

# PENDLETON COUNTY WATER DISTRICT

P.O. BOX 232, FALMOUTH, KY 41040

(859) 654-6964 FAX (859) 654-7032

Deaf, Hard-of-Hearing or Speech Impaired, call 711

September 6, 2012

Public Service Commission  
P. O. Box 615  
Frankfort, KY 40602-0615

RECEIVED

SEP 10 2012

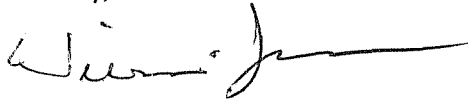
PUBLIC SERVICE  
COMMISSION

Dear Sir or Madam,

Enclosed please find the original and five (5) copies of our Application for Rate Adjustment. We would like to request, if the rate increase is approved as outlined in the enclosed application, that October 16, 2012 be the effective date of the increase rather than the first of the month. If something should delay the processing of our application such that you will not be able to grant the October 16, 2012 date, we would like the effective date to be the 16<sup>th</sup> of the following month. We read meters and bill on approximately the 15<sup>th</sup> of each month. If the effective date is set at the 16<sup>th</sup> of the month, our customers can be billed at the new rates for the entire month. If the effective date is set at the first of the month, we will have to prorate the bill or wait until the next billing cycle to implement the new rates.

If you should require additional information or have questions, please contact our office manager, Cheri Wright at (859) 654-6964 or at [cwright@pcwater.org](mailto:cwright@pcwater.org).

Yours truly,



William T. Jones  
Manager  
Pendleton County Water District

RECEIVED

SEP 10 2012

PUBLIC SERVICE  
COMMISSION

**PENDLETON COUNTY WATER DISTRICT**

**APPLICATION FOR RATE ADJUSTMENT**

# PENDLETON COUNTY WATER DISTRICT

## AUGUST 2012

Application	1
Articles of Organization	2
Customer Notice of Proposed Rate Adjustment	3
Reason for Application	4
Current and Proposed Rates	5
Statement of Adjusted Operations	6
Revenue Requirements Calculation	7
Billing Analysis	8
Depreciation Schedule	9
Outstanding Debt Instruments	10
Rural Development Bonds of 1977	
Rural Development Bonds, Series 1997	
Kentucky Rural Water Revenue Bonds, Series 2001	
Rural Development Bonds, Series 2004	
Rural Development Bonds, Series 2010	
Kentucky Association of Counties Leasing Trust Program	

RECEIVED  
SEP 10 2012  
PUBLIC SERVICE  
COMMISSION





# APPLICATION

<b>SUBMIT ORIGINAL AND FIVE ADDITIONAL COPIES, UNLESS FILING ELECTRONICALLY</b>
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**APPLICATION FOR RATE ADJUSTMENT  
BEFORE THE PUBLIC SERVICE COMMISSION**

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

PENDLETON COUNTY WATER DISTRICT

(Name of Utility)

P. O. BOX 232

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

FALMOUTH, KY 41040

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

(859)654-6964

(Telephone Number)

**BASIC INFORMATION**

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

CHERI WRIGHT, OFFICE MANAGER

(Name)

P. O. BOX 232

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

FALMOUTH, KY 41040

(Address - City, State, Zip)

(859)654-6964

(Telephone Number)

cwright@pcwater.org

(Email Address)

**(For each statement below, the Applicant should check either "YES" or "NO".)**


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

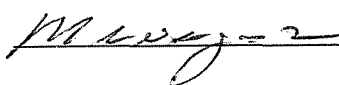
- |   | YES                                 | NO                                  |
|---|-------------------------------------|-------------------------------------|
| 4. a. Applicant is a corporation. A certified copy of its articles of incorporation and all amendments are attached to this application or were filed with the Public Service Commission in Case No. _____.   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| b. Applicant is a limited liability company. A certified copy of its articles of organization and all amendments are attached to this application or were filed with the Public Service Commission in Case No. _____.   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| c. Applicant is a limited partnership. A certified copy of its limited partnership agreement and all amendments thereto are attached to this application or were filed with the Public Service Commission in Case No. _____.  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| d. Applicant is a sole proprietorship or partnership.   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| e. Applicant is a water district organized pursuant to KRS Chapter 74.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| f. Applicant is a water association organized pursuant to KRS Chapter 273.  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| 5. a. A paper copy of this application has been mailed to Office of Rate Intervention, Office of Attorney General, 1024 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601-8204.  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| b. An electronic copy of this application has been electronically mailed to Office of Rate Intervention, Office of Attorney General at rateintervention@ag.ky.gov.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| 6. a. Applicant has 20 or fewer customers or is a sewer utility and has mailed written notice of the proposed rate adjustment to each of its customers no later than the date this application was filed with the Public Service Commission. A copy of this notice is attached to this application. <b>(Attach a copy of customer notice.)</b>  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| b. Applicant has more than 20 customers, is not a sewer utility, and has included written notice of the proposed rate adjustment with customer bills that were mailed by the date on which the application was filed. A copy of this notice is attached to this application. <b>(Attach a copy of customer notice.)</b>   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| c. Applicant has more than 20 customers, is not a sewer utility, and has made arrangements to publish notice once a week for three (3) consecutive weeks in a prominent manner in a newspaper of general circulation in its service area, the first publication having been made by the date on which this Application was filed. A copy of this notice is attached to this application. <b>(Attach a copy of customer notice.)</b> | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| 7. Applicant requires a rate adjustment for the reasons set forth in the attachment entitled "Reasons for Application." <b>(Attach completed "Reasons for Application" Attachment.)</b>   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |

- |       |  | YES                                 | NO                       |
|-------|--|-------------------------------------|--------------------------|
| 8.    | Applicant proposes to charge the rates that are set forth in the attachment entitled "Current and Proposed Rates." <b>(Attach completed "Current and Proposed Rates" Attachment.)</b>  | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 9.    | Applicant proposes to use its annual report for the immediate past year as the test period to determine the reasonableness of its proposed rates. This annual report is for the 12 months ending December 31, <u>2011</u> .  | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 10.   | Applicant has reason to believe that some of the revenue and expense items set forth in its most recent annual report have or will change and proposes to adjust the test period amount of these items to reflect these changes. A statement of the test period amount, expected changes, and reasons for each expected change is set forth in the attachment "Statement of Adjusted Operations." <b>(Attach a completed copy of appropriate "Statement of Adjusted Operations" Attachment and any invoices, letters, contracts, receipts or other documents that support the expected change in costs.)</b> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 11.   | Based upon test period operations, and considering any known and measurable adjustments, Applicant requires additional revenues of \$ <u>122,984.44</u> and total revenues from service rates of \$ <u>1,385,986.88</u> . The manner in which these amounts were calculated is set forth in "Revenue Requirement Calculation" Attachment. <b>(Attach a completed "Revenue Requirement Calculation" Attachment.)</b>  | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 12.   | As of the <b>date of the filing of this application</b> , Applicant had <u>2,279</u> customers.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 13.   | A billing analysis of Applicant's current and proposed rates is attached to this application. <b>(Attach a completed "Billing Analysis" Attachment.)</b>   | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 14.   | Applicant's depreciation schedule of utility plant in service is attached. <b>(Attach a schedule that shows per account group: the asset's original cost, accumulated depreciation balance as of the end of the test period, the useful lives assigned to each asset and resulting depreciation expense.)</b>  | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 15.a. | Applicant has outstanding evidences of indebtedness, such as mortgage agreements, promissory notes, or bonds.  | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| b.    | Applicant has attached to this application a copy of each outstanding evidence of indebtedness (e.g., mortgage agreement, promissory note, bond resolution).   | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| c.    | Applicant has attached an amortization schedule for each outstanding evidence of indebtedness.   | <input checked="" type="checkbox"/> | <input type="checkbox"/> |

- |   | YES                                 | NO                                  |
|---|-------------------------------------|-------------------------------------|
| 16. a. Applicant is not required to file state and federal tax returns.   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| b. Applicant is required to file state and federal tax returns.   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| c. Applicant's most recent state and federal tax returns are attached to this Application.<br><b>(Attach a copy of returns.)</b>  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| 17. Approximately <u>0</u> <b>(Insert dollar amount or percentage of total utility plant)</b> of Applicant's total utility plant was recovered through the sale of real estate lots or other contributions. | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |

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

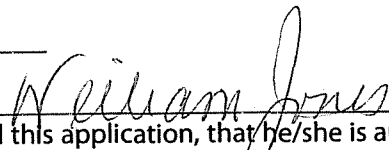
Signed   
Officer of the Company/Authorized Representative

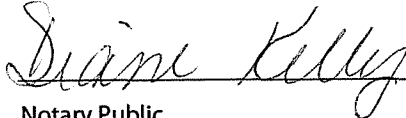
Title 

Date 9-6-12

COMMONWEALTH OF KENTUCKY

COUNTY OF Anderson

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

  
Notary Public  
My commission expires: 5-5-14

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

- Applicant's Articles of Incorporation, Articles of Organization, or Limited Partnership Agreement.
- All amendments to Applicant's Articles of Incorporation, Articles of Organization, or Limited Partnership Agreement.
- Customer Notice of Proposed Rate Adjustment
- "Reasons for Application" Attachment
- "Current and Proposed Rates" Attachment
- "Statement of Adjusted Operations" Attachment
- "Revenue Requirements Calculation" Attachment
- "Billing Analysis" Attachment
- Depreciation Schedule
- Outstanding Debt Instruments (i.e., Bond Resolutions, Mortgages, Promissory Notes, Amortization Schedules.)
- State Tax Return
- Federal Tax Return



# ARTICLES OF ORGANIZATION



County Court Order Book 30  
p. 24

PENDLETON COUNTY

COURT

NOV 3rd Day 3rd Day of NOVEMBER 19 58

Moore, Mrs. Callie, Estate	Administrator's Final Settlement
Doan, John W., Estate	Executrix's Final Settlement
Clayton, Miss Carol Sue, Minor	Guardian's Annual Report and Accounting
Clayton, Miss Connie Lou, Minor	Guardian's Annual Report and Accounting
Cosby, Mrs. Edna M.	Executrix's Final Settlement
Bardford, Geo. C., County Treasurer	Report of the General Expense Fund for the period from April 15, 1957 to June 30, 1957, inc.
Bradford, Geo. C., County Treasurer	Report of the Road Fund for the period from April 15, 1957 to June 30, 1957, inc.
Bradford, Geo. C., County Treasurer	Report of the Resources and Liabilities for the period from April 14, 1957 to June 30, 1957, inc.
Bradford, Geo. C., County Treasurer	Annual Report of General Expense Fund - (Fiscal Year 1957-1958)
Bradford, Geo. C., County Treasurer	Annual Report of Road Fund - (Fiscal Year 1957-1958)
Bradford, Geo. C., County Treasurer	Annual Report of Resources and Liabilities - (Fiscal year 1957 - 1958)

In Re: Creation of Water District for the Purpose  
Of Water Supply.

**O R D E R**

A petition having been filed in this matter signed by seventy-five (75) resident freeholders of a proposed water district in this county as set-out therein as to be established, and for the appointment of water commissioners for the purpose of furnishing a water supply to the citizens of said proposed district of this county as described therein, and public notice of same having been published in three (3) issues of the Falmouth Outlook, Falmouth, Ky., a weekly paper of general circulation of this county, and after thirty (30) days from the publication of said note and no residents of said proposed district having filed objections, and said case having been set for a hearing on said petition within ten (10) days, and said hearing having been continued until the Regular County Court Day as affixed by statute, the first Monday of each month, and upon which date the Court held hearing upon said matter, and there being no objections filed at that time and no citizen or other individual, company or corporation having appeared in opposition to said petition, and the Court being sufficiently advised, it is considered and adjudged and so

**O R D E R E D**

CCO Book 30 p 244

# ORDERS

PENDLETON

COD

NOVEMBER Term 3rd., Day, 3rd., of NOVEMBER

(1) That it appears to the Court that the establishment of such district is reasonably necessary for the public health, convenience, fire protection, and comfort of the residents of said proposed district, therefore

(2) There is hereby established a water district described as follows:

Located in Pendleton County, Kentucky, and starting and including the new Pendleton County Central School property located on West side of U. S. Highway No. 27, approximately two (2) miles North of Falmouth, Ky., and including a territory of one (1) mile on each side of said highway right of way, East and West as said highway continues to the North, excluding the City Limits of the City of Butler, Ky., as now exists, to the Pendleton County and Campbell County boundary line.

(3) The above established water district shall be designated as "The U. S. Highway No. 27 Water District".

GRANTED THIS THE 3RD DAY OF NOVEMBER, 1988.

/s/ Ralph P. Bowling  
Judge, Pendleton County Court

In Re: Order Appointing Three (3) Water District Commissioners - U. S. Highway No. 27 District.

## ORDER

An order having been entered in this matter creating The U. S. Highway No. 27 Water District pursuant to KRS 74.010, now therefore, under KRS 74.020, and the Court being sufficiently advised the following persons, residents of said water district, are appointed by the Court, viz:

- (1) A. R. Ducker residing at Rt. #1, Butler, Ky.
- (2) C. B. Peoples residing at Butler, Ky.
- (3) Denver Hornbeek residing at Rt. # 2 Butler, Ky.

Each commissioner shall execute a bond, to be approved by the Court, and shall be sworn to faithfully perform the duties of his position. The term of office for each commissioner shall be four (4) years with any vacancies to be filled by the Court. Each commissioner shall receive an annual salary of \$1.00 to be paid out of the water district fund.

GRANTED THIS THE 3RD DAY OF NOVEMBER, 1988

/s/ Ralph P. Bowling  
Judge, Pendleton County Court

*Sherry  
See above*

County Court Order Book 30 p. 375

ORDERS

PENDLETON COUNTY

COURT

NOVEMBER

Day, 13th, Day of NOVEMBER, 1959.

COURT MET PURSUANT TO ADJOURNMENT

With

HON. RALPH P. BOWLING, JUDGE, Presiding

In Re: John F. Messmer, Estate, Inventory and Appraisement Bill filed.

Inventory and Appraisement Bill of the personal estate of John F. Messmer, deceased, filed and ordered to be recorded.

In Re: Order Changing Name of Water District from "U. S. Highway No. 27 District" to "Pendleton County Water District".

Came the Water Commissioners as heretofore appointed by the Court and moved the Court for the changing of the name of said district as heretofore designated by Court Order as "U. S. Highway No. 27 District", to "Pendleton County Water District", and it appearing to the Court that said original order naming said district as "U. S. Highway No. 27 District" did not reflect the true intention of the Court relative to said name, and the Court being sufficiently advised, it is considered, adjudged and so

ORDERED

That the name of the water district designated by former order as "U. S. Highway No. 27 District" be and the same is hereby changed and shall be known hereafter as "Pendleton County Water District".

ORDERED THAT COURT ADJOURN UNTIL NOVEMBER 17, 1959.

*Ralph P. Bowling*  
County Judge



**CUSTOMER NOTICE OF  
PROPOSED RATE ADJUSTMENT**

PUBLIC NOTICE OF PROPOSED ADJUSTMENT OF WATER RATES AND CHARGES

PENDLETON COUNTY WATER DISTRICT

ATTACHMENT B

**NOTICE**

Notice is hereby given that Pendleton County Water ("District") has filed an application with the Public Service Commission of Kentucky ("PSC") seeking approval of revised water rates. The District plans to implement the proposed rates upon approval of the PSC.

Monthly Rate:

<u>Current</u>			<u>Proposed</u>		<u>Rate</u>	
First	2,000 Gallons	20.36	First	2,000	22.45	Minimum Bill
Next	3,000 Gallons	8.83	Next	3,000	9.71	per 1,000 gallons
Next	10,000 Gallons	8.33	Next	10,000	9.16	per 1,000 gallons
Over	15,000 Gallons	7.23	Over	15,000	7.95	per 1,000 gallons

<u>MONTHLY USAGE</u>	<u>MONTHLY BILL AT CURRENT RATE</u>	<u>MONTHLY BILL AT PROPOSED RATE</u>	<u>PERCENT INCREASE OVER CURRENT</u>
2,000	20.36	22.45	10.3%
5,000	46.85	51.58	10.1%
10,000	88.50	97.38	10.0%
20,000	130.15	143.18	10.0%
30,000	202.45	222.68	10.0%
50,000	347.05	381.68	10.0%
75,000	527.80	580.43	10.0%
100,000	708.55	779.18	10.0%
150,000	1,070.05	1,176.68	10.0%
200,000	1,431.55	1,574.18	10.0%
1,000,000	7,215.55	7,934.18	10.0%
2,000,000	14,445.55	15,884.18	10.0%

The rates contained in this notice are the rates proposed by the District. However, the PSC may order rates to be charged that differ from these proposed rates. Such action may result in rates for consumers other than the rates included in this notice.

Customers of the District are advised that any corporation, District, body public, or person with a substantial interest in the matter may, and showing grounds for the request may intervene in this filing. Any motion to intervene shall be submitted to the Kentucky Public Service Commission, 211 Sower Boulevard, P. O. Box 615, Frankfort, KY 40602; Attn: Executive Director. (Telephone 502-564-3940) and shall set forth the grounds for the request, including the status and interest of the party intervening and may obtain copies of the rate application and any other filings made by the District by contacting the District at its' main office or by telephone (859-654-6964). Any person may examine the rate application and any other filings made by the District at the District's main office located Falmouth, Kentucky, or at the Public Service Commission's office located at 211 Sower Blvd., Frankfort, KY 40602, telephone 502-564-3940.



## REASON FOR APPLICATION



**PENDLETON COUNTY WATER DISTRICT  
REASONS FOR APPLICATION**

Applicant is applying for a rate increase because their operating income has been declining and has actually been a net operating loss for the past four years. To illustrate, I have listed the District's Operating Income/(Loss) for the past six years as reported in our annual PSC Report.

2006	4,652.00
2007	55,430.00
2008	(5,556.00)
2009	(66,632.00)
2010	(84,643.00)
2011	(215,606.00)

Although the District has passed through rate increases from their water supplier over the past years, they have not had a general rate increase since August 29, 2002. While the cost of labor and supplies have continued to increase over the years, our rates have remained the same. We have tried to control our expenses but, as you can see, our ability to meet our obligations continues to decline. We feel that a rate increase is the only solution.



# CURRENT AND PROPOSED RATES

**PENDLETON COUNTY WATER DISTRICT  
CURRENT & PROPOSED RATES**

	<b>Test Year Rates 1/1 - 2/29</b>	<b>Test Year Rates 3/1 - 12/31</b>	<b>Current Rates Effective 1/1/2012</b>	<b>Proposed Rates</b>
<u>5/8' X 3/4' Meter through 2" Meter</u>				
First 2,000 Gallons	\$20.12	\$20.24	\$20.36	\$22.45
Next 3,000 Gallons	8.71	8.77	8.83	9.71
Next 10,000 Gallons	8.21	8.27	8.33	9.16
All Over 15,000 Gallons	7.11	7.17	7.23	7.95
 <u>Pendleton County High School</u>				
First 125,000 Gallons	\$910.45	\$917.95	\$925.45	\$1,018.00
Over 125,000 Gallons	7.11	7.17	7.23	7.95
 <u>Griffin Industries</u>				
First 400,000 Gallons	\$2,884.80	\$2,908.80	\$2,932.80	\$3,232.80
Over 400,000 Gallons	7.11	7.17	7.23	7.95
 <u>City of Butler</u>				
First 1,672,917 Gallons	\$5,704.65	\$5,805.03	\$5,905.41	\$6,500.95
Over 1,672,917 Gallons	3.41	3.47	3.53	3.88

FOR Pendleton County, Kentucky  
Community, Town or City

P.S.C. KY. NO. \_\_\_\_\_

\_\_\_\_\_ SHEET NO. \_\_\_\_\_

Pendleton County Water District  
(Name of Utility)

CANCELLING P.S.C. KY. NO. \_\_\_\_\_

\_\_\_\_\_ SHEET NO. \_\_\_\_\_

RATES AND CHARGES

<u>5/8" x 3/4" Meter through 2" Meter</u>	
First 2,000 Gallons	\$20.12
Next 3,000 Gallons	8.71
Next 10,000 Gallons	8.21
All Over 15,000 Gallons	7.11
 <u>Pendleton County High</u>	
First 125,000 Gallons	\$910.45
Over 125,000 Gallons	7.11
 <u>Griffin Industries</u>	
First 400,000 Gallons	\$2,884.80
Over 400,000 Gallons	7.11
 <u>City of Butler</u>	
First 1,672,917 Gallons	\$6,704.65
Over 1,672,917 Gallons	3.41

DATE OF ISSUE \_\_\_\_\_  
Month / Date / Year

DATE EFFECTIVE March 15, 2008  
Month / Date / Year

ISSUED BY L.R. Faulkner Jr.  
(Signature of Officer)

TITLE Secretary

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION  
IN CASE NO. 2008-00035 DATED Feb. 25 2008

PUBLIC SERVICE COMMISSION  
OF KENTUCKY  
EFFECTIVE  
3/15/2008  
PURSUANT TO 807 KAR 5:011  
SECTION 9 (1)

By [Signature]  
Executive Director

FOR Pendleton County, Kentucky  
Community, Town or City

P.S.C. KY. NO. \_\_\_\_\_

\_\_\_\_\_ SHEET NO. \_\_\_\_\_

CANCELLING P.S.C. KY. NO. \_\_\_\_\_

\_\_\_\_\_ SHEET NO. \_\_\_\_\_

Pendleton County Water District  
(Name of Utility)

CONTENTS

5/8" x 3/4" Meter through a 2" Meter

First	2,000 Gallons	\$20.24	Minimum Bill
Next	3,000 Gallons	8.77	Per 1,000 Gallons
Next	10,000 Gallons	8.27	Per 1,000 Gallons
Over	15,000 Gallons	7.17	per 1,000 Gallons

Pendleton County High School

First	125,000 Gallons	\$917.95	Minimum Bill
Over	125,000 Gallons	7.17	per 1,000 Gallons

Griffin Industries

First	400,000 Gallons	\$2,908.80	Minimum Bill
Over	400,000 Gallons	7.17	per 1,000 Gallons

City of Butler

First	1,672,917 Gallons	\$5,805.03	Minimum Bill
Over	1,672,917 Gallons	3.47	Per 1,000 Gallons

DATE OF ISSUE \_\_\_\_\_

Month / Date / Year

DATE EFFECTIVE \_\_\_\_\_

3-1-2011

Month / Date / Year

ISSUED BY \_\_\_\_\_

TITLE \_\_\_\_\_

Secretary

(Signature of Officer)

ISSUED BY THE AUTHORITY BY AN ORDER OF THE PUBLIC SERVICE COMMISSION OF KENTUCKY IN

CASE NO. 2011-00062

DATED 3-15-2011

3/1/2011

PURSUANT TO 807 KAR 5:011 SECTION 9 (1)

KENTUCKY  
PUBLIC SERVICE COMMISSION

JEFF R. DEROUEN  
EXECUTIVE DIRECTOR

TARIFF BRANCH

Brent Kirkley

OF KENTUCKY IN

FOR Pendleton County, Kentucky  
Community, Town or City

P.S.C. KY. NO. \_\_\_\_\_

\_\_\_\_\_ SHEET NO. \_\_\_\_\_

Pendleton County Water District  
(Name of Utility)

CANCELLING P.S.C. KY. NO. \_\_\_\_\_

\_\_\_\_\_ SHEET NO. \_\_\_\_\_

RATES AND CHARGES

5/8" x 3/4" Meter through 2" Meter

First 2,000 Gallons	\$20.36
Next 3,000 Gallons	8.83
Next 10,000 Gallons	8.33
All Over 15,000 Gallons	7.23

Pendleton County High

First 125,000 Gallons	\$925.45
Over 125,000 Gallons	7.23

Griffin Industries

First 400,000 Gallons	\$2,932.80
Over 400,000 Gallons	7.23

City of Butler

First 1,672,917 Gallons	\$5,905.41
Over 1,672,917 Gallons	3.53

DATE OF ISSUE \_\_\_\_\_

Month / Date / Year

DATE EFFECTIVE 1/1/2012

Month / Date / Year

ISSUED BY [Signature]

(Signature of Officer)

TITLE Secretary

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION  
IN CASE NO. 2011-00475 DATED 12-27-2011

KENTUCKY PUBLIC SERVICE COMMISSION
JEFF R. DEROUEN EXECUTIVE DIRECTOR
TARIFF BRANCH <u>[Signature]</u>
EFFECTIVE <b>1/1/2012</b> PURSUANT TO 807 KAR 5:011 SECTION 9 (1)





# STATEMENT OF ADJUSTED OPERATIONS

## Pendleton County Water District

### SCHEDULE OF ADJUSTED OPERATIONS - WATER UTILITY

TYE 12/31/2011

	Test Year	Adjustments	Ref.	Pro Forma
<b><u>Operating Revenues</u></b>				
Sales of Water				
Unmetered Water Sales				
Metered Water Sales	1,127,932.24			1,358,011.08
Bulk Loading Stations				
Fire Protection Revenue				
Sales for Resale	<u>74,574.90</u>			<u>87,681.38</u>
Total Sales of Water	<u>1,202,507.14</u>	<u>0.00</u>		<u>1,445,692.46</u>
Other Water Revenues				
Forfeited Discounts	22,281.65			22,281.65
Miscellaneous Service Revenues	11,658.38			11,658.38
Rents from Water Property	3,600.00			3,600.00
Other Water Revenues				
Total Other Water Revenues	<u>37,540.03</u>	<u>0.00</u>		<u>37,540.03</u>
<b>Total Operating Revenues</b>	<u>1,240,047.17</u>	<u>0.00</u>		<u>1,483,232.49</u>
<b><u>Operating Expenses</u></b>				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	297,297.65			297,297.65
Salaries and Wages - Officers	23,600.00			23,600.00
Employee Pensions and Benefits	93,098.48			93,098.48
Purchased Water	403,942.98			403,942.98
Purchased Power	19,471.96			19,471.96
Fuel for Power Production				
Chemicals				
Materials & Supplies	83,708.93	-37,343.36	A	46,365.57
Contractual Services	54,216.73	-2,560.00	B	51,656.73
Water Testing	1,185.00			1,185.00
Rents	2,425.22			2,425.22
Transportation Expenses	21,875.64			21,875.64
Insurance	22,096.25			22,096.25
Regulatory Commission Expenses				
Bad Debt Expense	4,632.00			4,632.00
Miscellaneous Expenses	<u>4,148.62</u>	<u>-847.86</u>	C	<u>3,300.76</u>
Total Operation and Maintenance Expenses	1,031,699.46			990,948.24
Depreciation Expense	348,712.00	-142,574.00	D	206,138.00
Amortization Expense	0.00			0.00
Taxes Other Than Income	24,743.98			24,743.98
Income Tax Expense	<u>0.00</u>			<u>0.00</u>
<b>Total Operating Expenses</b>	<u>1,405,155.44</u>	<u>-142,574.00</u>		<u>1,221,830.22</u>
<b>Utility Operating Income</b>	<u>-165,108.27</u>	<u>142,574.00</u>		<u>261,402.27</u>

**Pendleton County Water District  
References**

**Reference  
Letter**

- A** Test Year Materials & Supplies include the cost of a large unusual repair to a line at the Ammerman Tank. Schedule D itemizes all of the costs charged to Materials and Supplies during the test year and details the items that should be eliminated from the Pro Forma amount due to the large unusual repair.
- B** Test year Contract Services include the cost of a tank evaluation that was done during the test year. Since this evaluation is only done once every 5 years, we have eliminated 4/5 of the \$3,200.00 cost from the Test Year in order for the pro forma to show the portion of the cost that is actually attributable to a single year. Schedule E itemizes all of the costs charged to Contract Services during the Test Year and details the cost that has been eliminated from the Pro Forma amount.
- C** Test Year Miscellaneous Expense includes several items such as funeral flowers that are not considered a necessary cost of operations. Schedule F itemizes all of the costs charged to Miscellaneous Expense during the Test Year and details the items that have been eliminated from the Pro Forma amount.
- D** According to the enclosed 2012 depreciation schedule, Pro Forma depreciation expense will be \$347,913. This is a reduction of \$799 from the test year. In addition, the District has been setting funds aside for the replacement of capital assets. We feel that we have enough in reserve to reduce the amount of depreciation expense to be recouped from customer payments in the attached Pro Forma Statements. In order to limit the amount of rate increase to our customers to approximately 10%, we have reduced the expected Pro Forma depreciation expense of \$347,913 by 40.75% or \$141,775 to \$206,138.

**Pendleton County Water District**  
**Materials and Supplies**  
**January through December 2011**

**A**

Type	Date	Num	Name	Memo	Debit	Credit	Balance	Adjustment	Adjusted Balance	Explanation
<b>MAINTENANCE - OTHER</b>										
<b>BUILDING</b>										
Check	01/25/2011	15433	Philip Crawford	lights for garage	152.32					
					152.32	0.00	152.32			
Total BUILDING										
<b>OTHER EQUIPMENT</b>										
Bill	01/31/2011		COUNTRYSIDE TRACTOR & SUPPLY	hydraulic fluid	49.08					
Bill	05/31/2011	47562	WESTERMAN COMPANIES	RELAY	32.00					
Bill	08/15/2011	48094	WESTERMAN COMPANIES	2 BOARDS	870.00					
Bill	08/15/2011	8002539	POLLARDWATER.COM	OIL FOR BORING MACHINE	123.95					
Bill	11/04/2011	863909	LIMESTONE FARM LAWN WORKSITE	BELT FOR LAWN MOWER	82.39					
Bill	12/31/2011	672421	Southeastern Equipment Co., Inc.	SKID STEER	57.20					
					1,214.62	0.00	1,214.62			
Total OTHER EQUIPMENT										
<b>MATERIAL &amp; SUPPLIES - OPERATION</b>										
<b>OPERATIONS</b>										
Bill	01/24/2011	2487947	HD Supply Waterworks	2487947 TRANSPONDERS	3,385.20					
Bill	04/11/2011	2780648	HD Supply Waterworks	2780648 air relief valves	143.00					
Bill	04/11/2011	2764031	HD Supply Waterworks	2764031air relief valve	71.50					
Bill	04/19/2011	287359	GROTT LOCKSMITH CENTER INC	LOCKS	373.61					
Bill	05/23/2011	857253991	GRAINGER	PRESSURE RECORDER	511.10					
Bill	05/23/2011	857253991	GRAINGER	PRESSURE RECORDER GRAPHS	43.42					
Bill	07/22/2011	3277588	HD Supply Waterworks	3277588 chlorine	512.82					
Bill	08/15/2011	3378976	HD Supply Waterworks	3378976	83.31					
Bill	08/15/2011	7358044	HACH Company	7358044 CHLORINE	521.78					
Bill	08/15/2011	857253991	GRAINGER	PRESSURE TRANSDUCER	200.34					
					5,846.08	0.00	5,846.08			
Total OPERATIONS										
<b>MAINTENANCE</b>										
Bill	01/21/2011	2465783	HD Supply Waterworks	2465783	10.98					
Bill	01/21/2011	2478331	HD Supply Waterworks	2478331	161.04					
Bill	01/31/2011	1156	ACE Hardware	1156	347.56					
General Jo	01/31/2011	6		6 JANUARY REPAIRS	2,031.17					
Bill	02/23/2011	2585864	HD Supply Waterworks	2585864	183.34					
General Jo	02/28/2011	6		6 FEBRUARY REPAIRS	1,088.87					
Bill	03/31/2011	1156	ACE Hardware	1156	94.18					
Bill	03/31/2011	5899	Hilltop Stone LLC	864429	108.86					
General Jo	03/31/2011	6		6 MARCH REPAIRS	1,184.73					
General Jo	03/31/2011	20		20 to balance inventory		16.05				
Bill	03/31/2011	5473-7801-48	Fifth Third Bank	oil	84.03					
Bill	04/11/2011	5899	Hilltop Stone LLC	864542	105.78					
Bill	04/30/2011	1156	ACE Hardware	1156	139.26					
General Jo	04/30/2011	6		6 APRIL REPAIRS	581.71					

**Pendleton County Water District**  
**Materials and Supplies**  
**January through December 2011**

**A**

Type	Date	Num	Name	Memo	Debit	Credit	Balance	Adjustment	Adjusted Balance	Explanation
Bill	05/09/2011	2916238	HD Supply Waterworks	REPAIR AT AMMERMAN TANK	5,457.82			-5,457.82		Due to line slippage
Bill	05/09/2011	4719	C.I. Thornburg Co. Inc.	REPAIRS AT AMMERMAN TANK	13,104.00			-13,104.00		caused by extremely wet
Bill	05/11/2011	2916304	HD Supply Waterworks	2916304 - AMMERMAN TANK REPA	518.54			-518.54		weather the District had
Bill	05/11/2011	864895	Hilltop Stone LLC	864895	337.01					to make a major repair
Bill	05/12/2011		Tiltop Excavating LLC	REPAIR LINE AT AMMERMAN TAN	19,500.00			-19,500.00		to a line at the Ammerman
Bill	05/17/2011	175806	Reis Concrete	repair at Ammerman tank site	390.00			-390.00		tank. We have therefore
Bill	05/18/2011	13111	Reis Concrete	repair at Ammerman tank site	362.00			-362.00		excluded these expenses
Bill	05/19/2011	5473-7801-48	Fifth Third Bank	GRASS SEED	239.94					from the pro forma amounts
Credit	05/25/2011	S1518346.1	C.I. Thornburg Co. Inc.	REPAIR AT AMMERMAN TANK		1,989.00		1,989.00		
Bill	05/31/2011	1156	ACE Hardware	1156	140.77					
Bill	05/31/2011	865226	Hilltop Stone LLC	865226	89.96					
Bill	05/31/2011	P1350	Barnes Hardware & Lumber	P1350	24.36					
General Jo	05/31/2011	6		6 MAY REPAIRS	457.57					
Bill	06/28/2011	44605	Anderson's Equipment Co.	weed eater	174.47					
General Jo	06/30/2011	6		6 REPAIRS FOR JUNE	374.58					
Bill	06/30/2011	1156	ACE Hardware	1156	180.45					
Bill	06/30/2011	3192956	HD Supply Waterworks	3192956 TRANSPONDERS	3,385.20					
General Jo	06/30/2011	21		21 ADJ TO BALANCE INVENTORY	91.80					
Bill	07/19/2011	5473-7801-48	Fifth Third Bank	weed killer	79.98					
Bill	07/31/2011	1156	ACE Hardware	1156	25.20					
General Jo	07/31/2011	6		6 JULY REPAIRS	185.17					
Bill	08/15/2011	857253991	GRAINGER	GREASE FOR PUMPS	123.59					
Bill	08/25/2011	857253991	GRAINGER	CORD	24.25					
Bill	08/31/2011	1156	ACE Hardware	1156	180.65					
General Jo	08/31/2011	6		6 AUGUST REPAIRS	3,415.36					
Bill	09/19/2011	857253991	GRAINGER	PRESSURE TRANSDUCER	201.38					
Bill	09/30/2011	1156	ACE Hardware	1156	122.99					
General Jo	09/30/2011	6		6 REPAIRS SEPTEMBER	2,279.02					
General Jo	09/30/2011			18 meter boxes returned to inventory		503.50				
General Jo	09/30/2011	19		19 TO ADJUST INVENTORY FOR QUARTER		106.77				
Bill	10/11/2011	857253991	GRAINGER	pens for chart recorder	53.18					
Bill	10/31/2011	1156	ACE Hardware	1156	25.97					
General Jo	10/31/2011	6		6 OCTOBER REPAIRS	457.18					
Check	11/02/2011	1010	Petty Cash	MAINTENANCE SUPPLIES	40.85					
Bill	11/08/2011	857253991	GRAINGER	PRESSURE RECORDER	525.42					
Bill	11/14/2011		ABERCROMBIE TRUCKING	TOP SOIL	350.00					
Bill	11/30/2011	1156	ACE Hardware	1156	96.16					
Bill	11/30/2011	P1350	Barnes Hardware & Lumber	P1350	12.99					
Bill	11/30/2011	5899	Hilltop Stone LLC	868372	114.32					
General Jo	11/30/2011	6		6 REPAIRS NOVEMBER	629.56					
General Jo	11/30/2011	23		23 BOARD OF ED SUPPLIES	23.00					
Bill	12/19/2011	857253991	GRAINGER	battery	80.88					
Bill	12/27/2011	857253991	GRAINGER	battery	242.63					
Bill	12/28/2011	5899	Hilltop Stone LLC	868700	98.90					

**Pendleton County Water District**  
**Materials and Supplies**  
**January through December 2011**

**A**

Type	Date	Num	Name	Memo	Debit	Credit	Balance	Adjustment	Adjusted Balance	Explanation
General Jo	12/28/2011	24		24 salvaged materials from tap relocations on Turner		965.84				
General Jo	12/31/2011	6		6 DECEMBER REPAIRS	1,507.84					
General Jo	12/31/2011	25		25 adj entry to balance inventory for y	16.39					
Bill	12/31/2011	1156	ACE Hardware	1156						
Bill	12/31/2011	5899	Hilltop Stone LLC	868785						
Total MAINTENANCE					62,142.09	3,581.16	58,560.93			
<b>MATERIAL &amp; SUPPLIES - OFFICE</b>										
<b>OFFICE EXPENSE - G &amp; A</b>										
Check	01/05/2011	15398	Ricky King	PLASTIC STORAGE BOXES	86.92					
Bill	01/07/2011		S&H Consulting Co.	5 flash drives	75.00					
Check	01/11/2011	15416	DOLLAR GENERAL	storage supplies	76.32					
Bill	01/12/2011	A8320GM-00	CHAPMAN PRINTING CO.	A8320GM-00	48.00					
Bill	01/12/2011	A8485GM-00	CHAPMAN PRINTING CO.	A8485GM-00	24.43					
Bill	01/17/2011	A8485GM-01	CHAPMAN PRINTING CO.	A8485GM-01	4.32					
Bill	01/18/2011	A8485GM-02	CHAPMAN PRINTING CO.	A8485GM-02	2.16					
Bill	01/31/2011	164	Wyatt's Super Valu	Acct. 164	96.09					
Bill	01/31/2011	018372	CHAPMAN PRINTING CO.	018372	109.00					
Bill	01/31/2011	5473-7801-48	Fifth Third Bank	PAYROLL SUBSCRIPTION REFUND		28.62				
Bill	01/31/2011	5473-7801-48	Fifth Third Bank	SOAP	52.88					
Bill	02/07/2011	A9105GM-00	CHAPMAN PRINTING CO.	A9105GM-00	33.90					
Bill	02/11/2011	A9145GM-00	CHAPMAN PRINTING CO.	A9145GM-00	33.90					
Bill	02/11/2011	A9143GM-00	CHAPMAN PRINTING CO.	A9143GM-00	37.04					
Bill	02/22/2011	A9137GM-00	CHAPMAN PRINTING CO.	A9137GM-00	390.00					
Bill	02/28/2011	164	Wyatt's Super Valu	Acct. 164	42.04					
Bill	02/28/2011	018640	CHAPMAN PRINTING CO.	018640	109.00					
Bill	03/07/2011	A8672GM-00	CHAPMAN PRINTING CO.	A8672GM-00	33.90					
Bill	03/09/2011	A8121GM-00	CHAPMAN PRINTING CO.	A8121GM-00	35.31					
Bill	03/15/2011		CENTRAL JANITORIAL SUPPLY	VACUUM SWEEPER	265.00					
Check	03/15/2011	15536	Petty Cash	supplies	38.57					
Credit	03/30/2011	A9143GM-90	CHAPMAN PRINTING CO.	A9143GM-90 CALCULATOR		9.95				
Bill	03/31/2011	164	Wyatt's Super Valu	Acct. 164	55.60					
Bill	04/08/2011	A8843GM-00	CHAPMAN PRINTING CO.	A8843GM-00	33.90					
Bill	04/11/2011	A8170GM-00	CHAPMAN PRINTING CO.	18A70GM-00	21.69					
Bill	04/30/2011	A0734GG-00	CHAPMAN PRINTING CO.	PAPER TOWELS	57.06					
Bill	05/11/2011	A8978GM-00	CHAPMAN PRINTING CO.	COPY PAPER	33.90					
Bill	05/16/2011	20110253	S&H Consulting Co.	TAPES FOR BACKUP	99.75					
Bill	05/18/2011	A8316GM-00	CHAPMAN PRINTING CO.	OFFICE SUPPLIES	418.46					
Bill	06/08/2011	A9623GM-00	CHAPMAN PRINTING CO.	PAPER	33.90					
Bill	06/15/2011	A8010GM-00	CHAPMAN PRINTING CO.	PENS, ENVELOPES	36.95					
Check	06/20/2011	15727	Petty Cash	supplies	49.61					
Bill	06/30/2011	A9735GM-00	CHAPMAN PRINTING CO.	COPY PAPER	33.90					
Bill	06/30/2011	020146	CHAPMAN PRINTING CO.	envelopes	89.40					
Credit	06/30/2011	A8316GM-90	CHAPMAN PRINTING CO.	A8316GM-90 PAPER PRODUCTS NOT RECEIVED		29.41				
Bill	07/11/2011	A8072GM-00	CHAPMAN PRINTING CO.	A8072GM-00	178.09					

**Pendleton County Water District**  
**Materials and Supplies**  
**January through December 2011**

**A**

Type	Date	Num	Name	Memo	Debit	Credit	Balance	Adjustment	Adjusted Balance	Explanation
Bill	08/15/2011	A7052GP-00	CHAPMAN PRINTING CO.	A7052GP-00	93.58					
Bill	08/15/2011	A9888GM-00	CHAPMAN PRINTING CO.	A9888GM-00	33.90					
Bill	08/31/2011	A7144GP-00	CHAPMAN PRINTING CO.	A7144GP-00	24.00					
Bill	08/31/2011	020620	CHAPMAN PRINTING CO.	ENVELOPE	250.22					
Bill	09/08/2011	A8115QP-00	CHAPMAN PRINTING CO.	A8115QP-00	33.90					
Bill	09/21/2011	A8177GP-00	CHAPMAN PRINTING CO.	A8177GP-00	28.95					
Bill	09/30/2011		S&H Consulting Co.	SYMANTEC RENEWAL	286.00					
Bill	10/06/2011	A7216GP-00	CHAPMAN PRINTING CO.	A7216GP-00	62.86					
Bill	10/10/2011	A8262GP-00	CHAPMAN PRINTING CO.	A8262GP-00	33.90					
Credit	10/24/2011	A8610GI-90	CHAPMAN PRINTING CO.	A8610GI-90 WRONG FAX CARTRIDGE		44.05				
Bill	10/31/2011	A7160GP-00	CHAPMAN PRINTING CO.	A7160GP-00	72.66					
Bill	10/31/2011	021176	CHAPMAN PRINTING CO.	checks	109.00					
Check	11/02/2011	1010	Petty Cash	supplies	42.66					
Bill	11/08/2011		S&H Consulting Co.	TAPE CARTRIDGE	79.75					
Bill	11/21/2011	5473-7801-48	Fifth Third Bank	SOAP	65.66					
Bill	12/09/2011	A7368GP-00	CHAPMAN PRINTING CO.	A7368GP-00	169.10					
Bill	12/31/2011	A7457GP-00	CHAPMAN PRINTING CO.	A7457GP-00	206.98					
<b>Total OFFICE EXPENSE - G &amp; A</b>					<b>4,329.11</b>	<b>112.03</b>	<b>4,217.08</b>			
<b>OFFICE EXPENSE - CUSTOMER</b>										
Bill	01/31/2011	018455	CHAPMAN PRINTING CO.	018455 BILLS	822.91					
Bill	01/31/2011	108451	CHAPMAN PRINTING CO.	018451 DELINQUENTS	366.26					
Bill	02/16/2011	63523	FRED PROCTER COMPANY	INV. 63523 READING BOOKS	291.00					
Bill	03/10/2011	A92140	Schwaab, Inc.	PADS	109.96					
Bill	05/31/2011	019758	CHAPMAN PRINTING CO.	HANG TAGS	208.25					
Bill	05/31/2011	019788	CHAPMAN PRINTING CO.	UTILITY BILLS	823.19					
Bill	05/31/2011	019752	CHAPMAN PRINTING CO.	WORK ORDERS	229.00					
Bill	06/13/2011	760459	Schwaab, Inc.	NAME STAMP	39.99					
Bill	11/09/2011	021344	CHAPMAN PRINTING CO.	bills	799.29					
Bill	11/21/2011	B65423	Schwaab, Inc.	BANK STAMPS	86.98					
<b>Total OFFICE EXPENSE - CUSTOMER</b>					<b>3,776.83</b>	<b>0.00</b>	<b>3,776.83</b>			
<b>POSTAGE - GEN'L</b>										
Check	01/06/2011	15404	FALMOUTH POSTOFFICE	stamps (7 rolls)	308.00					
Check	01/27/2011	15436	FALMOUTH POSTOFFICE	public notification reporting violation	748.00					
Check	03/15/2011	15535	FALMOUTH POSTOFFICE	7 ROLLS	308.00					
Check	03/15/2011	15536	Petty Cash	postage	38.73					
Check	05/11/2011	15647	Falmouth Post Office	7 rolls stamps	308.00					
Check	06/20/2011	15727	Petty Cash	postage	76.70					
Check	06/22/2011	15735	Falmouth Post Office	7 ROLLS STAMPS	308.00					
Check	08/18/2011	15821	FALMOUTH POSTOFFICE	7 rolls stamps	308.00					
Check	10/12/2011	15952	Falmouth Post Office	7 rolls stamps	308.00					
Check	11/02/2011	1010	Petty Cash	postage	48.55					
Check	12/29/2011	1085	FALMOUTH POSTOFFICE	7 rolls stamps	308.00					
<b>Total POSTAGE - GEN'L</b>					<b>3,067.98</b>	<b>0.00</b>	<b>3,067.98</b>			
<b>POSTATE - BILLS</b>										

**Pendleton County Water District**  
**Materials and Utilities**  
**January through December 2011**

**A**

Type	Date	Num	Name	Memo	Debit	Credit	Balance	Adjustment	Adjusted Balance	Explanation
Check	01/17/2011	15422	FALMOUTH POSTOFFICE	billing	547.09					
Check	02/16/2011	15437	FALMOUTH POSTOFFICE	billing	544.15					
Check	03/17/2011	15537	FALMOUTH POSTOFFICE	billing	544.88					
Check	04/18/2011	15582	FALMOUTH POSTOFFICE	billing	546.35					
Check	05/17/2011	15662	FALMOUTH POSTOFFICE	postage on billing	581.88					
Check	06/17/2011	15725	Falmouth Post Office	BILLING	583.96					
Check	07/18/2011	15784	FALMOUTH POSTOFFICE	billing	587.90					
Check	08/17/2011	15780	Falmouth Post Office	billing	589.49					
Check	09/19/2011	15872	FALMOUTH POSTOFFICE	billing	589.55					
Check	10/18/2011	15956	FALMOUTH POSTOFFICE	billing	586.34					
Check	11/17/2011	1017	Falmouth Post Office	billing postage	586.95					
Check	12/16/2011	1020	FALMOUTH POSTOFFICE	billing	584.55					
Total POSTATE - BILLS					6,873.09	0.00	6,873.09			
<b>GRAND TOTALS</b>					<b>87,402.12</b>	<b>3,693.19</b>	<b>83,708.93</b>	<b>-37,343.36</b>	<b>46,365.57</b>	



Pendleton County Water District

Contractual Expenses

January through December 2011

B

Type	Date	Num	Name	Memo	Debit	Credit	Balance	Adjustment	Adjusted Balance	Explanation
<b>CONTRACTUAL SERVICES</b>										
<b>SECURITY SERVICES</b>										
Bill	03/11/2011	43261296	ADT	APRIL - JUNE	110.74					
Bill	06/13/2011	49112421	ADT	JULY - SEPTEMBER	116.83					
Bill	09/19/2011	55084684	ADT	OCTOBER TO DECEMBER	116.83					
Bill	12/19/2011	01200 101925	ADT	JANUARY TO MARCH	116.83					
Total SECURITY SERVICES					461.23	0.00	461.23			
<b>EXTERMINATING SERVICE</b>										
Bill	01/20/2011		ORKIN	1/20/11	67.49					
Bill	02/17/2011	D-8300208	ORKIN	2/17/11	67.49					
Bill	03/10/2011	D-8300208	ORKIN	3/10/11	67.49					
Bill	04/14/2011	D-8300208	ORKIN	4/14/11	67.49					
Bill	05/13/2011	D-8300208	ORKIN	5/12/11	67.49					
Bill	06/09/2011	D-800208	ORKIN	6/9/11	71.54					
Bill	07/14/2011	D-8300208	ORKIN	7/14/11	71.54					
Bill	08/15/2011	D-8300208	ORKIN	8/11/11	71.54					
Bill	09/08/2011		ORKIN	9/8/11	71.54					
Bill	10/14/2011	D-8300208	ORKIN	10/13/11	71.54					
Bill	11/10/2011	D-8300208	ORKIN	11/10/11	71.54					
Bill	12/08/2011	D-8300208	ORKIN	12/8/11	71.54					
Total EXTERMINATING SERVICE					838.23	0.00	838.23			
<b>RADIO READ SOFTWARE-CONNECT</b>										
Bill	06/20/2011	92241501	Badger Meter Inc.	Service agreement on Connect	989.04					
Total RADIO READ SOFTWARE-CONNECT					989.04	0.00	989.04			
<b>ANSWERING SERVICE</b>										
Bill	01/28/2011	594	AROUND THE CLOCK ANSWERING SERVICE	594	140.20					
Bill	03/07/2011	594	AROUND THE CLOCK ANSWERING SERVICE	594	103.00					
Bill	03/31/2011	594	AROUND THE CLOCK ANSWERING SERVICE	594	95.40					
Bill	04/27/2011	594	AROUND THE CLOCK ANSWERING SERVICE	594	104.60					
Bill	05/31/2011	594	AROUND THE CLOCK ANSWERING SERVICE	594	100.60					
Bill	06/29/2011	594	AROUND THE CLOCK ANSWERING SERVICE	594	101.80					
Bill	07/29/2011	594	AROUND THE CLOCK ANSWERING SERVICE	594	103.00					
Bill	08/31/2011	594	AROUND THE CLOCK ANSWERING SERVICE	594	108.20					
Bill	09/29/2011	594	AROUND THE CLOCK ANSWERING SERVICE	594	108.20					
Bill	10/31/2011	594	AROUND THE CLOCK ANSWERING SERVICE	594	104.20					
Bill	11/29/2011	594	AROUND THE CLOCK ANSWERING SERVICE	594	103.00					
Bill	12/29/2011	594	AROUND THE CLOCK ANSWERING SERVICE	594	102.60					
Total ANSWERING SERVICE					1,274.80	0.00	1,274.80			
<b>INTERNET SERVICES</b>										
Bill	01/04/2011		S&H Consulting Co.	internet	14.95					
Bill	02/02/2011		S&H Consulting Co.	internet	14.95					
Bill	03/07/2011		S&H Consulting Co.	internet	14.95					
Bill	04/01/2011		S&H Consulting Co.	internet	14.95					
Bill	05/03/2011		S&H Consulting Co.	internet	14.95					

**Pendleton County Water District**  
**Contractual Expenses**  
**January through December 2011**

**B**

Type	Date	Num	Name	Memo	Debit	Credit	Balance	Adjustment	Adjusted Balance	Explanation
Bill	06/07/2011		S&H Consulting Co.	INTERNET	14.95					
Bill	06/28/2011		S&H Consulting Co.	INTERNET	14.95					
Bill	08/03/2011		S&H Consulting Co.	INTERNET	14.95					
Bill	09/02/2011		S&H Consulting Co.	INTERNET	14.95					
Bill	10/01/2011		S&H Consulting Co.	INTERNET	14.95					
Bill	11/01/2011		S&H Consulting Co.	INTERNET	14.95					
Bill	11/30/2011		S&H Consulting Co.	INTERNET	14.95					
					179.40	0.00	179.40			
Total INTERNET SERVICES										
<b>JANITORIAL SERVICES</b>										
Bill	01/06/2011		Karen Logan	CLEANING 1/1/11	60.00					
Bill	01/13/2011		Karen Logan	CLEANING 1/8/11	60.00					
Bill	01/20/2011		Karen Logan	CLEANING 1/14/11	60.00					
Bill	01/25/2011		Karen Logan	CLEANING 1/23/11	60.00					
Bill	01/31/2011		Karen Logan	CLEANING 1/29/11	60.00					
Bill	02/10/2011		Karen Logan	CLEANING 2/6/11	60.00					
Bill	02/17/2011		Karen Logan	CLEANING 2/12/11	60.00					
Bill	02/24/2011		Karen Logan	CLEANING 2/19/11	60.00					
Bill	03/01/2011		Karen Logan	CLEANING 2/26/11	60.00					
Bill	03/10/2011		Karen Logan	CLEANING 3/5/11	60.00					
Bill	03/17/2011		Karen Logan	CLEANING 3/13/11	60.00					
Bill	03/31/2011		Karen Logan	CLEANING 3/19 & 27/11	120.00					
Bill	04/07/2011		Karen Logan	CLEANING 4/3/11	60.00					
Bill	04/14/2011		Karen Logan	CLEANING 4/9/11	60.00					
Bill	04/19/2011		Karen Logan	CLEANING 4/16/11	60.00					
Bill	04/28/2011		Karen Logan	CLEANING 4/23/11	60.00					
Bill	04/30/2011		Karen Logan	CLEANING 4/28/11	60.00					
Bill	05/12/2011		Karen Logan	CLEANING 5/8/11	60.00					
Bill	05/19/2011		Karen Logan	CLEANING 5/15/11	60.00					
Bill	05/26/2011		Karen Logan	CLEANING 5/22/11	60.00					
Bill	05/26/2011		Karen Logan	CLEANING 5/26/11	60.00					
Bill	06/09/2011		Karen Logan	CLEANING 6/3/11	60.00					
Bill	06/16/2011		Karen Logan	CLEANING 6/12/11	60.00					
Bill	06/22/2011		Karen Logan	CLEANING 6/16/11	60.00					
Bill	06/24/2011		Karen Logan	CLEANING 6/24/11	60.00					
Bill	07/07/2011		Karen Logan	CLEANING 7/3/11	60.00					
Bill	07/14/2011		Karen Logan	CLEANING 7/8/11	60.00					
Bill	07/20/2011		Karen Logan	CLEANING 7/15/11	60.00					
Bill	07/28/2011		Karen Logan	CLEANING 7/22/11	60.00					
Bill	08/04/2011		Karen Logan	7/29/11	60.00					
Bill	08/11/2011		Karen Logan	8/06/2011	60.00					
Bill	08/18/2011		Karen Logan	8/14/2011	60.00					
Bill	08/24/2011		Karen Logan	8/20/2011	60.00					
Bill	09/01/2011		Karen Logan	8/25/2011	60.00					
Bill	09/08/2011		Karen Logan	9/4/2011	60.00					

**Pendleton County Water District**  
**Contractual Expenses**  
**January through December 2011**

**B**

Type	Date	Num	Name	Memo	Debit	Credit	Balance	Adjustment	Adjusted Balance	Explanation
Bill	09/15/2011		Karen Logan	9/11/2011	60.00					
Bill	09/22/2011		Karen Logan	9/18/2011	60.00					
Bill	09/29/2011		Karen Logan	9/24/2011	60.00					
Bill	10/06/2011		Karen Logan	10/1/11	60.00					
Bill	10/13/2011		Karen Logan	10/9/11	60.00					
Bill	10/20/2011		Karen Logan	10/16/11	60.00					
Bill	10/26/2011		Karen Logan	10/23/11	60.00					
Bill	10/30/2011		Karen Logan	10/30/11	60.00					
Bill	11/09/2011		Karen Logan	11/6/11	60.00					
Bill	11/16/2011		Karen Logan	11/11/11	60.00					
Bill	11/30/2011		Karen Logan	11/20/114 & 11/25/11	120.00					
Bill	12/08/2011		Karen Logan	12.3.11	60.00					
Bill	12/15/2011		Karen Logan	12.11.11	60.00					
Bill	12/20/2011		Karen Logan	12.18.11	60.00					
Bill	12/29/2011		Karen Logan	12.23.11	60.00					
Bill	12/31/2011		Karen Logan	12.30.11	60.00					
Total JANITORIAL SERVICES					3,180.00	0.00	3,180.00			
<b>SYSTEM MAINTENANCE</b>										
Bill	04/26/2011	1	WET OR DRY	tank evaluations 2011	3,200.00			-2,560.00	640.00	This is something that is only
Total SYSTEM MAINTENANCE					3,200.00	0.00	3,200.00			done once every 5 years. We
<b>BILLING PROGRAM</b>										have therefore eliminated
Bill	03/01/2011	12915	DONALD R. FREY & CO., INC.	annual support & internet hosting fee	2,042.34					4/5 of this cost in order to
Total BILLING PROGRAM					2,042.34	0.00	2,042.34			reflect a portion of it
<b>COMPUTER MAINTENANCE</b>										in each year rather than the
Bill	06/07/2011		S&H Consulting Co.	MAINTENANCE CONTRACT	1,500.00					whole thing in any one year.
Total COMPUTER MAINTENANCE					1,500.00	0.00	1,500.00			
<b>METER TESTING</b>										
Bill	06/20/2011		Dyer Meter Service	METER TESTING	1,042.00					
Bill	11/09/2011		Dyer Meter Service	METER TESTING	414.00					
Total METER TESTING					1,456.00	0.00	1,456.00			
<b>NKADD</b>										
Bill	01/17/2011		Pendleton County Industrial Authority	7.5% OF BILL MITCHELL'S EXPENS	22.89					
Bill	01/31/2011		Northern Kentucky Area Development Dist.	2ND quarter administration fee FY11	1,125.00					
Bill	02/16/2011		Pendleton County Industrial Authority	7.5% OF BILL MITCHELL'S EXPENS	37.19					
Bill	03/15/2011		Pendleton County Industrial Authority	7.5% OF BILL MITCHELL'S EXPENS	34.93					
Bill	04/15/2011	185	Northern Kentucky Area Development Dist.	3rd quarter administration fee FY11	1,125.00					
Bill	04/15/2011		Pendleton County Industrial Authority	7.5% OF BILL MITCHELL'S EXPENS	28.49					
Bill	06/23/2011	4293-001	Northern Kentucky Area Development Dist.	4TH quarter administration fee FY11	1,125.00					
Bill	09/30/2011	4423-001	Northern Kentucky Area Development Dist.	1ST quarter administration fee FY12	1,125.00					
Bill	12/31/2011	4571-001	Northern Kentucky Area Development Dist.	2ND quarter administration fee FY12	1,125.00					
Total NKADD					5,748.50	0.00	5,748.50			
<b>TRUSTEE FEES</b>										
Check	02/03/2011	AUTO	TRUST REMITTANCE	TRUST REMITTANCE	250.00					
Total TRUSTEE FEES					250.00	0.00	250.00			

Pendleton County Water District  
Contractual Expenses  
January through December 2011

B

Type	Date	Num	Name	Memo	Debit	Credit	Balance	Adjustment	Adjusted Balance	Explanation
<b>BANK CHARGES</b>										
Check	12/15/2011	BANK CHG	BANK OF KENTUCKY	ANALYSIS	56.00					
Check	12/30/2011			Service Charge	30.00					
Check	12/30/2011			Service Charge	20.00					
Total BANK CHARGES					106.00	0.00	106.00			
<b>BOX RENTAL</b>										
Bill	06/08/2011	232	Falmouth Post Office	BOX RENTAL	176.00					
Total BOX RENTAL					176.00	0.00	176.00			
<b>PERMIT FEE</b>										
Bill	02/02/2011	74	Falmouth Post Office	74 permit fee	185.00					
Total PERMIT FEE					185.00	0.00	185.00			
<b>UTILITY EXPENSE</b>										
<b>GARBAGE COLLECTION</b>										
Bill	01/06/2011	41 05064 1	Rumpke	GARBAGE COLLECTION	117.25					
Bill	02/04/2011	41 05064 1	Rumpke	GARBAGE COLLECTION	117.83					
Bill	03/07/2011	41 05064 1	Rumpke	GARBAGE COLLECTION	119.25					
Bill	04/07/2011	534631	Rumpke	GARBAGE COLLECTION	120.41					
Bill	05/06/2011	41 05064 1	Rumpke	GARBAGE COLLECTION	121.35					
Bill	06/08/2011	41 05064 1	Rumpke	GARBAGE COLLECTION	120.72					
Bill	07/06/2011	41 05064 1	Rumpke	GARBAGE COLLECTION	120.20					
Bill	08/03/2011	41 05064 1	Rumpke	GARBAGE COLLECTION	120.67					
Bill	09/06/2011	41 05064 1	Rumpke	GARBAGE COLLECTION	119.99					
Bill	10/05/2011	41 05064 1	Rumpke	GARBAGE COLLECTION	119.67					
Bill	10/31/2011	41 0005064 6	Rumpke	GARBAGE COLLECTION	119.88					
Bill	11/30/2011	41 0005064 6	Rumpke	GARBAGE COLLECTION	119.88					
Total GARBAGE COLLECTION					1,437.10	0.00	1,437.10			
<b>TELEMETRY</b>										
Bill	01/28/2011	606 P46-7992	Cincinnati Bell	606 P46-7992 992	152.44					
Bill	03/07/2011	606 P46-7992	Cincinnati Bell	606 P46-7992 992	152.44					
Bill	03/31/2011	606 P46-7992	Cincinnati Bell	606 P46-7992 992	152.44					
Bill	04/27/2011	606 P46-7992	Cincinnati Bell	606 P46-7992 992	152.44					
Bill	05/26/2011	606 P46-7992	Cincinnati Bell	606 P46-7992 992	152.44					
Bill	06/27/2011	606 P46-7992	Cincinnati Bell	606 P46-7992 992	152.44					
Bill	07/26/2011	606 P46-7992	Cincinnati Bell	606 P46-7992 992	152.44					
Bill	08/29/2011	606 P46-7992	Cincinnati Bell	606 P46-7992 992	152.44					
Bill	09/27/2011	606 P46-7992	Cincinnati Bell	606 P46-7992 992	152.44					
Bill	10/28/2011	606 P46-7992	Cincinnati Bell	606 P46-7992 992	152.44					
Bill	11/30/2011	606 P46-7992	Cincinnati Bell	606 P46-7992 992	152.44					
Bill	12/29/2011	606 P46-7992	Cincinnati Bell	606 P46-7992 992	152.44					
Total TELEMETRY					1,829.28	0.00	1,829.28			
<b>TELEPHONE</b>										
Bill	01/18/2011	830085704	AT&T Mobility	830085704	267.23					
Bill	01/31/2011	859-654-6964	Cincinnati Bell	859-654-6964 614	347.52					
Bill	01/31/2011	5473-7801-48	Fifth Third Bank	OnStar	18.95					

