

BOND RESOLUTION

CANNONBURG WATER DISTRICT

AUTHORIZING

CANNONBURG WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 2015

IN THE PRINCIPAL AMOUNT OF

\$1,668,000

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BOND RESOLUTION

RESOLUTION OF THE CANNONBURG WATER DISTRICT AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$1,668,000 PRINCIPAL AMOUNT OF CANNONBURG WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 2015 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 Cannonburg 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 \$1,668,000 (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 E.L. Robinson Engineering 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 subject to the vested rights and priorities in favor of the owners of the outstanding Prior Bonds, and

WHEREAS, the District has filed an Application with the Public Service Commission of Kentucky for 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 \$418,000, to provide the total cost of such construction,

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF THE CANNONSBURG WATER DISTRICT 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.

"Bond Resolution of 2001" or "2001 Bond Resolution" refer to the Resolution authorizing the Prior Bonds, duly adopted by the Board of Commissioners of the District.

"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 Cannonsburg Water District Waterworks 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 \$1,668,000 of Cannonsburg Water District Waterworks Revenue Bonds, Series 2015 authorized by this Resolution, to be dated as of the date of issuance thereof.

"Current Sinking Fund" refers to the Cannonsburg Water District Waterworks Sinking Fund of 2015, created in Section 401 of this Resolution.

"Debt Reserve Fund" refers to the Cannonsburg Water District Debt Reserve Reserve Fund, described in Section 402 of this Resolution.

"Depository Bank" refers to the bank, which shall be a member of the FDIC, which bank is Town Square Bank, Ashland, Kentucky, or its successor.

"District" refers to the Cannonsburg Water District.

"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 E.L. Robinson Engineering, 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 Prior Sinking Fund, the Current Sinking Fund, the Debt Reserve Fund and the Operation and Maintenance Fund.

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

"Grant Proceeds" refers to the proceeds of the RD Grant.

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

"KRWFC Loan" refers to the outstanding Kentucky Rural Water Finance Corporation Loan, Series 2001A, dated June 27, 2001, in the original authorized principal amount of \$416,000.

"Local Counsel" refers to Kevin Sinnette, Esq., Ashland, 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 Cannonsburg 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 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 to the outstanding KRWFC Loan.

"Prior Bond Resolution" refers to the Resolution authorizing the KRWFC Loan.

"Prior Sinking Fund" refers to the Cannonsburg Water District Sinking Fund, described in Section 401 of this 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 Cannonsburg Water District Revenue Fund, described in Section 401 of this Resolution.

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

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

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

"U.S. Obligations" 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 \$2,086,000. 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 \$1,668,000 of Current Bonds, based on the following calculation:

Total cost of Project		\$2,086,000
Less:		
RD Grant	\$418,000	
Total Non-Bond Funds:		<u>(418,000)</u>
Balance to be financed by Current Bonds		\$1,668,000

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 \$1,668,000 principal amount of Cannonsburg Water District Waterworks Revenue Bonds, Series 2015.

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 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 secured by and payable out of the gross revenues of the System, after providing for all of the principal and interest requirements of the outstanding 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, 2025, shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2025, shall be subject to prepayment by the District on any date falling on and after January 1, 2024, 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 \$90,000 (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 \$90,000, 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 "Cannonsburg Water District Waterworks Construction Account" hereby created, which shall be established at the Depository Bank. There shall also be deposited

in said Construction Account the Grant Proceeds, as and when received, or said Grant Proceeds may be applied, to the extent necessary, to liquidate or reduce any interim financing owed by the District at the time of receipt of Grant Proceeds.

(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 Current Sinking Fund. There shall be transferred from the Construction Account an amount sufficient to provide for capitalized interest (initially estimated at \$40,000) 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 Current Sinking Fund.

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

the District in said Depository Bank to exceed the amount insured by the FDIC, the same shall be continuously secured by a valid pledge of U.S. Obligations, having an equivalent market value, in conformity with Section 66.480 of the Kentucky Revised Statutes. Investments in Certificates of Deposit or savings accounts may be made only in such Certificates or accounts of an FDIC bank. Any such investments will be a part of the Construction Account, and income from such investments will be credited to the Construction Account. All such investments shall be subject to the limitations set out in Section 303 hereof.

(6) Statements of Contractors, Engineers and Attorneys as to Payment. Prior to the delivery of the Current Bonds, if the RD is the Purchaser of the Current Bonds, the District will be required to provide the RD with statements from the Contractors, Engineers and attorneys for the District that they have been paid to date in accordance with their contract or other agreements and, in the case of any Contractor, that he has paid his suppliers and subcontractors. Any exceptions must be authorized under RD Instruction 1780.

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

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

Section 302. Interim Financing Authorization.

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

The borrowing of up to the aggregate sum of \$1,668,000 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 \$1,668,000. 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 \$1,668,000 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) Cannonsburg Water District Revenue Fund
- (b) Cannonsburg Water District Sinking Fund
- (c) Cannonsburg Water District Operation and Maintenance Fund

The is hereby created and established in this Resolution the following funds and accounts:

- (a) Cannonsburg Water District Sinking Fund of 2015
- (b) Cannonsburg Water District Debt Reserve Fund

All of the Funds shall be maintained with the Depository Bank so long as any Bonds remain outstanding, subject to the right of the District to designate a different depository bank.

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

- (1) A sum equal to one-sixth (1/6) of the next succeeding interest payment to become due on all Prior Bonds then outstanding, plus

- (2) A sum equal to one-twelfth (1/12) of the principal of all of the Prior Bonds maturing on the next succeeding January 1.

Said Prior Sinking Fund shall be used solely and only and is hereby pledged for the purpose of paying the principal of and interest on the Prior Bonds.

C. Current Sinking Fund. At or after the time that the Current Bonds have been delivered, there shall be transferred from the Construction Account into the Current Sinking Fund an amount sufficient (currently estimated at \$40,000) to provide for capitalized interest 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.

After the monthly transfers required in the preceding paragraphs have been paid from the Revenue Fund, there shall next be transferred monthly from said Revenue Fund and deposited into the Current Sinking Fund on or before the 20th day of each month, for payment of interest on and principal of the Current Bonds, a sum equal to the total of the following:

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

The Current Sinking Fund is hereby pledged for the payment of the interest and the principal of the Current Bonds, but subject to the vested rights and priorities of the Prior Bonds.

D. Debt Reserve Fund. 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 \$670 each month which shall be deposited into the Debt Reserve Fund until there is accumulated in such Debt Reserve Fund the sum of at least \$80,400, which amount shall be maintained, and when necessary, restored to said sum of \$80,400, so long as any of the Current 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 Debt Reserve Fund, there shall be deposited into said Debt Reserve Fund all proceeds of connection fees collected from potential customers (except the amounts necessary to pay the actual costs and service connections applicable to said potential customers) to aid in the financing of the cost of future extensions, additions and improvements to the System, plus the proceeds of any property damage insurance (not otherwise used to replace damaged or destroyed property); and any such amounts or proceeds so deposited shall be used solely and only for the purposes intended.

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

E. 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.

F. 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.

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

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

Any 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 are Subordinate to the Prior Bonds. It is hereby certified and declared that the Current Bonds shall be subordinate to the lien and pledge of the Prior Bonds on the gross revenues of the System.

ARTICLE 5. COVENANTS OF DISTRICT

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

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

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

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

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

Not later than sixty (60) days before the end of each Fiscal Year, the District agrees to cause to be prepared a proposed annual budget of operating expenses (the "Proposed Budget") of the System for the then ensuing Fiscal Year, itemized on the basis of monthly requirements. A copy of said Proposed Budget shall be mailed to any Bondowner who may request in writing a copy of such

Proposed Budget and to the RD without request, if the Government is the Owner of any of the Bonds.

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

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

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

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

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

- (1) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky;
- (2) It will make and collect reasonable and sufficient rates and charges for services and facilities rendered by the System;
- (3) It will segregate the revenues and income from the System and make application thereof consistent with and as provided by this Resolution;

- (4) Unless the written consent of the Owners of a majority of the principal amount of the Outstanding Bonds has been obtained, the District agrees not to sell, lease, mortgage or in any manner dispose of any integral part of the System, including any and all appurtenances thereto and extensions, additions and improvements that may be made thereto, until all of the Outstanding Bonds shall have been paid or provided for in full, as provided herein; subject to the provisions of Section 607 hereof;
- (5) It will maintain in good condition and continuously operate the System and appurtenances thereto and will charge such rates and charges for the services rendered thereby so that the gross income and revenues will be sufficient at all times (i) to pay the interest on and principal of the Outstanding Bonds as same become due; (ii) to pay the cost of operating and maintaining the System; and (iii) to provide for an adequate depreciation account; and
- (6) It will carry and maintain insurance on properties of the System subject to loss or damage in amounts and against hazards substantially in accordance with the practices of other districts, cities or corporations which own and maintain waterworks systems under similar conditions; and so long as the Government is the Owner of any of the Outstanding Bonds, the Government will be listed as co-beneficiary on any such policy; and the District shall further comply with the insurance requirements of Section 506 hereof (involving insurance on motors, tanks and structures).

Section 505. Other Covenants Applicable So Long as RD Owns Any Bonds. So long as the RD shall own any of the Bonds, the District shall comply with such RD regulations, requirements and requests as shall be made by the RD, including the furnishing of operating and other financial statements, in such form and substance and for such periods as may be requested by the RD, the carrying of insurance of such types and in such amounts as the RD may specify, with insurance carriers acceptable to the RD and compliance with all of the terms and conditions of the Loan Resolution (RD Form 1780-27) adopted and executed by the District, which is hereby authorized, approved, ratified and confirmed.

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

ARTICLE 6. INFERIOR BONDS AND PARITY BONDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (a) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds, and the required reserves for such Outstanding Bonds will have been accumulated;
- (b) The District will, in the event of any such sale, apply the proceeds to either (1) redemption of Outstanding Bonds in accordance with the provisions governing prepayment of bonds in advance of maturity; or (2) replacement of the facility so disposed of by another facility, the revenues of which shall be incorporated into the System, as hereinbefore provided;

- (c) The District certifies, in good faith, prior to any abandonment of use, that the facilities to be abandoned are no longer economically feasible of producing net revenues; and
- (d) The District certifies, in good faith, that the estimated net revenues of the remaining facilities of the System for the then next succeeding Fiscal Year, plus the estimated net revenues of the facilities, if any, to be added to the System, comply with the earnings requirements hereinbefore provided in the provisions and conditions governing the issuance of Parity Bonds.

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

ARTICLE 7. DEFAULT AND CONSEQUENCES

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

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

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

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

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

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

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

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

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

In addition, so long as the Government is the Owner of any of the Current Bonds, the District shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating

the 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 \$418,000 (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. 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 806. 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 807. 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.

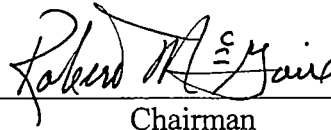
Section 1002. Severability Clause. If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Resolution, which shall continue in full force and effect.

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.

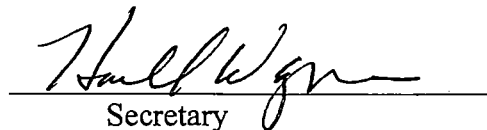
Adopted this May 27, 2015.

CANNONSBURG WATER DISTRICT


Chairman

(Seal of District)

Attest:

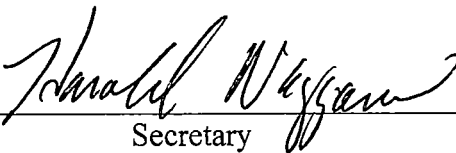

Secretary

CERTIFICATION

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Cannonsburg 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 27, 2015, 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 27, 2015.


