experience;

(2) The training of operating personnel, including preparation of curricula and training material for operating personnel; and

(3) Advice as to whether the Project is meeting the Project performance standards (including three quarterly reports and one project performance report).

(I) That it shall advise the Cabinet and the Authority in writing of the date for initiation of operation of the Project.

(J) That one year after operation is initiated, it shall certify to the Cabinet and the Authority that the Project is capable of meeting the Project performance standards.

(K) That it shall provide that qualified inspectors are present at the construction site. A summary of such inspector's qualifications and experience shall be submitted to the Cabinet and the Authority.

(L) That it shall notify the Authority and the Cabinet of the completion date of the Project.

(M) That it agrees to the terms and conditions of its application for assistance and the Authority's commitment to provide assistance, the terms of which are incorporated herein by reference.

(N) That all measures required to minimize water pollution to affected waters shall be employed in the Project including compliance with Section 404 of PL 92-500, as amended, it being understood that approval of the Project does not constitute sanction or approval of any changes or deviations from established water quality standards, criteria implementation dates, or dates established by enforcement proceedings.

Section 4.3. Disbursements of Loan; Requisition for Funds. The Governmental Agency shall submit to the Authority (or the Trustee acting on behalf of the Authority, if so designated) and the Cabinet a Requisition for Funds prior to the fifth day of each month (or such other designated period as is acceptable to the Authority), in substantially the same form as that attached to this Assistance Agreement as Exhibit B and made a part hereof, accompanied by, to the extent requested by the Authority, the following documentation:

(A) A full and complete accounting of the costs of the planning and design of the Project to be obligated by contract or otherwise during the month in question, or already obligated and not included in any previous accounting;

(B) A full and complete accounting of any costs of the planning and design of the Project paid by the Governmental Agency from its own funds with the approval of the Authority and not included in any previous accounting for which it seeks reimbursement;

(C) A full and complete accounting of any costs of the planning and design of the Project paid or requisitioned under any other financing, loan, bond, grant or similar agreement or paid from its own funds for which it does not seek reimbursement and which have not been identified in any previous requisition form.

(D) The Contractor's estimate of work performed during the preceding month pursuant to construction contracts for the Project and payment thereunder due, together with the Engineer's and Governmental Agency's approval thereof for disbursement by the Authority.

Upon the Authority's receipt of the Requisition for Funds, and such additional documentation as it may require, and subject to certification by the Cabinet, the Authority may direct the Trustee to remit the amount requested to the Governmental Agency as a draw upon the Loan.

ARTICLE V

CERTAIN COVENANTS OF THE GOVERNMENTAL AGENCY; PAYMENTS TO BE MADE BY GOVERNMENTAL AGENCY TO THE AUTHORITY

Section 5.1. Imposition of Service Charges. The Governmental Agency hereby irrevocably covenants and agrees to comply with all of the terms, conditions and requirements of this Assistance Agreement, pursuant to which the Loan is to be made by the Authority to the Governmental Agency as specified herein and in the Act and the Indenture. The Governmental Agency hereby further irrevocably covenants and agrees that it already has, or will, to the extent necessary, immediately impose Service Charges upon all persons, firms and entities to whom or which services are provided by the System, such Service Charges to be no less than as set forth in Exhibit C annexed hereto. If so required, such Service Charges shall be in addition to all other rates, rentals and service charges of a similar nature of the Governmental Agency now or hereafter authorized by law, and now or hereafter being levied and collected by the Governmental Agency and shall be levied and collected solely for the purpose of repaying to the Authority all sums received from the Authority as representing the Loan in respect of the Project.

Section 5.2. Governmental Agency's Obligation to Repay Loan. The obligation of the Governmental Agency to repay to the Authority the amount of the Loan from the Service Charges shall not be revocable, and in the event that services supplied by the Project shall cease, or be suspended for any reason, the Governmental Agency shall continue to be obligated to repay the Loan from the Services Charges. In the event the Governmental Agency defaults in the payment of any Service Charges to the Authority, the amount of such default shall bear interest at the per annum rate equal to the Default Rate set forth in the Project Specifics, from the date of the default until the date of the payment thereof.

Section 5.3. Covenant to Adjust Service Charges. In the event, for any reason, the Schedule of Service Charges shall prove to be insufficient to provide to the Authority the minimum sums set forth in the Schedule of Payments, to make the required deposits to the Maintenance and Replacement Reserve and to provide for the operation of the System, the Governmental Agency hereby covenants and agrees that it will, upon notice by the Authority, to the full extent authorized by law, both federal and state, immediately adjust and increase such Schedule of Service Charges, or immediately commence proceedings for a rate adjustment and increase with all applicable regulatory authorities, so as to provide funds sufficient to pay to the Authority the minimum sums set forth in the Schedule of Payments, to provide for the operation of the System as required under this Assistance Agreement and to make the required deposits to the Maintenance and Replacement Reserve.

Section 5.4. Adequacy of Service Charges. The Service Charges herein covenanted to be imposed by the Governmental Agency shall be fixed at such rate or rates (and it is represented that the Schedule set forth in Exhibit C hereto so qualifies), as shall be at least adequate to make the payments at the times and in the amounts set forth in the Schedule of Payments, to make the required deposits to the Maintenance and Replacement Reserve and to provide for the operation of the System, subject to necessary governmental and regulatory approvals.

The Service Charges imposed by the Governmental Agency shall be paid by the users of the System and accordingly the Project not less frequently than the Service Charge Payment period set forth in the Project Specifics, and shall be remitted to the Authority by the

Governmental Agency with a report showing collections and any delinquencies. A report of all collections and delinquencies shall be made at least semi-annually on or before each Payment Date identified in the Schedule of Payments.

Section 5.5. Covenant to Establish Maintenance and Replacement Reserve. The Governmental Agency shall establish a special account identified as a "Maintenance and Replacement Reserve". The Governmental Agency shall deposit into the Maintenance and Replacement Reserve an amount equal to the amount set forth in the Project Specifics at the times set forth in the Project Specifics. Amounts in the Maintenance and Replacement Reserve may be used for extraordinary maintenance expenses related to the Project or for the unbudgeted costs of replacing worn or obsolete portions of the Project.

Section 5.6. Covenant to Charge Sufficient Rates; Reports; Inspections. The Governmental Agency hereby irrevocably covenants and agrees with the Authority:

(A) That, as aforesaid, it will at all times impose, prescribed, charge and collect the Service Charges set forth in Exhibit C as shall result in net revenues to the Governmental Agency at least adequate to provide for the payments to the Authority required by this Assistance Agreement, to provide for the operation of the System and to make the required deposits to the Maintenance and Replacement Reserve.

(B) That it will furnish to the Authority and the Cabinet not less than annually reports of the operations and income and revenues of the System, and will permit authorized agents of the Authority to inspect all records, accounts and data of the System at all reasonable times.

(C) That it will collect, account for and promptly remit to the Authority those specific revenues, funds, income and proceeds derived from Service Charges incident to this Assistance Agreement.

(D) That it will notify the Authority in writing of its intention to issue bonds or notes payable from the revenues of the System not less than thirty (30) days prior to the sale of said obligations. It further covenants that it will not issue any notes, bonds or other obligations payable from the revenues of the System, if the pledge of the revenues of the System to the repayment of such obligations is to rank on a parity with, or superior to, the pledge of the revenues of the System for the repayment of the Loan granted under this Assistance Agreement, unless the Governmental Agency has secured the consent of the Authority not less than fifteen (15) days prior to the issuance of such obligations.

Section 5.7. Segregation of Funds. The Governmental Agency shall at all times account for the income and revenues of the System and distinguish same from all other revenues, moneys and funds of the Governmental Agency, if any.

ARTICLE VI

OTHER COVENANTS OF THE GOVERNMENTAL AGENCY

Section 6.1. Further Assurance. At any time and all times the Governmental Agency shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, assets and revenues herein pledged or assigned, or intended so to be, or which the Governmental Agency may hereafter become bound to pledge or assign.

Section 6.2. Completion of Project. The Governmental Agency hereby covenants and agrees to proceed expeditiously with and promptly complete the Project in accordance with the plans, designs and specifications prepared by the Engineers for the Governmental Agency.

Section 6.3. Establishment of Completion Date. The completion date for the Project shall be evidenced to the Authority by a certificate signed by the Engineer and an authorized representative of the Governmental Agency stating that, except for amounts retained by the Authority for costs of the Project not then due and payable, (i) the Construction has been completed and all labor, services, materials, supplies, machinery and equipment used in such Construction have been paid for, (ii) all other facilities necessary in connection with the Project have been acquired, constructed, equipped and installed and all costs and expenses incurred in connection therewith have been paid, (iii) the Project and all other facilities in connection therewith have been acquired, constructed, equipped and installed to his satisfaction.

Section 6.4. Commitment to Operate. The Governmental Agency hereby covenants and agrees to commence operation of the Project immediately on completion of construction and not to discontinue operations or dispose of such Project without the approval of the Authority.

Section 6.5. Continue to Operate. The Governmental Agency hereby covenants and agrees to continuously operate and maintain the Project in accordance with applicable provisions of federal and state law and to maintain adequate records relating to said operation; said records to be made available to the Authority upon its request at all reasonable times.

Section 6.6. Tax Covenant. In the event the Authority issues Bonds which are intended to be excludable from gross income for federal income tax purposes to provide the funds for the Loan, the Governmental Agency shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure such exclusion and shall take such actions as may be directed by the Authority in order to accomplish the foregoing. The Governmental Agency shall not permit (i) the proceeds of the Loan to be used directly or indirectly in any trade or business, (ii) its payments hereunder to be secured directly or indirectly by property to be used in a trade or business, (iii) any management agreement for the operation of the System or (iv) any federal guarantee of its obligations hereunder without the prior written consent of the Authority. The Governmental Agency will not acquire or pledge any obligations which would cause the Bonds to be "arbitrage bonds" within the meaning of the Code.

Section 6.7. Accounts and Reports. The Governmental Agency shall at all times keep, or cause to be kept, proper books of record and account in accordance with the "Uniform System of Accounts" established by the Commonwealth, in which complete and accurate entries shall be

made of all its transactions relating to the System and which shall at all reasonable times be subject to the inspection of the Authority.

Section 6.8. Financial Statements. Within one hundred eighty (180) days after the end of each fiscal year of the Governmental Agency, the Governmental Agency shall provide to the Authority, itemized financial statements of income and expense and a balance sheet in reasonable detail, certified as accurate by a firm of independent certified public accountants or the Auditor of Public Accounts of the Commonwealth. All financial information must be satisfactory to the Authority as to form and content and be prepared in accordance with generally accepted accounting principles on a basis consistent with prior practice unless specifically noted thereon. With such financial statements, the Governmental Agency shall furnish to the Authority a certificate stating that, to the best knowledge of the authorized representative signing such certificate, no default under this Assistance Agreement exists on the date of such certificate, or if any such default shall then exist, describing such default with specificity. All recipients and subrecipients expending \$500,000 or more in a year in Federal awards must have a single or program-specific audit conducted for that year in accordance with OMB Circular A-133.

Section 6.9. General Compliance With All Duties. The Governmental Agency shall faithfully and punctually perform all duties with reference to the Project and the System required by the Constitution and laws of the Commonwealth, and by the terms and provisions of this Assistance Agreement and any other Debt Obligations.

Section 6.10. General. The Governmental Agency shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Governmental Agency under the provisions of the Act, the Federal Act and this Assistance Agreement in accordance with the terms of such provisions including the Additional Covenants and Agreements, if any, set forth in Exhibit G hereto.

Section 6.11. Further Covenants under the Federal Agreement. The Governmental Agency shall comply with all further requirements or conditions which may arise from time to time in order to assure compliance with the Federal Act, and with the agreements of the Authority set forth in the Federal Agreement, including but not limited to the following:

(A) The Governmental Agency shall provide all information requested of it by the Authority or the Cabinet so that (i) the Grants Information Control System, referred to in the Federal Agreement, can be maintained, (ii) the accounting and auditing procedures required by the Federal Act can be maintained and (iii) the Authority can furnish the information required of its under the Federal Agreement.

(B) Qualified operating personnel, properly certified by the Cabinet, shall be retained by the Governmental Agency to operate the Project during the entire term of this Assistance Agreement. An approved plan of operating and an operations and maintenance manual for the Project shall be provided by the Governmental Agency to the Cabinet and the Authority. The Project shall be operated and maintained in an efficient and effective manner.

(C) All residents in the service area of the Project must be offered the same opportunity to become users of the Project regardless of race, creed, color, or level of income.

(D) The Governmental Agency shall comply with provisions contained in the following federal regulations, orders, acts and circulars and the following statutes and regulations of the Commonwealth.

(1) Federal Cross-Cutters

Environmental Authorities

- (a) Archeological and Historic Preservation Act of 1974, Pub. L. 86-523, as amended
- (b) Clean Air Act, Pub. L. 84-159, as amended
- (c) 40 CFR 35.3580 (and Appendix A to Subpart L) – NEPA – Like State Environmental Review Process
- (d) Environmental Justice, Executive Order 12898
- (e) Floodplain Management, Executive Order 11988 as amended by Executive Order 12148
- (f) Protection of Wetlands, Executive Order 11990
- (g) Farmland Protection Policy Act, Pub. L. 97-98
- (h) Fish and Wildlife Coordination Act, Pub. L. 85-624, as amended
- (i) National Historic Preservation Act of 1966, PL 89-665, as amended
- (j) Safe Drinking Water Act, Pub. L. 93-523, as amended
- (k) Wild and Scenic Rivers Act, Pub. L. 90-542, as amended

Economic and Miscellaneous Authorities

- (a) Demonstration Cities and Metropolitan Development Act of 1966, Pub. L. 89-754, as amended, Executive Order 12372
- (b) Procurement Prohibitions under Section 306 of the Clean Air Act and Section 508 of the Clean Water Act, including Executive Order 11738, Administration of the Clean Air Act and the Federal Water Pollution Control Act with Respect to Federal Contracts, Grants, or Loans.
- (c) Uniform Relocation and Real Property Acquisition Policies Act, Pub. L. 91-646, as amended
- (d) Debarment and Suspension, Executive Order 12549

Social Policy Authorities

- (a) Age Discrimination Act of 1975, Pub. L. 94-135
- (b) Title VI of the Civil Rights Act of 1964, Pub. L. 88-352
- (c) Section 13 of the Federal Water Pollution Control Act Amendments of 1972, Pub. L. 92-500 (the Clean Water Act)
- (d) Section 504 of the Rehabilitation Act of 1973, Pub. L. 93-112 (including Executive Orders 11914 and 11250)
- (e) Equal Employment Opportunity, Executive Order 11246
- (f) Women's and Minority Business Enterprise, Executive Orders 11625, 12138, and 12432
- (g) Section 129 of the Small Business Administration Reauthorization and Amendment Act of 1988, Pub. L. 100-590

(2) State:

- (a) KRS 151
- (b) KRS 224
- (c) KRS 224A.1115 Federally Assisted Drinking Water Revolving Fund
- (d) KRS Chapter 337, Labor Laws
- (e) 401 KAR Chapter 8

Section 6.12. Continuing Disclosure Obligation. The Governmental Agency covenants and agrees that notwithstanding any other provision of this Assistance Agreement to the contrary, upon written notice from the Authority that the Schedule of Payments provides ten percent (10%) or more of the debt service requirements on an issue of the Authority's Bonds and that compliance by the Governmental Agency with the requirements of Securities and Exchange Commission Rule 15c2-12, as amended (the "SEC Rule") is required in connection with the Authority's Bonds, the Governmental Agency shall provide to the Authority such information as may be required by the Rule, within the time periods set out in such notice by the Authority, to enable the Authority to establish to the satisfaction of prospective purchasers of the Authority's Bonds that the requirements of the SEC Rule will be satisfied in connection with the issuance of the Authority's Bonds. The Governmental Agency further understands and agrees that the Authority shall act as the Governmental Agency's disclosure agent for purposes of compliance with the SEC Rule and that upon a failure by the Governmental Agency to provide the information required to be provided under the SEC Rule within the time frame specified in such notice, the Authority and/or the beneficial owners and holders of the Authority's Bonds shall be specifically granted the right of enforcing the provisions of this Section 6.12 by an action in mandamus, for specific performance, or similar remedy to compel performance.