Pendleton County Water District

Contractual Fees

January through December 2011

B

Type	Date	Num	Name	Memo	Debit	Credit	Balance	Adjustment	Adjusted Balance	Explanation
Bill	02/07/2011	1038857	Cincinnati Bell Any Distance	1038857	37.06					
Bill	02/16/2011	830085704	AT&T Mobility	830085704	269.20					
Bill	02/28/2011	859-654-6964	Cincinnati Bell	859-654-6964 614	347.52					
Bill	02/28/2011	830085704	AT&T Mobility	830085704	267.04					
Bill	03/07/2011	1038857	Cincinnati Bell Any Distance	1038857	37.11					
Bill	03/17/2011	5473-7801-48	Fifth Third Bank	OnStar	18.95					
Bill	03/28/2011	859-654-6964	Cincinnati Bell	859-654-6964 614	347.52					
Bill	03/31/2011	5473-7801-48	Fifth Third Bank	OnStar	18.95					
Bill	04/11/2011	1038857	Cincinnati Bell Any Distance	1038857	37.10					
Bill	04/18/2011	830085704	AT&T Mobility	830085704	266.74					
Bill	04/30/2011	859-654-6964	Cincinnati Bell	859-654-6964 614	350.51					
Bill	04/30/2011	1038857	Cincinnati Bell Any Distance	1038857	36.92					
Bill	05/16/2011	830085704	AT&T Mobility	830085704	268.19					
Bill	05/19/2011	5473-7801-48	Fifth Third Bank	OnStar	100.98					
Bill	05/31/2011	859-654-6964	Cincinnati Bell	859-654-6964 614	350.51					
Bill	06/08/2011	1038857	Cincinnati Bell Any Distance	1038857	36.90					
Bill	06/16/2011	830085704	AT&T Mobility	830085704	267.37					
Bill	06/17/2011	5473-7801-48	Fifth Third Bank	OnStar	18.95					
Bill	06/28/2011	859-654-6964	Cincinnati Bell	859-654-69640614	350.51					
Bill	06/30/2011	1038857	Cincinnati Bell Any Distance	1038857	36.94					
Bill	07/18/2011	830085704	AT&T Mobility	830085704	266.44					
Bill	07/19/2011	5473-7801-48	Fifth Third Bank	OnStar	18.95					
Bill	07/28/2011	859-654-6964	Cincinnati Bell	859-654-6964	350.50					
Bill	07/31/2011	1038857	Cincinnati Bell Any Distance	1038857	36.75					
Bill	07/31/2011	830085704	AT&T Mobility	830085704	265.34					
Bill	07/31/2011	5473-7801-48	Fifth Third Bank	OnStar	100.96					
Bill	08/29/2011	859-654-6964	Cincinnati Bell	859-654-6964 614	350.50					
Bill	08/31/2011	830085704	AT&T Mobility	830085704	265.45					
Bill	09/08/2011	1038857	Cincinnati Bell Any Distance	1038857	36.81					
Bill	09/21/2011	5473-7801-48	Fifth Third Bank	OnStar	100.96					
Bill	09/29/2011	859-654-6964	Cincinnati Bell	859-654-6964 614	356.46					
Bill	09/30/2011	1038857	Cincinnati Bell	1038857	36.65					
Bill	10/17/2011	830085704	AT&T Mobility	830085704	273.54					
Bill	10/19/2011	5473-7801-48	Fifth Third Bank	OnStar	18.95					
Bill	10/31/2011	859-654-6964	Cincinnati Bell	859-654-6964 614	351.27					
Bill	10/31/2011	830085704	AT&T Mobility	830085704	273.15					
Bill	11/09/2011	1038857	Cincinnati Bell Any Distance	1038857	36.99					
Bill	11/21/2011	5473-7801-48	Fifth Third Bank	OnStar	18.95					
Bill	11/28/2011	859-654-6964	Cincinnati Bell	859-654-6964 614	351.27					
Bill	12/09/2011	1038857	Cincinnati Bell Any Distance	1038857	36.95					
Bill	12/19/2011	830085704	AT&T Mobility	830085704	276.08					
Bill	12/19/2011	5473-7801-48	Fifth Third Bank	OnStar	101.22					
Bill	12/27/2011	859-654-6964	Cincinnati Bell	859-654-6964 614	351.27					
Bill	12/31/2011	1038857	Cincinnati Bell Any Distance	1038857	37.04					

**Pendleton County Water District**  
**Contractual Expenses**  
**January through December 2011**

**B**

Type	Date	Num	Name	Memo	Debit	Credit	Balance	Adjustment	Adjusted Balance	Explanation
Bill	12/31/2011	830085704	AT&T Mobility	830085704	276.52					
Total TELEPHONE					8,687.64	0.00	8,687.64			
<b>WATER</b>										
Bill	01/19/2011	9-3109	Pendleton Co. Water	water	20.72					
Bill	02/16/2011	9-3109	Pendleton Co. Water	water	22.79					
Bill	03/18/2011	9-3109	Pendleton Co. Water	water	20.85					
Bill	04/19/2011	9-3109	Pendleton Co. Water	water	20.85					
Bill	05/18/2011	9-3109	Pendleton Co. Water	water	29.76					
Bill	06/17/2011	9-3109	Pendleton Co. Water	water	28.34					
Bill	07/19/2011	9-3109	Pendleton Co. Water	water	21.31					
Bill	08/19/2011	9-3109	Pendleton Co. Water	water	26.36					
Bill	09/20/2011	9-3109	Pendleton Co. Water	water	21.84					
Bill	10/18/2011	9-3109	Pendleton Co. Water	water	23.10					
Bill	11/21/2011	9-3109	Pendleton Co. Water	water	20.85					
Bill	12/16/2011		Pendleton Co. Water	water	20.85					
Total WATER					277.62	0.00	277.62			
<b>EDUCATION EXPENSE</b>										
Bill	02/25/2011		Kentucky State Treasurer	registration for PSC training for comm	250.00					
Bill	03/07/2011		Kentucky State Treasurer	registration for Austin's distribution lic	190.00					
Bill	03/31/2011	5473-7801-48	Fifth Third Bank	meals	27.24					
Check	05/18/2011	15661	Kentucky State Treasurer	RICK'S TRAINING FEE	50.00					
Bill	05/19/2011		Wm. Jones	MEALS	50.46					
Bill	06/17/2011	5473-7801-48	Fifth Third Bank	LAKE BARKLEY RESERVATIONS	132.23					
Check	06/27/2011	15759	Austin Monroe	REIMBURSE COST OF MEALS, ETC	207.65					
Deposit	06/30/2011	DEP	DEPOSIT	EPCWD'S (ADAM) HALF OF LODGING FOR DIST. LIC		256.20				
Bill	07/19/2011	5473-7801-48	Fifth Third Bank	LAKE BARKLEY RESERVATIONS	117.17					
Total EDUCATION EXPENSE					1,024.75	256.20	768.55			
<b>MAINTENANCE - OTHER</b>										
<b>OTHER EQUIPMENT</b>										
Bill	01/12/2011	46512	WESTERMAN COMPANIES	SERVICE CALL FOR REPAIR	1,000.00					
Bill	03/10/2011	46911	WESTERMAN COMPANIES	repair communication adapter	30.00					
Total OTHER EQUIPMENT					1,030.00	0.00	1,030.00			
<b>PROFESSIONAL FEES</b>										
<b>ACCOUNTING</b>										
Bill	01/31/2011		MORRIS & BRESSLER, PSC	JANUARY	541.67					
General Jor	01/31/2011			AUDIT PREP FEE	2,800.00					
Bill	02/28/2011	2337	MORRIS & BRESSLER, PSC	FEBRUARY	541.67					
Bill	03/31/2011	2337	MORRIS & BRESSLER, PSC	MARCH	541.67					
General Jor	03/31/2011	PG		PG ACCTING FEES TO PREPARE F	1,100.00					
Bill	04/30/2011	2337	MORRIS & BRESSLER, PSC	APRIL	541.67					
Bill	05/31/2011	2337	MORRIS & BRESSLER, PSC	MAY	541.67					
General Jor	05/31/2011	PG		PG ACCTING FEES TO PREPARE L	399.96					
Bill	06/30/2011		MORRIS & BRESSLER, PSC	JUNE	541.67					
Bill	07/12/2011		VanGorder, Walker & Co., Inc.	2010 Audit	7,800.00					

**Pendleton County Water District**  
**Contractual Expenses**  
**January through December 2011**

**B**

Type	Date	Num	Name	Memo	Debit	Credit	Balance	Adjustment	Adjusted Balance	Explanation
Bill	07/31/2011	2337	MORRIS & BRESSLER, PSC	JULY	541.67					
Bill	08/31/2011	2337	MORRIS & BRESSLER, PSC	AUGUST	541.67					
Bill	09/30/2011	2337	MORRIS & BRESSLER, PSC	SEPTEMBER	541.67					
Bill	10/31/2011	2337	MORRIS & BRESSLER, PSC	OCTOBER	541.67					
Bill	11/30/2011	2337	MORRIS & BRESSLER, PSC	NOVEMBER	541.67					
Bill	12/31/2011	2337	MORRIS & BRESSLER, PSC	DECEMBER	541.67					
Total ACCOUNTING					18,600.00	0.00	18,600.00			
<b>Total</b>					<b>54,472.93</b>	<b>256.20</b>	<b>54,216.73</b>	<b>-2,560.00</b>	<b>51,656.73</b>	

Pendleton County Water District  
Miscellaneous ' 98

C

Date	Num	Name	Memo	Debit	Credit	Test Year Amount	Adjustment	Pro Forma Amount	Explanation
<b>ADVERTISING</b>									
01/31/2011	82	Falmouth Outlook	surplus equipment - ton utility truck	63.20					
02/28/2011	86	Falmouth Outlook	truck ad & DOW legal notice	183.28					
05/31/2011	93	Falmouth Outlook	CCR	739.44					
07/07/2011		Falmouth Outlook	LEGAL NOTICE	180.12					
<b>Total ADVERTISING</b>				<b>1,166.04</b>	<b>0.00</b>	<b>1,166.04</b>			
<b>DUES &amp; SUBSCRIPTIONS</b>									
03/18/2011		Falmouth Outlook	SUBSCRIPTION	28.50					
04/20/2011		Falmouth Outlook	SUBSCRIPTION	28.50					
10/19/2011	5473-7801-48	Fifth Third Bank	ANNUAL FEE	38.00					
10/21/2011	12244	KENTUCKY RURAL WATER ASSOC.	annual dues	1,058.90					
<b>Total DUES &amp; SUBSCRIPTIONS</b>				<b>1,153.90</b>	<b>0.00</b>	<b>1,153.90</b>			
<b>UNIFORMS</b>									
02/17/2011		Bunnies "N" Such	TOM	91.50					
03/07/2011	914	Bunnies "N" Such	AUSTIN	57.50					
03/11/2011	920	Bunnies "N" Such	DIANE	50.00					
03/28/2011		Bunnies "N" Such	CHERI	55.00					
05/12/2011	991	Bunnies "N" Such	RICK	34.50					
09/07/2011	1114	Bunnies "N" Such	DIANE	102.50					
09/30/2011	1160	Bunnies "N" Such	PHILIP	146.00					
09/30/2011		Bunnies "N" Such	RICK	112.50					
09/30/2011		Bunnies "N" Such	RED	116.00					
09/30/2011		Bunnies "N" Such	CHERI	100.00					
09/30/2011		Bunnies "N" Such	AUSTIN	71.00					
<b>Total UNIFORMS</b>				<b>936.50</b>	<b>0.00</b>	<b>936.50</b>			
<b>SALES TAX DISCOUNT</b>									
01/31/2011	1		1 JANUARY		6.07				
02/28/2011	1		1 FEBRUARY		6.94				
03/31/2011	1		1 MARCH		6.88				
04/30/2011	1		1 APRIL		7.53				
05/31/2011	1		1 MAY		7.70				
06/30/2011	1		1 JUNE		10.07				
07/31/2011	1		1 JULY		10.94				
08/31/2011	1		1 AUGUST		13.12				
09/30/2011	1		1 SEPTEMBER		12.58				
10/31/2011	1		1 OCTOBER		8.93				
11/30/2011	1		1 NOVEMBER		10.11				
12/31/2011	1		1 DECEMBER		7.24				
<b>Total SALES TAX DISCOUNT</b>				<b>0.00</b>	<b>108.11</b>	<b>-108.11</b>			
<b>MISCELLANEOUS - OTHER</b>									
01/18/2011	15425	Rita Spencer, County Clerk	license for 2011 NEW TRUCK & TRAILER	21.00					
05/31/2011		Wilson's Greenhouse	MULCH	70.00					
06/16/2011	17	Adjust Customer Deposits	17 CUSTOMER DEPOSIT ADDED TO ACCT	75.00					
12/31/2011	18294	Adjust W/H Utility Tax Balance	ADJ W/H UTILITY TAX BALANCE TO ACTUAL		13.57				
<b>Total MISCELLANEOUS - OTHER</b>				<b>166.00</b>	<b>13.57</b>	<b>152.43</b>			
<b>UNALLOWED MISCELLANEOUS</b>									
03/31/2011	2384	Becky's Flower Basket	BRENT MOORE'S MOTHER	67.00			-67		To exclude items that are
11/21/2011	5473-7801-48	Fifth Third Bank	AFGHAN FOR FAULKNERS	68.00			-68		not considered an operating
12/19/2011	5473-7801-48	Fifth Third Bank	GIFT CARDS & FOOD FOR CRAWFORD & MONROE	712.86			-712.86		expense from the test year.
<b>Total UNALLOWED MISCELLANEOUS</b>				<b>847.86</b>	<b>0.00</b>	<b>847.86</b>			
				<b>4,270.30</b>	<b>121.68</b>	<b>4,148.62</b>	<b>-847.86</b>	<b>3,300.76</b>	





# REVENUE REQUIREMENTS CALCULATION

**Pendleton County Water District  
Revenue Requirement Calculation-Debt Coverage Method**

	Debt Service	Coverage	Requirement
Pro forma Operating Expenses			1,221,830.22
Plus: Average Annual Debt Principal & Interest Payments			139,894.61
Debt Coverage Requirement			
Rural Development	102,725.84	0.2	20,545.17
KRW Loan & Capital Lease	37,168.78	0.1	3,716.88
Total Revenue Requirements			1,385,986.88
Less: Other Operating Revenue			37,540.03
Non-Operating Revenue			
Interest Income			9,463.19
Revenue Required from Rates			1,338,983.66
Less: Revenue from Sales at Present Rates			1,215,999.22
Required Revenue Increase			122,984.44

Required Revenue Increase stated as a Percentage of Revenue at Present Rates 0.101139

Cash Flow Produced by Requested Revenue Requirement	
Revenue Requirement - Water Sales	1,338,983.66
Add: Other Operating Revenues	37,540.03
Other Income & Deductions	9,463.19
Total Revenue Requirement	1,385,986.88
Less: Operating Expenses	-1,221,830.22
Net Operating Income	164,156.66
Add: Depreciation & Amortization	206,138.00
Less: Debt Service	-164,156.66
Net Cash Flow	206,138.00

**Pendleton County Water District  
Average Annual Debt Service Calculation**

Series	2012	2013	2014	Total 2012-2014	RD Bonds 2012-2014	Loan & Lease 2012-2014
RD, Series 1977	15,950.00	15,350.00	15,750.00	47,050.00	47,050.00	
RD, Series 1997	43,914.38	44,427.50	44,389.38	132,731.26	132,731.26	
RD, Series 2004	33,155.00	32,795.00	32,435.00	98,385.00	98,385.00	
RD, Series 2010	10,101.25	10,003.75	9,906.25	30,011.25	30,011.25	
KRW, Series 2001A	27,514.26	28,741.76	28,860.13	85,116.15		85,116.15
Pendleton Co Fiscal Ct, Lease	<u>9,171.17</u>	<u>8,796.76</u>	<u>8,422.25</u>	<u>26,390.18</u>		<u>26,390.18</u>
Totals	<u>\$139,806.06</u>	<u>\$140,114.77</u>	<u>\$139,763.01</u>	\$419,683.84	\$308,177.51	\$111,506.33
Divide by 3 Years				<u>3</u>	<u>3</u>	<u>3</u>
3 Year Average Debt Service				<u>139,894.61</u>	<u>102,725.84</u>	<u>37,168.78</u>
3 Year Average Debt Service Rural Development Loan & Capital Lease						



# BILLING ANALYSIS

**Pendleton County Water District  
Tie Revenue Per Usage Tables To Proforma Statements**

Class	Revenue Test Period Rates Test Period Use	Average Bill Test Period Rates Test Period Use	Revenue Present Rates Test Period Use	Average Bill Present Rates Test Period Use	Revenue Proposed Rates Test Period Use	Average Bill Proposed Rates Proforma	\$ Increase in Average Bill	% Increase in Average Bill
Residential Meters	975,846.34	38.16	983,192.61	38.45	1,082,732.01	42.34	3.89	10.11%
Commercial Meters	77,293.39	63.15	77,910.39	63.65	85,746.88	70.05	6.40	10.06%
Industrial Meters	3,844.71	45.77	3,875.25	46.13	4,266.55	50.79	4.66	10.11%
Pendleton County High School - Comme	12,004.99	1,000.42	12,118.40	1,009.87	13,329.87	1,110.82	100.95	10.00%
Griffin Industries - Industrial	62,674.92	5,222.91	63,260.68	5,271.72	69,655.74	5,804.65	532.93	10.11%
City of Butler - Wholesale	74,102.00	6,175.17	75,641.89	6,303.49	83,262.00	6,938.50	635.01	10.07%
<b>Totals</b>	<u>1,205,766.35</u>		<u>1,215,999.22</u>		<u>1,338,993.06</u>		Revenue Provided by Rates	
Residential Meters	971,202.81				<u>1,338,983.66</u>		Revenue Required from Rates	
Commercial Meters	89,930.93							
Industrial Meters	66,798.50							
Wholesale Meter	<u>74,574.90</u>				<u>-9.40</u>		Difference	
Figures Appearing in Financial Statements	1,202,507.14							
Less Unbilled Revenue 12/31/11	-53,351.88							
Plus Unbilled Revenue 1/1/11	53,147.17							
Plus Customer Account Adjustments	<u>3,688.34</u>							
Adjusted Book Totals	<u>1,205,990.77</u>							
Difference	-224.42							

**Pendleton County Water District**

**USAGE TABLE**  
Usage by Rate Increment  
Test Period from 1/1/2011 to 2/29/2011

**Class: 5/8 X 3/4 Inch Meters - Residential**

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 2000	(5) Next 3000	(6) Next 10,000	(7) Over 15,000	(8) Total
First 2,000 Minimum E	992	1,063,355	1,063,355				1,063,355
Next 3,000 Gallons	2,185	7,424,928	4,370,000	3,054,928			7,424,928
Next 10,000 Gallons	1,007	7,055,834	2,014,000	3,021,000	2,020,834		7,055,834
Over 15,000 Gallons	45	1,223,336	90,000	135,000	450,000	548,336	1,223,336
Totals	4,229 4,229	16,767,453 16,767,453	7,537,355	6,210,928	2,470,834	548,336	16,767,453

**REVENUE TABLE**  
Revenue by Rate Increment  
Present Rates

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 2,000 Minimum E	4,229	7,537,355	20.12 Minimum	85,087.48
Next 3,000 Gallons		6,210,928	8.71 per 1,000	54,097.18
Next 10,000 Gallons		2,470,834	8.21 per 1,000	20,285.55
Over 20,000 Gallons		548,336	7.11 per 1,000	3,898.67
Totals	4,229	16,767,453		163,368.88

**Average Bill 38.63**

**Test Period from 3/1/2011 to 12/31/2011**

**Class: 5/8 X 3/4 Inch Meters - Residential**

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 2000	(5) Next 3000	(6) Next 10,000	(7) Over 15,000	(8) Total
First 2,000 Minimum E	5,379	5,932,323	5,932,323				5,932,323
Next 3,000 Gallons	10,866	36,762,118	21,732,000	15,030,118			36,762,118
Next 10,000 Gallons	4,890	34,898,357	9,780,000	14,670,000	10,448,357		34,898,357
Over 15,000 Gallons	209	4,643,210	418,000	627,000	2,090,000	1,508,210	4,643,210
Totals	21,344 21,344	82,236,008 82,236,008	37,862,323	30,327,118	12,538,357	1,508,210	82,236,008

**REVENUE TABLE**  
Revenue by Rate Increment  
Present Rates

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 2,000 Minimum E	21,344	37,862,323	20.24 Minimum	432,002.56
Next 3,000 Gallons		30,327,118	8.77 per 1,000	265,968.82
Next 10,000 Gallons		12,538,357	8.27 per 1,000	103,692.21
Over 20,000 Gallons		1,508,210	7.17 per 1,000	10,813.87
Totals	21,344	82,236,008		812,477.46

**Average Bill 38.07**





Pendleton County Water District

**REVENUE TABLE**  
Revenue by Rate Increment  
2012 Rates

**Class: 5/8 X 3/4 Inch through 2" Meters - Residential**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 2,000 Minimum Bill	25,573	45,399,678	20.36 Minimum	520,666.28
Next 3,000 Gallons		36,538,046	8.83 per 1,000	322,630.95
Next 10,000 Gallons		15,009,191	8.33 per 1,000	125,026.56
Over 20,000 Gallons		2,056,546	7.23 per 1,000	14,868.83
Totals	25,573	99,003,461		983,192.61

**Average Bill 38.45**

**REVENUE TABLE**  
Revenue by Rate Increment  
Proposed Rates

**Class: 5/8 X 3/4 Inch through 2" Meters - Residential**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 2,000 Minimum Bill	25,573	45,399,678	22.45 Minimum	574,113.85
Next 3,000 Gallons		36,538,046	9.71 per 1,000	354,784.43
Next 10,000 Gallons		15,009,191	9.16 per 1,000	137,484.19
Over 20,000 Gallons		2,056,546	7.95 per 1,000	16,349.54
Totals	25,573	99,003,461		1,082,732.01

**Average Bill 42.34**

**Pendleton County Water District**

**USAGE TABLE**  
Usage by Rate Increment  
Test Period from 1/1/2011 to 2/29/2011

**Class: 5/8 X 3/4 Inch Meters - Commercial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 2000	(5) Next 3000	(6) Next 10,000	(7) Over 15,000	(8) Total
First 2,000 Minimum Bill	128	77,529	77,529				77,529
Next 3,000 Gallons	39	127,374	78,000	49,374			127,374
Next 10,000 Gallons	24	205,253	48,000	72,000	85,253		205,253
Over 15,000 Gallons	10	360,667	20,000	30,000	100,000	210,667	360,667
<b>Totals</b>	<b>201</b>	<b>770,823</b>	<b>223,529</b>	<b>151,374</b>	<b>185,253</b>	<b>210,667</b>	<b>770,823</b>

**REVENUE TABLE**  
Revenue by Rate Increment  
2011 Rates

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 2,000 Minimum Bill	201	223,529	20.12 Minimum	4,044.12
Next 3,000 Gallons		151,374	8.71 per 1,000	1,318.47
Next 10,000 Gallons		185,253	8.21 per 1,000	1,520.93
Over 20,000 Gallons		210,667	7.11 per 1,000	1,497.84
<b>Totals</b>	<b>201</b>	<b>770,823</b>		<b>8,381.36</b>

**Average Bill                      41.70**

**Test Period from 3/1/2011 to 12/31/11**

**Class: 5/8 X 3/4 Inch Meters - Commercial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 2000	(5) Next 3000	(6) Next 10,000	(7) Over 15,000	(8) Total
First 2,000 Minimum Bill	606	413,554	413,554				413,554
Next 3,000 Gallons	211	702,354	422,000	280,354			702,354
Next 10,000 Gallons	137	1,194,904	274,000	411,000	509,904		1,194,904
Over 15,000 Gallons	69	5,275,550	138,000	207,000	690,000	4,240,550	5,275,550
<b>Totals</b>	<b>1,023</b>	<b>7,586,362</b>	<b>1,247,554</b>	<b>898,354</b>	<b>1,199,904</b>	<b>4,240,550</b>	<b>7,586,362</b>

**REVENUE TABLE**  
Revenue by Rate Increment  
2011 Rates

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 2,000 Minimum Bill	1,023	1,247,554	20.24 Minimum	20,705.52
Next 3,000 Gallons		898,354	8.77 per 1,000	7,878.56
Next 10,000 Gallons		1,199,904	8.27 per 1,000	9,923.21
Over 20,000 Gallons		4,240,550	7.17 per 1,000	30,404.74
<b>Totals</b>	<b>1,023</b>	<b>7,586,362</b>		<b>68,912.03</b>

**Average Bill                      67.36**

**Pendleton County Water District**

**USAGE TABLE**  
**Usage by Rate Increment**  
**Test Period from 1/1/2011 to 12/31/2011**

**Class: 5/8 X 3/4 Inch Meters - Commercial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 2000	(5) Next 3000	(6) Next 10,000	(7) Over 15,000	(8) Total
First 2,000 Minimum Bill	734	491,083	491,083				491,083
Next 3,000 Gallons	250	829,728	500,000	329,728			829,728
Next 10,000 Gallons	161	1,400,157	322,000	483,000	595,157		1,400,157
Over 15,000 Gallons	79	5,636,217	158,000	237,000	790,000	4,451,217	5,636,217
<b>Totals</b>	<b>1,224</b>	<b>8,357,185</b>	<b>1,471,083</b>	<b>1,049,728</b>	<b>1,385,157</b>	<b>4,451,217</b>	<b>8,357,185</b>

**REVENUE TABLE**  
**Revenue by Rate Increment**  
**2011 Rates**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 2,000 Minimum Bill	1,224	1,471,083	20.12/20.24 Minimum	24,749.64
Next 3,000 Gallons		1,049,728	8.71/8.77 per 1,000	9,197.03
Next 10,000 Gallons		1,385,157	8.21/8.27 per 1,000	11,444.13
Over 20,000 Gallons		4,451,217	7.11/7.17 per 1,000	31,902.59
<b>Totals</b>	<b>1,224</b>	<b>8,357,185</b>		<b>77,293.39</b>

**Average Bill                      63.15**

<b>Calculated Revenue - Commercial</b>	<b>77,293.39</b>
<b>Calculated Revenue - Pendleton County High School</b>	<b>12,004.99</b>
<b>Total Commercial Revenue Expected</b>	<b>89,298.38</b>
<b>Commercial Revenue - Per Books</b>	<b>89,930.93</b>
<b>Less Unbilled Adjustment</b>	<b>-285.35</b>
<b>Total Commercial Revenue - Per Books</b>	<b>89,645.58</b>
<b>Difference</b>	<b>-347.20</b>

**Pendleton County Water District**

**REVENUE TABLE  
Revenue by Rate Increment  
2012 Rates**

**Class: 5/8 X 3/4 Inch Meters - Commercial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 2,000 Minimum Bill	1,224	1,471,083	20.36 Minimum	24,920.64
Next 3,000 Gallons		1,049,728	8.83 per 1,000	9,269.10
Next 10,000 Gallons		1,385,157	8.33 per 1,000	11,538.36
Over 20,000 Gallons		4,451,217	7.23 per 1,000	32,182.30
Totals	1,224	8,357,185		77,910.39

**Average Bill                      63.65**

**REVENUE TABLE  
Revenue by Rate Increment  
Proposed Rates**

**Class: 5/8 X 3/4 Inch Meters - Commercial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 2,000 Minimum Bill	1,224	1,471,083	22.45 Minimum	27,478.80
Next 3,000 Gallons		1,049,728	9.71 per 1,000	10,192.86
Next 10,000 Gallons		1,385,157	9.16 per 1,000	12,688.04
Over 20,000 Gallons		4,451,217	7.95 per 1,000	35,387.18
Totals	1,224	8,357,185		85,746.88

**Average Bill                      70.05**

**Pendleton County Water District**

**USAGE TABLE**  
Usage by Rate Increment  
Test Period from 1/1/2011 to 2/29/2011

**Class: 5/8 X 3/4 Inch Meters - Industrial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 2000	(5) Next 3000	(6) Next 10,000	(7) Over 15,000	(8) Total
First 2,000 Minimum Bill	3	4,824	4,824				4,824
Next 3,000 Gallons	8	29,802	16,000	13,802			29,802
Next 10,000 Gallons	1	6,954	2,000	3,000	1,954		6,954
Over 15,000 Gallons	2	42,000	4,000	6,000	20,000	12,000	42,000
Totals	14	83,580	26,824	22,802	21,954	12,000	83,580

**REVENUE TABLE**  
Revenue by Rate Increment  
2011 Rates

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 2,000 Minimum Bill	14	26,824	20.12 Minimum	281.68
Next 3,000 Gallons		22,802	8.71 per 1,000	198.61
Next 10,000 Gallons		21,954	8.21 per 1,000	180.24
Over 20,000 Gallons		12,000	7.11 per 1,000	85.32
Totals	14	83,580		745.85

**Average Bill 53.27**

**Test Period from 3/1/2011 to 12/31/11**

**Class: 5/8 X 3/4 Inch Meters - Industrial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 2000	(5) Next 3000	(6) Next 10,000	(7) Over 15,000	(8) Total
First 2,000 Minimum Bill	15	21,315	21,315				21,315
Next 3,000 Gallons	36	118,911	72,000	46,911			118,911
Next 10,000 Gallons	16	128,028	32,000	48,000	48,028		128,028
Over 15,000 Gallons	3	62,500	6,000	9,000	30,000	17,500	62,500
Totals	70	330,754	131,315	103,911	78,028	17,500	330,754

**REVENUE TABLE**  
Revenue by Rate Increment  
2011 Rates

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 2,000 Minimum Bill	70	131,315	20.24 Minimum	1,416.80
Next 3,000 Gallons		103,911	8.77 per 1,000	911.30
Next 10,000 Gallons		78,028	8.27 per 1,000	645.29
Over 20,000 Gallons		17,500	7.17 per 1,000	125.48
Totals	70	330,754		3,098.87

**Average Bill 44.27**

**Pendleton County Water District**

**USAGE TABLE**  
**Usage by Rate Increment**  
**Test Period from 1/1/2011 to 12/31/2011**

**Class: 5/8 X 3/4 Inch Meters - Industrial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 2000	(5) Next 3000	(6) Next 10,000	(7) Over 15,000	(8) Total
First 2,000 Minimum Bill	18	26,139	26,139				26,139
Next 3,000 Gallons	44	148,713	88,000	60,713			148,713
Next 10,000 Gallons	17	134,982	34,000	51,000	49,982		134,982
Over 15,000 Gallons	5	104,500	10,000	15,000	50,000	29,500	104,500
<b>Totals</b>	<b>84</b>	<b>414,334</b>	<b>158,139</b>	<b>126,713</b>	<b>99,982</b>	<b>29,500</b>	<b>414,334</b>

**REVENUE TABLE**  
**Revenue by Rate Increment**  
**2011 Rates**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 2,000 Minimum Bill	84	158,139	20.12/20.24 Minimum	1,698.48
Next 3,000 Gallons		126,713	8.71/8.77 per 1,000	1,109.90
Next 10,000 Gallons		99,982	8.21/8.27 per 1,000	825.53
Over 20,000 Gallons		29,500	7.11/7.17 per 1,000	210.80
<b>Totals</b>	<b>84</b>	<b>414,334</b>		<b>3,844.71</b>

**Average Bill                      45.77**

<b>Calculated Revenue - Industrial</b>	<b>3,844.71</b>
<b>Calculated Revenue - Griffins</b>	<b>62,674.92</b>
<b>Total Industrial Revenue Expected</b>	<b>66,519.63</b>
<b>Industrial Revenue - Per Books</b>	<b>66,798.50</b>
<b>Less Unbilled Adjustment</b>	<b>-278.86</b>
<b>Total Commercial Revenue - Per Books</b>	<b>66,519.64</b>
<b>Difference</b>	<b>-0.01</b>

**Pendleton County Water District**

**REVENUE TABLE  
Revenue by Rate Increment  
2012 Rates**

**Class: 5/8 X 3/4 Inch Meters - Industrial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 2,000 Minimum Bill	84	158,139	20.36 Minimum	1,710.24
Next 3,000 Gallons		126,713	8.83 per 1,000	1,118.88
Next 10,000 Gallons		99,982	8.33 per 1,000	832.85
Over 20,000 Gallons		29,500	7.23 per 1,000	213.29
Totals	84	414,334		3,875.25

**Average Bill                    46.13**

**REVENUE TABLE  
Revenue by Rate Increment  
Proposed Rates**

**Class: 5/8 X 3/4 Inch Meters - Industrial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 2,000 Minimum Bill	84	158,139	22.45 Minimum	1,885.80
Next 3,000 Gallons		126,713	9.71 per 1,000	1,230.38
Next 10,000 Gallons		99,982	9.16 per 1,000	915.84
Over 20,000 Gallons		29,500	7.95 per 1,000	234.53
Totals	84	414,334		4,266.55

**Average Bill                    50.79**



**Pendleton County Water District**

**USAGE TABLE**  
Usage by Rate Increment  
Test Period from 1/1/2011 to 2/29/2011

**Class: Pendleton County High School - Commercial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 125,000	(5)	(6)	(7) Over 125,000	(8) Total
First 125,000 Gallons	2	142,450	142,450				142,450
Over 125,000 Gallons	0	0	0			0	0
<b>Totals</b>	<b>2</b>	<b>142,450</b>	<b>142,450</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>142,450</b>

142,450

**REVENUE TABLE**  
Revenue by Rate Increment  
2011 Rates

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 125,000 Minimum	2	142,450	910.45 Minimum	1,820.90
Over 125,000 Gallons		0	7.11 per 1,000	0.00
<b>Totals</b>	<b>2</b>	<b>142,450</b>		<b>1,820.90</b>

**Average Bill                      910.45**

Test Period from 3/1/2011 to 12/31/11

**Class: Pendleton County High School - Commercial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 125,000	(5)	(6)	(7) Over 125,000	(8) Total
First 125,000 Gallons	7	553,000	553,000				553,000
Over 125,000 Gallons	3	515,110	375,000			140,110	515,110
<b>Totals</b>	<b>10</b>	<b>1,068,110</b>	<b>928,000</b>	<b>0</b>	<b>0</b>	<b>140,110</b>	<b>1,068,110</b>

1,068,110

**REVENUE TABLE**  
Revenue by Rate Increment  
2011 Rates

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 125,000 Minimum	10	928,000	917.95 Minimum	9,179.50
Over 125,000 Gallons		140,110	7.17 per 1,000	1,004.59
<b>Totals</b>	<b>10</b>	<b>1,068,110</b>		<b>10,184.09</b>

**Average Bill                      1,018.41**

**Pendleton County Water District**

**USAGE TABLE**  
**Usage by Rate Increment**  
**Test Period from 1/1/2011 to 12/31/2011**

**Class: Pendleton County High School - Commercial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 125,000	(5)	(6)	(7) Over 125,000	(8) Total
First 125,000 Gallons	9	695,450	695,450			0	695,450
Over 125,000 Gallons	3	515,110	375,000			140,110	515,110
<b>Totals</b>	<b>12</b>	<b>1,210,560</b>	<b>1,070,450</b>	<b>0</b>	<b>0</b>	<b>140,110</b>	<b>1,210,560</b>

**REVENUE TABLE**  
**Revenue by Rate Increment**  
**2011 Rates**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 125,000 Minimum	12	1,070,450	910.45/917.95 Minim	11,000.40
Over 125,000 Gallons		140,110	7.11/7.17 per 1,000	1,004.59
<b>Totals</b>	<b>12</b>	<b>1,210,560</b>		<b>12,004.99</b>

**Average Bill                      1,000.42**

**Pendleton County Water District**

**REVENUE TABLE  
Revenue by Rate Increment  
2012 Rates**

**Class: Pendleton County High School - Commercial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 125,000 Minimum	12	1,070,450	925.45 Minimum	11,105.40
Over 125,000 Gallons		140,110	7.23 per 1,000	1,013.00
Totals	12	1,210,560		12,118.40

**Average Bill                    1,009.87**

**REVENUE TABLE  
Revenue by Rate Increment  
Proposed Rates**

**Class: Pendleton County High School - Commercial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 125,000 Minimum	12	1,070,450	1,018.00 Minimum	12,216.00
Over 125,000 Gallons		140,110	7.95 per 1,000	1,113.87
Totals	12	1,210,560		13,329.87

**Average Bill                    1,110.82**

**Pendleton County Water District**

**USAGE TABLE**  
**Usage by Rate Increment**  
**Test Period from 1/1/2011 to 2/29/2011**

**Class: Griffin Industries - Industrial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 400,000	(5)	(6)	(7) Over 400,000	(8) Total
First 400,000 Gallons	0	0	0				0
Over 400,000 Gallons	2	1,080,570	800,000			280,570	1,080,570
<b>Totals</b>	<b>2</b>	<b>1,080,570</b>	<b>800,000</b>	<b>0</b>	<b>0</b>	<b>280,570</b>	<b>1,080,570</b>

**REVENUE TABLE**  
**Revenue by Rate Increment**  
**Jan & Feb 2011 Rates**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 400,000 Minimum	2	800,000	2,884.80 Minimum	5,769.60
Over 400,000 Gallons		280,570	7.11 per 1,000	1,994.85
<b>Totals</b>	<b>2</b>	<b>1,080,570</b>		<b>7,764.45</b>

**Average Bill                    3,882.23**

**Test Period from 3/1/2011 to 12/31/2011**

**Class: Griffin Industries - Industrial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 400,000	(5)	(6)	(7) Over 400,000	(8) Total
First 400,000 Gallons	0	0	0				0
Over 400,000 Gallons	10	7,601,460	4,000,000			3,601,460	7,601,460
<b>Totals</b>	<b>10</b>	<b>7,601,460</b>	<b>4,000,000</b>	<b>0</b>	<b>0</b>	<b>3,601,460</b>	<b>7,601,460</b>

**REVENUE TABLE**  
**Revenue by Rate Increment**  
**Present Rates**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 400,000 Minimum	10	4,000,000	2,908.80 Minimum	29,088.00
Over 400,000 Gallons		3,601,460	7.17 per 1,000	25,822.47
<b>Totals</b>	<b>10</b>	<b>7,601,460</b>		<b>54,910.47</b>

**Average Bill                    5,491.05**

**Pendleton County Water District**

Test Period from 1/1/2011 to 12/31/2011

**Class: Griffin Industries - Industrial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 400,000	(5)	(6)	(7) Over 400,000	(8) Total
First 400,000 Gallons	0	0	0				0
Over 400,000 Gallons	12	8,682,030	4,800,000			3,882,030	8,682,030
<b>Totals</b>	<b>12</b>	<b>8,682,030</b>	<b>4,800,000</b>	<b>0</b>	<b>0</b>	<b>3,882,030</b>	<b>8,682,030</b>

**REVENUE TABLE**  
**Revenue by Rate Increment**  
**2011 Rates**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 400,000 Minimum	12	4,800,000	2,884.80/2,908.80 M	34,857.60
Over 400,000 Gallons		3,882,030	7.11/7.17 per 1,000	27,817.32
<b>Totals</b>	<b>12</b>	<b>8,682,030</b>		<b>62,674.92</b>

**Average Bill            5,222.91**

**Pendleton County Water District**

**REVENUE TABLE  
Revenue by Rate Increment  
2012 Rates**

**Class: Griffin Industries - Industrial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 400,000 Minimum	12	4,800,000	2,932.80 Minimum	35,193.60
Over 400,000 Gallons		3,882,030	7.23 per 1,000	28,067.08
<b>Totals</b>	<b>12</b>	<b>8,682,030</b>		<b>63,260.68</b>

**Average Bill            5,271.72**

**REVENUE TABLE  
Revenue by Rate Increment  
Proposed Rates**

**Class: Griffin Industries - Industrial**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 400,000 Minimum	12	4,800,000	3,232.80 Minimum	38,793.60
Over 400,000 Gallons		3,882,030	7.95 per 1,000	30,862.14
<b>Totals</b>	<b>12</b>	<b>8,682,030</b>		<b>69,655.74</b>

**Average Bill            5,804.65**

**Pendleton County Water District**

**USAGE TABLE**  
Usage by Rate Increment  
Test Period from 1/1/2011 to 2/29/2011

**Class: Wholesale**

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 1,672,917	(5)	(6)	(7) Over 1,672,917	(8) Total
First 1,672,917 Gallons	0	0	0				0
Over 1,672,917 Gallons	2	4,235,350	3,345,834			889,516	4,235,350
<b>Totals</b>	<b>2</b>	<b>4,235,350</b>	<b>3,345,834</b>	<b>0</b>	<b>0</b>	<b>889,516</b>	<b>4,235,350</b>

**REVENUE TABLE**  
Revenue by Rate Increment  
2011 Rates

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 1,672,917 Gallons	2	3,345,834	5,704.65 Minimum	11,409.30
Over 1,672,917 Gallons		889,516	3.41 per 1,000	3,033.25
<b>Totals</b>	<b>2</b>	<b>4,235,350</b>		<b>14,442.55</b>

**Average Bill                      7,221.27**

**Test Period from 3/1/2011 to 12/31/2011**

**Class: Wholesale**

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 1,672,917	(5)	(6)	(7) Over 1,672,917	(8) Total
First 1,672,917 Gallons	6	9,459,910	9,459,910				9,459,910
Over 1,672,917 Gallons	4	7,155,400	6,691,668			463,732	7,155,400
<b>Totals</b>	<b>10</b>	<b>16,615,310</b>	<b>16,151,578</b>	<b>0</b>	<b>0</b>	<b>463,732</b>	<b>16,615,310</b>

**REVENUE TABLE**  
Revenue by Rate Increment  
2011 Rates

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 400,000 Minimum	10	16,151,578	5,805.03 Minimum	58,050.30
Over 400,000 Gallons		463,732	3.47 per 1,000	1,609.15
<b>Totals</b>	<b>10</b>	<b>16,615,310</b>		<b>59,659.45</b>

**Average Bill                      5,965.95**

**Pendleton County Water District**

Test Period from 1/1/2011 to 12/31/2011

Class: Wholesale

(1)	(2) Bills	(3) Gallons/Mcf	(4) First 1,672,917	(5)	(6)	(7) Over 1,672,917	(8) Total
First 1,672,917 Gallons	8	12,805,744	9,459,910				9,459,910
Over 1,672,917 Gallons	4	8,044,916	10,037,502			1,353,248	11,390,750
<b>Totals</b>	<b>12</b>	<b>20,850,660</b>	<b>19,497,412</b>	<b>0</b>	<b>0</b>	<b>1,353,248</b>	<b>20,850,660</b>

**REVENUE TABLE**  
Revenue by Rate Increment  
2011 Rates

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 400,000 Minimum	12	19,497,412	5,704.65/5,805.03 Minimum	69,459.60
Over 400,000 Gallons		1,353,248	3.41/3.47 per 1,000	4,642.40
<b>Totals</b>	<b>12</b>	<b>20,850,660</b>		<b>74,102.00</b>

**Average Bill                      6,175.17**

<b>Calculated Revenue - Wholesale</b>	<b>74,102.00</b>
<b>Wholesale Revenue - Per Books</b>	<b>74,574.90</b>
<b>Less Unbilled Adjustment</b>	<b>-472.90</b>
<b>Total Wholesale Revenue - Per Books</b>	<b>74,102.00</b>
<b>Difference</b>	<b>0.00</b>



**Pendleton County Water District**

**REVENUE TABLE  
Revenue by Rate Increment  
2012 Rates**

**Class: Wholesale**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 400,000 Minimum	12	19,497,412	5,905.41 Minimum	70,864.92
Over 400,000 Gallons		1,353,248	3.53 per 1,000	4,776.97
Totals	12	20,850,660		75,641.89

**Average Bill                      6,303.49**

**REVENUE TABLE  
Revenue by Rate Increment  
Proposed Rates**

**Class: Wholesale**

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 400,000 Minimum	12	19,497,412	6,500.95 Minimum	78,011.40
Over 400,000 Gallons		1,353,248	3.88 per 1,000	5,250.60
Totals	12	20,850,660		83,262.00

**Average Bill                      6,938.50**



# DEPRECIATION SCHEDULE

12/31/12

2012 Federal Depreciation Schedule

Page 1

Client 2337

PENDLETON COUNTY WATER DISTRICT

61-0599209

6/07/12

09:41AM

No.	Description	Date Acquired	Date Sold	Cost/ Basis	Bus. Pct.	Cur 179 Bonus	Special Depr. Allow.	Prior 179/ Bonus/ Sp. Depr.	Prior Dec. Bal. Depr.	Salvage /Basis /Reductn	Depr. Basis	Prior Depr.	Method	Life	Rate	Current Depr.
Form 1120																
<b>COMMUNICATION EQUIPMENT</b>																
254	CELL PHONES	3/06/03		125							125	125	S/L	5		0
321	5 HEATERS FOR TELEMETRY	12/31/07		1,138							1,138	912	S/L	5		226
351	CHLORINATING STA TO TELEM	10/31/10		1,850							1,850	1,079	S/L	2		771
354	MICROPROCESSOR BOARD	1/12/11		850							850	170	S/L	5		170
Total COMMUNICATION EQUIPMEN				3,963		0	0	0	0	0	3,963	2,286				1,167
<b>DIST RESVR &amp; STANDPIPES</b>																
33	DISTRIBUTION RESERVOIRS	1/01/86		252							252	160	S/L	40		6
225	HOGG RIDGE TANK RESTORE	10/31/01		56,097							56,097	22,814	S/L	25		2,244
237	EDA-44% 200K G TANK-BUTLR	5/21/01		348,815							348,815	92,287	S/L	40		8,720
270	TANK-491-73.2%-CDBG/RD	12/12/04		380,939							380,939	67,455	S/L	40		9,523
Total DIST RESVR & STANDPIPES				786,103		0	0	0	0	0	786,103	182,716				20,493
<b>HYDRANTS</b>																
187	HYDRANTS	1/01/72		1,298							1,298	1,298	S/L	40		0
188	HYDRANTS	1/01/75		772							772	707	S/L	40		19
189	HYDRANTS	1/01/77		1,232							1,232	1,082	S/L	40		31
190	HYDRANTS	1/01/78		4,607							4,607	3,913	S/L	40		115
191	HYDRANTS	1/01/80		670							670	541	S/L	40		17
192	HYDRANTS	1/01/81		968							968	747	S/L	40		24
193	HYDRANTS	1/01/82		945							945	715	S/L	40		24
194	HYDRANTS	1/01/82		214							214	150	S/L	40		5

12/31/12

2012 Federal Depreciation Schedule

Client 2337

PENDLETON COUNTY WATER DISTRICT

61-0599209

6/07/12

09:41 AM

No.	Description	Date Acquired	Date Sold	Cost/ Basis	Bus. Pct.	Cur 179 Bonus	Special Depr. Allow.	Prior 179/ Bonus/ Sp. Depr.	Prior Dec. Bal. Depr.	Salvage /Basis Reductn	Depr. Basis	Prior Depr.	Method	Life	Rate	Current Depr.
195	HYDRANTS	1/01/84		143							143	106	S/L	40		4
196	HYDRANTS	1/01/85		1,170							1,170	787	S/L	40		29
197	HYDRANTS	12/01/87		506							506	308	S/L	40		13
198	HYDRANTS	5/31/88		1,071							1,071	635	S/L	40		27
199	HYDRANTS	2/28/89		960							960	550	S/L	40		24
200	HYDRANTS	7/31/92		1,640							1,640	799	S/L	40		41
201	HYDRANTS	7/01/96		999							999	387	S/L	40		25
202	HYDRANTS	9/01/99		2,575							2,575	787	S/L	40		64
203	4" X 6" HYDRANTS	12/31/87		13,800							13,800	8,294	S/L	40		345
232	EDA-44% 16 HYDRANT-BUTLER	10/01/01		47,360							47,360	12,136	S/L	40		1,184
250	7 FLUSH HYD-HB 502-CO WTR	9/15/02		7,199							7,199	1,680	S/L	40		180
252	2 BLOW & 3 FLUSH HYD-CATA	1/15/02		4,831							4,831	1,210	S/L	40		121
276	3-21/2"FLSH-491-73.2%FED	10/01/04		2,949							2,949	536	S/L	40		74
277	3-6"HYD@491-73.2%CDBG/RD	10/01/04		6,938							6,938	1,254	S/L	40		173
288	HYDRANT - CALDWELL RIDGE	5/31/05		323							323	53	S/L	40		8
293	HYDRANTS-269 PRIORITY	9/16/05		27,226							27,226	4,256	S/L	40		681
311	7 FIRE HYD-6"-DARLINGTON	3/01/06		14,000							14,000	2,042	S/L	40		350
330	1 HYD-KELLY&GREENWOOD/POR	1/24/08		2,918							2,918	286	S/L	40		73
339	6 FIRE HYD-KINGS RUN	11/30/09		19,050							19,050	992	S/L	40		476
343	3-6" HYD-FISH CRK/CTR RID	7/26/10		10,390							10,390	368	S/L	40		260
Total HYDRANTS				176,754		0	0	0	0	0	176,754	46,619				4,387
Land																
1	LAND	1/01/66		10,742							10,742					0
2	LAND	1/01/74		200							200					0
3	LAND	1/01/77		5							5					0

12/31/12

2012 Federal Depreciation Schedule

Page 3

Client 2337

PENDLETON COUNTY WATER DISTRICT

61-0599209

6/07/12

09:41 AM

No.	Description	Date Acquired	Date Sold	Cost/ Basis	Bus. Pct.	Cur 179 Bonus	Special Depr. Allow	Prior 179/ Bonus/ Sp. Depr.	Prior Dec. Bal. Depr.	Salvage /Basis /Reductn	Depr. Basis	Prior Depr.	Method	Life	Rate	Current Depr.
4	LAND & LAND RIGHTS-SUPPLY	1/01/85		1,743							1,743					0
5	LAND	1/01/86		510							510					0
6	LAND	7/01/87		869							869					0
7	LAND-DANIEL DRAKE RELOCAT	12/31/87		974							974					0
8	LAND-EASTSIDE PARK	1/31/88		350							350					0
9	EASEMENT	7/31/89		275							275					0
10	LAND & LAND RIGHTS	7/01/99		3,450							3,450					0
229	EDA-44% TK SITE/AC RD-BTL	5/21/01		3,600							3,600					0
230	EDA-44% MTR PIT SITE-BUTL	5/21/01		750							750					0
238	LAND - 1.67 ACRES	8/29/02		33,307							33,307					0
269	EASEMENTS-491-73.2% FED	10/01/04		2,301							2,301					0
281	LAND @ 491 PROJECT	1/14/04		4,100							4,100					0
Total Land				63,176		0	0	0	0	0	63,176	0				0
<b>METERS &amp; INSTALLATION</b>																
145	METERS	1/01/70		839							839	839	S/L	10		0
146	METER INSTALLATION	1/01/70		762							762	762	S/L	10		0
147	METERS	1/01/71		2,249							2,249	2,249	S/L	10		0
148	METER INSTALLATION	1/01/71		1,374							1,374	1,374	S/L	10		0
149	METERS	1/01/72		699							699	699	S/L	10		0
150	METER INSTALLATION	1/01/72		303							303	303	S/L	10		0
151	METERS	1/01/73		1,374							1,374	1,374	S/L	10		0
152	METER INSTALLATION	1/01/73		990							990	990	S/L	10		0
153	METERS	1/01/74		1,466							1,466	1,466	S/L	10		0
154	METER INSTALLATION	1/01/74		3,208							3,208	3,208	S/L	10		0
155	METERS	1/01/75		992							992	992	S/L	10		0

12/31/12

## 2012 Federal Depreciation Schedule

Page 4

Client 2337

PENDLETON COUNTY WATER DISTRICT

61-0599209

6/07/12

09:41 AM

No.	Description	Date Acquired	Date Sold	Cost/ Basis	Bus. Pct.	Cur 179 Bonus	Special Depr. Allow.	Prior 179/ Bonus/ Sp. Depr.	Prior Dec. Bal. Depr.	Salvage /Basis Reductn	Depr. Basis	Prior Depr.	Method	Life	Rate	Current Depr.
156	METER INSTALLATION	1/01/75		504							504	504	S/L	10		0
157	METERS	1/01/76		822							822	822	S/L	10		0
158	METER INSTALLATION	1/01/76		676							676	676	S/L	10		0
159	METERS	1/01/77		1,226							1,226	1,226	S/L	10		0
160	METER INSTALLATION	1/01/77		1,185							1,185	1,185	S/L	10		0
161	METERS	1/01/78		8,963							8,963	8,963	S/L	10		0
162	METER INSTALLATION	1/01/78		3,043							3,043	3,043	S/L	10		0
163	METERS	1/01/79		2,294							2,294	2,294	S/L	10		0
164	METER INSTALLATION	1/01/79		1,089							1,089	1,089	S/L	10		0
165	METERS	1/01/80		3,925							3,925	3,925	S/L	10		0
166	METER INSTALLATION	1/01/80		789							789	789	S/L	10		0
167	METERS	1/01/81		533							533	533	S/L	10		0
168	METER INSTALLATION	1/01/81		316							316	316	S/L	10		0
169	METERS	1/01/82		1,301							1,301	1,301	S/L	10		0
170	METER INSTALLATION	1/01/82		357							357	357	S/L	10		0
171	METERS	1/01/83		203							203	203	S/L	10		0
172	METERS	1/01/84		77							77	77	S/L	10		0
173	METER INSTALLATION	1/01/84		227							227	227	S/L	10		0
174	METERS	1/01/85		512							512	512	S/L	10		0
175	METERS	1/01/86		3,954							3,954	3,954	S/L	10		0
176	METER INSTALLATION	1/01/86		152							152	152	S/L	10		0
177	METERS	1/01/87		80							80	80	S/L	10		0
178	METERS	7/01/87		300							300	300	S/L	10		0
179	METERS	10/01/87		695							695	695	S/L	10		0
180	METERS	12/01/87		499							499	499	S/L	10		0
181	METERS	6/30/88		2,226							2,226	2,226	S/L	10		0
182	METERS	10/31/88		1,982							1,982	1,982	S/L	10		0





12/31/12

2012 Federal Depreciation Schedule

Client 2337

PENDLETON COUNTY WATER DISTRICT

61-0599209

09:41 AM

6/07/12

No.	Description	Date Acquired	Date Sold	Cost/ Basis	Bus. Pct.	Cur 179 Bonus	Special Depr. Allow.	Prior 179/ Bonus/ Sp. Depr.	Prior Dec. Bal. Depr.	Salvage /Basis Reductn	Depr. Basis	Prior Depr.	Method	Life	Rate	Current Depr.
206	FURNITURE	3/17/97		565							565	554	S/L	10		0
207	CHAIRS	4/30/97		111							111	111	S/L	10		0
208	OFFICE FURNITURE	5/21/97		1,022							1,022	1,022	S/L	10		0
209	TELEPHONE SYSTEM	10/23/00		3,139							3,139	3,139	S/L	10		0
239	SHELVING	1/28/02		801							801	793	S/L	10		8
255	OFFICE CHAIRS	8/18/03		441							441	367	S/L	10		44
265	TILE FLOORING IN OFFICE	3/15/04		1,421							1,421	1,112	S/L	10		142
266	2 COMPUTERS	6/30/00		4,082							4,082	4,082	S/L	10		0
267	2 COMPUTERS-73.2% CDBG/RD	4/29/04		4,399							4,399	4,399	S/L	3		0
268	SOFTWRE-RADIO RD-73.2%FED	4/19/04		3,389							3,389	3,389	S/L	3		0
275	RR SOFT&LAPTP-73.2%HUD/RD	10/01/04		23,128							23,128	23,128	S/L	3		0
306	SERVER/PRINTER/RAM/2 MON	10/15/06		13,329							13,329	13,329	S/L	3		0
307	NEW BILLING MODULE	9/01/06		2,156							2,156	2,156	S/L	5		0
317	SIGN	10/19/07		875							875	367	S/L	10		88
324	TELEM COMPUTER & LAPTOP	12/31/08		3,620							3,620	2,172	S/L	5		724
327	LAPTOP FOR METER READING	10/31/08		5,281							5,281	3,344	S/L	5		1,056
333	HOT WATER HEATER	12/29/08		277							277	84	S/L	10		28
334	RED'S COMPUTER	2/28/09		1,368							1,368	776	S/L	5		274
341	COMPUTER	3/23/10		889							889	311	S/L	5		178
342	CHAIRS FOR CONFERENCE ROO	5/27/10		900							900	143	S/L	10		90
Total OFFICE FURNITURE & EQUIP				71,193			0	0	0	0	0	71,193	64,778			2,632
OTHER PLANT & MISC EQUIP																
204	MISC. PLANT & EQUIP	12/31/87		14,017							14,017	8,405	S/L	40		350
205	PITOMETER	7/31/95		600							600	600	S/L	10		0
240	SKID STEER	5/02/02		21,571							21,571	20,851	S/L	10		720

Client 2337

PENDLETON COUNTY WATER DISTRICT

61-0599209

6/07/12

09:41 AM

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282	GENERATOR	1/17/05		2,310							2,310	1,598	S/L	10		231
302	REPLACE PANEL@HOGG RIDGE	1/31/06		1,805							1,805	1,070	S/L	10		181
303	BACKHOE	3/31/06		50,000							50,000	19,165	S/L	15		3,333
304	TRAILER	5/01/06		13,550							13,550	5,117	S/L	15		903
315	TRACTOR/MOWER	4/07/07		7,920							7,920	2,508	S/L	15		528
316	FORK LIFT FOR BOBCAT	11/12/07		1,150							1,150	321	S/L	15		77
358	ORION RECEIVER	9/12/11		950							950	63	S/L	5		190
Total OTHER PLANT & MISC EQUI				113,873		0	0	0	0	0	113,873	59,698				6,513
<b>PUMPING EQUIPMENT</b>																
31	TELEMETERING SYSTEM - FIE	12/31/87		23,920							23,920	23,920	S/L	20		0
234	EDA-44% TELEMTRY-BUTLER	10/01/01		63,791							63,791	32,697	S/L	20		3,190
274	TELEM@491-73.2%CDBG/RD	10/01/04		138,767							138,767	50,301	S/L	20		6,938
326	UPGRADE TELEMTRY	12/31/08		17,332							17,332	2,601	S/L	20		867
335	UPGRADE TELEMTRY-ADD'L	2/10/09		9,438							9,438	1,377	S/L	20		472
357	PUMPS,PIPING,TELEM-330 PS	5/04/11		186,826							186,826	4,982	S/L	25		7,473
Total PUMPING EQUIPMENT				440,074		0	0	0	0	0	440,074	115,878				18,940
<b>SERVICES</b>																
90	SERVICES	1/01/66		7,472							7,472	7,472	S/L	40		0
91	SERVICES	1/01/68		482							482	482	S/L	40		0
92	SERVICES	1/01/69		1,751							1,751	1,751	S/L	40		0
93	SERVICES	1/01/70		2,413							2,413	2,413	S/L	40		0
94	SERVICES	1/01/71		4,295							4,295	4,295	S/L	40		0
95	SERVICES	1/01/72		1,323							1,323	1,323	S/L	40		0

12/31/12

2012 Federal Depreciation Schedule

Client 2337

PENDLETON COUNTY WATER DISTRICT

61-0599209

09:41 AM

6/07/12

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96	SERVICES	1/01/73		1,383							1,383	1,359	S/L	40		24
97	SERVICES	1/01/74		3,727							3,727	3,536	S/L	40		93
98	SERVICES	1/01/75		4,079							4,079	3,774	S/L	40		102
99	SERVICES	1/01/76		4,649							4,649	4,179	S/L	40		116
100	SERVICES	1/01/77		5,102							5,102	4,474	S/L	40		128
101	SERVICES	1/01/78		19,922							19,922	16,933	S/L	40		498
102	SERVICES	1/01/79		8,165							8,165	6,734	S/L	40		204
103	SERVICES	1/01/80		5,108							5,108	4,092	S/L	40		128
104	SERVICES	1/01/81		3,640							3,640	2,821	S/L	40		91
105	SERVICES	1/01/82		2,627							2,627	1,975	S/L	40		66
106	SERVICES	1/01/83		5,285							5,285	3,830	S/L	40		132
107	SERVICES	1/01/84		2,564							2,564	1,793	S/L	40		64
108	SERVICES	1/01/85		5,273							5,273	3,561	S/L	40		132
109	SERVICES	1/01/86		9,683							9,683	6,293	S/L	40		242
110	SERVICES	1/01/87		149							149	96	S/L	40		4
111	SERVICES	2/01/87		1,793							1,793	1,117	S/L	40		45
112	SERVICES	3/01/87		321							321	199	S/L	40		8
113	SERVICES	4/01/87		2,099							2,099	1,291	S/L	40		52
114	SERVICES	5/01/87		1,778							1,778	1,089	S/L	40		44
115	SERVICES	6/01/87		41							41	25	S/L	40		1
116	SERVICES	7/01/87		556							556	341	S/L	40		14
117	SERVICES	8/01/87		1,955							1,955	1,193	S/L	40		49
118	SERVICES	9/01/87		967							967	585	S/L	40		24
119	SERVICES	10/01/87		302							302	188	S/L	40		8
120	SERVICES	12/01/87		32							32	22	S/L	40		1
121	SERVICES	12/31/87		39,950							39,950	24,014	S/L	40		999
122	SERVICES	1/31/88		193							193	117	S/L	40		5