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>
2018	\$23,000	2037	\$42,000
2019	24,000	2038	44,000
2020	24,000	2039	45,000
2021	25,000	2040	46,000
2022	26,000	2041	48,000
2023	27,000	2042	49,000
2024	28,000	2043	51,000
2025	29,000	2044	53,000
2026	30,000	2045	54,000
2027	31,000	2046	56,000
2028	32,000	2047	58,000
2029	33,000	2048	60,000
2030	34,000	2049	62,000
2031	35,000	2050	64,000
2032	36,000	2051	66,000
2033	37,000	2052	68,000
2034	38,000	2053	70,000
2035	40,000	2054	73,000
2036	41,000	2055	66,000

EXHIBIT B

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
CANNONBURG WATER DISTRICT
WATERWORKS REVENUE BONDS, SERIES 2015

No. R-_____ Interest Rate: _____ % \$ _____

KNOW ALL PERSONS BY THESE PRESENTS:

That the Cannonsburg Water District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Boyd 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>
-------------	------------------	-------------	------------------	-------------	------------------

[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 subject to the vested rights and priorities in favor of the owners of the outstanding Kentucky Rural Water Finance Corporation Loan, Series 2001A, dated June 27, 2001 (the "Prior Bonds"), authorized by a Resolution adopted by the Commission of the District (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, after providing for the requirements of the Prior Bonds and the requirements of the Prior Bond Resolution.

This Bond has been issued in full compliance with the Current 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 are and will continue to be payable from revenues which shall be set aside in a fund for that purpose and identified as the "Cannonsburg Water District Sinking Fund of 2015", created in the Current Bond Resolution.

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

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, 2024, 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 Cannonsburg 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

CANNONSBURG WATER DISTRICT

By Robert M. Givins
Chairman

Attest:

Donald W. G. Jr.
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

ASSIGNMENT

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

By: _____

EXHIBIT C

REQUISITION CERTIFICATE

Re: Cannonsburg Water District Waterworks Revenue Bonds, Series 2015, in the principal amount of \$1,668,000

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 Cannonsburg Water District (the "District").
2. That the named firms and/or persons set forth on Exhibit A attached hereto are now entitled to the aggregate sum of \$ _____, itemized as set forth in said Exhibit A and as per approved invoices attached hereto:
3. That upon said amount being lent to said District and/or obtained by said District from the proceeds of the Current Bonds and/or other sources, the undersigned approve such expenditure and the payment of said amounts to said firms and/or persons, either directly or from amounts deposit in the "Cannonsburg Water District Waterworks 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 ____.

Cannonsburg Water District

E.L. Robinson Engineering

By _____
Chairman

By _____
Registered Professional Engineer
State of Kentucky No. _____

Approved on _____

Approved on _____

USDA, Rural Development

Amount expended heretofore \$ _____

By _____
Authorized RD Official

Amount approved herein _____

Total _____

Approved on _____

EXHIBIT A TO REQUISITION CERTIFICATE

Name of Entity/Person

Amount

Attachment 8b

ASSISTANCE AGREEMENT

BETWEEN

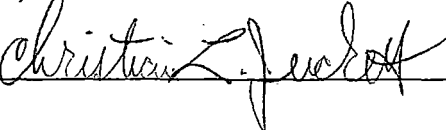
KENTUCKY RURAL WATER FINANCE CORPORATION

AND

CANNONBURG WATER DISTRICT

This document was prepared by:

RUBIN & HAYS
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202
(502) 569-7525

By 

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ASSISTANCE AGREEMENT

This Assistance Agreement made and entered into as of the 27th day of June, 2001 (the "Assistance Agreement") by and between the Kentucky Rural Water Finance Corporation, a non-profit corporation and instrumentality of the various entities of the Commonwealth of Kentucky (the "Issuer") and Cannonsburg Water District (the "Governmental Agency"):

WITNESSETH

WHEREAS, the Issuer has established its Public Projects Flexible Term Program (the "Program") designed to provide financing for the expansion, addition and improvements of public projects for governmental entities under which the Issuer has determined to issue under its Kentucky Rural Water Finance Corporation Multimodal Public Projects Revenue Bonds (Flexible Term Program), Series 2001, dated April 4, 2001 (the "Bonds") pursuant to a Trust Indenture dated as of April 4, 2001 (the "Indenture") between the Issuer 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 Assistance Agreements; and

WHEREAS, the Governmental Agency has determined that it is necessary and desirable to finance improvements to the Governmental Agency's waterworks system and to refinance and currently refund certain outstanding indebtedness of said Governmental Agency (the "Project"), and the Issuer has determined that the Project is a project within the meaning of the Act and the Indenture, thereby qualifying for financial assistance from the Issuer; and

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

WHEREAS, the Governmental Agency has designated the Issuer as its instrumentality and agency; and

WHEREAS, pursuant to this Assistance Agreement the Governmental Agency will proceed with the Project; and

WHEREAS, the Governmental Agency, presently owns and operates the waterworks system (the "System") of said Governmental Agency; and

WHEREAS, the Governmental Agency has heretofore issued its Cannonsburg Water District Waterworks Revenue Bonds of 1989, dated February 6, 1991 (the "Series 1989 Bonds") in the original principal amount of \$615,000, authorized by a resolution adopted by the Governing Body on August 24, 1989 (the "1989 Bond Legislation"); and

WHEREAS, the Governmental Agency has found and determined that it is in the public interest to refinance and currently refund the Series 1989 Bonds in order to achieve interest savings; and

WHEREAS, the Governmental Agency has heretofore issued its Prior Bonds (as hereinafter defined); and

WHEREAS, in and by the Prior Bond Legislation (as hereinafter defined), the right and privilege was reserved by the Governmental Agency under conditions and restrictions set out in said Prior Bond Legislation, of issuing additional bonds from time to time, payable from the income and revenues of the System and ranking on a parity with the outstanding Prior Bonds, for the purpose, among other things, of financing the costs of extensions, additions and improvements to the System, and refinancing certain outstanding indebtedness, which conditions and restrictions are found to currently exist and prevail so as to permit the issuance of certain proposed additional bonds so as to rank, when issued, on a parity with the outstanding Prior Bonds; and

WHEREAS, it is deemed necessary and advisable for the best interests of the Governmental Agency that it enter into this Assistance Agreement with the Issuer in order to borrow funds (the "Loan") in the amount of \$416,000 [the "Obligations"], for the purpose of providing funds for the Project, and to reaffirm the conditions and restrictions whereunder similar bonds or obligations may be subsequently issued ranking on a parity therewith; and

WHEREAS, under the provisions of Sections 58.010 through 58.140, inclusive, of the Kentucky Revised Statutes, and under the provisions of the Prior Bond Legislation, the Governmental Agency is authorized to enter into this Assistance Agreement and to borrow the Obligations to provide such funds for the purpose aforesaid; and

WHEREAS, the Issuer 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 Issuer 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 construction and financing of the Project subject to the repayment of the Loan and the Obligations 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:

Section 1. Definitions. As used in this Assistance Agreement, unless the context requires otherwise:

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

"*Assistance Agreement*" refers to this Assistance Agreement authorizing the Loan and the Obligations.

"*Bond Counsel*" refers to a nationally recognized firm of Bond Counsel which firm has prepared the legal proceedings for the Obligations, has furnished all of the customary services of Bond Counsel in this financing and will continue to furnish such services until the Obligations are delivered and paid for, including the rendering of the final approving legal opinion with regard to the legality of the Obligations and the tax exemption of the interest thereon.

"*Bond Legislation of 1971*" or "*1971 Bond Legislation*" refers to the resolution authorizing the Series 1971 Bonds, which was adopted by the Governing Body on April 4, 1971.

"*Bond Legislation of 1973*" or "*1973 Bond Legislation*" refers to the resolution authorizing the Series 1974 Bonds, which was adopted by the Governing Body on August 6, 1973.

"*Bond Legislation of 1989*" or "*1989 Bond Legislation*" refers to the resolution authorizing the Series 1989 Bonds, which was adopted by the Governing Body on August 24, 1989.

"*Bondowner*", "*Owner*", "*Bondholder*" means and contemplates, unless the context otherwise indicates, the registered owner of one or more of the Bonds at the time issued and outstanding hereunder.

"*Bonds*" refers to the Obligations, the Prior Bonds and any additional Parity Bonds.

"*Certified Public Accountants*" refers to an independent Certified Public Accountant or firm of Certified Public Accountants, duly licensed in Kentucky and knowledgeable about the affairs of the System and/or of other Governmental Agency financial matters.

"*Code*" refers to the United States Internal Revenue Code of 1986, as amended, and any regulations issued thereunder.

"*Compliance Group*" refers to the Compliance Group identified and defined in the Indenture.

"*Depository Bank*" refers to the bank or banks in which the Funds referred to in this Assistance Agreement will be deposited and maintained as the depository(ies) for such Funds; as determined by the Governmental Agency.

"*Engineer*" or "*Independent Consulting Engineer*" refers to an Independent Consulting

Engineer or firm of Engineers of excellent national reputation or of recognized excellent reputation in Kentucky in the fields of waterworks and sewer engineering.

"*Funds*" refers to the Revenue Fund, the Sinking Fund, the Operation and Maintenance Fund, the Replacement Fund and the Governmental Agency Account.

"*Governing Body*" means the Board of Commissioners of the Governmental Agency or such other body as shall be the governing body of said Governmental Agency under the laws of Kentucky at any given time.

"*Governmental Agency*" refers to the Cannonsburg Water District.

"*Governmental Agency Chief Executive*" refers to the Chairman of the Governmental Agency.

"*Governmental Agency Clerk*" refers to the Secretary of the Governmental Agency.

"*Indenture*" means the Trust Indenture, dated as of April 4, 2001, as originally executed or as it may from time to time be supplemented, modified or amended by any supplemental mortgage, by and between the Issuer and the Trustee.

"*Interest Payment Date*" shall mean the 1st day of each month, commencing July 1, 2001 and continuing through and including January 1, 2025 or until the Loan has been paid in full.

"*Issuer*" refers to the Kentucky Rural Water Finance Corporation.

"*Obligations*" refers to the Loan authorized by this Assistance Agreement in the principal amount of \$416,000.

"*Operation and Maintenance Fund*" refers to the "Cannonsburg Water District Waterworks Operation and Maintenance Fund" created in the 1971 Bond Legislation and confirmed in the Prior Bond Legislation and which Operation and Maintenance Fund will continue to be maintained for the benefit of the System.

"*Outstanding Bonds*" refers collectively to all outstanding Prior Bonds, the outstanding Obligations and any outstanding Parity Bonds, and does not refer to any bonds which have been defeased.

"*Parity Bonds*" means bonds issued in the future, which will, pursuant to the provisions of this Assistance Agreement, rank on a basis of parity with the Obligations and shall not be deemed to include, nor to prohibit the issuance of, bonds ranking inferior in security to the Obligations.