ARTICLE VII

MAINTENANCE, OPERATION, INSURANCE AND CONDEMNATION

Section 7.1. Maintain System. The Governmental Agency agrees that during the entire term of this Assistance Agreement, it will keep the Project, including all appurtenances thereto, and the equipment and machinery therein, in good and sound repair and good operating condition at its own cost so that the completed Project will continue to provide the services for which the System is designed.

Section 7.2. Additions and Improvements. The Governmental Agency shall have the privilege of making additions, modifications and improvements to the sites of the Project, and to the Project itself from time to time provided that said additions, modifications and improvements do not impair the operation or objectives of the Project. The Cost of such additions, modifications and improvements shall be paid by the Governmental Agency, and the same shall be the property of the Governmental Agency and shall be included under the terms of this Assistance Agreement as part of the site of the Project, or the Project, as the case may be. Nothing herein contained shall be construed as precluding the Authority and the Governmental Agency from entering into one or more supplementary Assistance Agreements providing for an additional Loan or Loans in respect of additional Projects undertaken by the Governmental Agency.

Section 7.3. System Not to Be Disposed Of. The Governmental Agency covenants and agrees that, until satisfaction in full of its obligations hereunder, it will not, without the prior written consent of the Authority, which consent shall not be unreasonably withheld, sell, mortgage, or in any manner dispose of, or surrender control or otherwise dispose of any of the facilities of the System or any part thereof (except that the Governmental Agency may retire obsolete and worn out facilities, and sell same, if appropriate).

Section 7.4. Compliance with State and Federal Standards. The Governmental Agency agrees that it will at all times provide operation and maintenance of the Project to comply with the water quality standards, if any, established by any state or federal agency. The Governmental Agency agrees that qualified operating personnel properly certified by the Commonwealth will be retained to operate the Project during the entire term of this Assistance Agreement.

Section 7.5. Access to Records. The Governmental Agency agrees that it will permit the Authority and any state or federal agency and their respective agents to have access to the records of the Governmental Agency pertaining to the operation and maintenance of the Project at any reasonable time following completion of construction of the Project, and commencement of operations thereof.

Section 7.6. Covenant to Insure - Casualty. The Governmental Agency agrees to insure the Project facilities in such amount as like properties are similarly insured by political subdivisions similarly situated, against loss or damage of the kinds usually insured against by political subdivisions similarly situated, by means of policies issued by reputable insurance companies duly qualified to do such business in the Commonwealth.

Section 7.7. Authority as Named Insured. Any insurance policy issued pursuant to Section 7.5 hereof, shall be so written or endorsed as to make losses, if any, payable to the Governmental Agency, and to the Authority, as their interests may appear.

Section 7.8. Covenant to Insure - Liability. The Governmental Agency agrees that it will carry public liability insurance with reference to the Project with one or more reputable insurance companies duly qualified to do business in the Commonwealth, insuring against such risks (including but not limited to personal injury, death and property damage) and in such amounts as are set forth in the Project Specifics, and naming the Authority as an additional insured.

Section 7.9. Covenant Regarding Worker's Compensation. Throughout the entire term of this Assistance Agreement, the Governmental Agency shall maintain worker's compensation coverage, or cause the same to be maintained.

Section 7.10. Application of Casualty Insurance Proceeds. If, prior to the completion of the term of this Assistance Agreement, the Project shall be damaged or partially or totally destroyed by fire, windstorm or other casualty, there shall be no abatement or reduction in the amount payable by the Governmental Agency pursuant to the terms of this Assistance Agreement and the Governmental Agency will (1) promptly repair, rebuild or restore the Project damaged or destroyed; and (2) apply for such purpose so much as may be necessary of any net proceeds of insurance resulting from claims for such losses, as well as any additional moneys of the Governmental Agency necessary therefor. All net proceeds of insurance resulting from claims for such losses shall be paid to the Governmental Agency, and shall be promptly applied as herein provided.

Section 7.11. Eminent Domain. In the event that title to, or the temporary use of, the Project, or any part thereof, shall be taken under the exercise of the power of eminent domain by any governmental body or by any Person acting under governmental authority, there shall be no abatement or reduction in the minimum amounts payable by the Governmental Agency to the Authority pursuant to the terms of this Assistance Agreement, and any and all net proceeds received from any award made in such eminent domain proceedings shall be paid to and held by the Governmental Agency in a separate condemnation award account and shall be applied by the Governmental Agency in either or both of the following ways, as shall be determined by the Governmental Agency in its sole discretion:

(A) The restoration of the improvements located on the Project sites to substantially the same condition as prior to the exercise of said power of eminent domain;
or

(B) The acquisition of additional property, if necessary, and the acquisition of additional facilities by construction or otherwise, equivalent to the Project facilities, which property and facilities shall be deemed to be a part of the Project sites and a part of the Project facilities and to be substituted for Project facilities so taken by eminent domain, without the payment of any amount other than herein provided, to the same extent as if such property and facilities were specifically described herein.

Any balance of the net proceeds of the award in such eminent domain proceedings after the carrying out of the mandatory proceedings stipulated in (A) and (B) of this Section 7.11, shall be paid to the Governmental Agency upon delivery to the Authority of a certificate signed by an

authorized officer of the Governmental Agency to the effect that the Governmental Agency has complied with either subparagraph (A) or (B), or both, of this Section, and written approval of such certificate by an authorized officer of the Authority. In no event will the Governmental Agency voluntarily settle or consent to the settlement of any prospective or pending condemnation proceedings with respect to the Project or any part thereof without the written consent of the Authority.

Section 7.12. Flood Insurance. All structures located in flood prone areas shall be covered by flood insurance carried by the Governmental Agency for an amount equal to the total Project cost excluding the cost of land and any uninsurable improvements, or for the maximum limit available under the National Flood Insurance Act of 1968, as amended, whichever is less, for the entire useful life of the Project.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

Section 8.1. Events of Default Defined. The following will be "Events of Default" under this Assistance Agreement and the term "Event of Default" or "Default" will mean, whenever it is used in this Assistance Agreement, any one or more of the following events:

(A) Failure by the Governmental Agency to pay any payments specified herein at the times specified herein.

(B) Failure by the Governmental Agency to observe or perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in subsection (A) of this Section, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied will have been given to the Governmental Agency by the Authority unless the Authority agrees in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Authority will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Governmental Agency within the applicable period and diligently pursued until such failure is corrected.

(C) The dissolution or liquidation of the Governmental Agency, or the voluntary initiation by the Governmental Agency of any proceeding under any federal or state law relating to bankruptcy, insolvency, arrangement, reorganization, readjustment of debt or any other form of debtor relief, or the initiation against the Governmental Agency of any such proceeding which will remain undismissed for sixty (60) days, or the entry by the Governmental Agency into an agreement of composition with creditors or the failure generally by the Governmental Agency to pay its debts as they become due.

(D) A default by the Governmental Agency under the provisions of any agreements relating to its Debt Obligations.

Section 8.2. Remedies on Default. Whenever any Event of Default referred to in Section 8.1 has occurred and is continuing (other than an event of default arising under Section 6.13 of this Assistance Agreement), the Authority may, without any further demand or notice, take one or any combination of the following remedial steps:

(A) Declare all payments due hereunder, as set forth in the Schedule of Payments, to be immediately due and payable.

(B) Exercise all the rights and remedies of the Authority set forth in the Act.

(C) Take whatever action at law or in equity may appear necessary or desirable to enforce its rights under this Assistance Agreement.

(D) Submit a formal referral to the appropriate federal agency, as required by the Federal Agreement.

The sole remedies for an Event of Default under this Assistance Agreement arising by virtue of the failure of the Governmental Agency to comply with the provisions of Section 6.10 hereof shall be those remedies specifically set forth in Section 6.10 hereof.

Section 8.3. Appointment of Receiver. Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Authority under this Assistance Agreement, the Authority shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the System and all receipts therefrom, pending such proceedings, with such power as the court making such appointment shall confer; provided, however, that the Authority may, with or without action under this Section, pursue any available remedy to enforce the payment obligations hereunder, or to remedy any Event of Default.

Section 8.4. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive, and every such remedy will be cumulative and will be in addition to every other remedy given hereunder and every remedy now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power and any such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 8.5. Consent to Powers of Authority Under Act. The Governmental Agency hereby acknowledges to the Authority its understanding of the provisions of the Act, vesting in the Authority certain powers, rights and privileges in respect of the Project upon the occurrence of an Event of Default, and the Governmental Agency hereby covenants and agrees that if the Authority should in the future have recourse to said rights and powers, the Governmental Agency shall take no action of any nature whatsoever calculated to inhibit, nullify, void, delay or render nugatory such actions of the Authority in the due and prompt implementation of this Assistance Agreement.

Section 8.6. Waivers. In the event that any agreement contained herein should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach hereunder.

Section 8.7. Agreement to Pay Attorneys' Fees and Expenses. In the event that either party hereto will default under any of the provisions hereof and the non-defaulting party employs attorneys or incurs other expenses for the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will pay on demand therefor to the non-defaulting party the fees of such attorneys and such other expenses so incurred by the non-defaulting party.

ARTICLE IX

MISCELLANEOUS PROVISIONS

Section 9.1. Approval not to be Unreasonably Withheld. Any approval of the Authority required by this Assistance Agreement shall not be unreasonably withheld and shall be deemed to have been given on the thirtieth (30th) day following the submission of any matter requiring approval to the Authority, unless disapproved in writing prior to such thirtieth (30th) day. Any provision of this Assistance Agreement requiring the approval of the Authority or the satisfaction or the evidence of satisfaction of the Authority shall be interpreted as requiring action by an authorized officer of the Authority granting, authorizing or expressing such approval or satisfaction, as the case may be, unless such provision expressly provides otherwise.

Section 9.2. Approval. This Agreement is made subject to, and conditioned upon, the approval of this Assistance Agreement by the Secretary of the Finance and Administration Cabinet.

Section 9.3. Effective Date. This Assistance Agreement shall become effective as of the date first set forth hereinabove and shall continue in full force and effect until the date the obligations of the Governmental Agency pursuant to the provisions of this Assistance Agreement have been fully satisfied.

Section 9.4. Binding Effect. This Assistance Agreement shall be binding upon, and shall inure to the benefit of the parties hereto, and to any person, officer, board, department, agency, municipal corporation, or body politic and corporate succeeding by operation of law to the powers and duties of either of the parties hereto. This Assistance Agreement shall not be revocable by either of the parties, without the written consent of the other party.

Section 9.5. Severability. In the event that any provision of this Assistance Agreement will be held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

Section 9.6. Assignability. The rights of the Authority under this Assistance Agreement shall be assignable by the Authority without the consent of the Governmental Agency, but none of the rights, duties or obligations of the Governmental Agency under this Assistance Agreement shall be assignable by the Governmental Agency without the prior written consent of the Authority.

Section 9.7. Execution in Counterparts. This Assistance Agreement may be simultaneously executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

Section 9.8. Applicable Law. This Assistance Agreement will be governed by and construed in accordance with the laws of the Commonwealth.

Section 9.9. Captions. The captions or headings herein are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Assistance Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Assistance Agreement to be executed by their respective duly authorized officers as of the day and year above written.

ATTEST:



SECRETARY
Title: _____

KENTUCKY INFRASTRUCTURE
AUTHORITY

By: 

EXECUTIVE DIRECTOR
Title: _____

ATTEST:



Title: Secretary

GOVERNMENTAL AGENCY:
GARRISON-QUINCY-KY-O-HEIGHTS
WATER DISTRICT

By: 

Title: Chairman

APPROVED:



SECRETARY/FINANCE AND
ADMINISTRATION CABINET OF THE
COMMONWEALTH OF KENTUCKY

EXAMINED:



Division of Insurance + SLL WP
LEGAL COUNSEL TO THE
KENTUCKY INFRASTRUCTURE
AUTHORITY

APPROVED AS TO FORM AND LEGALITY



APPROVED
FINANCE AND ADMINISTRATION CABINET

1987 Bond Resolution
SERIES A &
SERIES B

BOND RESOLUTION

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT

WATERWORKS REVENUE BONDS OF 1987

IN THE AMOUNT OF

\$300,000

CONSISTING OF

\$250,000 OF SERIES A BONDS

AND

\$50,000 OF SERIES B BONDS

GARRISON-QUINCY-KY-O-HEIGHTS
WATER DISTRICT

GARRISON-QUINCY-KY-O-HEIGHTS
FOR WATER DISTRICT

P.S.C. Ky. No. 9658

ORIGINAL Sheet No.

Cancelling P.S.C. Ky. No. 3

Sheet No.

RULES AND REGULATIONS

- A. All taps and connections to the mains of the District shall be made by and/or under the direction and supervision of District personnel.
- B. Water service may be discontinued by the District for, upon 10 days' written notice (except that in the event of a violation under Item 7 below, water service may be terminated immediately), any violation of any rule, regulation, or condition, and especially for any of the following reasons:
 - 1. Misrepresentation in the application or contract as to the property or fixtures to be supplied or additional use to be made of water.
 - 2. Failure to report to the District additions to the property or fixtures to be supplied or additional use to be made of water.
 - 3. Resale of water.
 - 4. Waste or misuse of water due to improper or imperfect service pipes and/or failure to keep such pipes in a suitable state of repair.
 - 5. Tampering with meter, meter seal, service, or valves, or permitting such tampering by others.
 - 6. Connection, cross-connection, or permitting the same, of any separate water supply to premises which receive water from the District.

DATE OF ISSUE APRIL 22, 1987
Month Day Year

DATE EFFECTIVE APRIL 22, 1987
Month Day Year

ISSUED BY
Name of Officer

CHAIRMAN
Title

Address

P.S.C. Ky. No. 9658

ORIGINAL Sheet No. 4

Cancelling P.S.C. Ky. No. _____

Sheet No. _____

GARRISON-QUINCY-KY-0-HEIGHTS
WATER DISTRICT

RULES AND REGULATIONS

7. When a dangerous condition is found to exist on the customer's or applicant's premises, with reference to the continuation of water service, water service shall be cut off without notice or shall be refused, provided the District shall notify the customer or applicant immediately of the reasons for the discontinuance or refusal and the correction action to be taken by the applicant or customer before service can be restored.
- C. Any customer desiring to discontinue the water service to his premises for any reason must give notice of discontinuance in person or in writing at the business office of the District at least three (3) days prior to the date on which the customer desires to discontinue service, and the customer shall not be liable for water consumed beyond the date of discontinuance stated in such notice; if such notice in person or in writing is not given, a customer shall remain liable for all water used and service rendered to such premises by the District until such notice is received by the District.
- D. Bills and notices relating to the conduct of the business of the District will be mailed to the customer at the address listed on the user's agreement unless a change of address has been filed in writing with the District; and the District shall not otherwise be responsible for delivery of any bill or notice nor will the customer be excused from the payment of any bill or any performance required in said notice.
- E. 1. Bills for water service are due and payable at the office of the District, or to any designated agent, on the date of issue. The past due date shall be the tenth day after the date of issue. Bills will be dated and mailed on the first day of each month.