12/31/12

## 2012 Federal Depreciation Schedule

Page 9

Client 2337

PENDLETON COUNTY WATER DISTRICT

61-0599209

09:41 AM

6/07/12

No.	Description	Date Acquired	Date Sold	Cost/ Basis	Bus. Pct.	Cur 179 Bonus	Special Depr. Allow.	Prior 179/ Bonus/ Sp. Depr.	Prior Dec. Bal. Depr.	Salvage /Basis Reductn	Depr. Basis	Prior Depr.	Method	Life	Rate	Current Depr.
123	SERVICES	3/31/88		530							530	313	S/L	40		13
124	SERVICES	4/30/88		345							345	209	S/L	40		9
125	SERVICES	5/31/88		261							261	159	S/L	40		7
126	SERVICES	6/30/88		474							474	281	S/L	40		12
127	SERVICES	7/31/88		1,445							1,445	846	S/L	40		36
128	SERVICES	8/31/88		807							807	470	S/L	40		20
129	SERVICES	9/30/88		697							697	401	S/L	40		17
130	SERVICES	10/31/88		1,090							1,090	630	S/L	40		27
131	SERVICES	11/30/88		400							400	231	S/L	40		10
132	SERVICES	12/31/88		552							552	320	S/L	40		14
133	SERVICES	6/30/89		13,640							13,640	7,701	S/L	40		341
134	SERVICES	7/01/90		10,633							10,633	5,717	S/L	40		266
135	SERVICES	7/01/91		16,612							16,612	8,510	S/L	40		415
136	SERVICES	6/30/92		4,300							4,300	2,111	S/L	40		108
137	SERVICES	7/01/93		12,465							12,465	5,769	S/L	40		312
138	SERVICES	6/30/94		13,318							13,318	5,855	S/L	40		333
139	SERVICES	7/01/95		11,533							11,533	4,754	S/L	40		288
140	SERVICES	7/01/96		16,822							16,822	6,523	S/L	40		421
141	SERVICES	6/30/97		12,422							12,422	4,535	S/L	40		311
142	SERVICES	6/30/98		26,320							26,320	8,938	S/L	40		658
143	SERVICES	6/30/99		33,466							33,466	10,497	S/L	40		837
144	SERVICES	7/01/00		33,907							33,907	9,752	S/L	40		848
224	SERVICES	7/01/01		22,184							22,184	5,827	S/L	40		555
233	EDA-44% 76 METERS-BUTLER	10/01/01		57,291							57,291	15,752	S/L	40		1,432
248	SERVICES	6/30/02		31,831							31,831	7,562	S/L	40		796
259	SERVICES	6/30/03		28,844							28,844	6,129	S/L	40		721
278	SERVICES	6/30/04		15,256							15,256	2,858	S/L	40		381

12/31/12

2012 Federal Depreciation Schedule

Page 10

Client 2337

PENDLETON COUNTY WATER DISTRICT

61-0599209

09:41 AM

6/07/12

No.	Description	Date Acquired	Date Sold	Cost/ Basis	Bus. Pct.	Cur 179 Bonus	Special Depr. Allow.	Prior 179/ Bonus/ Sp. Depr.	Prior Dec. Bal. Depr.	Salvage /Basis Reductn	Depr. Basis	Prior Depr.	Method	Life	Rate	Current Depr.
295	SERVICES INSTALLED	6/30/05		25,470							25,470	4,140	S/L	40		637
308	SERVICES INSTALLED	6/30/06		27,864							27,864	3,833	S/L	40		697
318	SERVICES INSTALLED	6/30/07		21,905							21,905	2,466	S/L	40		548
320	2" MTR & VAULT @ HI SCH	12/31/07		11,869							11,869	1,188	S/L	40		297
328	SERVICES	6/30/08		19,230							19,230	1,683	S/L	40		481
338	SERVICES	6/30/09		21,863							21,863	1,367	S/L	40		547
349	SERVICES	7/01/10		19,420							19,420	729	S/L	40		486
359	SERVICES	7/01/11		9,261							9,261	116	S/L	40		232
Total SERVICES				673,406		0	0	0	0	0	673,406	251,539				16,387
SHOP TOOLS & GARAGE EQUIP																
212	WATER PUMP	11/01/87		250							250	250	S/L	10		0
213	DRILL	5/01/90		109							109	109	S/L	10		0
214	TOOL BOX	5/01/90		147							147	147	S/L	10		0
215	WEEDEATER	7/31/92		381							381	381	S/L	10		0
216	SNAPPER LAWN MOWER	4/01/97		1,895							1,895	1,850	S/L	10		0
217	LEAK DETECTOR	8/01/98		701							701	701	S/L	10		0
218	SQUEEZE OFF TOOL	10/01/99		280							280	280	S/L	10		0
219	UNDERGROUND LOCATOR	5/22/00		829							829	829	S/L	10		0
305	AIR COMPRESSOR	1/19/06		279							279	279	S/L	5		0
312	SUBMERSIBLE PUMP	1/11/07		732							732	732	S/L	5		0
322	ROTO TILLER	4/30/08		600							600	440	S/L	5		120
329	BORING MACHINE	10/29/08		4,800							4,800	1,520	S/L	10		480
356	LEAK DETECTING DEVICE	3/18/11		2,132							2,132	107	S/L	15		142
Total SHOP TOOLS & GARAGE EQU				13,135		0	0	0	0	0	13,135	7,625				742

12/31/12

2012 Federal Depreciation Schedule

Page 11

Client 2337

PENDLETON COUNTY WATER DISTRICT

61-0599209

09:41AM

6/07/12

No.	Description	Date Acquired	Date Sold	Cost/ Basis	Bus. Pct.	Cur 179 Bonus	Special Depr. Allow.	Prior 179/ Bonus/ Sp. Depr.	Prior Dec. Bal. Depr.	Salvage /Basis Reductn	Depr. Basis	Prior Depr.	Method	Life	Rate	Current Depr.
STORES EQUIPMENT																
223	STORES EQUIPMENT	1/01/78		1,603							1,603	1,603	S/L	10		0
	Total STORES EQUIPMENT			1,603		0	0	0	0	0	1,603	1,603				0
STRUCTURES & IMPROVEMENTS																
11	IMPROVEMENTS	1/01/73		1,617							1,617	1,566	S/L	40		51
12	IMPROVEMENTS	1/01/74		135							135	119	S/L	40		3
13	IMPROVEMENTS	1/01/75		1,461							1,461	1,362	S/L	40		37
14	IMPROVEMENTS	1/01/76		48							48	38	S/L	40		1
16	IMPROVEMENTS	1/01/78		12,476							12,476	10,607	S/L	40		312
17	IMPROVEMENTS	1/01/79		137							137	105	S/L	40		3
18	IMPROVEMENTS	1/01/79		332							332	268	S/L	40		8
19	IMPROVEMENTS	1/01/80		46							46	34	S/L	40		1
22	IMPROVEMENTS	5/01/87		859							859	524	S/L	40		21
23	IMPROVEMENTS	6/01/87		2,592							2,592	1,593	S/L	40		65
24	IMPROVEMENTS	7/01/87		3,162							3,162	1,933	S/L	40		79
25	IMPROVEMENTS	8/01/87		4,827							4,827	2,945	S/L	40		121
26	IMPROVEMENTS	9/01/87		960							960	583	S/L	40		24
27	PUMP STATION BUILDING	12/31/87		25,000							25,000	15,026	S/L	40		625
28	IMPROVEMENTS	2/29/88		530							530	314	S/L	40		13
29	IMPROVEMENTS-TANKS	10/31/88		11,565							11,565	6,709	S/L	40		289
30	OFFICE BUILDING	5/01/97		137,718							137,718	50,497	S/L	40		3,443
235	EDA-44% BUILDING-BUTLER	12/15/01		28,223							28,223	7,119	S/L	40		706
236	EDA-44% SECRTY FENCE-BUTL	10/01/01		5,068							5,068	2,593	S/L	20		253
263	FENCE AT OFFICE	12/22/03		10,626							10,626	4,248	S/L	20		531

12/31/12

2012 Federal Depreciation Schedule

Client 2337

PENDLETON COUNTY WATER DISTRICT

61-0599209

09:41 AM

6/07/12

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264	FENCE AT PUMP STATION	12/22/03		2,204							2,204	880	S/L	20		110
284	CONCRETE PARK LOT-OFFICE	6/14/05		19,890							19,890	3,272	S/L	40		497
325	FENCING - KIDWELL TANK	8/31/08		756							756	127	S/L	20		38
Total STRUCTURES & IMPROVEM				270,232		0	0	0	0	0	270,232	112,462				7,231
TRANSMISSION & DIST MAINS																
34	TRANSMISSION & DISTRIBUTI	1/01/66		170,326							170,326	170,326	S/L	40		0
35	TRANSMISSION & DISTRIB LI	1/01/67		710							710	710	S/L	40		0
36	TRANSMISSION & DISTRIB LI	1/01/68		1,038							1,038	1,038	S/L	40		0
37	TRANSMISSION & DISBTRIBUT	1/01/69		8,315							8,315	7,318	S/L	40		0
38	TRANSMISSION & DISTRIBUT	1/01/70		290							290	290	S/L	40		0
39	TRANSMISSION & DISTRIBUTI	1/01/71		4,225							4,225	4,225	S/L	40		0
40	OTHER TRANSMISSION & DIST	1/01/71		249							249	249	S/L	40		0
41	TRANSMISSION & DISTRIB MA	1/01/72		6,406							6,406	6,406	S/L	40		0
42	OTHER TRANSMISSION & DIST	1/01/72		251							251	251	S/L	40		0
43	TRANSMISSION & DISTRIBUTI	1/01/73		5,176							5,176	5,037	S/L	40		139
44	OTHER TRANSMISSION & DIST	1/01/73		1,399							1,399	1,365	S/L	40		34
45	TRANSMISSION & DISTRIBUTI	1/01/74		14,856							14,856	14,104	S/L	40		371
46	OTHER TRANSMISSION & DIST	1/01/74		455							455	423	S/L	40		11
47	TRANSMISSION & DISTRIBUTI	1/01/75		23,007							23,007	21,277	S/L	40		575
48	TRANSMISSION & DISTRIB	1/01/76		7,062							7,062	6,366	S/L	40		177
49	OTHER TRANSMISSION & DIST	1/01/76		709							709	644	S/L	40		18
50	TRANSMISSION & DISTRIBUTI	1/01/77		11,192							11,192	9,797	S/L	40		280
51	OTHER TRANSMISSION & DIST	1/01/77		509							509	452	S/L	40		13
52	TRANSMISSION & DISTRIBUTI	1/01/78		351,161							351,161	298,486	S/L	40		8,779
53	TRANSMISSION & DISTRIBUTI	1/01/79		12,230							12,230	10,095	S/L	40		306





12/31/12

## 2012 Federal Depreciation Schedule

Page 14

Client 2337

PENDLETON COUNTY WATER DISTRICT

61-0599209

09:41 AM

6/07/12

No.	Description	Date Acquired	Date Sold	Cost/ Basis	Bus. Pct.	Cur 179 Bonus	Special Depr. Allow.	Prior 179/ Bonus/ Sp. Depr.	Prior Dec. Bal. Depr.	Salvage /Basis Reductn	Depr. Basis	Prior Depr.	Method	Life	Rate	Current Depr.
81	TRANSMISSION & DIST LINES	4/30/93		1,062							1,062	503	S/L	40		27
82	TRANSMISSION & DIST LINES	9/30/94		15,520							15,520	6,725	S/L	40		388
83	LINE EXTENTION	7/01/96		10,905							10,905	4,457	S/L	40		273
84	TRANSMISSION & DISTRIB LI	7/01/96		12,438							12,438	4,820	S/L	40		311
85	CUMMINS ROAD LINE EXTENS	10/01/97		25,301							25,301	9,019	S/L	40		633
86	TRANSMISSION & DIST KY 10	7/15/98		280,580							280,580	94,701	S/L	40		7,015
87	TRANSMISS & DIST MAIN FAI	12/15/98		632,672							632,672	206,939	S/L	40		15,817
88	TRANSMISS -REPLACEMENT	5/01/99		8,484							8,484	2,685	S/L	40		212
89	TRANSMISSION & SLP	11/01/99		142,886							142,886	43,482	S/L	40		3,572
220	STATE PROJECT	12/27/99		110,748							110,748	33,436	S/L	40		2,769
221	WILLIAMSTOWN PROJECT	7/18/00		7,125							7,125	2,047	S/L	40		178
222	IATRIDES SUBDIVISION PROJ	12/06/00		55,630							55,630	15,417	S/L	40		1,391
226	KELLS ROAD PROJECT	11/15/01		20,586							20,586	5,236	S/L	40		515
227	PETRY LINE	12/07/01		2,800							2,800	706	S/L	40		70
228	PRIBBLE LINE	12/01/01		1,486							1,486	373	S/L	40		37
231	EDA-44% MAINS-BUTLER PROJ	10/01/01		1,343,170							1,343,170	344,185	S/L	40		33,579
241	LINE EXT - RUBER	2/28/02		678							678	167	S/L	40		17
242	LINE EXT - YORK	4/30/02		762							762	184	S/L	40		19
243	LINE EXT - PIKE 27 AUTO	8/31/02		10,947							10,947	2,557	S/L	40		274
244	RELOCATE LINE-HIGH SCH	7/31/02		9,328							9,328	2,194	S/L	40		233
245	LINE EXT-CATAWBA-16395 LF	1/15/02		101,205							101,205	25,300	S/L	40		2,530
246	LINE REPLACE-27 & CATAWBA	9/30/02		31,389							31,389	7,261	S/L	40		785
247	30002 LF-HB 502-CO WTR LI	9/15/02		221,472							221,472	51,679	S/L	40		5,537
256	KENNEDY RIDGE EXTENSION	4/30/03		6,642							6,642	1,439	S/L	40		166
257	HERITAGE PLACE EXTENSION	7/31/03		2,640							2,640	556	S/L	40		66
258	TURNER SUBDIVISION	10/31/03		7,000							7,000	1,429	S/L	40		175
261	WRIGHT WATER LINE	11/18/03		2,376							2,376	477	S/L	40		59

Client 2337

PENDLETON COUNTY WATER DISTRICT

61-0599209

09:41 AM

6/07/12

No.	Description	Date Acquired	Date Sold	Cost/ Basis	Bus. Pct	Cur 179 Bonus	Special Depr. Allow.	Prior 179/ Bonus/ Sp. Depr.	Prior Dec. Bal. Depr.	Salvage /Basis Reductn	Depr. Basis	Prior Depr.	Method	Life	Rate	Current Depr.
262	PENDLETON ACRES	12/01/03		139,506							139,506	28,195	S/L	40		3,488
271	LINES-491-73.2%-CDBG/RD	10/01/04		1,248,042							1,248,042	226,207	S/L	40		31,201
289	MAINS - CALDWELL RIDGE	5/31/05		12,880							12,880	2,120	S/L	40		322
294	MAINS-269 PRIORITY	9/16/05		976,642							976,642	152,600	S/L	40		24,416
310	2600' DI 8" PIPE-DARLINGT	3/01/06		41,100							41,100	5,996	S/L	40		1,028
319	VATER EXT-760' OF 3" SDR	5/31/07		2,701							2,701	311	S/L	40		68
323	2100' - 3" PIPE-SCHLUETER	7/01/08		5,422							5,422	476	S/L	40		136
332	14540'-6"PVC+6972'6"DI-KE	1/24/08		252,877							252,877	24,761	S/L	40		6,322
336	720' of 3" LINE DAHM'S RD	3/31/09		3,359							3,359	231	S/L	40		84
340	2525' OF 8" MAIN-KINGS RU	11/30/09		93,182							93,182	4,854	S/L	40		2,330
345	21,271'-6"+21,831-4" MAIN	7/26/10		528,060							528,060	18,703	S/L	40		13,202
346	PREP SIRY RD FOR TIE IN	10/18/10		3,450							3,450	100	S/L	40		86
350	3500'-4",4 TAP,1H-MATHIS	12/08/10		21,734							21,734	588	S/L	40		543
352	US 27 LINE RELOCATION	3/31/10		1,213,195							1,213,195	53,077	S/L	40		30,330
Total TRANSMISSION & DIST MAI				9,461,527			0	0	0	0	9,461,527	2,664,998				231,709
TRANSPORTATION EQUIPMENT																
253	2 CHEV TR-2003-W BEDLINER	5/06/03		28,516							28,516	24,717	S/L	10		2,852
285	2006 CHEVY TRUCK	8/02/05		12,964							12,964	12,964	S/L	5		0
286	2005 GMC DUMP TRUCK	8/29/05		52,034							52,034	32,952	S/L	10		5,203
309	BOX TRAILER	10/26/06		3,500							3,500	1,808	S/L	10		350
337	2009 CHEVY TRUCK	6/03/09		26,668							26,668	13,779	S/L	5		5,334
347	TRANSMISSION 2003 CHEV TR	9/21/10		2,025							2,025	844	S/L	3		675
348	2011 CHEV SILVERADO TRUCK	10/12/10		14,890							14,890	3,723	S/L	5		2,978
353	2011 CHEVY TON UTILITY TR	1/10/11		29,978							29,978	1,999	S/L	15		1,999
Total TRANSPORTATION EQUIPME				170,575			0	0	0	0	170,575	92,786				19,391

12/31/12

2012 Federal Depreciation Schedule

Page 16

Client 2337

PENDLETON COUNTY WATER DISTRICT

61-0599209

6/07/12

09:41AM

No.	Description	Date Acquired	Date Sold	Cost/ Basis	Bus. Pct.	Cur 179 Bonus	Special Depr. Allow.	Prior 179/ Bonus/ Sp. Depr.	Prior Dec. Bal. Depr.	Salvage /Basis Reductn	Depr. Basis	Prior Depr.	Method	Life	Rate	Current Depr.
	Total Depreciation			<u>12,814,115</u>		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>12,814,115</u>	<u>3,770,854</u>				<u>347,913</u>
	Grand Total Depreciation			<u>12,814,115</u>		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>12,814,115</u>	<u>3,770,854</u>				<u>347,913</u>

## OUTSTANDING DEBT INSTRUMENTS

Rural Development Bonds of 1977

Rural Development Bonds, Series 1997

KY Rural Water Revenue Bonds, Series 2001

Rural Development Bonds, Series 2004

Rural Development Bonds, Series 2010

KY Assoc. of Counties Leasing Trust Program

# Rural Development Bonds of 1977

**PENDLETON COUNTY WATER DISTRICT**

**RURAL DEVELOPMENT REVENUE BONDS  
SERIES 1977**

**ISSUE DATE 5/26/1978  
MATURITY DATE 12/1/2017  
INTEREST RATE 5.00%  
ORIGINAL ISSUE \$263,000.00**

<b>Payment Date</b>	<b>Principal Due</b>	<b>Interest Due</b>	<b>Principal &amp; Interest</b>	<b>Principal Balance</b>
12/1/1997				194,000.00
6/1/1998		4,850.00		194,000.00
12/1/1998	6,000.00	4,850.00	15,700.00	188,000.00
6/1/1999		4,700.00		188,000.00
12/1/1999	6,000.00	4,700.00	15,400.00	182,000.00
6/1/2000		4,550.00		182,000.00
12/1/2000	6,000.00	4,550.00	15,100.00	176,000.00
6/1/2001		4,400.00		176,000.00
12/1/2001	7,000.00	4,400.00	15,800.00	169,000.00
6/1/2002		4,225.00		169,000.00
12/1/2002	7,000.00	4,225.00	15,450.00	162,000.00
6/1/2003		4,050.00		162,000.00
12/1/2003	7,000.00	4,050.00	15,100.00	155,000.00
6/1/2004		3,875.00		155,000.00
12/1/2004	8,000.00	3,875.00	15,750.00	147,000.00
6/1/2005		3,675.00		147,000.00
12/1/2005	8,000.00	3,675.00	15,350.00	139,000.00
6/1/2006		3,475.00		139,000.00
12/1/2006	9,000.00	3,475.00	15,950.00	130,000.00
6/1/2007		3,250.00		130,000.00
12/1/2007	9,000.00	3,250.00	15,500.00	121,000.00
6/1/2008		3,025.00		121,000.00
12/1/2008	10,000.00	3,025.00	16,050.00	111,000.00
6/1/2009		2,775.00		111,000.00
12/1/2009	10,000.00	2,775.00	15,550.00	101,000.00
6/1/2010		2,525.00		101,000.00
12/1/2010	11,000.00	2,525.00	16,050.00	90,000.00
6/1/2011		2,250.00		90,000.00
12/1/2011	11,000.00	2,250.00	15,500.00	79,000.00
6/1/2012		1,975.00		79,000.00
12/1/2012	12,000.00	1,975.00	15,950.00	67,000.00
6/1/2013		1,675.00		67,000.00
12/1/2013	12,000.00	1,675.00	15,350.00	55,000.00
6/1/2014		1,375.00		55,000.00
12/1/2014	13,000.00	1,375.00	15,750.00	42,000.00
6/1/2015		1,050.00		42,000.00
12/1/2015	13,000.00	1,050.00	15,100.00	29,000.00
6/1/2016		725.00		29,000.00
12/1/2016	14,000.00	725.00	15,450.00	15,000.00
6/1/2017		375.00		15,000.00
12/1/2017	15,000.00	375.00	15,750.00	0.00
<b>Totals</b>	<b>194,000.00</b>	<b>117,600.00</b>	<b>311,600.00</b>	

NO. R-1-263

UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
COUNTIES OF PENDLETON AND CAMPBELL

PENDLETON COUNTY WATER DISTRICT

WATERWORKS REVENUE BOND OF 1977

KNOW ALL MEN BY THESE PRESENTS:

That the Pendleton County Water District, acting by and through its Commission, a public body corporate in Pendleton and Campbell Counties, Kentucky, for value received, hereby promises to pay to the registered owner hereof, solely from the special fund hereinafter identified, the sum of

TWO HUNDRED SIXTY-THREE THOUSAND DOLLARS (\$263,000)

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

Year	Principal	Year	Principal	Year	Principal
1980	\$2,000	1993	\$5,000	2006	\$ 9,000
1981	3,000	1994	5,000	2007	9,000
1982	3,000	1995	5,000	2008	10,000
1983	3,000	1996	5,000	2009	10,000
1984	3,000	1997	6,000	2010	11,000
1985	3,000	1998	6,000	2011	11,000
1986	3,000	1999	6,000	2012	12,000
1987	3,000	2000	6,000	2013	12,000
1988	4,000	2001	7,000	2014	13,000
1989	4,000	2002	7,000	2015	13,000
1990	4,000	2003	7,000	2016	14,000
1991	4,000	2004	8,000	2017	15,000
1992	4,000	2005	8,000		

without deduction for exchange or collection charges, and in like manner, solely from said special fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, at the rate of five percent (5%) per annum, semi-annually on the first days of June and December in each year hereafter until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable, without deduction for exchange or collection charges, in lawful money of the United States of America, at the address of the registered owner shown on the registration book of the District.

This Bond is issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapter 74 and Sections 96.350 through 96.350, inclusive, of the Kentucky Revised Statutes, as amended, and pursuant to a duly adopted Bond Resolution of the District authorizing same (the "Current Bond Resolution"), to which 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 "waterworks system" or the "system").

This Bond is issued subject to the vested rights and priorities in favor of the holders of the outstanding Pendleton County Water District Waterworks System Revenue Bonds, dated December 1, 1962 (the "Prior Bonds"), authorized by an Ordinance enacted by the Commission of the District on August 16, 1962 (the "Prior Bond Ordinance").

with this Bond as may be outstanding from time to time, and to pay the cost of operation and maintenance of the system and to provide for the depreciation thereof.

A secondary statutory mortgage lien, which is hereby recognized as valid and binding on said waterworks system, is created and granted pursuant to said Statutes and more specifically Section 74.370 and Section 96.400 of the Kentucky Revised Statutes, to and in favor of the registered owner of this Bond; and said waterworks system and all appurtenances thereof and extensions thereto shall remain subject to such statutory mortgage lien until payment in full of the principal of and interest on this Bond; provided, however, that said statutory mortgage lien is subject to the vested rights and priorities in favor of the Prior Bonds.

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

As provided in the Current Bond Resolution, this Bond is exchangeable at the expense of the registered owner hereof at any time, upon ninety days' written notice, at the request of such registered owner and upon surrender of this Bond to the District, for negotiable coupon bonds, payable to bearer, registrable as to principal only, in an amount or amounts not exceeding \$10,000 per coupon bond, or a lesser denomination in a multiple of \$2,000, consistent with the maturities hereof, in an aggregate principal amount equal to and maturing in conformity with the unpaid principal amount of this Bond, and in the form of such coupon bonds as provided in the Bond Resolution, with semi-annual coupons annexed representing the amount of interest corresponding to the rate herein provided.

The District, at its option, shall have the right to prepay, on any interest payment date on and after December 1, 1988, 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 Thousand Dollars (\$1,000), as the District may determine at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or his assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States Government or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$1,000, 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

Payment Schedule & Restrictive Covenants

Waterworks Revenue Bonds of 1977

RSC 1/15/11

- CNLR / FORM 1A-17 -

112

BOND RESOLUTION

PENDLETON WATER DISTRICT

WATERWORKS REVENUE BONDS OF 1977

IN THE AMOUNT OF

\$263,000



I N D E X

COUNTY OF PENDLETON, KENTUCKY, WATERWORKS REVENUE BONDS OF 1977, IN THE AMOUNT OF \$263,000.

<u>Section</u>	<u>Title</u>	<u>Page</u>
	ARTICLE 1 - PURPOSE; AUTHORITY; CONSTRUCTION PROJECT; AUTHORIZATION OF BONDS; SECOND LIEN.	3
101	DEFINITIONS	3
102	PURPOSE; CONSTRUCTION OF CONSTRUCTION PROJECT; WATERWORKS SYSTEM TO CONTINUE TO BE OPERATED AS A REVENUE-PRODUCING PUBLIC PROJECT; AUTHORITY	5
103	CONSTRUCTION AWARD APPROVED; WORK AUTHORIZED	6
104	DECLARATION OF PERIOD OF USEFULNESS	6
105	AUTHORIZATION OF BONDS	6
106	RECOGNITION AND CONFIRMATION OF PRIORITY OF LIEN, PLEDGE AND SECURITY OF PRIOR BONDS	8
107	CURRENT BONDS SHALL BE PAYABLE ON SECOND LIEN BASIS OUT OF GROSS REVENUES	8
	ARTICLE 2 - THE BONDS; REGISTERED BONDS AND REGISTRABLE COUPON BONDS; MATURITIES; PAYOR BANKS; EXECUTION; PRIOR REDEMPTION; AND BOND FORMS	9
201	MATURITIES	9
202	ISSUANCE OF FULLY REGISTERED BOND(S)	11
203	FULLY REGISTERED BOND(S) CONVERTIBLE INTO COUPON BONDS	11
204	PLACE OF PAYMENT AND MANNER OF EXECUTION	12
205	PROVISIONS AS TO REGISTRATION OF COUPON BONDS AND PRIOR REDEMPTION	1
206	BOND FORMS	14
	A. COUPON BONDS	14
	B. FULLY REGISTERED BOND	21
	ARTICLE 3 - CONSTRUCTION ACCOUNT; INTERIM FINANCING; INVESTMENT OF PROCEEDS; AND FEDERAL ARBITRAGE LIMITATIONS	27
301	THE CONSTRUCTION ACCOUNT; FIDELITY BOND OF TREASURER; APPLICATION OF PROCEEDS OF BONDS	27
302	INTERIM FINANCING AUTHORIZATION	30
303	INVESTMENT PROCEEDS; FEDERAL ARBITRAGE LIMITATIONS	33

<u>Section</u>	<u>Title</u>	<u>Page</u>
	ARTICLE 4 - OPERATION OF SYSTEM; FLOW OF FUNDS; CURRENT BONDS SUBJECT TO PRIORITY OF PRIOR BONDS MONTHLY PAYMENT OF PRINCIPAL AND INTEREST SO LONG AS FmHA HOLDS OR INSURES THE CURRENT BONDS	36.
401	OPERATION OF SYSTEM TO CONTINUE AS HERETOFORE; PROVISION OF PRIOR BOND RESOLUTION INCORPORATED HEREIN; CREATION OF NEW FUNDS	36
	A. PRIOR SINKING FUND	37
	B. CURRENT SINKING FUND	37
	C. DISTRICT TO MAKE PRINCIPAL AND INTEREST PAYMENTS ON CURRENT BONDS ON A MONTHLY BASIS SO LONG AS FmHA HOLDS OR INSURES ALL OF THE CURRENT BONDS	40
	D. INITIAL RESERVE FUND	40
	E. DEPRECIATION FUND	41
	F. OPERATION AND MAINTENANCE FUND	42
	G. EXCESS FUNDS	43
	ARTICLE 5 - COVENANTS OF DISTRICT TO BONDHOLDERS	44
501	RATES AND CHARGES	44
502	BOOKS AND ACCOUNTS	45
503	SYSTEM TO CONTINUE TO BE OPERATED ON FISCAL YEAR BASIS	45
504	GENERAL COVENANTS	47
505	OTHER GENERAL COVENANTS APPLICABLE SO LONG AS FmHA HOLDS ANY BONDS	48
506	INSURANCE OF MOTORS, TANKS AND STRUCTURES	49
	ARTICLE 6 - INFERIOR BONDS AND PARITY BONDS	50
601	INFERIOR BONDS	50
602	PARITY BONDS TO COMPLETE THE CONSTRUCTION PROJECT	50
603	PARITY BONDS TO FINANCE FUTURE EXTENSIONS, ADDITIONS AND/OR IMPROVEMENTS; CONDITIONS OR SHOWINGS REQUIRED	51
604	PARITY BONDS TO REFUND OR REFINANCE OUTSTANDING BONDS	53
605	COVENANTS TO BE COMPLIED WITH AT TIME OF ISSUANCE OF PARITY BONDS	54
606	PRIORITY OF LIEN; PERMISSIBLE DISPOSITION OF SURPLUS OR OBSOLETE FACILITIES; CONDITIONS	54
607	REDEMPTION PROVISIONS (CONDITIONS) APPLICABLE TO PARITY BONDS	55
608	DISTRICT NOT TO ISSUE ANY ADDITIONAL BONDS RANKING ON A PARITY WITH PRIOR BONDS OR RANKING SUPERIOR TO CURRENT BONDS	56

<u>Section</u>	<u>Title</u>	<u>Page</u>
	ARTICLE 7 - DEFAULT; CONSEQUENCES; DEFEASEMENT	57
701	EVENTS OF DEFAULT	57
702	CONSEQUENCES OF ACT OF DEFAULT	57
703	DEFEASANCE	58
	ARTICLE 8 - CONTRACTUAL PROVISIONS; GRANT APPROVAL; AND MISCELLANEOUS PROVISIONS	60
801	THIS RESOLUTION CONTRACTUAL WITH BONDHOLDERS	60
802	ALL BONDS OF THIS ISSUE ARE EQUAL	61
803	DISTRICT OBLIGATED TO REFUND CURRENT BONDS HELD BY GOVERNMENT WHENEVER SAME IS FEASIBLE	61
804	APPROVAL OF EDA GRANT AGREEMENT	61
805	POSSIBLE ADJUSTMENT IN DATE OF CURRENT BONDS, MATURITIES, REDEMPTION PROVISIONS AND OTHER DATES, WITH CONSENT OF PURCHASER IF DELIVERY IS DELAYED	62
	ARTICLE 9 - SALE OF BONDS	63
901	SALE OF BONDS	63
	ARTICLE 10 - CONCLUDING PROVISIONS	66
1001	SEVERABILITY CLAUSE	66
1002	ALL PROVISIONS IN CONFLICT REPEALED	66
1003	EFFECTIVE IMMEDIATELY UPON ADOPTION AND PUBLICATION	66

## BOND RESOLUTION

RESOLUTION OF THE PENDLETON COUNTY WATER DISTRICT OF PENDLETON AND CAMPBELL COUNTIES, KENTUCKY, AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF TWO HUNDRED SIXTY-THREE THOUSAND DOLLARS (\$263,000) PRINCIPAL AMOUNT OF PENDLETON COUNTY WATER DISTRICT WATERWORKS REVENUE BONDS OF 1977, 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; SETTING FORTH TERMS AND CONDITIONS UPON WHICH SAID PROPOSED BONDS OF 1977 MAY BE ISSUED AS SECOND LIEN BONDS, SUBJECT TO THE VESTED RIGHTS AND PRIORITIES IN FAVOR OF \$227,000 OF OUTSTANDING WATERWORKS SYSTEM REVENUE BONDS, DATED DECEMBER 1, 1961, 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 of the Pendleton County Water District is owned and operated by said District, under Chapter 74 and Sections 96.350 through 96.510, inclusive, of the Kentucky Revised Statutes, and in that connection the District presently has outstanding \$227,000 of Bonds (\$221,000 after December 1, 1977), designated as Pendleton County Water District Waterworks System Revenue Bonds, dated December 1, 1961 (the "Bonds of 1961"), scheduled to mature serially on December 1 in each of the respective years, 1977 through 1996, inclusive, which Bonds of 1961, by their terms, are payable from and secured by a first pledge of the revenues derived from the operation of (and by a first statutory mortgage lien against) said waterworks system, and

WHEREAS, all of said Bonds of 1961 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 1961 Bond Resolution, and

WHEREAS, it is the desire and intent of the District at this time to adopt this Resolution pursuant to the provisions of said Statutes, to authorize and provide for the issuance of revenue bonds in the principal amount of \$263,000, for the purpose of defraying the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing waterworks system of the District in accordance with plans and specifications prepared by Mayes, Sudderth & Ethredge, Inc., Consulting Engineers, Lexington, Kentucky, now on file in the office of the Secretary of the District, and to prescribe the covenants of the District, the rights of bondholders and the details of the issuance and sale of the proposed bonds, and that such proposed Bonds of 1977 be issued as second lien bonds, subject to the vested rights and priorities in favor of the holders of said outstanding Bonds of 1961, under and pursuant to said Statutes, and

WHEREAS, the Public Service Commission of Kentucky issued an Order on July 20, 1977, granting to the District a Certificate of Public Convenience and Necessity, authorizing the construction of said extensions, additions and improvements, and

WHEREAS, the proceeds of said Bonds of 1977 will be supplemented by a Federal (EDA) grant in the amount of approximately \$263,000, and by waterworks connection charges in the amount of at least \$11,000, to provide the total cost of such construction, and to establish an Initial Reserve Fund for the operation of the waterworks system after the completion of such construction, and

WHEREAS, the District has entered into an Amended Contract for Purchase of Treated Water with the City of Butler, Kentucky, assuring the District an adequate supply of water for as long as any of the proposed Bonds of 1977 shall be outstanding,

NOW THEREFORE, IT IS HEREBY RESOLVED BY THE COMMISSION OF THE  
PENDLETON COUNTY WATER DISTRICT OF PENDLETON AND CAMPBELL COUNTIES, KENTUCKY,  
AS FOLLOWS:

ARTICLE 1.

PURPOSE; AUTHORITY; CONSTRUCTION PROJECT;  
AUTHORIZATION OF BONDS; SECOND LIEN.

SECTION 101. DEFINITIONS.

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

"ALTERNATE PAYOR BANK" means the alternate bank, if any, designated as the alternate payor of the Bonds, which designation may be made by the successful purchaser of the Bonds.

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

"BOND," "OWNER," "HOLDER," and "PERSON" shall include the plural as well as the singular number unless the context shall otherwise indicate. The term "bondholder" means and contemplates, unless the context otherwise indicates, the holders of the Bonds and/or coupons at the time issued and outstanding hereunder, or any of them, and shall be deemed to include the registered owner of a Fully Registered Bond provided for herein.

"COMMISSION" means the Commission of the Pendleton County Water District of Pendleton and Campbell Counties, Kentucky, or such other body as shall be the governing body of said District under the laws of Kentucky at any given time.

"CONSTRUCTION PROJECT" or "WATERWORKS CONSTRUCTION PROJECT" refers specifically to the construction of the currently proposed extensions, additions and improvements to the existing waterworks system of the District, which construction project is being financed by the Current Bonds herein authorized (supplemented by other funds).

"CURRENT BONDS" or "BONDS OF 77" refers to the \$263,000 of Bonds authorized herein, bearing the designation "Pendleton County Water District Waterworks Revenue Bonds of 1977," to be dated as of the date of issuance thereof.

"CURRENT BOND RESOLUTION" refers to this "1977 BOND RESOLUTION" authorizing the Bonds of 1977.

"CURRENT SINKING FUND" or "1977 SINKING FUND" refers to the Pendleton County Water District Waterworks Bond and Interest Sinking Fund of 1977, created in Section 401B of this Current Bond Resolution.

"DEPRECIATION FUND" or "1961 DEPRECIATION FUND" refers to the Depreciation Fund, created in the 1961 Bond Resolution.

"DISTRICT" refers to the Pendleton County Water District, of Pendleton and Campbell Counties, Kentucky.

"ENGINEER" or "ENGINEERS" or "CONSULTING ENGINEERS" refers to the Engineers or any one of them, who prepared the plans and specifications for the construction of the construction project and who will supervise the construction thereof and/or will furnish full time resident inspection of the construction of the construction project, and shall be deemed to refer to Mayes, Sudderth & Ethredge, Inc., Suite 410, The Lexington Building, Lexington, Kentucky 40507, or a member of said firm, or their successors or successor.

"FmHA" or "GOVERNMENT" means the Farmers Home Administration of the Department of Agriculture of the United States Government.

"FULLY REGISTERED BOND" refers to a single or series of negotiable (subject to registration requirements as to transferability, as herein prescribed) Bond(s) payable to the registered owner (if such purchaser shall elect to take the Current Bonds so purchased in the form of a Fully Registered Bond), of the form set out in this Resolution under the title "(FORM OF FULLY REGISTERED BOND)."

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

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

"PARITY BONDS" means bonds which may be issued in the future, in addition to the \$263,000 of Current Bonds herein specifically authorized, which bonds issued in the future will, pursuant to the provisions of this Current Resolution, rank on a basis of parity with said outstanding Current Bonds, as to priority, security and source of payment, and does not refer to bonds which might be issued so as to rank inferior to the security and source of payment of said outstanding Current Bonds.

"PAYOR BANK" or "PAYING AGENT" or "DEPOSITORY BANK" mean the bank at which the principal of and interest on the Current Bonds (and the Prior Bonds) will be payable, and which has served and shall continue to serve as the depository of all of the various funds created in the Prior Bond Resolution, and which funds will be continued pursuant to this Resolution, which bank is the Falmouth Deposit Bank, Falmouth, Kentucky, or its successor.

"PRIOR BONDS" refers to the outstanding bonds of the original authorized issue of \$264,000 of bonds designated as "Pendleton County Water District Waterworks System Revenue Bonds," dated December 1, 1961.

"PRIOR BOND ORDINANCE" refers to the Ordinance authorizing the Bonds of 1961, duly enacted by the Commission of the District on August 16, 1962.

"PRIOR SINKING FUND" or "1961 SINKING FUND" refers to the "Waterworks Revenue Bond Sinking Fund," created in Section 6A of the Prior Bond Resolution.

"REVENUE FUND" or "PRIOR REVENUE FUND" refers to the "Pendleton County Water District Revenue Fund," created in Section 6 of the Prior Bond Resolution.

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

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

SECTION 102. PURPOSE; CONSTRUCTION OF CONSTRUCTION PROJECT;  
WATERWORKS SYSTEM TO CONTINUE TO BE OPERATED AS  
A REVENUE-PRODUCING PUBLIC PROJECT; AUTHORITY.

The Current Bonds herein authorized shall be issued for the purpose of defraying the cost (not otherwise provided) of the waterworks construction project, as defined herein, as set out in the plans and specifications prepared by the District's Consulting Engineers. The Commission hereby declares the waterworks system of the District, including the extensions, additions and improvements to be constructed, to constitute a revenue-producing



public project or system, and said waterworks system shall continue to be owned, controlled, operated and maintained by the District as a revenue-producing public project pursuant to Chapter 74 and Sections 96.350 through 96.510, inclusive, of the Kentucky Revised Statutes, so long as any of the Prior Bonds and/or the Current Bonds herein authorized, or any additional bonds, remain outstanding, for the security and source of payment of all of such Bonds, which are payable from and secured by a pledge of the gross revenues of, and by a statutory mortgage lien against, the waterworks system, with full acknowledgement, however, of the prior rights of the holders of the Prior Bonds.

SECTION 103. CONSTRUCTION AWARD APPROVED; WORK AUTHORIZED.

The Commission hereby authorizes, approves, ratifies and confirms its previous action in awarding the contracts for the construction of the construction project to the lowest and best bidders and further approves the action of the District officials in entering into formal contracts with said bidders, subject to the necessary approvals being obtained. Authority is hereby given for undertaking the construction of the construction project according to the plans and specifications heretofore prepared by the Engineers for the District, after all necessary approvals have been obtained.

SECTION 104. DECLARATION OF PERIOD OF USEFULNESS.

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

SECTION 105. AUTHORIZATION OF BONDS.

It has been heretofore determined that the total cost of the construction project, including preliminary expenses, land and rights-of-way, engineering expense, capitalized interest during construction, legal

and administrative costs, publication costs, Initial Reserve Fund, and all incidental expenses, will be not exceeding \$537,000. Accordingly, it is hereby determined to be necessary in order for the District to finance the cost, not otherwise provided, of the construction project that the District issue a total of \$263,000 of Current Bonds, based on the following calculation:

Total cost of construction project (including Initial Reserve Fund)		\$537,000
Less:		
EDA grant	\$263,000	
Waterworks Connection Charges	<u>11,000</u>	
Total Non-Bond Funds:		<u>\$274,000</u>
Balance to be financed by Current Bonds.		\$263,000

Accordingly, for the purpose of financing the cost (not otherwise provided) of the construction project, under the provisions of the aforesaid statutes, there are hereby authorized to be issued and sold Two Hundred Sixty-Three Thousand Dollars (\$263,000) principal amount of Pendleton County Water District Waterworks Revenue Bonds of 1977. All of the Bonds shall be dated as of the date of delivery to the purchaser thereof, shall bear interest from such date at the rate of not exceeding five percent (5%) per annum, as may be fixed by supplemental resolution as a result of the advertised sale and competitive bidding for such Bonds, as hereinafter provided, and shall be issued and delivered either according to the "Form of Coupon Bond" (registrable as to principal), as prescribed in Section 206A hereof, or according to the form of "Fully Registered Bond," as prescribed in Section 206B hereof.

Interest on the Current Bonds shall be payable semi-annually on June 1 and December 1 of each year, provided that the first interest payment period will cover interest only from the date of delivery of the Bonds to the ensuing June 1 or December 1, as the case may be. Principal of the Bonds shall mature on December 1 of each of the respective years of maturity.

Such Bonds as may be issued in coupon bond form will be issued in the denomination of \$1,000, provided, however, that the purchaser of the Bonds at the public sale shall have the right to elect that such Bonds shall be issued in the denomination of \$1,000, or any multiple of same, not exceeding \$10,000, or any combination of same consistent with the schedule of maturities, or such purchaser may elect that such Bonds so purchased be issued to such purchaser in the form of a (or a series of) "Fully Registered Bond(s)," as hereinafter set out.

SECTION 106. RECOGNITION AND CONFIRMATION OF PRIORITY OF LIEN, PLEDGE AND SECURITY OF PRIOR BONDS.

The District hereby expressly recognizes and acknowledges that the District has previously created for the benefit and protection of the owners and holders of the Prior Bonds, a certain statutory mortgage lien and pledge and certain security rights relating to the system, all as set forth in the Prior Bonds and in the Prior Bond Resolution.

SECTION 107. CURRENT BONDS SHALL BE PAYABLE ON SECOND LIEN BASIS OUT OF GROSS REVENUES.

All of said Current Bonds and any additional parity bonds that may be issued under the conditions and restrictions hereinafter set forth, shall be payable solely on a second lien basis out of the revenues of the system, after providing only for the principal and interest requirements of the Prior Bonds, and shall be a valid claim of the holders thereof against the Current Sinking Fund created for the benefit of such holders, subject to the priority of the Prior Bonds.

ARTICLE 2.

THE BONDS; REGISTERED BONDS AND REGISTRABLE COUPON BONDS; MATURITIES; PAYOR BANKS; EXECUTION; PRIOR REDEMPTION; AND BOND FORMS.

SECTION 201. MATURITIES.

Subject to the foregoing right of the purchaser, to take delivery in the form of a single (or a series of) Fully Registered Bond(s), as provided in Section 202 below, the numbering and principal maturities of the Current Bonds, if issued in coupon bond form in the denomination of \$1,000, or alternatively, the principal installments due, if issued as a single, Fully Registered Bond (or as a Series thereof), as aforesaid, shall be as follows:

MATURITY,  
DECEMBER 1,

PRINCIPAL  
MATURITIES

NUMBERING

1980	\$ 2,000	1-2
1981	3,000	3-5
1982	3,000	6-8
1983	3,000	9-11
1984	3,000	12-14
1985	3,000	15-17
1986	3,000	18-20
1987	3,000	21-23
1988	4,000	24-27
1989	4,000	28-31
1990	4,000	32-35
1991	4,000	36-39
1992	4,000	40-43
1993	5,000	44-48
1994	5,000	49-53
1995	5,000	54-58
1996	5,000	59-63
1997	6,000	64-69
1998	6,000	70-75
1999	6,000	76-81
2000	6,000	82-87
2001	7,000	88-94
2002	7,000	95-101
2003	7,000	102-108
2004	8,000	109-116
2005	8,000	117-124
2006	9,000	125-133
2007	9,000	134-142
2008	10,000	143-152
2009	10,000	153-162
2010	11,000	163-173
2011	11,000	174-184
2012	12,000	185-196
2013	12,000	197-208
2014	13,000	209-221
2015	13,000	222-234
2016	14,000	235-248
2017	15,000	249-263

SECTION 202. ISSUANCE OF FULLY REGISTERED BOND(S).

The purchaser of the Current Bonds at the public sale shall have the option of taking delivery of the Bonds in the form of a single or a series of Fully Registered Bonds, as prescribed in Section 206B below, amounting in the aggregate to the principal amount of the Bonds authorized herein, maturing as to principal in installments corresponding to the principal maturities of the Coupon Bonds represented thereby. Such Fully Registered Bond(s) shall be numbered R-1 (and consecutively thereafter, R-2, etc.), shall be of type composition, shall be on paper of sufficient weight and strength to prevent deterioration until the last day of maturity of any installment of principal as stated therein, and shall conform in size to standard practice. Such Fully Registered Bond(s) shall, upon appropriate execution on behalf of the District as prescribed, constitute a part of the (or the entire) bond issue herein authorized, shall be negotiable (subject to registration requirements as to transferability), without interest coupons, registered as to principal and interest, payable as directed by the registered owner, and shall be in substantially the form hereinafter set forth.

SECTION 203. FULLY REGISTERED BOND(S) CONVERTIBLE INTO COUPON BONDS.

The District hereby covenants and agrees with the Registered Owner of a (each) Fully Registered Bond that the District will, at any time, at the request and expense of such owner, and within ninety (90) days after such request, issue the District's negotiable Coupon Bonds, payable to bearer, in an aggregate principal amount equal to and maturing in conformity with the unpaid principal amount of the Bond(s) exchanged therefor, registrable as to principal only, each such Bond or Bonds to be in an amount or amounts not exceeding \$10,000 per Coupon Bond, or a lesser denomination in a multiple

of \$1,000, consistent with the maturities of the Bond(s) exchanged therefor, and in the form of such Coupon Bonds as provided in Section 206A hereof, with semi-annual coupons annexed thereto representing the accrual of interest corresponding to the respective rate(s) of the Bond(s) exchanged therefor. Coupon Bonds shall be so issued and substituted only for and upon surrender to the District of the corresponding Fully Registered Bond(s), which shall then immediately be cancelled by the Treasurer of the District.

SECTION 204. PLACE OF PAYMENT AND MANNER OF EXECUTION.

Principal and interest of Coupon Bonds shall be payable at the Payor Bank, Falmouth Deposit Bank, Falmouth, Kentucky, or at the option of the holder or registered owner, at an alternate payor bank, which may be designated by the purchaser of the Bonds at the public sale, in lawful money of the United States of America. Said Coupon Bonds shall be executed on behalf of said District with the reproduced facsimile signature of the Chairman of the Commission, and the reproduced facsimile of the Corporate Seal of the District shall be imprinted thereon and attested by the manual signature of the Secretary of the District, and the interest coupons attached to said Bonds shall be executed with the reproduced facsimile signatures of said Chairman and said Secretary; and said officials, by the execution of appropriate certifications, shall adopt as and for their own proper signatures their respective facsimile signatures on said Bonds and coupons.

Both principal and interest of a Fully Registered Bond shall be payable at the place and in the manner set out in the form of such Fully Registered Bond prescribed in Section 206B below. Such Fully Registered Bond shall be executed on behalf of said District by being signed manually by the Chairman of the District, with the Corporate Seal of the District affixed thereto, and attested by the manual signature of the Secretary of said District.

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

SECTION 205. PROVISIONS AS TO REGISTRATION OF  
COUPON BONDS AND PRIOR REDEMPTION.

All Coupon Bonds issued hereunder shall be fully negotiable, but upon presentation of any of said Bonds at the office of the Secretary of the Water District, as Bond Registrar, Coupon Bonds may be registered as to principal in the name(s) of the owner(s) thereof in accordance with and subject to the registration provisions, terms and conditions contained in the Coupon Bond Form set out in Section 206A below.

All Coupon Bonds maturing prior to December 1, 1989, shall be non-callable, and corresponding installments of principal in the case of bonds in Fully Registered Form shall not be subject to prepayment. Coupon Bonds of said authorized issue maturing on and after December 1, 1989, and corresponding installments of principal in the case of bonds in Fully Registered Form, shall be subject to redemption or prepayment by said District on any interest payment date falling on and after December 1, 1988, upon terms of par plus accrued interest, without any redemption or prepayment premium.

So long as all of the Current Bonds are held by the Government, all or any of the Bonds, or installments in a multiple of \$1,000, may be redeemed at any time in inverse numerical order (or in inverse chronological order of the installments due) at face amount plus accrued interest without any redemption or prepayment premium.



SECTION 206. BOND FORMS.

The forms of said Coupon Bonds and of said Fully Registered Bonds, respectively, shall be as follows:

A. COUPON BONDS.

Said Coupon Bonds and the interest coupons appertaining thereto shall be in substantially the following form, with appropriate insertions, omissions and variations consistent with or as provided or permitted in this Resolution.

(FORM OF COUPON BOND)

UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
COUNTIES OF PENDLETON AND CAMPBELL  
PENDLETON COUNTY WATER DISTRICT  
WATERWORKS REVENUE BOND OF 1977

NO. \_\_\_\_\_

\$ \_\_\_\_\_,000

KNOW ALL MEN BY THESE PRESENTS:

That the Pendleton County Water District, acting by and through its Commission, a public body corporate of Pendleton and Campbell Counties, Kentucky, for value received, hereby promises to pay to the bearer, or if this Bond be registered, to the registered holder hereof, as hereinafter provided, solely from the special fund hereinafter identified, the sum of

\_\_\_\_\_ THOUSAND DOLLARS (\$ \_\_\_\_\_,000)

on the first day of December, 19\_\_\_\_.

and likewise from said special fund to pay interest on said sum from the date hereof until payment of principal in full, at the rate of \_\_\_\_\_ percent (\_\_\_\_%) per annum, payable semi-annually on the first days of June and December in each year hereafter until said sum is paid, except as the provisions

hereinafter set forth with respect to prior redemption may be and become applicable hereto, such interest as may accrue on and prior to the maturity of this Bond to be paid upon presentation and surrender of the annexed interest coupons as the same severally mature, both principal and interest being payable, without deduction for exchange or collection charges, in lawful money of the United States of America, at the Falmouth Deposit Bank, Falmouth, Kentucky, or at the option of the holder or registered owner, at the \_\_\_\_\_ Bank, \_\_\_\_\_.\*

This Bond is one of a duly authorized issue of Bonds in the total principal amount of \$263,000 (this Bond, the issue of which it forms a part and the appertaining coupons being hereinafter collectively referred to herein as "these Bonds", "the Bonds" or the "Current Bonds") issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapter 74 and Sections 96.350 through 96.510, inclusive, of the Kentucky Revised Statutes, and pursuant to a duly adopted Bond Resolution of the District authorizing same (the "Current Bond Resolution"), to which 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 holder or registered owner of this Bond and the rights, obligations and duties of said 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 sometimes referred to as the "waterworks system" or the "system").

\*Alternate bank, if any, to be designated at the time of sale, and not to be changed thereafter.

These Current Bonds are issued subject to the vested rights and priorities in favor of the holders of \$227,000 of outstanding Pendleton County Water District Waterworks System Revenue Bonds, dated December 1, 1961 (the "Prior Bonds"), authorized by an Ordinance enacted by the Commission of the District on August 16, 1962 (the "Prior Bond Ordinance"). Accordingly, these Current Bonds, together with any bonds ranking on a parity therewith, are payable from and secured on a second lien basis by a pledge of a fixed portion 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.

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

A secondary statutory mortgage lien, which is hereby recognized as valid and binding on said waterworks system, is created and granted pursuant to said Statutes and more specifically Section 74.370 and Section 96.400 of the Kentucky Revised Statutes, to and in favor of the holder or holders of these Current Bonds and of any of the coupons attached to these Bonds; and said waterworks system and all appurtenances thereof and extensions thereto shall remain subject to such statutory mortgage lien until the payment in full of the principal of and interest on the Prior Bonds and on these Current Bonds; provided, however, that said statutory mortgage lien is subject to the vested rights and priorities in favor of the Prior Bonds.

The Current Bonds maturing prior to December 1, 1989, are not subject to redemption prior to maturity. The Current Bonds maturing on and after December 1, 1989, are subject to redemption by the District prior to maturity, as a whole or from time to time in part, in inverse numerical and maturity order, on any interest payment date falling on or after December 1, 1988, upon payment by the District of the face amount of the Bonds so redeemed, plus accrued interest to the redemption date, without any redemption premium.

So long as all of the Current Bonds are held by the Government, all or any of said Bonds, or installments in multiples of \$1,000, may be redeemed at any time in inverse numerical and maturity order (or in inverse chronological order of the installments due) at face amount plus accrued interest without any redemption premium.

Notice of such redemption shall be given at least one time not less than thirty days prior to the redemption date by publication in a financial newspaper or journal of general circulation among bond issue purchasers published in the English language in New York City, New York, and in a newspaper of general circulation throughout Kentucky, and shall be given

by registered mail to the registered holder(s) at least thirty days prior to the date fixed for redemption. All of said Bonds as to which said District 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. Notice of such redemption may be waived with the written consent of the holder(s) of the bond(s) so called for redemption.

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

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

It is hereby certified, recited and declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law and that the total authorized amount of these Bonds, 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, the Pendleton County Water District, by its Commission, has caused this Bond to be executed on its behalf with the duly authorized reproduced facsimile signature of its Chairman, and the reproduced facsimile of its Corporate Seal to be imprinted thereon, and attested by the manual signature of its Secretary, and the coupons hereto attached to

be executed with the duly authorized reproduced facsimile signature of said Chairman and Secretary, all as of the date of this Bond, which is \_\_\_\_\_  
\_\_\_\_\_.

PENDLETON COUNTY WATER DISTRICT  
Pendleton and Campbell Counties, Kentucky

By \_\_\_\_\_  
Chairman

Attest:

\_\_\_\_\_  
Secretary

(Seal of District)

(FORM OF COUPON)

COUPON NO. \_\_\_\_\_

\$ \_\_\_\_\_

On the first day of \_\_\_\_\_, 19\_\_.

Unless the Bond to which this Coupon appertains is redeemable and accordingly shall have been theretofore called for prior redemption and payment of the redemption price duly made or provided for,

The Pendleton County Water District, of Pendleton and Campbell Counties, Kentucky, will pay the amount shown hereon to the bearer hereof, out of its "Pendleton County Water District Waterworks Bond and Interest Sinking Fund of 1977," without deduction for exchange or collection charges, at the Falmouth Deposit Bank, Falmouth, Kentucky, or at the option of the

holder, at the main office of the \_\_\_\_\_,\*  
 as provided in and being interest due on its \_\_\_\_\_  
 Water District Waterworks Revenue Bond of 1977, numbered \_\_\_\_\_.

PENDLETON COUNTY WATER DISTRICT

By \_\_\_\_\_ (Facsimile Signature)  
 Chairman

Attest:

\_\_\_\_\_  
 (Facsimile Signature)  
 Secretary

(FORM OF REGISTRATION)

Date of Registration	Name of Registered Owner	Signature of Secretary of the Pendleton County Water District, Bond Registrar
:	:	:
:	:	:
:	:	:
:	:	:
:	:	:
:	:	:
:	:	:

\*Alternate bank, if any, to be designated at the time of sale, and not to be changed thereafter.

B. FULLY REGISTERED BOND.

The Fully Registered Bond referred to herein shall be in substantially the following form, with appropriate insertions, omissions and variations consistent with or as provided or permitted in this Resolution:

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
COUNTIES OF PENDLETON AND CAMPBELL  
PENDLETON COUNTY WATER DISTRICT  
WATERWORKS REVENUE BOND OF 1977

No. \_\_\_\_\_

\$263,000

KNOW ALL MEN BY THESE PRESENTS:

That the Pendleton County Water District, acting by and through its Commission, a public body corporate in Pendleton and Campbell Counties, Kentucky, for value received, hereby promises to pay to the registered owner hereof, solely from the special fund hereinafter identified, the sum of

TWO HUNDRED SIXTY-THREE THOUSAND DOLLARS (\$263,000),

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

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



without deduction for exchange or collection charges; and in like manner, solely from said special fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, at the rate of five percent (5%) per annum, semi-annually on the first days of June and December in each year hereafter until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable, without deduction for exchange or collection charges, in lawful money of the United States of America, at the address of the registered owner shown on the registration book of the District.

This Bond is issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapter 74 and Sections 96.350 through 96.510, inclusive, of the Kentucky Revised Statutes, as amended, and pursuant to a duly adopted Bond Resolution of the District authorizing same (the "Current Bond Resolution"), to which 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 "waterworks system" or the "system").

This Bond is issued subject to the vested rights and priorities in favor of the holders of \$227,000 of outstanding Pendleton County Water District Waterworks System Revenue Bonds, dated December 1, 1961 (the "Prior Bonds"), authorized by an Ordinance enacted by the Commission of the District on August 16, 1962 (the "Prior Bond Ordinance"). Accordingly, this Bond together

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

A secondary statutory mortgage lien, which is hereby recognized as valid and binding on said waterworks system, is created and granted pursuant to said Statutes and more specifically Section 74.370 and Section 96.400 of the Kentucky Revised Statutes, to and in favor of the registered owner of this Bond; and said waterworks system and all appurtenances thereof and extensions thereto shall remain subject to such statutory mortgage lien until payment in full of the principal of and interest on this Bond; provided,

however, that said statutory mortgage lien is subject to the vested rights and priorities in favor of the Prior Bonds.

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

As provided in the Current Bond Resolution, this Bond is exchangeable at the expense of the registered owner hereof at any time, upon ninety days' written notice, at the request of such registered owner and upon surrender of this Bond to the District, for negotiable coupon bonds, payable to bearer, registrable as to principal only, in an amount or amounts not exceeding \$10,000 per coupon bond, or a lesser denomination in a multiple of \$1,000, consistent with the maturities hereof, in an aggregate principal amount equal to and maturing in conformity with the unpaid principal amount of this Bond, and in the form of such coupon bonds as provided in the Bond Resolution, with semi-annual coupons annexed representing the accrual of interest corresponding to the rate herein provided.

The District, at its option, shall have the right to prepay, on any interest payment date on and after December 1, 1988, 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 Thousand Dollars (\$1,000), as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment

premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or his assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States Government, or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$1,000, 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 the provisions of the Current Bond Resolution, the registered owner may, at his option, institute all rights and remedies provided by law or by said Resolution.

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

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

IN WITNESS WHEREOF said Pendleton County Water District, by its Commission, 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 \_\_\_\_\_.

PENDLETON COUNTY WATER DISTRICT  
Pendleton and Campbell Counties, Kentucky

Attest:

By \_\_\_\_\_

Chairman

\_\_\_\_\_  
Secretary

PROVISION FOR REGISTRATION

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

(FORM OF REGISTRATION)

Date of Registration	Name of Registered Owner	Signature of Secretary of the Pendleton County Water District, Bond Registrar
:	:	:
:	:	:
:	:	:
:	:	:
:	:	:

ARTICLE 3

CONSTRUCTION ACCOUNT; INTERIM FINANCING;  
INVESTMENT OF PROCEEDS; AND FEDERAL  
ARBITRAGE LIMITATIONS.

SECTION 301. THE CONSTRUCTION ACCOUNT; FIDELITY BOND OF  
TREASURER; APPLICATION OF PROCEEDS OF BONDS.

The Treasurer of the District shall be the custodian of all funds belonging to and associated with the District waterworks system, and such funds shall be deposited in the Falmouth Deposit Bank, Falmouth, Kentucky (the "Depository Bank"), which bank is a member of the Federal Deposit Insurance Corporation. All moneys in the supervised bank account (hereinafter referred to) in excess of the amount insured by the FDIC, shall be secured by the Depository Bank in accordance with the U. S. Treasury Department Circular No. 176.

The Treasurer shall execute a Fidelity Bond in the amount of not less than \$20,000, which Fidelity Bond shall be effective and secured by a surety company approved by the Farmers Home Administration of the United States Department of Agriculture so long as it is the holder of any of the Bonds; and the FmHA and the District shall be named co-obligees in such surety bond, and the amount thereof shall not be reduced without the written consent of the FmHA; provided that whenever sums in the various accounts referred to herein shall exceed \$20,000, the Fidelity Bond shall be increased accordingly as requested by and with the approval of the FmHA. The District will segregate and earmark its various funds, consistent with this Resolution, in such manner as to enable the District to obtain the lowest possible surety premium rate on such Fidelity Bond.

The proceeds of said \$263,000 of Current Bonds shall be applied as follows:

A. There shall immediately be paid to the Bank(s) and/or the FmHA entitled thereto an amount sufficient to pay the interest on and principal of any temporary loans (if any) borrowed by the District in anticipation of the sale and delivery of the Current Bonds, and/or of the receipt of grant proceeds, or the interest on and principal of such temporary loans may be repaid simultaneously with the delivery of such Bonds (to the extent of part or all of the proceeds of the Bonds, as may be required by said Bank(s) and/or by the FmHA), in which event the amount to be so deposited into the Construction Account shall be reduced by such amount so paid. Also, at the time of delivery of the Bonds, there shall be paid all amounts then due and payable in connection with the construction project and in connection with the issuance of the Bonds.

B. If and to the extent that the proceeds of the Current Bonds shall be in excess of the amount necessary to pay the interest on and principal of the aforesaid temporary loans and the project costs then due, such excess amount shall immediately be deposited in the "Pendleton County Water District Waterworks Construction Account" (the "Construction Account"), which shall be established as a supervised bank account at the Depository Bank if the Government is the purchaser of the Bonds. The proceeds of said Account shall be withdrawn to pay for services and/or materials supplied in connection with the aforesaid construction project, as evidenced by (1) a certification of the Engineers designated herein, (2) written approval of the Chairman or by such other official of the District as may be authorized by the Commission, and (3) written approval of the FmHA; provided such proceeds shall be withdrawn only on checks signed by the District Treasurer and countersigned by the County Supervisor of the FmHA; provided that written approval of the Engineers

shall not be required for matters not under the jurisdiction of the Engineers, such as legal fees, land acquisition and related items, in which case such checks may be signed at the written request of such District Officials with written approval of the FmHA.