"*Permitted Investments*" refers to investments of funds on deposit in the various funds created herein and includes:

- (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, including instruments evidencing an ownership interest in securities described in this clause (1);
- (2) obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following:

Federal Home Loan Bank System, Export-Import Bank of the United States, Federal Financing Bank, Federal Land Banks, Government National Mortgage Association, Federal Home Loan Mortgage Corporation or Federal Housing Administration;
- (3) repurchase agreements (including those of the Trustee or the Bank) fully secured by collateral security described in clause (1) or (2) of this definition, which collateral (a) is held by the Trustee or a third party agent during the term of such repurchase agreement, (b) is not subject to liens or claims of third parties and (c) has a market value (determined at least once every fourteen days) at least equal to the amount so invested;
- (4) certificates of deposit of, or time deposits in, any bank (including the Trustee or the Bank) or savings and loan association (a) the debt obligations of which (or in the case of the principal bank of a bank holding company, the debt obligations of the bank holding company of which) have been rated at least equal to the rating assigned to the Bonds by each Rating Agency then rating the Bonds or (b) which are fully insured by the Federal Deposit Insurance Corporation or (c) which are secured at all times, in the manner and to the extent provided by law, by collateral security (described in clause (1) or (2) of this definition) of a market value (valued at least quarterly) of no less than the amount of money so invested;
- (5) shares in any investment company registered under the Federal Investment Governmental Agency Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and whose only investments are government securities described in clause (1) or (2) of this definition and repurchase agreements fully secured by government securities described in clause (1) or (2) of this definition and/or other obligations rated AAA by S&P;

- (6) tax-exempt obligations of any state of the United States, or political subdivision thereof, which are rated AA or better by S&P or mutual funds invested only in such obligations;
- (7) units of a taxable or nontaxable government money-market portfolio composed of U.S. Government obligations and repurchase agreements collateralized by such obligations;
- (8) commercial paper rated A-1 or A-1+ by S&P;
- (9) corporate notes or bonds with one year or less to maturity rated in one of the two highest Rating Categories by S&P; or
- (10) shares of mutual funds, each of which shall have the following characteristics:
 - (i) The mutual fund shall be an open-end diversified investment company registered under the Federal Investment company Act of 1940, as amended;
 - (ii) The management company of the investment company shall have been in operation for at least five (5) years; and
 - (iii) All of the securities in the mutual fund shall be in investments in any one or more of the investments described in (1) and (3) above.

"*Prior Bond Legislation*" refers collectively to the 1971 Bond Legislation and the 1973 Bond Legislation.

"*Prior Bonds*" refers collectively to the Series 1971 Bonds and the Series 1974 Bonds.

"*Program*" refers to the Issuer's Public Projects Flexible Term Program designed to provide financing for the expansion, addition and improvements of public projects for governmental entities.

"*Program Administrator*" refers to the Kentucky Rural Water Association, Inc., Bowling Green, Kentucky.

"*Program Reserve Fund*" refers to the Reserve Fund created and established pursuant to Section 4.2 of the Indenture.

"*Project*" refers to the financing of the cost of a telemetry system to be part of the System and the refinancing and current refunding of the Governmental Agency's Series 1989 Bonds with the proceeds of the Obligations.

"*Record Date*" shall mean with respect to any Interest Payment Date, the close of business on

the 15th day next preceding such Interest Payment Date, whether or not such day is a business day.

"*Replacement Fund*" refers to the Cannonsburg Water District Waterworks Replacement and Extension Reserve Fund created in the 1971 Bond Legislation and which Replacement Fund will continue to be maintained for the benefit of all of the Bonds.

"*Requisition Certificate*" means the form attached hereto as Exhibit C to be utilized by the Governmental Agency in obtaining disbursements of the Loan from the Governmental Agency Account as construction of the Project progresses.

"*Revenue Fund*" refers to the Cannonsburg Water District Waterworks Revenue Fund created in the Prior Bond Legislation and which Revenue Fund will continue to be maintained for the benefit of all of the Bonds.

"*Series 1971 Bonds*" refers to the original authorized \$58,000 of Cannonsburg Water District Waterworks Revenue Bonds of 1971, dated July 11, 1971.

"*Series 1974 Bonds*" refers to the original authorized \$362,000 of Cannonsburg Water District Waterworks Revenue Bonds of 1974; dated August 6, 1974.

"*Series 1989 Bonds*" refers to the original authorized \$615,000 of Cannonsburg Water District Waterworks Revenue Bonds of 1989, dated February 6, 1991.

"*Sinking Fund*" refers to the Cannonsburg Water District Waterworks Revenue Bonds Bond and Interest Sinking Fund created in Section 14(b) of the 1971 Bond Resolution.

"*System*" refers to the Governmental Agency's waterworks system, together with all future extensions, additions and improvements to said System.

"*Treasurer*" refers to the Treasurer of the Governmental Agency.

"*Trustee*" refers to Fifth Third Bank, Cincinnati, Ohio.

"*U.S. Obligations*" refers to bonds, notes, or Treasury Bills which are direct obligations of the United States of America or obligations fully guaranteed by the United States of America, including book-entry obligations of the United States Treasury-State and Local Government Series, and Trust Receipts representing an ownership interest in direct obligations of the United States.

Section 2. Reaffirmation of Declaration of Waterworks System. That all proceedings heretofore taken for the establishment of and the supplying of water service in and to said Governmental Agency as a municipal waterworks system are hereby in all respects ratified and confirmed; and so long as any of the obligations hereinafter authorized or permitted to be issued remain outstanding, said System shall be owned, controlled, operated and maintained for the security

and source of payment of said obligations. Said System is hereby declared to constitute a public project within the meaning and application of Sections 58.010 to 58.140, inclusive, of the Kentucky Revised Statutes.

Section 3. Authorization of Obligations; Place of Payment; Manner of Execution. That pursuant to the Constitution and laws of Kentucky, and particularly said Sections 58.010 to 58.140, inclusive of the Kentucky Revised Statutes, the Governmental Agency hereby authorizes the borrowing of \$416,000 from the Program, for the purpose of providing funds for the Project. Said Obligations shall mature on each January 1 beginning January 1, 2002 and continuing thereafter through and until January 1, 2025, in such principal amounts, and shall bear interest payable on the Interest Payment Dates, commencing July 1, 2001 in the maturities and at the interest rates set forth in Exhibit A attached hereto.

The principal of, redemption price, if any, and interest on the Obligations shall be payable in lawful money of the United States of America on the Interest Payment Dates, beginning July 1, 2001 to the Trustee for the Program. Such payment shall be made by the Governmental Agency from funds on deposit in the Sinking Fund pursuant to the ACH Debit Direct Payment Method (the "ACH Debit Direct Payment Method") as described and detailed in the ACH Debit Direct Payment Authorization Form (the "ACH Authorization Form") attached hereto as Exhibit B. The ACH Authorization Form shall be completed, signed and forwarded to the Trustee prior to the Governmental Agency receiving any of the proceeds of the Loan.

Pursuant to the ACH Debit Direct Payment Method, there shall be transferred to the Trustee on or before the first day of each month, from the Sinking Fund, the amounts hereinafter specified:

- (1) An amount equal to one-sixth (1/6) of the interest becoming due on the Obligations on the next succeeding interest due date [provided that for the first seven payments one-seventh (1/7) of the interest due on the Obligations on the next succeeding interest due date], and subject to a credit for the amount on deposit in the Sinking Fund transferred thereto on the date of issue of the Obligations; plus
- (2) An amount equal to one-twelfth (1/12) of the principal amount of all Obligations maturing on the next succeeding January 1 [provided that for the first seven payments one-seventh (1/7) of the principal due on the Obligations on January 1, 2002].

In addition, in the event the Issuer is required to withdraw moneys from the Program Reserve Fund established pursuant to the Indenture to pay the principal of and interest on the Obligations and any other payments due under this Assistance Agreement on behalf of the Governmental Agency (the "Reserve Withdrawal"), the Governmental Agency shall pay to the Trustee, in each month, pursuant to the ACH Debit Direct Payment Method an amount equal to at least 1/12 of the Reserve Withdrawal, plus accrued interest thereon at the rate equal to the highest rate of interest paid by the investments making up the Program Reserve Fund until such Reserve Withdrawal has been

replenished.

Section 4. Redemption. (a) *Optional Redemption.* Subject to the prior written approval of the Compliance Group, Obligations maturing on or after January 1, 2012, are subject to redemption, in whole or in part, at any time, by the Governmental Agency prior to their stated maturities, on any date falling on or after January 1, 2011, upon payment of the principal amount to be redeemed plus accrued interest to the date of redemption, on the dates, subject to redemption premium stated as a percentage of the principal amount to be redeemed, as follows:

<u>Redemption Dates (Inclusive)</u>	<u>Redemption Price</u>
January 1, 2011 through December 31, 2011	102%
January 1, 2012 through December 31, 2012	101%
January 1, 2013 and thereafter	100%

In the event that the Governmental Agency desires to optionally redeem a portion of its Obligations, such redemption shall be in a denomination equal to \$5,000 or any integral multiple thereof.

(b) *Notice of Redemption.* The Governmental Agency shall give the Issuer and the Trustee notice of any redemption by sending at least one such notice by first class United States mail not less than 45 and not more than 90 days prior to the date fixed for redemption.

All of said Obligations as to which the Governmental Agency reserves and exercises the right of redemption and as to which notice as aforesaid shall have been given; and for the retirement of which, upon the terms aforesaid, funds are duly provided, will cease to bear interest on the redemption date.

Section 5. Obligations Payable Out of Revenues on a Parity with Prior Bonds. All of the Obligations and Prior Bonds, together with the interest thereon and such additional bonds ranking on a parity therewith heretofore issued and outstanding and that may be hereafter issued and outstanding from time to time under the conditions and restrictions hereinafter set forth, shall be payable out of the Sinking Fund, as heretofore created in the Prior Bond Legislation and as hereinafter more specifically provided and shall be a valid claim of the holder thereof only against said fund and the fixed portion or amount of the income and revenues of the System of said Governmental Agency pledged to said fund.

Section 6. Compliance with Parity Coverage Requirements of the Prior Bond Legislation. It is hereby declared that in accordance with the provisions of the Prior Bond Legislation, and prior to the issuance of any of the Obligations hereby authorized, there will be procured and filed with the Governmental Agency Clerk of said Governmental Agency any and all statements or certifications for the purpose of having both principal and interest on the Prior Bonds

and the Obligations hereby authorized payable on a parity from the income and revenues of said System with said outstanding Prior Bonds.

Section 7. Flow of Funds. All proceedings preliminary to and in connection with the issuance of the Prior Bonds, whereby provision was made for the receipt, custody, and application of the proceeds of the Prior Bonds; for the operation of said System on a revenue-producing basis; for the segregation, allocation, and custody of the revenues derived from the operation of the System; and for the enforcement and payment of the Prior Bonds; and all other covenants for the benefit of the bondholders set out in the Prior Bond Legislation, are hereby ratified and confirmed and shall continue in force and inure to the security and benefit of the Bonds, the same as if such provisions and proceedings were repeated in full herein; provided, further, that, hereafter, the income and revenues of the System shall be collected, segregated, accounted for, and distributed as follows:

A. Revenue Fund. The Governmental Agency 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 Governmental Agency only for the purpose and in the manner and order of priorities specified in the Prior Bond Legislation, as hereinafter modified by this Assistance Agreement, all as permitted by the Act, and in accordance with previous contractual commitments.

B. Sinking Fund. It is hereby recognized that the Governmental Agency is obligated upon the issuance of the Obligations to provide for additional debt service requirements of the Obligations.

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, including the Obligations, 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 Outstanding Bonds, plus
- (2) A sum equal to one-twelfth (1/12) of the principal of any Outstanding Bonds maturing on the next succeeding principal payment date.

If the Governmental Agency 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. Replacement Fund. Pursuant to the provisions of the Prior Bond Legislation, there shall next be transferred from the Revenue Fund a sum sufficient, each month, to maintain a balance in said Replacement Fund of at least the sum required by the Prior Bond Legislation, which shall be deposited into the Replacement Fund.

Moneys in the Replacement Fund may be withdrawn and used by the Governmental Agency, upon appropriate certification of the Governing Body, in accordance with the provisions of the Prior Bond Legislation, 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 Governmental Agency's annual budget.