DATE OF ISSUE APRIL 22, 1987
Month Day YearDATE EFFECTIVE APRIL 22, 1987
Month Day YearISSUED BY
Name of OfficerCHAIRMAN
Title

Address

P.S.C. Ky. No 9658

original Sheet No. 5

Cancelling P.S.C. Ky. No. _____

Sheet No. _____

GARRISON- QUINCY-KY-O-HEIGHTS
WATER DISTRICT

RULES AND REGULATIONS

- 2. All bills not paid on or before the past due date shall be deemed delinquent. When a bill has been delinquent for a period of twenty days, the District shall serve a customer a written final notice of said delinquency, and of the intent of the District to discontinue service ten days after the date of such notice unless such bill is paid prior to the expiration of such ten days. If a delinquent bill is not paid within ten days after date of such final notice (thirty days from the past due date), the water supply to the customer may be discontinued without further notice; provided, however, if, prior to discontinuance of service, there is delivered to the District, or to its employee empowered to discontinue service, a written certificate signed by a physician, a registered nurse, or a public health officer that, in the opinion of the certifier, discontinuance of service will aggravate an existing illness or infirmity on the affected premises, service shall not be discontinued until the affected resident can make other living arrangements or until ten (10) days elapse from the time of the District's receipt of said certification, whichever occurs first.

- F. Where the water supply to the customer has been discontinued for non-payment of delinquent bills, a charge of \$25.00 will be made for reconnection of water service, but the reconnection will not be made until all delinquent bills and other charges, if any, owed by the customer to the District have been paid.

- G. The District reserves the right to request that a nominal amount be placed on deposit with the District for the purpose of establishing or maintaining any customer's credit, such amount not to exceed two-twelfths (2/12) of the estimated annual bill of such customer. Upon the payment of such

DATE OF ISSUE APRIL 22, 1987
Month Day Year

DATE EFFECTIVE APRIL 22, 1987
Month Day Year

ISSUED BY _____ CHAIRMAN
Name of Officer Title Address

P.S.C. Ky. No. 9658ORIGINAL Sheet No. 6

Cancelling P.S.C. Ky. No. _____

Sheet No. _____

GARRISON-QUINCY-KY-O-HEIGHTS
WATER DISTRICT

RULES AND REGULATIONS

deposit, the District shall issue to such customer a certificate of deposit, showing the name of the customer, the location of the initial premises occupied by the customer, and the date and amount of the deposit. The District will pay to such customer interest on such deposit at the rate of six percent (6%) per annum, until such deposit is reimbursed to the customer.

- H. All meters shall be installed, renewed, and maintained at the expense of the District, and the District reserves the right to determine the size and type of meter used.
- I. It shall be the policy of the District to test each water meter at least once every five years. In addition, upon written request of any customer, the meter serving such customer shall be tested by the District. Such test will be made without charge to the customer if the meter has not been tested within 12 months preceding the requested test; otherwise, a charge of \$15.00 will be made and then only if the test indicates meter accuracy within the limits of 2%.

If a meter is inaccurate in excess of 2%, whether upon periodic testing or upon requested testing, additional tests shall be made at once to determine the average error of the meter, and the adjustments shall be made in the customer's water bills as follows:

1. If the result of such tests shows an average error greater than 2% fast, the customer's bill for the period during which the meter error is known to have existed, shall be recomputed and the account adjusted on the basis of the test. If the period during which the meter error existed cannot be determined, then the customer's bill shall be recomputed for one-half (1/2) of the elapsed time since the last previous test, but in no event to exceed 12 months; provided, however, that if time for the periodic test has

DATE OF ISSUE APRIL 22, 1987
Month Day YearDATE EFFECTIVE APRIL 22, 1987
Month Day YearISSUED BY _____
Name of OfficerCHAIRMAN
Title

Address

P.S.C. Ky. No. 9658

ORIGINAL Sheet No. 7

Cancelling P.S.C. Ky. No.

Sheet No.

GARRISON-QUINCY-KY-O-HEIGHTS
WATER DISTRICT

RULES AND REGULATIONS

overrun to the extent that 1/2 of the time elapsed since the last previous test exceeds 12 months, the refund shall be for the 12 months specified above, plus those months exceeding the periodic test period; provided, further, that such refund may be limited to the 12 month period if failure to make the periodic test was due to causes beyond the control of the District.

- 2. If the result of such tests shows an average error greater than 2% slow, the customer's bill for the period during which the meter error is known to have existed, shall be recomputed and the account adjusted on the basis of the test. If the period during which the meter error existed cannot be determined, then the customer's bill shall be recomputed for one-half (1/2) of the elapsed time since the last previous test, but in no event to exceed 12 months.
- 3. If the result of such tests necessitates making a refund or back billing a customer, the customer shall be notified in writing of the percentage of error, fast or slow, the date(s) of testing, and the amount of charge or credit to be shown on the next bill of the customer.
- J. Where a meter has ceased to register, or meter reading could not be obtained, the quantity of water consumed will be based upon an average of the prior six months consumption and the conditions of water service prevailing during the period in which the meter failed to register.
- K. The District shall make all reasonable efforts to eliminate interruption of service and when such interruptions occur will endeavor to reestablish service with the shortest possible delay. When the service is interrupted all consumers affected by such interruption will be notified in advance whenever it is possible to do so.

DATE OF ISSUE APRIL 22, 1987
Month Day Year

DATE EFFECTIVE APRIL 22, 1987
Month Day Year

ISSUED BY CHAIRMAN
Name of Officer Title Address

P.S.C. Ky. No. 9658

ORIGINAL Sheet No. 8

Cancelling P.S.C. Ky. No.

Sheet No.

GARRISON-QUINCY-KY-O-HEIGHTS
WATER DISTRICT

RULES AND REGULATIONS

- L. The District shall in no event be held responsible for any claim made against it by reason of the breaking of any mains or service pipes or by reason of any other interruption of the supply of water caused by the failure of machinery or stoppage for necessary repairs. No person shall be entitled to damages nor for any portion of a payment refunded for any interruption of service which in the opinion of the District may be deemed necessary.
- M. Customers having boilers and/or pressure vessels receiving a supply of water from the District must have a check valve on the water supply line and a vacuum valve on the stream line to prevent collapse in case the water supply from the District is discontinued or interrupted for any reason, with or without notice.
- N. The premises receiving a supply of water and all service lines, meters and fixtures, including any fixtures within said premises, shall at all reasonable hours be subject to inspection by the District.
- O. Piping on the premises of a customer must be so installed that connections are conveniently located with respect to the District lines and mains. The customer shall provide a place for metering which is unobstructed and accessible at all times.
- P. 1. An extension of fifty (50) feet or less to the District's distribution main shall be made without charge (other than the prescribed standard connection charge) for a prospective customer who shall apply for and contract to use service for one (1) year or more and who provides a guarantee for such service.

DATE OF ISSUE APRIL 22, 1987
Month Day Year

DATE EFFECTIVE APRIL 22, 1987
Month Day Year

ISSUED BY	CHAIRMAN	
Name of Officer	Title	Address

P.S.C. Ky. No. 965bORIGINAL Sheet No. 9

Cancelling P.S.C. Ky. No. _____

Sheet No. _____

GARRISON-QUINCY-KY-C-HEIGHTS
WATER DISTRICT

RULES AND REGULATIONS

2. For each extension to the District's distribution main in excess of fifty (50) feet, the District shall require the customer to whose premises such extension is made to deposit with the District the total cost of the excessive footage over fifty (50) feet, based on the average estimated cost per foot of the total extension. Such deposit may be refundable to the customer in certain instances, in accordance with Title 807 KAR 5:066, Section 12(2)(b).
- Q. If any loss or damage to the property of the District or any accident or other injury to persons or property is caused by or results from the negligence or wrongful action of the customer, member of his household, his agent, or employee, as determined by a court of law having jurisdiction over the parties, the cost of the necessary repairs or replacements shall be paid by the customer to the District, and any liability otherwise resulting shall be that of the customer.
- R. Water furnished by the District may be used for domestic consumption by the customer, member of his household, and employees only. The customer shall not sell the water to any other person.
- S. All customers shall grant or convey, or shall cause to be granted or conveyed, to the District a perpetual easement and right of way across any property owned or controlled by the customer wherever said easement or right of way is necessary for the District water facilities and lines so as to be able to furnish service to the customer.
- T. Complaints may be made to the operator of the system whose decision may be appealed to the Commission of the District within ten days; otherwise, the operator's decision will be final.

DATE OF ISSUE APRIL 22, 1987
Month Day YearDATE EFFECTIVE APRIL 22, 1987
Month Day YearISSUED BY _____
Name of OfficerCHAIRMAN
Title

Address

TRANSCRIPT OF PROCEEDINGS

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT WATERWORKS
REVENUE BONDS OF 1987, IN THE AMOUNT OF \$300,000,
CONSISTING OF \$250,000 OF SERIES A BONDS AND
\$50,000 OF SERIES B BONDS

DATED FEBRUARY 23, 1988

IN THE AMOUNT OF \$300,000

TRANSCRIPT OF PROCEEDINGS INDEX

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT WATERWORKS REVENUE BONDS OF 1987, IN THE AMOUNT OF \$300,000, CONSISTING OF \$250,000 OF SERIES A BONDS AND \$50,000 OF SERIES B BONDS, DATED FEBRUARY 23, 1988, IN THE AMOUNT OF \$300,000

PRE-FINANCING PROCEEDINGS

A. Creation of Garrison-Quincy-Ky-O-Heights Water District

1. Order Creating Garrison-Quincy-Ky-O-Heights Water District.
2. Order appointing Commissioners, fixing and approving surety bonds, and administering oaths of office.
3. Supplemental proceedings for annexation, ratification, proceedings, reappointment of Commissioners, Minutes, ordinances, and affidavits of publication as to consents of Cities included in the Garrison-Quincy-Ky-O-Heights Water District.
4. Minutes of Meeting of Garrison-Quincy-Ky-O-Heights Water District Commissioners electing Chairman, Secretary, and Treasurer.
5. Minutes fixing time and place of regular meetings. Affidavit of publication of time and place of regular meetings.
6. Opinion on Due Incorporation and Continued Existence of Water District.

B. Employment Agreements

7. Engineering employment requirements:
 - (a) Agreement for Engineering Services.
 - (b) Minutes and Resolution of Commission approving same.
 - (c) Certificate and Opinion as to Legal Sufficiency of Engineers' Contract.
8. Attorneys' employment requirements:
 - (a) Legal Services Agreement of Bond Counsel.
 - (b) Legal Services Agreement of Local Counsel.
 - (c) Minutes and Resolution of Commission approving Legal Services Agreements.

C. Farmers Home Administration Conditions,
Grant Documentation, and Interim Financing

9. FmHA Letter of Conditions.
10. Resolutions approving FmHA Grant.
11. Letter of Citizens Deposit Bank & Trust, Vanceburg, Kentucky, as to Commitment for Interim Financing.

D. Easements, Rights of Way, and Permits

12. Letters of Engineers and/or Department for Natural Resources and Environmental Protection as to the following:
 - (a) Approving plans and specifications.
 - (b) Construction Permit.
 - (c) That the waterworks system will not excessively pollute the water of the State.
13. Railroad and Easement Items:
 - (a) Letter of Engineers certifying no railroad crossing.
 - (b) Letter of Engineers certifying no highway easements.

E. Construction Documentation

14. Engineering Report.
15. Construction Bids and Awards:
 - (a) Affidavit of Publication of Advertisement.
 - (b) Opinion of Counsel Relative to Advertising for Construction Bids, Award of Contracts, and Execution Thereof.

F. Public Service Commission Documentation

16. Public Service Commission:
 - (a) Petition for Approval.
 - (b) Order granting Certificate of Public Convenience and Necessity.

G. Outstanding Bonds

17. Proceedings authorizing previous bonds and legal opinion as to same, where applicable.

PROCEEDINGS AUTHORIZING BONDS

18. Minutes of Meeting of the Commission of the Garrison-Quincy-Ky-0-Heights Water District, adopting and approving:
 - (a) Bond Resolution (including interim financing authorization).
 - (b) By-Laws, Rules, and Regulations.
 - (c) Rate Resolution.
 - (d) Notice of Bond Sale.
 - (e) Official Notice of Sale of Bonds.
 - (f) Statement of Essential Facts.
 - (g) Bid Form.
 - (h) Notice of Adoption of Resolution (Chapter 106 Bonds).
19. Bond Resolution.
20. By-Laws, Rules, and Regulations.
21. Amended Waterworks Rate Resolution.
22. Notice of Bond Sale.
23. Official Notice of Sale of Bonds.
24. Statement of Essential Facts.
25. Bid Form.
26. Affidavits of Publication:
 - (a) Notice of Adoption of Bond Resolution (Chapter 106 Bonds).
 - (b) Rate Resolution.
 - (c) Notice of Bond Sale:
 - (1) in Local Newspaper.
 - (2) in THE COURIER-JOURNAL.
27. Bid of FmHA.
28. Minutes of the Commission of the Water District adopting Resolution accepting successful bid of the FmHA for the purchase of the Bonds.
29. Letter of State Local Finance Officer of Kentucky as to compliance with KRS 66.045.

PRE-CLOSING PROCEEDINGS
(May 14, 1987)

A. District Certifications

30. Operating and Management Plan.
31. Certificate of Secretary as to Expiration of Twenty Days.
32. Certificate of Secretary as to Treatment Plant Operator.
33. Certificate as to Number of Signed Water Users.
34. Certificate as to Official Seal, Incumbency, and Signature Identification.
35. Certificate of No Litigation and of Outstanding Bond Issues.
36. Certificate as to Outstanding Bonds.

B. Engineer Certifications

37. Certificate of Engineers (For Purpose of Pre-Closing).

C. Farmers Home Administration Certifications and Forms

38. Certificate of Bondowner as to Issuance of the Garrison-Quincy-Ky-0-Heights Water District Waterworks Revenue Bonds of 1987, in the amount of \$300,000, consisting of \$250,000 of Series A Bonds and \$50,000 of Series B Bonds Ranking on a Parity with Other Bonds of the District.
39. Certificate of FmHA as to Insurance and Bonding.
40. FmHA Forms as follows:
 - (a) 400-1, Equal Opportunity Agreement.
 - (b) 400-3, Notice to Contractors and Applicant.
 - (c) 400-4, Assurance Agreement.
 - (d) 400-8, Compliance Review.
 - (e) 427-9, Preliminary Title Opinion as to each site.
 - (f) 442-3, Balance Sheet.
 - (g) 442-7, Operating Budget.
 - (h) 442-21, Right of Way Certificate.
 - (i) 442-22, Opinion of Counsel Relative to Rights of Way.
 - (j) 442-47, Loan Resolution.
 - (k) 1942-31, Grant Agreement.