C. There shall be deposited in such Construction Account the proceeds of said Federal (EDA) grant 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 the grant proceeds).

D. At or after the time the Bonds have been delivered, there shall be transferred from the Construction Account an amount sufficient to provide for capitalized interest (initially estimated at \$11,000) during the construction of the construction project, as approved by the Engineers and by the FmHA. If and to the extent then needed to pay interest during the remaining period of construction of the construction project, such amount so transferred from the Construction Account shall be deposited in the Current Sinking Fund created in the Current Bond Resolution.

E. Pending disbursement of amounts on deposit in the Construction Account, all such funds, or such portion of said amounts on deposit in said Construction Account as is designated by the Commission, shall be invested for the benefit of such Construction Account in Certificates of Time Deposits, savings accounts, or U. S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for costs of the construction project, as certified by the Engineers, and/or by the FmHA, provided that to the extent that any amounts on deposit in the Depository Bank shall cause the total deposits of the District in said 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 (exclusive of accrued interest), in conformity with KRS 66.480. Investments in Certificates of Time Deposit may be made only if a separate FmHA Form 402-4 agreement is executed, if the FmHA has purchased any of the Bonds. 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.

F. When the construction project has been completed and all construction costs have been paid in full, as certified by the Engineers for the District, and/or by the FmHA, any balance then remaining in the Construction Account may be applied to the cost of constructing additional extensions, additions and/or improvements to the system, and/or such balance shall be transferred to the Current Sinking Fund, whereupon said Construction Account shall be closed. Such balance so transferred shall be used by the District immediately to redeem outstanding Current Bonds (or to prepay installments due on a Current Fully Registered Bond), provided further that any balance insufficient to redeem a Bond (or to prepay less than \$1,000 of the principal payment falling due in any year on a Fully Registered Bond) shall be transferred to the Depreciation Fund.

SECTION 302. INTERIM FINANCING AUTHORIZATION.

The borrowing of up to the aggregate sum of \$526,000 from The Farmers Bank, Butler, Kentucky, from the Falmouth Deposit Bank, Falmouth, Kentucky (either alone or through its correspondent bank) and/or from any other banks and/or from the FmHA (hereinafter collectively and individually referred to as the "Banks"), is hereby authorized; and the Chairman of the District, Denver Hornbeek, or his successor, is hereby authorized to execute in the name and on behalf of the District any number of negotiable promissory

notes, in such form as may be prescribed by the lending Banks, including Revenue Bond Anticipation Notes pursuant to KRS 58.150, each Note evidencing an advance of cash funds by the Banks to the District; and the Banks are hereby authorized and requested to make disbursement of the proceeds of such Notes directly to the parties entitled thereto for services and/or materials supplied in connection with the aforesaid construction project, as evidenced by (a) a certification of the Engineers designated herein, (b) written approval of the Chairman or by such other official of the District as may be authorized by the Commission, and (c) written approval of the FmHA; provided, however, that written approval of the Engineers shall not be required for matters not under the jurisdiction of the Engineers, such as legal fees, land acquisition and related items, in which cases the Banks shall disburse the required amounts upon receiving written request of such District official with written approval of the FmHA. If interim financing is furnished by the FmHA, or if requested by the FmHA for any other reason, such interim financing shall be deposited in the Construction Account and shall be disbursed in accordance with Section 301B hereof.

The authority hereby granted to the Chairman includes the execution of renewal Notes in evidence of the renewal and extension of Notes becoming due, provided the aggregate of the principal amount of all such Notes outstanding and payable to the Banks shall not exceed \$526,000, and provided each Note which is renewed or superseded is simultaneously cancelled by the Banks and transmitted to the District Treasurer. The rate of interest applicable to each Note and to each renewal Note shall not exceed a reasonable rate, which rate is subject to the approval of the FmHA.

Authority is hereby given for said total authorized interim financing of \$526,000 to be the maximum indebtedness which the District may owe to said Banks at any given time; provided, however, that the District

may reduce the amount owed by the District to said Banks from time to time as and when funds are available to the District, whether derived from the proceeds of the Federal grant, the proceeds of the sale of the Current Bonds, or otherwise, and may reborrow from said Banks additional amounts in anticipation of the further receipt by the District of additional proceeds from said Bonds in order thus to enable the District to save interest costs by applying the proceeds of said Bonds and/or grants and/or other funds as received and which are not immediately needed for the payment of costs of the construction project, toward the liquidation and/or reduction of said interim financing loans until such time as additional interim financing loans are needed to provide additional funds for costs of said construction project as required by the District, subject to the limitation that the total amount owed to said Banks at any given time shall not be in excess of \$526,000.

The District hereby covenants and agrees with said Banks that upon the issuance and delivery of the Current Bonds and/or the receipt of said grant, the District will apply the proceeds thereof, to whatever extent may be necessary, in payment of the principal amount of all such Notes of the District then held by said Banks, together with interest thereon to the date of such payment; and the first proceeds of said Bonds and grants are hereby pledged therefor, and such pledge shall constitute a first and prior charge against said proceeds. The District further pledges the proceeds of the gross revenues of the system to the payment of said interim financing, such pledge ranking on a parity with the Current Bonds, subject to the priority of the Prior Bonds.

Although the proceeds of the Current Bonds and grants are pledged to the repayment of said interim financing, it is recognized that the proceeds of the grant may be applied to the extent required at the time of receipt

of the proceeds of said grant, to the payment of costs of the construction project due and owing by the District at the time of receipt of such proceeds, rather than to the repayment of portions of the interim financing at that time. If and to the extent that the proceeds of said grant are in excess of any costs of the construction project due and owing at the time of receipt thereof, such proceeds may be applied, in the same manner as hereinabove indicated, to the reduction of the amount of the interim financing, after which, such interim financing may again be increased as theretofore. In any event, the proceeds of said grant and of any other grants earmarked for the construction project, are pledged, together with the proceeds of the Current Bonds (plus the secondary pledge of the revenues of the system, subject to the priority of the Prior Bonds), to the repayment of such interim financing.

SECTION 303. INVESTMENT PROCEEDS; FEDERAL ARBITRAGE LIMITATIONS.

The District covenants that sums derived from the proceeds of the Current Bonds, shall not be invested in investments which will produce a net adjusted yield which is in excess of the net interest cost (effective yield) of the Current Bonds if such investment would cause such Bonds to be treated as "arbitrage bonds" within the meaning of Section 103(c)(2) of the Internal Revenue Code of 1954, as amended, and the applicable Income Tax Regulations thereunder, provided, however, that funds may be invested to whatever extent and whenever such Act and/or applicable Regulations permit same to be invested without causing the Current Bonds to be treated as "arbitrage bonds".

On the basis of the known facts and reasonable expectations on the date of adoption of this Bond Resolution, the District certifies that it is not expected that the proceeds of the Current Bonds will be used

in a manner which would cause such Bonds to be arbitrage bonds. The District covenants to the purchasers and/or holders of the Current Bonds that (a) the District will make no use of the proceeds of said Bonds, which, if such use had been reasonably expected on the date of issue of such Bonds, would have caused such Bonds to be arbitrage bonds, and (b) that the District will comply with (1) all of the requirements of Section 103(c) of the Internal Revenue Code and (2) all of the requirements of the applicable Income Tax Regulations thereunder, to whatever extent is necessary to assure that the Current Bonds shall not be treated as arbitrage bonds.

Based on information furnished by the Engineers, on known facts and reasonable expectations at this time, the District certifies as follows:

- (a) that the District has entered into contracts with the Engineers for engineering services in connection with the construction project financed by the Current Bonds and the fees to be paid to such Engineers will exceed 2-1/2% of the total cost of the project;
- (b) that the construction of the construction project has commenced or will commence within six months from the date of issuance of the Current Bonds;
- (c) that the construction of said construction project will proceed thereafter to completion with due diligence on the part of the District;
- (d) that at least 85% of the spendable proceeds of the Current Bonds will be expended on the costs of construction of the construction project within less than three years from the date of issuance of the Current Bonds;
- (e) that the original proceeds of the Current Bonds will not exceed by more than five percent (5%) (or by any percent) the amount required for the costs of the construction project; in fact such proceeds will be supplemented by a federal grant to assure payment of all costs of the construction project; and therefore there has not been and will not be any over-issuance of the Bonds;
- (f) that it is not reasonably anticipated that the project or the system will be sold or otherwise disposed of, in whole or in part, prior to the last maturity of the Current Bonds; and

(g) that the District has not been advised of any listing or contemplated listing by the Internal Revenue Service determining that the foregoing type of certification with respect to the District's obligations may not be relied on.

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

Prior to or at the time of delivery of the Bonds, the Chairman and/or the District Treasurer is authorized to execute the appropriate certification with reference to the matters referred to above, setting out all known and contemplated facts concerning such anticipated construction, expenditures and investments, including the execution of necessary and/or desirable certifications of the type contemplated by the latest "Proposed Arbitrage Regulations," as amended, in order to assure that interest on the Current Bonds will be exempt from all Federal income taxes and that the Current Bonds will not be treated as arbitrage bonds.

ARTICLE 4.

OPERATION OF SYSTEM; FLOW OF FUNDS;  
CURRENT BONDS SUBJECT TO PRIORITY OF PRIOR BONDS  
MONTHLY PAYMENTS OF PRINCIPAL AND INTEREST SO LONG  
AS FMHA HOLDS OR INSURES THE CURRENT BONDS.

SECTION 401. OPERATION OF SYSTEM TO CONTINUE AS HERETOFORE;  
PROVISIONS OF PRIOR BOND RESOLUTION INCORPORATED  
HEREIN; CREATION OF NEW FUNDS.

All proceedings preliminary to and in connection with the issuance of the outstanding Prior Bonds of the District, including provisions made for the receipt, custody and the application of the proceeds of said Bonds; for the operation of the waterworks system on a revenue-producing basis; for the segregation, allocation and custody of the revenues derived from the operation of the system; for the enforcement and payment of said Bonds; and all other covenants for the benefit of bondholders 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 Prior Bonds, and (subject to the priority of the Prior Bonds) of the Current Bonds herein authorized, the same as if such provisions and proceedings were repeated 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 separate and special fund or account of the District, distinct and apart from all other funds and accounts, was heretofore created by the Prior Bond Ordinance, which fund has been and is designated and identified as the "Pendleton County Water District Revenue Fund" (the "Revenue Fund"), in the custody of the District Treasurer, which fund has been deposited with and shall continue to be maintained and deposited with the Depository Bank, so long as any of the Prior Bonds, the Current Bonds, or any parity bonds are outstanding. The District covenants and agrees that it will

continue to deposit therein, promptly as received from time to time, all cash income and revenues of the system, as same may be extended and improved from time to time. The moneys in the Revenue Fund from time to time 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, all as permitted by the applicable statutes, and in accordance with previous contractual commitments as follows:

A. Prior Sinking Fund.

A separate and special fund or account of the District designated "Waterworks Bond and Interest Sinking Fund" (the "Prior Sinking Fund"), was created by the Prior Bond Ordinance, and the same (including the Debt Service Reserve therein, hereinafter referred to as the "Prior Reserve Fund") shall continue to be maintained as provided in the Prior Bond Resolution; and the District covenants and agrees that it will continue to deposit therein such funds from the Revenue Fund as required by the terms of the Prior Bond Resolution to be so deposited; and such sums shall be held and applied by the District in the manner required by said Prior Bond Ordinance and by this Current Bond Resolution.

The Prior Sinking Fund (including the debt service reserve portion thereof) shall continue to be maintained at the Depository Bank so long as any of the Current Bonds and/or of the Prior Bonds are outstanding.

B. Current Sinking Fund.

At or after the time that the Current Bonds have been delivered, there shall be transferred from the Construction Account an amount sufficient (currently estimated at \$11,000) to provide for capitalized interest during the construction of the construction project, as approved by the Engineers and by the FmHA, if and to the extent not theretofore expended in paying



interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the construction project. Such amount so transferred from the Construction Account shall be deposited in the "Pendleton County Water District Waterworks Bond and Interest Sinking Fund of 1977" hereby created (the "Current Sinking Fund").

After the transfers required in the preceding sub-paragraph to be made in each month have been paid from the Revenue Fund, and after the expiration of the month in which interest on the Current Bonds is last payable out of the sum set aside into the Current Sinking Fund as capitalized interest, there shall next be transferred in each month from said Revenue Fund and deposited into the Current Sinking Fund on or before the 15th day of each month, for payment of interest on and principal of the Current Bonds, a sum equal to the total of the following:

- (1) An amount equal to one-sixth (or such larger amount as is necessary) of the next succeeding six-month interest installment to become due on the Current Bonds then outstanding, plus
- (2) Beginning in December, 1979, a sum equal to one-twelfth (or such larger amount as is necessary) of the principal of any Current Bonds maturing on the next succeeding December 1.

If the District for any reason shall fail to make any monthly deposits as required, then an amount equal to the deficiency shall be set apart and deposited into the Current Sinking Fund out of the first available revenues in the ensuing month or months, which amount shall be in addition to the monthly deposit(s) otherwise required during such succeeding month or months. Whenever there shall accumulate in the Current Sinking Fund amounts in excess of the requirements during the next twelve months for paying the principal of and interest on outstanding Current Bonds as same fall due, and if at such time the District is in compliance with all provisions

of the Prior Bond Ordinance, such excess amount may be used for redemption of such Current Bonds prior to maturity, as set forth in Section 205 hereof.

On or before the 15th days of May and/or November in each year, the Depository Bank shall transfer from the Current Sinking Fund a sum equal to the interest or a sum equal to the principal and interest, as the case may be, becoming due on the next following respective June 1 and/or December 1, and deposit the same in an account hereby created and identified as the "Pendleton County Water District 1977 Waterworks Bond and Interest Payment Account," and shall notify the alternate payor bank, if any, that the same is held as a trust fund to be drawn upon by the paying agent(s) to pay maturing coupons, and/or interest installments, or Bonds and coupons, and/or principal and interest installments, as the case may be, upon presentation thereof on or after maturity and upon surrender of maturing Bonds and/or coupons.

The Depository Bank and the District Treasurer shall keep appropriate records as to payment of principal and interest installments and as to payment of principal and interest on any Coupon Bonds. Provided, however, that so long as the only Bond(s) outstanding is (are) Fully Registered Bond(s), the functions contemplated by this paragraph shall be performed by the District Treasurer.

All funds in said Current Sinking Fund shall be deposited in the Depository Bank, or such portion of said amounts on deposit in said respective Funds as is designated by the Commission shall be invested for the benefit of such respective Funds in Certificates of Time Deposit, savings accounts, or U. S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for meeting interest and/or principal payments, to mature or be called,

provided that to the extent that any amounts on deposit in said Bank shall cause the total deposits of the District in said 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 KRS 66.480. Investments in Certificates of Time Deposit may be made only if a separate FmHA Form 402-4 agreement is executed, if the FmHA has purchased any of the Bonds. Any such investments will be a part of the respective Funds from which the proceeds invested are derived, and income from such investments will be credited to such respective Funds.

C. District to Make Principal and Interest Payments on Current Bonds on a Monthly Basis so Long as FmHA Holds or Insures all of the Current Bonds.

So long as all of the Current Bonds are held or insured by the FmHA, the District shall, if requested by the FmHA, make payments of amounts equal to the total of (a) and (b) of Section 401E above, being the total of the monthly principal and interest requirements on the Current Bonds, in monthly payments to the FmHA or to the insured owner of the Current Bonds, out of the Sinking Fund; provided further that at the option of any other owner of all of the Current Bonds, such payments shall similarly be made in monthly payments to such owner.

D. Initial Reserve Fund.

At or prior to the delivery of the Current Bonds there shall be deposited into the "Initial Reserve Fund," hereby created, the sum of not less than \$11,000 derived from connection charges. Such Initial Reserve Fund may be used by the District, proportionately over the first five years of operation of the waterworks system, after the delivery of the Current Bonds, upon appropriate certification by the Commission, when necessary, for the purpose of making payments of principal and interest on all outstanding Bonds

if the moneys on deposit in the Sinking Fund are not sufficient to make such payments, or for the purpose of meeting the costs of operation and maintenance of the system. At the end of such five year period, any sums remaining on deposit in such Initial Reserve Fund shall be transferred into the Depreciation Fund, and used for the same purposes as other moneys in the Depreciation Fund; provided, however, that such sums may be used for the purpose of making payments of principal and interest on the outstanding Prior Bonds and/or Current Bonds if the moneys on deposit in the respective Sinking Funds are not sufficient to make such payments.

E. Depreciation Fund.

A separate and special fund or account of said District was created in Section 6B of said Prior Bond Ordinance, and designated "Depreciation Fund," which fund is hereby ratified, confirmed and ordered to be continued so long as any of the Prior Bonds, the Current Bonds and any parity bonds are outstanding. Said Prior Bond Resolution required and it is hereby required (subject to modifications set out herein) that from the balance of the income and revenues of the system remaining in the Revenue Fund, after the transfers required in Subsections A and B above are made in each month, there shall be transferred monthly the sum of \$25.00 per month for the purpose of building up and maintaining in the Depreciation Fund a balance of at least \$5,000. It is hereby ordered that the monthly deposits into the Depreciation Fund shall henceforth be the sum of \$145.00 per month (an increase of \$130.00 per month) until there has been accumulated and is being maintained in such Depreciation Fund the sum of \$20,600 (an increase of \$15,600). In addition to the monthly transfers and the maintenance of the minimum balance in said Depreciation Fund, the Prior Bond Resolution requires that there be

deposited in the Depreciation Fund the proceeds from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of further extensions and improvements, and the proceeds from any property damage insurance, and that such amounts so deposited be used only for the purposes for which such Fund is established.

F. Operation and Maintenance Fund.

A separate and special fund or account of said District was created in Section 6(C) of the Prior Bond Ordinance, which Fund was designated as the "Operation and Maintenance Fund."

In said Prior Bond Resolution, the District covenanted that, subject to the provisions for the disposition of cash income and revenues derived from the system in Sections 6(A) and 6(B) in the Prior Bond Ordinance, the District would transfer monthly from the remaining funds in the Revenue Fund to the Operation and Maintenance Fund sums sufficient to pay as they accrue the Current Expenses of operating and maintaining the waterworks system pursuant to the Annual Budget.

The Operation and Maintenance Fund established by the Prior Bond Ordinance shall be maintained so long as any of the Prior Bonds, the Current Bonds and any additional parity bonds are outstanding. Said Operation and Maintenance Fund is required to be maintained with the Depository Bank, subject to the order of the Commission; and subject to the provisions for the disposition of cash income in subsections A, B and E hereof, the District shall continue to transfer in each month sums sufficient to pay as they accrue the Current Expenses of operating and maintaining the waterworks system pursuant to the Annual Budget.

G. Excess Funds.

Subject to the provisions for the disposition of the income and revenues of the system in Subsections A, B, E and F of this Section, which provisions are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, the balance of excess funds remaining in the Revenue Fund shall, within sixty (60) days after the end of each fiscal year, be used (1) to retire any outstanding obligations against the system; provided, however, that no Current Bonds shall be retired through the application of such excess funds until all of the Prior Bonds shall have been retired, or (2) to transfer additional amounts to the Depreciation Fund; provided, however, that no such transfer shall be made to the Depreciation Fund unless there shall have first been accumulated in the Operation and Maintenance Fund a surplus equal to the cost of maintaining and operating the system during the remainder of the fiscal year and the succeeding like fiscal year, or (3) to pay debt service on any outstanding junior and subordinate obligations.

ARTICLE 5.

COVENANTS OF DISTRICT TO BONDHOLDERS.

So long as any of the Current Bonds are outstanding and unpaid (and not provided for or defeased as permitted by Section 703 hereof), the District covenants as follows:

SECTION 501. RATES AND CHARGES.

The rates and charges for all services and facilities rendered by the system shall be reasonable and just, taking into account and consideration the cost and value of the system (including all extensions, additions and improvements thereto), the cost of maintaining, repairing and operating the same and the amounts necessary for the payment of principal of and interest on all bonds outstanding against the system, and there shall be charged such rates and charges as shall be adequate to meet the requirements of this and ARTICLE 4 hereof.

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

SECTION 502. BOOKS AND ACCOUNTS.

If and to the extent not now fully required by the Prior Bond Resolution, the District shall install and maintain proper records and accounts relating to the operation of the system and its financial affairs, and the holders of any of the Prior Bonds or of the Current Bonds, or their authorized representatives, shall have the right at all reasonable times to inspect the facilities and all records, accounts and data relating thereto. An annual audit on a fiscal year basis shall be made of the books and accounts pertinent to the system by a Certified Public Accountant licensed in Kentucky. No later than sixty days after the close of each fiscal year, copies of such audit reports certified by such Accountant shall be promptly mailed to the Government without request, so long as the Government is the holder of any of the Current Bonds, and to any bondholder that may have made a written request for same. Monthly operating reports shall be furnished to the FmHA and to any bondholder requesting same, during the first two years of operation after completion of the construction project, and whenever and so long as the District is delinquent in any of the covenants set out herein. Quarterly operating reports shall be furnished to such parties at all other times.

SECTION 503. SYSTEM TO CONTINUE TO BE OPERATED  
ON FISCAL YEAR BASIS.

While any of the Prior Bonds, the Current Bonds and any parity bonds are outstanding and unpaid and to the extent not now prohibited by law, the system shall continue to be operated and maintained on a fiscal year basis commencing on December 1 of each year and ending on November 30 of the succeeding year, which period shall also constitute the budget year for the operation and maintenance of the system. Not later than 60 days after the beginning of each fiscal year, beginning immediately after



the issuance of the Current Bonds, the District and the Commission agree to cause to be prepared a detailed statement of income and expenditure for the past year, a current financial statement and a "Proposed Annual Budget of Current Expenses" of the system for the ensuing fiscal year, itemized on the basis of monthly requirements. A copy of said "Proposed Annual Budget of Current Expenses" shall be mailed to any bondholder who may request in writing a copy of such Budget, and to the Government without request if the Government is the holder of any of the Bonds.

Current expenses shall include all reasonable and necessary expenses of operating, repairing, maintaining and insuring the system, but shall exclude depreciation, payments into the Sinking Fund, the Reserve Fund and the Depreciation Fund. The District covenants that the Current Expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that the District will not expend any amount or incur any obligation for operation or maintenance and repair in excess of the amounts provided for Current Expenses in the Annual Budget, except upon resolution by the District that such expenses are necessary to operate and maintain the system. At the same time and in like manner, the District shall prepare an estimate of gross revenues to be derived from the operation of the system for said fiscal year, and, to the extent that said gross revenues are insufficient (a) to pay debt service requirements on all outstanding bonds during the ensuing fiscal year, (b) to accumulate and maintain all required reserves enumerated herein, and (c) to pay Current Expenses, the District shall revise the rates and charges sufficiently to provide the funds required.

If the holders of 50% in amount of the Current Bonds, or the Government so long as it is the holder of any of said Bonds, so request, the Commission shall hold an open hearing not later than thirty days before the beginning of the ensuing fiscal year, at which time any bondholder 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 15 days prior to the hearing to each registered bondholder and to the Government.

The District and its Commission covenant that annually before the first day of July, the annual budget of current expenses for the then current fiscal year will be adopted substantially in accordance with the preliminary or proposed annual budget, and 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 holders of the Current Bonds that:

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

- (4) Unless the written consent of the holders of a majority in amount of the outstanding Current Bonds plus all of the outstanding Prior 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/or improvements that may be made thereto until all of the Prior Bonds and all of the Current Bonds shall have been paid or provided for in full, as provided in Section 703 (Defeasement) hereof; subject to the provisions of Section 606 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 to pay the interest on and principal of the Prior Bonds, the Current Bonds and any parity bonds as same become due, to pay the cost of operating and maintaining the system and to provide for an adequate depreciation account;
- (6) It will carry and maintain insurance on properties of the system subject to loss or damage in amounts and against hazards substantially in accordance with the practices of other districts, cities or corporations which own and maintain waterworks systems under similar conditions; and so long as the Government is the holder of any of the 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 GENERAL COVENANTS APPLICABLE SO LONG AS FmHA HOLDS ANY BONDS.

So long as the FmHA shall hold any of the Current Bonds, the District shall comply with such FmHA regulations, requirements and requests as shall be made by the FmHA, including the furnishing of operating and other financial statements in such form and substance and for such periods as may be requested by the FmHA, the carrying of insurance of such types and in such amounts as the FmHA may specify, with insurance carriers acceptable to the FmHA, and compliance with all of the terms and conditions of the Loan Resolution (FmHA Form 442-47) executed by the District.

SECTION 506. INSURANCE OF MOTORS, TANKS AND STRUCTURES.

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

ARTICLE 6.

INFERIOR BONDS AND PARITY BONDS

SECTION 601. INFERIOR BONDS.

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

The District expressly reserves the right at any time or times to issue its bonds or other obligations payable from the revenues of the system and not ranking on a basis of equality with the Current Bonds, without any proof of previous earnings or net revenues, provided that the consent of the FmHA must be obtained prior to the issuance of any inferior bonds so long as the FmHA holds any of the Current Bonds or any parity bonds, and provided further that (after the initial completion of the construction project) such inferior bonds may be issued only for the purpose of providing for future extensions, additions and/or 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 Current Bonds and any parity bonds; provided further, that nothing in this section is intended to restrict or shall be construed as a restriction upon, the ordinary refunding of the Current Bonds and of such parity bonds.

SECTION 602. PARITY BONDS TO COMPLETE THE CONSTRUCTION PROJECT.

The District hereby certifies, covenants and agrees that in the event that the cost of completion of the construction of the construction

project, as hereinbefore described, 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 additional parity bonds in order to enable the District to pay the cost (not otherwise provided) of the completion of the construction project, and provided the District has complied with the provisions of Section 603 below or has obtained (i) the consent of the FmHA if it is the purchaser of the Current Bonds, or, (ii) the consent of the holders of at least sixty-five percent (65%) in principal amount of the Current Bonds outstanding, if the Current Bonds have been issued, sold and delivered and are held by holders other than the FmHA.

The District hereby certifies, covenants and agrees that in the event that the cost of completion of the construction project, as hereinbefore described, shall exceed the moneys available to the District for such purposes from any and all sources the District shall have the right to provide for such excess through the issuance of parity bonds only upon establishing compliance with the provisions of SECTION 603 hereof.

SECTION 603. PARITY BONDS TO FINANCE FUTURE EXTENSIONS, ADDITIONS AND/OR IMPROVEMENTS; CONDITIONS OR SHOWINGS REQUIRED.

The District further reserves the right to add new waterworks facilities and/or 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 on a parity with the Current Bonds, from the revenues of the system and also secured by a parity statutory mortgage lien on the system, subject to the priority of the Prior Bonds, provided:

(1) That the facility or facilities to be constructed from the proceeds of the additional parity bonds is or are made a part of the system and its or their revenues are pledged as additional security for the additional parity bonds and for the outstanding Current Bonds.

(2) The District is in compliance with all covenants and undertakings in connection with all of the bonds then outstanding and payable from the revenues of the system or any part thereof.

(3) The annual net revenues (defined as gross revenues less (i) essential operation and maintenance expenses and (ii) all debt service requirements of the Prior Bonds) 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 equal at least one hundred twenty percent (120%) of the average annual debt service requirements for principal and interest on all outstanding bonds payable from the revenues of the system, including such requirements of the Prior Bonds, the Current Bonds, any parity bonds then outstanding, plus the anticipated 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 bonds to be issued shall, regardless of whether such additional 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.

(4) 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 "annual net revenues" to be realized 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 an Independent Consulting Engineer, as defined herein.

(5) Compliance with Section 603(1) through (4) shall not be necessary for the issuance of parity bonds if the District has obtained the written consent of the FmHA for the issuance of such parity bonds, if the FmHA is the owner of any of the Current Bonds at the time of issuance of such parity bonds; or the written consent of the holders of three-fourths in amount of the then outstanding Current Bonds and any parity bonds. Provided that if the District obtains the written consent of the holders of all second lien bonds outstanding against the system, no other prerequisite need be complied with by the District in order to issue parity bonds.

SECTION 604. PARITY BONDS TO REFUND OR REFINANCE  
OUTSTANDING BONDS.

The District further reserves the right to issue one or more additional series of bonds to be secured by a parity lien on and ratably payable from the revenues of the system, for the purpose of refunding or refinancing the outstanding Current Bonds or any portion of same, and/or any then previously issued parity bonds, provided that prior to the issuance of such additional parity bonds for that purpose, there shall have been procured and filed with the Secretary a statement by a Certified Public Accountant, as defined herein, reciting the opinion based upon necessary investigation that 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 120% of the average annual debt service requirements then scheduled to fall due thereafter for principal of and interest on all of the then outstanding Parity Bonds, calculated in the manner specified above.

The additional parity bonds, the issuance of which is restricted and conditioned by this Section, shall be understood to mean bonds payable from the income and revenues of the system on a parity with the Current Bonds and any parity bonds, and shall not be deemed to include nor to prohibit the issuance of any other obligations, the security and source of payment of which is subordinate and subject to the priority of the required payments into the Current Sinking Fund maintained for the benefit of the Current Bonds.



SECTION 605. COVENANTS TO BE COMPLIED WITH AT  
TIME OF ISSUANCE OF PARITY BONDS.

The District hereby covenants and agrees that in the event any additional parity bonds are issued, the District shall:

(1) Adjust the monthly amount to be deposited into the Current Sinking Fund on the same basis as that prescribed in the provisions establishing such Fund, to reflect the average annual debt service requirements on the additional parity bonds;

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

(3) Make such additional parity bonds payable as to principal on December 1 of each year in which principal falls due and payable as to interest on June 1 and December 1 of each year until the final maturity of such parity bonds.

SECTION 606. PRIORITY OF LIEN; PERMISSIBLE DISPOSITION OF  
SURPLUS OR OBSOLETE FACILITIES; CONDITIONS.

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

- (a) It is in compliance with all covenants and undertakings in connection with all of the bonds then outstanding and payable from the revenues of the system, and the required Reserve(s), for such respective bonds has (have) been fully established.
- (b) It 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) It certifies, in good faith, that the estimated net revenues of the remaining facilities of the system for the then next succeeding fiscal year, plus the estimated net revenues of the facility or facilities, if any, to be added to the system, comply with the earnings requirements hereinbefore provided in the provisions and conditions governing the issuance of additional parity bonds;
- (d) It certifies, in good faith, prior to any abandonment of use, that the facility or facilities to be abandoned are no longer economically feasible of producing net revenues; and
- (e) Notwithstanding any other provisions hereof, so long as any of the Current Bonds are held by the United States Government, the District shall not dispose of its title to the system or to any useful part thereof, without first obtaining the written consent of the Government.

**SECTION 607. REDEMPTION PROVISIONS (CONDITIONS)  
APPLICABLE TO PARITY BONDS.**

If, in connection with any subsequently issued series of bonds secured by a parity lien on the revenues of the system, it is provided that excess revenues in the Revenue Fund shall be used to redeem bonds in advance of scheduled maturity, or if the District at its option undertakes to redeem outstanding bonds in advance of scheduled maturity, it is agreed and understood:

- (a) That calls of bonds will be applied to each series of bonds on an equal pro-rata basis (reflecting the proportion of the original amount of each series of bonds outstanding at the time of such call);

- (b) That calls of bonds for each series of bonds will be in accordance with the call provisions of the respective series of bonds. Provided, however, the District shall have the right to call, subject to the call provisions of the respective series of bonds, any or all outstanding bonds which may be called at par prior to calling any bonds that are callable at a premium; and.
- (c) All references herein to the calling of bonds shall be deemed to refer to corresponding prepayments of principal on any Fully Registered Bond.

SECTION 608. DISTRICT NOT TO ISSUE ANY ADDITIONAL BONDS RANKING ON A PARITY WITH PRIOR BONDS OR RANKING SUPERIOR TO CURRENT BONDS.

So long as the FmHA shall hold any of the Current Bonds, the District covenants not to issue any bonds ranking on a parity with the outstanding Prior Bonds, or to issue any other bonds ranking superior in security to the security of the Current Bonds.

ARTICLE 7.

DEFAULT; CONSEQUENCES; DEFEASEMENT.

SECTION 701. EVENTS OF DEFAULT.

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

- (a) The failure to pay principal of the Current Bonds when due and payable, either at maturity or by proceedings for redemption.
- (b) The failure to pay any installment of interest on the Current Bonds when the same shall become due and payable or within 30 days thereafter.
- (c) The failure of the District to fulfill its obligations pursuant to this Resolution or pursuant to the Prior Bond 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 having been entered without the acquiescence or consent of the District, its failure in not having the order vacated, discharged, or stayed on appeal within 60 days after entry.
- (f) The default by the District in the due or punctual performance of any other of the covenants, conditions, agreements, and provisions contained in the Current Bonds, the Prior Bonds, or in this Resolution.

SECTION 702. CONSEQUENCES OF ACT OF DEFAULT.

Any holder 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 holder of said Bonds, any court having jurisdiction of the action may appoint a Receiver to administer said system on behalf of the District with power to charge and collect rates sufficient to provide for the payment

of operating and maintenance expenses and for the payment of principal of and interest on the Prior Bonds and the Current Bonds, and to provide and apply the income and revenues in conformity with this Resolution and with the laws of the Commonwealth of Kentucky.

The District hereby agrees to transfer to any bona fide Receiver or other subsequent operator of the system, pursuant to any valid court order in a proceeding brought to enforce collection or payment of the District's obligations, all contracts (including specifically the Water Purchase Contract between the District and the City of Butler, Kentucky) 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 holder of any of the Bonds may require the governing body of the District by injunction to raise the rates a reasonable amount, consistent with the requirements of this Resolution.

SECTION 703. DEFEASANCE.

The District may at any time cause the pledge of the revenues securing the Current Bonds to be defeased and released by paying an amount into an escrow fund which is sufficient, when invested (or sufficient without such investment, as the case may be) in U. S. Obligations, or in certificates of deposit of a bank or banks which are fully secured by a pledge of U. S. Obligations, 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 Current Bonds, both as to principal and as to interest, on the next or on any optional redemption date, including all costs and expenses in connection therewith, and to pay all principal and interest falling due on said Current Bonds to and on said date, and/or (b) to pay all principal and interest requirements on said Current Bonds 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 Commission. Such investments shall have such maturities as to assure that there will be sufficient funds for such purpose. If such defeasement is to be accomplished (in whole or in part) pursuant to (a), the District shall take all steps necessary to publish notice of the redemption of the called Bonds on the applicable redemption date. Upon (such publication steps being taken, when appropriate, and upon) the proper amount of investments being placed in escrow and so secured, the revenue pledge securing the Current Bonds shall be automatically fully defeased and released without any further action being necessary.

ARTICLE 8.

CONTRACTUAL PROVISIONS; GRANT APPROVAL; AND  
MISCELLANEOUS PROVISIONS

SECTION 801. THIS RESOLUTION CONTRACTUAL WITH BONDHOLDERS.

The provisions of this Resolution constitute a contract between the District and its Commission and the holders of the Current Bonds as may be outstanding from time to time; and after the issuance of any of said Bonds, no change, alteration or variation of any kind of the provisions of this Resolution shall be made in any manner which will affect a holder's rights except as herein provided or except with the written consent of all bondholders 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 governing body of the District may adopt any Resolution for any purpose not inconsistent with the terms of this Resolution and which shall not impair the security of the holders 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 ordinance or other proceedings pertaining hereto; and provided further, that the holders of eighty percent (80%) in principal amount of the Current Bonds at any time outstanding shall have the right to consent to, and approve the adoption of resolutions or other proceedings, modifying or amending any of the terms or provisions contained in this Resolution, subject to the condition that this Resolution shall not be so modified in any manner that may adversely affect the rights of the holders of any of the Prior Bonds, nor in any manner that may adversely affect the rights of any certain holders of the Current Bonds without similarly affecting the rights of all holders of such Current Bonds (and any parity bonds) then outstanding, or to reduce the percentage of the number of holders whose consent is required to effect a further modification.

SECTION 802. ALL BONDS OF THIS ISSUE 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.

SECTIONS 803. DISTRICT OBLIGATED TO REFUND CURRENT BONDS HELD BY GOVERNMENT WHENEVER SAME IS FEASIBLE.

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

SECTION 804. APPROVAL OF EDA GRANT AGREEMENT.

As set out in Section 105 hereof, the Economic Development Administration (the "EDA") has agreed to make a grant to the District in the amount of \$263,000 to supplement the proceeds of the Current Bonds in order to provide the total cost of the construction project, and in that connection the EDA has requested the District to execute a certain Grant Agreement setting out the terms and conditions upon which said grant will be made. Said Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said 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 grants offered to the District in connection with the construction project and to execute any and all Grant Agreements and any other documents as may be requested by such agency in connection with grant(s) which have been and/or which may hereafter be approved for such project and/or any other agency which approved a grant to the District, with reference thereto.

SECTION 805. POSSIBLE ADJUSTMENT IN DATE OF CURRENT BONDS,  
MATURITIES, REDEMPTION PROVISIONS AND OTHER DATES,  
WITH CONSENT OF PURCHASER IF DELIVERY IS DELAYED.

In the event that delivery of the Current Bonds authorized herein is delayed for any reason until after January 1, 1978, the name of the Bonds may, pursuant to Resolution adopted by the Commission with the written consent of the purchaser of the Bonds, be changed to "Pendleton County Water District Waterworks Revenue Bonds of 1978," with maturities, the applicable redemption date and all other dates being adjusted accordingly.

ARTICLE 9.

SALE OF BONDS.

SECTION 901. SALE OF BONDS.

The Secretary of the District is hereby authorized and directed to cause notice of the receipt of bids for the purchase of the Current Bonds to be published pursuant to all applicable Kentucky Revised Statutes. Said Notice shall state the name and amount of Bonds to be sold, the time of the sale and other details concerning the Bonds and the sale, and shall inform prospective bidders that a copy of the Official Notice of Sale of Bonds, setting out the maturities, security of the Bonds, provisions as to redemption prior to maturity, and related information, may be obtained from the District. Such Official Notice shall contain the following bidding requirements for bids for the purchase of the Current Bonds:

- A. Bidders are required to bid a cash price of not less than par value (\$263,000) for the Bonds.
- B. Bidders must name a single interest rate for the entire issue, which rate must be in a multiple of 1/8% or 1/10%, not exceeding 5% per annum.
- C. Bids will be considered only for the entire \$263,000 of Bonds.
- D. Bidders (except the FmHA) are required to deposit a good faith check by cashier's check or certified check in the minimum amount of \$5,260 (2% of the face amount of the Bonds), which good faith deposit will be applied as partial payment for the Bonds, or as liquidated damages in the event that such bidder, if successful, fails to comply with the terms of his bid.
- E. If two or more bids are received, the Bonds will be awarded to the bidder whose bid results in the lowest net interest cost to the District.

- F. The lowest net interest cost will be determined by deducting the total amount of any premium bid from the aggregate amount of interest upon the Bonds, computed from the first day of the month following the date of sale of the Bonds (even though the Bonds will bear interest only from the date of delivery) to the final maturity of the Bonds. The bid of the Farmers Home Administration will not be considered if another duly qualified bid is received.
- G. Bidders shall be advised that the FmHA has made a commitment to purchase all of the Bonds at par at a 5% interest rate, in the absence of the receipt of another bid complying with the terms of the sale at an equally (or more) favorable net interest cost.
- H. In the event that any such other bid or bids are received, the bid of the FmHA will be cancelled and withdrawn; otherwise the Bonds will be awarded to the FmHA in accordance with the provisions of the aforesaid commitment.
- I. Said Current Bonds shall be offered for sale with the successful bidder having the following options:
- (1) The successful bidder shall have the right to take delivery of the Bond Issue in the form of negotiable Coupon Bonds having the principal maturities set out in the schedule of maturities contained herein, in the denomination of \$1,000, or any multiple of same, not exceeding \$10,000, consistent with the schedule of maturities, bearing interest payable semi-annually at the rate set out in the bid of such successful bidder.
  - (2) The successful bidder shall have the right to take delivery of the Bond Issue in the form of a single or series of Fully Registered Bond(s), payable to the successful bidder or his assignee, maturing as to principal in installments corresponding to the principal maturities of the Coupon Bonds.
- J. The District expects to deliver, and the successful bidder must be prepared to accept delivery of and pay for, the Bonds at the office of the Secretary within 45 days after notice is given of the award. If said Bonds are not ready for delivery and payment within forty-five days from the aforesaid date of sale, the successful bidder shall be relieved of any liability to accept delivery of the Bonds, except that additional time may be required for delivery if the Bonds are purchased by the FmHA.
- K. The District reserves the right, in its discretion, to determine the best bid or bids, to waive any informality or irregularity and to reject any or all bids.

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L. The Bonds will be tendered within said 45-day period, and the purchaser will receive the approving legal opinion of Rubin & Hays, Municipal Bond Attorneys, Louisville, Kentucky, as to the legality and tax-exemption of said Bonds, without additional cost to the purchaser.

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

ARTICLE 10.

CONCLUDING PROVISIONS

SECTION 1001. SEVERABILITY CLAUSE.

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

SECTION 1002. ALL PROVISIONS IN CONFLICT REPEALED.

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

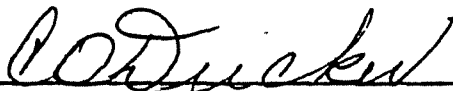
SECTION 1003. EFFECTIVE IMMEDIATELY UPON ADOPTION AND PUBLICATION.

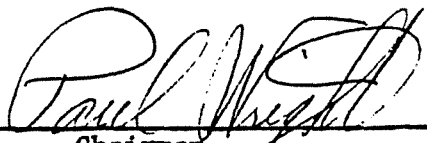
This Resolution shall take effect and be effective immediately upon its adoption and publication, as provided by law.

Adopted this 22nd day of August, 1977.

(Seal of District)

Attest:

  
Secretary

  
Chairman

CERTIFICATION

I, C. O. DUCKER, hereby certify that I am the duly qualified and acting Secretary of the Pendleton County Water District of Pendleton and Campbell Counties, Kentucky, and that the foregoing Resolution is a true copy of a Resolution duly adopted by the Commission 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 Commission held on August <sup>22</sup> 29, 1977, as shown by the official records of said District in my custody and under my control.

IN TESTIMONY WHEREOF, witness my signature as Secretary and the official Seal of said District this 22 day of August, 1977.

  
Secretary

(Seal of District)

# Rural Development Bonds, Series 1997

**PENDLETON COUNTY WATER DISTRICT**

**RURAL DEVELOPMENT REVENUE BONDS  
SERIES 1997**

**ISSUE DATE 4/2/1998  
MATURITY DATE 12/1/2037  
INTEREST RATE 5.125%  
ORIGINAL ISSUE \$747,000.00**

<b>Payment Date</b>	<b>Principal Due</b>	<b>Interest Due</b>	<b>Principal &amp; Interest</b>	<b>Principal Balance</b>
Balance on 12/1/2010				680,500.00
6/1/2011		17,437.81		680,500.00
12/1/2011	9,000.00	17,437.81	43,875.63	671,500.00
6/1/2012		17,207.19		671,500.00
12/1/2012	9,500.00	17,207.19	43,914.38	662,000.00
6/1/2013		16,963.75		662,000.00
12/1/2013	10,500.00	16,963.75	44,427.50	651,500.00
6/1/2014		16,694.69		651,500.00
12/1/2014	11,000.00	16,694.69	44,389.38	640,500.00
6/1/2015		16,412.81		640,500.00
12/1/2015	12,000.00	16,412.81	44,825.63	628,500.00
6/1/2016		16,105.31		628,500.00
12/1/2016	12,500.00	16,105.31	44,710.63	616,000.00
6/1/2017		15,785.00		616,000.00
12/1/2017	13,500.00	15,785.00	45,070.00	602,500.00
6/1/2018		15,439.06		602,500.00
12/1/2018	14,500.00	15,439.06	45,378.13	588,000.00
6/1/2019		15,067.50		588,000.00
12/1/2019	15,500.00	15,067.50	45,635.00	572,500.00
6/1/2020		14,670.31		572,500.00
12/1/2020	16,500.00	14,670.31	45,840.63	556,000.00
6/1/2021		14,247.50		556,000.00
12/1/2021	18,000.00	14,247.50	46,495.00	538,000.00
6/1/2022		13,786.25		538,000.00
12/1/2022	19,000.00	13,786.25	46,572.50	519,000.00
6/1/2023		13,299.38		519,000.00
12/1/2023	20,500.00	13,299.38	47,098.75	498,500.00
6/1/2024		12,774.06		498,500.00
12/1/2024	22,000.00	12,774.06	47,548.13	476,500.00
6/1/2025		12,210.31		476,500.00
12/1/2025	23,500.00	12,210.31	47,920.63	453,000.00
6/1/2026		11,608.13		453,000.00
12/1/2026	25,000.00	11,608.13	48,216.25	428,000.00
6/1/2027		10,967.50		428,000.00
12/1/2027	27,000.00	10,967.50	48,935.00	401,000.00
6/1/2028		10,275.63		401,000.00
12/1/2028	29,000.00	10,275.63	49,551.25	372,000.00
6/1/2029		9,532.50		372,000.00
12/1/2029	31,000.00	9,532.50	50,065.00	341,000.00
6/1/2030		8,738.13		341,000.00
12/1/2030	33,000.00	8,738.13	50,476.25	308,000.00
6/1/2031		7,892.50		308,000.00
12/1/2031	35,500.00	7,892.50	51,285.00	272,500.00
6/1/2032		6,982.81		272,500.00
12/1/2032	38,000.00	6,982.81	51,965.63	234,500.00
6/1/2033		6,009.06		234,500.00
12/1/2033	40,500.00	6,009.06	52,518.13	194,000.00
6/1/2034		4,971.25		194,000.00
12/1/2034	43,500.00	4,971.25	53,442.50	150,500.00
6/1/2035		3,856.56		150,500.00
12/1/2035	47,000.00	3,856.56	54,713.13	103,500.00
6/1/2036		2,652.19		103,500.00
12/1/2036	50,000.00	2,652.19	55,304.38	53,500.00
6/1/2037		1,370.94		53,500.00
12/1/2037	53,500.00	1,370.94	56,241.88	0.00
<b>Totals</b>	<b>680,500.00</b>	<b>625,916.25</b>	<b>1,306,416.25</b>	



UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
COUNTIES OF PENDLETON AND CAMPBELL

REGISTERED

NUMBER  
R-1

PENDLETON COUNTY WATER DISTRICT  
WATERWORKS REVENUE BOND, SERIES 1997  
INTEREST RATE: 5.125%

REGISTERED

PRINCIPAL AMOUNT  
\$747,000

KNOW ALL MEN BY THESE PRESENTS: That the Pendleton County Water District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Pendleton and Campbell Counties, Kentucky, for value received hereby promises to pay to UNITED STATES OF AMERICA, acting by and through the U.S. DEPARTMENT OF AGRICULTURE, 771 Corporate Drive, Suite 200, Lexington, Kentucky 40503-5477, the registered assigns, the principal sum of

**SEVEN HUNDRED FORTY-SEVEN THOUSAND DOLLARS (\$747,000)**

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

Payment Due December 1,	Principal Payment	Payment Due December 1,	Principal Payment	Payment Due December 1,	Principal Payment	Payment Due December 1,	Principal Payment
2000	\$4,000	2010	\$ 8,500	2020	\$16,500	2030	\$33,000
2001	4,500	2011	9,000	2021	18,000	2031	35,500
2002	5,000	2012	9,500	2022	19,000	2032	38,000
2003	5,000	2013	10,500	2023	20,500	2033	40,500
2004	5,500	2014	11,000	2024	22,000	2034	43,500
2005	6,000	2015	12,000	2025	23,500	2035	47,000
2006	6,500	2016	12,500	2026	25,000	2036	50,000
2007	6,500	2017	13,500	2027	27,000	2037	53,500
2008	7,500	2018	14,500	2028	29,000		
2009	7,500	2019	15,500	2029	31,000		

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

This Bond ranks on a parity as to security and source of payment with certain outstanding Pendleton County Water District Waterworks Revenue Bonds of 1977, dated May 26, 1978 (the "Bonds of 1977"), authorized by a Resolution adopted by the Commission of the District on August 22, 1977 (the "1977 Bond Resolution"); and the outstanding Pendleton County Water District Waterworks Revenue Bonds of 1987, dated February 25, 1988 (the "Bonds of 1987"), authorized by a Resolution adopted by the Commission of the District on April 13, 1987 (the "1987 Bond Resolution"); [hereinafter the Bonds of 1977 and Bonds of 1987 shall be collectively referred to as the "Prior Bonds", and the 1977 Bond Resolution and the 1987 Bond Resolution, shall be collectively referred to as the "Prior Bond Resolution"]. Accordingly, this Bond, together with any bonds ranking on a parity herewith, is payable from and secured by a pledge of the gross revenues to be derived from the operation of the System.

[FURTHER PROVISIONS OF THIS BOND ARE SET FORTH ON THE REVERSE HEREOF]

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 Pendleton County 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

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 June and December in each year, beginning with the first June or December 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

PENDLETON COUNTY WATER DISTRICT  
Pendleton and Campbell Counties, Kentucky

By: \_\_\_\_\_  
Chairman



Attest: \_\_\_\_\_  
Secretary

BOND RESOLUTION

PENDLETON COUNTY WATER DISTRICT

AUTHORIZING

PENDLETON COUNTY WATER DISTRICT  
WATERWORKS REVENUE BONDS, SERIES 1997

IN THE AMOUNT OF

\$747,000

## TABLE OF CONTENTS

ARTICLE 1.	DEFINITIONS; PURPOSE; AUTHORIZATION OF BONDS; SECURITY. . . . .	3
Section 101.	Definitions . . . . .	3
Section 102.	Purpose . . . . .	6
Section 103.	Construction Award Approved; Work Authorized . . . . .	6
Section 104.	Declaration of Period of Usefulness . . . . .	7
Section 105.	Authorization of Bonds . . . . .	7
Section 106.	Recognition of Prior Bonds . . . . .	8
Section 107.	Current Bonds Shall be Payable on Out of Gross Revenues . <sup>4</sup> . . . . .	8
Section 108.	Lien on Contracts . . . . .	8
ARTICLE 2.	THE BONDS; BOND FORM; PREPAYMENT. . . . .	9
Section 201.	Principal Payments . . . . .	9
Section 202.	Issuance of Current Bonds; Bond Form . . . . .	9
Section 203.	Place of Payment and Manner of Execution . . . . .	9
Section 204.	Provisions as to Prepayment . . . . .	9
ARTICLE 3.	CONSTRUCTION ACCOUNT; INTERIM FINANCING; APPLICATION OF PROCEEDS; ARBITRAGE LIMITATIONS. . . . .	10
Section 301.	Construction Account; Application of Proceeds of Bonds; Other Transfers and Deposits . . . . .	10
A.	Covenants Applicable if RD Purchases Current Bonds . . . . .	10
B.	Application of Proceeds of Current Bonds . . . . .	10
Section 302.	Interim Financing Authorization . . . . .	12
A.	Interim Financing . . . . .	12
B.	Multiple Advances by RD . . . . .	13
Section 303.	Arbitrage Limitations on Investment of Proceeds . . . . .	14
ARTICLE 4.	FLOW OF FUNDS . . . . .	16
Section 401.	Funds . . . . .	16
Section 402.	Flow of Funds . . . . .	16

A.	Revenue Fund . . . . .	16
B.	Sinking Fund . . . . .	16
C.	Depreciation Fund . . . . .	17
D.	Operation and Maintenance Fund . . . . .	18
E.	Monthly Principal and Interest Payments if Requested by the RD . . . . .	18
F.	Surplus Funds . . . . .	18
G.	Investment and Miscellaneous Provisions . . . . .	18
Section 403.	Current Bonds on a Parity with Prior Bonds . . . . .	19
ARTICLE 5.	COVENANTS OF DISTRICT . . . . .	20
Section 501.	Rates and Charges . . . . .	20
Section 502.	Books and Accounts; Audit . . . . .	20
Section 503.	System to Continue to be Operated on Fiscal Year Basis; Annual Budget . . . . .	20
Section 504.	General Covenants . . . . .	21
Section 505.	Other Covenants Applicable So Long as RD Owns Any Bonds . . . . .	22
Section 506.	Insurance on Motors, Tanks and Structures . . . . .	22
ARTICLE 6.	INFERIOR BONDS AND PARITY BONDS . . . . .	24
Section 601.	Inferior Bonds . . . . .	24
Section 602.	Parity Bonds to Complete the Project . . . . .	24
Section 603.	Parity Bonds to Finance Future Improvements . . . . .	24
Section 604.	Covenants to be Complied with at Time of Issuance of Parity Bonds . . . . .	26
Section 605.	Prepayment Provisions Applicable to Parity Bonds . . . . .	26
Section 606.	Consent of the RD Regarding Future Bonds . . . . .	26
Section 607.	Priority of Lien; Permissible Disposition of Surplus or Obsolete Facilities . . . . .	26
ARTICLE 7.	DEFAULT AND CONSEQUENCES . . . . .	28
Section 701.	Events of Default . . . . .	28
Section 702.	Consequences of Event of Default . . . . .	28
ARTICLE 8.	CONTRACTUAL PROVISIONS; MISCELLANEOUS PROVISIONS. . . . .	29
Section 801.	Resolution Contractual with Bondowners . . . . .	29
Section 802.	All Current Bonds are Equal . . . . .	29
Section 803.	District Obligated to Refund Current Bonds Owned by Government Whenever Feasible; Defeasement Prohibited . . . . .	29

Section 804. Authorization, Ratification and Confirmation of Approval and Execution of Various Documents . . . . . 30

Section 805. Authorization of Condemnation to Acquire Easements and/or Sites . . . . . 30

ARTICLE 9. SALE OF CURRENT BONDS . . . . . 32

Section 901. Sale of Current Bonds . . . . . 32

Section 902. Adjustment in Maturities, Prepayment Provisions and Other Dates, with Consent of Purchaser if Delivery is Delayed . . . . . 32

ARTICLE 10. CONCLUDING PROVISIONS . . . . . 33

Section 1001. Covenant of District to Take All Necessary Action To Assure<sup>4</sup> Compliance with the Code . . . . . 33

Section 1002. Severability Clause . . . . . 34

Section 1003. All Provisions in Conflict Repealed . . . . . 34

Section 1004. Effective Immediately Upon Adoption . . . . . 34

- EXHIBIT A - Schedule of Principal Payments
- EXHIBIT B - Form of Fully Registered Bond
- EXHIBIT C - Requisition Certificate

## BOND RESOLUTION

**RESOLUTION OF THE PENDLETON COUNTY WATER DISTRICT OF PENDLETON AND CAMPBELL COUNTIES, KENTUCKY, AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$747,000 PRINCIPAL AMOUNT OF PENDLETON COUNTY WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 1997 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 Pendleton County 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 \$747,000 (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 PDR Engineers, Inc. and to prescribe the covenants of the District, the rights of Bondowners and the details of the issuance and sale of the proposed Current Bonds, and

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

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

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

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

WHEREAS, the proceeds of the Current Bonds will be supplemented by connection charges in the amount of at least \$14,100, to provide the total cost of such construction,

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF THE PENDLETON COUNTY WATER DISTRICT OF PENDLETON AND CAMPBELL COUNTIES, KENTUCKY, AS FOLLOWS:

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

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

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

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

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

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

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

*"Bonds of 1977" or "Series 1977 Bonds"* refer to the outstanding Pendleton County Water District Waterworks Revenue Bonds of 1977, dated May 26, 1978, in the original authorized principal amount of \$263,000.

*"Bonds of 1987" or "Series 1987 Bonds"* refer to the outstanding Pendleton County Water District Waterworks Revenue Bonds of 1987, dated February 25, 1988, in the original authorized principal amount of \$273,000.

*"Bond Resolution of 1977" or "1977 Bond Resolution"* refer to the Resolution authorizing the Bonds of 1977, duly adopted by the Board of Commissioners of the District on August 22, 1977.

*"Bond Resolution of 1987" or "1987 Bond Resolution"* refer to the Resolution authorizing the Bonds of 1987, duly adopted by the Board of Commissioners of the District on April 13, 1987.

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

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



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

*"Construction Account"* refers to the Pendleton County Water District Construction Account, created in Section 301(B) of this Current Bond Resolution.

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

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

*"Current Bonds"* refers to the \$747,000 of Pendleton County Water District Waterworks Revenue Bonds, Series 1997 authorized by this Resolution, to be dated as of the date of issuance thereof.

*"Depository Bank"* refers to the bank, which shall be a member of the FDIC, which bank is United Kentucky Bank of Pendleton County, Inc., Falmouth, Kentucky, or its successor.

*"Depreciation Fund"* refers to the Pendleton County Water District Depreciation Fund, described in Section 402 of this Resolution.

*"District"* refers to the Pendleton County Water District of Pendleton and Campbell Counties, Kentucky.

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

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

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

*"Fiscal Year"* refers to the annual accounting period of the District, beginning on December 1 and ending on November 30 of each year.

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

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

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

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

*"Local Counsel"* refers to C. Donald Wells, Esq., Falmouth, 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 Pendleton County 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 collectively to the Series 1977 Bonds and the Series 1987 Bonds.

*"Prior Bond Resolution"* refers collectively to the 1977 Bond Resolution and the 1987 Bond Resolution.

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

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

"*RD*" refers to the Rural Development of the Department of Agriculture of the United States of America.

"*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 Pendleton County Water District Waterworks Revenue Fund, described in Section 401 of this Resolution.

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

"*Sinking Fund*" refers to the Pendleton County Water District Sinking Fund, described in Section 401 of this Resolution.

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

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

"*U.S. Obligations*" refers to bonds or notes which are the direct obligations of the United States of America, or obligations the principal of and interest on which are guaranteed by the United States of America.

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

**Section 102. Purpose.** The Current Bonds shall be issued for the purpose of financing the cost (not otherwise provided) of the Project, as set out in the plans and specifications prepared by the Engineers. The Commission hereby declares the System of the District, including the extensions, additions and improvements to be constructed, to constitute a revenue producing public project, and said System shall continue to be owned, controlled, operated and maintained by the District as a revenue producing public project pursuant to the Act, so long as any Bonds remain outstanding.

**Section 103. Construction Award Approved; Work Authorized.** The Commission hereby authorizes, approves, ratifies and confirms its previous action in advertising for and taking

steps toward awarding the contracts for the construction of the Project to the lowest and best bidders, and further approves the action of the District officials in entering into formal contracts with said bidders, subject to the necessary approvals being obtained. Authority is hereby given for undertaking the construction of the Project according to the plans and specifications heretofore prepared by the Engineers for the District, after all necessary approvals have been obtained.

**Section 104. Declaration of Period of Usefulness.** The Commission hereby declares that the period of usefulness of the System is more than forty (40) years from the date of completion of the Project.

**Section 105. Authorization of Bonds.** The District has heretofore determined that the total cost of the Project, including preliminary expenses, land and rights-of-way, engineering expense, capitalized interest during construction, legal and administrative costs, publication costs, initial deposits required and all incidental expenses, will not exceed \$761,100. 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 \$747,000 of Current Bonds, based on the following calculation:

Total cost of Project		\$761,100
Less:		
Connection Charges	<u>14,100</u>	
Total Non-Bond Funds:		<u>(14,100)</u>
Balance to be financed by Current Bonds		\$747,000

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 \$747,000 principal amount of Pendleton County Water District Waterworks Revenue Bonds, Series 1997.

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 June 1 and December 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 June 1 or December 1, as the case may be. Principal of the Current Bonds shall be payable on December 1 of each of the respective years until maturity, as set out in Section 201 hereof.

**Section 106. Recognition of Prior Bonds.** The District hereby expressly recognizes and acknowledges that the District has previously created for the benefit and protection of the owners of the Prior Bonds, a certain lien and pledge and certain security rights relating to the System, all as set forth in the Prior Bonds and in the Prior Bond Resolution.

**Section 107. Current Bonds Shall be Payable on Out of Gross Revenues.** The Current Bonds and any additional Parity Bonds that may be issued under the conditions and restrictions hereinafter set forth, shall be payable solely on a first lien basis out of the gross revenues of the System, on a parity with the Prior Bonds.

**Section 108. Lien on Contracts.** In addition to the revenue pledge securing the Bonds, a lien is hereby created and granted in favor of the Bondowners on all contracts, and on all other rights of the District pertaining to the System, enforceable by assignment to any receiver or other operator proceeding by authority of any court.

## **ARTICLE 2. THE BONDS; BOND FORM; PREPAYMENT.**

**Section 201. Principal Payments.** Principal payments due on the Current Bonds shall be as set forth in the schedule of maturities set out in **Exhibit A** attached to this Resolution and incorporated herein.

**Section 202. Issuance of Current Bonds; Bond Form.** The Purchaser of the Current Bonds at the public sale shall take delivery of the Current Bonds in the form of one or more fully registered bonds, as set forth in **Exhibit B** attached hereto and incorporated herein, amounting in the aggregate to the principal amount of the Current Bonds authorized herein, maturing as to principal as set out in Section 201. The Current Bonds shall be numbered R-1 and consecutively upward thereafter. Such Current Bonds shall, upon appropriate execution on behalf of the District as prescribed, constitute the entire bond issue herein authorized, shall be negotiable (subject to registration requirements as to transferability), registered as to principal and interest and payable as directed by the registered Owner.

**Section 203. Place of Payment and Manner of Execution.** Both principal of and interest on the Current Bonds shall be payable at the place and in the manner set out in the form of such Current Bond. The Current Bonds shall be executed on behalf of the District by the manual or facsimile signature of the Chairman of the District, with the Corporate Seal of the District affixed thereto and attested by the manual or facsimile signature of the Secretary of said District.

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

**Section 204. Provisions as to Prepayment.** Except when all of the Current Bonds are held by the Government, principal maturities falling due prior to December 1, 2007 , shall not be subject to prepayment. Principal maturities falling due on and after December 1, 2007 , shall be subject to prepayment by the District on any interest payment date falling on and after December 1, 2006, 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 \$92,000 (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 \$92,000, 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. 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 "Pendleton County Water District Construction Account" hereby created, which shall be established at the Depository Bank. Simultaneously with

or prior to the delivery of the Current Bonds, there shall also be deposited in the Construction Account the proceeds of the District contribution in the minimum amount of \$14,100 (less any amounts theretofore used for authorized purposes), to supplement the proceeds of the Current Bonds in order to assure completion of the Project.