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

Provided, however, notwithstanding anything to the contrary in any Prior Bond Legislation, the Governmental Agency shall be allowed a credit to the extent of moneys on deposit in the Program Reserve Fund for the purpose of meeting any parity requirements in any Prior Bond Legislation; subject however, to the limitation that moneys in the Program Reserve Fund may only be used to make payments of the Government Agency due under this Assistance Agreement, if necessary, and; provided further, that the Trustee may not seek payment for any reserve funds held by the Governmental Agency under any Prior Bond Legislation for payment of any amounts due from the Governmental Agency under this Assistance Agreement.

Section 8. Disposition of Proceeds of the Loan; Governmental Agency Account. Upon (i) the execution of this Assistance Agreement, (ii) the deliverance of this Assistance Agreement to the Trustee, (iii) certification of the Compliance Group that the Loan is to be accepted in the Program, and (iv) upon receipt by the Governmental Agency of the proceeds of the Obligations, the proceeds shall be applied as follows:

(a) *Disposition of the Proceeds.* There shall first be deducted and paid from the proceeds of the Obligations the fees and costs incurred by the Governmental Agency and any other pertinent expenses incident to the issuance, sale and delivery of the Obligations and such other appropriate expenses as may be approved by the Governmental Agency Chief Executive, including but not limited to the Governmental Agency's pro rata share of the Program's fees and expenses.

The balance shall be deposited to the Governmental Agency Account to be used to construct the Project.

(b) *Governmental Agency Account.* It is hereby acknowledged that a fund entitled "Cannonsburg Water District Governmental Agency Account" (the "Governmental Agency Account") has been created and maintained by the Trustee pursuant to the Indenture; and the amount on deposit in said Governmental Agency Account shall be applied to the extent necessary, to pay the cost of additions and improvements to and the construction of the Project.

Investment income derived from investment of the Governmental Agency Account, which shall be invested in Permitted Investments in accordance with this Assistance Agreement, shall, as received, be deposited in the Governmental Agency Account.

The Trustee shall be obligated to send written notice to the Governmental Agency of the need for investment directions if and whenever funds in excess of \$50,000 shall remain uninvested for a period of more than five days. In the absence of written direction from the Governmental Agency with respect to investment of moneys held in the Governmental Agency Account, the Trustee is hereby directed to invest funds in money market mutual funds of the Trustee or its affiliates that qualify as Permitted Investments under this Assistance Agreement.

Payment from the Governmental Agency Account for costs in connection with the Project shall be made only upon a Requisition Certificate delivered to the Trustee which has been approved by the Engineers having charge of supervising such acquisition, improvement and construction, and countersigned by the Governmental Agency Chief Executive, said Engineers to certify in each instance that the Requisition Certificate represents a sum actually earned by and due to the proposed payee under a contract with said Governmental Agency for work performed and/or materials furnished in connection with the Project, or represents a sum necessary to be expended for land and/or rights of way necessary to be acquired by the Governmental Agency in connection with said Project.

No expenditure shall be made from the Governmental Agency Account except for proper and authorized expenses relating to the acquisition, improvement and construction of the Project in accordance with the contracts, plans and specifications approved by the Governmental Agency.

After completion of the Project, as certified by the Engineers, any balance then remaining on deposit in the Governmental Agency Account shall, subject to any and all applicable legal provisions

and applicable arbitrage regulations necessary to assure the exemption of interest on the Obligations from Federal income taxation, upon orders of the Governing Body, be transferred to the Sinking Fund, to be used for the purposes thereof.

Section 9. Arbitrage Limitations. (1) The Governmental Agency covenants that neither the proceeds of the Obligations, nor "Non-Exempt Revenues" of the System, as defined below, will be invested in investments which will produce a net adjusted yield in excess of the net interest cost (effective yield) of the Obligations, if such investment would cause such Obligations to be treated as "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code, as amended, and the applicable regulations thereunder; provided, however, that such proceeds and/or revenues may be invested to whatever extent and whenever the Code and/or applicable regulations permit same to be invested without causing the Obligations to be treated as "arbitrage bonds."

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

- (a) amounts deposited in the Sinking Fund for the purpose of paying debt service on any Obligations against the System within thirteen (13) months from the date of deposit; and
- (b) amounts deposited in the Replacement Fund or any similar reserve for replacements, reasonably expected to be used for extensions, additions, improvements or replacements to the System, and not reasonably expected to be used to pay debt service (even if pledged to be used to pay debt service in the event of the unexpected inadequacy of other funds pledged for that purpose).

(3) If, and to the extent that any Non-Exempt Revenues are on deposit and are available for investment by reason of the foregoing, such funds shall be subject to the investment limitations set out in Section 9(1) above.

On the basis of information furnished to the Governmental Agency, on known facts, circumstances and reasonable expectations on the date of enactment of this Assistance Agreement, the Governmental Agency certifies as follows:

- (a) That it is not expected or contemplated that the proceeds of the Obligations will be used or invested in any manner which will cause any of the Obligations to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code and the applicable regulations thereunder.
- (b) That it is not expected or contemplated that the Governmental Agency will make any use of the proceeds of the Obligations, which, if such use had been reasonably

anticipated on the date of issuance of the Obligations, would have caused the Obligations to be arbitrage bonds.

- (c) That it is expected and contemplated that the Governmental Agency will comply with (i) all of the requirements of Section 148 of the Code; and (ii) all of the requirements of the applicable regulations thereunder, to whatever extent is necessary to assure that the Obligations will not be treated as arbitrage bonds.
- (d) That it is anticipated that amounts on deposit in the Sinking Fund will be used within 13 months from the date of deposit for the payment of debt service on the outstanding Obligations and all Prior Bonds payable from said Sinking Fund.
- (e) That amounts accumulated in the Sinking Fund shall not exceed the limitations set forth in this Assistance Agreement.
- (f) That it is not reasonably anticipated that amounts accumulated in the Replacement Fund will be used for payment of debt service on any bonds payable from the revenues of the System, even though such Replacement Fund will be so available if necessary to prevent a default in the payment of principal and interest on such bonds.

Prior to or at the time of delivery of the Obligations, the Governmental Agency Chief Executive and/or the Governmental Agency Treasurer are authorized to execute the appropriate certification with reference to the matters referred to above, setting out all known and contemplated facts concerning such anticipated investment of the proceeds of the Obligations, including the execution of necessary and/or desirable certifications of the type contemplated by the Code and applicable regulations, as amended, in order to assure that interest on the Obligations will be exempt from all federal income taxes and that the Obligations will not constitute or be treated as arbitrage bonds.

Section 10. Parity Bonds. The Obligations shall not be entitled to priority one over the other in the application of the income and revenues of the System, regardless of the time or times of their issuance, it being the intention that there shall be no priority among the Obligations, regardless of the fact they may be actually issued and delivered at different times, and provided further that the lien and security of and for any bonds or obligations hereafter issued that are payable from the income and revenues of the System, shall, except as set out herein, be subject to the priority of the Prior Bonds and the Obligations as may from time to time be outstanding; provided the Governmental Agency has in said Prior Bond Legislation reserved the right and privilege, and does hereby reserve the right and privilege, of issuing additional bonds from time to time payable from the income and revenues of the System ranking on a parity with the Prior Bonds and with the Obligations, but only under the conditions specified in the Prior Bond Legislation, which conditions are hereinafter repeated, taking into account the issuance of the Obligations.

The Governmental Agency reserves the right to finance future extensions, additions, and/or improvements to the System by the issuance of one or more additional series of bonds to be secured by a parity lien on and ratably payable from, the revenues of the System pledged to the Prior Bonds and the Obligations, provided;

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

(b) The Governmental Agency is in compliance with all covenants and undertakings in connection with all of the bonds then outstanding and payable from the revenues of the System or any part thereof.

(c) The annual net revenues (defined as gross revenues less current expenses) of the facility or facilities to be constructed or acquired with the proceeds of such additional parity bonds (and any other funds pledged as security), when added to the estimated future annual net revenues of the then existing project, shall equal at least 125% of the average annual debt service requirements on all outstanding bonds payable from the revenues of the project, including the additional parity bonds then to be issued. The calculation of average annual debt service requirements for principal of and interest on the additional bonds to be issued shall, regardless of whether such bonds are to be serial or term bonds, be determined on the basis of the principal of, and interest on, such bonds being payable in approximately equal annual installments.

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

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

(ii) any increase in the "net annual revenues" to be realized, within 12 months of the completion of the Project, from the proposed extensions, additions, and/or improvements being financed (in whole or in part) by such additional Parity Bonds; provided all such adjustments shall be based upon and included in a certification of a Certified Public Accountant.

(e) Reference is made to the necessity of obtaining the written consent of the United States Department of Agriculture Farmers Home Administration or its successor [the "FHA"] for the issuance of future bonds encumbering the System while the FHA holds any bonds payable from the revenues of the System.

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

(1) 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 annual debt service requirements of the additional Parity Bonds; and

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

The Governmental Agency reserves the right to issue parity bonds to refund or refinance any part or all of the Prior Bonds and the Obligations, provided that prior to the issuance of such additional parity bonds for that purpose, there shall have been procured and filed with the Governmental Agency Clerk of the Governmental Agency a statement by a Certified Public Accountant, as defined herein, reciting the opinion based upon necessary investigation that:

(a) after the issuance of such parity bonds, the annual net revenues, as adjusted and defined above, of the then existing system for the fiscal year preceding the date of issuance of such Parity Bonds, after taking into account the revised debt service requirements resulting from the issuance of such Parity Bonds and from the elimination of the Bonds being refunded or refinanced thereby, are equal to not less than 125% of the average annual debt service requirements then scheduled to fall due in any fiscal year thereafter for principal of and interest on all of the then outstanding Bonds payable from the revenues of the System, calculated in the manner specified above; or

(b) in the alternative, that the average annual debt service requirements for the Prior Bonds, the Obligations, any previously issued Parity Bonds and the proposed refunding Parity Bonds, in any year of maturities thereof after the redemption of the Bonds scheduled to be refunded through the issuance of such proposed refunding Parity Bonds, shall not exceed the average annual debt service requirements applicable to the then outstanding Prior Bonds, the Obligations and any previously issued Parity Bonds for any year prior to the issuance of such proposed Parity Bonds and the redemption of the Bonds to be refunded.

Section 11. Rates and Charges for Services of the System. While any Bonds are outstanding and unpaid, the rates for all services of the System rendered by the Governmental Agency to its citizens, corporations, or others requiring the same, shall be reasonable and just, taking into account and consideration the cost and value of said System, the cost of maintaining and operating the same, the proper and necessary allowances for depreciation thereof, and the amounts necessary for the retirement of the outstanding Bonds and the accruing interest on all such Bonds as may be outstanding under the provisions of this Assistance Agreement and the Prior Bond Legislation, and there shall be charged such rates and amounts as shall be adequate to meet all requirements of the provisions of this Assistance Agreement. Prior to the issuance of the Obligations a schedule of rates and charges for the services rendered by the System to all users adequate to meet all requirements of this Assistance Agreement has been established and adopted.

The Governmental Agency covenants that it will not reduce the rates and charges for the services rendered by the System without first filing with the Governmental Agency Clerk a certification of an Independent Consulting Engineer or a Certified Public Accountant that the annual net revenues (defined as gross revenues less current expenses) of the then existing System for the fiscal year preceding the year in which such reduction is proposed, as such annual net revenues are adjusted, after taking into account the projected reduction in annual net revenues anticipated to result from any such proposed rate decrease, are equal to not less than 125% 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 10 hereof.