D. Insurance and Miscellaneous Documentation

41. Evidence of the following:
 - (a) Execution of Fidelity Bond of Treasurer.
 - (b) Insurance on Project.
 - (c) Signing of color-coded map.
 - (d) Compliance with Bond Counsel's list of closing requirements.
 - (e) That Project is consistent with zoning laws and comprehensive area water plan (established in Title Opinion).
 - (f) Expenditures to date.
42. Certificate as to Signatures.
43. Requisition Certificates:
 - (a) Requisition Certificate for Construction Costs.
 - (b) Requisition Certificate for Administrative Costs.

E. Opinions

44. Title Opinion (For Purposes of Pre-Closing).
45. Opinion of Bond Counsel as to Interim Financing.

F. Pre-Closing Documentation and Bond Anticipation Note Specimen

46. Bond Anticipation Note Specimen.
47. Memo as to Pre-Closing.
48. IRS Form 8038-G.
49. List of Signatures of Persons Attending Pre-Closing.

CLOSING

A. District Certifications

50. Certificate as to Official Seal, Incumbency, and Signature Identification.
51. Certificate of Execution, No Litigation, and Outstanding Bond Issues.
52. No Arbitrage Certificate.
53. Certificate of Receipt of Bond Proceeds and Bond Delivery.
54. Certificate of Receipt of FmHA Grant Proceeds as of Date of Bond Closing.

B. Engineer Certifications

55. Certificate of Engineers.
56. Statement as to Cost Analysis and Funding of the Project.
57. Certificate as to List of Contractors.
58. Supplemental Certificate of Engineers.

C. Insurance and Miscellaneous Documentation

59. Evidence of the Following:
 - (a) Execution of Fidelity Bond of Treasurer.
 - (b) Insurance on Project.
 - (c) That Project is consistent with zoning laws and comprehensive area water plan (established in Final Title Opinion).
 - (d) Bond dated (three places) and signed (two places by Secretary, one place by Chairman, and one place by Bond Counsel).
60. Certificate of FmHA as to Insurance and Bonding.
61. Letter and other documents evidencing pledge of collateral by Bank.
62. Letters of Attorneys, Engineers, and Contractors as to payments being made to date according to contracts and amounts stipulated.
63. Letter of Bank as to amount owed at time of closing, with receipt for amount paid at time of closing.

D. Opinions

64. Final Title Opinion.
65. Approving Legal Opinion of Bond Counsel for Series A Bond.
66. Approving Legal Opinion of Bond Counsel for Series B Bond.

E. Closing Documentation and Bond Specimen

67. Series A Bond Specimen and Certificate as to printing of Bond in accordance with FmHA requirements.
68. Series B Bond Specimen and Certificate as to printing of Bond in accordance with FmHA requirements.
69. Compliance with and Signing of FmHA closing instructions.

70. Memo as to Closing.
71. IRS Form 8038-G.
72. List of Signatures of Persons Attending Closing.

BOND RESOLUTION

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT

AUTHORIZING

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
WATERWORKS REVENUE BONDS, SERIES 1996

IN THE AMOUNT OF

\$295,000

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BOND RESOLUTION

RESOLUTION OF THE GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT OF LEWIS COUNTY, KENTUCKY, AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$295,000 PRINCIPAL AMOUNT OF GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 1996 FOR THE PURPOSE OF FINANCING THE COST (NOT OTHERWISE PROVIDED) OF THE CONSTRUCTION OF EXTENSIONS, ADDITIONS AND IMPROVEMENTS TO THE EXISTING WATERWORKS SYSTEM OF SAID DISTRICT; SETTING FORTH TERMS AND CONDITIONS UPON WHICH SAID BONDS MAY BE ISSUED AND OUTSTANDING; PROVIDING FOR THE COLLECTION, SEGREGATION AND DISTRIBUTION OF THE REVENUES OF SAID WATERWORKS SYSTEM; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF SAID BONDS.

WHEREAS, the waterworks system (the "System") of the Garrison-Quincy-Ky-O-Heights Water District (the "District") is owned and operated by said District pursuant to Chapters 58 and 74 of the Kentucky Revised Statutes (the "Act"), and

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

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

WHEREAS, it is the desire and intent of the District at this time to authorize and provide for the issuance of revenue bonds in the principal amount of \$295,000 (the "Current Bonds"), for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the System of the District, in accordance with plans and specifications prepared by Haworth, Meyer & Boleyn, Inc. and to prescribe the covenants of the District, the rights of Bondowners and the details of the issuance and sale of the proposed Current Bonds, and

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

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

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

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

WHEREAS, the proceeds of the Current Bonds will be supplemented by Grant Proceeds (as hereinafter defined) in the amount of approximately \$515,000, and by connection charges in the amount of at least \$49,000, to provide the total cost of such construction,

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF THE GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT OF LEWIS COUNTY, KENTUCKY, AS FOLLOWS:

**ARTICLE 1. DEFINITIONS; PURPOSE; AUTHORIZATION OF BONDS;
SECURITY.**

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

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

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

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

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

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

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

"Bonds of 1966" or "Series 1966 Bonds" refer to the outstanding Garrison-Quincy-Ky-O-Heights Water District Waterworks System Revenue Bonds, dated November 15, 1966, in the original authorized principal amount of \$240,000.

"Bonds of 1987" or "Series 1987 Bonds" refer to the outstanding Garrison-Quincy-Ky-O-Heights Water District Waterworks Revenue Bonds of 1987, dated February 23, 1988, in the original authorized principal amount of \$300,000.

"Bond Resolution of 1966" or "1966 Bond Resolution" refer to the Resolution authorizing the Bonds of 1966, duly adopted by the Board of Commissioners of the District on February 8, 1966.

"Bond Resolution of 1987" or "1987 Bond Resolution" refer to the Resolution authorizing the Bonds of 1987, duly adopted by the Board of Commissioners of the District on April 22, 1987.

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

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

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

"*Construction Account*" refers to the Garrison-Quincy-Ky-O-Heights Water District Construction Account, created in Section 301(B) of this Current Bond Resolution.

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

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

"*Current Bonds*" refers to the \$295,000 of Garrison-Quincy-Ky-O-Heights Water District Waterworks Revenue Bonds, Series 1996 authorized by this Resolution, to be dated as of the date of issuance thereof.

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

"*Depreciation Fund*" refers to the Garrison-Quincy-Ky-O-Heights Water District Depreciation Fund, described in Section 402 of this Resolution.

"*District*" refers to the Garrison-Quincy-Ky-O-Heights Water District of Lewis County, Kentucky.

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

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

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

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

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

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

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

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

"Interim Lender" refers to Kentucky Rural Water Finance Corporation, Bowling Green, Kentucky, its successors or assigns; or any other financial institution or governmental agency approved by the District.

"Local Counsel" refers to Stanley and Bertram, P.S.C., Vanceburg, Kentucky, or any other attorney or firm of attorneys designated by the District.

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

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

"Operation and Maintenance Fund" refers to the Garrison-Quincy-Ky-O-Heights Water District Operation and Maintenance Fund described in Section 401 of this Resolution.

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

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

"Prior Bonds" refers collectively to the Series 1966 Bonds and the Series 1987 Bonds.

"Prior Bond Resolution" refers collectively to the 1966 Bond Resolution and the 1987 Bond Resolution.

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

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

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

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

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

"Revenue Fund" refers to the Garrison-Quincy-Ky-O-Heights Water District Water Revenue Fund, described in Section 401 of this Resolution.

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

"Sinking Fund" refers to the Garrison-Quincy-Ky-O-Heights Water District Waterworks Bond and Interest Sinking Fund, described in Section 401 of this Resolution.

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

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

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

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

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

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

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

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

Section 105. Authorization of Bonds. The District has heretofore determined that the total cost of the Project, including preliminary expenses, land and rights-of-way, engineering expense, capitalized interest during construction, legal and administrative costs, publication costs, initial deposits required and all incidental expenses, will not exceed \$859,000. Therefore, it is hereby determined to be necessary in order for the District to finance the cost (not otherwise provided) of the Project that the District issue a total of \$295,000 of Current Bonds, based on the following calculation:

Total cost of Project		\$859,000
Less:		
RECD Grant	\$290,000	
ARC Grant	225,000	
Connection Charges	<u>49,000</u>	
Total Non-Bond Funds:		<u>(\$64,000)</u>
Balance to be financed by Current Bonds		\$295,000

Accordingly, for the purpose of financing the cost (not otherwise provided) of the Project, under the provisions of the Act, there is hereby authorized to be issued and sold \$295,000 principal amount of Garrison-Quincy-Ky-O-Heights Water District Waterworks Revenue Bonds, Series 1996.

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

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

Section 106. Recognition of Prior Bonds. The District hereby expressly recognizes and acknowledges that the District has previously created for the benefit and protection of the owners

of the Prior Bonds, a certain lien and pledge and certain security rights relating to the System, all as set forth in the Prior Bonds and in the Prior Bond Resolution.

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

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

ARTICLE 2. THE BONDS; BOND FORM; PREPAYMENT.

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

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

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

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

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

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

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

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

Section 301. Construction Account; Application of Proceeds of Bonds; Other Transfers and Deposits. The Treasurer, or such other District official as shall be designated by the Commission, shall be the custodian of all funds belonging to and associated with the System. All moneys in excess of the amount insured by the FDIC in the Construction Account shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The officials of the District entrusted with the receipt and disbursement of revenues of the System and the custody of valuable property shall be covered by a fidelity bond in the amount of not less than \$49,000 (the "Fidelity Bond"), or such larger amount as the RECD may require, which Fidelity Bond shall be effective and secured by a surety company approved by the RECD so long as it is owner of any of the Current Bonds. The RECD and the District shall be named co-obligees in such Fidelity Bond and the amount thereof shall not be reduced without the written consent of the RECD. Whenever sums in the Funds shall exceed \$49,000, the Fidelity Bond shall be increased accordingly as requested by and with the approval of the RECD.

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

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

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

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

Grant Proceeds. Simultaneously with or prior to the delivery of the Current Bonds, there shall also be deposited in the Construction Account the proceeds of the District contribution in the minimum amount of \$49,000 (less any amounts theretofore used for authorized purposes), to supplement the proceeds of the Current Bonds and Grant Proceeds in order to assure completion of the Project.

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

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

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

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

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

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

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

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

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

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

Section 302. Interim Financing Authorization.

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

The borrowing of up to the aggregate sum of \$295,000 from the Interim Lender is hereby authorized; and the Chairman is hereby authorized to execute the Note in the name and on behalf of the District. Each advance under the Note shall evidence a loan by the Interim

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

Interim financing shall be disbursed as follows:

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

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

The aggregate of the principal amount of all Notes shall not exceed \$295,000. Each Note which is renewed or superseded shall be simultaneously cancelled by the Interim Lender and transmitted to the Treasurer. The rate of interest applicable to each Note shall not exceed a reasonable rate, which rate is subject to the approval of the RECD.

The total authorized interim financing of \$295,000 shall be the maximum indebtedness which the District may owe at any one time to the Interim Lender for the purpose of providing temporary construction financing for the Project; provided, however, that the District may reduce the amount owed by the District to the Interim Lender from time to time as and when funds are available to the District, whether derived from the proceeds of the Grant Proceeds, the proceeds of the sale of the Current Bonds or otherwise, and may reborrow from the Interim Lender additional amounts in anticipation of the further receipt by the District of additional proceeds from the Current Bonds and/or Grant Proceeds.

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

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

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

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

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

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

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

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

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

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

ARTICLE 4. FLOW OF FUNDS.

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

- (a) Garrison-Quincy-Ky-O-Heights Water District Water Revenue Fund
- (b) Garrison-Quincy-Ky-O-Heights Water District Waterworks Bond and Interest Sinking Fund
- (c) Garrison-Quincy-Ky-O-Heights Water District Depreciation Fund
- (d) Garrison-Quincy-Ky-O-Heights Water District Operation and Maintenance Fund.

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

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

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

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

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

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

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

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

C. Depreciation Fund. Pursuant to the provisions of the Prior Bond Resolution which requires that an adjustment be made in the Depreciation Fund upon the issuance of bonds ranking on a parity with the Prior Bonds, it is hereby determined that upon the issuance of the Current Bonds, and upon completion of the Project, as certified by the Engineers and by the RECD, there shall next be transferred from the Revenue Fund the sum of at least \$543 (increased from \$403) each month which shall be deposited into the Depreciation Fund until there is accumulated in such Depreciation Fund the sum of at least \$61,160 (increased from \$48,360), which amount shall be maintained, and when necessary, restored to said sum of \$61,160, so long as any of the Bonds are outstanding and unpaid.

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

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

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

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

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

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

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

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

All monies held in any of the Funds shall be kept apart from all other District funds and shall be deposited in the Depository Bank, and all such deposits which cause the aggregate of all deposits of the District therein to be in excess of the amount secured by FDIC,

shall (unless invested as herein authorized) be secured by a surety bond or bonds or by a pledge of U.S. Obligations, having a market value equivalent to such deposit.

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

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

The holder of this Bond has consented to the issuance of \$295,000 of Garrison-Quincy-Ky-O-Heights Water District Waterworks Revenue Bonds, Series 1996 ranking on a parity as to security and source of payment with this Bond.

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

ARTICLE 5. COVENANTS OF DISTRICT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE 6. INFERIOR BONDS AND PARITY BONDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE 7. DEFAULT AND CONSEQUENCES

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

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

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

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

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

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

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

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

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

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

Section 804. Approval and Acceptance of RECD Grant Agreement. The RECD has agreed to make a grant to the District in the amount of \$290,000 (the "RECD Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the RECD has requested the District to approve, accept and execute RECD Form 1942-31 (the "RECD Grant Agreement"), setting out the terms and conditions upon which said RECD Grant will be made. Said RECD Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said RECD Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other RECD Grants offered to the District in connection with the Project and to execute any and all RECD Grant Agreements and any other documents as may be requested by the RECD in connection with RECD Grants which have been and/or which may hereafter be approved for such Project.

Section 805. Approval and Acceptance of ARC Grant Agreement. The Appalachian Regional Commission (the "ARC") has agreed to make a grant to the District in the amount of \$225,000 (the "ARC Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the ARC has requested the District to approve, accept and execute a certain ARC Grant Agreement (the "ARC Grant Agreement"), setting out the terms and conditions upon which said ARC Grant will be made. Said ARC Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said ARC Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other ARC Grants offered to the District in connection with the Project and to execute any and all ARC Grant Agreements and any other documents as may be requested by the ARC in connection with ARC Grants which have been and/or which may hereafter be approved for such Project.

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

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

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

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

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

ARTICLE 9. SALE OF CURRENT BONDS

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

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

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

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

ARTICLE 10. CONCLUDING PROVISIONS

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

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

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

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

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

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

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

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

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

Adopted this August 5, 1996.

GARRISON-QUINCY-KY-O-HEIGHTS
WATER DISTRICT


Chairman

(Seal of District)

Attest:


Secretary

CERTIFICATION

I, Richard Christy, hereby certify that I am the duly qualified and acting Secretary of the Garrison-Quincy-Ky-O-Heights Water District of Lewis County, 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 August 5, 1996, as shown by the official records of said District in my custody and under my control.

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

IN TESTIMONY WHEREOF, witness my signature as Secretary and the official Seal of the District this August 5, 1996.