**(3) Withdrawal of Funds From Construction Account.** Prior to the expenditure by the District of any moneys from the Construction Account, the District must obtain written approval from the RD as to such expenditures, if the RD is the Owner of any Outstanding Bonds. The proceeds of said Construction Account shall be withdrawn only on checks signed by the Chairman, the Treasurer (or by such other official of the District as may be authorized by the Commission), provided such official shall be covered by the Fidelity Bond required by Section 301 of this Resolution, in payment for services and/or materials supplied in connection with the Project, as evidenced by (1) a Requisition Certificate; and (2) invoices and/or partial payment estimates bearing the written approval of the Engineers and the Chairman (or by such other official of the District as may be authorized by the Commission), and which invoices and/or partial payment estimates must have been reviewed and approved for payment by the designated RD official.

Written approval or certification of the Engineers shall not be required for matters not under the jurisdiction of the Engineers, such as legal fees, land acquisition and related items.

During construction, the District shall disburse Construction Account funds in a manner consistent with RD Instruction 1942-A.

The District shall prepare and submit any and all RD Forms required by the RD. Periodic audits of the District's Construction Account records shall be made by RD as determined by it to be necessary.

**(4) Transfer of Capitalized Interest to Sinking Fund.** There shall be transferred from the Construction Account an amount sufficient to provide for capitalized interest (initially estimated at \$15,000) during the construction of the Project, as approved by the Engineers and by the RD. If and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project, such amount so transferred from the Construction Account shall be deposited in the Sinking Fund.

**(5) Investment of Funds in Construction Account.** Pending disbursement of amounts on deposit in the Construction Account, all such funds, or such portion of said amounts on deposit in said Construction Account as is designated by the Commission, shall be invested for the benefit of such Construction Account in Certificates of Deposit, savings accounts or U.S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for



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

**(6) Statements of Contractors, Engineers and Attorneys as to Payment.** Prior to the delivery of the Current Bonds, if the RD is the Purchaser of the Current Bonds, the District will be required to provide the RD with statements from the Contractors, Engineers and attorneys for the District that they have been paid to date in accordance with their contract or other agreements and, in the case of any Contractor, that he has paid his suppliers and subcontractors. Any exceptions must be authorized under RD Instruction 1942-A.

**(7) Disposition of Balance in Construction Account After Completion of Project.** When the Project has been completed and all construction costs have been paid in full, as certified by the Engineers for the District and/or by the 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 shall be transferred to the Sinking Fund, whereupon said Construction Account shall be closed. Such remaining balance in the Construction Account so transferred to the Sinking Fund shall be used by the District immediately to prepay principal installments due on the Current Bonds in the inverse order of maturities without prepayment penalty, provided further that any balance insufficient to prepay at least \$100 of the principal payment falling due in any year on the Bonds will be transferred to the Depreciation Fund.

### **Section 302. Interim Financing Authorization.**

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

The borrowing of up to the aggregate sum of \$747,000 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 \$747,000. 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 \$747,000 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 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.

The District hereby covenants and agrees with the Interim Lender that upon the issuance and delivery of the Current Bonds 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 are hereby pledged therefor, and such pledge shall constitute a first and prior charge against said proceeds.

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 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) Pendleton County Water District Waterworks Revenue Fund
- (b) Pendleton County Water District Sinking Fund
- (c) Pendleton County Water District Depreciation Fund
- (d) Pendleton County Water District Operation and Maintenance Fund

All of the Funds shall be maintained with the Depository Bank so long as any Bonds remain outstanding.

**Section 402. Flow of Funds.** All proceedings preliminary to and in connection with the issuance of the Outstanding Bonds, including provisions made for (i) the receipt, custody and application of the proceeds of the Outstanding Bonds; (ii) the operation of the System on a revenue-producing basis; (iii) the segregation, allocation and custody of the revenues derived from the operation of the System; (iv) the enforcement and payment of the Outstanding Bonds and (v) the depreciation of the System; and all other covenants for the benefit of Bondowners set out in the Prior Bond Resolution, are hereby ratified and confirmed and shall continue in force and inure to the security and benefit of the Outstanding Bonds, the same as if such provisions and proceedings were set out in full herein; provided, further, that after the issuance of the Current Bonds, the income and revenues of the System shall be collected, segregated, accounted for and distributed as follows:

**A. Revenue Fund.** The District covenants and agrees that it will continue to deposit in the Revenue Fund, promptly as received from time to time, all revenues of the System, as same may be extended and improved from time to time. The moneys in the Revenue Fund shall continue to be used, disbursed and applied by the District only for the purpose and in the manner and order of priorities specified in the Prior Bond Resolution, as hereinafter modified by this Resolution, all as permitted by the Act, and in accordance with previous contractual commitments.

**B. Sinking Fund.** It is hereby recognized that the District is obligated upon the issuance of the Current Bonds to provide for additional debt service requirements of the Current Bonds.

At or after the delivery of the Current Bonds, there shall be transferred from the Construction Account to the Sinking Fund an amount sufficient to provide for capitalized interest (initially estimated at \$15,000) on the Current Bonds during the construction of the Project, if and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project.

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

- (1) An amount equal to one-sixth (1/6) of the next succeeding six-month interest payment to become due on the Bonds, plus
- (2) A sum equal to one-twelfth (1/12) of the principal of any Bonds maturing on the next succeeding December 1.

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

**C. Depreciation Fund.** Pursuant to the provisions of the Prior Bond Resolution which requires that an adjustment be made in the Depreciation Fund upon the issuance of bonds ranking on a parity with the Prior Bonds, it is hereby determined that upon the issuance of the Current Bonds, and upon completion of the Project, as certified by the Engineers and by the RD, there shall next be transferred from the Revenue Fund the sum of at least \$840 (increased from \$360) each month which shall be deposited into the Depreciation Fund until there is accumulated in such Depreciation Fund the sum of at least \$104,000 (increased from \$46,400), which amount shall be maintained, and when necessary, restored to said sum of \$104,000, so long as any of the Bonds are outstanding and unpaid.

As further security for the Bondowners and for the benefit of the District, it has been and is hereby provided that in addition to the monthly transfers required to be made from the Revenue Fund into the Depreciation Fund, there shall be deposited into said Depreciation Fund all proceeds of connection fees collected from potential customers (except the amounts necessary to pay the actual costs and service connections applicable to said potential customers) to aid in the financing of the cost of future extensions, additions and improvements to the System, plus the proceeds of any property damage insurance (not otherwise used to replace damaged or destroyed property); and any such amounts or proceeds so deposited shall be used solely and only for the purposes intended.

Moneys in the Depreciation Fund may be withdrawn and used by the District, upon appropriate certification of the Commission, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals and replacements not included in the annual budget of current expenses and/or of paying the costs of constructing future extensions, additions and improvements to the System which will either enhance its revenue-producing capacity or will

provide a higher degree of service, and when necessary, for the purpose of making payments of principal and interest on the Bonds if the amount on deposit in the Sinking Fund is not sufficient to make such payments.

**D. Operation and Maintenance Fund.** There shall next be transferred monthly from the Revenue Fund and deposited into said Operation and Maintenance Fund, sums sufficient to meet the current expenses of operating and maintaining the System. The balance maintained in said Operation and Maintenance Fund shall not be in excess of the amount required to cover anticipated System expenditures for a two-month period pursuant to the District's annual budget.

**E. Monthly Principal and Interest Payments if Requested by the RD.** So long as any of the Bonds are held or insured by the RD, the District shall, if requested by the RD, make the payments required by this Section 402, in monthly installments to the RD or to the insured Owners of the Bonds.

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

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

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

All payments into the Funds shall be made on or before the twentieth (20th) day of each month, except that when the twentieth (20th) day of any month shall be a Saturday, Sunday or a legal holiday, then such payment shall be made on the next succeeding business day.

All monies held in any of the Funds shall be kept apart from all other District funds and shall be deposited in the Depository Bank, and all such deposits which cause the aggregate of all deposits of the District therein to be in excess of the amount secured by FDIC, shall (unless invested as herein authorized) be secured by a surety bond or bonds or by a pledge of U.S. Obligations, having a market value equivalent to such deposit.

The Treasurer shall keep appropriate records as to payment of principal and interest installments and as to payment of principal of and interest on any Bonds.

**Section 403. Current Bonds on a Parity with Prior Bonds.** It is hereby certified and declared that prior to the issuance of any of the Current Bonds, there will have been procured and filed with the District (i) a letter from the RD to the effect that the RD agrees to the issuance of the Current Bonds ranking on a parity as to security and source of payment with the Prior Bonds, all of which are owned by the RD, together with (ii) a certification signed by the RD to the effect that a legend has been typed, stamped or otherwise affixed on each of the Prior Bonds held by the RD, evidencing the agreement of the RD as the then Owner of the Prior Bonds, to the issuance of the Current Bonds so as to rank on a parity with the Prior Bonds, such legend to be in substantially the following form:

The holder of this Bond has consented to the issuance of \$747,000 of Pendleton County Water District Waterworks Revenue Bonds, Series 1997 ranking on a parity as to security and source of payment with this Bond.

Accordingly, it is hereby found and declared that the Current Bonds shall rank and be payable on a parity with said outstanding Prior Bonds from the gross income and revenues of the System.



## ARTICLE 5. COVENANTS OF DISTRICT

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

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

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

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

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

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

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

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

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

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

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

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

- (1) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky;
- (2) It will make and collect reasonable and sufficient rates and charges for services and facilities rendered by the System;

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

**Section 505. Other Covenants Applicable So Long as RD Owns Any Bonds.** So long as the RD shall own any of the Bonds, the District shall comply with such RD regulations, requirements and requests as shall be made by the RD, including the furnishing of operating and other financial statements, in such form and substance and for such periods as may be requested by the RD, the carrying of insurance of such types and in such amounts as the RD may specify, with insurance carriers acceptable to the RD and compliance with all of the terms and conditions of the Loan Resolution (RD Form 1942-47) adopted and executed by the District, which is hereby authorized, approved, ratified and confirmed.

**Section 506. Insurance on Motors, Tanks and Structures.** The District shall (a) immediately after the adoption of this Resolution and (b) at the time of final acceptance of the Project, insure all electric motors, elevated water storage tanks, pumping stations and major structures of the System in an amount recommended by the Engineers and approved by the RD, so long as the RD is the Owner of any of the Bonds, for the hazards usually covered in such area, and shall similarly insure same in an amount recommended by the Engineers, without the

necessity of approval by the RD if and whenever the District has Outstanding Bonds against the System and none of such Outstanding Bonds are owned by the RD.

## **ARTICLE 6. INFERIOR BONDS AND PARITY BONDS**

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

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

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

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

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

The District further reserves the right to add new waterworks facilities and/or to finance future extensions, additions and improvements to the System by the issuance of one or more

additional series of Parity Bonds to be secured by a parity lien on and ratably payable on a parity with the Current Bonds, from the revenues of the System, provided:

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

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

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

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

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

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

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

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

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

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

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

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

(c) Make such Parity Bonds payable as to principal on December 1 of each year in which principal falls due and payable as to interest on June 1 and December 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; 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. Authorization, Ratification and Confirmation of Approval and Execution of Various Documents.** The Commission hereby authorizes, approves, ratifies and confirms the previous action of the officers of the District in approving and executing various documents related to the financing of the Project, including the following:

- (a) Legal Services Agreement with Bond Counsel.
- (b) Legal Services Agreement with Local Counsel.
- (c) Letter of Intent to Meet Conditions of RD Letter of Conditions (RD Form 1942-46).
- (d) Loan Resolution (RD Form 1942-47).
- (e) Agreement for Engineering Services with the Engineers.

**Section 805. 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.

## **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<sup>4</sup> 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.

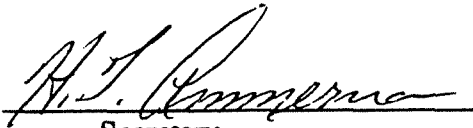
Adopted this May 8, 1997.

PENDLETON COUNTY WATER DISTRICT

  
Chairman

(Seal of District)

Attest:

  
Secretary

CERTIFICATION

I, H. T. Ammerman, hereby certify that I am the duly qualified and acting Secretary of the Pendleton County Water District of Pendleton and Campbell Counties, Kentucky, and that the foregoing Resolution is a true copy of a Resolution duly adopted by the Board of Commissioners of said District, signed by the Chairman of said District and attested under Seal by me as Secretary, at a properly convened meeting of said Board of Commissioners held on May 8, 1997, 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 8, 1997.

  
Secretary

(Seal of District)



## EXHIBIT A

### Schedule of Principal Payments

<u>Payment Due December 1,</u>	<u>Principal Payment</u>	<u>Payment Due December 1,</u>	<u>Principal Payment</u>
2000	\$4,000	2019	15,500
2001	4,500	2020	16,500
2002	5,000	2021	18,000
2003	5,000	2022	19,000
2004	5,500	2023	20,500
2005	6,000	2024	22,000
2006	6,500	2025	23,500
2007	6,500	2026	25,000
2008	7,500	2027	27,000
2009	7,500	2028	29,000
2010	8,500	2029	31,000
2011	9,000	2030	33,000
2012	9,500	2031	35,500
2013	10,500	2032	38,000
2014	11,000	2033	40,500
2015	12,000	2034	43,500
2016	12,500	2035	47,000
2017	13,500	2036	50,000
2018	14,500	2037	53,500

EXHIBIT B

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
COUNTIES OF PENDLETON AND CAMPBELL  
PENDLETON COUNTY WATER DISTRICT  
WATERWORKS REVENUE BONDS, SERIES 1997

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

KNOW ALL MEN BY THESE PRESENTS:

That the Pendleton County Water District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Pendleton and Campbell Counties, 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 December, in years and installments as follows:

Year            Principal            Year            Principal            Year            Principal

[Here the printer of the Current Bond will print the maturities of the Current Bonds purchased by the registered Owner]

and in like manner, solely from said fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, at the Interest Rate specified above, semiannually on the first days of June and December in each year, beginning with the first June or December 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 ranks on a parity as to security and source of payment with certain outstanding Pendleton County Water District Waterworks Revenue Bonds of 1977, dated May 26, 1978 (the "Bonds of 1977"), authorized by a Resolution adopted by the Commission of the District on August 22, 1977 (the "1977 Bond Resolution"); and the outstanding Pendleton County Water District Waterworks Revenue Bonds of 1987, dated February 25, 1988 (the "Bonds of 1987"), authorized by a Resolution adopted by the Commission of the District on April 13, 1987 (the "1987 Bond Resolution"); [hereinafter the Bonds of 1977 and Bonds of 1987 shall be collectively referred to as the "Prior Bonds", and the 1977 Bond Resolution and the 1987 Bond Resolution, shall be collectively referred to as the "Prior Bond Resolution"]. Accordingly, this Bond, together with any bonds ranking on a parity herewith, is payable from and secured on a rank on a parity with lien basis by a pledge of the gross revenues to be derived from the operation of the System.

This Bond has been issued in full compliance with the Current Bond Resolution and the Prior Bond Resolution; and this Bond, and any bonds ranking on a parity therewith that may be issued and outstanding under the conditions and restrictions of the Current Bond Resolution and the Prior Bond Resolution, are and will continue to be payable from revenues which shall be set aside in a fund for that purpose and identified as the "Pendleton County Water District Sinking Fund", created in the Prior Bond Resolution.

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

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with this Bond in order to complete the Project, and to finance

future extensions, additions and improvements to the System, provided the necessary requirements of the Current Bond Resolution have been complied with by the District.

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

The District, at its option, shall have the right to prepay, on any interest payment date on and after December 1, 2006, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple of One Hundred Dollars (\$100), as the District may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by registered mail to the registered owner of this Bond or his assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States of America, or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$100, may be prepaid at any time in inverse chronological order of the installments due.

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

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

IN WITNESS WHEREOF said Pendleton County 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

PENDLETON COUNTY WATER DISTRICT  
Pendleton and Campbell Counties, Kentucky

By J.C. Crowley  
Chairman

Attest:

A.J. Combs  
Secretary

(Seal of District)

PROVISION FOR REGISTRATION

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

ASSIGNMENT

Date of Registration	Name of Registered Owner	Signature of Bond Registrar

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

\_\_\_\_\_  
By: \_\_\_\_\_

# KY Rural Water Revenue Bonds, Series 2001

**PENDLETON COUNTY WATER DISTRICT**

**KENTUCKY RURAL WATER REVENUE BONDS  
SERIES 2001**

**ISSUE DATE 6/27/2001  
MATURITY DATE 1/1/2024  
INTEREST RATE 5.0998%  
ORIGINAL ISSUE \$374,000.00**

<b>Payment Date</b>	<b>Principal Due</b>	<b>Interest Due</b>	<b>Principal &amp; Interest</b>	<b>Principal Balance</b>
Original Issue				273,000.00
2/1/2011	14,000.00	7,297.88		259,000.00
8/1/2011		6,937.38	28,235.26	259,000.00
2/1/2012	14,000.00	6,937.38		245,000.00
8/1/2012		6,576.88	27,514.26	245,000.00
2/1/2013	16,000.00	6,576.88		229,000.00
8/1/2013		6,164.88	28,741.76	229,000.00
2/1/2014	17,000.00	6,164.88		212,000.00
8/1/2014		5,695.25	28,860.13	212,000.00
2/1/2015	18,000.00	5,695.25		194,000.00
8/1/2015		5,198.00	28,893.25	194,000.00
2/1/2016	19,000.00	5,198.00		175,000.00
8/1/2016		4,673.13	28,871.13	175,000.00
2/1/2017	20,000.00	4,673.13		155,000.00
8/1/2017		4,120.63	28,793.76	155,000.00
2/1/2018	21,000.00	4,120.63		134,000.00
8/1/2018		3,540.50	28,661.13	134,000.00
2/1/2019	23,000.00	3,540.50		111,000.00
8/1/2019		2,905.13	29,445.63	111,000.00
2/1/2020	25,000.00	2,905.13		86,000.00
8/1/2020		2,214.50	30,119.63	86,000.00
2/1/2021	26,000.00	2,214.50		60,000.00
8/1/2021		1,545.00	29,759.50	60,000.00
2/1/2022	19,000.00	1,545.00		41,000.00
8/1/2022		1,055.75	21,600.75	41,000.00
2/1/2023	20,000.00	1,055.75		21,000.00
8/1/2023		540.75	21,596.50	21,000.00
2/1/2024	21,000.00	540.75	21,540.75	0.00
<b>Totals</b>	<b>273,000.00</b>	<b>109,633.44</b>	<b>382,633.44</b>	

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ASSISTANCE AGREEMENT

BETWEEN

KENTUCKY RURAL WATER FINANCE CORPORATION

AND

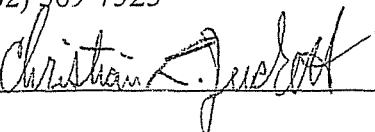
PENDLETON COUNTY WATER DISTRICT

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This document was prepared by:

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

By  \_\_\_\_\_



## INDEX TO ASSISTANCE AGREEMENT

Section 1	Definitions.....	3
Section 2	Reaffirmation of Declaration of Waterworks System.....	7
Section 3	Authorization of Obligations; Place of Payment; Manner of Execution .....	8
Section 4	Redemption .....	8
Section 5	Obligations Payable Out of Revenues on a Parity with Prior Bonds.....	9
Section 6	Compliance with Parity Coverage Requirements of the Prior Bond Legislation.....	9
Section 7	Flow of Funds .....	10
Section 8	Disposition of Proceeds of the Obligations; Governmental Agency Account .....	11
Section 9	Arbitrage Limitations.....	13
Section 10	Parity Bonds.....	14
Section 11	Rates and Charges for Services of the System.....	16
Section 12	All Obligations of this Issue Are Equal .....	17
Section 13	Defeasance and/or Refunding of Obligations .....	17
Section 14	Contractual Nature of Assistance Agreement.....	18
Section 15	Appointment and Duties of Bond Registrar And Paying Agent.....	18
Section 16	Provisions in Conflict Repealed.....	19
Section 17	Covenant of Governmental Agency to Take All Action Necessary to Assure Compliance with the Internal Revenue Code of 1986 .....	19
Section 18	Insurance .....	20
Section 19	Event of Default; Remedies .....	20
Section 20	Annual Reports .....	20
Section 21	Supplemental Assistance Agreement.....	21
Section 22	No Remedy Exclusive.....	22
Section 23	Waivers .....	22
Section 24	Agreement to Pay Attorney's Fees and Expenses .....	22
Section 25	Signatures of Officers .....	22
Section 26	Severability Clause .....	22

## 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 the Pendleton County Water District, of Pendleton and Campbell Counties, Kentucky (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 Pendleton County Water District Waterworks Revenue Bonds of 1987, dated February 25, 1988 (the "Series 1987 Bonds") in the original principal amount of \$273,000, authorized by a resolution adopted by the Board of Commissioners (the "Governing Body") on April 13, 1987 (the "1987 Bond Legislation"); and

WHEREAS, the Governmental Agency has heretofore incurred certain indebtedness to Farmers National Bank, Butler, Kentucky (the "Bank Loan"); and

WHEREAS, the Governmental Agency has found and determined that it is in the public interest to refinance and currently refund the Series 1987 Bonds and to pay down the balance on the Bank Loan 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 \$374,000 [the "Obligations"], for the purpose of providing funds for the refinancing of the Series 1987 Bonds and Bank Loan and 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; and

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.

"*Bank Loan*" refers to the District's outstanding balance on a line of credit from the Farmers National Bank, Butler, Kentucky.

"*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 1977*" or "*1977 Bond Legislation*" refers to the resolution authorizing the Series 1977 Bonds, which was adopted by the Governing Body on August 22, 1977.

"*Bond Legislation of 1987*" or "*1987 Bond Legislation*" refers to the resolution authorizing the Series 1987 Bonds, which was adopted by the Governing Body on April 13, 1987.

"*Bond Legislation of 1997*" or "*1997 Bond Legislation*" refers to the resolution authorizing the Series 1997 Bonds, which was adopted by the Governing Body on May 8, 1997.

"*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.

"*Bonds of 1977*" or "*Series 1977 Bonds*" refer to the outstanding Pendleton County Water District Waterworks Revenue Bonds of 1977, dated May 26, 1978, in the original authorized principal amount of \$263,000.

"*Bonds of 1987*" or "*Series 1987 Bonds*" refer to the outstanding Pendleton County Water District Waterworks Revenue Bonds of 1987, dated February 25, 1988, in the original authorized principal amount of \$273,000.

"*Bonds of 1997*" or "*Series 1997 Bonds*" refer to the outstanding Pendleton County Water District Waterworks Revenue Bonds, Series 1997, dated April 2, 1998, in the original authorized principal amount of \$747,000.

"*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.

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

"*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 Depreciation Fund and the Governmental Agency Account.

"*Governmental Agency*" refers to the Pendleton County 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.

"*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.

"*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 1<sup>st</sup> day of each month, commencing July 1, 2001 and continuing through and including January 1, 2024 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 \$374,000.

"Operation and Maintenance Fund" refers to the "Pendleton County Water District Operation and Maintenance Fund" created 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 1977 Bond Legislation and the 1997 Bond Legislation.

"*Prior Bonds*" refers collectively to the Series 1977 Bonds and the Series 1997 Bonds.

"*Project*" refers to the refinancing and current refunding of the Governmental Agency's Series 1987 Bonds and the Bank Loan with the proceeds of the Obligations, and the construction of additions, extensions and improvements to the System.

"*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.

"*Record Date*" shall mean with respect to any Interest Payment Date, the close of business on the 15<sup>th</sup> day next preceding such Interest Payment Date, whether or not such day is a business day.

"*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 Pendleton County 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.

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

"*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 \$374,000 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, 2024, 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. **Depreciation 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 Depreciation Fund of at least the sum required by the Prior Bond Legislation, which shall be deposited into the Depreciation Fund.

Moneys in the Depreciation 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 Depreciation 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 "Pendleton County 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 Depreciation 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 Depreciation Fund will be used for payment of debt service on any bonds payable from the revenues of the System, even though such Depreciation 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 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 120% of the average annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the System, including such requirements of the Prior Bonds, the Current Bonds, any Parity Bonds then outstanding plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued. The calculation of average annual debt service requirements of principal and interest on the additional Parity Bonds to be issued shall, regardless of whether such additional Parity Bonds are to be serial or term bonds, be determined on the basis of the principal of and interest on such Parity Bonds being payable in approximately equal annual installments.

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

(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 "annual net revenues" to be realized 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 Depreciation Fund on the same basis as that prescribed in the provisions establishing such Depreciation Fund, taking into account the future debt service requirements of all 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 120% 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 maximum 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 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 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 120% 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 120% 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.

2

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 Pendleton County 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:

\_\_\_\_\_  
Secretary/Treasurer

PENDLETON COUNTY WATER DISTRICT

By J C Cowley  
Chairman

Attest:

A. L. Rimmerman  
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 Pendleton County 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. Radbrooke  
President

Attest:

[Signature]  
Secretary/Treasurer

PENDLETON COUNTY WATER DISTRICT

By \_\_\_\_\_  
Chairman

Attest:

\_\_\_\_\_  
Secretary

ISSUER ACKNOWLEDGMENT

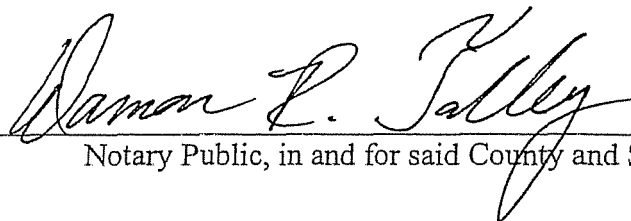
COMMONWEALTH OF KENTUCKY

COUNTY OF WARREN

The foregoing instrument was acknowledged before me this 27<sup>th</sup> 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 27<sup>th</sup> day of June, 2001.

My Commission expires: 6-9-2003.

  
\_\_\_\_\_  
Notary Public, in and for said County and State

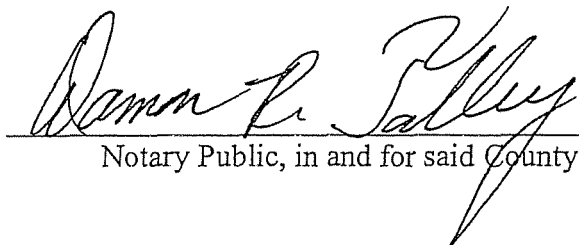
COMMONWEALTH OF KENTUCKY

COUNTY OF WARREN

The foregoing instrument was acknowledged before me this 27<sup>th</sup> 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 27<sup>th</sup> day of June, 2001.

My Commission expires: 6-9-2003.

  
\_\_\_\_\_  
Notary Public, in and for said County and State

GOVERNMENTAL AGENCY ACKNOWLEDGMENT

COMMONWEALTH OF KENTUCKY

COUNTY OF PENDLETON

The foregoing instrument was acknowledged before me this 21<sup>st</sup> day of June, 2001 by J. C. Crowley and H. T. Ammerman who are the Chairman and Secretary of the Pendleton County Water District, on behalf of said District.

WITNESS my hand this June 21, 2001.

My Commission expires: 4-8-02.

Cheri B. Wujek  
Notary Public, in and for said County and State

**KENTUCKY RURAL WATER FINANCE CORPORATION FLEXIBLE - TERM FINANCE PROGRAM**

Borrower: Pendleton County Water District  
 Dated Date: 06/27/01

**Borrower Payment Schedule**

Payment Date	Principal	Interest	Trustee Fees	Total	Fiscal Total	Monthly Principal	Monthly Interest	Total Monthly Sinking Fund Payments	
06/27/01									
01/01/02	14,000.00	11,343.33	250.00	25,593.33		7/1-1/2	2,000.00	1,620.48	3,620.48
07/01/02	0.00	9,250.63	0.00	9,250.63		2/2-7/2	750.00	1,541.77	2,291.77
01/01/03	9,000.00	9,250.63	250.00	18,500.63	34,843.96	8/2-1/3	750.00	1,541.77	2,291.77
07/01/03	0.00	9,063.88	0.00	9,063.88		2/3-7/3	750.00	1,510.65	2,260.65
01/01/04	9,000.00	9,063.88	250.00	18,313.88	27,564.51	8/3-1/4	750.00	1,510.65	2,260.65
07/01/04	0.00	8,877.13	0.00	8,877.13		2/4-7/4	916.67	1,479.52	2,396.19
01/01/05	11,000.00	8,877.13	250.00	20,127.13	27,191.01	8/4-1/5	916.67	1,479.52	2,396.19
07/01/05	0.00	8,648.88	0.00	8,648.88		2/5-7/5	916.67	1,441.48	2,358.15
01/01/06	11,000.00	8,648.88	250.00	19,898.88	28,776.01	8/5-1/6	916.67	1,441.48	2,358.15
07/01/06	0.00	8,420.63	0.00	8,420.63		2/6-7/6	916.67	1,403.44	2,320.11
01/01/07	11,000.00	8,420.63	250.00	19,670.63	28,319.51	8/6-1/7	916.67	1,403.44	2,320.11
07/01/07	0.00	8,164.88	0.00	8,164.88		2/7-7/7	1,000.00	1,360.81	2,360.81
01/01/08	12,000.00	8,164.88	250.00	20,414.88	27,835.51	8/7-1/8	1,000.00	1,360.81	2,360.81
07/01/08	0.00	7,885.88	0.00	7,885.88		2/8-7/8	1,000.00	1,314.31	2,314.31
01/01/09	12,000.00	7,885.88	250.00	20,135.88	28,300.76	8/8-1/9	1,000.00	1,314.31	2,314.31
07/01/09	0.00	7,606.88	0.00	7,606.88		2/9-7/9	1,000.00	1,267.81	2,267.81
01/01/10	12,000.00	7,606.88	250.00	19,856.88	27,742.76	8/9-1/10	1,000.00	1,267.81	2,267.81
07/01/10	0.00	7,297.88	0.00	7,297.88		2/10-7/10	1,166.67	1,216.31	2,382.98
01/01/11	14,000.00	7,297.88	250.00	21,547.88	27,154.76	8/10-1/11	1,166.67	1,216.31	2,382.98
07/01/11	0.00	6,937.38	0.00	6,937.38		2/11-7/11	1,166.67	1,156.23	2,322.90
01/01/12	14,000.00	6,937.38	250.00	21,187.38	28,485.26	8/11-1/12	1,166.67	1,156.23	2,322.90
07/01/12	0.00	6,576.88	0.00	6,576.88		2/12-7/12	1,333.33	1,096.15	2,429.48
01/01/13	16,000.00	6,576.88	250.00	22,826.88	27,764.26	8/12-1/13	1,333.33	1,096.15	2,429.48
07/01/13	0.00	6,164.88	0.00	6,164.88		2/13-7/13	1,416.67	1,027.48	2,444.15
01/01/14	17,000.00	6,164.88	250.00	23,414.88	28,991.76	8/13-1/14	1,416.67	1,027.48	2,444.15
07/01/14	0.00	5,695.25	0.00	5,695.25		2/14-7/14	1,500.00	949.21	2,449.21
01/01/15	18,000.00	5,695.25	250.00	23,945.25	29,110.13	8/14-1/15	1,500.00	949.21	2,449.21
07/01/15	0.00	5,198.00	0.00	5,198.00		2/15-7/15	1,583.33	866.33	2,449.67
01/01/16	19,000.00	5,198.00	250.00	24,448.00	29,143.25	8/15-1/16	1,583.33	866.33	2,449.67
07/01/16	0.00	4,673.13	0.00	4,673.13		2/16-7/16	1,666.67	778.86	2,445.52
01/01/17	20,000.00	4,673.13	250.00	24,923.13	29,121.13	8/16-1/17	1,666.67	778.86	2,445.52
07/01/17	0.00	4,120.63	0.00	4,120.63		2/17-7/17	1,750.00	686.77	2,436.77
01/01/18	21,000.00	4,120.63	250.00	25,370.63	29,043.76	8/17-1/18	1,750.00	686.77	2,436.77
07/01/18	0.00	3,540.50	0.00	3,540.50		2/18-7/18	1,916.67	590.08	2,506.75
01/01/19	23,000.00	3,540.50	250.00	26,790.50	28,911.13	8/18-1/19	1,916.67	590.08	2,506.75
07/01/19	0.00	2,905.13	0.00	2,905.13		2/19-7/19	2,083.33	484.19	2,567.52
01/01/20	25,000.00	2,905.13	250.00	28,155.13	29,695.63	8/19-1-20	2,083.33	484.19	2,567.52
07/01/20	0.00	2,214.50	0.00	2,214.50		2/20-7/20	2,166.67	369.08	2,535.75
01/01/21	26,000.00	2,214.50	250.00	28,464.50	30,369.63	8/20-1/21	2,166.67	369.08	2,535.75
07/01/21	0.00	1,545.00	0.00	1,545.00		2/21-7/21	1,583.33	257.50	1,840.83
01/01/22	19,000.00	1,545.00	250.00	20,795.00	30,009.50	8/21-1/22	1,583.33	257.50	1,840.83
07/01/22	0.00	1,055.75	0.00	1,055.75		2/22-7/22	1,666.67	175.96	1,842.63
01/01/23	20,000.00	1,055.75	250.00	21,305.75	21,850.75	8/22-1/23	1,666.67	175.96	1,842.63
07/01/23	0.00	540.75	0.00	540.75		2/23-7/23	1,750.00	90.13	1,840.13
01/01/24	21,000.00	540.75	250.00	21,790.75	21,846.50	8/23-1/24	1,750.00	90.13	1,840.13
07/01/24	0.00	0.00	0.00	0.00		2/24-7/24	0.00	0.00	0.00
Totals	374,000.00	264,112.23	5,750.00	643,862.23	21,790.75	374,000.00	264,112.23	638,112.23	

EXHIBIT A

# Rural Development Bonds, Series 2004

PENDLETON COUNTY WATER DISTRICT

RURAL DEVELOPMENT REVENUE BONDS  
SERIES 2004

ISSUE DATE 1/29/2005  
MATURITY DATE 1/1/2044  
INTEREST RATE 4.500%  
ORIGINAL ISSUE \$596,000.00

Payment Date	Principal Due	Interest Due	Principal & Interest	Principal Balance
Balance on 7/1/2010				570,000.00
1/1/2011	7,000.00	12,825.00		563,000.00
7/1/2011		12,667.50	32,492.50	563,000.00
1/1/2012	8,000.00	12,667.50		555,000.00
7/1/2012		12,487.50	33,155.00	555,000.00
1/1/2013	8,000.00	12,487.50		547,000.00
7/1/2013		12,307.50	32,795.00	547,000.00
1/1/2014	8,000.00	12,307.50		539,000.00
7/1/2014		12,127.50	32,435.00	539,000.00
1/1/2015	9,000.00	12,127.50		530,000.00
7/1/2015		11,925.00	33,052.50	530,000.00
1/1/2016	9,000.00	11,925.00		521,000.00
7/1/2016		11,722.50	32,647.50	521,000.00
1/1/2017	10,000.00	11,722.50		511,000.00
7/1/2017		11,497.50	33,220.00	511,000.00
1/1/2018	10,000.00	11,497.50		501,000.00
7/1/2018		11,272.50	32,770.00	501,000.00
1/1/2019	11,000.00	11,272.50		490,000.00
7/1/2019		11,025.00	33,297.50	490,000.00
1/1/2020	11,000.00	11,025.00		479,000.00
7/1/2020		10,777.50	32,802.50	479,000.00
1/1/2021	12,000.00	10,777.50		467,000.00
7/1/2021		10,507.50	33,285.00	467,000.00
1/1/2022	12,000.00	10,507.50		455,000.00
7/1/2022		10,237.50	32,745.00	455,000.00
1/1/2023	13,000.00	10,237.50		442,000.00
7/1/2023		9,945.00	33,182.50	442,000.00
1/1/2024	13,000.00	9,945.00		429,000.00
7/1/2024		9,652.50	32,597.50	429,000.00
1/1/2025	14,000.00	9,652.50		415,000.00
7/1/2025		9,337.50	32,990.00	415,000.00
1/1/2026	14,000.00	9,337.50		401,000.00
7/1/2026		9,022.50	32,360.00	401,000.00
1/1/2027	16,000.00	9,022.50		385,000.00
7/1/2027		8,662.50	33,685.00	385,000.00
1/1/2028	16,000.00	8,662.50		369,000.00
7/1/2028		8,302.50	32,965.00	369,000.00
1/1/2029	16,000.00	8,302.50		353,000.00
7/1/2029		7,942.50	32,245.00	353,000.00
1/1/2030	17,000.00	7,942.50		336,000.00
7/1/2030		7,560.00	32,502.50	336,000.00
1/1/2031	18,000.00	7,560.00		318,000.00
7/1/2031		7,155.00	32,715.00	318,000.00
1/1/2032	19,000.00	7,155.00		299,000.00
7/1/2032		6,727.50	32,882.50	299,000.00
1/1/2033	20,000.00	6,727.50		279,000.00
7/1/2033		6,277.50	33,005.00	279,000.00
1/1/2034	21,000.00	6,277.50		258,000.00
7/1/2034		5,805.00	33,082.50	258,000.00
1/1/2035	21,000.00	5,805.00		237,000.00
7/1/2035		5,332.50	32,137.50	237,000.00
1/1/2036	22,000.00	5,332.50		215,000.00
7/1/2036		4,837.50	32,170.00	215,000.00
1/1/2037	23,000.00	4,837.50		192,000.00
7/1/1937		4,320.00	32,157.50	192,000.00
1/1/1938	24,000.00	4,320.00		168,000.00
7/1/1938		3,780.00	32,100.00	168,000.00
1/1/1939	26,000.00	3,780.00		142,000.00
7/1/1939		3,195.00	32,975.00	142,000.00
1/1/1940	27,000.00	3,195.00		115,000.00
7/1/1940		2,587.50	32,782.50	115,000.00
1/1/1941	27,000.00	2,587.50		88,000.00
7/1/1941		1,980.00	31,567.50	88,000.00
1/1/1942	28,000.00	1,980.00		60,000.00
7/1/1942		1,350.00	31,330.00	60,000.00
1/1/1943	29,000.00	1,350.00		31,000.00
7/1/1943		697.50	31,047.50	31,000.00
1/1/1944	31,000.00	697.50	31,697.50	0.00
<b>Totals</b>	<b>570,000.00</b>	<b>538,875.00</b>	<b>1,108,875.00</b>	

UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
COUNTY OF PENDLETON

REGISTERED

**PENDLETON COUNTY WATER DISTRICT**  
WATERWORKS REVENUE BONDS, SERIES 2004  
INTEREST RATE: 4.50%

REGISTERED



KNOW ALL PERSONS BY THESE PRESENTS: That the Pendleton County Water District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Pendleton County, Kentucky for value received, hereby promises to pay to UNITED STATES OF AMERICA, acting by and through the U.S. DEPARTMENT OF AGRICULTURE, 771 Corporate Drive, Suite 200, Lexington, Kentucky 40503-5477, the Registered Owner hereof, or its registered assigns, solely from the fund hereinafter identified, the sum of

**FIVE HUNDRED NINETY-SIX THOUSAND DOLLARS (\$596,000)**

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

Year	Principal	Year	Principal	Year	Principal
2007	\$ 8,000	2020	\$11,000	2033	\$20,000
2008	7,000	2021	12,000	2034	21,000
2009	7,000	2022	12,000	2035	21,000
2010	7,000	2023	13,000	2036	22,000
2011	7,000	2024	13,000	2037	23,000
2012	8,000	2025	14,000	2038	24,000
2013	8,000	2026	14,000	2039	26,000
2014	8,000	2027	16,000	2040	27,000
2015	9,000	2028	16,000	2041	27,000
2016	9,000	2029	19,000	2042	28,000
2017	10,000	2030	17,000	2043	29,000
2018	10,000	2031	18,000	2044	31,000
2019	11,000	2032	18,000		

**SALE**

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: (i) Pendleton County Water District Waterworks Revenue Bonds of 1977, dated May 26, 1978 (the "1977 Bonds"); authorized by a Resolution adopted by the Commission of the District on August 22, 1977 (the "1977 Bond Resolution"); (ii) Pendleton County Water District Waterworks Revenue Bonds, Series 1987, dated March 25, 1998 (the "1987 Bonds"), authorized by a Resolution adopted by the Commission of the District on May 8, 1987 (the "1987 Bond Resolution"); and (iii) Kentucky Rural Water Finance Corporation Municipal Public Projects, Series 2001A Loan, dated June 27, 2001 (the "KRWFC Loan") (hereinafter the 1977 Bonds, the 1987 Bonds and the KRWFC Loan shall be collectively referred to as the "Prior Bonds"). Accordingly, this Bond, together with any bonds ranking on a par therewith, is payable from and secured by the proceeds of the operation of the System, after providing for the requirements of the Prior Bonds.

THE TERMS AND PROVISIONS OF THIS BOND ARE SET FORTH ON THE REVERSE HEREOF

It is hereby certified, attested 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 and proper form and manner as required by law, and that the sale and issue 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 Pendleton County 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

PENDLETON COUNTY WATER DISTRICT  
Pendleton County, Kentucky

By: \_\_\_\_\_  
Chairman



Attest: \_\_\_\_\_  
Secretary

RD Bond Issued 2005  
Payment Sch

PENDLETON WATER

8596547032

11:19

02/11/2005

BOND RESOLUTION

PENDLETON COUNTY WATER DISTRICT

AUTHORIZING

PENDLETON COUNTY WATER DISTRICT WATERWORKS REVENUE BONDS,  
SERIES 2004

IN THE AMOUNT OF

\$596,000



## TABLE OF CONTENTS

ARTICLE 1.	DEFINITIONS; PURPOSE; AUTHORIZATION OF BONDS; SECURITY. ....	3
Section 101.	Definitions .....	3
Section 102.	Purpose .....	6
Section 103.	Construction Award Approved; Work Authorized .....	6
Section 104.	Declaration of Period of Usefulness .....	7
Section 105.	Authorization of Bonds .....	7
Section 106.	Recognition of Prior Bonds .....	7
Section 107.	Current Bonds Shall be Payable on Second Lien Basis Out of Gross Revenues .....	8
Section 108.	Lien on Contracts .....	8
ARTICLE 2.	THE BONDS; BOND FORM; PREPAYMENT. ....	9
Section 201.	Principal Payments .....	9
Section 202.	Issuance of Current Bonds; Bond Form .....	9
Section 203.	Place of Payment and Manner of Execution .....	9
Section 204.	Provisions as to Prepayment .....	9
ARTICLE 3.	CONSTRUCTION ACCOUNT; INTERIM FINANCING; APPLICATION OF PROCEEDS; ARBITRAGE LIMITATIONS. ....	10
Section 301.	Construction Account; Application of Proceeds of Bonds; Other Transfers and Deposits .....	10
A.	Covenants Applicable if RD Purchases Current Bonds .....	10
B.	Application of Proceeds of Current Bonds .....	10
Section 302.	Interim Financing Authorization .....	12
A.	Interim Financing .....	12
B.	Multiple Advances by RD .....	14
Section 303.	Arbitrage Limitations on Investment of Proceeds .....	14

ARTICLE 4. FLOW OF FUNDS ..... 16

Section 401. Funds ..... 16

Section 402. Flow of Funds ..... 16

    A. Revenue Fund ..... 16

    B. Prior Sinking Fund ..... 16

    C. Current Sinking Fund ..... 17

    D. Depreciation Fund ..... 17

    E. Operation and Maintenance Fund ..... 18

    F. Monthly Principal and Interest Payments if Requested by the RD  
    ..... 18

    G. Surplus Funds ..... 18

    H. Investment and Miscellaneous Provisions ..... 18

Section 403. Current Bonds are Subordinate to the Prior Bonds ..... 19

ARTICLE 5. COVENANTS OF DISTRICT ..... 20

Section 501. Rates and Charges ..... 20

Section 502. Books and Accounts; Audit ..... 20

Section 503. System to Continue to be Operated on Fiscal Year Basis; Annual  
Budget ..... 20

Section 504. General Covenants ..... 21

Section 505. Other Covenants Applicable So Long as RD Owns Any Bonds ..... 22

Section 506. Insurance on Motors, Tanks and Structures ..... 22

ARTICLE 6. INFERIOR BONDS AND PARITY BONDS ..... 23

Section 601. Inferior Bonds ..... 23

Section 602. Parity Bonds to Complete the Project ..... 23

Section 603. Parity Bonds to Finance Future Improvements ..... 23

Section 604. Covenants to be Complied with at Time of Issuance of Parity  
Bonds ..... 24

Section 605. Prepayment Provisions Applicable to Parity Bonds ..... 25

Section 606. Consent of the RD Regarding Future Bonds ..... 25

Section 607. Priority of Lien; Permissible Disposition of Surplus or Obsolete  
Facilities ..... 25

ARTICLE 7. DEFAULT AND CONSEQUENCES ..... 27

Section 701. Events of Default ..... 27

Section 702. Consequences of Event of Default ..... 27

ARTICLE 8.	CONTRACTUAL PROVISIONS; GRANT APPROVAL; MISCELLANEOUS PROVISIONS. ....	28
Section 801.	Resolution Contractual with Bondowners .....	28
Section 802.	All Current Bonds are Equal .....	28
Section 803.	District Obligated to Refund Current Bonds Owned by Government Whenever Feasible; Defeasement Prohibited .....	28
Section 804.	Approval and Acceptance of CDBG Grant Agreement .....	29
Section 805.	Authorization, Ratification and Confirmation of Approval and Execution of Various Documents .....	29
Section 806.	Authorization of Condemnation to Acquire Easements and/or Sites .....	29
ARTICLE 9.	SALE OF CURRENT BONDS .....	31
Section 901.	Sale of Current Bonds .....	31
Section 902.	Adjustment in Maturities, Prepayment Provisions and Other Dates, with Consent of Purchaser if Delivery is Delayed .....	31
ARTICLE 10.	CONCLUDING PROVISIONS .....	32
Section 1001.	Covenant of District to Take All Necessary Action To Assure Compliance with the Code .....	32
Section 1002.	Severability Clause .....	33
Section 1003.	All Provisions in Conflict Repealed .....	33
Section 1004.	Effective Immediately Upon Adoption .....	33
EXHIBIT A - Schedule of Principal Payments		
EXHIBIT B - Form of Fully Registered Bond		
EXHIBIT C - Requisition Certificate		

## BOND RESOLUTION

**RESOLUTION OF THE PENDLETON COUNTY WATER DISTRICT OF PENDLETON COUNTY, KENTUCKY, AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$596,000 PRINCIPAL AMOUNT OF PENDLETON COUNTY WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 2004 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 Pendleton County 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 \$596,000 (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 Tetra Tech, Inc. and to prescribe the covenants of the District, the rights of Bondowners and the details of the issuance and sale of the proposed Current Bonds, and

WHEREAS, the District desires and intends that the Current Bonds be issued as second lien bonds, subject to the vested rights and priorities in favor of the owners of the outstanding Prior Bonds, and

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

WHEREAS, the proceeds of the Current Bonds will be supplemented by Grant Proceeds (as hereinafter defined) in the amount of approximately \$1,144,000, and by a contribution by the District in the amount of at least \$65,000, to provide the total cost of such construction,

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF THE PENDLETON COUNTY WATER DISTRICT OF PENDLETON COUNTY, KENTUCKY, AS FOLLOWS:

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

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

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

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

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

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

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

*"Bonds of 1977" or "Series 1977 Bonds"* refer to the outstanding Pendleton County Water District Waterworks Revenue Bonds of 1977, dated May 26, 1978, in the original authorized principal amount of \$263,000.

*"Bonds of 1997" or "Series 1997 Bonds"* refer to the outstanding Pendleton County Water District Waterworks Revenue Bonds, Series 1997, dated March 25, 1998, in the original authorized principal amount of \$747,000.

*"Bond Resolution of 1977" or "1977 Bond Resolution"* refer to the Resolution authorizing the Bonds of 1977, duly adopted by the Board of Commissioners of the District on August 22, 1977.

*"Bond Resolution of 1997" or "1997 Bond Resolution"* refer to the Resolution authorizing the Bonds of 1997, duly adopted by the Board of Commissioners of the District on May 8, 1997.

*"CDBG Grant"* refers to the Community Development Block Grant described in Section 804 of this Resolution.

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

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

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

*"Construction Account"* refers to the Pendleton County 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 \$596,000 of Pendleton County Water District Waterworks Revenue Bonds, Series 2004 authorized by this Resolution, to be dated as of the date of issuance thereof.

*"Current Sinking Fund"* refers to the Pendleton County Water District Waterworks Sinking Fund of 2004, created in Section 401 of this Resolution.

*"Depository Bank"* refers to the bank, which shall be a member of the FDIC, which bank is United Kentucky Bank, Falmouth, Kentucky, or its successor.

*"Depreciation Fund"* refers to the Pendleton County Water District Waterworks Depreciation Reserve Fund, described in Section 402 of this Resolution.

*"District"* refers to the Pendleton County Water District of Pendleton County, Kentucky.

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

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

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

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

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

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

*"Grant Proceeds"* refers to the proceeds of the CDBG Grant.

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

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

*"KRWFC Loan"* refers to the outstanding Kentucky Rural Water Finance Corporation Multimodal Public Projects, Series 2001A Loan, dated June 27, 2001, in the original authorized principal amount of \$374,000.

*"Local Counsel"* refers to Judy M. Wright, Esq., Falmouth, 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 Pendleton County Water District Waterworks Operation and Maintenance Fund described in Section 401 of this Resolution.

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

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

*"Prior Bonds"* refers collectively to the Series 1977 Bonds, the Series 1997 Bonds and the KRWFC Loan.

*"Prior Bond Resolution"* refers collectively to the 1977 Bond Resolution and the 1997 Bond Resolution.

*"Prior Sinking Fund"* refers to the Pendleton County Water District Waterworks 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.

*"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 Pendleton County Water District Waterworks 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 \$1,805,000. 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 \$596,000 of Current Bonds, based on the following calculation:

Total cost of Project		\$1,805,000
Less:		
	Pendleton County Fiscal Court	\$300,000
	CDBG Grant	844,000
	District Contribution	<u>65,000</u>
	Total Non-Bond Funds:	<u>(1,209,000)</u>
	Balance to be financed by Current Bonds	\$596,000

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 \$596,000 principal amount of Pendleton County Water District Waterworks Revenue Bonds, Series 2004.

The Current Bonds shall be dated as of the date of delivery to the Purchaser thereof; shall bear interest from such date at such interest rate as may be fixed by supplemental resolution as a result of the advertised sale and competitive bidding for such Current Bonds, as hereinafter provided; and shall be issued and delivered as prescribed in Section 202 hereof.

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

**Section 106. Recognition of Prior Bonds.** The District hereby expressly recognizes and acknowledges that the District has previously created for the benefit and protection of the owners

of the Prior Bonds, a certain lien and pledge and certain security rights relating to the System, all as set forth in the Prior Bonds and in the Prior Bond Resolution.

**Section 107. Current Bonds Shall be Payable on Second Lien Basis 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 on a parity solely on a second lien basis 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, 2014, shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2014, shall be subject to prepayment by the District on any interest payment date falling on and after January 1, 2013, 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 \$93,000 (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 \$93,000, 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 "Pendleton County 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. Simultaneously with or prior to the delivery of the Current Bonds, there shall also be deposited in the Construction Account the proceeds of the District contribution in the minimum amount of \$65,000 (less any amounts theretofore used for authorized purposes), to supplement the proceeds of the Current Bonds and Grant Proceeds in order to assure completion of the Project.

**(3) Withdrawal of Funds From Construction Account.** Prior to the expenditure by the District of any moneys from the Construction Account, the District must obtain written approval from the RD as to such expenditures, if the RD is the Owner of any Outstanding Bonds. The proceeds of said Construction Account shall be withdrawn only on checks signed by the Chairman, the Treasurer (or by such other official of the District as may be authorized by the Commission), provided such official shall be covered by the Fidelity Bond required by Section 301 of this Resolution, in payment for services and/or materials supplied in connection with the Project, as evidenced by (1) a Requisition Certificate; and (2) invoices and/or partial payment estimates bearing the written approval of the Engineers and the Chairman (or by such other official of the District as may be authorized by the Commission), and which invoices and/or partial payment estimates must have been reviewed and approved for payment by the designated RD official.

Written approval or certification of the Engineers shall not be required for matters not under the jurisdiction of the Engineers, such as legal fees, land acquisition and related items.

During construction, the District shall disburse Construction Account funds in a manner consistent with RD Instruction 1780.

The District shall prepare and submit any and all RD Forms required by the RD. Periodic audits of the District's Construction Account records shall be made by RD as determined by it to be necessary.

**(4) Transfer of Capitalized Interest to Current Sinking Fund.** There shall be transferred from the Construction Account an amount sufficient to provide for capitalized interest (initially estimated at \$7,000) 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 may be made only if a separate RD Form 402-4 Agreement is executed, if the RD has purchased any of the Bonds, and investments in Certificates of Deposit or savings accounts may be made only in such Certificates or accounts of an FDIC bank. Any such investments will be a part of the Construction Account, and income from such investments will be credited to the Construction Account. All such investments shall be subject to the limitations set out in Section 303 hereof.

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

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

If there is a balance remaining in the Construction Account after such Additional Construction, such balance (subject to legal requirements as to possible refund of any allocated portion of the balance derived from Grant Proceeds) shall be transferred to the 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 Depreciation Fund.

### **Section 302. Interim Financing Authorization.**

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

The borrowing of up to the aggregate sum of \$596,000 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 \$596,000. 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 \$596,000 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) Pendleton County Water District Waterworks Revenue Fund
- (b) Pendleton County Water District Waterworks Sinking Fund
- (c) Pendleton County Water District Waterworks Depreciation Reserve Fund
- (d) Pendleton County Water District Waterworks Operation and Maintenance Fund

There is hereby created the Pendleton County Water District Waterworks Sinking Fund of 2004.

All of the Funds shall be maintained with the Depository Bank so long as any Bonds remain outstanding.

**Section 402. Flow of Funds.** All proceedings preliminary to and in connection with the issuance of the Outstanding Bonds, including provisions made for (i) the receipt, custody and application of the proceeds of the Outstanding Bonds; (ii) the operation of the System on a revenue-producing basis; (iii) the segregation, allocation and custody of the revenues derived from the operation of the System; (iv) the enforcement and payment of the Outstanding Bonds and (v) the depreciation of the System; and all other covenants for the benefit of Bondowners set out in the Prior Bond Resolution, are hereby ratified and confirmed and shall continue in force and inure to the security and benefit of the Outstanding Bonds, the same as if such provisions and proceedings were set out in full herein; provided, further, that after the issuance of the Current Bonds, the income and revenues of the System shall be collected, segregated, accounted for and distributed as follows:

**A. Revenue Fund.** The District covenants and agrees that it will continue to deposit in the Revenue Fund, promptly as received from time to time, all revenues of the System, as same may be extended and improved from time to time. The moneys in the Revenue Fund shall continue to be used, disbursed and applied by the District only for the purpose and in the manner and order of priorities specified in the Prior Bond Resolution, as hereinafter modified by this Resolution, all as permitted by the Act, and in accordance with previous contractual commitments.

**B. 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 principal payment date.

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 \$7,000) 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:

- (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. Depreciation 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 \$280 each month which shall be deposited into the Depreciation Fund until there is accumulated in such Depreciation Fund the sum of at least \$33,600, which amount shall be maintained, and when necessary, restored to said sum of \$33,600, so long as any of the Bonds are outstanding and unpaid. These deposits are in addition to any deposits required under the Prior Bond Resolution.

As further security for the Bondowners and for the benefit of the District, it has been and is hereby provided that in addition to the monthly transfers required to be made from the Revenue Fund into the Depreciation Fund, there shall be deposited into said Depreciation Fund all proceeds of connection fees collected from potential customers (except the amounts necessary to pay the actual costs and service connections applicable to said potential customers) to aid in the financing of the cost of future extensions, additions and improvements to the System, plus the proceeds of any property damage insurance (not otherwise used to replace damaged or destroyed property); and any such amounts or proceeds so deposited shall be used solely and only for the purposes intended.

Moneys in the Depreciation Fund may be withdrawn and used by the District, upon appropriate certification of the Commission, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals and replacements not included in the annual budget of current expenses and/or of paying the costs of constructing future extensions, additions and improvements to the System which will either enhance its revenue-producing capacity or will provide a higher

degree of service, and when necessary, for the purpose of making payments of principal and interest on the Bonds if the amount on deposit in the Current 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 Depreciation Fund for application in accordance with the terms of this Resolution or to the Sinking Fund to be applied to the maximum extent feasible, to the prompt purchase or redemption of Outstanding Bonds.

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

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

All payments into the Funds shall be made on or before the twentieth (20th) day of each month, except that when the twentieth (20th) day of any month shall be a Saturday, Sunday or a legal holiday, then such payment shall be made on the next succeeding business day.

All monies held in any of the Funds shall be kept apart from all other District funds and shall be deposited in the Depository Bank, and all such deposits which cause the aggregate of all deposits of the District therein to be in excess of the amount secured by FDIC, shall (unless invested as herein authorized) be secured by a surety bond or bonds or by a pledge of U.S. Obligations, having a market value equivalent to such deposit.

The Treasurer shall keep appropriate records as to payment of principal and interest installments and as to payment of principal of and interest on any Bonds.

**Section 403. Current Bonds 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 Depreciation Fund on the same basis as that prescribed in the provisions establishing such Depreciation Fund, taking into account the future debt service requirements of all Bonds which will then be outstanding against the System; and

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

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

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

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

- (a) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds, and the required reserves for such Outstanding Bonds will have been accumulated;
- (b) The District will, in the event of any such sale, apply the proceeds to either (1) redemption of Outstanding Bonds in accordance with the provisions governing prepayment of bonds in advance of maturity; or (2) replacement of the facility so disposed of by another facility, the revenues of which shall be incorporated into the System, as hereinbefore provided;
- (c) The District certifies, in good faith, prior to any abandonment of use, that the facilities to be abandoned are no longer economically feasible of producing net revenues; and
- (d) The District certifies, in good faith, that the estimated net revenues of the remaining facilities of the System for the then next succeeding Fiscal Year,

plus the estimated net revenues of the facilities, if any, to be added to the System, comply with the earnings requirements hereinbefore provided in the provisions and conditions governing the issuance of Parity Bonds.

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

## ARTICLE 7. DEFAULT AND CONSEQUENCES

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

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

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

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

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

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

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

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

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

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

**Section 804. Approval and Acceptance of CDBG Grant Agreement.** The Department of Housing and Urban Development (the "HUD") has agreed to make a grant to the District in the amount of \$844,000 (the "CDBG Grant"), to supplement the proceeds of the Current Bonds in order to provide the total cost of the Project, and HUD has requested the District to approve, accept and execute a certain CDBG Grant Agreement (the "CDBG Grant Agreement") setting out the terms and conditions upon which said CDBG Grant will be made. Said CDBG Grant Agreement is hereby approved, and the Chairman and the Secretary are authorized to execute said CDBG Grant Agreement on behalf of the District. The Chairman and Secretary are also authorized on behalf of the District to accept any and all other CDBG Grants offered to the District in connection with the Project and to execute any and all CDBG Grant Agreements and any other documents as may be requested by HUD in connection with CDBG Grants which have been and/or which may hereafter be approved for such Project.

**Section 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.

## 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.

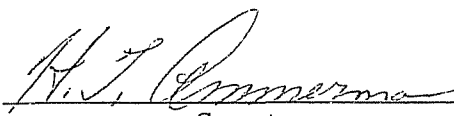
Adopted this February 26, 2004.

PENDLETON COUNTY 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 Pendleton County Water District of Pendleton County, Kentucky, and that the foregoing Resolution is a true copy of a Resolution duly adopted by the Board of Commissioners of said District, signed by the Chairman of said District and attested under Seal by me as Secretary, at a properly convened meeting of said Board of Commissioners held on February 26, 2004, 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 February 26, 2004.

  
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>
2007	6,000	2026	14,000
2008	7,000	2027	15,000
2009	7,000	2028	16,000
2010	7,000	2029	16,000
2011	7,000	2030	17,000
2012	8,000	2031	18,000
2013	8,000	2032	19,000
2014	8,000	2033	20,000
2015	9,000	2034	21,000
2016	9,000	2035	21,000
2017	10,000	2036	22,000
2018	10,000	2037	23,000
2019	11,000	2038	24,000
2020	11,000	2039	26,000
2021	12,000	2040	27,000
2022	12,000	2041	28,000
2023	13,000	2042	29,000
2024	13,000	2043	30,000
2025	14,000	2044	32,000

EXHIBIT B

(FORM OF FULLY REGISTERED BOND)

UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
PENDLETON COUNTY WATER DISTRICT WATERWORKS REVENUE BONDS,  
SERIES 2004

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

KNOW ALL PERSONS BY THESE PRESENTS:

That the Pendleton County Water District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Pendleton County, Kentucky, for value received, hereby promises to pay to

\_\_\_\_\_

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

\_\_\_\_\_ DOLLARS (\$ \_\_\_\_\_ ),

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

Year      Principal      Year      Principal      Year      Principal

[Here the printer of the Current Bond will print the maturities of the Current Bonds purchased by the registered Owner]

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

This Bond is issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 58 and 74 of the Kentucky Revised

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

This Bond is issued subject to the vested rights and priorities in favor of the owners of the outstanding: (i) Pendleton County Water District Waterworks Revenue Bonds of 1977, dated May 26, 1978 (the "1977 Bonds"), authorized by a Resolution adopted by the Commission of the District on August 22, 1977 (the "1977 Bond Resolution"); (ii) Pendleton County Water District Waterworks Revenue Bonds, Series 1997, dated March 25, 1998 (the "1997 Bonds"), authorized by a Resolution adopted by the Commission of the District on May 8, 1997 (the "1997 Bond Resolution"); and (iii) Kentucky Rural Water Finance Corporation Multimodal Public Projects, Series 2001A Loan, dated June 27, 2001 (the "KRWFC Loan") [hereinafter the 1977 Bonds, the 1997 Bonds and the KRWFC Loan shall be collectively referred to as the "Prior Bonds", and the 1977 Bond Resolution and the 1997 Bond Resolution shall be collectively referred to as the "Prior Bond Resolution"]. Accordingly, this Bond, together with any bonds ranking on a parity herewith, is payable from and secured by a pledge of the gross revenues to be derived from the operation of the System, after providing for the requirements of the Prior Bonds.