The Governmental Agency also covenants to cause a report to be filed with the Governing Body within four months after the end of each fiscal year by a Certified Public Accountant, setting forth the precise debt service coverage percentage of the average annual debt service requirements falling due in any fiscal year thereafter for principal of and interest on all of the then Outstanding Bonds payable from the revenues of the System, produced or provided by the net revenues of the System in that fiscal year, calculated in the manner specified in Section 10 hereof; and the Governmental Agency covenants that if and whenever such report so filed shall establish that such coverage of net revenues for such year was less than 125% of the average annual debt service requirements, the Governmental Agency shall increase the rates by an amount sufficient, in the opinion of such Certified Public Accountant, to establish the existence of or immediate projection of, such minimum 125% coverage.

Section 12. All Obligations of this Issue Are Equal. The Obligations authorized and permitted to be issued hereunder, and from time to time outstanding, shall not be entitled to priority one over the other in the application of the income and revenues of the System regardless of the time or times of their issuance, it being the intention that there shall be no priority among the Obligations, the Prior Bonds and any Parity Bonds authorized or permitted to be issued under the provisions of this Assistance Agreement, regardless of the fact that they may be actually issued and delivered at different times.

Section 13. Defeasance and/or Refunding of Obligations. The Governmental Agency reserves the right, at any time, to cause the pledge of the revenues securing the outstanding Obligations to be defeased and released by paying an amount into an escrow fund sufficient, when invested (or sufficient without such investment, as the case may be) in direct obligations of or obligations guaranteed by the United States of America, including book entry obligations and trust receipts representing an ownership in direct obligations of the United States of America, to assure the availability in such escrow fund of an adequate amount (a) to call for redemption and to redeem and retire all of such outstanding Obligations, both as to principal and as to interest, on the next or any optional redemption date, including all costs and expenses in connection therewith, and to pay all principal and interest falling due on the outstanding Obligations to and on said date, or (b) to pay all principal and interest requirements on the outstanding Obligations as same mature, without redemption in advance of maturity, the determination of whether to defease under (a) or (b) or both

to be made by the Governing Body. Such Permitted Investments shall have such maturities as to assure that there will be sufficient funds for such purpose. If such defeasance is to be accomplished pursuant to (a), the Governmental Agency shall take all steps necessary to publish the required notice of the redemption of the outstanding Obligations and the applicable redemption date. Upon the proper amount of such investments being placed in escrow and so secured, such revenue pledge shall be automatically fully defeased and released without any further action being necessary.

Section 14. Contractual Nature of Assistance Agreement. The provisions of this Assistance Agreement shall constitute a contract between the Governmental Agency and the Issuer; and after the issuance of any of such Obligations, no change, variation or alteration of any kind in the provisions of this Assistance Agreement, nor of the Prior Bond Legislation, shall be made in any manner except as herein or therein provided until such time as all of the Bonds authorized thereby and the interest thereon have been paid or provided for in full, or as otherwise provided herein; provided (a) that the Governing Body may enact legislation for any other purpose not inconsistent with the terms of this Assistance Agreement, and which shall not impair the security of the Issuer 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 ordinance or other proceedings pertaining hereto.

Section 15. Appointment and Duties of Trustee. The Trustee is hereby designated as the bond registrar and paying agent with respect to the Obligations.

Its duties as Trustee shall be as follows:

- (1) To register all of the Obligations in the names of the Issuer;
- (2) To cancel and destroy (or remit to the Governmental Agency for destruction, if so requested by the Governmental Agency) all exchanged, matured, retired and redeemed Obligations, and to maintain adequate records relevant thereto;
- (3) To remit, but only to the extent that all required funds are made available to the Trustee by the Governmental Agency, semiannual interest payments directly to the Issuer's accounts for the Program;
- (4) To notify the Issuer of any Obligations to be redeemed and to redeem Obligations prior to their stated maturity upon receiving sufficient funds; and
- (5) To supply the Governmental Agency with a written accounting evidencing the payment of interest on and principal of the Obligations within thirty (30) days following each respective due date.

The Trustee shall be entitled to the advice of counsel and shall be protected for any acts taken by it in good faith in reliance upon such advice. The Trustee shall not be liable for any actions taken

in good faith and believed by it to be within its discretion or the power conferred upon it by this Assistance Agreement, or the responsibility for the consequences of any oversight or error in judgment.

The Trustee may at any time resign from its duties set forth in this Assistance Agreement by filing its resignation with the Governmental Agency Clerk and notifying the Issuer. Thereupon, the Issuer shall notify the Governmental Agency of a successor Trustee which shall be an incorporated bank or trust company authorized to transact business in the United States of America. Notwithstanding the foregoing, in the event of the resignation of the Trustee, provision shall be made for the orderly transition of the books, records and accounts relating to the Obligations to the successor Trustee in order that there will be no delinquencies in the payment of interest or principal due on the Obligations.

Section 16. Provisions in Conflict Repealed. All ordinances, resolutions and orders, or parts thereof, in conflict herewith are, to the extent of such conflict, hereby repealed; and it is hereby specifically ordered and provided that any proceedings heretofore taken for the issuance of other bonds payable or secured in any manner by all or any part of the income and revenues of the System; or any part thereof, and which have not heretofore been issued and delivered, are hereby revoked and rescinded, and none of such other bonds shall be issued and delivered.

Section 17. Covenant of Governmental Agency to Take All Action Necessary to Assure Compliance with the Internal Revenue Code of 1986. In order to assure purchasers of the Obligations that interest thereon will continue to be exempt from federal and Kentucky income taxation (subject to certain exceptions set out below), the Governmental Agency covenants to and with the Issuer that (1) the Governmental Agency will take all actions necessary to comply with the provisions of the Code, (2) the Governmental Agency will take no actions which will violate any of the provisions of the Code, or would cause the Obligations to become "private activity bonds" within the meaning of the Code, (3) none of the proceeds of the Obligations will be used for any purpose which would cause the interest on the Obligations to become subject to federal income taxation, and the Governmental Agency will comply with any and all requirements as to rebate (and reports with reference thereto) to the United States of America of certain investment earnings on the proceeds of the Obligations.

The Governmental Agency reserves the right to amend this Assistance Agreement but only with the consent of the Issuer (i) to whatever extent shall, in the opinion of Bond Counsel, be deemed necessary to assure that interest on the Obligations shall be exempt from federal income taxation, and (ii) to whatever extent shall be permissible (without jeopardizing such tax exemption or the security of such owners) to eliminate or reduce any restrictions concerning the investment of the proceeds of these Obligations, or the application of such proceeds or of the revenues of the System. The purchasers of these Obligations are deemed to have relied fully upon these covenants and undertakings on the part of the Governmental Agency as part of the consideration for the purchase of the Obligations. To the extent that the Governmental Agency obtains an opinion of nationally recognized bond counsel to the effect that non-compliance with any of the covenants contained in

this Assistance Agreement or referred to in this Assistance Agreement would not subject interest on the Obligations to federal income taxes or Kentucky income taxes, the Governmental Agency shall not be required to comply with such covenants or requirements.

This Assistance Agreement is enacted in contemplation that Bond Counsel will render an opinion as to exemption of principal of the Obligations from Kentucky ad valorem taxation and as to exemption of interest on the Obligations from federal and Kentucky income taxation, based on the assumption by Bond Counsel that the Governmental Agency complies with covenants made by the Governmental Agency with respect to compliance with the provisions of the Code, and based on the assumption of compliance by the Governmental Agency with requirements as to any required rebate (and reports with reference thereto) to the United States of America of certain investment earnings on the proceeds of the Obligations. The Governmental Agency has been advised that based on the foregoing assumptions of compliance, Bond Counsel is of the opinion that the Obligations are not "arbitrage bonds" within the meaning of Section 148 of the Code.

Section 18. Insurance. (a) *Fire and Extended Coverage.* If and to the extent that the System includes structures above ground level, the Governmental Agency shall, upon receipt of the proceeds of the sale of the Obligations, if such insurance is not already in force, procure fire and extended coverage insurance on the insurable portion of all of the facilities of the System, of a kind and in such amounts as would ordinarily be carried by private companies or public bodies engaged in operating a similar utility.

The foregoing fire and extended coverage insurance shall be maintained so long as any of the Obligations are outstanding and shall be in amounts sufficient to provide for not less than full recovery whenever a loss from perils insured against does not exceed eighty percent (80%) of the full insurable value of the damaged facility.

In the event of any damage to or destruction of any part of the System the Governmental Agency shall promptly arrange for the application of the insurance proceeds for the repair or reconstruction of the damaged or destroyed portion thereof.

(b) *Liability Insurance on Facilities.* So long as any of the Obligations are outstanding, the Governmental Agency shall, procure and maintain, public liability insurance relating to the operation of the facilities of the System, with limits of not less than \$200,000 for one person and \$1,000,000 for more than one person involved in one accident, to protect the Governmental Agency from claims for bodily injury and/or death; and not less than \$200,000 from claims for damage to property of others which may arise from the Governmental Agency's operations of the System and any other facilities constituting a portion of the System.

(c) *Vehicle Liability Insurance.* If and to the extent that the Governmental Agency owns or operates vehicles in the operation of the System, upon receipt of the proceeds of the Obligations, the Governmental Agency shall, if such insurance is not already in force, procure and maintain, so long as any of the Obligations are outstanding, vehicular public liability insurance with limits of not less

than \$200,000 for one person and \$1,000,000 for more than one person involved in one accident, to protect the Governmental Agency from claims for bodily injury and/or death, and not less than \$200,000 against claims for damage to property of others which may arise from the operation of such vehicles by the Governmental Agency.

Section 19. Event of Default; Remedies. The following items shall constitute an "Event of Default" on the part of the Governmental Agency:

(a) The failure to pay principal on the Obligations when due and payable, either at maturity or by proceedings for redemption.

(b) The failure to pay any installment of interest on the Obligations when the same shall become due and payable.

(c) The failure of the Governmental Agency to fulfill any of its obligations pursuant to this Assistance Agreement and to cure any such failure within 30 days after receipt of written notice of such failure.

(d) The failure to promptly repair, replace or reconstruct essential facilities of the System after any major damage and/or destruction thereof.

Upon the occurrence of an Event of Default, the Issuer or the Trustee on its behalf, as owner of the Obligations, may enforce and compel the performance of all duties and obligations of the Governmental Agency as set forth herein. Upon the occurrence of an Event of Default, then, upon the filing of suit by the Trustee or the Issuer, any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the Governmental Agency, with power to charge and collect rates sufficient to provide for the payment of the principal of and interest on the Obligations, and for the payment of operation and maintenance expenses of the System, and to provide and apply the income and revenues in conformity with this Assistance Agreement and with the laws of the Commonwealth of Kentucky.

In addition to and apart from the foregoing, upon the occurrence of an Event of Default, the owner of any of the Obligations may require the Governmental Agency by demand, court order, injunction, or otherwise, to raise all applicable rates charged for services of the System a reasonable amount, consistent with the requirements of this Assistance Agreement.

Section 20. Annual Reports. The Governmental Agency hereby agrees to provide or cause to be provided to the Issuer and the Compliance Group audited financial statements prepared in accordance with generally accepted accounting principles (commencing with the fiscal year ended December 31, 2001) and such other financial information and/or operating data as requested by the Issuer or the Compliance Group.

The annual financial information and operating data, including audited financial statements,

will be made available on or before 120 days after the end of each fiscal year (December 31).