Secretary

(Seal of District)

EXHIBIT A

Schedule of Principal Payments

<u>Payment Due</u> <u>January 1,</u>	<u>Principal</u> <u>Payment</u>	<u>Payment Due</u> <u>January 1,</u>	<u>Principal</u> <u>Payment</u>
1999	3,000	2019	7,500
2000	3,000	2020	7,500
2001	3,500	2021	8,000
2002	3,500	2022	8,500
2003	3,500	2023	8,500
2004	4,000	2024	9,500
2005	4,000	2025	9,500
2006	4,000	2026	10,000
2007	4,500	2027	10,500
2008	4,500	2028	11,000
2009	5,000	2029	11,500
2010	5,000	2030	12,000
2011	5,000	2031	12,500
2012	5,500	2032	13,000
2013	5,500	2033	14,000
2014	6,000	2034	15,000
2015	6,000	2035	15,500
2016	6,500	2036	15,500
2017	6,500		
2018	7,000		

EXHIBIT B

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
COUNTY OF LEWIS
GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
WATERWORKS REVENUE BONDS, SERIES 1996

No. R- _____ Interest Rate: _____ % \$ _____

KNOW ALL MEN BY THESE PRESENTS:

That the Garrison-Quincy-Ky-O-Heights Water District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Lewis County, Kentucky, for value received, hereby promises to pay to

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

_____ DOLLARS (\$ _____),

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

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
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[Here the printer of the Current Bond will print the maturities of the Current Bonds purchased by the registered Owner]

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

This Bond is issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 58 and 74 of the Kentucky

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with this Bond in order to complete the Project, and to finance

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

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

This Bond is issued on a parity as to security and source of payment with the outstanding Garrison-Quincy-Ky-O-Heights Water District Waterworks System Revenue Bonds, dated November 15, 1966 (the "Bonds of 1966"), authorized by an Resolution enacted by the Commission of the District on February 8, 1966 (the "1966 Bond Resolution"); and the outstanding Garrison-Quincy-Ky-O-Heights Water District Waterworks Revenue Bonds of 1987, dated February 23, 1988 (the "Bonds of 1987"), authorized by an Resolution enacted by the Commission of the District on April 22, 1987 (the "1987 Bond Resolution"); [hereinafter the Bonds of 1966 and Bonds of 1987 shall be collectively referred to as the "Prior Bonds", and the "Prior Bond Resolution"]. Accordingly, this Bond, together with any bonds ranking on a parity herewith, is payable from and secured on a first lien basis by a pledge of the gross revenues to be derived from the operation of the System, after providing for the requirements of the Prior Bonds and the requirements of the Prior Bond Resolution.

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

future extensions, additions and improvements to the System, provided the necessary requirements of the Current Bond Resolution have been complied with by the District.

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

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

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

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

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

IN WITNESS WHEREOF said Garrison-Quincy-Ky-O-Heights 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

GARRISON-QUINCY-KY-O-HEIGHTS
WATER DISTRICT
Lewis County, Kentucky

By _____
Chairman

Attest:

Secretary

(Seal of District)

PROVISION FOR REGISTRATION

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

ASSIGNMENT

Date of Registration	Name of Registered Owner	Signature of Bond Registrar

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

By: _____

EXHIBIT C

REQUISITION CERTIFICATE

Re: Garrison-Quincy-Ky-O-Heights Water District Waterworks Revenue Bonds, Series 1996

The undersigned hereby certify as follows:

1. That they are the signatories required for construction and/or administrative draws pursuant to the Bond Resolution adopted by the Garrison-Quincy-Ky-O-Heights Water District (the "District") of Lewis County, Kentucky.

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

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

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

IN TESTIMONY WHEREOF, witness the signature of the undersigned, this ____ day of _____, 19____.

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT, KENTUCKY

HAWORTH, MEYER & BOLEYN, INC.

By _____ Chairman

By _____ Registered Professional Engineer State of Kentucky No. _____

Approved on _____

Approved on _____

Rural Economic and Community Development

Amount expended heretofore \$ _____

By _____ Authorized RECD Official

Amount approved herein _____

Total _____

Approved on _____

EXHIBIT A TO REQUISITION CERTIFICATE

Name of Entity/Person

Amount

BOND RESOLUTION

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT

AUTHORIZING

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT WATERWORKS
REVENUE BONDS, SERIES 2002

IN THE AMOUNT OF

\$356,000

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BOND RESOLUTION

RESOLUTION OF THE GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT OF LEWIS COUNTY, KENTUCKY, AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$356,000 PRINCIPAL AMOUNT OF GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 2002 FOR THE PURPOSE OF FINANCING THE COST (NOT OTHERWISE PROVIDED) OF THE CONSTRUCTION OF EXTENSIONS, ADDITIONS AND IMPROVEMENTS TO THE EXISTING WATERWORKS SYSTEM OF SAID DISTRICT; SETTING FORTH TERMS AND CONDITIONS UPON WHICH SAID BONDS MAY BE ISSUED AND OUTSTANDING; PROVIDING FOR THE COLLECTION, SEGREGATION AND DISTRIBUTION OF THE REVENUES OF SAID WATERWORKS SYSTEM; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF SAID BONDS.

WHEREAS, the waterworks system (the "System") of the Garrison-Quincy-KY-O-Heights Water District (the "District") is owned and operated by said District pursuant to Chapters 58 and 74 of the Kentucky Revised Statutes (the "Act"), and

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

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

WHEREAS, it is the desire and intent of the District at this time to authorize and provide for the issuance of revenue bonds in the principal amount of \$356,000 (the "Current Bonds"), for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the System of the District, in accordance with plans and specifications prepared by Haworth, Meyer & Boleyn, Inc. and to prescribe the covenants of the District, the rights of Bondowners and the details of the issuance and sale of the proposed Current Bonds, and

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

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

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

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

WHEREAS, the proceeds of the Current Bonds will be supplemented by Grant Proceeds (as hereinafter defined) in the amount of approximately \$640,000, and by connection charges in the amount of at least \$41,000, to provide the total cost of such construction,

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF THE GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT OF LEWIS COUNTY, KENTUCKY, AS FOLLOWS:

**ARTICLE 1. DEFINITIONS; PURPOSE; AUTHORIZATION OF BONDS;
SECURITY.**

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

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

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

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

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

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

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

"Bonds of 1966" or "Series 1966 Bonds" refer to the outstanding Garrison-Quincy-KY-O-Heights Water District Waterworks System Revenue Bonds, dated November 15, 1966, in the original authorized principal amount of \$240,000.

"Bonds of 1987" or "Series 1987 Bonds" refer to the outstanding Garrison-Quincy-KY-O-Heights Water District Waterworks Revenue Bonds of 1987, Series A and B, dated February 23, 1988, in the original authorized principal amount of \$300,000.

"Bonds of 1996" or "Series 1996 Bonds" refer to the outstanding Garrison-Quincy-KY-O-Heights Water District Waterworks Revenue Bonds, Series 1996, dated November 13, 1996, in the original authorized principal amount of \$295,000.

"Bond Resolution of 1966" or "1966 Bond Resolution" refer to the Resolution authorizing the Bonds of 1966, duly adopted by the Board of Commissioners of the District on February 8, 1966.

"Bond Resolution of 1987" or "1987 Bond Resolution" refer to the Resolution authorizing the Bonds of 1987, duly adopted by the Board of Commissioners of the District on April 22, 1987.

"Bond Resolution of 1996" or "1996 Bond Resolution" refer to the Resolution authorizing the Bonds of 1996, duly adopted by the Board of Commissioners of the District on August 5, 1996.

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

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

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

"Construction Account" refers to the Garrison-Quincy-KY-O-Heights Water District Construction Account, created in Section 301(B) of this Current Bond Resolution.

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

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

"Current Bonds" refers to the \$356,000 of Garrison-Quincy-KY-O-Heights Water District Waterworks Revenue Bonds, Series 2002 authorized by this Resolution, to be dated as of the date of issuance thereof.

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

"Depreciation Fund" refers to the Garrison-Quincy-KY-O-Heights Water District Waterworks Depreciation Fund, described in Section 402 of this Resolution.

"District" refers to the Garrison-Quincy-KY-O-Heights Water District of Lewis County, Kentucky.

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

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

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

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

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

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

"Grant Proceeds" refers to the proceeds of the RD Grant and the ARC Grant.

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

"Interim Lender" refers to Kentucky Rural Water Finance Corporation, Bowling Green, Kentucky, its successors or assigns; or any other financial institution or governmental agency approved by the District.

"Local Counsel" refers to Stanley & Bertram, PSC, Vanceburg, Kentucky, or any other attorney or firm of attorneys designated by the District.

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

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

"Operation and Maintenance Fund" refers to the Garrison-Quincy-KY-O-Heights Water District Waterworks Operation and Maintenance Fund described in Section 401 of this Resolution.

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

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

"Prior Bonds" refers collectively to the Series 1966 Bonds, the Series 1987 Bonds and the Series 1996 Bonds.

"Prior Bond Resolution" refers collectively to the 1966 Bond Resolution, the 1987 Bond Resolution and the 1996 Bond Resolution.

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

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

"RD" refers to the Rural Development of the Department of Agriculture of the United States of America.

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

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

"Revenue Fund" refers to the Garrison-Quincy-KY-O-Heights Water District Revenue Fund, described in Section 401 of this Resolution.

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

"Sinking Fund" refers to the Garrison-Quincy-KY-O-Heights Water District Waterworks Bond and Interest Sinking Fund, described in Section 401 of this Resolution.

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

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

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

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

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

Section 103. Construction Award Approved; Work Authorized. The Commission hereby authorizes, approves, ratifies and confirms its previous action in advertising for and taking steps toward awarding the contracts for the construction of the Project to the lowest and best bidders,

and further approves the action of the District officials in entering into formal contracts with said bidders, subject to the necessary approvals being obtained. Authority is hereby given for undertaking the construction of the Project according to the plans and specifications heretofore prepared by the Engineers for the District, after all necessary approvals have been obtained.

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

Section 105. Authorization of Bonds. The District has heretofore determined that the total cost of the Project, including preliminary expenses, land and rights-of-way, engineering expense, capitalized interest during construction, legal and administrative costs, publication costs, initial deposits required and all incidental expenses, will not exceed \$1,037,000. Therefore, it is hereby determined to be necessary in order for the District to finance the cost (not otherwise provided) of the Project that the District issue a total of \$356,000 of Current Bonds, based on the following calculation:

Total cost of Project		\$1,037,000
Less:		
RD Grant	\$415,000	
ARC Grant	225,000	
Connection Charges	<u>41,000</u>	
Total Non-Bond Funds:		<u>(681,000)</u>
Balance to be financed by Current Bonds		\$356,000

Accordingly, for the purpose of financing the cost (not otherwise provided) of the Project, under the provisions of the Act, there is hereby authorized to be issued and sold \$356,000 principal amount of Garrison-Quincy-KY-O-Heights Water District Waterworks Revenue Bonds, Series 2002.

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

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

Section 106. Recognition of Prior Bonds. The District hereby expressly recognizes and acknowledges that the District has previously created for the benefit and protection of the owners

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

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

of the Prior Bonds, a certain lien and pledge and certain security rights relating to the System, all as set forth in the Prior Bonds and in the Prior Bond Resolution.

ARTICLE 2. THE BONDS; BOND FORM; PREPAYMENT.

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

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

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

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

Section 204. Provisions as to Prepayment. Except when all of the Current Bonds are held by the Government, principal maturities falling due prior to January 1, 2012, shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2012, shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 2011, at par plus accrued interest, without any prepayment penalty.

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

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

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

Section 301. Construction Account; Application of Proceeds of Bonds; Other Transfers and Deposits. The Treasurer, or such other District official as shall be designated by the Commission, shall be the custodian of all funds belonging to and associated with the System. All moneys in excess of the amount insured by the FDIC in the Construction Account shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The officials of the District entrusted with the receipt and disbursement of revenues of the System and the custody of valuable property shall be covered by a fidelity bond in the amount of not less than \$68,000 (the "Fidelity Bond"), or such larger amount as the RD may require, which Fidelity Bond shall be effective and secured by a surety company approved by the RD so long as it is owner of any of the Current Bonds. The RD and the District shall be named co-obligees in such Fidelity Bond and the amount thereof shall not be reduced without the written consent of the RD. Whenever sums in the Funds shall exceed \$68,000, the Fidelity Bond shall be increased accordingly as requested by and with the approval of the RD.

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

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

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

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

financing owed by the District at the time of receipt of Grant Proceeds. Simultaneously with or prior to the delivery of the Current Bonds, there shall also be deposited in the Construction Account the proceeds of the District contribution in the minimum amount of \$41,000 (less any amounts theretofore used for authorized purposes), to supplement the proceeds of the Current Bonds and Grant Proceeds in order to assure completion of the Project.

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

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

During construction, the District shall disburse Construction Account funds in a manner consistent with RD Instruction 1780.

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

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

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

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

(6) Statements of Contractors, Engineers and Attorneys as to Payment. Prior to the delivery of the Current Bonds, if the RD is the Purchaser of the Current Bonds, the District will be required to provide the RD with statements from the Contractors, Engineers and attorneys for the District that they have been paid to date in accordance with their contract or other agreements and, in the case of any Contractor, that he has paid his suppliers and subcontractors. Any exceptions must be authorized under RD Instruction 1780.

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

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

Section 302. Interim Financing Authorization.

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

The borrowing of up to the aggregate sum of \$356,000 from the Interim Lender is hereby authorized; and the Chairman is hereby authorized to execute the Note in the name and on behalf of the District. Each advance under the Note shall evidence a loan by the Interim Lender to

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

Interim financing shall be disbursed as follows:

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

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

The aggregate of the principal amount of all Notes shall not exceed \$356,000. Each Note which is renewed or superseded shall be simultaneously cancelled by the Interim Lender and transmitted to the Treasurer. The rate of interest applicable to each Note shall not exceed a reasonable rate, which rate is subject to the approval of the RD.

The total authorized interim financing of \$356,000 shall be the maximum indebtedness which the District may owe at any one time to the Interim Lender for the purpose of providing temporary construction financing for the Project; provided, however, that the District may reduce the amount owed by the District to the Interim Lender from time to time as and when funds are available to the District, whether derived from the proceeds of the Grant Proceeds, the proceeds of the sale of the Current Bonds or otherwise, and may reborrow from the Interim Lender additional amounts in anticipation of the further receipt by the District of additional proceeds from the Current Bonds and/or Grant Proceeds.

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

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

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

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

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

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

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

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

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

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

ARTICLE 4. FLOW OF FUNDS.

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

- (a) Garrison-Quincy-KY-O-Heights Water District Revenue Fund
- (b) Garrison-Quincy-KY-O-Heights Water District Waterworks Bond and Interest Sinking Fund
- (c) Garrison-Quincy-KY-O-Heights Water District Waterworks Depreciation Fund
- (d) Garrison-Quincy-KY-O-Heights Water District Waterworks Operation and Maintenance Fund

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

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

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

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

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

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

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

C. Depreciation Fund. Pursuant to the provisions of the Prior Bond Resolution which requires that an adjustment be made in the Depreciation Fund upon the issuance of bonds ranking on a parity with the Prior Bonds, it is hereby determined that upon the issuance of the Current Bonds, and upon completion of the Project, as certified by the Engineers and by the RD, there shall next be transferred from the Revenue Fund the sum of at least \$165 each month which shall be deposited into the Depreciation Fund until the Current Bonds are paid in full. These deposits are in addition to the requirements of the Prior Bond Ordinance.