This Bond has been issued in full compliance with the Current Bond Resolution and the Prior Bond Resolution; and this Bond, and any bonds ranking on a parity therewith that may be issued and outstanding under the conditions and restrictions of the Current Bond Resolution and the Prior Bond Resolution, are and will continue to be payable from revenues which shall be set aside in a fund for that purpose and identified as the "Pendleton County Water District Waterworks Sinking Fund of 2004", 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 Prior Bonds and/or this Bond, are outstanding, the System will be continuously owned and operated by the District as a revenue producing public undertaking within the meaning of the aforesaid Act for the security and source of payment of the Prior Bonds and of this Bond, and that the District will fix, and if necessary adjust, from time to time, such rates for the services and facilities of the System and will collect and account for the revenues therefrom sufficient to pay promptly the principal of and interest on the Prior Bonds, this Bond and all other bonds ranking on a parity therewith as may be outstanding from time to time, to pay the cost of operation and maintenance of the System and to provide for the depreciation thereof.



The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with this Bond in order to complete the Project, and to finance future extensions, additions and improvements to the System, provided the necessary requirements of the Current Bond Resolution have been complied with by the District.

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

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2014, 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 Pendleton County 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

PENDLETON COUNTY WATER DISTRICT  
Pendleton County, Kentucky

By \_\_\_\_\_  
Chairman

Attest:

\_\_\_\_\_  
Secretary

(Seal of District)

#### PROVISION FOR REGISTRATION

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

ASSIGNMENT

Date of Registration	Name of Registered Owner	Signature of Bond Registrar

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

\_\_\_\_\_

By: \_\_\_\_\_

# Rural Development Bonds, Series 2010

PENDLETON COUNTY WATER DISTRICT

RURAL DEVELOPMENT REVENUE BONDS  
SERIES 2010

ISSUE DATE 7/30/2010  
MATURITY DATE 1/1/2049  
INTEREST RATE 3.250%  
ORIGINAL ISSUE \$220,000.00

Payment Date	Principal Due	Interest Due	Principal & Interest	Principal Balance
Original Issue				220,000.00
1/1/2011	0.00	3,036.30		220,000.00
7/1/2011		3,575.00	6,611.30	220,000.00
1/1/2012	3,000.00	3,575.00		217,000.00
7/1/2012		3,526.25	10,101.25	217,000.00
1/1/2013	3,000.00	3,526.25		214,000.00
7/1/2013		3,477.50	10,003.75	214,000.00
1/1/2014	3,000.00	3,477.50		211,000.00
7/1/2014		3,428.75	9,906.25	211,000.00
1/1/2015	3,000.00	3,428.75		208,000.00
7/1/2015		3,380.00	9,808.75	208,000.00
1/1/2016	3,500.00	3,380.00		204,500.00
7/1/2016		3,323.13	10,203.13	204,500.00
1/1/2017	3,500.00	3,323.13		201,000.00
7/1/2017		3,266.25	10,089.38	201,000.00
1/1/2018	3,500.00	3,266.25		197,500.00
7/1/2018		3,209.38	9,975.63	197,500.00
1/1/2019	3,500.00	3,209.38		194,000.00
7/1/2019		3,152.50	9,861.88	194,000.00
1/1/2020	4,000.00	3,152.50		190,000.00
7/1/2020		3,087.50	10,240.00	190,000.00
1/1/2021	4,000.00	3,087.50		186,000.00
7/1/2021		3,022.50	10,110.00	186,000.00
1/1/2022	4,000.00	3,022.50		182,000.00
7/1/2022		2,957.50	9,980.00	182,000.00
1/1/2023	4,000.00	2,957.50		178,000.00
7/1/2023		2,892.50	9,850.00	178,000.00
1/1/2024	4,500.00	2,892.50		173,500.00
7/1/2024		2,819.38	10,211.88	173,500.00
1/1/2025	4,500.00	2,819.38		169,000.00
7/1/2025		2,746.25	10,065.63	169,000.00
1/1/2026	4,500.00	2,746.25		164,500.00
7/1/2026		2,673.13	9,919.38	164,500.00
1/1/2027	5,000.00	2,673.13		159,500.00
7/1/2027		2,591.88	10,265.00	159,500.00
1/1/2028	5,000.00	2,591.88		154,500.00
7/1/2028		2,510.63	10,102.50	154,500.00
1/1/2029	5,000.00	2,510.63		149,500.00
7/1/2029		2,429.38	9,940.00	149,500.00
1/1/2030	5,500.00	2,429.38		144,000.00
7/1/2030		2,340.00	10,269.38	144,000.00
1/1/2031	5,500.00	2,340.00		138,500.00
7/1/2031		2,250.63	10,090.63	138,500.00
1/1/2032	5,500.00	2,250.63		133,000.00
7/1/2032		2,161.25	9,911.88	133,000.00
1/1/2033	6,000.00	2,161.25		127,000.00
7/1/2033		2,063.75	10,225.00	127,000.00
1/1/2034	6,000.00	2,063.75		121,000.00
7/1/2034		1,966.25	10,030.00	121,000.00
1/1/2035	6,500.00	1,966.25		114,500.00
7/1/2035		1,860.63	10,326.88	114,500.00
1/1/2036	6,500.00	1,860.63		108,000.00
7/1/2036		1,755.00	10,115.63	108,000.00
1/1/2037	7,000.00	1,755.00		101,000.00
7/1/1937		1,641.25	10,396.25	101,000.00
1/1/1938	7,000.00	1,641.25		94,000.00
7/1/1938		1,527.50	10,168.75	94,000.00
1/1/1939	7,500.00	1,527.50		86,500.00
7/1/1939		1,405.63	10,433.13	86,500.00
1/1/1940	7,500.00	1,405.63		79,000.00
7/1/1940		1,283.75	10,189.38	79,000.00
1/1/1941	8,000.00	1,283.75		71,000.00
7/1/1941		1,153.75	10,437.50	71,000.00
1/1/1942	8,000.00	1,153.75		63,000.00
7/1/1942		1,023.75	10,177.50	63,000.00
1/1/1943	8,500.00	1,023.75		54,500.00
7/1/1943		885.63	10,409.38	54,500.00
1/1/1944	8,500.00	885.63		46,000.00
7/1/1944		747.50	10,133.13	46,000.00
1/1/1945	9,000.00	747.50		37,000.00
7/1/1945		601.25	10,348.75	37,000.00
1/1/1946	9,500.00	601.25		27,500.00
7/1/1946		446.88	10,548.13	27,500.00
1/1/1947	9,500.00	446.88		18,000.00
7/1/1947		292.50	10,239.38	18,000.00
1/1/1948	10,000.00	292.50		8,000.00
7/1/1948		130.00	10,422.50	8,000.00
1/1/1949	8,000.00	130.00		0.00
1/1/1949			8,130.00	
<b>Totals</b>	<b>220,000.00</b>	<b>170,248.80</b>	<b>390,248.80</b>	

BOND RESOLUTION

PENDLETON COUNTY WATER DISTRICT

AUTHORIZING

PENDLETON COUNTY WATER DISTRICT

WATERWORKS REVENUE BONDS, SERIES 2010

IN THE PRINCIPAL AMOUNT OF

\$220,000

## TABLE OF CONTENTS

ARTICLE 1.	DEFINITIONS; PURPOSE; AUTHORIZATION OF BONDS; SECURITY. ....	3
Section 101.	Definitions .....	3
Section 102.	Purpose .....	7
Section 103.	Construction Award Approved; Work Authorized .....	7
Section 104.	Declaration of Period of Usefulness .....	7
Section 105.	Authorization of Bonds .....	7
Section 106.	Recognition of Prior Bonds .....	8
Section 107.	Current Bonds Shall be Payable Out of Gross Revenues .....	8
Section 108.	Lien on Contracts .....	8
ARTICLE 2.	THE BONDS; BOND FORM; PREPAYMENT. ....	9
Section 201.	Principal Payments .....	9
Section 202.	Issuance of Current Bonds; Bond Form .....	9
Section 203.	Place of Payment and Manner of Execution .....	9
Section 204.	Provisions as to Prepayment .....	9
ARTICLE 3.	CONSTRUCTION ACCOUNT; INTERIM FINANCING; APPLICATION OF PROCEEDS; ARBITRAGE LIMITATIONS. ....	10
Section 301.	Construction Account; Application of Proceeds of Bonds; Other Transfers and Deposits .....	10
A.	Covenants Applicable if RD Purchases Current Bonds .....	10
B.	Application of Proceeds of Current Bonds .....	10
Section 302.	Interim Financing Authorization .....	13
A.	Interim Financing .....	13
B.	Multiple Advances by RD .....	14
Section 303.	Arbitrage Limitations on Investment of Proceeds .....	15
ARTICLE 4.	FLOW OF FUNDS .....	16
Section 401.	Funds .....	16
Section 402.	Flow of Funds .....	16

A.	Revenue Fund .....	16
B.	Prior Sinking Fund .....	16
C.	Current Sinking Fund .....	17
D.	Depreciation Fund .....	17
E.	Operation and Maintenance Fund .....	18
F.	Monthly Principal and Interest Payments if Requested by RD .....	18
G.	Surplus Funds .....	18
H.	Investment and Miscellaneous Provisions .....	18
Section 403.	Current Bonds on a Parity with Prior Bonds, Subject to Prior First Lien Bonds .....	19
ARTICLE 5.	COVENANTS OF DISTRICT .....	20
Section 501.	Rates and Charges .....	20
Section 502.	Books and Accounts; Audit .....	20
Section 503.	System to Continue to be Operated on Fiscal Year Basis; Annual Budget .....	20
Section 504.	General Covenants .....	21
Section 505.	Other Covenants Applicable So Long as RD Owns Any Bonds .....	22
Section 506.	Insurance on Motors, Tanks and Structures .....	22
ARTICLE 6.	INFERIOR BONDS AND PARITY BONDS .....	23
Section 601.	Inferior Bonds .....	23
Section 602.	Parity Bonds to Complete the Project .....	23
Section 603.	Parity Bonds to Finance Future Improvements .....	23
Section 604.	Covenants to be Complied with at Time of Issuance of Parity Bonds .....	25
Section 605.	Prepayment Provisions Applicable to Parity Bonds .....	25
Section 606.	Consent of the RD Regarding Future Bonds .....	25
Section 607.	Priority of Lien; Permissible Disposition of Surplus or Obsolete Facilities .....	25
ARTICLE 7.	DEFAULT AND CONSEQUENCES .....	27
Section 701.	Events of Default .....	27
Section 702.	Consequences of Event of Default .....	27
ARTICLE 8.	CONTRACTUAL PROVISIONS; GRANT APPROVAL; MISCELLANEOUS PROVISIONS. ....	28
Section 801.	Resolution Contractual with Bondowners .....	28
Section 802.	All Current Bonds are Equal .....	28



Section 803.	District Obligated to Refund Current Bonds Owned by Government Whenever Feasible; Defeasement Prohibited . . . . .	28
Section 804.	Approval and Acceptance of RD Grant Agreement . . . . .	29
Section 805.	Authorization, Ratification and Confirmation of Approval and Execution of Various Documents . . . . .	29
Section 806.	Authorization of Condemnation to Acquire Easements and/or Sites . . . . .	29
ARTICLE 9.	SALE OF CURRENT BONDS . . . . .	31
Section 901.	Sale of Current Bonds . . . . .	31
Section 902.	Adjustment in Maturities, Prepayment Provisions and Other Dates, with Consent of Purchaser if Delivery is Delayed . . . . .	31
ARTICLE 10.	CONCLUDING PROVISIONS . . . . .	32
Section 1001.	Covenant of District to Take All Necessary Action To Assure Compliance with the Code . . . . .	32
Section 1002.	Severability Clause . . . . .	33
Section 1003.	All Provisions in Conflict Repealed . . . . .	33
Section 1004.	Effective Immediately Upon Adoption . . . . .	33
EXHIBIT A - Schedule of Principal Payments		
EXHIBIT B - Form of Fully Registered Bond		
EXHIBIT C - Requisition Certificate		

## BOND RESOLUTION

**RESOLUTION OF THE PENDLETON COUNTY WATER DISTRICT AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF \$220,000 PRINCIPAL AMOUNT OF PENDLETON COUNTY WATER DISTRICT WATERWORKS REVENUE BONDS, SERIES 2010 FOR THE PURPOSE OF FINANCING THE COST (NOT OTHERWISE PROVIDED) OF THE CONSTRUCTION OF EXTENSIONS, ADDITIONS AND IMPROVEMENTS TO THE EXISTING 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 Pendleton County 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 \$220,000 (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 Tetra Tech, Inc. and to prescribe the covenants of the District, the rights of Bondowners and the details of the issuance and sale of the proposed Current Bonds, and

WHEREAS, the District desires and intends that the Current Bonds be issued so as to rank on a parity basis with the Series 2004 Bonds, subject to the vested rights and priorities in favor of the owners of the outstanding Prior First Lien Bonds, and

WHEREAS, the Series 2004 Bonds were issued to and are now held by the U.S. Department of Agriculture, acting through Rural Development ("RD"), and

WHEREAS, RD, as the Owner of the Series 2004 Bonds, has consented to the issuance by the District of the Current Bonds, and

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

WHEREAS, the proceeds of the Current Bonds will be supplemented by Grant Proceeds (as hereinafter defined) in the amount of approximately \$280,000, and by a contribution by the District in the amount of at least \$65,600, to provide the total cost of such construction,

NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE BOARD OF COMMISSIONERS OF THE PENDLETON COUNTY 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.

*"Bonds of 1977" or "Series 1977 Bonds"* refer to the outstanding Pendleton County Water District Waterworks Revenue Bonds of 1977, dated May 26, 1978, in the original authorized principal amount of \$263,000.

*"Bonds of 1997" or "Series 1997 Bonds"* refer to the outstanding Pendleton County Water District Waterworks Revenue Bonds, Series 1997, dated March 25, 1998, in the original authorized principal amount of \$747,000.

*"Bonds of 2004" or "Series 2004 Bonds"* refer to the outstanding Pendleton County Water District Waterworks Revenue Bonds, Series 2004, dated January 28, 2005, in the original authorized principal amount of \$596,000.

*"Bond Resolution of 1977" or "1977 Bond Resolution"* refer to the Resolution authorizing the Bonds of 1977, duly adopted by the Board of Commissioners of the District on August 22, 1977.

*"Bond Resolution of 1997" or "1997 Bond Resolution"* refer to the Resolution authorizing the Bonds of 1997, duly adopted by the Board of Commissioners of the District on May 8, 1997.

*"Bond Resolution of 2004" or "2004 Bond Resolution"* refer to the Resolution authorizing the Bonds of 2004, duly adopted by the Board of Commissioners of the District on February 26, 2004.

*"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 Pendleton County 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 \$220,000 of Pendleton County Water District Waterworks Revenue Bonds, Series 2010 authorized by this Resolution, to be dated as of the date of issuance thereof.

"Current Sinking Fund" refers to the Pendleton County Water District Waterworks Sinking Fund of 2010, created in Section 401 of this Resolution.

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

"Depreciation Fund" refers to the Pendleton County Water District Waterworks Depreciation Reserve Fund, described in Section 402 of this Resolution.

"District" refers to the Pendleton County Water District of Pendleton and Campbell Counties, Kentucky.

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

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

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

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

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

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

*"Grant Proceeds"* refers to the proceeds of the RD Grant and the Kentucky State 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 any financial institution or governmental agency approved by the District.

*"Kentucky State Grant"* refers to the Kentucky State Grant to the District in the amount of \$225,000.

*"KRWFC Loan"* refers to the outstanding Kentucky Rural Water Finance Corporation Multimodal Public Projects, Series 2001A Loan, dated June 27, 2001, in the original authorized principal amount of \$374,000.

*"Local Counsel"* refers to Judy M. Wright, Esq., Falmouth, 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 Pendleton County Water District Waterworks Operation and Maintenance Fund described in Section 401 of this Resolution.

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

*"Parity Bonds"* refers to bonds which may be issued in the future which, pursuant to this Resolution, rank on a basis of parity with the outstanding Bonds, as to priority, security and source

of payment, and does not refer to bonds which might be issued so as to rank inferior to the security and source of payment of the outstanding Bonds.

*"Prior Bonds"* refers collectively to the Series 1977 Bonds, the Series 1997 Bonds, the KRWFC Loan and the Series 2004 Bonds.

*"Prior Bond Resolution"* refers collectively to the 1977 Bond Resolution, the 1997 Bond Resolution and the 2004 Bond Resolution.

*"Prior First Lien Bonds"* refers to Series 1977 Bonds, the Series 1997 Bonds and the KRWFC Loan.

*"Prior Sinking Fund"* refers to the Pendleton County Water District Waterworks 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 Pendleton County Water District Waterworks 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 \$565,600. 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 \$220,000 of Current Bonds, based on the following calculation:



Total cost of Project		\$565,600
Less:		
RD Grant	\$ 55,000	
Kentucky State Grant	225,000	
District Contribution	<u>65,600</u>	
Total Non-Bond Funds:		<u>(345,600)</u>
Balance to be financed by Current Bonds		\$220,000

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 \$220,000 principal amount of Pendleton County Water District Waterworks Revenue Bonds, Series 2010.

The Current Bonds shall be dated as of the date of delivery to the Purchaser thereof; shall bear interest from such date at such interest rate as may be fixed by supplemental resolution as a result of the advertised sale and competitive bidding for such Current Bonds, as hereinafter provided; and shall be issued and delivered as prescribed in Section 202 hereof.

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

**Section 106. Recognition of Prior Bonds.** The District hereby expressly recognizes and acknowledges that the District has previously created for the benefit and protection of the owners of the Prior Bonds, a certain lien and pledge and certain security rights relating to the System, all as set forth in the Prior Bonds and in the Prior Bond Resolution.

**Section 107. Current Bonds Shall be Payable on Out of Gross Revenues.** The Current Bonds, the Series 2004 Bonds and any additional Parity Bonds that may be issued under the conditions and restrictions hereinafter set forth, shall be payable solely out of the gross revenues of the System, after providing for the payments on the Prior First Lien 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, 2020, shall not be subject to prepayment. Principal maturities falling due on and after January 1, 2020, shall be subject to prepayment by the District on any date falling on and after January 1, 2019, at par plus accrued interest, without any prepayment penalty.

So long as all of the Current Bonds are owned by the Government, all or any of the Current Bonds, or in a multiple of \$100, may be prepaid at any time in inverse chronological order of the principal maturities due, at par plus accrued interest without any prepayment penalty.

Notice of such prepayment shall be given by certified mail to the Bondowner or his assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the Bondowner.

**ARTICLE 3. CONSTRUCTION ACCOUNT; INTERIM FINANCING;  
APPLICATION OF PROCEEDS; ARBITRAGE LIMITATIONS.**

**Section 301. Construction Account; Application of Proceeds of Bonds; Other Transfers and Deposits.** The Treasurer, or such other District official as shall be designated by the Commission, shall be the custodian of all funds belonging to and associated with the System. All moneys in excess of the amount insured by the FDIC in the Construction Account shall be secured by the Depository Bank in accordance with U. S. Treasury Department Circular No. 176. The officials of the District entrusted with the receipt and disbursement of revenues of the System and the custody of valuable property shall be covered by a fidelity bond in the amount of not less than \$105,000 (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 \$105,000, 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 "Pendleton County 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. Simultaneously with or prior to the delivery of the Current Bonds, there shall also be deposited in the Construction Account the proceeds of the District contribution in the minimum amount of \$65,600 (less any amounts theretofore used for authorized purposes), to supplement the proceeds of the Current Bonds and Grant Proceeds in order to assure completion of the Project.

**(3) Withdrawal of Funds From Construction Account.** Prior to the expenditure by the District of any moneys from the Construction Account, the District must obtain written approval from the RD as to such expenditures, if the RD is the Owner of any Outstanding Bonds. The proceeds of said Construction Account shall be withdrawn only on checks signed by the Chairman, the Treasurer (or by such other official of the District as may be authorized by the Commission), *provided such official shall be covered by the Fidelity Bond required by Section 301 of this Resolution, in payment for services and/or materials supplied in connection with the Project, as evidenced by (1) a Requisition Certificate; and (2) invoices and/or partial payment estimates bearing the written approval of the Engineers and the Chairman (or by such other official of the District as may be authorized by the Commission), and which invoices and/or partial payment estimates must have been reviewed and approved for payment by the designated RD official.*

Written approval or certification of the Engineers shall not be required for matters not under the jurisdiction of the Engineers, such as legal fees, land acquisition and related items.

During construction, the District shall disburse Construction Account funds in a manner consistent with RD Instruction 1780.

The District shall prepare and submit any and all RD Forms required by the RD. Periodic audits of the District's Construction Account records shall be made by RD as determined by it to be necessary.

**(4) Transfer of Capitalized Interest to Current Sinking Fund.** There shall be transferred from the Construction Account an amount sufficient to provide for capitalized interest (initially estimated at \$6,220) during the construction of the Project, as approved by the Engineers and by 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 may be made only if a separate RD Form 402-4 Agreement is executed, if the RD has purchased any of the Bonds, and investments in Certificates of Deposit or savings accounts may be made only in such Certificates or accounts of an FDIC bank. Any such investments will be a part of the Construction Account, and income from such investments will be credited to the Construction Account. All such investments shall be subject to the limitations set out in Section 303 hereof.

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

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

If there is a balance remaining in the Construction Account after such Additional Construction, such balance (subject to legal requirements as to possible refund of any allocated portion of the balance derived from Grant Proceeds) shall be transferred to the 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 Depreciation Fund.

**Section 302. Interim Financing Authorization.**

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

The borrowing of up to the aggregate sum of \$220,000 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 \$220,000. 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 \$220,000 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) Pendleton County Water District Revenue Fund
- (b) Pendleton County Water District Sinking Fund
- (c) Pendleton County Water District Depreciation Reserve Fund
- (d) Pendleton County Water District Operation and Maintenance Fund

There is hereby created and established in this Resolution the Pendleton County Water District Sinking Fund of 2010.

*All of the Funds shall be maintained with the Depository Bank so long as any Current Bonds remain outstanding, subject to the right of the District to change Depository Banks.*

**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 First Lien 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 First Lien Bonds then outstanding, plus
- (2) A sum equal to one-twelfth (1/12) of the principal of all of the Prior First Lien Bonds maturing on the next succeeding principal payment date.

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 First Lien 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 \$6,220) 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 and the Series 2004 Bonds, a sum equal to the total of the following:

- (1) An amount equal to one-sixth (1/6) of the next succeeding six-month interest payment to become due on the Current Bonds and Series 2004 Bonds then outstanding, plus
- (2) A sum equal to one-twelfth (1/12) of the principal of any Current Bonds and Series 2004 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 and the Series 2004 Bonds, but subject to the vested rights and priorities of the Prior First Lien Bonds.

**D. Depreciation Fund.** Pursuant to the provisions of the 2004 Bond Resolution which requires that an adjustment be made in the Depreciation Fund upon the issuance of bonds ranking on a parity with the Series 2004 Bonds, it is hereby determined that upon the issuance of the Current Bonds, and upon completion of the Project, as certified by the Engineers and by RD, there shall next be transferred from the Revenue Fund the sum of at least \$90 each month which shall be deposited into the Depreciation Fund until there is accumulated in such Depreciation Fund the sum of at least \$10,800, which amount shall be maintained, and when necessary, restored to said sum of \$10,800, so long as any of the Current Bonds are outstanding and unpaid. These deposits are in addition to the deposits required by the Prior Bond Resolution.

As further security for the Bondowners and for the benefit of the District, it has been and is hereby provided that in addition to the monthly transfers required to be made from the Revenue Fund into the Depreciation Fund, there shall be deposited into said Depreciation Fund all proceeds of connection fees collected from potential customers (except the amounts necessary to pay the actual costs and service connections applicable to said potential customers) to aid in the financing of the cost of future extensions, additions and improvements to the System, plus the proceeds of any property damage insurance (not otherwise used to replace damaged or destroyed

property); and any such amounts or proceeds so deposited shall be used solely and only for the purposes intended.

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

**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 Depreciation Fund for application in accordance with the terms of this Resolution or to the Sinking Fund to be applied to the maximum extent feasible, to the prompt purchase or redemption of Outstanding Bonds.

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

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

All payments into the Funds shall be made on or before the twentieth (20th) day of each month, except that when the twentieth (20th) day of any month shall be a Saturday, Sunday or a legal holiday, then such payment shall be made on the next succeeding business day.

All monies held in any of the Funds shall be kept apart from all other District funds and shall be deposited in the Depository Bank, and all such deposits which cause the aggregate of all deposits of the District therein to be in excess of the amount secured by FDIC, shall (unless invested as herein authorized) be secured by a surety bond or bonds or by a pledge of U.S. Obligations, having a market value equivalent to such deposit.

The Treasurer shall keep appropriate records as to payment of principal and interest installments and as to payment of principal of and interest on any Bonds.

**Section 403. Current Bonds on a Parity with Series 2004 Bonds, Subject to Priority of Prior First Lien Bonds.** It is hereby certified and declared that prior to the issuance of any of the Current Bonds, there will have been procured and filed with the District (i) a letter from RD to the effect that RD agrees to the issuance of the Current Bonds ranking on a parity as to security and source of payment with the Series 2004 Bonds, all of which are owned by RD, together with (ii) a certification signed by RD to the effect that a legend has been typed, stamped or otherwise affixed on each of the Series 2004 Bonds held by RD, evidencing the agreement of RD as the then Owner of the Series 2004 Bonds, to the issuance of the Current Bonds so as to rank on a parity with the Series 2004 Bonds, such legend to be in substantially the following form:

The holder of this Bond has consented to the issuance of \$220,000 of Pendleton County Water District Waterworks Revenue Bonds, Series 2010 ranking on a parity as to security and source of payment with this Bond.

Accordingly, it is hereby found and declared that the Current Bonds shall rank and be payable on a parity with said outstanding Series 2004 Bonds from the gross income and revenues of the System, subject to the priority of the outstanding Prior First Lien Bonds.

## 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 Depreciation Fund on the same basis as that prescribed in the provisions establishing such Depreciation Fund, taking into account the future debt service requirements of all Bonds which will then be outstanding against the System; and

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

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

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

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

(a) The District is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds, and the required reserves for such Outstanding Bonds will have been accumulated;

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

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

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

## ARTICLE 7. DEFAULT AND CONSEQUENCES

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

- (a) The failure to pay principal of the Bonds as and when same shall become due and payable, either at maturity or by proceedings for redemption.
- (b) The failure to pay any installment of interest on the Bonds when the same shall become due and payable or, if any or all of the Outstanding Bonds are owned by the RD, within thirty (30) days thereafter.
- (c) The default by the District in the due or punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds, the Prior Bond Resolution or in this Resolution.
- (d) The failure to promptly repair, replace or reconstruct facilities of the System that have been damaged and/or destroyed.
- (e) The entering of any order or decree with the consent or the acquiescence of the District, appointing a receiver of all or any part of the System or any revenues thereof; or if such order or decree shall be entered without the acquiescence or consent of the District, its failure to have the order vacated, discharged or stayed on appeal within sixty (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 \$55,000 (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 \$30,000,000; 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 December 17, 2009.

Pendleton County 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 Pendleton County 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 December 17, 2009, 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 December 17, 2009.

  
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>
2012	\$3,000	2031	\$5,500
2013	3,000	2032	5,500
2014	3,000	2033	6,000
2015	3,000	2034	6,000
2016	3,500	2035	6,500
2017	3,500	2036	6,500
2018	3,500	2037	7,000
2019	3,500	2038	7,000
2020	4,000	2039	7,500
2021	4,000	2040	7,500
2022	4,000	2041	8,000
2023	4,000	2042	8,000
2024	4,500	2043	8,500
2025	4,500	2044	8,500
2026	4,500	2045	9,000
2027	5,000	2046	9,500
2028	5,000	2047	9,500
2029	5,000	2048	10,000
2030	5,500	2049	8,000

**EXHIBIT B**

(FORM OF FULLY REGISTERED BOND)

**UNITED STATES OF AMERICA  
COMMONWEALTH OF KENTUCKY  
PENDLETON COUNTY WATER DISTRICT  
WATERWORKS REVENUE BONDS, SERIES 2009**

No. R-1

Interest Rate: \_\_\_\_\_ %

\$220,000

KNOW ALL PERSONS BY THESE PRESENTS:

That the Pendleton County Water District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body corporate in Pendleton and Campbell Counties, Kentucky, for value received, hereby promises to pay to

\_\_\_\_\_

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

\_\_\_\_\_ DOLLARS (\$\_\_\_\_\_ ),

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

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
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[Here the printer of the Current Bond will print the maturities of the Current Bonds purchased by the registered Owner]

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

This Bond is issued by the District under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Chapters 58 and 74 of the Kentucky Revised Statutes (collectively the "Act"), and pursuant to a duly adopted Bond Resolution of the District authorizing same (the "Current Bond Resolution"), to which Current Bond Resolution reference is hereby made for a description of the nature and extent of the security thereby created, the rights and limitations of rights of the registered owner of this Bond, and the rights, obligations and duties of the District, for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing waterworks system of the District (said existing waterworks system, together with said extensions, additions and improvements, being hereinafter referred to as the "System").

This Bond is issued on a parity as to security and source of payment with the outstanding Pendleton County Water District Waterworks Revenue Bonds, Series 2004, dated January 28, 2005 (the "2004 Bonds"), authorized by a Resolution adopted by the Commission of the District on February 26, 2004 (the "2004 Bond Resolution"); but subject to the vested rights and priorities in favor of the owners of the outstanding (i) Pendleton County Water District Waterworks Revenue Bonds of 1977, dated May 26, 1978 (the "1977 Bonds"), authorized by a Resolution adopted by the Commission of the District on August 22, 1977 (the "1977 Bond Resolution"); (ii) Pendleton County Water District Waterworks Revenue Bonds, Series 1997, dated March 25, 1998 (the "1997 Bonds"), authorized by a Resolution adopted by the Commission of the District on May 8, 1997 (the "1997 Bond Resolution"); and (iii) Kentucky Rural Water Finance Corporation Multimodal Public Projects, Series 2001A Loan, dated June 27, 2001 (the "KRWFC Loan") [hereinafter the 1977 Bonds, 1997 Bonds and KRWFC Loan shall be collectively referred to as the "Prior Bonds"]. Accordingly, this Bond, the 2004 Bonds, together with any bonds ranking on a parity herewith, are 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.

This Bond has been issued in full compliance with the Current Bond Resolution and the 2004 Bond Resolution; and this Bond, and any bonds ranking on a parity therewith that may be issued and outstanding under the conditions and restrictions of the Current Bond Resolution and the 2004 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 "Pendleton County Water District Waterworks Sinking Fund".

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 2004 Bonds and/or this Bond, are outstanding, the System will be continuously owned and operated by the District as a revenue producing public undertaking within the meaning of the aforesaid Act for the security and source of payment of the 2004 Bonds and of this Bond, and that the District will fix, and if necessary adjust, from time to time, such rates for the services and facilities of the System and will collect and account for the revenues therefrom sufficient to pay promptly the principal of and interest on the 2004 Bonds, this Bond and all other bonds ranking on a parity therewith as may be outstanding from time to time, to pay the cost of operation and maintenance of the System and to provide for the depreciation thereof.

The District has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with this Bond in order to complete the Project, and to finance future extensions, additions and improvements to the System, provided the necessary requirements of the Current Bond Resolution have been complied with by the District.

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

The District, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2019, 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 Pendleton County 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

PENDLETON COUNTY WATER DISTRICT

By \_\_\_\_\_  
Chairman

Attest:

\_\_\_\_\_  
Secretary

(Seal of District)

#### PROVISION FOR REGISTRATION

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

Date of Registration	Name of Registered Owner	Signature of Bond Registrar



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: \_\_\_\_\_

# KY Assoc. of Counties Leasing Trust Program

# Kentucky Association of Counties Leasing Trust Program

## Pendleton County Water District Office

### Assumptions

\$110,000	Issue Amt
County	County Type
6.360000%	Interest Rate
Swap	Bond Type
20	Term in Yrs
1	Pmts per Yr
240	Total # Pmts
12	Pmts per Yr
\$82,000,000	Issue Price
\$84,500,000	Issue Price (incl. IC)
\$20,500,000	Issue Price (incl. IC)
0	IC on Swap Debt

\*\* TIC on Swap Debt

0.1341%	Orig. Affirm
0.250%	Admin Fee
0.500%	Credit Fee
0.238%	Fid. Fees
\$53,000.00	Trustee
\$32,000.00	Pay Agent
\$2,500.00	Rating Agt.
\$105,825.00	Parity
\$0.00	Other
0.000%	Local LOC
\$9,090.51	Local LOC

(on LOC Amt, on Par  
0.541% )

### Projected Annual Total Pmts

Year	Year
\$1,500	1
\$9,834	2
\$9,743	3
\$9,551	4
\$10,334	5
\$10,079	6
\$9,824	7
\$9,569	8
\$10,287	9
\$9,988	10
\$9,649	11
\$9,330	12
\$9,985	13
\$9,602	14
\$9,220	15
\$9,811	16
\$9,365	17
\$8,918	18
\$9,445	19
\$8,935	20
\$10,372	21
\$0	22
\$0	23
\$0	24
\$0	25
\$0	26
\$0	27
\$0	28
\$0	29
\$0	30
<b>\$195,421</b>	<b>Total</b>

### Estimated Lease Size

Project		\$110,000.00	100.000%
LOC Application	N	\$0.00	0.000%
Takedown		\$0.00	0.000%
Share of issuance ***	N	\$0.00	0.000%
Closing expenses	N	\$0.00	0.000%
1st Payment	N	\$0.00	0.000%
Contingency		\$0.00	0.000%
		<b>\$110,000.00</b>	<b>100.000%</b>

\*\*\* to be rebated after Parity

### Estimated Cost Summary

Total Interest	\$71,673.78
Total Admin Fees	\$3,349.34
Total Credit Fees	\$7,242.72
Total Fiduciary Fees	\$3,155.06
Total Local LOC	\$0.00
Total Cost	<b>\$85,420.88</b>
Effective Interest Rate	
Internal Rate of Return (IRR)	6.414%

Date of Issue            4/2/1997  
 Maturity Date          1/20/2017  
 Original Issue         110,000.00

# Kentucky Association of Counties Leasing Trust Program

## Pendleton County Water District Office

### EXHIBIT B Base Rentals

Line	Start Date	Base Rental (Monthly)	Admin Fee	Contract Fee	Fluctuating Fee	Total Base Rental	Term	Balance
1	04/03/97	0.00	768.32	35.90	77.64	33.82	110,000	118,938
2	05/20/97	0.00	490.42	22.92	49.58	21.59	110,000	118,938
3	06/20/97	0.00	490.42	22.92	49.58	21.59	110,000	118,938
4	08/20/97	0.00	490.42	22.92	49.58	21.59	110,000	118,938
5	09/20/97	0.00	490.42	22.92	49.58	21.59	110,000	118,938
6	10/20/97	0.00	490.42	22.92	49.58	21.59	110,000	118,938
7	11/20/97	0.00	490.42	22.92	49.58	21.59	110,000	118,938
8	12/20/97	0.00	490.42	22.92	49.58	21.59	110,000	118,938
9	01/20/98	3,000.00	490.42	22.92	49.58	21.59	107,000	115,694
10	02/20/98	0.00	477.04	22.29	48.21	21.00	107,000	115,694
11	03/20/98	0.00	477.04	22.29	48.21	21.00	107,000	115,694
12	04/20/98	0.00	477.04	22.29	48.21	21.00	107,000	115,694
13	05/20/98	0.00	477.04	22.29	48.21	21.00	107,000	115,694
14	06/20/98	0.00	477.04	22.29	48.21	21.00	107,000	115,694
15	07/20/98	0.00	477.04	22.29	48.21	21.00	107,000	115,694
16	08/20/98	0.00	477.04	22.29	48.21	21.00	107,000	115,694
17	09/20/98	0.00	477.04	22.29	48.21	21.00	107,000	115,694
18	10/20/98	0.00	477.04	22.29	48.21	21.00	107,000	115,694
19	11/20/98	0.00	477.04	22.29	48.21	21.00	107,000	115,694
20	12/20/98	0.00	477.04	22.29	48.21	21.00	107,000	115,694
21	01/20/99	3,000.00	477.04	22.29	48.21	21.00	104,000	112,450
22	02/20/99	0.00	463.67	21.67	46.85	20.41	104,000	112,450
23	03/20/99	0.00	463.67	21.67	46.85	20.41	104,000	112,450
24	04/20/99	0.00	463.67	21.67	46.85	20.41	104,000	112,450
25	05/20/99	0.00	463.67	21.67	46.85	20.41	104,000	112,450
26	06/20/99	0.00	463.67	21.67	46.85	20.41	104,000	112,450
27	07/20/99	0.00	463.67	21.67	46.85	20.41	104,000	112,450
28	08/20/99	0.00	463.67	21.67	46.85	20.41	104,000	112,450
29	09/20/99	0.00	463.67	21.67	46.85	20.41	104,000	112,450
30	10/20/99	0.00	463.67	21.67	46.85	20.41	104,000	112,450
31	11/20/99	0.00	463.67	21.67	46.85	20.41	104,000	112,450
32	12/20/99	0.00	463.67	21.67	46.85	20.41	104,000	112,450
33	01/20/00	3,000.00	463.67	21.67	46.85	20.41	101,000	109,206
34	02/20/00	0.00	450.29	21.04	45.50	19.82	101,000	109,206
35	03/20/00	0.00	450.29	21.04	45.50	19.82	101,000	109,206
36	04/20/00	0.00	450.29	21.04	45.50	19.82	101,000	109,206
37	05/20/00	0.00	450.29	21.04	45.50	19.82	101,000	109,206
38	06/20/00	0.00	450.29	21.04	45.50	19.82	101,000	109,206
39	07/20/00	0.00	450.29	21.04	45.50	19.82	101,000	109,206
40	08/20/00	0.00	450.29	21.04	45.50	19.82	101,000	109,206
41	09/20/00	0.00	450.29	21.04	45.50	19.82	101,000	109,206
42	10/20/00	0.00	450.29	21.04	45.50	19.82	101,000	109,206
43	11/20/00	0.00	450.29	21.04	45.50	19.82	101,000	109,206
44	12/20/00	0.00	450.29	21.04	45.50	19.82	101,000	109,206
45	01/20/01	4,000.00	450.29	21.04	45.50	19.82	97,000	104,881
46	02/20/01	0.00	432.46	20.21	43.70	19.04	97,000	104,881
47	03/20/01	0.00	432.46	20.21	43.70	19.04	97,000	104,881
48	04/20/01	0.00	432.46	20.21	43.70	19.04	97,000	104,881
49	05/20/01	0.00	432.46	20.21	43.70	19.04	97,000	104,881
50	06/20/01	0.00	432.46	20.21	43.70	19.04	97,000	104,881
51	07/20/01	0.00	432.46	20.21	43.70	19.04	97,000	104,881
52	08/20/01	0.00	432.46	20.21	43.70	19.04	97,000	104,881
53	09/20/01	0.00	432.46	20.21	43.70	19.04	97,000	104,881
54	10/20/01	0.00	432.46	20.21	43.70	19.04	97,000	104,881
55	11/20/01	0.00	432.46	20.21	43.70	19.04	97,000	104,881
56	12/20/01	0.00	432.46	20.21	43.70	19.04	97,000	104,881
57	01/20/02	4,000.00	432.46	20.21	43.70	19.04	93,000	100,556
58	02/20/02	0.00	414.63	19.38	41.90	18.25	93,000	100,556
59	03/20/02	0.00	414.63	19.38	41.90	18.25	93,000	100,556
60	04/20/02	0.00	414.63	19.38	41.90	18.25	93,000	100,556
61	05/20/02	0.00	414.63	19.38	41.90	18.25	93,000	100,556
62	06/20/02	0.00	414.63	19.38	41.90	18.25	93,000	100,556
63	07/20/02	0.00	414.63	19.38	41.90	18.25	93,000	100,556
64	08/20/02	0.00	414.63	19.38	41.90	18.25	93,000	100,556
65	09/20/02	0.00	414.63	19.38	41.90	18.25	93,000	100,556
66	10/20/02	0.00	414.63	19.38	41.90	18.25	93,000	100,556

# Kentucky Association of Counties Leasing Trust Program

Pendleton County Water District Office

## EXHIBIT B

### Base Rentals

Line Item	Start Date	Unit Costs	Base Rental (Per Year)	Annual Cost	Credit	Adjuncty	TOTL Base Rental	Per Month	Per Year
67	11/20/02	0.00	414.63	19.38	41.90	18.25	494.16	91,000	100,554
68	12/20/02	0.00	414.63	19.38	41.90	18.25	494.16	91,000	100,554
69	01/20/03	4,000.00	414.63	19.38	41.90	18.25	4,494.16	89,000	96,231
70	02/20/03	0.00	398.79	18.54	40.10	17.47	472.90	89,000	96,231
71	03/20/03	0.00	398.79	18.54	40.10	17.47	472.90	89,000	96,231
72	04/20/03	0.00	398.79	18.54	40.10	17.47	472.90	89,000	96,231
73	05/20/03	0.00	398.79	18.54	40.10	17.47	472.90	89,000	96,231
74	06/20/03	0.00	398.79	18.54	40.10	17.47	472.90	89,000	96,231
75	07/20/03	0.00	398.79	18.54	40.10	17.47	472.90	89,000	96,231
76	08/20/03	0.00	398.79	18.54	40.10	17.47	472.90	89,000	96,231
77	09/20/03	0.00	398.79	18.54	40.10	17.47	472.90	89,000	96,231
78	10/20/03	0.00	398.79	18.54	40.10	17.47	472.90	89,000	96,231
79	11/20/03	0.00	398.79	18.54	40.10	17.47	472.90	89,000	96,231
80	12/20/03	0.00	398.79	18.54	40.10	17.47	472.90	89,000	96,231
81	01/20/04	4,000.00	398.79	18.54	40.10	17.47	4,472.90	83,000	91,906
82	02/20/04	0.00	378.98	17.71	38.29	16.68	451.64	83,000	91,906
83	03/20/04	0.00	378.98	17.71	38.29	16.68	451.64	83,000	91,906
84	04/20/04	0.00	378.98	17.71	38.29	16.68	451.64	83,000	91,906
85	05/20/04	0.00	378.98	17.71	38.29	16.68	451.64	83,000	91,906
86	06/20/04	0.00	378.98	17.71	38.29	16.68	451.64	83,000	91,906
87	07/20/04	0.00	378.98	17.71	38.29	16.68	451.64	83,000	91,906
88	08/20/04	0.00	378.98	17.71	38.29	16.68	451.64	83,000	91,906
89	09/20/04	0.00	378.98	17.71	38.29	16.68	451.64	83,000	91,906
90	10/20/04	0.00	378.98	17.71	38.29	16.68	451.64	83,000	91,906
91	11/20/04	0.00	378.98	17.71	38.29	16.68	451.64	83,000	91,906
92	12/20/04	0.00	378.98	17.71	38.29	16.68	451.64	83,000	91,906
93	01/20/05	5,000.00	378.98	17.71	38.29	16.68	5,451.64	80,000	86,500
94	02/20/05	0.00	358.67	16.87	36.04	15.70	425.08	80,000	86,500
95	03/20/05	0.00	358.67	16.87	36.04	15.70	425.08	80,000	86,500
96	04/20/05	0.00	358.67	16.87	36.04	15.70	425.08	80,000	86,500
97	05/20/05	0.00	358.67	16.87	36.04	15.70	425.08	80,000	86,500
98	06/20/05	0.00	358.67	16.87	36.04	15.70	425.08	80,000	86,500
99	07/20/05	0.00	358.67	16.87	36.04	15.70	425.08	80,000	86,500
100	08/20/05	0.00	358.67	16.87	36.04	15.70	425.08	80,000	86,500
101	09/20/05	0.00	358.67	16.87	36.04	15.70	425.08	80,000	86,500
102	10/20/05	0.00	358.67	16.87	36.04	15.70	425.08	80,000	86,500
103	11/20/05	0.00	358.67	16.87	36.04	15.70	425.08	80,000	86,500
104	12/20/05	0.00	358.67	16.87	36.04	15.70	425.08	80,000	86,500
105	01/20/06	5,000.00	358.67	16.87	36.04	15.70	5,425.08	75,000	81,094
106	02/20/06	0.00	334.38	15.83	33.79	14.72	398.52	75,000	81,094
107	03/20/06	0.00	334.38	15.83	33.79	14.72	398.52	75,000	81,094
108	04/20/06	0.00	334.38	15.83	33.79	14.72	398.52	75,000	81,094
109	05/20/06	0.00	334.38	15.83	33.79	14.72	398.52	75,000	81,094
110	06/20/06	0.00	334.38	15.83	33.79	14.72	398.52	75,000	81,094
111	07/20/06	0.00	334.38	15.83	33.79	14.72	398.52	75,000	81,094
112	08/20/06	0.00	334.38	15.83	33.79	14.72	398.52	75,000	81,094
113	09/20/06	0.00	334.38	15.83	33.79	14.72	398.52	75,000	81,094
114	10/20/06	0.00	334.38	15.83	33.79	14.72	398.52	75,000	81,094
115	11/20/06	0.00	334.38	15.83	33.79	14.72	398.52	75,000	81,094
116	12/20/06	0.00	334.38	15.83	33.79	14.72	398.52	75,000	81,094
117	01/20/07	5,000.00	334.38	15.83	33.79	14.72	5,398.52	70,000	75,688
118	02/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
119	03/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
120	04/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
121	05/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
122	06/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
123	07/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
124	08/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
125	09/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
126	10/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
127	11/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
128	12/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
129	01/20/08	5,000.00	312.08	14.58	31.54	13.74	5,371.94	65,000	70,281
130	02/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
131	03/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
132	04/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
133	05/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281

# Kentucky Association of Counties Leasing Trust Program

## Pendleton County Water District Office

### EXHIBIT B

#### Base Rentals

Line	Month	Base Rental (Prin)	Base Rental (Int)	Admin Fee	Credit Fee	Monthly Fee	Total Base Rental	Prin	Int
134	06/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
135	07/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
136	08/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
137	09/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
138	10/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
139	11/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
140	12/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
141	01/20/09	6,000.00	289.79	13.54	29.28	12.76	6,345.37	59,000	63,794
142	02/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
143	03/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
144	04/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
145	05/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
146	06/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
147	07/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
148	08/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
149	09/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
150	10/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
151	11/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
152	12/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
153	01/20/10	6,000.00	263.04	12.29	26.58	11.58	6,313.49	53,000	57,306
154	02/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
155	03/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
156	04/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
157	05/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
158	06/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
159	07/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
160	08/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
161	09/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
162	10/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
163	11/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
164	12/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
165	01/20/11	6,000.00	236.29	11.04	23.88	10.40	6,281.61	47,000	50,819
166	02/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
167	03/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
168	04/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
169	05/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
170	06/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
171	07/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
172	08/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
173	09/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
174	10/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
175	11/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
176	12/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
177	01/20/12	7,000.00	209.54	9.79	21.17	9.22	7,249.72	40,000	43,250
178	02/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
179	03/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
180	04/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
181	05/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
182	06/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
183	07/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
184	08/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
185	09/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
186	10/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
187	11/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
188	12/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
189	01/20/13	7,000.00	178.33	8.33	18.02	7.85	7,212.53	33,000	35,681
190	02/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
191	03/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
192	04/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
193	05/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
194	06/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
195	07/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
196	08/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
197	09/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
198	10/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
199	11/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
200	12/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681

*2012*  
*7000.00 Prin*  
*2171.17 Int*  
*= 9171.17*

*2013*  
*7000.00 Prin*  
*1796.76 Int*  
*= 8,796.76*

# Kentucky Association of Counties Leasing Trust Program

## Pendleton County Water District Office

### EXHIBIT B Base Rentals

		Lease Rental (Fixed)	Base Rental (Fixed)	Admin. Fee	Credit Fee	Fluctuating Rate	Total Base Rentals	Pre- Payment	Net Lease Cost
201	01/20/14	7,000.00	147.13	6.88	14.87	6.48	7,175.36	26,000	28,113
202	02/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
203	03/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
204	04/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
205	05/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
206	06/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
207	07/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
208	08/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
209	09/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
210	10/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
211	11/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
212	12/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
213	01/20/15	8,000.00	115.92	5.42	11.71	5.10	8,138.15	18,000	19,463
214	02/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
215	03/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
216	04/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
217	05/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
218	06/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
219	07/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
220	08/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
221	09/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
222	10/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
223	11/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
224	12/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
225	01/20/16	8,000.00	80.25	3.75	8.11	3.53	8,095.64	10,000	10,813
226	02/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
227	03/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
228	04/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
229	05/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
230	06/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
231	07/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
232	08/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
233	09/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
234	10/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
235	11/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
236	12/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
237	01/20/17	10,000.00	44.58	2.08	4.51	1.96	10,053.13	0	0
238	02/20/17	0.00	0.00	0.00	0.00	0.00	0.00	0	0
239	03/20/17	0.00	0.00	0.00	0.00	0.00	0.00	0	0
240	04/20/17	0.00	0.00	0.00	0.00	0.00	0.00	0	0
		<b>\$110,000.00</b>	<b>\$71,873.78</b>	<b>\$3,349.34</b>	<b>\$7,242.72</b>	<b>\$3,155.06</b>	<b>\$195,420.88</b>		

\* Computed at an assumed rate per annum equal to rate per annum payable under the Swap Rate in respect to the Lease.

5.330000% , such rate being the fixed

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LEASE AGREEMENT

KENTUCKY ASSOCIATION OF COUNTIES  
LEASING TRUST PROGRAM

LESSEE: Pendleton County Fiscal Court

LESSEE'S ADDRESS: Pendleton County Courthouse

Main Street

Falmouth, KY 41040

DATE OF LEASE: April 3, 1997

TERMINATION DATE: February 1, 2017

This Lease Agreement constitutes a Security Agreement under the Kentucky Uniform Commercial Code and all right, title and interest of the Lessor herein has been assigned to Liberty National Bank and Trust Company of Louisville, as trustee under a Trust Indenture dated as of March 1, 1989 between it, Pendleton County, Kentucky and the Lessor.



LEASE AGREEMENT

TABLE OF CONTENTS

(This Table of Contents is not a part of this Lease Agreement and is only for convenience of reference)

	<u>Page</u>
PARTIES. . . . .	1
PREAMBLES. . . . .	1
ARTICLE I	
DEFINITIONS. . . . .	2
ARTICLE II	
REPRESENTATIONS, COVENANTS AND WARRANTIES	
Section 2.1. Representations, Covenants and Warranties of the Lessee. . . . .	8
Section 2.2. Representations, Covenants and Warranties of Lessor. . . . .	11
ARTICLE III	
DEMISING CLAUSE. . . . .	13
ARTICLE IV	
LEASE TERM	
Section 4.1. Duration of Lease Term; Lessee's Annual Right to Terminate; Furnishing of Budgets and Appropriation Ordinances. . . . .	14
Section 4.2. Termination of Lease Term . . . . .	14
ARTICLE V	
ENJOYMENT OF THE PROJECT . . . . .	16

ARTICLE VI

PAYMENTS BY THE LESSEE

Section 6.1.	Base Rentals and Additional Rentals. . . . .	17
Section 6.2.	Manner of Payment. . . . .	21
Section 6.3.	Disposition of Lease Rental Payments . . . . .	21
Section 6.4.	Rental Payments to Constitute Currently Appropriated Expenditures of the Lessee. . . . .	21
Section 6.5.	Expression of Lessee's Need for the Project; Determination as to Fair Market Value and Fair Purchase Price. . . . .	22
Section 6.6.	Nonappropriation by the Lessee. . . . .	23
Section 6.7.	Conversion of Interest Rate . . . . .	24

ARTICLE VII

ACQUISITION OR CONSTRUCTION OF THE PROJECT; FUNDS

Section 7.1.	Agreement to Acquire, Construct and Install the Project and Lease to the Lessee . . . . .	25
Section 7.2.	Disbursements from the Lessee's Lessee Acquisition Account. . . . .	27
Section 7.3.	Furnishing Documents to Lessor. . . . .	28
Section 7.4.	Completion of Acquisition and Construction of the Project . . . . .	29
Section 7.5.	Contractor's Performance and Payment Bonds . . . . .	29
Section 7.6.	Contractor's General Public Liability and Property Damage Insurance . . . . .	30
Section 7.7.	Contractor's Builder's Risk Completed Value Insurance . . . . .	30
Section 7.8.	Contractor's Worker's Compensation Insurance . . . . .	30
Section 7.9.	Filing With the Lessor. . . . .	31
Section 7.10.	Application of Net Proceeds . . . . .	31

ARTICLE VIII

DAMAGE, DESTRUCTION AND CONDEMNATION;  
USE OF NET PROCEEDS

Section 8.1.	Damage, Destruction or Condemnation . . . . .	32
Section 8.2.	Obligation of the Lessee to Repair and Replace the Project . . . . .	32

Section 8.3.	Insufficiency of Net Proceeds; Discharge of the Obligation of the Lessee to Repair the Project. . . . .	33
Section 8.4.	Cooperation of Lessor . . . . .	34

ARTICLE IX

DISCLAIMER OF WARRANTIES; OTHER COVENANTS

Section 9.1.	Disclaimer of Warranties. . . . .	35
Section 9.2.	Further Assurances and Corrective Instruments . . . . .	35
Section 9.3.	Lessor and Lessee Representatives . . . . .	35
Section 9.4.	Compliance With Requirements. . . . .	35
Section 9.5.	Lessee Acknowledgement of the Bonds and Credit Facility . . . . .	35
Section 9.6.	Audited Financial Report. . . . .	36
Section 9.7.	Inspection and Lessee Reports . . . . .	36
Section 9.8.	Notice of Event of Default or Event of Nonappropriation . . . . .	36

ARTICLE X

MAINTENANCE, TAXES, INSURANCE AND  
OTHER CHARGES

Section 10.1.	Maintenance of the Project by Lessee. . . . .	37
Section 10.2.	Modification of the Project; Installation of Equipment and Machinery of the Lessee . . . . .	37
Section 10.3.	Replacement and Substitution of Equipment . . . . .	38
Section 10.4.	Taxes, Other Governmental Charges and Utility Charges . . . . .	39
Section 10.5.	Provisions Regarding Casualty, Public Liability and Property Damage Insurance. . . . .	39
Section 10.6.	Advances. . . . .	41

ARTICLE XI

TITLE TO THE PROJECT;  
LIMITATIONS ON ENCUMBRANCES; ADDITIONAL SECURITY

Section 11.1.	Title to the Project. . . . .	42
Section 11.2.	No Encumbrance, Mortgage or Pledge of Project . . . . .	42

Section 11.3.	Deed; Mortgage. . . . .	43
Section 11.4.	Security Interest . . . . .	43
Section 11.5.	Letter of Credit. . . . .	44

ARTICLE XII

CONVEYANCE OF THE PROJECT

Section 12.1.	Conveyance of the Project . . . . .	46
Section 12.2.	Manner of Conveyance. . . . .	46
Section 12.3.	Escrowed Documents. . . . .	46

ARTICLE XIII

ASSIGNMENT, SUBLEASING, INDEMNIFICATION  
AND SELLING

Section 13.1.	Assignment by Lessor. . . . .	47
Section 13.2.	Assignment and Subleasing by the Lessee. . . . .	47
Section 13.3.	Release and Indemnification Covenants . . . . .	47

ARTICLE XIV

EVENTS OF DEFAULT AND REMEDIES

Section 14.1.	Events of Default Defined . . . . .	49
Section 14.2.	Remedies on Default . . . . .	50
Section 14.3.	Limitations on Remedies. . . . .	51
Section 14.4.	No Remedy Exclusive . . . . .	51
Section 14.5.	Waivers . . . . .	51
Section 14.6.	Agreement to Pay Attorneys' Fees and Expenses. . . . .	51
Section 14.7.	Waiver of Appraisement, Valuation, Stay, Extension and Redemption Laws . . . . .	52

ARTICLE XV

MISCELLANEOUS

Section 15.1.	Notices . . . . .	53
Section 15.2.	Binding Effect. . . . .	53
Section 15.3.	Amendments, Changes and Modifications . . . . .	53
Section 15.4.	Net Lease . . . . .	53
Section 15.5.	Payments Due on Holidays. . . . .	53
Section 15.6.	Severability. . . . .	54
Section 15.7.	Third Party Beneficiary . . . . .	54

Section 15.8.	Execution in Counterparts . . . . .	54
Section 15.9.	Applicable Law. . . . .	54
Section 15.10.	Captions. . . . .	54
TESTIMONIUM.	. . . . .	55
SIGNATURES AND SEALS	. . . . .	55
EXHIBIT A	DESCRIPTION OF PROJECT, INCLUDING THE SITE	
EXHIBIT B	BASE RENTALS	
EXHIBIT C	OPINION OF LESSEE'S COUNSEL	
EXHIBIT D	OPINION OF LESSOR'S COUNSEL	
EXHIBIT E	CERTIFICATE OF OFFICIALS OF LESSEE	

LEASE AGREEMENT

THIS LEASE AGREEMENT, dated the date shown on the cover page hereof (together with any amendments hereto made in accordance herewith, this "Lease"), is entered into by and between the Kentucky Association of Counties Leasing Trust (the "Lessor"), as the lessor hereunder, a trust duly created and existing under the laws of the Commonwealth of Kentucky (the "State"), and the lessee shown on the cover page hereof (the "Lessee"), as lessee hereunder, a body politic and corporate validity existing under the constitution, statutes and laws of the State.

W I T N E S S E T H :

WHEREAS, the Fiscal Court of the Lessee (the "Fiscal Court") has the power, pursuant to Kentucky Revised Statutes, Sections 67.080 and 67.083 to enter into lease agreements with or without the option to purchase in order to provide for the use of property for public purposes;

WHEREAS, the Fiscal Court has previously determined, and hereby further determines, that the Lessee is in need of the Project, as defined herein;

WHEREAS, the Fiscal Court has determined and hereby determines that it is in the best interests of the Lessee that the Lessee and the Lessor enter into this Lease for the leasing by the Lessee from the Lessor of the Project;

WHEREAS, the execution, delivery and performance of this Lease, have been authorized, approved and directed by the Fiscal Court by an ordinance or resolution finally passed and adopted by the Fiscal Court;

WHEREAS, the execution, delivery and performance of this Lease by the Lessor have been authorized, approved and directed by all necessary and appropriate action of the Lessor;

WHEREAS, the Lessor desires to lease the Project to the Lessee, and the Lessee desires to lease the Project from the Lessor, pursuant to the terms and conditions and for the purposes set forth herein; and

WHEREAS, the Base Rentals and Additional Rentals payable by the Lessee under the Lease are a limited obligation of the Lessee, payable from the appropriation in each year hereof of moneys sufficient to pay such Base Rentals and Additional Rentals.

NOW, THEREFORE, for and in consideration of the mutual promises and covenants herein contained, the parties hereto agree as follows:

## ARTICLE I

### DEFINITIONS

All words and phrases will have the meanings specified below unless the context clearly requires otherwise. Terms not defined herein will have the meanings assigned to them in the Indenture.

"Additional Rentals" means the aggregate of (i) any expenses (including attorneys' fees and expenses) of the Lessor and/or the Credit Facility Provider in defending an action or proceeding in connection with this Lease and/or any Collateral Documents relating to this Lease or in enforcing the provisions of this Lease and/or any Collateral Documents relating to this Lease, (ii) any taxes or any other expenses, including, but not limited to, licenses, permits, state and local sales and use or ownership taxes or property taxes and recording fees and/or other fees which the Lessor is expressly required to pay as a result of or in connection with this Lease and/or any Collateral Documents relating to this Lease, (iii) any deficiency in the Lessee's Proportionate Share of the Debt Service Reserve Requirement (together with interest that may accrue on said amounts in the event that the Lessee fails to pay the same, as set forth herein), (iv) the Lessee's Proportionate Share of any Administrative Fees, Credit Fees and Fiduciary Fees to the extent the same are not included in and paid as Base Rentals, (v) for Fiscal Years in which the principal component of Base Rentals do not correspond to fixed rate Bonds, the Lessee's Proportionate Share of interest on variable rate Bonds, as provided in Section 6.1(e), and (vi) any deficiency in investment income on the Lessee's Proportionate Share of the Debt Service Reserve Requirement for purposes of paying interest on the Lessee's Proportionate Share of a principal amount of Bonds equal to the Debt Service Reserve Requirement, and (vii) any costs incurred by the Lessor in connection with a Rate Swap Termination which occurs by reason of an Event of Default or an Event of Nonappropriation.

"Administrative Fees" means the fees and expenses of the Lessor in administering the Program.

"Base Rentals" means the payments payable by the Lessee pursuant to Section 6.1(a), which constitute the payments payable by the Lessee for and in consideration of the right to use and the option to purchase the Project.

"Bonds" means the \$200,000,000 Money Market Municipal Multi-County Lease Revenue Bonds (Kentucky Association of Counties Leasing Trust Program) Series 1989 issued by the Issuer to fund the Kentucky Association of Counties Leasing Trust Program.

"Business Day" means any day of the year other than a Saturday, Sunday or other day on which banks in the City of New York, New York or the State are authorized or required by law or executive order to close.

"Code" means the Internal Revenue Code of 1986, as amended.

"Collateral Document" means the Letter of Credit and the Mortgage and any other mortgage, letter of credit, escrow agreement, guaranty, security agreement, pledge agreement, title insurance policy or other document, if any, required by the Credit Facility Provider, in form and substance acceptable to the Credit Facility Provider, and securing the obligations of the Lessee under this Lease or granting a lien on or security interest in the Project or executed in connection with this Lease. If no Collateral Documents are required by the Credit Facility Provider, references herein to Collateral Documents will be disregarded and of no force and effect.

"Completion Date" means the date on which completion of the construction, acquisition, installation and equipping of the Project occurs, as evidenced by the certificate provided for in Section 7.4.

"Costs" means, with respect to a Project, all or any part of the cost of construction, installation and acquisition of all land, buildings, structures, machinery and equipment; finance charges; extensions, enlargements, additions, replacements, renovations and improvements; engineering, financial and legal services; plans, specifications, studies, surveys, estimates of cost of revenue, administrative expenses, expenses necessary or incidental to determining the feasibility or practicability of constructing a Project; and such other expenses as may be necessary or incidental to the construction, installation and acquisition of a Project, the financing of such construction, installation and acquisition, interest during construction, installation or acquisition and the placing of the Project in service.

"Credit Facility" means the Credit Facility which supports the payment and purchase of the Bonds, initially the irrevocable, direct pay letter of credit issued by the initial Credit Facility Provider.



"Credit Facility Provider" means the issuer of the Credit Facility, initially Commonwealth Bank of Australia, acting through its New York Branch.

"Credit Fees" means all fees, expenses (including attorneys' fees and expenses) and other amounts which are payable to the Credit Facility Provider under the Credit Facility Agreement.

"Event of Nonappropriation" means an event described in Section 6.6(a).