Section 21. Supplemental Assistance Agreement. The Governmental Agency may, but only with the consent of the Issuer, execute one or more supplemental Assistance Agreements as shall not be inconsistent with the terms and provisions hereof for any one or more of the following purposes:

- (a) to cure any ambiguity or formal defect or omission in this Assistance Agreement;
- (b) to subject to the lien and pledge of this Assistance Agreement additional revenues, properties, or collateral which may legally be subjected;
- (c) to add to the conditions, limitations and restrictions on the issuance of bonds, other conditions, limitations and restrictions thereafter to be observed;
- (d) to add to the covenants and agreements of the Governmental Agency in this Assistance Agreement, other covenants and agreements thereafter to be incurred by the Governmental Agency or to surrender any right or power herein reserved to or conferred upon the Governmental Agency;
- (e) to effect the issuance of additional Parity Bonds; and/or
- (f) to modify the terms and conditions of this Assistance Agreement at the request of the Issuer in order to assist the Issuer in operating the Program or to maintain any rating the Issuer may have on its Program obligations.

Section 22. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Issuer 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 23. 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 24. Agreement to Pay Attorneys' Fees and Expenses. In the event that either party hereto shall become in 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 therefore to the non-defaulting party the fees of such attorneys and such other expenses so incurred by the non-defaulting party.

Section 25. Signatures of Officers. If any of the officers whose signatures or facsimile signatures appear on this Assistance Agreement or any other document evidencing the Obligations cease to be such officers before delivery of the Obligations, such signatures shall nevertheless be valid for all purposes the same as if such officers had remained in office until delivery, as provided by KRS 58.040 and KRS 61.390.

Section 26. Severability Clause. If any section, paragraph, clause or provision of this Assistance Agreement shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Assistance Agreement.

IN WITNESS WHEREOF, the Kentucky Rural Water Finance Corporation has caused this Assistance Agreement to be signed in its name by its President and attested by its Secretary/Treasurer and the Cannonsburg Water District has caused this Assistance Agreement to be signed in corporate name and by its officer thereunder duly authorized, all as of the day and year first above written.

KENTUCKY RURAL WATER FINANCE CORPORATION

By _____
President

Attest:

Laura E. - Pugh 6-25-01
Secretary/Treasurer

CANNONSBURG WATER DISTRICT

By W. M. Walter
Chairman

Attest:

Laura E. - Pugh 6-25-01
Secretary

IN WITNESS WHEREOF, the Kentucky Rural Water Finance Corporation has caused this Assistance Agreement to be signed in its name by its President and attested by its Secretary/Treasurer and the Cannonsburg Water District has caused this Assistance Agreement to be signed in corporate name and by its officer thereunder duly authorized, all as of the day and year first above written.

KENTUCKY RURAL WATER FINANCE CORPORATION

By Paul D. Anderson
President

Attest:

[Signature]
Secretary/Treasurer

CANNONSBURG WATER DISTRICT

By _____
Chairman

Attest:

Secretary

ISSUER ACKNOWLEDGMENT

COMMONWEALTH OF KENTUCKY

COUNTY OF WARREN

The foregoing instrument was acknowledged before me this 27th day of June, 2001 by Paul Lashbrooke who is the President of the Kentucky Rural Water Finance Corporation, on behalf of said Corporation.

WITNESS my hand this 27th day of June, 2001.

My Commission expires: 6-9-2003.

Damon R. Talley
Notary Public, in and for said County and State

COMMONWEALTH OF KENTUCKY

COUNTY OF WARREN

The foregoing instrument was acknowledged before me this 27th day of June, 2001 by Gary Larimore who is the Secretary/Treasurer of the Kentucky Rural Water Finance Corporation, on behalf of said Corporation.

WITNESS my hand this 27th day of June, 2001.

My Commission expires: 6-9-2003.

Damon R. Talley
Notary Public, in and for said County and State

GOVERNMENTAL AGENCY ACKNOWLEDGMENT

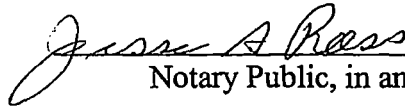
COMMONWEALTH OF KENTUCKY

COUNTY OF BOYD

The foregoing instrument was acknowledged before me this 25 day of June, 2001 by William Walters and Louis Padgett, who are the Chairman and Secretary of the Cannonsburg Water District, on behalf of said District.

WITNESS my hand this 25 day of June, 2001.

My Commission expires: 8-21-03.



Notary Public, in and for said County and State

KENTUCKY RURAL WATER FINANCE CORPORATION FLEXIBLE - TERM FINANCE PROGRAM

Borrower: Cannonsburg Water District
Dated Date: 06/27/01

Borrower Payment Schedule

EXHIBIT A

Payment Date	Principal	Interest	Trustee Fees	Total	Fiscal Total
06/27/01					
01/01/02	6,000.00	12,658.10	250.00	18,908.10	
07/01/02	0.00	10,522.50	0.00	10,522.50	29,430.60
01/01/03	8,000.00	10,522.50	250.00	18,772.50	
07/01/03	0.00	10,356.50	0.00	10,356.50	29,129.00
01/01/04	8,000.00	10,356.50	250.00	18,606.50	
07/01/04	0.00	10,190.50	0.00	10,190.50	28,797.00
01/01/05	9,000.00	10,190.50	250.00	19,440.50	
07/01/05	0.00	10,003.75	0.00	10,003.75	29,444.25
01/01/06	9,000.00	10,003.75	250.00	19,253.75	
07/01/06	0.00	9,817.00	0.00	9,817.00	29,070.75
01/01/07	10,000.00	9,817.00	250.00	20,067.00	
07/01/07	0.00	9,584.50	0.00	9,584.50	29,651.50
01/01/08	10,000.00	9,584.50	250.00	19,834.50	
07/01/08	0.00	9,352.00	0.00	9,352.00	29,186.50
01/01/09	10,000.00	9,352.00	250.00	19,602.00	
07/01/09	0.00	9,119.50	0.00	9,119.50	28,721.50
01/01/10	10,000.00	9,119.50	250.00	19,369.50	
07/01/10	0.00	8,862.00	0.00	8,862.00	28,231.50
01/01/11	12,000.00	8,862.00	250.00	21,112.00	
07/01/11	0.00	8,553.00	0.00	8,553.00	29,665.00
01/01/12	12,000.00	8,553.00	250.00	20,803.00	
07/01/12	0.00	8,244.00	0.00	8,244.00	29,047.00
01/01/13	13,000.00	8,244.00	250.00	21,494.00	
07/01/13	0.00	7,909.25	0.00	7,909.25	29,403.25
01/01/14	14,000.00	7,909.25	250.00	22,159.25	
07/01/14	0.00	7,522.50	0.00	7,522.50	29,681.75
01/01/15	14,000.00	7,522.50	250.00	21,772.50	
07/01/15	0.00	7,135.75	0.00	7,135.75	28,908.25
01/01/16	15,000.00	7,135.75	250.00	22,385.75	
07/01/16	0.00	6,721.38	0.00	6,721.38	29,107.13
01/01/17	16,000.00	6,721.38	250.00	22,971.38	
07/01/17	0.00	6,279.38	0.00	6,279.38	29,250.76
01/01/18	17,000.00	6,279.38	250.00	23,529.38	
07/01/18	0.00	5,809.75	0.00	5,809.75	29,339.13
01/01/19	17,000.00	5,809.75	250.00	23,059.75	
07/01/19	0.00	5,340.13	0.00	5,340.13	28,399.88
01/01/20	19,000.00	5,340.13	250.00	24,590.13	
07/01/20	0.00	4,815.25	0.00	4,815.25	29,405.38
01/01/21	23,000.00	4,815.25	250.00	28,065.25	
07/01/21	0.00	4,223.00	0.00	4,223.00	32,288.25
01/01/22	40,000.00	4,223.00	250.00	44,473.00	
07/01/22	0.00	3,193.00	0.00	3,193.00	47,666.00
01/01/23	42,000.00	3,193.00	250.00	45,443.00	
07/01/23	0.00	2,111.50	0.00	2,111.50	47,554.50
01/01/24	45,000.00	2,111.50	250.00	47,361.50	
07/01/24	0.00	952.75	0.00	952.75	48,314.25
01/01/25	37,000.00	952.75	250.00	38,202.75	
07/01/25	0.00	0.00	0.00	0.00	38,202.75
Totals	416,000.00	345,895.88	6,000.00	767,895.88	

	Monthly Principal	Monthly Interest	Total Monthly Sinking Fund Payments
7/1-1/2	857.14	1,808.30	2,665.44
2/2-7/2	666.67	1,753.75	2,420.42
8/2-1/3	666.67	1,753.75	2,420.42
2/3-7/3	666.67	1,726.08	2,392.75
8/3-1/4	666.67	1,726.08	2,392.75
2/4-7/4	750.00	1,698.42	2,448.42
8/4-1/5	750.00	1,698.42	2,448.42
2/5-7/5	750.00	1,667.29	2,417.29
8/5-1/6	750.00	1,667.29	2,417.29
2/6-7/6	833.33	1,636.17	2,469.50
8/6-1/7	833.33	1,636.17	2,469.50
2/7-7/7	833.33	1,597.42	2,430.75
8/7-1/8	833.33	1,597.42	2,430.75
2/8-7/8	833.33	1,558.67	2,392.00
8/8-1/9	833.33	1,558.67	2,392.00
2/9-7/9	833.33	1,519.92	2,353.25
8/9-1/10	833.33	1,519.92	2,353.25
2/10-7/10	1,000.00	1,477.00	2,477.00
8/10-1/11	1,000.00	1,477.00	2,477.00
2/11-7/11	1,000.00	1,425.50	2,425.50
8/11-1/12	1,000.00	1,425.50	2,425.50
2/12-7/12	1,083.33	1,374.00	2,457.33
8/12-1/13	1,083.33	1,374.00	2,457.33
2/13-7/13	1,166.67	1,318.21	2,484.88
8/13-1/14	1,166.67	1,318.21	2,484.88
2/14-7/14	1,166.67	1,253.75	2,420.42
8/14-1/15	1,166.67	1,253.75	2,420.42
2/15-7/15	1,250.00	1,189.29	2,439.29
8/15-1/16	1,250.00	1,189.29	2,439.29
2/16-7/16	1,333.33	1,120.23	2,453.56
8/16-1/17	1,333.33	1,120.23	2,453.56
2/17-7/17	1,416.67	1,046.56	2,463.23
8/17-1/18	1,416.67	1,046.56	2,463.23
2/18-7/18	1,416.67	968.29	2,384.96
8/18-1/19	1,416.67	968.29	2,384.96
2/19-7/19	1,583.33	890.02	2,473.36
8/19-1-20	1,583.33	890.02	2,473.36
2/20-7/20	1,916.67	802.54	2,719.21
8/20-1/21	1,916.67	802.54	2,719.21
2/21-7/21	3,333.33	703.83	4,037.17
8/21-1/22	3,333.33	703.83	4,037.17
2/22-7/22	3,500.00	532.17	4,032.17
8/22-1/23	3,500.00	532.17	4,032.17
2/23-7/23	3,750.00	351.92	4,101.92
8/23-1/24	3,750.00	351.92	4,101.92
2/24-7/24	3,083.33	158.79	3,242.13
8/24-1/25	3,083.33	158.79	3,242.13
2/25-7/25	0.00	0.00	0.00
	0.00	0.00	0.00
Totals	416,000.00	345,895.88	761,895.88

Direct Payment (ACH Debit) Authorization Form

TO BE COMPLETED BY CUSTOMER		
Customer Name	Federal Tax Identification Number or SSN	
Contact Name	Contact Phone Number	Second Phone Number
Address	DTC/Company Identification Number	
City	State	Zip Code