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

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

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

E. Monthly Principal and Interest Payments if Requested by the RD. So long as any of the Bonds are held or insured by the RD, the District shall, if requested by the RD, make the payments required by this Section 402, in monthly installments to the RD or to the insured Owners of the Bonds.

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

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

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

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

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

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

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

The holder of this Bond has consented to the issuance of \$356,000 of Garrison-Quincy-KY-O-Heights Water District Waterworks Revenue Bonds, Series 2002 ranking on a parity as to security and source of payment with this Bond.

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

ARTICLE 5. COVENANTS OF DISTRICT

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

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

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

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

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

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

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

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

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

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

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

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

Bonds shall have been paid or provided for in full, as provided herein; subject to the provisions of Section 607 hereof;

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

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

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

ARTICLE 6. INFERIOR BONDS AND PARITY BONDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (a) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds, and the required reserves for such Outstanding Bonds will have been accumulated;
- (b) The District will, in the event of any such sale, apply the proceeds to either (1) redemption of Outstanding Bonds in accordance with the provisions governing prepayment of bonds in advance of maturity; or (2) replacement of the facility so disposed of by another facility, the revenues of which shall be incorporated into the System, as hereinbefore provided;

plus the estimated net revenues of the facilities, if any, to be added to the System, comply with the earnings requirements hereinbefore provided in the provisions and conditions governing the issuance of Party Bonds.

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

ARTICLE 7. DEFAULT AND CONSEQUENCES

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

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

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

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

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

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

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

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

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

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

Section 804. Approval and Acceptance of RD Grant Agreement. The RD has agreed to make a grant to the District in the amount of \$415,000 (the "RD Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the RD has requested the District to approve, accept and execute RD Form 1780-12 (the "RD Grant Agreement"), setting out the terms and conditions upon which said RD Grant will be made. Said RD Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said RD Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other RD Grants offered to the District in connection with the Project and to execute any and all RD Grant Agreements and any other documents as may be requested by the RD in connection with RD Grants which have been and/or which may hereafter be approved for such Project.

Section 805. Approval and Acceptance of ARC Grant Agreement. The Appalachian Regional Commission (the "ARC") has agreed to make a grant to the District in the amount of \$225,000 (the "ARC Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the ARC has requested the District to approve, accept and execute a certain ARC Grant Agreement (the "ARC Grant Agreement"), setting out the terms and conditions upon which said ARC Grant will be made. Said ARC Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said ARC Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other ARC Grants offered to the District in connection with the Project and to execute any and all ARC Grant Agreements and any other documents as may be requested by the ARC in connection with ARC Grants which have been and/or which may hereafter be approved for such Project.

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

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

Section 807. Authorization of Condemnation to Acquire Easements and/or Sites. In the event that (a) any necessary deeds of easement to allow construction of the Project over the property of any property owner or (b) any necessary deed to the necessary site of any waterworks facility of the Project shall not be obtained through negotiation within ten (10) days after the date of adoption of this Resolution and in the event that (1) such waterworks lines cannot be located within the right-of-way of the State and/or County road involved; and/or (2) such waterworks

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

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

Section 808. Authorization to File Required Financing Statements. In the event that it is determined by Bond Counsel or Local Counsel that the District is required to file any financing statements under the Kentucky Uniform Commercial Code in order to perfect the pledge of the gross revenues of the District's System as security for the Current Bonds, Bond Counsel and/or Local Counsel are hereby authorized to prepare and file with the appropriate officials such financing statements as they deem necessary.

ARTICLE 9. SALE OF CURRENT BONDS

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

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

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

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

ARTICLE 10. CONCLUDING PROVISIONS

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

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

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

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

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

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

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

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

Adopted this June 3, 2002.



(Seal of District)

GARRISON-QUINCY-KY-O-HEIGHTS
WATER DISTRICT

Mary Horsley Barnum
Chairperson

Attest:

B. F. Christy
Secretary

CERTIFICATION

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Garrison-Quincy-KY-O-Heights Water District of Lewis County, Kentucky, and that the foregoing Resolution is a true copy of a Resolution duly adopted by the Board of Commissioners of said District, signed by the Chairperson of said District and attested under Seal by me as Secretary, at a properly convened meeting of said Board of Commissioners held on June 3, 2002, as shown by the official records of said District in my custody and under my control.

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

IN TESTIMONY WHEREOF, witness my signature as Secretary and the official Seal of the District this June 3, 2002.


Secretary

(Seal of District)

EXHIBIT A

Schedule of Principal Payments

Payment Due January 1,	Principal Payment	Payment Due January 1,	Principal Payment
2005	\$4,000	2024	\$9,000
2006	4,000	2025	9,000
2007	4,000	2026	9,000
2008	4,000	2027	10,000
2009	4,000	2028	10,000
2010	5,000	2029	11,000
2011	5,000	2030	11,000
2012	5,000	2031	12,000
2013	5,000	2032	12,000
2014	6,000	2033	13,000
2015	6,000	2034	13,000
2016	6,000	2035	14,000
2017	6,000	2036	15,000
2018	7,000	2037	15,000
2019	7,000	2038	16,000
2020	7,000	2039	17,000
2021	8,000	2040	17,000
2022	8,000	2041	18,000
2023	8,000	2042	16,000

EXHIBIT B

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
COUNTY OF LEWIS
GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
WATERWORKS REVENUE BONDS, SERIES 2002

No. R- _____ Interest Rate: _____ % \$ _____

KNOW ALL PERSONS BY THESE PRESENTS:

That the Garrison-Quincy-KY-O-Heights Water District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Lewis County, Kentucky, for value received, hereby promises to pay to

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

_____ DOLLARS (\$ _____),

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

Year Principal Year Principal Year Principal

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

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

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

This Bond is issued on a parity as to security and source of payment with the outstanding: (i) Garrison-Quincy-KY-O-Heights Water District Waterworks System Revenue Bonds, dated November 15, 1966 (the "Bonds of 1966"), authorized by a Resolution adopted by the Commission of the District on February 8, 1966 (the "1966 Bond Resolution"); (ii) Garrison-Quincy-KY-O-Heights Water District Waterworks Revenue Bonds of 1987, Series A and B, dated February 23, 1988 (the "Bonds of 1987"), authorized by a Resolution adopted by the Commission of the District on April 22, 1987 (the "1987 Bond Resolution"); (iii) Garrison-Quincy-KY-O-Heights Water District Waterworks Revenue Bonds, Series 1996, dated November 13, 1996 (the "Bonds of 1996"), authorized by a Resolution adopted by the Commission of the District on August 5, 1996 (the "1996 Bond Resolution") [hereinafter the Bonds of 1966, Bonds of 1987 and the Bonds of 1996 shall be collectively referred to as the "Prior Bonds", and the 1966 Bond Resolution, the 1987 Bond Resolution and the 1996 Bond Resolution shall be collectively referred to as the "Prior Bond Resolution"]. Accordingly, this Bond, together with any bonds ranking on a parity herewith, is payable from and secured by a pledge of the gross revenues to be derived from the operation of the System.

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

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

a parity therewith as may be outstanding from time to time, to pay the cost of operation and maintenance of the System and to provide for the depreciation thereof.

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

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

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2012, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple of One Hundred Dollars (\$100), as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or its assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

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

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

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

IN WITNESS WHEREOF said Garrison-Quincy-KY-O-Heights 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

GARRISON-QUINCY-KY-O-HEIGHTS
WATER DISTRICT
Lewis County, Kentucky

By _____
Chairman

Attest:

Secretary

(Seal of District)

PROVISION FOR REGISTRATION

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

ASSIGNMENT

Date of Registration	Name of Registered Owner	Signature of Bond Registrar

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

By: _____

EXHIBIT C

REQUISITION CERTIFICATE

Re: Garrison-Quincy-KY-O-Heights Water District Waterworks Revenue Bonds, Series 2002 in the principal amount of \$356,000

The undersigned hereby certify as follows:

1. That they are the signatories required for construction and/or administrative draws pursuant to the Bond Resolution adopted by the Garrison-Quincy-KY-O-Heights Water District (the "District") of Lewis County, Kentucky.

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

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

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

IN TESTIMONY WHEREOF, witness the signature of the undersigned, this ____ day of _____, 20____.

GARRISON-QUINCY-KY-O-HEIGHTS
WATER DISTRICT

HAWORTH, MEYER & BOLEYN, INC.

By _____
Chairman

By _____
Registered Professional Engineer
State of Kentucky No. _____

Approved on _____

Approved on _____

Rural Development

Amount expended heretofore \$ _____

By _____
Authorized RD Official

Amount approved herein _____

Total _____

Approved on _____

EXHIBIT A TO REQUISITION CERTIFICATE

Amount

Name of Entity/Person

BOND RESOLUTION

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT

AUTHORIZING

GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT

WATER AND SEWER REVENUE BONDS, SERIES 2010

IN THE PRINCIPAL AMOUNT OF

\$798,000

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BOND RESOLUTION

RESOLUTION OF THE GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$798,000 PRINCIPAL AMOUNT OF GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT WATER AND SEWER REVENUE BONDS, SERIES 2010 FOR THE PURPOSE OF FINANCING THE COST (NOT OTHERWISE PROVIDED) OF THE CONSTRUCTION OF EXTENSIONS, ADDITIONS AND IMPROVEMENTS TO THE EXISTING WATER AND SEWER SYSTEM OF SAID DISTRICT; SETTING FORTH TERMS AND CONDITIONS UPON WHICH SAID BONDS MAY BE ISSUED AND OUTSTANDING; PROVIDING FOR THE COLLECTION, SEGREGATION AND DISTRIBUTION OF THE REVENUES OF SAID WATER AND SEWER SYSTEM; AND PROVIDING FOR AN ADVERTISED, PUBLIC, COMPETITIVE SALE OF SAID BONDS.

WHEREAS, the water and sewer system (the "System") of the Garrison-Quincy-KY-O-Heights Water District (the "District") is owned and operated by said District pursuant to Chapters 58 and 74 of the Kentucky Revised Statutes (the "Act"), and

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

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

WHEREAS, it is the desire and intent of the District at this time to authorize and provide for the issuance of revenue bonds in the principal amount of \$798,000 (the "Current Bonds"), for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the System of the District, in accordance with plans and specifications prepared by HMB Engineers, Inc. and to prescribe the covenants of the District, the rights of Bondowners and the details of the issuance and sale of the proposed Current Bonds, and

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

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

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

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

WHEREAS, the proceeds of the Current Bonds will be supplemented by Grant Proceeds (as hereinafter defined) in the amount of approximately \$4,479,500, and by a contribution by the District in the amount of at least \$22,500, to provide the total cost of such construction,

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF THE GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT OF LEWIS COUNTY, KENTUCKY, AS FOLLOWS:

**ARTICLE 1. DEFINITIONS; PURPOSE; AUTHORIZATION OF BONDS;
SECURITY.**

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

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

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

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

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

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

"Bonds of 1987" or "Series 1987 Bonds" refer to the outstanding Garrison-Quincy-KY-O-Heights Water District Waterworks Revenue Bonds of 1987, Series A and B, dated February 23, 1988, in the original authorized principal amount of \$300,000.

"Bonds of 1996" or "Series 1996 Bonds" refer to the outstanding Garrison-Quincy-KY-O-Heights Water District Waterworks Revenue Bonds, Series 1996, dated November 13, 1996, in the original authorized principal amount of \$295,000.

"Bonds of 2002" or "Series 2002 Bonds" refer to the outstanding Garrison-Quincy-KY-O-Heights Water District Waterworks Revenue Bonds, Series 2002, dated September 25, 2002, in the original authorized principal amount of \$356,000.

"Bond Resolution of 1987" or "1987 Bond Resolution" refer to the Resolution authorizing the Bonds of 1987, duly adopted by the Board of Commissioners of the District on April 22, 1987.

"Bond Resolution of 1996" or "1996 Bond Resolution" refer to the Resolution authorizing the Bonds of 1996, duly adopted by the Board of Commissioners of the District on August 5, 1996.

"Bond Resolution of 2002" or "2002 Bond Resolution" refer to the Resolution authorizing the Bonds of 2002, duly adopted by the Board of Commissioners of the District on June 3, 2002.

"CDBG Grant" refers to the Community Development Block Grant described in Section 805 of this Resolution.

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

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

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

"Construction Account" refers to the Garrison-Quincy-KY-O-Heights Water District Construction Account, created in Section 301(B) of this Current Bond Resolution.

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

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

"Current Bonds" refers to the \$798,000 of Garrison-Quincy-KY-O-Heights Water District Water and Sewer Revenue Bonds, Series 2010 authorized by this Resolution, to be dated as of the date of issuance thereof.

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

"Depreciation Fund" refers to the Garrison-Quincy-KY-O-Heights Water District Waterworks Depreciation Fund, described in Section 402 of this Resolution.

"District" refers to the Garrison-Quincy-KY-O-Heights Water District of Lewis County, Kentucky.

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

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

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

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

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

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

"Grant Proceeds" refers to the proceeds of the RD Grant, the KIA Grant and the CDBG Grant.

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

"Interim Lender" refers to Kentucky Rural Water Finance Corporation, Bowling Green, Kentucky, its successors or assigns; or any other financial institution or governmental agency approved by the District.

"KIA Grant" refers to the Kentucky Infrastructure Authority grant to the District in the amount of \$2,450,000.

"Local Counsel" refers to Stanley & Bertram, PSC, Vanceburg, Kentucky, or any other attorney or firm of attorneys designated by the District.

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

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

"Operation and Maintenance Fund" refers to the Garrison-Quincy-KY-O-Heights Water District Waterworks Operation and Maintenance Fund described in Section 401 of this Resolution.

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

"Parity Bonds" refers to bonds which may be issued in the future which, pursuant to this Resolution, rank on a basis of parity with the outstanding Bonds, as to priority, security and source

of payment, and does not refer to bonds which might be issued so as to rank inferior to the security and source of payment of the outstanding Bonds.

"Prior Bonds" refers collectively to the Series 1987 Bonds, the Series 1996 Bonds and the Series 2002 Bonds.

"Prior Bond Resolution" refers collectively to the 1987 Bond Resolution, the 1996 Bond Resolution and the 2002 Bond Resolution.

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

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

"RD" refers to the Rural Development of the Department of Agriculture of the United States of America.

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

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

"Revenue Fund" refers to the Garrison-Quincy-KY-O-Heights Water District Revenue Fund, described in Section 401 of this Resolution.

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

"Sinking Fund" refers to the Garrison-Quincy-KY-O-Heights Water District Waterworks Bond and Interest Sinking Fund, described in Section 401 of this Resolution.

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

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

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

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

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

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

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

Section 105. Authorization of Bonds. The District has heretofore determined that the total cost of the Project, including preliminary expenses, land and rights-of-way, engineering expense, capitalized interest during construction, legal and administrative costs, publication costs, initial deposits required and all incidental expenses, will not exceed \$5,300,000. Therefore, it is hereby determined to be necessary in order for the District to finance the cost (not otherwise provided) of the Project that the District issue a total of \$798,000 of Current Bonds, based on the following calculation:

Total cost of Project		\$5,300,000
Less:		
RD Grant	\$ 429,500	
ARC Grant	2,450,000	
CDBG Grant	1,600,000	
Connection Charges	<u>22,500</u>	
Total Non-Bond Funds:		<u>(4,502,000)</u>
Balance to be financed by Current Bonds		\$798,000

Accordingly, for the purpose of financing the cost (not otherwise provided) of the Project, under the provisions of the Act, there is hereby authorized to be issued and sold \$798,000 principal amount of Garrison-Quincy-KY-O-Heights Water District Water and Sewer Revenue Bonds, Series 2010.