"Fiduciary Fees" means all fees, expenses (including attorneys' fees and disbursements) and other amounts payable to the Trustee, the Paying Agent, the Registrar, the Remarketing Agent and any independent certified public accountants or independent financial consultants and other consultants in connection with the Program.

"Financing Statements" means Uniform Commercial Code financing statements (on Form UCC-1 and/or UCC-3) naming the Lessee as debtor, the Lessor as secured party and the Trustee as assignee of the secured party.

"Fiscal Court" means the duly elected governing board of the Lessee or any successor to its functions.

"Fiscal Year" means the twelve (12) month period of each year commencing on July 1 and ending on the next June 30.

"Force Majeure" means the following: acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders of restraints of any kind of the government of the United States of America or of the State or any of their departments, agencies or officials or any civil or military authority; insurrection; riots; landslides; earthquakes; fires; storms; droughts; floods; explosions; breakage of or accidents to machinery, transmission pipes or canals; or any other cause or event not within the control of the Lessee but not due to the Lessee's negligence, excluding, however, any cause or event that can be cured by the payment of money.

"Indenture" means the Trust Indenture dated as of March 1, 1989, between the Issuer, the Trustee and the Lessor and any amendments or supplements thereto.

"Independent Counsel" means an attorney duly admitted to the practice of law before the highest court in the State and who is not an employee of the Lessor or the Lessee.

"Issuer" means Pendleton County, Kentucky.

"Lease" means this Lease Agreement and any amendments or supplements hereto entered into in accordance with the provisions hereof, including the Exhibits attached hereto.

"Lease Rental Payments" means Base Rentals and Additional Rentals.

"Lease Term" means the term of this Lease as determined pursuant to Article IV hereof.

"Lessee" means the Lessee identified on the cover page hereof.

"Lessee Acquisition Account" means the account by that name established for the Lessee by the Trustee under the Indenture.

"Lessee Representative" means the person or persons at the time designated to act on behalf of the Lessee for the purpose of performing any act under this Lease by a written certificate furnished to the Lessor containing the specimen signature of such person or persons and signed on behalf of the Lessee by an authorized official of the Lessee.

"Lessor" means Kentucky Association of Counties Leasing Trust, acting as lessor under this Lease, or any successor thereto acting as lessor under this Lease.

"Lessor Representative" means any person or persons at the time designated to act on behalf of the Lessor for purposes of performing any act on behalf of the Lessor under this Lease by a written certificate furnished to the Lessee containing the specimen signature of such person or persons and signed on behalf of the Lessor by an authorized officer of the Lessor.

"Letter of Credit" means, as of any time, the letter of credit, if any, which is in effect at such time in accordance with the provisions of Section 11.5. If no Letter of Credit is required by the Credit Facility Provider, references herein to the Letter of Credit will be disregarded and of no force or effect.

"Mortgage" means the real estate mortgage on the Site from the Lessor to the Trustee (if the same is required by the terms of this Lease).

"Net Proceeds," when used with respect to any performance or payment bond proceeds or proceeds of insurance, including self-insurance, required hereunder, or any condemnation award, or any proceeds resulting from default or breaches of warranty under the construction contract or any other contract relating to the Project, or any portion thereof, or proceeds from the sale,

scrapping or trade-in (in which event the proceeds from a trade-in shall be deemed to be the amount of any credit received upon such trade-in) of the Project or any portion thereof by the Lessee pursuant to Section 10.3(b) of this Lease, means the amount remaining after deduction from such proceeds or award of (i) all expenses (including, without limitation, attorneys' fees and costs) incurred in the collection of such proceeds or award, and (ii) all other fees, expenses and payments incurred in connection with the event giving rise to such proceeds or award and due to the Lessee, the Trustee, the Credit Facility Provider, the Issuer or the Lessor.

"Officer's Certificate" means a certificate signed by an authorized official of the Lessee or by any other representative designated from time to time for such purpose by the Lessee.

"Paying Agent" means Chemical Bank, New York, New York, or any successor paying agent for the Bonds appointed pursuant to the Indenture.

"Permitted Encumbrances" means, as of any particular time, (a) liens for taxes and assessments not then delinquent, or liens which may remain unpaid pursuant to the provisions of Section 10.4 and Section 11.2; (b) this Lease; (c) the Mortgage; (d) utility, access and other easements and rights of way, restrictions and exceptions which do not, in the opinion of the Independent Counsel, interfere with or impair the title to or the use and enjoyment of the Project; (e) any financing statements filed to perfect security interests created or permitted by this Lease or any Collateral Document, (f) any liens, mortgages, security interests and other encumbrances that are subject and subordinate in all respects to the liens, mortgages and security interests of this Lease, the Indenture and the Mortgage and that are (i) approved in writing by the Lessor and the Credit Facility Provider or (ii) in favor of the issuer of the Letter of Credit, and (g) such minor defects, irregularities, encumbrances and clouds on title as normally exist with respect to property of the general character of the Project and as do not, in the opinion of the Independent Counsel, materially impair title to or the use and enjoyment of the Project.

"Program Administrator" means the Lessor or such other entity or unincorporated association as may be appointed in accordance with the Indenture to administer the Program and perform the duties and obligations of Program Administrator under the Indenture.

"Project" means, collectively, the land, real estate, improvements, buildings, structures or other real property, if any, and the equipment, machinery, furnishings, furniture, vehicles and other personal property, if any, leased to the Lessee under this Lease, as more particularly described in Exhibit A hereto as such description may be amended from time to time with the consent of the Lessor and the Credit Facility Provider, and any property

acquired in replacement or substitution therefor, or in the improvement or modification thereof, pursuant to Sections 8.2, 10.2 or 10.3, less any property released from the terms of this Lease pursuant to Section 10.3 or damaged, destroyed or condemned as provided in Section 8.1.

"Rate Swap" means an interest rate swap transaction entered into between the Lessor, as fixed rate payor, and the Credit Facility Provider, as floating rate payor, and predicated upon a corresponding interest rate swap transaction entered into between the Credit Facility Provider, as fixed rate payor, and the Swap Provider, as floating rate payor.

"Rate Swap Termination" means, with respect to a Rate Swap that has become effective with respect to this Lease, the termination of such Rate Swap in accordance with its terms (whether by reason of the occurrence of an Event of Default thereunder with respect to the Lessor or Credit Facility Provider, or the occurrence of an Event of Default under, or the termination of, the interest rate swap transaction upon which such Rate Swap is predicated, or the occurrence of an Event of Default or an Event of Nonappropriation hereunder, or the expiration of the term of such Rate Swap, or otherwise).

"Registrar" means the Paying Agent or any entity appointed by the Issuer and CoLT to act as registrar for the Bonds.

"Remarketing Agent" means Shearson Lehman Hutton Inc. and First Kentucky Securities Corp. or any other remarketing agent for the Bonds appointed pursuant to the Indenture.

"Site" means the real estate on which buildings, improvements or fixtures constituting the Project are to be constructed or installed and which is described in Exhibit A, title to which will be in the Lessor.

"State" means the Commonwealth of Kentucky.

"Swap Provider" means the provider of the interest rate swap transaction upon which a Rate Swap is predicated, initially Merrill Lynch Capital Services, Inc.

"Trustee" means Liberty National Bank and Trust Company of Louisville, a national banking association organized and existing pursuant to the laws of the United States of America, as trustee under the Indenture, and any successor trustee at the time serving as such under the Indenture.

[End of Article I]

ARTICLE II

REPRESENTATIONS, COVENANTS AND WARRANTIES

Section 2.1. Representations, Covenants and Warranties of the Lessee. The Lessee represents, covenants and warrants for the benefit of the Lessor and the Credit Facility Provider as follows:

(a) The Lessee is a body politic and corporate, validly organized and existing in good standing under the laws of the State, has full power and authority to enter into and to perform its obligations under, this Lease, and has duly authorized and taken the necessary acts required prior to (including all required approvals) the execution and delivery of this Lease. The Lessee warrants this Lease to be a valid, legal and binding obligation of the Lessee, enforceable against the Lessee in accordance with its terms.

(b) The Lessee agrees that during the Lease Term it will maintain its existence, will continue to be a political subdivision in good standing in the State, and will not, without the consent of the Credit Facility Provider, consolidate with or merge into any other person or entity or permit any other person or entity to consolidate with or merge into it, except if such consolidation or merger is pursuant to a referendum, such other person or entity is another political subdivision of the State and the political subdivision of the State created thereby or surviving the same expressly assumes (or, if the same is the Lessee, affirms), pursuant to a written instrument satisfactory to the Lessor and the Credit Facility Provider, all of the Lessee's obligations hereunder.

(c) Neither the execution and delivery of this Lease nor the consummation of the transactions contemplated hereby, nor the fulfillment of or compliance with the terms and conditions hereof conflicts with or results in a breach of the terms, conditions, or provisions of any restriction or any agreement or instrument to which the Lessee is now a party or by which the Lessee is bound, or constitutes a default under any of the foregoing, or conflicts with or results in a violation of any provision of law or regulation applicable to the Lessee or results in the creation or imposition of any lien or encumbrance whatsoever upon any property or assets of the Lessee (except for any Permitted Encumbrances); and no representation, covenant and warranty herein is false, misleading or erroneous in any material respect.

(d) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending or known to be threatened

against or affecting the Lessee nor to the best of the knowledge of the Lessee is there any basis therefor, wherein an unfavorable decision, ruling, or finding would materially and adversely affect the transactions contemplated by this Lease or which would adversely affect, in any way, the validity or enforceability of this Lease or any material agreement or instrument to which the Lessee is a party, used or contemplated for use in the consummation of the transactions contemplated hereby, or the authority or ability of the Lessee to perform its obligations hereunder or thereunder.

(e) The estimated Costs of the Project are not less than the amount shown on Exhibit A. The Project has been or will be designed and constructed so as to comply with all applicable building and zoning ordinances and regulations, if any, and any and all applicable judicial and state standards and requirements relating to the Project. The Lessee has obtained, or will obtain as soon as practicable (but in any event not later than the time or times when required by applicable law), all licenses, permits or other approvals necessary for the acquisition, construction, installation and use of the Project.

(f) The Lessee covenants that, to the extent then permitted by law, if this Lease is terminated by reason of an Event of Nonappropriation or an Event of Default, it will not purchase, lease or rent property performing functions similar to those performed by the Project or any portion thereof or permit functions similar to those performed through the use of the Project or any portion thereof to be performed by its own employees or by any agency affiliated with or hired by the Lessee, for the period ending on the date of the end of the term of the Fiscal Court then in office, but this restriction will not apply if the Project or any portion thereof is sold, re-leased or otherwise disposed of by the Credit Facility Provider and the amount received (less costs of such disposition) is sufficient to pay the then applicable Optional Payment Price.

(g) The Lessee will not take or permit, or omit to take or cause to be taken, any action that would adversely affect the exclusion from gross income for federal income tax purposes of the designated interest component of Base Rentals payable by the Lessee and, if it should take or permit, or omit to take or cause to be taken, any such action, the Lessee will take or cause to be taken all lawful actions within its power necessary to rescind or correct such actions or omissions promptly upon having knowledge thereof. The Lessee specifically covenants:

(1) At least one of the following two conditions will be satisfied: (A) less than 10% of the amounts deposited in the Lessee's Lessee Acquisition Account will be used directly or indirectly in the business of a person other than a state or local governmental unit or (B) less than 10% of the principal or interest components of Base Rentals is directly or indirectly (a) secured by an interest in property used or to be used in a private business or any interest in payments made with respect to such property or (b) to be derived from payments made with respect to property, or borrowed money, used or to be used in a private business;

(2) Less than 5% of the amounts deposited in the Lessee's Lessee Acquisition Account will be used by nongovernmental persons for a use unrelated to the Project;

(3) It will not loan directly or indirectly more than 5% of the amounts deposited in the Lessee's Lessee Acquisition Account to nongovernmental persons;

(4) It will not enter into any management contract with respect to the Project unless it obtains an opinion of Bond Counsel that such management contract will not impair the exclusion from gross income for federal income tax purposes of the interest component of Base Rentals;

(5) The Lessee and the Lessor acknowledge that the continued exclusion of the interest component of Base Rentals from gross income for federal income tax purposes depends, in part, upon compliance with the arbitrage limitations imposed by Section 148 of the Code (other than subsections (c)(2) and (f) of said Section 148). The Lessee covenants that it will comply with all the requirements of Section 148 of the Code (other than subsections (c)(2) and (f) of said Section 148), and that it will not permit at any time any of the amounts deposited in the Lessee's Lessee Acquisition Fund or other funds of the Lessee to be used, directly or indirectly, to acquire any asset or obligation, the acquisition of which would cause the obligation of the Lessee under this Lease to be an "arbitrage bond" for purposes of Section 148 of the Code (other than subsections (c)(2) and (f) of said Section 148); and

(6) The interest component of Base Rentals is not and will not be "federally guaranteed" as defined in Section 149(b) of the Code.

(h) The acquisition, construction and installation of the Project, under the terms and conditions set forth in this

Lease, are in furtherance of the Lessee's governmental purposes, serve a public purpose and are in the best interests of the Lessee.

(i) During the Lease Term, the Project will at all times be used only for the purpose of performing one or more lawful governmental functions of the Lessee.

(j) The Lessee has not defaulted in the payment of any obligation on which it was or is the primary obligor.

(k) The Lessee will comply with all procurement codes and purchasing laws and regulations applicable to it and to the Project.

(l) This Lease is not entered into by the Lessee to reimburse advances made by the Lessee from its own funds for a Project purchased or acquired by the Lessee more than three years prior to the date of this Lease; and any advances will be reimbursed only if the Lessee provides the Lessor with written evidence of the Lessee intent to issue debt or enter into a lease to finance such advances.

(m) The Lessee will not use Lease proceeds to refund any tax-exempt debt issued on its behalf, unless such Lessee delivers to the Trustee and the Lessor an opinion of Bond Counsel to the effect that such use of proceeds of the Bonds will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

Section 2.2. Representations, Covenants and Warranties of Lessor. The Lessor represents, covenants and warrants for the benefit of the Lessee as follows:

(a) The Lessor is a trust duly created and validly existing under the laws of the State, has all necessary power and authority to construct, acquire and install the Project and to enter into, and perform its obligations under, this Lease, is possessed of full power to own and hold real and personal property and to lease and sell the same as lessor, and has duly authorized the execution and delivery of this Lease.

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



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

[End of Article II]

ARTICLE III

DEMISING CLAUSE

The Lessor leases the Project to the Lessee, and the Lessee leases the Project from the Lessor, in accordance with the provisions of this Lease, to have and to hold for the Lease Term.

[End of Article III]

ARTICLE IV

LEASE TERM

Section 4.1. Duration of Lease Term; Lessee's Annual Right to Terminate; Furnishing of Budgets and Appropriation Ordinances. The Lease Term will commence and terminate on the dates shown on the cover page hereof unless earlier terminated as provided in Section 4.2. In the event that the Lessee determines, for any reason, to exercise its annual right to terminate this Lease, effective on June 30 of any Fiscal Year, the Lessee must give written notice to such effect to the Lessor not later than May 31 of such Fiscal Year; provided, however, that a failure to give such notice will not constitute an Event of Default, nor prevent the Lessee from terminating this Lease, nor result in any liability on the part of the Lessee (except for the payment of all Lease Rental Payments accrued prior to the termination of this Lease). The exercise by the Lessee of its annual option to terminate this Lease will be conclusively determined by the occurrence of an Event of Nonappropriation as provided in Section 6.6. The Lessee will in any event, whether or not this Lease is to be terminated, furnish the Lessor with copies of its annual budget and appropriation ordinance (and any supplemental appropriation ordinance relating to this Lease) promptly after the budget is adopted and the appropriation ordinance (and any supplemental appropriation ordinance relating to this Lease) is enacted by the Lessee.

Unless and until terminated as provided in Section 4.2, the Lease Term will continue in effect from Fiscal Year to Fiscal Year.

Section 4.2. Termination of Lease Term. The Lease Term will terminate upon the earliest of any of the following events:

(a) June 30 of any Fiscal Year during which there has occurred an Event of Nonappropriation as provided in Section 6.6 (provided that the Lease Term will not be deemed to have been terminated if the Event of Nonappropriation is cured as provided in Section 6.6);

(b) The purchase by the Lessee of the Project as provided in Article XII of this Lease;

(c) An Event of Default and termination of this Lease as provided in Article XIV of this Lease; or

(d) Conveyance of the Project to the Lessee upon payment by the Lessee of all Base Rentals for the entire Lease Term and all Additional Rentals accrued to the date of termination of this Lease.

Termination of the Lease Term will terminate all obligations of the Lessee to pay Lease Rental Payments, except the payment of

all Lease Rental Payments accrued to the date of termination of this Lease, and will terminate the Lessee's rights to use, possess or occupy the Project under this Lease (unless a conveyance of the Project to the Lessee has occurred pursuant to Article XII of this Lease).

[End of Article IV]

ARTICLE V

ENJOYMENT OF THE PROJECT

The Lessor hereby covenants that the Lessee will during the Lease Term peaceably and quietly have and hold and enjoy the Project without suit, trouble or hindrance from the Lessor, except as expressly required or permitted by this Lease or any Collateral Document. The Lessor will not interfere with the quiet use and enjoyment of the Project by the Lessee during the Lease Term, so long as no Event of Default or Event of Nonappropriation has occurred. The Lessor will, at the request of the Lessee and at the cost of the Lessee, join and cooperate fully in any legal action in which the Lessee asserts its right to such possession and enjoyment, or which involves the imposition of any taxes or other governmental charges on or in connection with the Project. In addition, the Lessee may at its own expense join in any legal action affecting its possession and enjoyment of the Project, and will be joined (to the extent legally possible, and at the expense of the Lessee) in any action affecting its liabilities hereunder.

The provisions of this Article V will be subject to the Lessor's right to inspect the Project and records of the Lessee pursuant to Section 9.7.

[End of Article V]

ARTICLE VI

PAYMENTS BY THE LESSEE

Section 6.1. Base Rentals and Additional Rentals.

(a) The Lessee will pay Base Rentals in the amounts and at the times set forth in Exhibit B, as said Exhibit B is in effect on the first day of each Fiscal Year during the Lease Term. The Lessee agrees and acknowledges that Exhibit B may be amended at any time for the following purposes:

(i) to reflect an increase in Administrative Fees, Credit Fees or Fiduciary Fees;

(ii) to reamortize the principal component of Base Rentals in the event moneys are transferred from the Lessee's Lessee Acquisition Account as provided in Sections 7.1, 7.2 and 7.4;

(iii) to reflect a change in the interest component of Base Rentals if the Lessee exercises its option to convert the interest rate on this Lease to a fixed rate as described in Section 6.7 following a Rate Swap Termination; and

(iv) to reflect a change in the rate used to compute the interest component of Base Rentals if (A) there is a Rate Swap Termination, (B) following a Rate Swap Termination, a different Rate Swap becomes effective with respect to this Lease, and/or (C) following a Rate Swap Termination, no other Rate Swap becomes effective with respect to this Lease and (1) an assumed rate is used to compute the interest component of Base Rentals or (2) there is a change in the assumed rate used to compute the interest component of Base Rentals, in each case, as described in Section 6.1(f).

If the Lessor or the Credit Facility Provider determines that an amendment to Exhibit B is appropriate, the Lessor will mail to the Lessee a revised Exhibit B (identified by date or other means), by certified mail, postage prepaid. Said amendment will become effective and will for all purposes become a part of this Lease and will reflect Base Rentals to be paid by the Lessee for subsequent Fiscal Years (unless Exhibit B is further amended as provided in this Section) upon the earlier of the acknowledgment thereof by the Lessee or automatically on the first day of the next Fiscal Year; provided that any amendment mailed by the Lessor after May 1 of any year will become effective upon the earlier of the acknowledgment thereof by the Lessee or automatically on the first day of the second succeeding Fiscal Year; and provided further that any

amendment pursuant to clause (iii) of subsection (a) will become effective simultaneously with the related conversion of the interest rate on this Lease to a fixed rate as described in Section 6.7 following a Rate Swap Termination.

(b) Except as provided in subsection (e) of this Section, the Lessee will pay Additional Rentals within fifteen (15) days after a written request therefor is mailed to the Lessee by the Lessor, except that any deficiency in the Lessee's Proportionate Share of the Debt Service Reserve Requirement may be paid in not more than six (6) equal monthly installments.

(c) Any Lease Rental Payment that is not paid within 10 days of the date due will bear interest thereon at the "Default Rate" as defined in the Indenture (which, with respect to the initial Credit Facility, is the rate per annum equal to the Credit Facility Provider's prime rate plus a margin at least equal to 3%). Amounts due pursuant to this subsection will be deemed to be Additional Rentals due and payable when incurred and without further written demand therefor.

(d) Notwithstanding anything herein to the contrary, if this Lease and any Collateral Documents are assigned and become payable exclusively to the Credit Facility Provider, the interest component of Base Rentals will be changed automatically (without any necessity to amend Exhibit B) to be equal to the "Default Rate" as defined in the Indenture (which, with respect to the initial Credit Facility, is the rate per annum equal to the Credit Facility Provider's prime rate plus a margin at least equal to 3%).

(e) The Lessee acknowledges and agrees as follows:

(i) As of the date of this Lease, the interest components of Base Rentals have been calculated at a fixed interest rate equal to the fixed interest rate payable under a Rate Swap that has become effective with respect to this Lease (and on the basis of the amortization of the principal component of Base Rentals set forth in Exhibit B);

(ii) Upon the occurrence of a Rate Swap Termination, (a) if another Rate Swap becomes effective with respect to this Lease, Exhibit B will be amended as described in Section 6.1(a) to cause the interest components of Base Rentals to be recalculated at a fixed interest rate equal to the fixed interest rate payable under such Rate Swap, or (b) if no other Rate Swap becomes effective with respect to this Lease, (1) Exhibit B will be amended as described in Section 6.1(a) to cause the interest

components of Base Rentals to be recalculated at an assumed interest rate determined by the Lessor, with the consent of the Credit Facility Provider, as provided in the Indenture, and (2) thereafter, Exhibit B may be further amended as described in Section 6.1 (a) to cause the interest components of Base Rentals to be recalculated at a different assumed interest rate determined by the Lessor, with the consent of the Credit Facility Provider, as provided in the Indenture;

(iii) If an amendment to Exhibit B described in the preceding clause (ii) becomes effective (in accordance with Section 6.1(a)) subsequent to the effective date of the related Rate Swap Termination, then (a) after notice from the Lessor, the Lessee will receive a credit against the Base Rental payable on August 1 of the Fiscal Year in which such amendment becomes effective in an amount equal to the excess, if any, of the aggregate of the interest components of Base Rentals paid by the Lessee during the period between the effective date of the Related Swap Termination and the effective date of such amendment (at the rate used to calculate such interest components) over the Lessee's Proportionate Share of all interest paid on variable rate Bonds other than a principal amount of variable rate Bonds equal to the Debt Service Reserve Requirement during such period, or (b) after notice from the Lessor, the Lessee will pay as Additional Rentals not later than August 1 of the Fiscal Year in which such amendment becomes effective, an amount equal to the excess, if any, of the Lessee's Proportionate Share of all interest paid on variable rate Bonds other than the principal amount of variable rate Bonds equal to the Debt Service Reserve Requirement during the period between the effective date of the Related Swap Termination and the effective date of such amendment over the aggregate of the interest components of Base Rentals paid by the Lessee during such period (at the rate used to calculate such interest components);

(iv) If an assumed interest rate is used to calculate the interest components of Base Rentals following Rate Swap Termination as described in the preceding clause (ii), then (a) after notice from the Lessor, the Lessee will receive a credit against the Base Rental payable on August 1 of each Fiscal Year, commencing with the Fiscal Year next succeeding the first full Fiscal Year during which such assumed interest rate has been effective pursuant to an amendment to Exhibit B, in an amount equal to the excess, if any, of the aggregate of the interest components of Base Rentals paid by the Lessee during the preceding Fiscal Year (at such assumed interest rate) over the Lessee's Proportionate



Share of all interest paid on variable rate Bonds other than a principal amount of variable rate Bonds equal to the Debt Service Reserve Requirement during such Fiscal Year, or (b) after notice from the Lessor, the Lessee will pay as Additional Rentals not later than August 1 of each Fiscal Year commencing with the Fiscal Year next succeeding the first full Fiscal Year during which such assumed interest rate has been effective pursuant to an amendment to Exhibit B, an amount equal to the excess, if any, of the Lessee's Proportionate Share of all interest paid on variable rate Bonds other than the principal amount of variable rate Bonds equal to the Debt Service Reserve Requirement during the preceding Fiscal Year over the aggregate of the interest components of Base Rentals paid by the Lessee during such Fiscal Year (at such assumed interest rate);

(v) While a Rate Swap is in effect with respect to this Lease, the interest components of Base Rental will be calculated without regard to any reamortization of the principal components of Base Rentals (whether as provided in Sections 7.1, 7.2, and 7.4 or otherwise);

(vi) Following a Rate Swap Termination, neither the Lessor nor the Credit Facility Provider shall be obligated to cause another Rate Swap to become effective with respect to this Lease; and

(vii) Other than if the Lessee exercises its option to convert the interest rate on this Lease to a fixed rate as described in Section 6.7 following a Rate Swap Termination, the principal components of Base Rentals do not and will not correspond to fixed rate Bonds.

(f) Prior to May 1 of each Fiscal Year during the Lease Term, the Lessor will inform the Lessee of the amount of Additional Rentals (including, without limitation, Additional Rentals payable under subsection (e) of this Section) that are estimated to be payable during the next ensuing Fiscal Year; and the amount of such estimate of Additional Rentals payable in the next ensuing Fiscal Year, plus the amount of Base Rentals payable in the next ensuing Fiscal Year (as shown on Exhibit B or, if applicable, the most recent amendment to Exhibit B which is or is to be effective with respect to the next ensuing Fiscal Year) will be included in the Lessee's appropriation ordinance for the next ensuing Fiscal Year, subject to the right of the Lessee to terminate the Lease Term as provided in Sections 4.1 and 6.6. In the event the Lease Term is continued for the next ensuing Fiscal Year (as provided in Section 4.1), the Lessee's obligation under this Lease for Lease Rental Payments will be limited to the amount so appropriated for Lease Rental Payments in accordance with the procedures described above and any amounts subsequently appropriated by supplemental

appropriation ordinances for payment of Additional Rentals during such Fiscal Year. If the amount of the Additional Rentals exceeds the estimated amount of the Additional Rentals as described above, the Lessee will use its best efforts to enact or adopt, when needed to pay the same, supplemental appropriation ordinances specifically appropriating the additional amounts actually required to be paid hereunder as Additional Rentals.

Section 6.2. Manner of Payment. All Lease Rental Payments will be paid by check made payable to the Trustee and delivered to the Lessor (or, if the Lessor is not the Program Administrator, the Program Administrator); provided that any payment in excess of \$100,000 will be paid by wire transfer of immediately available funds to the Trustee. The obligation of the Lessee to pay the Base Rentals and Additional Rentals and to perform and observe the covenants and conditions contained herein, during the Lease Term, will be absolute and unconditional except as otherwise expressly provided in this Lease, and payment of the Base Rentals and Additional Rentals may not be abated through accident or unforeseen circumstances or because of payment under the Letter of Credit or any other Collateral Document securing the Lessee's obligations under this Lease or payment of this Lease from the Debt Service Reserve Fund or payment under the Credit Facility or damage to, destruction of, or failure to complete, the Project. Notwithstanding any dispute between the Lessee and the Lessor, or any other person (including any contractor or vendor for the Project), the Lessee will, during the Lease Term, make all payments of Base Rentals and Additional Rentals when due and will not withhold any Base Rentals or Additional Rentals pending final resolution of such dispute, nor will the Lessee assert any right of set-off or counterclaim against its obligation to make such payments required hereunder. No action or inaction on the part of the Lessor (or any of its assigns) will affect the Lessee's obligation to pay all Base Rentals and Additional Rentals during the Lease Term.

Section 6.3. Disposition of Lease Rental Payments. Each Lease Rental Payment will be applied first to the principal component of Base Rentals then due and payable, then as Additional Rentals then due and payable, then to the components of Base Rentals then due and payable other than the interest component and principal component, and finally to the interest component of Base Rentals then due and payable.

Section 6.4. Rental Payments to Constitute Currently Appropriated Expenditures of the Lessee. The Lessee and the Lessor acknowledge and agree that the Base Rentals and Additional Rentals hereunder will constitute currently appropriated expenditures of the Lessee. The Lessee's obligations under this Lease will be subject to the Lessee's annual right to terminate this Lease (as further provided in Sections 4.1 and 6.6) and will not constitute a mandatory charge or requirement in any Fiscal Year beyond the

then current Fiscal Year. No provision of this Lease will be construed as creating a general obligation or other indebtedness of the Lessee within the meaning of any constitutional or statutory debt limitation. Neither this Lease nor the issuance of the Bonds will directly or indirectly obligate the Lessee to make any payments beyond those specifically appropriated for its then current Fiscal Year. The Lessee will be under no obligation whatsoever to exercise its option to purchase the Project. No provision of this Lease will be construed to pledge or to create a lien on any class of source of moneys of the Lessee, nor will any provision of this Lease restrict the future issuance of any bonds or other obligations of the Lessee, payable from any class or source of moneys of the Lessee. Notwithstanding the foregoing provisions of this Section, the Lessee's obligation to make the Lease Rental Payments due hereunder during the Lease Term will not be limited to any class or source of revenues of the Lessee, but such Lease Rental Payments will be payable from any funds of the Lessee legally available and appropriated therefor.

Section 6.5. Expression of Lessee's Need for the Project; Determinations as to Fair Market Value and Fair Purchase Price. The Lessee hereby declares its current need for the Project and further determines and declares its expectations that the Project will (so long as it is subject to the terms hereof) adequately serve the needs for which it is being acquired through the Lease Term. It is hereby declared to be the present intention and expectation of the Lessee that this Lease will be continued annually until title to the Project is acquired or reacquired by the Lessee pursuant to this Lease; but this declaration may not be construed as contractually obligating or otherwise binding the Lessee to make appropriations for payment of Base Rentals in future Fiscal Years. The Lessee hereby agrees and determines that the Base Rentals hereunder during the Lease Term represent the fair value of the use of the Project; and that the Optional Prepayment Price represents the fair purchase price of the Project at the time of exercise of the purchase option pursuant to Article XII, if the Lessee chooses to exercise such option. The Lessee hereby determines that, to the best of its knowledge, the Base Rentals do not exceed a reasonable amount so as to place the Lessee under an economic compulsion either not to terminate this Lease or to exercise its option to purchase the Project hereunder. In making such determinations, the Lessee has given consideration to the Costs of the Project, the uses and purposes for which the Project will be employed by the Lessee, the benefit to the Lessee by reason of the acquisition, construction or installation of the Project, the use or occupancy of the Project pursuant to the terms and provisions of this Lease, the Lessee's option to purchase the Project, and the expected eventual vesting of title to the Project in the Lessee. The Lessee hereby determines and declares that, to the best of its knowledge, the period during which the Lessee has an option to purchase the Project (*i.e.*, the maximum term of this Lease) does not exceed the useful life of the Project (or, if the

Project consists of multiple components, the component thereof with the longest useful life).

Section 6.6. Nonappropriation by the Lessee.

(a) In the event that the Lessee fails, for any reason, to duly enact by June 30 of each Fiscal Year an appropriation ordinance for the ensuing Fiscal Year which includes sufficient amounts authorized and directed to be used to pay all Base Rentals to become due during the next ensuing Fiscal Year and all Additional Rentals then due and payable and estimated to become due and payable during the next ensuing Fiscal Year (as provided in Section 6.1), or upon the occurrence of an event described in subsection (b) of this Section, an Event of Nonappropriation will be deemed to have occurred; subject, however, to each of the following provisos:

(1) The Lessor will declare an Event of Nonappropriation on any earlier date on which the Lessor receives official, specific written notice from the Lessee that this Lease will be terminated.

(2) Absent such notice from the Lessee, the Lessor will give written notice to the Lessee of an Event of Nonappropriation, on or before the next July 10; but any failure of the Lessor to give such written notice will not prevent the Lessor from declaring an Event of Nonappropriation or the Lessor or the Credit Facility Provider from taking any remedial action which would otherwise be available to it.

(3) Subject to the terms of the Indenture, the Lessor may, with the prior written consent of the Credit Facility Provider, waive any Event of Nonappropriation which is cured by the Lessee within a reasonable time.

(4) The Lessor will waive any Event of Nonappropriation arising under subsection (a)(i) of this Section (other than an Event of Nonappropriation described in subsection (b) of this Section) which is cured by the Lessee by June 30 of the Fiscal Year, by inclusion in a duly enacted appropriation ordinance sufficient amounts authorized and directed to be used to pay all Base Rentals to become due during the ensuing Fiscal Year and all Additional Rentals then due and payable and all Additional Rentals estimated to be payable in the next ensuing Fiscal Year (as provided in Section 6.1).

(b) If, during any Fiscal Year, any Lease Rental Payments become due in excess of amounts included in a duly

enacted appropriation ordinance for the payment of Lease Rental Payments, then, in the event that moneys are not specifically authorized and directed by the Lessee to be used to pay such Lease Rental Payments by the earlier of June 30 of the then current Fiscal Year or 90 days subsequent to the date upon which such Lease Rental Payments are due, an Event of Nonappropriation will be deemed to have occurred, upon notice by the Lessor to the Lessee to such effect (subject to waiver by the Lessor as provided in subsection (a)(3) of this Section).

(c) If an Event of Nonappropriation occurs, the Lessee will not be obligated to make payment of the Base Rentals or Additional Rentals or any other payments provided for herein beyond the amounts specifically appropriated by the Lessee for the Fiscal Year during which such Event of Nonappropriation occurs; provided, however, that, subject to the limitations of Section 14.3, the Lessee will continue to be liable for Base Rentals and Additional Rentals allocable to any period during which the Lessee continues to use, occupy or retain possession of the Project.

(d) The Lessee will in all events vacate and/or surrender the Project to the Credit Facility Provider by the July 1 following an Event of Nonappropriation. The surrender of any movable personal property comprising a portion of the Project will consist of delivering such property to the Lessor at a site within the jurisdiction of the Lessee selected by the Credit Facility Provider.

(e) Upon the occurrence of an Event of Nonappropriation, all amounts on deposit in the Lessee's Lessee Acquisition Account will be applied as provided in Section 7.2. After the expiration of the Fiscal Year during which an Event of Nonappropriation occurs, the Credit Facility Provider may proceed to repossess and liquidate or re-lease or otherwise dispose of the Project or any portion thereof and may take one or any combination of the steps described in Section 14.2, subject to the limitations set forth in Section 14.3.

Section 6.7. Conversion of Interest Rate. Following a Rate Swap Termination (after which another Rate Swap does not become effective with respect to this Lease), the Lessee may elect to have the interest rate under this Lease converted to a fixed rate upon the terms and conditions set forth in the Indenture; provided, however, that the Lessee must have appropriated sufficient funds to pay all Base Rentals due in accordance with the amendment to Exhibit B which was delivered in connection with such conversion (as described in Section 6.1).

[End of Article VI]

ARTICLE VII

ACQUISITION OR CONSTRUCTION OF THE PROJECT; FUNDS

Section 7.1. Agreement to Acquire, Construct and Install the Project and Lease to the Lessee. The Lessee will provide for completion of the acquisition, construction, installation and equipping of the Project by the Lessee as the agent of the Lessor pursuant to such terms as the Lessor and the Lessee deem reasonable. The Lessee will take possession of the Project upon delivery thereof, and the Lessor agrees to lease the Project to the Lessee for the Lease Term.

Title to the Project and all fixtures, appurtenances and other permanent accessories thereto and all interests therein will be held by the Lessor, subject only to this Lease, the Indenture, any Collateral Documents and any Permitted Encumbrances.

The Lessee agrees that in order to effectuate the purposes of this Lease it will make, execute, acknowledge and transact any and all contracts, orders, receipts, writings and instructions with any other persons, firms or corporations and in general do all things which may be necessary or proper, all for the construction, acquisition, installation and equipping of the Project, on behalf of the Lessor as owner of the Project and the Lessee as Lessee of the Project. Construction, acquisition, installation and equipping of the Project will be in accordance with the construction documents approved by the Lessee, subject to reasonable change orders or any other reasonable changes approved by the Lessee so long as such changes do not cause the Project to be used for purposes other than the lawful governmental purposes of the Lessee. So long as this Lease is in full force and effect and no Event of Default or Event of Nonappropriation has occurred, the Lessee will have full power to carry out the acts and agreements provided in this Section, and such power is granted and conferred under this Lease to the Lessee, and is accepted by the Lessee, and will not be terminated or restricted by act of the Lessor, or the Trustee, except as provided in this Section.

The Lessee as agent for the Lessor agrees to acquire, construct, install and equip the Project through the application of moneys to be disbursed under the Indenture and as contemplated by Section 7.2, and to use its best efforts to complete the acquisition, construction, installation and equipping of the Project by the "Estimated Date of Completion of the Project" shown on Exhibit A, but, if for any reason the acquisition, construction, installation and equipping of the Project is not completed by said date, there will be no resulting liability on the part of the Lessor and no Event of Default hereunder, and there will be no diminution in or postponement of the Lease Rental Payments required



to be paid by the Lessee during the Lease Term. However, in the event that the acquisition, construction, installation and equipping of the Project is not completed, as evidenced by the certificate provided for in Section 7.4 of this Lease, by the "Estimated Date of Completion of the Project" shown on Exhibit A, the Lessor or the Credit Facility Provider will, upon 30 days' written notice to the Lessee, be authorized, but not required, to complete the acquisition, construction, installation and equipping of the Project from any moneys remaining in the Lessee's Lessee Acquisition Account (and the exercise by the Lessor or the Credit Facility Provider of such authority will terminate the Lessee's right to control the acquisition, construction, installation and equipping of the Project).

The Lessee agrees that, based upon its examination of property, estimated construction and equipment costs provided by the architects, and the anticipated configuration of the Project, the Project can be constructed, acquired, installed and equipped by the "Estimated Date of Completion of the Project" shown on Exhibit A and for a total price within the amount of funds to be available therefor in the Lessee's Lessee Acquisition Account of the Project Fund and income anticipated to be derived from the investment thereof. The Lessee acknowledges and agrees that if the Project is not completed by the "Transfer Date" shown on Exhibit A, moneys in the Lessee's Lessee Application Account will be automatically transferred from said Account and applied to the redemption of Bonds (in the manner described in the Indenture) unless the Lessee provides the Trustee with an opinion of Bond Counsel to the effect that such transfer is not necessary in order for the interest on the Bonds to be excluded from gross income for federal income tax purposes. At any time that moneys are so transferred, Exhibit B will be amended as provided in Section 6.1 to (i) deduct from the aggregate unpaid principal components of Base Rentals an amount equal to the amount of moneys so transferred (or, if less, the amount of Bonds redeemed by reason of such transfer) and (ii) reamortize Base Rentals so that the reduced principal is repaid on the same basis as the Lessee's principal component schedule was originally calculated. In the event that for any reason the amount available in the Lessee's Lessee Acquisition Account is insufficient to pay the entire cost of constructing, acquiring, installing and equipping the Project, the Lessee covenants and agrees that either (i) the Lessee will make such modifications to or deletions from the plans and specifications for the Project as will permit the Project to be acquired, constructed, installed and equipped from the amounts available therefor in the Lessee's Lessee Acquisition Account or (ii) the Lessee will complete the acquisition, construction, installation and equipping of the Project from whatever sources of funds are legally available to the Lessee for such purpose (and will deposit or cause to be deposited such funds in the Lessee's Lessee Acquisition Account). The Lessee and the Lessor acknowledge and agree that, subject to the written approval of the Credit

Facility Provider, additional funds for the completion of the Project may be derived from an amendment to this Lease (including the schedule of Base Rentals set forth in Exhibit B).

All contracts relating to the Project are hereby assigned to the Lessor. All such contracts will provide that, upon written notice by the Lessor to the other party or parties thereto, (i) such contracts will be fully and freely assumable by the Lessor without the consent of any other person and the Lessor may choose to assume or not assume such contracts; and (ii) if the Lessor does so assume such contracts, the other party or parties thereto will perform the agreements contained therein for the Lessor. All such contracts will also provide that, upon an Event of Nonappropriation or an Event of Default, and upon written notice from the Lessor, the Lessor may terminate such contracts; and the other party or parties thereto will then be entitled to payment only from amounts available therefor in the Lessee's Lessee Acquisition Account and only for work done or other consideration furnished prior to such termination.

Section 7.2. Disbursements from the Lessee's Lessee Acquisition Account. As long as no Event of Nonappropriation or Event of Default has occurred, and the Lessee's right to control acquisition, construction, installation and equipping of the Project has not otherwise been terminated pursuant to Section 7.1, disbursements from the Lessee's Lessee Acquisition Account may be made (a) to pay the Costs of the Project or (b) to reimburse the Lessee for any Costs of the Project paid by it.

Before the Trustee makes a disbursement from moneys held in the Lessee's Lessee Acquisition Account, the Lessee must provide to the Trustee a request for disbursement approved by the Lessor, and prior to approving any such disbursement, the Lessor must have received the following documentation (except that with respect to a disbursement to pay an interest component of Base Rentals during construction of a Project, only the document described in (a) below will be required):

(a) a statement of the amount and nature of each item of the Costs of the Project to be paid and the name and address of the payee, with the payee's statement and, if reimbursement to the Lessee of amounts previously paid is requested, evidence of payment thereof attached;

(b) a statement that each item for which payment or reimbursement is requested is or was necessary in connection with the Costs of the Project and none of such items formed the basis for any previous payment from the Lessee's Lessee Acquisition Account;

(c) a statement that each contractor, subcontractor and materialman has filed with the Lessee receipts or waivers of



liens for all amounts theretofore certified for payment, or any amount therein certified for reimbursement to the Lessee, or that there is on file with the Lessee a cancelled check endorsed by the contractor, subcontractor or materialman evidencing such payment and copies of each such receipt, waiver or check;

(d) a statement that all of the warranties and representations of the Lessee contained in the Lease and any Collateral Documents are true and correct as of the date of such disbursement, as though such warranties and representations were made on such date, that no Event of Default or Event of Nonappropriation has occurred under this Lease, that the right of the Lessee to control the acquisition, construction and installation of the Project has not otherwise been terminated pursuant to this Lease, and that amounts on deposit in the Lessee's Lessee Acquisition Account will be sufficient to complete the acquisition, construction and installation of the Project in accordance with the approved plans and specifications. The final request for disbursement shall state that acquisition, construction and installation of the Project have been completed;

(e) in the event of a disbursement for construction, an architect or engineer's certificate to the effect that the work for which payment is being disbursed has been performed satisfactorily and that moneys remaining in the applicable Lessee Acquisition Account will be sufficient to complete the acquisition, construction and installation of the Project in accordance with the approved plans and specifications; and

(f) any other documents required pursuant to the Lease or requested by the Lessor or the Credit Facility Provider.

If an Event of Nonappropriation or an Event of Default occurs prior to the completion of the acquisition, construction, installation and equipping of the Project, amounts on deposit in the Lessee's Lessee Acquisition Account (i) may, with the prior written consent of the Credit Facility Provider, or will, at the direction of the Credit Facility Provider, be utilized by the Lessor to complete the acquisition, construction, installation and equipping of the Project or (ii) may, at the direction of the Credit Facility Provider, be paid to the Credit Facility Provider for application as provided in the Indenture. If the right of the Lessee to control the acquisition, construction, installation and equipping of the Project has been otherwise terminated pursuant to Section 7.1, amounts on deposit in the Lessee's Lessee Acquisition Account may be applied by the Lessor or the Credit Facility Provider as provided in Section 7.1.

Section 7.3. Furnishing Documents to Lessor. The Lessee agrees to cause such requisitions to be directed to the Lessor for

approval and thereafter to the Trustee as may be necessary to effect payments out of the Lessee's Lessee Acquisition Account in accordance with Section 7.2 (other than the last paragraph thereof).

Section 7.4. Completion of Acquisition and Construction of the Project. When the construction, acquisition, installation and equipping of the Project have been completed, the Lessee Representative will deliver a certificate to the Lessor stating that, except for amounts estimated by the Lessee Representative to be necessary for payment of any Costs of the Project not then due and payable, construction, acquisition, installation and equipping of the Project have been completed and all Costs of the Project have been paid. If the accounting of the Lessee's Lessee Acquisition Account by the Lessor shows that funds in the Lessee's Lessee Acquisition Account will remain unexpended for Costs of Project, the unexpended funds in the Lessee's Lessee Acquisition Account will be transferred from said account and applied to the redemption of Bonds (in the manner described in the Indenture). At any time that moneys are so transferred, Exhibit B will be amended as provided in Section 6.1 to (i) deduct from the aggregate unpaid principal components of Base Rentals an amount equal to the amount of moneys so transferred (or, if less, the principal amount of Bonds redeemed by reason of such transfer) and (ii) reamortize Base Rentals so that the reduced principal is repaid on the same basis as the Lessee's principal component schedule was originally calculated.

Section 7.5. Contractor's Performance and Payment Bonds. Each contractor entering into a contract relating to the construction of any part of the Project will be required to furnish a performance bond and a separate labor and material payment bond in form and content acceptable to the Lessor and the Credit Facility Provider, copies of which must be provided to the Lessor and the Credit Facility Provider. Such bonds must be made payable to the Lessor, the Credit Facility Provider and the Trustee, as their interests may appear, and must be executed by a corporate surety licensed to transact business in the State, and must be in an amount equal to the contract price for such contractor's contract; provided that in lieu of such bonds, such a contractor may provide bank letters of credit or cash deposits acceptable to the Lessor and the Credit Facility Provider. If, at any time during the construction of the Project, the surety on such bond is disqualified from doing business within the State, an alternative surety acceptable to the Lessor and the Credit Facility Provider must be selected. In the event of any change order resulting in the performance of additional work in connection with the Project, the amounts of such bonds must be increased by an amount equal to the cost of such additional work or materials or fixtures to be incorporated in the Project.

Section 7.6. Contractor's General Public Liability and Property Damage Insurance. Each contractor and subcontractor entering into a construction contract relating to any part of the Project will be required by the Lessor to procure and maintain standard form (a) comprehensive general public liability and property damage insurance, at his or her own cost and expense, during the duration of such contractor's construction contract, in the amount of at least \$1,000,000, and (b) comprehensive automobile liability insurance on owned, hired and nonowned vehicles for limits not less than \$1,000,000. Such policies will include the Lessor, the Lessee, the Trustee and the Credit Facility Provider as additional named insureds, and will include a provision prohibiting cancellation, modification or termination without 30 days' prior notice by certified mail to the Lessee, the Lessor, the Trustee and the Credit Facility Provider. A certificate of insurance in a form acceptable to the Lessee, the Lessor, the Trustee and the Credit Facility Provider will be provided to the Lessee, the Lessor, the Trustee and the Credit Facility Provider with respect to each contractor and subcontractor. Such insurance will provide protection from all claims for bodily injury, including death, property damage and contractual liability, products/completed operations, broad form property damage and XCU (explosive, collapse and underground damage), where applicable.

Section 7.7. Contractor's Builder's Risk Completed Value Insurance. The Lessee will purchase and maintain property insurance (builder's risk) upon all construction, acquisition, installation and equipping of the Project (excluding contractor's tools and equipment) at the site thereof at the full and insurable value thereof. This insurance will include the interest of the Lessor, the Trustee and the Credit Facility Provider and the contractor as additional insureds and will insure against "all risk" subject to standard policy conditions and exclusions. The contractor will purchase and maintain similar property insurance for portions of the work stored off the site or in transit when such portions of the work are to be included in an application for payment. The contractor will be responsible for the payment of any deductible amounts associated with this insurance.

Section 7.8. Contractor's Worker's Compensation Insurance. Each contractor entering into a construction contract relating to any part of the Project will be required to procure and maintain, at his or her own cost and expense, worker's compensation insurance during the term of his or her construction contract, covering his or her employees working thereunder. Such insurance, if issued by a private carrier, will contain a provision that such coverage will not be canceled without 30 days' prior written notice to the Lessee, the Lessor, the Trustee and the Credit Facility Provider. A certificate evidencing such coverage will be provided to the Lessee, the Lessor, the Trustee and the Credit Facility Provider or, if such insurance is provided by a private carrier, a completed certificate of insurance, in form acceptable to the Lessee, the

Lessor, the Trustee and the Credit Facility Provider will be provided to the Lessee, the Lessor, the Trustee and the Credit Facility Provider with respect to each contractor entering into a construction contract. Each construction contract will also provide that each subcontractor of any contractor who is a party to such construction contract will be required to furnish similar worker's compensation insurance.

Section 7.9. Filing With the Lessor. The Lessee will cause copies of all performance bonds and insurance contracts or approved certificates thereof, as required under Sections 7.5, 7.6, 7.7 and 7.8, to be delivered to the Lessor, the Trustee and the Credit Facility Provider in a timely manner and in such form as to certify compliance with the provisions of the said Sections.

Section 7.10. Application of Net Proceeds. In the event of any material default by a contractor under any construction contract, or in the event of a material breach of warranty with respect to any materials, workmanship or performance, the Lessee will promptly proceed, either separately or in conjunction with others, to pursue diligently its remedies against such contractor and/or against each surety of any bond securing the performance of the construction contract. The Net Proceeds of any amounts recovered by way of damages, refunds, adjustments or otherwise in connection with the foregoing, remaining after reimbursement to the Lessor of any amounts theretofore paid by the Lessor and not previously reimbursed to the Lessor for correcting or remedying the default or breach of warranty which gave rise to the proceedings against the contractor or surety, will be paid to the Trustee for deposit into the Lessee's Lessee Acquisition Account if received before the Completion Date, or if received thereafter, will be deposited as otherwise provided in Section 8.2 or otherwise applied as provided in Section 8.3. The Net Proceeds of any performance or payment bond or insurance policy required by this Section will likewise be paid into the Lessee's Lessee Acquisition Account if received before the Completion Date, or, if received thereafter, will either be deposited as provided in Section 8.2 or otherwise applied as provided in Section 8.3.

[End of Article VII]

## ARTICLE VIII

### DAMAGE, DESTRUCTION AND CONDEMNATION; USE OF NET PROCEEDS

Section 8.1. Damage, Destruction or Condemnation. If, during the Lease Term, (i) the Project or any portion thereof is destroyed, or is damaged by fire or other casualty; (ii) title to, or the temporary or permanent use of the Project or any portion thereof or the estate of the Lessee or the Lessor in the Project or any portion thereof is taken under the power of eminent domain by any governmental authority; (iii) a material defect in construction of the Project becomes apparent; or (iv) title to or the use of all or any portion of the Project is lost by reason of a defect in title thereto, then the Lessee will continue to be obligated, subject to the provisions of Section 8.3, to continue to make Lease Rental Payments regardless of whether the certificate provided for in Section 7.4 has been delivered to the Lessor.

Section 8.2. Obligation of the Lessee to Repair and Replace the Project. Subject to the provisions of Section 8.3, the Net Proceeds of any insurance policies, performance bonds, condemnation awards or Net Proceeds received as a consequence of default or breach of warranty under a construction contract or other contract relating to the Project, made available by reason of any occurrence described in Section 8.1, will be deposited in the Lessee's Lessee Acquisition Account, if received before the Completion Date of the Project, or, if received thereafter, to be deposited in a separate trust fund held by the Trustee. Except as set forth in Section 8.3, all Net Proceeds so deposited will be applied, upon approval by the Lessor, and so long as no Event of Default or Event of Nonappropriation has occurred and is continuing, to the prompt repair, restoration, modification, improvement or replacement of the Project upon receipt of requisitions acceptable to the Lessor approved by the Lessee Representative stating with respect to each payment to be made: (a) the requisition number; (b) the name and address of the person, firm or corporation to whom payment is due; (c) the amount to be paid; and (d) that each obligation mentioned therein has been properly incurred, is a proper charge against the Lessee's Lessee Acquisition Account, or the separate trust fund, and has not been the basis of any previous withdrawal and specifying in reasonable detail the nature of the obligation, accompanied by a bill or a statement of account for such obligation and otherwise complying with, and/or evidencing compliance with the requirements of Section 7.2. In carrying out any of the provisions of this Section 8.2, the Lessee will have all power and authority granted under Article VII of this Lease. The Lessor will cooperate with the Lessee in the administration of such fund and will not unreasonably withhold its approval of requisitions under this Section 8.2. The balance of any such Net Proceeds remaining after such repair, restoration, modification, improvement or replacement has been completed will, if received prior to the



Completion Date, be deposited into the Lessee's Lessee Acquisition Account; and if received thereafter, will be deposited in the Revenue Fund and applied to satisfy payment of Base Rentals. Any repair, restoration, modification, improvement or replacement paid for in whole or in part out of such Net Proceeds will be the property of the Lessor, subject to this Lease, and will be included as part of the Project under this Lease.

Section 8.3. Insufficiency of Net Proceeds; Discharge of the Obligation of the Lessee To Repair the Project. If the Net Proceeds will be insufficient to pay in full the cost of any repair, restoration, modification, improvement or replacement of the Project as required under Section 8.2, the Lessee may elect to proceed under any of the following options:

(a) The Lessee may complete the work and pay any cost in excess of the amount of the Net Proceeds (by depositing or causing the deposit of the requisite funds in the Lessee's Lessee Acquisition Account, if the funds are deposited prior to the Completion Date of the Project, or in a separate fund held by the Trustee, if the funds are deposited thereafter), and the Lessee agrees that, if by reason of any such insufficiency of the Net Proceeds, the Lessee will make any payments pursuant to the provisions of this subsection, the Lessee will not be entitled to any reimbursement therefor from the Lessor, the Trustee or the Credit Facility Provider nor will the Lessee be entitled to any diminution of the Base Rentals and Additional Rentals payable under Section 6.1.

(b) The obligation of the Lessee to repair or replace the Project under Section 8.2 may, at the option of the Lessee, be discharged by causing the Net Proceeds to be applied to the payment of the Optional Prepayment Price, applicable, in accordance with Article XII of this Lease. In the event of an insufficiency of the Net Proceeds for such purpose, the Lessee will pay such amounts as may be necessary to equal the Optional Prepayment Price; and in the event the Net Proceeds will exceed the Optional Prepayment Price, such excess will be paid to or retained by the Lessee.

Within 90 days of the occurrence of an event specified in Section 8.1, the Lessee will commence the repair, restoration, modification, improvement or replacement of the Project, or will elect, by prior written notice to the Lessor, to proceed under the provisions of subsection (b) of this Section. For purposes of this Section, "commence" will include the retention of an architect or engineer in anticipation of repair, restoration, modification, improvement or replacement of the Project. In the event that the Lessee, after commencing the repair, restoration, modification, improvement or replacement of the Project, determines that the Net Proceeds (plus any amount withheld therefrom by reason of any deductible clause) will be insufficient for the accomplishment

thereof, the Lessee may elect to proceed under subsection (b) of this Section.

Section 8.4. Cooperation of Lessor. The Trustee and the Lessor shall cooperate fully with the Lessee in filing any proof of loss with respect to any insurance policy or performance bond covering the events described in Section 8.1, in the prosecution or defense of any prospective or pending condemnation proceeding with respect to the Project or any portion thereof, and in the prosecution of any action relating to defaults or breaches of warranty under any construction contracts or any other contracts relating to the Project. In no event shall the Lessor or the Lessee voluntarily settle, or consent to the settlement of, any proceeding arising out of any insurance claim, performance or payment bond claim, prospective or pending condemnation proceeding, or any action relating to defaults or breaches of warranty under any construction contracts or any other contracts relating to the Project, with respect to the Project or any portion thereof, without the written consent of the other and the Credit Facility Provider. This Section will not be construed to obligate the Lessor or the Credit Facility Provider to advance its own funds in order to take any action hereunder.

[End of Article VIII]

## ARTICLE IX

### DISCLAIMER OF WARRANTIES; OTHER COVENANTS

Section 9.1. Disclaimer of Warranties. THE LESSOR, THE ISSUER, THE TRUSTEE, THE CREDIT FACILITY PROVIDER AND THE OWNERS OF THE BONDS MAKE NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR FITNESS FOR USE OF THE PROJECT OR ANY PORTION THEREOF OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROJECT OR ANY PORTION THEREOF. The Lessee hereby acknowledges and declares that the Lessee is solely responsible for the acquisition, construction, design, installation and equipping of the Project as the agent of the Lessor, and for the operation and maintenance of the Project during the Lease Term, and that the Lessor, the Issuer, the Trustee, the Credit Facility Provider and the Owners of the Bonds have no responsibility therefor. In no event will the Lessor, the Issuer, the Trustee, the Credit Facility Provider or the Owners of the Bonds be liable for any direct or indirect, incidental, special or consequential damage in connection with or arising out of this Lease or the existence, furnishing, functioning or use by the Lessee of the Project or any item, product or service provided for herein.

Section 9.2. Further Assurances and Corrective Instruments. The Lessor and the Lessee agree that they will, from time to time, at the Lessee's expense, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Project hereby leased or intended so to be, or for otherwise carrying out the intention hereof.

Section 9.3. Lessor and Lessee Representatives. Whenever under the provisions hereof the approval of the Lessor or the Lessee is required to take some action at the request of the other, unless otherwise provided, such approval or such request will be given for the Lessor by the Lessor Representative and for the Lessee by the Lessee Representative and the Lessor and the Lessee will be authorized to act on any such approval or request.

Section 9.4. Compliance With Requirements. During the Lease Term, the Lessee and the Lessor will observe and comply promptly with all current and future orders of all courts having jurisdiction over the Project or any portion thereof (or be diligently and in good faith contesting such orders), and all current and future requirements of all insurance companies writing policies covering the Project or any portion thereof.

Section 9.5. Lessee Acknowledgment of the Bonds and Credit Facility. The Lessee acknowledges (i) that this Lease and the financing by the Lessor of the acquisition, construction,



installation and equipping of the Project is a part of the pooled lease financing program contemplated by the Indenture and the Bonds (the "Program"); (ii) that the payment and purchase of the Bonds is supported by the Credit Facility issued by the Credit Facility Provider; and (iii) that the Lease Rental Payments under this Lease, together with lease rental payments under all other leases entered into by the Lessor pursuant to the Program, are and will be applied to (A) pay the principal or Purchase Price of and premium, if any, and interest on the Bonds, (B) reimburse the Credit Facility Provider for all amounts paid by it under the Credit Facility to pay or purchase the Bonds, (C) pay interest, fees and other amounts due and owing to (including advances made by) the Credit Facility Provider under the Credit Facility Agreement, and (D) pay all other costs and expenses of the Program. The Lessee acknowledges and consents to the assignment by the Issuer, pursuant to the Indenture, and by the Lessor, pursuant to Section 13.1, to the Trustee, for the equal and ratable benefit of the Owners of the Bonds and the Credit Facility Provider, of all right, title and interest of the Issuer and the Lessor, respectively, in, to and under this Lease.

Section 9.6. Audited Financial Report. The Lessee will provide the Lessor and the Credit Facility Provider with a copy of the Lessee's annual audited financial report within thirty (30) days of its receipt by the Lessee.

Section 9.7. Inspection And Lessee Reports. The Lessor, the Trustee and the Credit Facility Provider and their respective authorized representatives shall at any time during normal business hours have the right to enter the premises where the Project may be located for the purpose of inspecting and examining the Project and its condition, use, and operation and the books and records of the Lessee relating thereto to ensure compliance by the Lessee with its obligations under this Lease, provided that no such party shall have any duty to inspect and shall not incur any liability or obligation by reason of not making any such inspection.

Section 9.8 Notice of Event of Default or Event of Nonappropriation. Promptly after any principal executive or financial officer of the Lessee has obtained actual knowledge of any Event of Default or Event of Nonappropriation hereunder, the Lessee will immediately notify the Lessor and the Credit Facility Provider of such Event of Default or Event of Nonappropriation.

[End of Article IX]

## ARTICLE X

### MAINTENANCE, TAXES, INSURANCE AND OTHER CHARGES

Section 10.1. Maintenance of the Project by the Lessee. The Lessee agrees that, at all times during the Lease Term, the Lessee will maintain, preserve and keep the Project or cause the Project to be maintained, preserved and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, ordinary wear and tear excepted, and that the Lessee will from time to time promptly make or cause to be made all necessary and proper repairs, except as otherwise provided in Section 8.3 (b). The Lessor, the Issuer, the Trustee, the Credit Facility Provider and the Owners of the Bonds will not have any responsibility in any of these matters or for the making of any additions, modifications, improvements or replacements to the Project.

Section 10.2. Modification of the Project; Installation of Equipment and Machinery of the Lessee. The Lessee will have the privilege of remodeling the Project or making substitutions, additions, modifications and improvements to the Project, at its own cost and expense (however, title to the same will be held in the name of the Lessor, subject to this Lease and the Collateral Documents, and will be included as part of the Project under the terms of this Lease); provided, however, that such remodeling, substitutions, additions, modifications and improvements will not in any way damage the Project or cause the Project to be used for purposes other than lawful governmental functions of the Lessee; and provided further, however, that the Project, as remodeled, modified, improved or altered, upon completion of such remodeling, substitutions, additions, modifications and improvements, will be of a value not less than the value of the Project immediately prior to such remodeling or such making of substitutions, additions, modifications and improvements (assuming the Project was in the condition required by this Lease).

The Lessee may also, from time to time in its sole discretion and at its own expense, but subject to the limitations set forth above, install machinery, equipment and other tangible property in or on the Project. All such machinery, equipment and other tangible property will remain the sole property of the Lessee in which neither the Lessor nor any assignee of the Lessor will have any interest; provided, however, that title to any such machinery, equipment and other tangible property which becomes permanently affixed to the Project will be held in the name of the Lessor, subject to this Lease and will be included in the Project under the terms of this Lease in the event the Lessor reasonably determines that the Project would be damaged or impaired by the removal of such machinery, equipment or other tangible property.