ENTER BANK ACCOUNT INFORMATION		
Name of Bank, Thrift, Depository or Credit Union		
Branch		
City	State	Zip
Bank Identification Number [MUST BE PRESENT TO ACTIVATE DIRECT PAYMENT (ACH DEBIT)] (The first 9 digits on the bottom left of your checks)		
Checking Account Number [MUST BE PRESENT TO ACTIVATE DIRECT PAYMENT (ACH DEBIT)]		

SIGN CUSTOMER ACTIVATION AGREEMENT
<p>As an authorized representative of, and on behalf of, the customer referenced above ("Customer"), I authorize Fifth Third Bank as Trustee, or Paying Agent ("Company") to initiate transfers from Customer's Bank Account to the Company in order to initiate Payments and other related transactions. Payments will be initiated based on instructions the Company accepts from Customer and/or from payees that Customer designates. Customer agrees that participation in the service will be solely governed by the Company's Terms and Conditions, which may change from time to time.</p> <p>This authorization is to remain in full force and effect until Fifth Third has received written notification from me (or either of us) of its termination in such time and in such manner as to afford Fifth Third and Bank a reasonable opportunity to act on it.</p> <p>NOTE: ALL DEBIT AUTHORIZATIONS MUST PROVIDE THAT THE RECEIVER MAY REVOKE THE AUTHORIZATION ONLY BY NOTIFYING THE ORIGINATOR IN THE MANNER SPECIFIED IN THE AUTHORIZATION.</p> <p style="text-align: center;">_____ Customer Authorized Signature</p> <p>By _____</p> <p>Title _____</p> <p>Date _____</p>

TO BE COMPLETED BY FIFTH THIRD CORPORATE TRUST COMPLIANCE		
Corporate Trust Account Numbers		
<div style="display: flex; justify-content: space-between;"> 9 _____ </div> <div style="display: flex; justify-content: space-between;"> 9 _____ </div> <div style="display: flex; justify-content: space-between;"> 9 _____ </div> <div style="display: flex; justify-content: space-between;"> 9 _____ </div> <div style="display: flex; justify-content: space-between;"> 9 _____ </div>		
Date Received	Completed By	Employee Number

1. DEFINITIONS

For purposes of this Agreement, the following terms shall have the meanings set forth below: (a) "Agreement" shall mean this Fifth Third Bank Services Agreement, any Addendum attached hereto or referencing this Agreement, and all documents and other materials incorporated herein by reference; (b) "Fifth Third Bank Services" and "Services" shall mean the Fifth Third Bank data processing services offered by Company; (c) "Customer" shall mean the customers of Member and Company, whether solicited by Company or Member, that have entered into an agreement with Company to participate in the Services; (d) "Company Service Marks" shall mean "Fifth Third Bank", their respective logos and/or designs and any other trade names(s), trademarks(s) and service mark(s) owned by Company and/or its affiliates(s) and used in connection with the Services; (e) "Standards" shall mean Company's operating and marketing standards concerning the Services which Company may amend from time to time and which are incorporated herein by reference; and (f) "Payment" shall mean a transfer of funds initiated through the Services. Other capitalized terms shall have the meanings set forth in the Agreement or in the Standards.

2. SERVICES

(a) Services. Company will perform the Services as set forth in the Agreement. Company may make changes in the Services based upon, but not limited to, technological developments, legislative or regulatory changes, or the introduction of new services by Company. Company will use its reasonable best efforts to notify Member of any such changes that will materially affect Member at least 30 days prior to the implementation date of any such change. Member agrees to review the Standards upon receipt thereof and to abide by and fully comply with the Standards currently in effect and as may be amended from time to time.

(b) Payments. Customers may initiate Payments through one or more of Company's facilities or select the automatic payments option. For Customers that select the automatic payment option, Member agrees to provide Company on an ongoing basis a file in Company's format, and in accordance with the Standards, containing billing information deemed necessary by Company for Payments ("Payment Information"). As to all Payment Information, and the obligations represented thereby, submitted by Member to Company, Member represents and warrants to Company that: (a) each such obligation is a bona fide obligation of Customer to Member incurred in the ordinary course of business and for only the amount of such obligation; and (b) Member is in all respects in compliance with this Agreement, the Standards, the agreement between Company and Customer, the agreement or policies between Member and its customers and all laws, rules and regulations governing the same.

(c) Payment Posting. Company will make available to Member, in accordance with the Standards, information regarding Payments. Member agrees to credit Payments to its Customers' accounts effective as of the date such Payments are made available to Member.

(d) Company's Obligations. Member acknowledges and agrees that Company merely initiates Payments and that Company assumes no liability whatsoever arising in connection with Payments including but not limited to the amount of the Payment, late charges, interest or the like. Member agrees to look solely to Customers, and not Company, for any obligation owed Member. Member agrees that Company shall be the exclusive provider of the Services. Not limiting the generality of the foregoing, Member agrees not to submit or deliver any billing information relating to its customers to any financial institution, credit card processor, or other third party in order to initiate a transfer of funds from such customers.

(e) Customers Rights. Member acknowledges and agrees that the Customers shall determine when and if Company initiates a Payment notwithstanding any Payment information supplied by Member. Should Company, on behalf of a Customer, credit Member in connection with a Payment but not receive for whatever reason the corresponding funds for such Payment, Member agrees to immediately reimburse Company for such Payment. Member agrees that Customers shall have the right to reverse any Payment initiated by them or made automatically, and Member agrees to accept such reversals. In addition, Payments may be adjusted by Company and/or Customers for any inaccuracies. Company may debit Member's Account to obtain any non collected, reversed or adjusted funds from Member.

(f) Miscellaneous. Certain services and expenses will be the sole responsibility of Member and include but are not limited to the following: external costs for and verification of monetary settlement; individual terminals, modems, upgrades, modem sharing devices, etc.; data entry into Member's system or other systems of Payments, Payment Information, maintenance data, etc.; communications lines, equipment, installation and maintenance costs to the Company communications controller; costs associated with maintaining and implementing all software and hardware necessary to interface to Company in accordance with the Standards; costs associated with Member's use of any third party for purposes of sending data to, or receiving data from, Company; costs associated with A/E; costs incurred by Company network control for contacting Member; third party expenses incurred by Member and/or Company in connection with the electronic or non-electronic delivery of reports, Payments, and any other data to and from Member; physical magnetic tape or disk file output for Member use; postage, printing, and courier costs associated with non-electronically transmitted reports or other data, and all other postage or third party costs associated with the services provided herein.

3. TERM

The term of this Agreement shall commence the date Company executes this Agreement, and shall continue for a term of three (3) years from the 1st day of the calendar month following the later of the commencement date or the date Member commences use of the Services ("Initial Term"). Unless either party gives written notice to the other party at least 180 days prior to the expiration of any term, the Agreement shall be automatically extended for additional periods equal to the Initial Term. All obligations of Member incurred or existing under this Agreement as of the date of termination shall survive such termination.

4. FEES AND PAYMENT

(a) Payment of Fees. Member agrees to pay Company the fees and expenses outlined in this Agreement including any Addenda. All fees shall be paid within 30 days of Member's receipt of Company's invoice unless otherwise provided herein. Company will debit Member's Account for such fees on or at any time

Company may not change the fees listed in this Agreement during the Initial Term. Thereafter, Company may, at its discretion, add or change any fee upon notice to Member. Any such add or change shall become effective not less than 30 days after the date Company sends written notice to Member by ordinary mail. Company may charge for any non-specified service it provides and expense it incurs at the request of or on behalf of Member.

(b) Member Account. Member shall always maintain an open checking account at a financial institution which Company or its agent can access through the ACH ("Account"). Member authorizes Company to debit and/or credit the Account to settle any and all amounts due or payable under this Agreement and any Addenda. Member shall always maintain the Account with sufficient cleared funds to meet its obligations under this Agreement.

(c) Miscellaneous. Notwithstanding any other provision, in the event that by virtue of any law, rule, or regulation now existing or hereinafter enacted, Company or Member becomes obligated to change in any fashion their manner of doing business in order to comply with such law, rule or regulation and Company incurs any increased cost by virtue thereof, Company may reasonably increase its fees to Member set forth in the attached Addenda as necessary to offset such increased costs. Any increased fees hereunder if any, shall not be taken into account for purposes of any price change. All fees and charges paid under this Agreement shall be made without set-off or deduction. Any fee not paid when due shall bear interest at an annual percentage rate of the higher of twelve percent or the so called prime rate as announced by The Fifth Third Bank in Cincinnati, Ohio from time to time but in no event more than the highest interest rate permitted by law.

5. TITLE TO THE SERVICES

Member agrees it is acquiring only a nontransferable, non-exclusive right to use the Services. Company shall at all times retain exclusive title to the Services including without limitation, the Standards and any other materials delivered to Member hereunder and any patent, invention, development, product, trade name trademark, service mark, software or hardware program developed in connection with providing the Services or during the term of this Agreement. Member acknowledges that Company has filed for a patent on certain aspects of the Services and, if granted, Company, and not Member, shall be the sole and exclusive owner of such patent.

6. CONFIDENTIAL INFORMATION

(a) Member acknowledges that the methods, techniques, programs, devices or operations of Company are of a confidential nature, and are valuable and unique assets of Company's business. During the term of this Agreement and following the expiration or termination thereof, Member shall not disclose any such confidential information to any person or entity (other than to those employees and agents of Member who participate directly in the performance of this Agreement and need access to such information). Upon termination of this Agreement, Member shall deliver to Company all manuals, memoranda and other papers, and all copies thereof, relating in any way to the Services or to Company. Member acknowledges that it does not have nor can Member acquire any right or claim to such confidential information. Member acknowledges that the in the event that would be sustained by Company as a result of the violation of this provision cannot be compensated solely by money damages, and therefore agrees that Company shall be entitled to injunctive relief and any other remedies as may be available at law or in equity in the event Member, its employees or agents violate the provisions contained in this Section. The restrictions contained in this Section do not apply to any information which becomes a matter of public knowledge other than through a violation of this Agreement or other agreements to which Company is a party.

(b) Until such time as Member's customer becomes a Customer, Company agrees to hold in confidence any information concerning such customer to which Company receives from Member and only use such information for purposes soliciting for the Services.

7. GENERAL PROVISIONS

(a) Member grants to Company and its agents the right to use Member's logos, and/or symbols ("Logos"), at no cost to Company and/or its agents, for preparation and promotion of the Services, related materials and art. Member shall provide and deliver to Company such Logos in its standard font and design, and Member shall provide and deliver to Company a Member's standards and/or guidelines regarding such Logos.

(b) Member acknowledges and agrees that Company and/or its affiliates use the Company Service Marks. Company only grants to Member during the term of this Agreement a nonexclusive, revocable and nontransferable license to use Company Service Marks in accordance with this Agreement and the Standards ("License"), and any use of the Company Service Marks by Member is subject to the prior written approval of Company. Member shall not grant any license right to use any Company Service Marks covered by this Agreement without prior written consent of Company. Except for the License granted to Member in this Section, Member shall neither have nor acquire any other rights whatsoever including any ownership rights, in the Company Service Marks, trade product names, inventions, patents or services relating to the Services. Member shall not in any way state or imply that any Company Service Marks covered by this Agreement are owned by Member or that Member has any rights other than those granted hereunder to such Company Service Marks.

(c) Member agrees to provide, or assist Company in providing, any information and/or data required by Customers and/or regulatory agencies in connection with the Services. Except for any customer service obligations specifically set forth as the responsibility of Company in the Standards, Member shall provide necessary customer service to Customers.