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

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

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

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

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

Section 109. Election to Issue Current Bonds as Build American Bonds - Direct Payment; Covenants. The American Recovery and Reinvestment Act of 2009 (the "Recovery Act") authorizes the District to issue taxable bonds known as "Build America Bonds" to finance capital expenditures for which it could issue tax-exempt bonds and to elect to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on such taxable bonds. In accordance with the provisions of the Recovery Act, the District hereby irrevocably elects to have Section 54AA and subsection 54AA(g) of the Code apply to the Current Bonds so that the District will receive a refundable credit under Section 6431 of the Code equal to 35% of the stated interest paid on the Current Bonds.

The District agrees to comply with the requirements of the Code relating to "Build America Bonds", including (i) all of the excess of (a) the available project proceeds (as defined in Section 54A of the Code to mean sale proceeds of the Current Bonds less not more than 2% of such proceeds used to pay costs of issuance plus investment proceeds thereon), over (b) any amounts in a reasonably required reserve fund (within the meaning of Section 150(a)(3) of the Code) with respect to such issue, shall to be used for capital expenditures; (ii) any and all requirements of Section 54AA(g) of the Code to assure eligibility of the District for receipt of the direct pay interest credit; (iii) the issue price (reoffering price) of the Current Bonds of the same maturity cannot exceed the par amount by more than .25% multiplied by the number of complete years to the earlier of the maturity date or the first optional redemption date for the Current Bonds; and (iv) the District will not use or permit the use of any of the funds provided by the Current Bonds in such a manner as to, or take or omit to take any action which would, impair the status of the Current Bonds as "qualified bonds" under Section 54AA of the Code.

ARTICLE 2. THE BONDS; BOND FORM; PREPAYMENT.

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

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

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

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

Section 204. Provisions as to Prepayment. Except when all of the Current Bonds are held by the Government, principal maturities falling due prior to January 1, 2020, shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2020, shall be subject to prepayment by the District on any date falling on and after January 1, 2019, at par plus accrued interest, without any prepayment penalty.

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

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

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

Section 301. Construction Account; Application of Proceeds of Bonds; Other Transfers and Deposits. The Treasurer, or such other District official as shall be designated by the Commission, shall be the custodian of all funds belonging to and associated with the System. All moneys in excess of the amount insured by the FDIC in the Construction Account shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The officials of the District entrusted with the receipt and disbursement of revenues of the System and the custody of valuable property shall be covered by a fidelity bond in the amount of not less than \$94,000 (the "Fidelity Bond"), or such larger amount as the RD may require, which Fidelity Bond shall be effective and secured by a surety company approved by the RD so long as it is owner of any of the Current Bonds. The RD and the District shall be named co-obligees in such Fidelity Bond and the amount thereof shall not be reduced without the written consent of the RD. Whenever sums in the Funds shall exceed \$94,000, the Fidelity Bond shall be increased accordingly as requested by and with the approval of the RD.

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

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

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

(2) Construction Account. If and to the extent that the proceeds of the Current Bonds shall be in excess of the amount necessary to pay the interest, principal and costs referred to in subparagraph B(1) of this Section, such excess amount shall immediately be deposited in the "Garrison-Quincy-KY-O-Heights Water District Construction Account"

hereby created, which shall be established at the Depository Bank. There shall also be deposited in said Construction Account the Grant Proceeds, as and when received, or said Grant Proceeds may be applied, to the extent necessary, to liquidate or reduce any interim financing owed by the District at the time of receipt of Grant Proceeds. Simultaneously with or prior to the delivery of the Current Bonds, there shall also be deposited in the Construction Account the proceeds of the District contribution in the minimum amount of \$22,500 (less any amounts theretofore used for authorized purposes), to supplement the proceeds of the Current Bonds and Grant Proceeds in order to assure completion of the Project.

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

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

During construction, the District shall disburse Construction Account funds in a manner consistent with RD Instruction 1780.

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

(4) Transfer of Capitalized Interest to Sinking Fund. There shall be transferred from the Construction Account an amount sufficient to provide for capitalized interest (initially estimated at \$60,000) during the construction of the Project, as approved by the Engineers and by the RD. If and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project, such amount so transferred from the Construction Account shall be deposited in the Sinking Fund.

(5) Investment of Funds in Construction Account. Pending disbursement of amounts on deposit in the Construction Account, all such funds, or such

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

(6) Statements of Contractors, Engineers and Attorneys as to Payment. Prior to the delivery of the Current Bonds, if the RD is the Purchaser of the Current Bonds, the District will be required to provide the RD with statements from the Contractors, Engineers and attorneys for the District that they have been paid to date in accordance with their contract or other agreements and, in the case of any Contractor, that he has paid his suppliers and subcontractors. Any exceptions must be authorized under RD Instruction 1780.

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

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

Section 302. Interim Financing Authorization.

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

The borrowing of up to the aggregate sum of \$798,000 from the Interim Lender is hereby authorized; and the Chairman is hereby authorized to execute the Note in the name and on behalf of the District. Each advance under the Note shall evidence a loan by the Interim Lender to the District for services rendered and/or materials supplied in connection with the Project, as evidenced by a Requisition Certificate.

Interim financing shall be disbursed as follows:

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

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

The aggregate of the principal amount of all Notes shall not exceed \$798,000. Each Note which is renewed or superseded shall be simultaneously cancelled by the Interim Lender and transmitted to the Treasurer. The rate of interest applicable to each Note shall not exceed a reasonable rate, which rate is subject to the approval of the RD.

The total authorized interim financing of \$798,000 shall be the maximum indebtedness which the District may owe at any one time to the Interim Lender for the purpose of providing temporary construction financing for the Project; provided, however, that the District may reduce the amount owed by the District to the Interim Lender from time to time as and when funds are available to the District, whether derived from the proceeds of the Grant Proceeds, the proceeds of the sale of the Current Bonds or otherwise, and may reborrow from the Interim Lender additional amounts in anticipation of the further receipt by the District of additional proceeds from the Current Bonds and/or Grant Proceeds.

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

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

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

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

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

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

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

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

The District further pledges the revenues of the System to the repayment of said Multiple Advances, subject to the vested rights and priorities of the pledges securing the Outstanding Bonds.

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

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

ARTICLE 4. FLOW OF FUNDS.

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

- (a) Garrison-Quincy-KY-O-Heights Water District Revenue Fund
- (b) Garrison-Quincy-KY-O-Heights Water District Sinking Fund
- (c) Garrison-Quincy-KY-O-Heights Water District Depreciation Fund
- (d) Garrison-Quincy-KY-O-Heights Water District Operation Fund

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

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

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

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

At or after the delivery of the Current Bonds, there shall be transferred from the Construction Account to the Sinking Fund an amount sufficient to provide for capitalized interest (initially estimated at \$60,000) on the Current Bonds during the construction of the Project, if and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project.

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

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

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

C. Depreciation Fund. Pursuant to the provisions of the Prior Bond Resolution which requires that an adjustment be made in the Depreciation Fund upon the issuance of bonds ranking on a parity with the Prior Bonds, it is hereby determined that upon the issuance of the Current Bonds, and upon completion of the Project, as certified by the Engineers and by the RD, there shall next be transferred from the Revenue Fund the sum of at least \$280 each month which shall be deposited into the Depreciation Fund until there is accumulated in such Depreciation Fund the sum of at least \$33,600, which amount shall be maintained, and when necessary, restored to said sum of \$33,600, so long as any of the Current Bonds are outstanding and unpaid. These deposits are in addition to the deposits required by the Prior Bond Resolution.

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

Moneys in the Depreciation Fund may be withdrawn and used by the District, upon appropriate certification of the Commission, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals and replacements not included in the annual budget of current expenses and/or of paying the costs of constructing future extensions, additions and improvements to the System which will either enhance its revenue-producing capacity or will

provide a higher degree of service, and when necessary, for the purpose of making payments of principal and interest on the Bonds if the amount on deposit in the Sinking Fund is not sufficient to make such payments.

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

E. Monthly Principal and Interest Payments if Requested by the RD. So long as any of the Bonds are held or insured by the RD, the District shall, if requested by the RD, make the payments required by this Section 402, in monthly installments to the RD or to the insured Owners of the Bonds.

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

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

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

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

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

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

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

The holder of this Bond has consented to the issuance of \$798,000 of Garrison-Quincy-KY-O-Heights Water District Water and Sewer Revenue Bonds, Series 2010 ranking on a parity as to security and source of payment with this Bond.

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

ARTICLE 5. COVENANTS OF DISTRICT

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

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

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

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

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

Not later than sixty (60) days before the end of each Fiscal Year, the District agrees to cause to be prepared a proposed annual budget of operating expenses (the "Proposed Budget") of the System for the then ensuing Fiscal Year, itemized on the basis of monthly requirements. A copy of said Proposed Budget shall be mailed to any Bondowner who may request in writing a copy of such

Proposed Budget and to the RD without request, if the Government is the Owner of any of the Bonds.

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

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

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

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

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

- (1) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky;
- (2) It will make and collect reasonable and sufficient rates and charges for services and facilities rendered by the System;
- (3) It will segregate the revenues and income from the System and make application thereof consistent with and as provided by this Resolution;

- (4) Unless the written consent of the Owners of a majority of the principal amount of the Outstanding Bonds has been obtained, the District agrees not to sell, lease, mortgage or in any manner dispose of any integral part of the System, including any and all appurtenances thereto and extensions, additions and improvements that may be made thereto, until all of the Outstanding Bonds shall have been paid or provided for in full, as provided herein; subject to the provisions of Section 607 hereof;
- (5) It will maintain in good condition and continuously operate the System and appurtenances thereto and will charge such rates and charges for the services rendered thereby so that the gross income and revenues will be sufficient at all times (i) to pay the interest on and principal of the Outstanding Bonds as same become due; (ii) to pay the cost of operating and maintaining the System; and (iii) to provide for an adequate depreciation account;
- (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 water and sewer systems under similar conditions; and so long as the Government is the Owner of any of the Outstanding Bonds, the Government will be listed as co-beneficiary on any such policy; and the District shall further comply with the insurance requirements of Section 506 hereof (involving insurance on motors, tanks and structures); and
- (7) It will, pursuant to Section 96.394 of the Kentucky Revised Statutes and other applicable legal provisions, cause rates and charges for sewer services provided by the System to be billed simultaneously with rates and charges for water service furnished to sewer customers by the System, and will provide that water service will be discontinued to any premises where there is a failure to pay any part of the aggregate charges so billed, including such penalties and fees for disconnection and/or reconnection as be prescribed from time to time.

Section 505. Other Covenants Applicable So Long as RD Owns Any Bonds. So long as the RD shall own any of the Bonds, the District shall comply with such RD regulations, requirements and requests as shall be made by the RD, including the furnishing of operating and other financial statements, in such form and substance and for such periods as may be requested by the RD, the carrying of insurance of such types and in such amounts as the RD may specify, with insurance carriers acceptable to the RD and compliance with all of the terms and conditions of the Loan Resolution (RD Form 1780-27) adopted and executed by the District, which is hereby authorized, approved, ratified and confirmed.

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

ARTICLE 6. INFERIOR BONDS AND PARITY BONDS

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

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

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

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

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

The District further reserves the right to add new water and sewer facilities and/or to finance future extensions, additions and improvements to the System by the issuance of one or more

- additional series of Parity Bonds to be secured by a parity lien on and ratably payable on a parity with the Current Bonds, from the revenues of the System, provided:
- (a) The facilities to be constructed from the proceeds of the additional Parity Bonds are made a part of the System and their revenues are pledged as additional security for the additional Parity Bonds and for the Outstanding Bonds.
- (b) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds.
- (c) The annual net revenues (defined as gross revenues less operating expenses), of the then existing System for the Fiscal Year preceding the year in which such Parity Bonds are to be issued, adjusted as hereinafter provided, shall be certified by an independent Certified Public Accountant to be equal at least one hundred twenty percent (120%) of the average annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the System, plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued. The calculation of average annual debt service requirements of principal and interest on the additional Parity Bonds to be issued shall, regardless of whether such additional Parity Bonds are to be serial or term bonds, be determined on the basis of the principal of and interest on such Parity Bonds being payable in approximately equal annual installments.
- (d) The annual net revenues referred to above may be adjusted for the purpose of the foregoing computations to reflect:
- (1) any revisions in the System's schedule of rates or charges being imposed on or before the time of the issuance of any such additional Parity Bonds, and
- (2) any increase in the annual net revenues to be realized from the proposed extensions, additions and improvements being financed (in whole or in part) by such additional Parity Bonds;
- provided all such adjustments shall be based upon and included in a certification of an independent Consulting Engineer.
- (e) Compliance with Section 603(a) through (d) shall not be necessary for the issuance of Parity Bonds if the District has obtained (1) the written consent of the RD for the issuance of such Parity Bonds, if the Government is the Owner of any Bonds at the time of issuance of such Parity Bonds; and (2) the written consent of the Owners of all of the then outstanding Prior Bonds, and no other prerequisite need be complied with by the District in order to issue Parity Bonds.

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

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

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

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

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

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

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

(a) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds, and the required reserves for such Outstanding Bonds will have been accumulated;

(b) The District will, in the event of any such sale, apply the proceeds to either (1) redemption of Outstanding Bonds in accordance with the provisions

governing prepayment of bonds in advance of maturity; or (2) replacement of the facility so disposed of by another facility, the revenues of which shall be incorporated into the System, as hereinbefore provided;

- (c) The District certifies, in good faith, prior to any abandonment of use, that the facilities to be abandoned are no longer economically feasible of producing net revenues; and
- (d) The District certifies, in good faith, that the estimated net revenues of the remaining facilities of the System for the then next succeeding Fiscal Year, plus the estimated net revenues of the facilities, if any, to be added to the System, comply with the earnings requirements hereinbefore provided in the provisions and conditions governing the issuance of Parity Bonds.

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

ARTICLE 7. DEFAULT AND CONSEQUENCES

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

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

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

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

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

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

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

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

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

In addition, so long as the Government is the Owner of any of the Current Bonds, the District shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating

the lien of the Current Bonds without immediately prepaying all of the then outstanding Current Bonds.

Section 804. Approval and Acceptance of RD Grant Agreement. The RD has agreed to make a grant to the District in the amount of \$429,500 (the "RD Grant") to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and the RD has requested the District to approve, accept and execute RD Form 1780-12 (the "RD Grant Agreement"), setting out the terms and conditions upon which said RD Grant will be made. Said RD Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said RD Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other RD Grants offered to the District in connection with the Project and to execute any and all RD Grant Agreements and any other documents as may be requested by the RD in connection with RD Grants which have been and/or which may hereafter be approved for such Project.

Section 805. Approval and Acceptance of CDBG Grant Agreement. The Department of Housing and Urban Development (the "HUD") has agreed to make a grant to the District in the amount of \$1,600,000 (the "CDBG Grant"), to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and HUD has requested the District to approve, accept and execute a certain CDBG Grant Agreement (the "CDBG Grant Agreement") setting out the terms and conditions upon which said CDBG Grant will be made. Said CDBG Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said CDBG 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 CDBG Grants offered to the District in connection with the Project and to execute any and all CDBG Grant Agreements and any other documents as may be requested by HUD in connection with CDBG Grants which have been and/or which may hereafter be approved for such Project.