Section 10.3. Replacement and Substitution of Equipment. The Lessee will not be under any obligation to renew, repair or replace any inadequate, obsolete, worn-out, unsuitable, undesirable or unnecessary equipment. In any instance where the Lessee determines that any equipment has become inadequate, obsolete, worn-out, unsuitable, undesirable or unnecessary, the Lessee may remove such equipment from the Project and (on behalf of the Lessor) sell, trade-in, exchange or otherwise dispose of it (as a whole or in part) without any responsibility or accountability to the Lessor or any assignee of the Lessor therefor, provided that the Lessee will either:

(a) Substitute (by direct payment of the costs thereof or by designating as equipment, machinery or other personal property, other than property included as part of the Project pursuant to Section 10.2) and install anywhere in or on the Project, other equipment, machinery or related property having equal or greater value and utility (but not necessarily having the same function) in the operation of the Project; or

(b) Not make any such substitution and installation, provided (i) in the case of the sale of any such equipment to anyone other than itself, or in the case of the scrapping thereof, the Lessee will pay to the Trustee for deposit in the Revenue Fund as a prepayment of Base Rentals (other than the principal components thereof) the Net Proceeds from such sale or the scrap value thereof, as the case may be, (ii) that in the case of the trade-in of such equipment for other machinery, equipment or related property not to be installed in or on the Project, the Lessee will pay to the Trustee for deposit in the Revenue Fund as a prepayment of Base Rentals (other than the principal components thereof) the amount of the credit received by it in such trade-in and (iii) that in the case of the sale of any such equipment to the Lessee, or in the case of any other disposition thereof, the Lessee will pay to the Trustee for deposit in the Revenue Fund the amount equal to the original cost thereof paid out of the Lessee's Lessee Acquisition Account.

The removal from the Project of any portion of the equipment pursuant to the provisions of this Section 10.3 will not entitle the Lessee to any postponement, abatement or diminution of the Base Rentals or Additional Rentals required to be paid under Section 6.1.

The Lessee will promptly report in writing to the Lessor each removal, substitution, sale or other disposition under subsections (a) and (b) of this Section and will pay to the Trustee (with notice to the Lessor) all amounts required by subsection (b) of this Section promptly after any subsequent sale, scrapping, trade-in or other disposition requiring such payment. All substituted machinery, equipment or related property installed pursuant to this

Section will be free of all liens and encumbrances (other than Permitted Encumbrances) and will become a part of the Project. The Lessee will not remove, or permit the removal of, any of the equipment from the Project except in accordance with this Section. The Lessor and its assignees will cooperate with the Lessee in implementing the Lessee's rights to dispose of equipment pursuant to this Section and will execute any and all conveyances, releases or other documents necessary or appropriate in connection therewith.

Section 10.4. Taxes, Other Governmental Charges and Utility Charges. In the event that the Project or any portion thereof is, for any reason, deemed subject to taxation, assessments or charges lawfully made by any governmental body, the Lessee will, during the Lease Term, appropriate funds for, and pay the amount of, all such taxes, assessments and governmental charges when due. With respect to special assessments or other governmental charges which may be lawfully paid in installments over a period of years, the Lessee will be obligated to provide only for such installments as are required to be paid during the then current Fiscal Year. The Lessee will not allow any liens for taxes, assessments or governmental charges with respect to the Project or any portion thereof to become delinquent (including, without limitation, any taxes levied upon the Project or any portion thereof which, if not paid, will become a charge on the rentals and receipts from the Project or any portion thereof, or any interest therein, including the interest of the Lessor, the Trustee, the Owners of the Bonds or the Credit Facility Provider or the rentals and revenues derived therefrom or hereunder). The Lessee will also appropriate funds for and pay, as the same respectively become due, all gas, water, steam, electricity, heat, power, telephone, utility and other charges incurred in the operation, maintenance and upkeep of the Project.

The Lessee may, at the expense and in the name of the Lessee, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments, utility or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Lessor or the Credit Facility Provider notifies the Lessee that, in the opinion of Independent Counsel (whose fees and expenses shall be paid by the Lessee), by nonpayment of any such items the security afforded pursuant to this Lease may be materially endangered or the Project or any portion thereof will be subject to loss or forfeiture, or the Lessor will be subject to liability, in which event such taxes, assessments, utility or other charges will be paid forthwith (provided, however, that such payment will not constitute a waiver of the right to continue to contest such taxes, assessments, utility or other charges).

Section 10.5. Provisions Regarding Casualty, Public Liability and Property Damage Insurance. Upon the completion and acceptance

of the Project, the Lessee, at its expense, will cause casualty and property damage insurance with a company or self-insurance fund acceptable to the Lessor and the Credit Facility Provider to be carried and maintained with respect to the Project in an amount equal to the aggregate principal components of Base Rentals payable during the maximum term of this Lease or the replacement cost (excluding foundations) of the Project; whichever is greater. The Lessee will, during the Lease Term, appropriate funds for and pay the cost of such casualty and property damage insurance. The Lessee will, during the Lease Term, comply with the reasonable direction of the Lessor as to the terms of such casualty and property damage insurance, consistent with the requirements of this Section, and as to the selection of a responsible insurer to provide such casualty and property damage insurance. The insurance policy may have a per occurrence deductible clause not in excess of the greater of \$10,000 or the percentage of total Base Rentals due under this Lease specified in Exhibit A. The Project may be insured under a blanket insurance policy which insures other facilities as well as the Project, as long as such blanket insurance policy complies with the requirements of this Lease; provided that the protection afforded under such blanket insurance policy is comparable to that provided under other than a blanket insurance policy. Any casualty and property damage insurance policy required by this Section will name the Lessor, the Trustee and the Credit Facility Provider as additional named insureds and will be so written or endorsed as to make losses, if any, payable to the Trustee (for application as provided in Sections 8.2 and 8.3).

Upon the execution and delivery of this Lease, the Lessee will cause public liability insurance to be carried and maintained with a company or self-insurance fund acceptable to the Lessor and the Credit Facility Provider with respect to the activities to be undertaken by and on behalf of the Lessee in connection with the use of the Project. The Lessee will, during the Lease Term, appropriate funds for and pay the cost of such public liability insurance. The public liability insurance will be in such amount as is approved by the Lessor and the Credit Facility Provider, but in no event in an amount less than \$1,000,000 for personal injury or death in connection with the Project and \$1,000,000 for property damage for any occurrence in connection with the Project. The public liability insurance required by this Section may be by blanket insurance policy or policies; provided that the protection provided under such blanket insurance policy is comparable to that provided under other than a blanket insurance policy. Any public liability insurance policy required by this Section will name the Lessor, the Trustee and the Credit Facility Provider as additional named insureds.

Each insurance policy provided for in this Section will contain a provision to the effect that the insurance company will not cancel or terminate the policy or modify it materially and

adversely to the interests of the Lessor, the Trustee and the Credit Facility Provider without first giving written notice thereof by certified mail to the Lessee and the Lessor, the Trustee and the Credit Facility Provider at least 10 days in advance of such cancellation, termination or modification. All insurance policies issued pursuant to this Section will be deposited with the Trustee.

Section 10.6. Advances. In the event that the Lessee fails to pay any Additional Rentals during the Lease Term, the Lessor may (but will be under no obligation to) pay such Additional Rentals, which Additional Rentals the Lessee agrees to reimburse to the Lessor on demand, together with interest thereon at the Late Payment Rate.

[End of Article X]



## ARTICLE XI

### TITLE TO THE PROJECT; LIMITATIONS ON ENCUMBRANCES; ADDITIONAL SECURITY

Section 11.1 Title to the Project. Except personal property purchased by the Lessee at its own expense pursuant to Section 10.2, title to the Project and any and all additions and modifications to or replacements of any portion of the Project will be held in the name of the Lessor, subject only to Permitted Encumbrances, until liquidated or foreclosed or otherwise realized on by the Credit Facility Provider pursuant to or by reason of this Lease, the Indenture and/or any Collateral Document, or conveyed by the Lessor as provided in Article XII of this Lease, notwithstanding (a) termination of this Lease by the Lessee by reason of an Event of Nonappropriation as provided in Section 6.6; (b) the occurrence of one or more Events of Default as defined in Section 14.1; (c) the occurrence of any event of damage, destruction, condemnation or construction defect or title defect, as provided in Article VIII of this Lease; or (d) the violation by the Lessor (or the Trustee or the Credit Facility Provider as assignee of the Lessor) of any provision of this Lease.

The Lessee will have no right, title or interest in the Project or any additions and modifications to or replacements of any portion of the Project, except as expressly set forth in this Lease.

Section 11.2. No Encumbrance, Mortgage or Pledge of Project. The Lessee will not permit any mechanic's or other lien to be perfected or remain against the Project (including any additions, modifications, substitutions or improvements thereof or thereto), except Permitted Encumbrances; provided that subsequent to the Completion Date, if the Lessee first notifies the Lessor of the intention of the Lessee so to do, the Lessee may in good faith contest any mechanic's or other lien filed or perfected against the Project, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom unless the Lessor or the Credit Facility Provider notifies the Lessee that, in the opinion of Independent Counsel (whose fees and expenses will be paid by the Lessee), by nonpayment of any such items the Lessor's title to the Project, or the lien on the Project, may be materially endangered, or the Project or any part thereof will be subject to loss or forfeiture, in which event the Lessee will promptly pay and cause to be satisfied and discharged all such unpaid items (provided, however, that such payment will not constitute a waiver of the right to continue to contest such items). The Lessor will cooperate fully with the Lessee in any such contest, upon the request and at the expense of the Lessee. The Lessee will not directly or indirectly create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with

respect to the Site or the Project, except Permitted Encumbrances. The Lessee will promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim not excepted above which it has created, incurred or suffered to exist. The Lessor will promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim not excepted above which it has created, incurred or suffered to exist.

Section 11.3. Deed; Mortgage. If required by the Credit Facility Provider, the Lessee has, prior to the execution and delivery of this Lease, executed a warranty deed conveying the Site to the Lessor, and the Lessor has, simultaneously with the execution and delivery of this Lease, executed and delivered the Mortgage to the Trustee, whereby the Lessor has mortgaged to the Trustee, for the equal and ratable benefit of the Owners of the Bonds and the Credit Facility Provider, the Site, to secure the payment and performance of all of the Issuer's and the Lessor's obligations under the Indenture and the Credit Facility Agreement. If required by the Credit Facility Provider, the lien of the Mortgage must be insured by a title insurance policy, satisfactory in form and substance to the Credit Facility Provider, and issued and/or reinsured by such title insurance companies as are acceptable to the Credit Facility Provider.

Section 11.4. Security Interest. To secure the payment and performance of all of the Lessee's obligations under this Lease, the Lessee hereby grants and pledges to the Lessor a lien on and security interest in and to (i) all equipment, machinery, furnishings, furniture, vehicles and other personal property comprising a portion of the Project, (ii) all additions, attachments, accessions and substitutions thereto, (iii) all plans, drawings and specifications for the Project, when and as they are approved by the Lessee, including change orders, if any, as provided in Section 7.1, (iv) all permits necessary for construction and installation of the Project, including any building permits and certificates of occupancy, (v) all contracts entered into by the Lessee (whether in its own name or on behalf of the Lessor) for the acquisition, construction, installation, operation, maintenance or servicing of any part of the Project including, without limitation, contracts with construction contractors, vendors, architects, engineers, servicers and other consultants., and including contracts between any contractor for the Project and its subcontractors, (vi) all contracts entered into by the Lessee (whether in its own name or on behalf of the Lessor) for the sale or lease of the output from or services of the Project, and (vii) all proceeds of any of the foregoing, subject and subordinate, however, to the security interest therein granted by the Lessor to the Trustee pursuant to the Indenture. The Lessee agrees to execute such additional documents, including financing statements, affidavits, notices and similar instruments, in form



satisfactory to the Lessor and the Credit Facility Provider, which the Lessor or Credit Facility Provider deems necessary or appropriate to perfect and maintain the lien on and security interest in the aforesaid collateral granted hereunder by the Lessee.

Section 11.5. Letter of Credit. If required by the Credit Facility Provider, the Lessee, prior to or simultaneously with the execution and delivery of this Lease, caused a letter of credit, satisfactory in form and substance to the Credit Facility Provider and having the terms and provisions described in the next sentence of this Section (a "Letter of Credit"), to be issued by a bank satisfactory to the Credit Facility Provider (an "Approved Bank") in favor of the Trustee as security for the obligations of the Lessee under this Lease. The Lessee acknowledges that such Letter of Credit has a term which ends on or about the 30th day after the end of the first full Fiscal Year following commencement of the Lease Term and is renewable automatically for successive 12-month periods unless, at least 60 days prior to the end of any Fiscal Year, such Approved Bank delivers written notice to the Lessee, the Lessor, the Trustee and the Credit Facility Provider that such Letter of Credit will not be renewed. The Lessee covenants and agrees that, within 30 days following receipt by the Lessee of (a) notice from the Approved Bank which is the issuer of the Letter of Credit then in effect with respect to this Lease that such Letter of Credit will not be renewed, or (b) notice from the Credit Facility Provider to the effect that a Credit Event has occurred or is likely to occur with respect to the Approved Bank which is the issuer of the Letter of Credit then in effect with respect to this Lease, the Lessee will cause another Letter of Credit issued by another Approved Bank to be issued in favor of the Trustee as security for the obligations of the Lessee under this Lease. As used in this Section, the term "Credit Event" means, with respect to an Approved Bank, (i) a decree or order of a court or agency or supervisory authority having jurisdiction in the premises for the appointment of a conservator or receiver or liquidator in any insolvency proceedings, readjustment of debt, marshalling of assets or liabilities or similar proceedings of or with respect to such Approved Bank or of or with respect to all or substantially all of the property of such Approved Bank or for the winding-up or liquidation of the affairs of such Approved Bank has been entered, or (ii) such Approved Bank has consented to the appointment of a conservator or receiver or liquidator in any insolvency proceedings, readjustment of debt, marshalling of assets or liabilities or similar proceedings of or with respect to such Approved Bank, or of or with respect to all or substantially all of the property of such Approved Bank, or (iii) such Approved Bank has filed a petition to take advantage of any applicable insolvency or reorganization statute, or (iv) such Approved Bank generally suspends payment of its obligations, or (v) such Approved Bank takes action with respect to any of the events described in the preceding clauses (i) through (iv), or (vi) any credit rating for

the long-term debt obligations or letters of credit of such Approved Bank has been downgraded or withdrawn subsequent to the issuance or latest renewal by such Approved Bank of a Letter of Credit.

[End of Article XI]

## ARTICLE XII

### CONVEYANCE OF THE PROJECT

Section 12.1. Conveyance of the Project. The Lessor will transfer and convey to the Lessee the Project, in the manner provided for in Section 12.2; provided, however, that prior to such assignment, transfer and conveyance the Lessee has paid in full either (i) all Base Rentals required hereunder as set forth in Exhibit B hereto, for the entire maximum Lease Term or (ii) the then applicable Optional Prepayment Price, together, in each case, with all Lease Rental Payments accrued to the date of termination of this Lease.

The Lessee is hereby granted the option to terminate this Lease and to purchase the Project, subject to the prior written consent of the Lessor and the Credit Facility Provider, upon payment of the then applicable Optional Prepayment Price (as defined in the Indenture).

Section 12.2. Manner of Conveyance. At the closing of any purchase or other conveyance of the Project pursuant to Section 12.1, the Lessor and the Trustee will execute and deliver to the Lessee, or an assignee of the Lessee, all necessary documents assigning, transferring and conveying, by quitclaim deed, all of the Lessor's title to the Project as the Project then exists, subject to (i) all liens, encumbrances and restrictions created or suffered to exist by the Lessor as required or permitted by this Lease or arising as a result of any action taken or omitted to be taken by the Lessor as required or permitted by this Lease (except any lien or security interest arising under the Indenture or this Lease); (ii) any lien or encumbrance created or suffered to exist by action or omission of the Lessee and (iii) those liens and encumbrances (if any) to which title to the Project was subject when acquired by the Lessor.

Section 12.3. Escrowed Documents. In order to facilitate the Lessee's enforcement of the Lessor's obligations to convey the Project, to the Lessee under the circumstances provided in Section 12.1, the Lessor will prepare at the time of execution of this Lease and hold in escrow the deed, the bill of sale and the cancellation of the Lease relating to the Site and the Project, in form satisfactory to the Lessee. The Lessor will, upon compliance with the applicable conditions of Section 12.1, date and release the deed, the bill of sale and the cancellation of Lease to the Lessee for recording.

[End of Article XII]

## ARTICLE XIII

### ASSIGNMENT, SUBLEASING, INDEMNIFICATION AND SELLING

Section 13.1. Assignment by Lessor. As security for the payment and performance by the Issuer and the Lessor of all of their obligations under the Indenture and the Credit Facility Agreement, including particularly the payment of the principal of, premium, if any, and interest on the Bonds and the payment of all amounts due or to become due under the Credit Facility Agreement, the Lessor has assigned to the Trustee, under and pursuant to the Indenture, all of the Lessor's right, title and interest in, to and under this Lease and any Collateral Documents, including but not limited to the right to receive the Lease Rental Payments and other amounts due hereunder and the security interest granted hereunder in any property comprising a portion of the Project. The Lessee acknowledges and agrees that this assignment will entitle the Credit Facility Provider to enforce any obligation of the Lessee hereunder and to exercise any remedy or right of the Lessor hereunder. The Lessee further acknowledges and agrees that, as provided in the Indenture, the function of the "Lessor" under this Lease may be performed by the Program Administrator (which may be a person or entity other than the Lessor) and its agents and representatives.

After the occurrence of an Event of Default or an Event of Nonappropriation (and the honoring by the Credit Facility Provider of a drawing under the Credit Facility relating thereto, as more fully described in the Indenture), this Lease will be assigned by the Lessor and the Trustee to the Credit Facility Provider. The Lessee acknowledges and consents to any such assignment; and the Lessee acknowledges and agrees that upon any such assignment, (i) the Credit Facility Provider will be the "Lessor" under this Lease for all purposes of this Lease, (ii) all references in this Lease to the "Lessor" or the "Trustee" will be deemed to be references to the Credit Facility Provider (and/or its successors or assigns), (iii) all obligations of the Lessee under this Lease will be for the sole and exclusive benefit of the Credit Facility Provider (and/or its successors or assigns) and (iv) all payments to be made by the Lessee under this Lease will be made to or upon the direction of the Credit Facility Provider (and/or its successors or assigns).

Section 13.2. Assignment and Subleasing by the Lessee. This Lease may not be assigned by the Lessee for any reason. The Project may be subleased by the Lessee, as a whole or in part, but only with the prior written consent of the Lessor and the Credit Facility Provider.

Section 13.3. Release and Indemnification Covenants. To the extent permitted by law, the Lessee will and hereby agrees to

indemnify and save the Lessor, the Trustee and the Credit Facility Provider (each, an "Indemnatee") harmless against and from any or all claims, by or on behalf of any person, firm, corporation or other legal entity, and all liabilities, obligations, losses and damages whatsoever, regardless of the cause thereof and the expenses, penalties and fees in connection therewith (including counsel fees and expenses), arising from or as a result of the operation, ordering, ownership, acquisition, construction, use, condition, delivery, rejection, storage, return or management of the Project during the Lease Term, or the entering into of the Lease, the Collateral Documents or any other document or instrument relating thereto (collectively, "Indemnified Claims"), including, but not limited to: (i) any condition of the Project; (ii) any act of negligence of the Lessee or of any of its agents, contractors or employees or any violation of law by the Lessee or breach of any covenant or warranty by the Lessee hereunder; (iii) any accident in connection therewith resulting in damage to property or injury or death to any person; and (iv) the incurrence of any cost or expense in connection with the acquisition of the Project in excess of the moneys available therefor in the Lessee's Lessee Acquisition Account. To the extent permitted by law, the Lessee will indemnify and save each Indemnatee harmless from any such Indemnified Claim, or in connection with any action or proceeding brought thereon and, upon notice from such Indemnatee, will defend or pay the cost of defending such Indemnatee, in any such action or proceeding.

The indemnification arising under this Section will continue in full force and effect notwithstanding the full payment of all obligations under this Lease or the termination of this Lease for any reason.

[End of Article XIII]

ARTICLE XIV

EVENTS OF DEFAULT AND REMEDIES

Section 14.1. Events of Default Defined. The following will be "Events of Default" under this Lease and the term "Event of Default" or "Default" will mean, whenever it is used in this Lease, any one or more of the following events:

(a) Failure by the Lessee to pay any Base Rentals or any Additional Rentals at the time specified herein;

(b) Failure by the Lessee to vacate or surrender the Project by the July 1 following an Event of Nonappropriation as provided in Section 6.6;

(c) Failure by the Lessee to observe or perform any covenant, condition or agreement on its part to be observed or performed pursuant to Section 11.5;

(d) Failure by the Lessee to observe or perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in subsection (a), (b) or (c) of this Section, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied will have been given to the Lessee by the Lessor or the Credit Facility Provider unless the Lessor and the Credit Facility Provider agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, neither the Lessor nor the Credit Facility Provider will unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Lessee within the applicable period and diligently pursued until such failure is corrected. If, however, by reason of Force Majeure the Lessee is unable in whole or in part to carry out any of its agreements contained herein (other than its obligations contained in Article VI hereof and any other monetary obligations of the Lessee hereunder), the Lessee will not be deemed in default during the continuance of such inability. The Lessee agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the Lessee from carrying out its agreement, provided that the settlement of strikes and other employee-related disturbances will be entirely within the discretion of the Lessee and the Lessee will not be required to make settlement of strikes, lockouts and other employee-related disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Lessee unfavorable to the Lessee; and

(e) The dissolution or liquidation of the Lessee, or the voluntary initiation by the Lessee of any proceeding under any

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

Section 14.2. Remedies on Default. Whenever any Event of Default referred to in Section 14.1 has occurred and is continuing, the Credit Facility Provider may, without any further demand or notice, take one or any combination of the following remedial steps:

(a) terminate the Lease Term and give notice to the Lessee to vacate or surrender the Project, in the manner provided in Section 6.6, within sixty (60) days from the date of such notice;

(b) exercise all the rights and remedies of a secured party under the Kentucky Uniform Commercial Code with respect to any personal property comprising a portion of the Project and exercise all rights and remedies of a lienholder under applicable law with respect to any real property comprising a portion of the Project and may otherwise repossess and liquidate or realize or foreclose upon the Project in any lawful manner; provided, however, that the Credit Facility Provider may not recover from the Lessee any deficiency which may exist following the liquidation of such property;

(c) sell or re-lease the Project or any portion thereof;

(d) recover from the Lessee:

(i) the Lease Rental Payments which would otherwise have been payable hereunder during any period in which the Lessee continues to use, occupy or retain possession of the Project; and

(ii) Base Rentals and Additional Rentals, to the extent amounts for such Additional Rentals have been specifically appropriated in accordance with the provisions of Section 6.1, which would otherwise have been payable by the Lessee hereunder after the Lessee vacates or surrenders the Project during the remainder of the Fiscal Year in which such Event of Default occurs; or

(e) take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the Project under this Lease and any Collateral Documents (including, without limitation, the right to possession of the



Project and the right to sell or re-lease or otherwise dispose of the Project in accordance with applicable law), subject, however, to the limitations contained in this Lease with respect to the Lessee's obligations upon the occurrence of an Event of Nonappropriation; and/or take whatever action at law or in equity may appear necessary or desirable to enforce performance by the Lessee of the applicable covenants and agreements of the Lessee under this Lease (subject, however, to the limitations thereon contained in this Lease) and to recover damages for the breach thereof.

Section 14.3. Limitations on Remedies. A judgment requiring a payment of money may be entered against the Lessee by reason of an Event of Default only as to the Lessee's liabilities described in subsection (d) of Section 14.2. A judgment requiring a payment of money may be entered against the Lessee by reason of an Event of Nonappropriation only to the extent that the Lessee fails to vacate or surrender the Project as required by Section 6.6, and only as to the liabilities described in Section 14.2(d)(i). The remedy described in Section 14.2(d)(ii) will not be available for an Event of Default consisting of failure by the Lessee to vacate or surrender the Project by the July 1 following an Event of Nonappropriation.

Section 14.4. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Credit Facility Provider 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. In order to entitle the Credit Facility Provider to exercise any remedy reserved in this Article XIV, it will not be necessary to give any notice, other than such notice as may be required in this Article XIV.

Section 14.5. 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. The Lessor may not waive any breach by the Lessee hereunder without the written consent of the Credit Facility Provider.

Section 14.6. Agreement To Pay Attorneys' Fees and Expenses. In the event that the Lessee defaults under any of the provisions hereof and the Lessor, the Trustee or the Credit Facility Provider employs attorneys or incurs other expenses for the collection of Lease Rental Payments, or the enforcement of performance or observance of any obligation or agreement on the part of the Lessee herein contained, the Lessee agrees that it will appropriate funds



for and pay on demand therefor to the Lessor, the Trustee or the Credit Facility Provider, as applicable, the fees of such attorneys and such other expenses so incurred by the Lessor, the Trustee or the Credit Facility Provider, if applicable.

Section 14.7. Waiver of Appraisalment, Valuation, Stay, Extension and Redemption Laws. The Lessor and the Lessee agree, to the extent permitted by law, that in the case of a termination of the Lease Term by reason of an Event of Default, neither the Lessor nor the Lessee nor any one claiming through or under either of them will or will set up, claim or seek to take advantage of any appraisalment, valuation, stay, extension or redemption laws now or hereafter in force in order to prevent or hinder the enforcement of this Lease; and the Lessor and the Lessee, for themselves and all who may at any time claim through or under either of them, each hereby waives, to the full extent that it may lawfully do so, the benefit of all such laws.

[End of Article XIV]

## ARTICLE XV

### MISCELLANEOUS

Section 15.1. Notices. All notices, certificates, requests or other communications hereunder will be sufficiently given and will be in writing and mailed (postage prepaid, and certified or registered with return receipt requested) or delivered (including delivery by courier service) as follows: if to the Lessor, to Kentucky Association of Counties Leasing Trust, 390 King's Daughters Drive, P. O. Box 4207, Frankfort, Kentucky 40604-4207, Attention: Executive Director, if to Issuer, to Pendleton County, 208 Chapel Street, Falmouth, Kentucky 41040, Attention: County Judge/Executive, if to Trustee, to Liberty National Bank and Trust Company of Louisville, 426 Jefferson, Louisville, Kentucky 40232, Attention: Corporate Trust Department, if to Credit Facility Provider, to Commonwealth Bank of Australia, New York Branch, 599 Lexington Avenue, 18th Floor, New York, New York 10022, Attention: Lending, if to the Lessee, to the address shown on the cover page hereof. Any of the foregoing may, by notice given hereunder to each of the others, designate any further or different addresses to which subsequent notices, certificates, requests or other communications will be sent hereunder. All notices, certificates, requests and other communications pursuant to this Lease will be effective when received (if given by mail) or when delivered (if given by delivery).

Section 15.2. Binding Effect. This Lease will inure to the benefit of and will be binding upon the Lessor and the Lessee and their respective successors and assigns (including, without limitation, security assigns), subject, however, to the limitations contained in Article XIII of this Lease.

Section 15.3. Amendments, Changes and Modifications. Except as provided in Section 6.1 with respect to Exhibit B, this Lease may not be amended, changed, modified or altered, or any provision hereof waived, without the written consent of the Lessor and the Lessee and, in addition, the Credit Facility Provider.

Section 15.4. Net Lease. This Lease will be deemed and construed to be a "net lease," and the Lessee will pay absolutely net during the Lease Term, the Lease Rental Payments and all other payments required hereunder, free of any deductions, and without abatement, deduction or setoff (other than credits against Base Rentals expressly provided for in this Lease).

Section 15.5. Payments Due on Holidays. If the date for making any payment or the last day for performance of any act or the exercising of any right, as provided in this Lease, is not a Business Day, such payment

may be made or act performed or right exercised on the next preceding day that is a Business Day with the same force and effect as if done on the nominal date provided in this Lease.

Section 15.6. Severability. In the event that any provision of this Lease, other than the requirement of the Lessee to pay Base Rentals and the requirement of the Lessor to provide quiet enjoyment of the Project and to convey the Project to the Lessee under the conditions set forth in Article XII, is held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

Section 15.7. Third Party Beneficiary. No person other than a party hereto, the Trustee and the Credit Facility Provider shall have any right, remedy or claim under or by reason of this Lease or otherwise be a third party beneficiary of any rights, remedies, claims or agreements hereunder. The parties hereto acknowledge and agree that the Credit Facility Provider will be a third party beneficiary of all rights, remedies, claims or agreements hereunder, with the right to enforce the same, with the same effect as though the Credit Facility Provider were a party hereto.

Section 15.8. Execution in Counterparts. This Lease may be simultaneously executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

Section 15.9. Applicable Law. This Lease will be governed by and construed in accordance with the laws of the State.

Section 15.10. Captions. The captions or headings herein are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Lease.

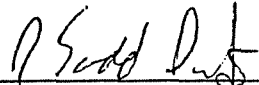
[Remainder of page intentionally left blank]

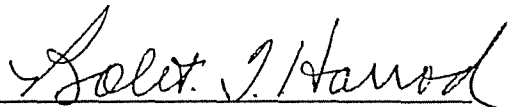
IN WITNESS WHEREOF, the Lessor has executed this Lease in its corporate name with its corporate seal hereunto affixed and attested by its duly authorized officers; and the Lessee has caused this Lease to be executed in its corporate name and the seal of the Lessee affixed and attested by duly authorized officers thereof. All of the above are effective as of the date first above written.

[SEAL]

KENTUCKY ASSOCIATION OF COUNTIES  
LEASING TRUST, as Lessor

Attest:

By   
Name: J. Todd Switzer  
Title: Assistant Administrator

By   
Name: Robert T. Harrod  
Title: Administrator

[Signatures continued on the following page]

[SEAL]

as Lessee

Attest:

By *Bonnie Monroe*  
Name: Bonnie Monroe  
County Clerk

By *Donald R. Mays*  
Name: Donald R. Mays  
County Judge/Executive

EXHIBIT A

DESCRIPTION OF PROJECT

Financing of the purchase of a 3700 square foot commercial and office building located on the following described real property:

Lying and being in Pendleton County, Kentucky on the South side of Kentucky Route #330 and 0.2 miles West of Stewart Lane and more particularly described as follows, to-wit: BEGINNING at a P.K. nail found in the centerline of Kentucky Route #330 at the intersection of said road and a concrete drive, a corner to Pendleton County Health Department; thence leaving said road with the centerline of said drive and the lines of Pendleton County Health Department, S 16° 17' 22" E--209.93 feet to a P.K. nail set; thence leaving said drive, S 69° 09' 44" W--190.83 feet to an iron pin set; thence S 36° 18' 12" W--180.23 feet to an iron pin set in the line of Maurice Sullivan; thence with said line, S 47° 26' 16" E--84.46 feet to an iron pin found, a corner to David Butcher (D.B. 176, page 353); thence with said lines, N 73° 48' 15" E--442.69 feet to an iron pin found; thence N 16° 11' 45" W--386.47 feet to P.K. nail found in the centerline of Kentucky Route #330; thence with said centerline, S 80° 18' 38" W-- 37.88 feet to P.K. nail; thence S 81° 55' 01" W--117.18 feet to the place of beginning containing 2.6050 acres more or less exclusive of all right of ways or easements of record.

The Grantors convey their retained right to ingress and egress easement over the concrete drive and also note that this property is subject to a right in the owners of Lot #2 to ingress and egress over the shared concrete driveway depicted in the attached plat, providing for access to Ky. 330.

This being the same property conveyed to Kentucky Association of Counties Leasing Trust by Pendleton County Fiscal Court by Deed, dated *April 3, 1997* and of record in Deed Book *202*, Page *517*, in the office of the Pendleton County Clerk

TOTAL COST OF PROJECT: \$110,000.00

# Kentucky Association of Counties Leasing Trust Program

## Pendleton County Water District Office

### Assumptions

\$110,000	Lease Amt
County	Lessee Type
6.350000%	Bond Rate 1/25 Yr
Swap	Bond Type
20	Lease Term (Yr)
1	Prin per Yr
240	Total # Pmts
12	Pmts per Yr
\$82,000,000	Max Tr Project
\$84,500,000	Total 10 Year Bonds
\$20,500,000	Total Pmtl Bonds
0	Net G. Pmtl Cash Pmtl

\*\*

\*\* TIC on Swap Debt

0.1341%	Prop Share
0.250%	Admin Fee
0.500%	Credit Fee
0.236%	Fiduc Fees*
\$53,000.00	*Trustee
\$32,000.00	*Pay Agent
\$2,500.00	*Rating Agt
\$105,625.00	*Remktg
\$0.00	*Others
0.000%	Local LOC
\$9,090.51	Cash Pmt Amt

(on LOC Amt, on Par  
0.541% )

### Projected Annual Total Pmts

Base+LOC	FY
\$1,500	1
\$9,934	2
\$9,743	3
\$9,551	4
\$10,334	5
\$10,079	6
\$9,824	7
\$9,569	8
\$10,287	9
\$9,968	10
\$9,649	11
\$9,330	12
\$9,985	13
\$9,602	14
\$9,220	15
\$9,811	16
\$9,365	17
\$8,918	18
\$9,445	19
\$8,935	20
\$10,372	21
\$0	22
\$0	23
\$0	24
\$0	25
\$0	26
\$0	27
\$0	28
\$0	29
\$0	30
\$195,421	Total

### Estimated Lease Size

Project		\$110,000.00	100.000%
LOC Application	N	\$0.00	0.000%
Takedown		\$0.00	0.000%
Share of Issuance ***	N	\$0.00	0.000%
Closing expenses	N	\$0.00	0.000%
1st Payment	N	\$0.00	0.000%
Contingency		\$0.00	0.000%
		<u>\$110,000.00</u>	<u>100.000%</u>

\*\*\* to be rebated after Parity

### Estimated Cost Summary

Total Interest	\$71,673.76
Total Admin Fees	\$3,349.34
Total Credit Fees	\$7,242.72
Total Fiduciary Fees	\$3,155.06
Total Local LOC	\$0.00
Total Cost	<u>\$85,420.88</u>
Effective Interest Rate	
Internal Rate of Return (IRR)	6.414%

# Kentucky Association of Counties Leasing Trust Program

## Pendleton County Water District Office

### EXHIBIT B Base Rentals

#	Date	Base Rental Principal Component	Base Rental Interest Component	Admin Fees	Credit Fees	Fiduciary Fees	Total Base Rental	Pre Balance	New Lease Amt	
	04/01/97	c. Closing Data							110,000	118,938
1	05/20/97	0.00	768.32	35.90	77.64	33.82	915.68	110,000	118,938	
2	06/20/97	0.00	490.42	22.92	49.56	21.59	584.49	110,000	118,938	
3	07/20/97	0.00	490.42	22.92	49.56	21.59	584.49	110,000	118,938	
4	08/20/97	0.00	490.42	22.92	49.56	21.59	584.49	110,000	118,938	
5	09/20/97	0.00	490.42	22.92	49.56	21.59	584.49	110,000	118,938	
6	10/20/97	0.00	490.42	22.92	49.56	21.59	584.49	110,000	118,938	
7	11/20/97	0.00	490.42	22.92	49.56	21.59	584.49	110,000	118,938	
8	12/20/97	0.00	490.42	22.92	49.56	21.59	584.49	110,000	118,938	
9	01/20/98	3,000.00	490.42	22.92	49.56	21.59	3,584.49	107,000	115,694	
10	02/20/98	0.00	477.04	22.29	48.21	21.00	568.54	107,000	115,694	
11	03/20/98	0.00	477.04	22.29	48.21	21.00	568.54	107,000	115,694	
12	04/20/98	0.00	477.04	22.29	48.21	21.00	568.54	107,000	115,694	
13	05/20/98	0.00	477.04	22.29	48.21	21.00	568.54	107,000	115,694	
14	06/20/98	0.00	477.04	22.29	48.21	21.00	568.54	107,000	115,694	
15	07/20/98	0.00	477.04	22.29	48.21	21.00	568.54	107,000	115,694	
16	08/20/98	0.00	477.04	22.29	48.21	21.00	568.54	107,000	115,694	
17	09/20/98	0.00	477.04	22.29	48.21	21.00	568.54	107,000	115,694	
18	10/20/98	0.00	477.04	22.29	48.21	21.00	568.54	107,000	115,694	
19	11/20/98	0.00	477.04	22.29	48.21	21.00	568.54	107,000	115,694	
20	12/20/98	0.00	477.04	22.29	48.21	21.00	568.54	107,000	115,694	
21	01/20/99	3,000.00	477.04	22.29	48.21	21.00	3,568.54	104,000	112,450	
22	02/20/99	0.00	463.67	21.67	46.85	20.41	552.60	104,000	112,450	
23	03/20/99	0.00	463.67	21.67	46.85	20.41	552.60	104,000	112,450	
24	04/20/99	0.00	463.67	21.67	46.85	20.41	552.60	104,000	112,450	
25	05/20/99	0.00	463.67	21.67	46.85	20.41	552.60	104,000	112,450	
26	06/20/99	0.00	463.67	21.67	46.85	20.41	552.60	104,000	112,450	
27	07/20/99	0.00	463.67	21.67	46.85	20.41	552.60	104,000	112,450	
28	08/20/99	0.00	463.67	21.67	46.85	20.41	552.60	104,000	112,450	
29	09/20/99	0.00	463.67	21.67	46.85	20.41	552.60	104,000	112,450	
30	10/20/99	0.00	463.67	21.67	46.85	20.41	552.60	104,000	112,450	
31	11/20/99	0.00	463.67	21.67	46.85	20.41	552.60	104,000	112,450	
32	12/20/99	0.00	463.67	21.67	46.85	20.41	552.60	104,000	112,450	
33	01/20/00	3,000.00	463.67	21.67	46.85	20.41	3,562.60	101,000	109,206	
34	02/20/00	0.00	450.29	21.04	45.50	19.82	536.65	101,000	109,206	
35	03/20/00	0.00	450.29	21.04	45.50	19.82	536.65	101,000	109,206	
36	04/20/00	0.00	450.29	21.04	45.50	19.82	536.65	101,000	109,206	
37	05/20/00	0.00	450.29	21.04	45.50	19.82	536.65	101,000	109,206	
38	06/20/00	0.00	450.29	21.04	45.50	19.82	536.65	101,000	109,206	
39	07/20/00	0.00	450.29	21.04	45.50	19.82	536.65	101,000	109,206	
40	08/20/00	0.00	450.29	21.04	45.50	19.82	536.65	101,000	109,206	
41	09/20/00	0.00	450.29	21.04	45.50	19.82	536.65	101,000	109,206	
42	10/20/00	0.00	450.29	21.04	45.50	19.82	536.65	101,000	109,206	
43	11/20/00	0.00	450.29	21.04	45.50	19.82	536.65	101,000	109,206	
44	12/20/00	0.00	450.29	21.04	45.50	19.82	536.65	101,000	109,206	
45	01/20/01	4,000.00	450.29	21.04	45.50	19.82	4,536.65	97,000	104,881	
46	02/20/01	0.00	432.46	20.21	43.70	19.04	515.41	97,000	104,881	
47	03/20/01	0.00	432.46	20.21	43.70	19.04	515.41	97,000	104,881	
48	04/20/01	0.00	432.46	20.21	43.70	19.04	515.41	97,000	104,881	
49	05/20/01	0.00	432.46	20.21	43.70	19.04	515.41	97,000	104,881	
50	06/20/01	0.00	432.46	20.21	43.70	19.04	515.41	97,000	104,881	
51	07/20/01	0.00	432.46	20.21	43.70	19.04	515.41	97,000	104,881	
52	08/20/01	0.00	432.46	20.21	43.70	19.04	515.41	97,000	104,881	
53	09/20/01	0.00	432.46	20.21	43.70	19.04	515.41	97,000	104,881	
54	10/20/01	0.00	432.46	20.21	43.70	19.04	515.41	97,000	104,881	
55	11/20/01	0.00	432.46	20.21	43.70	19.04	515.41	97,000	104,881	
56	12/20/01	0.00	432.46	20.21	43.70	19.04	515.41	97,000	104,881	
57	01/20/02	4,000.00	432.46	20.21	43.70	19.04	4,515.41	93,000	100,556	
58	02/20/02	0.00	414.63	19.38	41.90	18.25	494.16	93,000	100,556	
59	03/20/02	0.00	414.63	19.38	41.90	18.25	494.16	93,000	100,556	
60	04/20/02	0.00	414.63	19.38	41.90	18.25	494.16	93,000	100,556	
61	05/20/02	0.00	414.63	19.38	41.90	18.25	494.16	93,000	100,556	
62	06/20/02	0.00	414.63	19.38	41.90	18.25	494.16	93,000	100,556	
63	07/20/02	0.00	414.63	19.38	41.90	18.25	494.16	93,000	100,556	
64	08/20/02	0.00	414.63	19.38	41.90	18.25	494.16	93,000	100,556	
65	09/20/02	0.00	414.63	19.38	41.90	18.25	494.16	93,000	100,556	
66	10/20/02	0.00	414.63	19.38	41.90	18.25	494.16	93,000	100,556	



# Kentucky Association of Counties Leasing Trust Program

## Pendleton County Water District Office

### EXHIBIT B

#### Base Rentals

#	Date	Base Rental Principal Component	Base Rental Interest Component *	Admin Fees	Credit Fees	Fiduciary Fees	Total Base Rental	Price Indexed	New LCR Amt
67	11/20/02	0.00	414.63	19.38	41.90	18.25	494.16	93,000	100,556
68	12/20/02	0.00	414.63	19.38	41.90	18.25	494.16	93,000	100,556
69	01/20/03	4,000.00	414.63	19.38	41.90	18.25	4,494.16	89,000	96,231
70	02/20/03	0.00	396.79	18.54	40.10	17.47	472.90	89,000	96,231
71	03/20/03	0.00	396.79	18.54	40.10	17.47	472.90	89,000	96,231
72	04/20/03	0.00	396.79	18.54	40.10	17.47	472.90	89,000	96,231
73	05/20/03	0.00	396.79	18.54	40.10	17.47	472.90	89,000	96,231
74	06/20/03	0.00	396.79	18.54	40.10	17.47	472.90	89,000	96,231
75	07/20/03	0.00	396.79	18.54	40.10	17.47	472.90	89,000	96,231
76	08/20/03	0.00	396.79	18.54	40.10	17.47	472.90	89,000	96,231
77	09/20/03	0.00	396.79	18.54	40.10	17.47	472.90	89,000	96,231
78	10/20/03	0.00	396.79	18.54	40.10	17.47	472.90	89,000	96,231
79	11/20/03	0.00	396.79	18.54	40.10	17.47	472.90	89,000	96,231
80	12/20/03	0.00	396.79	18.54	40.10	17.47	472.90	89,000	96,231
81	01/20/04	4,000.00	396.79	18.54	40.10	17.47	4,472.90	85,000	91,906
82	02/20/04	0.00	378.96	17.71	38.29	16.68	451.64	85,000	91,906
83	03/20/04	0.00	378.96	17.71	38.29	16.68	451.64	85,000	91,906
84	04/20/04	0.00	378.96	17.71	38.29	16.68	451.64	85,000	91,906
85	05/20/04	0.00	378.96	17.71	38.29	16.68	451.64	85,000	91,906
86	06/20/04	0.00	378.96	17.71	38.29	16.68	451.64	85,000	91,906
87	07/20/04	0.00	378.96	17.71	38.29	16.68	451.64	85,000	91,906
88	08/20/04	0.00	378.96	17.71	38.29	16.68	451.64	85,000	91,906
89	09/20/04	0.00	378.96	17.71	38.29	16.68	451.64	85,000	91,906
90	10/20/04	0.00	378.96	17.71	38.29	16.68	451.64	85,000	91,906
91	11/20/04	0.00	378.96	17.71	38.29	16.68	451.64	85,000	91,906
92	12/20/04	0.00	378.96	17.71	38.29	16.68	451.64	85,000	91,906
93	01/20/05	5,000.00	378.96	17.71	38.29	16.68	5,451.64	80,000	86,500
94	02/20/05	0.00	356.67	16.67	36.04	15.70	425.08	80,000	86,500
95	03/20/05	0.00	356.67	16.67	36.04	15.70	425.08	80,000	86,500
96	04/20/05	0.00	356.67	16.67	36.04	15.70	425.08	80,000	86,500
97	05/20/05	0.00	356.67	16.67	36.04	15.70	425.08	80,000	86,500
98	06/20/05	0.00	356.67	16.67	36.04	15.70	425.08	80,000	86,500
99	07/20/05	0.00	356.67	16.67	36.04	15.70	425.08	80,000	86,500
100	08/20/05	0.00	356.67	16.67	36.04	15.70	425.08	80,000	86,500
101	09/20/05	0.00	356.67	16.67	36.04	15.70	425.08	80,000	86,500
102	10/20/05	0.00	356.67	16.67	36.04	15.70	425.08	80,000	86,500
103	11/20/05	0.00	356.67	16.67	36.04	15.70	425.08	80,000	86,500
104	12/20/05	0.00	356.67	16.67	36.04	15.70	425.08	80,000	86,500
105	01/20/06	5,000.00	356.67	16.67	36.04	15.70	5,425.08	75,000	81,094
106	02/20/06	0.00	334.38	15.63	33.79	14.72	398.52	75,000	81,094
107	03/20/06	0.00	334.38	15.63	33.79	14.72	398.52	75,000	81,094
108	04/20/06	0.00	334.38	15.63	33.79	14.72	398.52	75,000	81,094
109	05/20/06	0.00	334.38	15.63	33.79	14.72	398.52	75,000	81,094
110	06/20/06	0.00	334.38	15.63	33.79	14.72	398.52	75,000	81,094
111	07/20/06	0.00	334.38	15.63	33.79	14.72	398.52	75,000	81,094
112	08/20/06	0.00	334.38	15.63	33.79	14.72	398.52	75,000	81,094
113	09/20/06	0.00	334.38	15.63	33.79	14.72	398.52	75,000	81,094
114	10/20/06	0.00	334.38	15.63	33.79	14.72	398.52	75,000	81,094
115	11/20/06	0.00	334.38	15.63	33.79	14.72	398.52	75,000	81,094
116	12/20/06	0.00	334.38	15.63	33.79	14.72	398.52	75,000	81,094
117	01/20/07	5,000.00	334.38	15.63	33.79	14.72	5,398.52	70,000	75,688
118	02/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
119	03/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
120	04/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
121	05/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
122	06/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
123	07/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
124	08/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
125	09/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
126	10/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
127	11/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
128	12/20/07	0.00	312.08	14.58	31.54	13.74	371.94	70,000	75,688
129	01/20/08	5,000.00	312.08	14.58	31.54	13.74	5,371.94	65,000	70,281
130	02/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
131	03/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
132	04/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
133	05/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281

# Kentucky Association of Counties Leasing Trust Program

## Pendleton County Water District Office

### EXHIBIT B

#### Base Rentals

	Date	Base Rental Principal Component	Base Rental Interest Component*	Admin Fees	Credit Fees	Fiduciary Fees	Total Base Rental	Pre Balance	New L.C.C. Amo
134	06/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
135	07/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
136	08/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
137	09/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
138	10/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
139	11/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
140	12/20/08	0.00	289.79	13.54	29.28	12.76	345.37	65,000	70,281
141	01/20/09	6,000.00	289.79	13.54	29.28	12.76	6,345.37	59,000	63,794
142	02/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
143	03/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
144	04/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
145	05/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
146	06/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
147	07/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
148	08/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
149	09/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
150	10/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
151	11/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
152	12/20/09	0.00	263.04	12.29	26.58	11.58	313.49	59,000	63,794
153	01/20/10	6,000.00	263.04	12.29	26.58	11.58	6,313.49	53,000	57,306
154	02/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
155	03/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
156	04/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
157	05/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
158	06/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
159	07/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
160	08/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
161	09/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
162	10/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
163	11/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
164	12/20/10	0.00	236.29	11.04	23.88	10.40	281.61	53,000	57,306
165	01/20/11	6,000.00	236.29	11.04	23.88	10.40	6,281.61	47,000	50,819
166	02/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
167	03/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
168	04/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
169	05/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
170	06/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
171	07/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
172	08/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
173	09/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
174	10/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
175	11/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
176	12/20/11	0.00	209.54	9.79	21.17	9.22	249.72	47,000	50,819
177	01/20/12	7,000.00	209.54	9.79	21.17	9.22	7,249.72	40,000	43,250
178	02/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
179	03/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
180	04/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
181	05/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
182	06/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
183	07/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
184	08/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
185	09/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
186	10/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
187	11/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
188	12/20/12	0.00	178.33	8.33	18.02	7.85	212.53	40,000	43,250
189	01/20/13	7,000.00	178.33	8.33	18.02	7.85	7,212.53	33,000	35,681
190	02/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
191	03/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
192	04/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
193	05/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
194	06/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
195	07/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
196	08/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
197	09/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
198	10/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
199	11/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681
200	12/20/13	0.00	147.13	6.88	14.87	6.48	175.36	33,000	35,681

# Kentucky Association of Counties Leasing Trust Program

Pendleton County Water District Office

## EXHIBIT B

### Base Rentals

#	Date	Base Rental Principal Component	Base Rental Interest Component *	Admin Fees	Credit Fees	Fiduciary Fees	Total Base Rental	Pre Balance	New Lease Amt
201	01/20/14	7,000.00	147.13	6.88	14.87	6.48	7,175.36	26,000	28,113
202	02/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
203	03/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
204	04/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
205	05/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
206	06/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
207	07/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
208	08/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
209	09/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
210	10/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
211	11/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
212	12/20/14	0.00	115.92	5.42	11.71	5.10	138.15	26,000	28,113
213	01/20/15	8,000.00	115.92	5.42	11.71	5.10	8,138.15	18,000	19,463
214	02/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
215	03/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
216	04/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
217	05/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
218	06/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
219	07/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
220	08/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
221	09/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
222	10/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
223	11/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
224	12/20/15	0.00	80.25	3.75	8.11	3.53	95.64	18,000	19,463
225	01/20/16	8,000.00	80.25	3.75	8.11	3.53	8,095.64	10,000	10,813
226	02/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
227	03/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
228	04/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
229	05/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
230	06/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
231	07/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
232	08/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
233	09/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
234	10/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
235	11/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
236	12/20/16	0.00	44.58	2.08	4.51	1.96	53.13	10,000	10,813
237	01/20/17	10,000.00	44.58	2.08	4.51	1.96	10,053.13	0	0
238	02/20/17	0.00	0.00	0.00	0.00	0.00	0.00	0	0
239	03/20/17	0.00	0.00	0.00	0.00	0.00	0.00	0	0
240	04/20/17	0.00	0.00	0.00	0.00	0.00	0.00	0	0
		<b>\$110,000.00</b>	<b>\$71,673.76</b>	<b>\$3,349.34</b>	<b>\$7,242.72</b>	<b>\$3,155.06</b>	<b>\$195,420.88</b>		

\* Computed at an assumed rate per annum equal to 5.350000%, such rate being the fixed rate per annum payable under the Swap Rate in respect to the Lease.

EXHIBIT C

OPINION OF LESSEE'S COUNSEL

April 3, 1997

Bank One, Kentucky, as Trustee  
426 Jefferson  
Louisville, KY 40232

Commonwealth Bank of Australia  
New York Branch  
599 Lexington Avenue  
New York, NY 10022

Kentucky Association of  
Counties Leasing Trust  
390 King's Daughters Drive  
P. O. Box 4207  
Frankfort, KY 40604-4207

\$110,000.00

Lease Agreement between  
Kentucky Association of Counties Leasing Trust, as lessor,  
and Pendleton County, Kentucky, as lessee

Ladies and Gentlemen:

We have acted as counsel to Pendleton County, Kentucky (the "Lessee") in connection with the authorization, execution, and delivery by the Lessee of the Lease Agreement dated April 3, 1997, (the "Lease"), between the Lessee, as lessee, and Kentucky Association of Counties Leasing Trust, as lessor (the "Lessor"). We have reviewed (i) the Constitution and laws of the Commonwealth of Kentucky (the "Commonwealth"), (ii) certain proceedings taken by the Pendleton County Fiscal Court of the Lessee, (iii) an executed copy of the Lease and (iv) such other information and documents as we have deemed necessary or appropriate in order to render this opinion.

Based on the foregoing, we are of the opinion that:

1. The Lessee is a body politic and corporate, validly organized and existing in good standing under the laws of the Commonwealth and has full power and authority to enter into and to perform its obligations under the Lease.

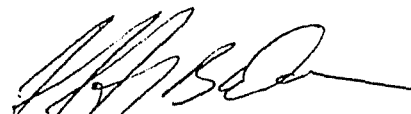
2. The Lease has been duly authorized, executed and delivered by the Lessee and (assuming the due authorization, execution and delivery thereof by the Lessor) constitutes a legal, valid and binding obligation of the Lessee, enforceable against the Lessee in accordance with its terms (including, without limitation, the right of the Lessee to terminate the Lease at the end of each Fiscal Year of the Lessee by reason of an Event of Nonappropriation, as defined in the Lease), except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

3. All consents, approvals or authorizations of any governmental entity and all filings and notices required on the part of the Lessee in connection with the authorization, execution and delivery of the Lease and the consummation of the transactions contemplated thereby have been obtained and are in full force and effect.

4. Neither the execution and delivery of the Lease nor the consummation of the transactions contemplated thereby, nor the fulfillment of or compliance with the terms and conditions of the Lease conflict with or constitute a violation of any provision of any law or regulation applicable to the Lessee or, to the best of our knowledge after reasonable investigation, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Lessee is now a party or by which the Lessee is bound.

5. To the best of our knowledge, after reasonable investigation, there is no action, suit, proceeding or governmental investigation at law or in equity before or by any court, public board or body, pending of which the Lessee has been served with a summons, summons and complaint or other notice of commencement, or threatened against or affecting the Lessee, challenging the validity of the Lease or contesting the power and authority of the Lessee to execute and deliver the Lease or to consummate the transactions contemplated by the Lease.

Respectfully submitted,

  
Jeff Dean

# WILLIAMS & WAGONER

## ATTORNEYS AT LAW

ONE OXMOOR PLACE  
101 BULLITT LANE, SUITE 202  
LOUISVILLE, KENTUCKY 40222  
502-429-5700  
TELECOPIER 502-429-5720

LEXINGTON OFFICE:  
LEXINGTON FINANCIAL CENTER  
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LEXINGTON, KENTUCKY 40507  
606-252-3669  
TELECOPIER 606-252-3487

### EXHIBIT D OPINION OF LESSOR'S COUNSEL

April 1, 1997

PHIL WILLIAMS  
JAMES R. WAGONER  
W. KENNETH NEVITT  
C. THOMAS HECTUS\*  
CAROLE MELLER PEARLMAN  
L. J. "TODD" HOLLENBACH, IV  
DENNIS LEE HATTINGLY\*  
CARLA FOREMAN DALLAS  
ALLEN BUTTON  
R. MARK BEAL  
R. THADDEUS KEAL  
J. KEY SCHOEN

DAVID S. DUPPS\*  
JAMES M. BURD  
GEORGE T. T. KITCHEN III  
MARY E. SCHAFFNER  
JEFFREY T. SAMPSON  
SUN S. CHOY  
CRAIG L. JOHNSON  
ANNETTE C. KAREM  
JANE R. WILLIAMS\*\*

\* ALSO ADMITTED IN INDIANA  
\*\* LEXINGTON OFFICE

Bank One, Kentucky, as Trustee  
426 West Jefferson  
Louisville, KY 40232

Commonwealth Bank of Australia  
New York Branch  
599 Lexington Avenue  
New York, NY 10022

Pendleton County Fiscal Court

RE: Lease Agreement between Kentucky Association of Counties  
Leasing Trust, as Lessor, and Pendleton County Fiscal Court  
as Lessee  
Amount: \$110,000.00 for financing a Water District office  
building

Ladies and Gentlemen:

We have acted as counsel to the Kentucky Association of Counties Leasing Trust (the "Lessor") in connection with the authorization, execution, and delivery by the Lessor of the Lease Agreement dated April 3, 1997 (the "Lease"), between Pendleton County Fiscal Court, as lessee, and the Lessor, as lessor. We have reviewed (i) the Constitution and laws of the Commonwealth of Kentucky (the "Commonwealth"), (ii) an executed copy of the Lease and (iii) such other information and documents as we have deemed necessary or appropriate in order to render this opinion.

Based on the foregoing, we are of the opinion that:

1. The Lessor is a trust duly organized and validly existing under the laws of the Commonwealth, and has full power and authority to enter into and to perform its obligations under the Lease.

2. The Lease has been duly authorized, executed and delivered by the Lessor and (assuming the due authorization, execution and delivery thereof by the Lessee) constitutes a legal, valid and binding obligation of the Lessor, enforceable against the Lessor in

WILLIAMS & WAGONER

Exhibit D Letter - Pendleton County Fiscal Court  
April 1, 1997  
Page -2-

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accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity). Our opinion in part is based upon representation made to us by the County Attorney for Pendleton County Fiscal Court.

3. All consents, approvals or authorizations of any governmental entity and all filings and notices required on the part of the Lessor in connection with the authorization, execution and delivery of the Lease and the consummation of the transactions contemplated thereby have been obtained and are in full force and effect.

4. Neither the execution and delivery of the Lease nor the consummation of the transactions contemplated thereby, nor the fulfillment of or compliance with the terms and conditions of the Lease conflict with or constitute a violation of any provision of any law or regulation governing the Lessor or conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Lessor is now a party or by which the Lessor is bound.

5. There is no actions, suit, proceeding or governmental investigation at law or in equity before or by any court, public board or body, pending of which the Lessor has been served with summons, summons and complaint or other notice of commencement, or threatened against or affecting the Lessor, challenging the validity of the Lease or contesting the power and authority of the Lessor to execute and deliver the Lease or to consummate the transactions contemplated by the Lease.

Respectfully submitted,

*Dennis L. Mattingly*

DENNIS L. MATTINGLY  
Attorney at Law

EXHIBIT E

CERTIFICATE OF OFFICIALS OF LESSEE

The undersigned officials of Pendleton County Fiscal Court, the lessee (the "Lessee") under a Lease Agreement dated April 3, 1997 (the "Lease") between the Lessee and the Kentucky Association of Counties Leasing Trust (the "Lessor"), DO HEREBY CERTIFY AS FOLLOWS:

1. That they are the duly elected or appointed, qualified and acting incumbents of their respective offices of the Lessee, as set forth after their signatures hereto, and as such are familiar with the books, records, affairs and seal of the Lessee.

2. That the Lessee is a body politic and corporate, validly organized, existing and in good standing under and by virtue of the laws of the Commonwealth of Kentucky with all requisite power and authority to lease property as lessee and to carry on its business as now being conducted.

3. That included in the transcript of which this Certificate forms a part is a true, correct and complete copy of the Resolution duly adopted by the Pendleton County Fiscal Court of the Lessee on January 23, 1997, (the "Resolution"), authorizing the appropriate officials of the Lessee to execute the Lease. The Resolution was duly adopted in accordance with all applicable laws.

4. The representations and warranties of the Lessee made in the Lease are true and correct in all material respects on and as of the date hereof as if made on and as of the date hereof; the Ordinance has not been amended or supplemented and is in full force and effect; and the Lease has been entered into and is in full force and effect.

5. That the below-named persons were on the date or dates of the execution of the Lease and are on the date of this certificate the duly elected or appointed and qualified incumbents of the respective offices of the Lessee set forth opposite their names and that the signatures set forth opposite their names are their genuine signatures:



<u>Name</u>	<u>Title</u>	<u>Signature</u>
Donald R. Mays	County Judge/ Executive	<u>Donald R. Mays</u>
Bonnie Monroe	County Clerk	<u>Bonnie Monroe</u>

6. The Lease has been duly authorized, executed and delivered by the Lessee and constitutes a legal, valid and binding obligation of the Lessee, enforceable against the Lessee in accordance with its terms (including, without limitation, the right of the Lessee to terminate the Lease at the end of each Fiscal Year of the Lessee by reason of an Event of Nonappropriation, as defined in the Lease).

7. The Lessee is not in default under or in violation of (i) any provisions of applicable law, (ii) the Lease, or (iii) any indenture, mortgage, lien, agreement, contract, deed, lease, loan agreement, note, order, judgment, decree or other instrument or restriction of any kind or character to which it is a party or by which it or its properties are or may be bound, or to which it or any of its assets is subject, which default would have a material adverse effect on the condition, financial or otherwise, of the Lessee or on the ability of the Lessee to perform its obligations under the Lease. Neither the execution and delivery of the Lease nor compliance by the Lessee with the terms, conditions and provisions of the Lease will conflict with or result in a breach of, or constitute a default under, any of the foregoing.

8. Since the date of the financial information provided to the Lessor, there have not been any material adverse changes in the business, properties, condition (financial or otherwise) or results of operations of the Lessee, whether or not arising from transactions in the ordinary course of business, and since such date, except in the ordinary course of business, the Lessee has not entered into any transaction or incurred any liability material to the financial position of the Lessee.

9. There is no claim, action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, or public board or body, pending or, to the best of our knowledge, threatened against or affecting the Lessee wherein an unfavorable decision, ruling or finding would materially adversely affect the business, properties, condition (financial or otherwise) or the results of operations of the Lessee or the ability of the Lessee to perform its obligations under the Lease.

10. All authorizations, consents and approvals of, notices to, registrations or filings with, or other actions in respect of or by, any governmental body, agency or other instrumentality or court required in connection with the execution, delivery and performance by the Lessee of the Lease have been duly obtained, given or taken (and copies thereof have been provided to the Lessor).

11. Any certificate signed by any official of the Lessee and delivered to the Lessor will be deemed to be a representation by the Lessee to the Lessor as to the statements made therein.

12. The seal which has been impressed upon the Lease and upon this Certificate is the legally adopted, proper and only official seal of the Lessee.

WITNESS our hands and the corporate seal of the Lessee this 3rd day of April, 1997.

[SEAL]

Attest:

By Bonnie Monroe D.C.  
Name: Bonnie Monroe  
Title: County Court Clerk

By

Donald R. Mays  
Name: Donald R. Mays  
Title: County Judge/Executive


CERTIFICATION

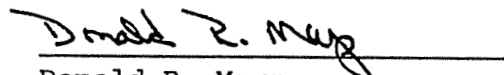
Lessee hereby certifies that it will use due diligence to spend the amounts deposited in the Lessee's acquisition account to acquire, construct, equip, and install the project covered under the Lease as promptly and as reasonable as is possible.

This the 3rd day of April, 1997.

ATTEST:

PENDLETON COUNTY JUDGE EXECUTIVE

  
Bonnie Monroe  
COUNTY COURT CLERK

  
Donald R. Mays

ACKNOWLEDGMENT

CoLT acknowledges that they directed the Trustee to transfer \$110,000.00 to the appropriate acquisition account to be used as outlined in the Lease.

This the 3rd day of April, 1997.

KENTUCKY ASSOCIATION OF COUNTIES  
LEASING TRUST, LESSOR

BY: *Robert T. Harrod*  
Robert T. Harrod  
CoLT Administrator

ATTEST:

PENDLETON COUNTY JUDGE EXECUTIVE

*Bonnie Monroe*  
Bonnie Monroe  
COUNTY COURT CLERK

*Donald R. Mays*  
Donald R. Mays