(d) Company shall exclusively define the contract terms, conditions and policies between Customers and Company, and/or its designated agent, in connection with the Services. Member agrees that Company (and not Member) is entitled to any and all such fees and that Member will not charge Customers for Payments or the Services (except for any fees charged by Member at the commencement of this Agreement which may relate to the Services such as for a late Payment). Member agrees that Customers may utilize Company similar or other services including but not limited to Services with other Company in its sole discretion may perform solicitations to prospectively new Customers then current Customers provided it does so at its sole expense.

Payments through the Services. Member shall comply with all applicable law in connection with the Services, including but not limited to any Regulation Z or Regulation E requirements including those regarding preauthorized transfers and/or the automatic payment option. Member agrees to mail or deliver the proper advance written notice to each Customer, regarding each upcoming Payment, in accordance with the requirements of any such applicable law.

(f) Member agrees to be responsible for all direct and indirect costs (including but not limited to those incurred by Company) in connection with and/or related to Member's conversion from Company at the termination of this Agreement and/or related to any conversion or termination effecting the Services after Member's initial conversion to Company.

(g) Member agrees that Company shall not be responsible for the action or inaction of any third party used by Member for purposes of communications or other interface to Company to send and/or receive Payments, Payment Information, and/or other data even if Company recommended such third party to Member.

8. DEFAULT

(a) Default by Company. In the event Member reasonably believes that Company has substantially failed to provide the Services, Member shall give to Company a written notice specifically describing the nature of such failure and the approximate date on which Company failed to so provide the Services. Upon receipt of such notice, Company shall have 30 days to cure such failure, unless such failure cannot be reasonably cured within such period and in such case Company shall have such additional time as may be necessary to cure such failure provided that Company is proceeding diligently to effect such cure. In the event Company fails to cure such failure within such time, and such failure has or will have a materially adverse effect upon Member, Member shall have a right to terminate this Agreement effective upon not less than 90 days prior written notice to Company. Upon such termination, Company will reimburse Member for the actual monetary damages Member incurred as a result of Company's nonperformance; provided, however, in no event shall such damages exceed the limit of liability set forth in Section 9. Notwithstanding the foregoing, Company shall not be deemed to be in default under this Agreement nor liable for any delay or loss in the performance, failure to perform, or interruption of any Services resulting, directly or indirectly, from errors in data provided by Member or others, labor disputes, fire or other casualty, governmental orders or regulations, or any other cause, whether similar or dissimilar to the foregoing, beyond Company's reasonable control. Upon such an occurrence, performance by Company shall be excused until the cause for the delay has been removed and Company has had a reasonable time to again provide the Services.

(b) Default by Member. In the event Member: (i) becomes subject to any voluntary or involuntary bankruptcy, insolvency, reorganization or liquidation proceeding, a receiver is appointed for Member, or Member makes an assignment for benefit of creditors, or admits its inability to pay its debts as they become due; or (ii) fails to pay the fees, expenses or charges referenced herein when they become due; or (iii) is in default of any terms or conditions of this Agreement and/or Addenda and/or schedules and/or exhibits hereto whether by reason of its own action or inaction or that of another; or (iv) has a material deterioration in its financial condition which Company can reasonably demonstrate; Member shall be in default of this Agreement ("Event of Default"). Upon the occurrence of an Event of Default, Company may anytime thereafter terminate this Agreement upon written notice to Member. Termination of Member for any reason shall not relieve Member from any liability or obligation to Company arising prior to such termination. In the event this Agreement is terminated as a result of an Event of Default, Member shall be liable to Company for liquidated damages in an amount equal to the average amount of the monthly revenue payable by Member and Customers to Company in connection with the Services for the 3 calendar months in which such revenue was the highest during the preceding 12 calendar months (or such shorter period if this Agreement has not been in effect for 12 months), multiplied by the number of months remaining during the then current term of this Agreement and for any damage, loss or expense incurred by Company as a result of a breach by Member. All such amounts shall be due and payable by Member on the effective date of termination.

9. LIMITS ON LIABILITY

EXCEPT FOR THOSE EXPRESS WARRANTIES MADE IN THIS AGREEMENT, COMPANY DISCLAIMS ALL WARRANTIES, INCLUDING WITHOUT LIMITATION, ANY EXPRESS OR IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. Without limiting the foregoing, Company shall not be liable for lost profits, lost business or any incidental, special, consequential or punitive damages (whether or not arising out of circumstances known or foreseeable by Company) suffered by Member, any of its customers or any third party in connection with the Services provided by Company hereunder. Company's liability hereunder shall in no event exceed an amount equal to the lesser of (i) actual monetary damages incurred by Member or (ii) fees paid by Member for the particular Services in question for the calendar month immediately preceding the date on which Company received Member's notice of nonperformance as set forth in Section 8., above. In no event shall Company be liable for any matter beyond its reasonable control, or for damages or losses wholly or partially caused by the Member, or any of its customers, employees or agents, or for any damages or losses which could have been avoided or limited by Member giving notice to Company as provided in Section 8., above. No cause of action, regardless of form, shall be brought by either party more than 1 year after the cause of action arose, other than one for the nonpayment of fees and expenses related to the Services rendered by Company.

10. MEMBER'S REPRESENTATIONS AND COVENANTS

Member represents and warrants to Company:

(a) That it will comply with all applicable federal, state and local laws and regulations applicable to the Services and its business operations and will acquire all the rights and licenses deemed necessary by Company for Company to interface with Member, or vice versa, as contemplated under this Agreement.

(b) That it will solely be responsible for the quality, accuracy, and adequacy of all information supplied by or on behalf of Member to Company, including but not limited to Payment Information, and that it will establish and maintain adequate audit controls to monitor the quality and delivery of such data.

(c) That it will solely be responsible for all record keeping as may be required of it under any federal, state or local laws and regulations. Company shall not be obligated to retain any records of Services performed hereunder for a period beyond 90 calendar days after delivery of the records to Member.

(d) That it shall indemnify, defend, and hold harmless Company, and its directors, officers, employees, affiliates and agents from and against all proceedings, claims, losses, damages, demands, liabilities and expenses whatsoever (including reasonable legal and accounting fees and expenses) resulting from or arising out of any dispute between a Customer and Member, the

noncompliance with the Standards, or by reason of any other nonperformance of any provision of this Agreement on the part of the Member, or its employees, agents or customers. This indemnification shall survive the termination of the Agreement.

11. MISCELLANEOUS

(a) Other Agreements. Company reserves the right to enter into other agreements pertaining to the Services with other parties including, without limitation, other payees.

(b) Taxes. Any sales, use, excise or other taxes (other than Company's income taxes) payable in connection with or attributable to the Services shall be paid by Member. Company may, but shall not have the obligation to, pay such taxes if Member fails to do so, and Member shall immediately reimburse Company upon demand or Company may debit Member's Account therefor.

(c) Violation of Applicable Laws and Regulations. Company may cease providing any Service if such Service, in Company's opinion, violates or would violate any federal, state or local statute or ordinance or any regulation, order or directive of any governmental agency or court.

(d) Entire Agreement. This Agreement (including all exhibits and Addenda hereto and all documents and materials referenced herein) supersedes any and all other agreements, oral or written, between the parties hereto with respect to the subject matter hereof, and contains the entire agreement between such parties. This Agreement may be executed and delivered in counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

(e) Amendments. Except as provided for herein, this Agreement and an Addendum shall only be modified or amended by an instrument in writing signed by each party hereto. Provided, however, Company may amend or otherwise modify this Agreement and any Addendum provided such modification does not create any new obligation on the part of Member and does not materially diminish any Service being provided by Company hereunder. Company shall give Member notice of such changes by ordinary mail.

(f) Successors; Assignment. This Agreement and all of the provisions here shall be binding upon and inure to the benefit of the parties hereto and their respective successors, transferees and assignees. Neither this Agreement nor any interest herein may directly or indirectly be transferred or assigned Member, in whole or in part, without the prior written consent of Company.

(g) Notices. Except as otherwise provided, all notices, requests, demands and other communications to be delivered hereunder shall be in writing and shall be delivered by hand or mailed, by registered or certified mail, postage prepaid, at the following addresses: (i) If to Company, to the attention of the President at the address listed at the top of this Agreement with a copy to General Counsel at the same address; (ii) If to Member, to the address listed at the top of this Agreement; or to such other address or to such other person as either party shall have last designated by written notice to the other party. Notices, etc., delivered shall be deemed given upon receipt.

(h) Waiver. If either party waives in writing an unsatisfied condition, representation, warranty, undertaking or agreement (or portion thereof) set forth herein, the waiving party shall thereafter be barred from recovering, thereafter shall not seek to recover, any damages, claims, losses, liabilities, expenses, including, without limitation, legal and other expenses, from the other party in respect of the matter or matters so waived. Except as otherwise specifically provided for in this Agreement or any Addendum, the failure of a party to promptly enforce its rights herein shall not be construed to be a waiver of such rights unless agreed to in writing.

(i) Headings. The headings in this Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision of this Agreement.

(j) Severability. If any term or provision of this Agreement or any application thereof shall be invalid or unenforceable, the remainder of this Agreement and other application of such term or provision shall not be affected thereby.

(k) Applicable Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Ohio. The parties consent to service of process, personal jurisdiction, and venue in the state federal courts in Cincinnati, Ohio or Hamilton County, Ohio, and select courts as the exclusive forum with respect to any action or proceeding brought to enforce any liability or obligation under this Agreement.

(l) Authorization. Each of the parties hereto represents and warrants that full power and authority to enter into this Agreement; that the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate or partnership or other appropriate authorizing actions; that the execution, delivery and performance of this Agreement will not contravene applicable by-law, corporate charter, partnership or joint venture agreement, regulation, order or judgment; that execution, delivery and performance of this Agreement will not contravene any provision or constitute a default under any other agreement, license or contract to which such party is bound; and, that this Agreement is valid and enforceable in accordance with its terms.

(m) No Third Party Beneficiary. This Agreement is for the benefit of, and is enforced only by, Company and Member and their respective successors permitted transferees and assigns, and is not for the benefit of, and may not be enforced by, any third party.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their authorized officers as of the dates set forth below.

Fifth Third Bank

Signature: _____

Print Name: _____

Title: _____ Date: _____

Member:

Signature: _____

Print Name: _____

Title: _____ Date: _____

EXHIBIT C

**REQUEST FOR PAYMENT WITH RESPECT TO
KENTUCKY RURAL WATER FINANCE CORPORATION
(FLEXIBLE TERM PROGRAM)**

Request No. _____

Dated

To: Fifth Third Bank
Corporate Trust Administration
Mail Drop 1090D2
38 Fountain Square Plaza
Cincinnati, Ohio 45263
Fax Number: (513) 744-6785

From: Cannonsburg Water District ("Governmental Agency")

Contact Person: _____, Manager

Address: _____

Ladies and Gentlemen:

The above identified Governmental Agency has entered into an Assistance Agreement with the Kentucky Rural Water Finance Corporation (the "Issuer") for the acquisition and construction of facilities described in the Assistance Agreement as the "Project."

Pursuant to the Assistance Agreement, we hereby certify that we have incurred the following expenses in connection with the Project and that the Issuer's funding share of these expenses is in the amount so denoted in this request totaling \$ _____ and is set forth in Exhibit A attached hereto.

Respectfully submitted,

CANNONSBURG WATER DISTRICT

By _____

Title _____

**Certificate of Consulting Engineers as to
Payment Request**

The undersigned, a duly qualified and licensed Engineer hereby certifies that he or she represents the Governmental Agency submitting this request and that all expenses represented in this request were duly incurred for the construction of the "Project," and that such expenses have not been the subject of any request for disbursement previously submitted.

Engineer/Consultant

Firm Name _____

By _____

Title _____