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

- (a) Legal Services Agreement with Bond Counsel.
- (b) Legal Services Agreement with Local Counsel.
- (c) Letter of Intent to Meet Conditions of RD Letter of Conditions (RD Form 1942-46).
- (d) Loan Resolution (RD Form 1780-27).
- (e) Agreement for Engineering Services with the Engineers.

Section 807. Authorization of Condemnation to Acquire Easements and/or Sites. In the event that (a) any necessary deeds of easement to allow construction of the Project over the property of any property owner or (b) any necessary deed to the necessary site of any water and sewer facility of the Project shall not be obtained through negotiation within ten (10) days after the date of adoption of this Resolution and in the event that (1) such water and sewer lines cannot be located within the right-of-way of the State and/or County road involved; and/or (2) such water and sewer facilities cannot be located on a site already owned by the District, Local Counsel is hereby authorized and directed to file condemnation actions to obtain such necessary rights-of-way and/or sites forthwith, without further authorization or direction from the District or the Commission. Local Counsel is further directed to follow the same condemnation procedure in the event that it becomes necessary, through change orders, line extensions and/or errors in the location of property lines and/or property owners, to obtain additional easements, rights-of-way and/or sites for completion of the Project and whenever the necessary deed is not obtained by negotiation at least ten (10) days prior to the date on which construction is contemplated in the respective easement, right-of-way and/or site.

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

Section 808. Authorization to File Required Financing Statements. In the event that it is determined by Bond Counsel or Local Counsel that the District is required to file any financing statements under the Kentucky Uniform Commercial Code in order to perfect the pledge of the gross revenues of the District's System as security for the Current Bonds, Bond Counsel and/or Local Counsel are hereby authorized to prepare and file with the appropriate officials such financing statements as they deem necessary.

ARTICLE 9. SALE OF CURRENT BONDS

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

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

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

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

ARTICLE 10. CONCLUDING PROVISIONS

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

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

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

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

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

to be filed with the Government with regard to the liability or non-liability of the District as to any such rebate requirements and to maintain records in regard thereto for the period of time required by applicable Treasury regulations.

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

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

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

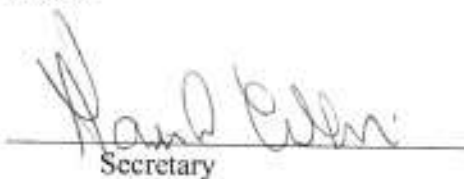
Adopted this May 10, 2010.

Garrison-Quincy-KY-O-Heights Water District


Chairman

(Seal of District)

Attest:


Secretary

CERTIFICATION

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Garrison-Quincy-KY-O-Heights Water District, 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 May 10, 2010, as shown by the official records of said District in my custody and under my control.

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

IN TESTIMONY WHEREOF, witness my signature as Secretary and the official Seal of the District this May 10, 2010.


Secretary

(Seal of District)

Schedule of Principal Payments

Year	Principal Payment Due	Year	Principal Payment Due	Year	Principal Payment Due
2012		2031	\$12,500	2049	20,000
2013	13,000	2032	13,000	2048	19,500
2014	13,000	2033	13,000	2047	19,000
2015	13,500	2034	13,500	2046	18,500
2016	14,000	2035	14,000	2045	18,000
2017	14,000	2036	14,000	2044	17,500
2018	14,500	2037	14,500	2043	17,000
2019	15,000	2038	15,000	2042	16,500
2020	15,500	2039	15,500	2041	16,000
2021	16,000	2040	16,000	2040	16,000
2022	16,000	2041	16,000	2039	16,000
2023	16,500	2042	16,500	2038	16,500
2024	17,000	2043	17,000	2037	17,000
2025	17,500	2044	17,500	2036	17,500
2026	18,000	2045	18,000	2035	18,000
2027	18,500	2046	18,500	2034	18,500
2028	19,000	2047	19,000	2033	19,000
2029	19,500	2048	19,500	2032	19,500
2030	20,000	2049	20,000	2031	20,000

EXHIBIT A

EXHIBIT B

(FORM OF FULLY REGISTERED BOND)

**UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
GARRISON-QUINCY-KY-O-HEIGHTS WATER DISTRICT
WATER AND SEWER REVENUE BONDS, SERIES 2010**

No. R- _____ Interest Rate: _____ % \$ _____

KNOW ALL PERSONS BY THESE PRESENTS:

That the Garrison-Quincy-KY-O-Heights Water District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Lewis County, Kentucky, for value received, hereby promises to pay to

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

_____ DOLLARS (\$ _____),

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

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
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[Here the printer of the Current Bond will print the maturities of the Current Bonds purchased by the registered Owner]

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

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

This Bond ranks on a parity as to security and source of payment with certain outstanding (i) Garrison-Quincy-KY-O-Heights Water District Waterworks Revenue Bonds of 1987, Series A and B, dated February 23, 1988 (the "1987 Bonds"), authorized by a Resolution adopted by the Commission of the District on April 22, 1987 (the "1987 Bond Resolution"); (ii) Garrison-Quincy-KY-O-Heights Water District Waterworks Revenue Bonds, Series 1996, dated November 13, 1996 (the "1996 Bonds"), authorized by a Resolution adopted by the Commission of the District on August 5, 1996 (the "1996 Bond Resolution"); and (iii) Garrison-Quincy-KY-O-Heights Water District Waterworks Revenue Bonds, Series 2002, dated September 25, 2002 (the "2002 Bonds"), authorized by a Resolution adopted by the Commission of the District on June 3, 2002 (the "2002 Bond Resolution") [hereinafter the 1987 Bonds, the 1996 Bonds and the 2002 Bonds shall be collectively referred to as the "Prior Bonds", and the 1987 Bond Resolution, the 1996 Bond Resolution and the 2002 Bond Resolution shall be collectively referred to as the "Prior Bond Resolution"]. Accordingly, this Bond, the Prior Bonds and any bonds ranking on a parity therewith, are payable from and secured by a pledge of the gross revenues to be derived from the operation of the System.

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

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

a parity therewith as may be outstanding from time to time, to pay the cost of operation and maintenance of the System and to provide for the depreciation thereof.

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

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

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2020, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple of One Hundred Dollars (\$100), as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or its assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

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

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

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

IN WITNESS WHEREOF said Garrison-Quincy-KY-O-Heights 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

Garrison-Quincy-KY-O-Heights Water District

By _____
Chairman

Attest:

Secretary

(Seal of District)

PROVISION FOR REGISTRATION

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

Date of Registration	Name of Registered Owner	Signature of Bond Registrar

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

ASSIGNMENT

EXHIBIT C

REQUISITION CERTIFICATE

Re: Garrison-Quincy-KY-O-Heights Water District Water and Sewer Revenue Bonds, Series 2010 in the principal amount of \$798,000

The undersigned hereby certify as follows:

1. That they are the signatories required for construction and/or administrative draws pursuant to the Bond Resolution adopted by the Garrison-Quincy-KY-O-Heights Water District (the "District") of Lewis County, Kentucky.

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

3. That upon said amount being lent to said District and/or obtained by said District from the proceeds of the Current Bonds and/or other sources, the undersigned approve such expenditure and the payment of said amounts to said firms and/or persons, either directly or from amounts deposit in the "Garrison-Quincy-KY-O-Heights Water District Construction Account".

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

IN TESTIMONY WHEREOF, witness the signature of the undersigned, this ____ day of _____, 20____.

Garrison-Quincy-KY-O-Heights Water District HMB Engineers, Inc.

By _____
Chairman

By _____
Registered Professional Engineer
State of Kentucky No. _____

Approved on _____

Approved on _____

Rural Development

Amount expended heretofore \$ _____

By _____
Authorized RD Official

Amount approved herein _____

Approved on _____

Total _____

EXHIBIT A TO REQUISITION CERTIFICATE

Amount

Name of Entity/Person

2/26

**STATEMENT OF DISCLOSURE OF
RELATED PARTY TRANSACTIONS**

I swear or affirm to the best of my knowledge and belief the information set forth below represents all present transactions and those transactions occurring within the past twenty-four (24) months between Garrison Quarry KY & Heights Water District ("Utility") and related parties that exceed \$25.00 in value. For the purpose of this statement, "related party transactions" include, all transactions and payments in excess of \$25.00, except regular salary, wages and benefits, made directly to or on behalf of: 1) the Utility's current or former employees; 2) current or former members of the Utility's board of commissioners or board of directors; 3) persons who have a 10 percent or greater ownership interest in the Utility; 4) family members* of any current Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or 5) a business enterprise in which any current or former Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or a family member of such person has an ownership interest.

Name of Related Party (Individual or Business)	Type of Service Provided By Related Party	Amount of Compensation

- Check this box if the Utility has no related party transactions.
- Check box if additional transactions are listed on the supplemental page.
- Check box if any employee of the Utility is a family member of the Utility's chief executive officer, a Utility commissioner, or any person with a 10 percent or greater ownership interest in the Utility. The name of each employee and the official to whom they are related and the nature of the relationship are listed on the supplemental page entitled "Employees Related to Utility Officials."

Trent Underwood
(Print Name)

Trent Underwood
(Signed)

Manager
(Position/Office)

* "Family Member" means any person who is the spouse, parent, sibling, child, mother-in-law, father-in-law, son-in-law, daughter-in-law, grandparent, or grandchild of any current Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility; or is a dependent for tax purposes of any Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or his or her spouse; or who is a member of the household of any Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility.

COMMONWEALTH OF KENTUCKY

COUNTY OF Lewis

Subscribed and sworn to before me by Trent Underwood
(Name)

this 2 day of November, 2023.

Andrea Johnson # KYWP35491
NOTARY PUBLIC
State-at-Large



**STATEMENT OF DISCLOSURE OF
RELATED PARTY TRANSACTIONS**

I swear or affirm to the best of my knowledge and belief the information set forth below represents all present transactions and those transactions occurring within the past twenty-four (24) months between Garrison Quarry 124 at Heights Water District ("Utility") and related parties that exceed \$25.00 in value. For the purpose of this statement, "related party transactions" include, all transactions and payments in excess of \$25.00, except regular salary, wages and benefits, made directly to or on behalf of: 1) the Utility's current or former employees; 2) current or former members of the Utility's board of commissioners or board of directors; 3) persons who have a 10 percent or greater ownership interest in the Utility; 4) family members* of any current Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or 5) a business enterprise in which any current or former Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or a family member of such person has an ownership interest.

Name of Related Party (Individual or Business)	Type of Service Provided By Related Party	Amount of Compensation

- Check this box if the Utility has no related party transactions.
- Check box if additional transactions are listed on the supplemental page.
- Check box if any employee of the Utility is a family member of the Utility's chief executive officer, a Utility commissioner, or any person with a 10 percent or greater ownership interest in the Utility. The name of each employee and the official to whom they are related and the nature of the relationship are listed on the supplemental page entitled "Employees Related to Utility Officials."

Luke Bentley Jr.
(Print Name)

Luke Bentley
(Signed)

Chairman
(Position/Office)

* "Family Member" means any person who is the spouse, parent, sibling, child, mother-in-law, father-in-law, son-in-law, daughter-in-law, grandparent, or grandchild of any current Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility; or is a dependent for tax purposes of any Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or his or her spouse; or who is a member of the household of any Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility.

COMMONWEALTH OF KENTUCKY

COUNTY OF Lewis

Subscribed and sworn to before me by Luke Bentley Jr.
(Name)

this 2 day of November, 2023.

Andrea Johnson # KYWP35491
NOTARY PUBLIC
State-at-Large



**STATEMENT OF DISCLOSURE OF
RELATED PARTY TRANSACTIONS**

I swear or affirm to the best of my knowledge and belief the information set forth below represents all present transactions and those transactions occurring within the past twenty-four (24) months between Garrison Quarry KY O Heights Water District ("Utility") and related parties that exceed \$25.00 in value. For the purpose of this statement, "related party transactions" include, all transactions and payments in excess of \$25.00, except regular salary, wages and benefits, made directly to or on behalf of: 1) the Utility's current or former employees; 2) current or former members of the Utility's board of commissioners or board of directors; 3) persons who have a 10 percent or greater ownership interest in the Utility; 4) family members* of any current Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or 5) a business enterprise in which any current or former Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or a family member of such person has an ownership interest.

Name of Related Party (Individual or Business)	Type of Service Provided By Related Party	Amount of Compensation

- Check this box if the Utility has no related party transactions.
- Check box if additional transactions are listed on the supplemental page.
- Check box if any employee of the Utility is a family member of the Utility's chief executive officer, a Utility commissioner, or any person with a 10 percent or greater ownership interest in the Utility. The name of each employee and the official to whom they are related and the nature of the relationship are listed on the supplemental page entitled "Employees Related to Utility Officials."

Karin Collier
(Print Name)

Karin Collier
(Signed)

Secretary
(Position/Office)

* "Family Member" means any person who is the spouse, parent, sibling, child, mother-in-law, father-in-law, son-in-law, daughter-in-law, grandparent, or grandchild of any current Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility; or is a dependent for tax purposes of any Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or his or her spouse; or who is a member of the household of any Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility.

COMMONWEALTH OF KENTUCKY

COUNTY OF Lewis

Subscribed and sworn to before me by Karin Collier
(Name)

this 2 day of November, 2023.

Andrea Johnson # KYWP35491
NOTARY PUBLIC
State-at-Large



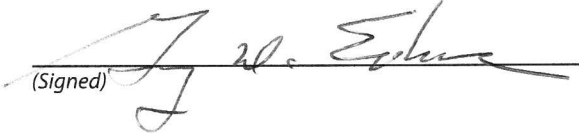
**STATEMENT OF DISCLOSURE OF
RELATED PARTY TRANSACTIONS**

I swear or affirm to the best of my knowledge and belief the information set forth below represents all present transactions and those transactions occurring within the past twenty-four (24) months between Garrison Quincy KY Heights Under District ("Utility") and related parties that exceed \$25.00 in value. For the purpose of this statement, "related party transactions" include, all transactions and payments in excess of \$25.00, except regular salary, wages and benefits, made directly to or on behalf of: 1) the Utility's current or former employees; 2) current or former members of the Utility's board of commissioners or board of directors; 3) persons who have a 10 percent or greater ownership interest in the Utility; 4) family members* of any current Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or 5) a business enterprise in which any current or former Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or a family member of such person has an ownership interest.

Name of Related Party (Individual or Business)	Type of Service Provided By Related Party	Amount of Compensation

- Check this box if the Utility has no related party transactions.
- Check box if additional transactions are listed on the supplemental page.
- Check box if any employee of the Utility is a family member of the Utility's chief executive officer, a Utility commissioner, or any person with a 10 percent or greater ownership interest in the Utility. The name of each employee and the official to whom they are related and the nature of the relationship are listed on the supplemental page entitled "Employees Related to Utility Officials."

Gary Esham
(Print Name)


(Signed)

Treasurer
(Position/Office)

* "Family Member" means any person who is the spouse, parent, sibling, child, mother-in-law, father-in-law, son-in-law, daughter-in-law, grandparent, or grandchild of any current Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility; or is a dependent for tax purposes of any Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility or his or her spouse; or who is a member of the household of any Utility employee, director, commissioner or person with a 10 percent or greater ownership interest in the Utility.

COMMONWEALTH OF KENTUCKY

COUNTY OF Lewis

Subscribed and sworn to before me by Gary Esham
(Name)

this 2 day of November, 2023.

Andrea Johnson # KYNP35491
NOTARY PUBLIC
State-at-Large