

INTERLOCAL COOPERATION AGREEMENT

THIS INTERLOCAL COOPERATION AGREEMENT made as of the 1st day of June, 2021, by the City of Calvert City, Kentucky, the City of Lebanon, Kentucky, Daviess County Water District, Oldham County Water District, Simpson County Water District and Warren County Water District, (collectively the "Initial Participants").

WITNESSETH:

WHEREAS, water and wastewater systems are faced with the ongoing challenge of assuring there is a sufficient supply of treated clean water and drinking water to serve their residents and businesses and conservation of the use thereof;

WHEREAS, water and wastewater systems must secure reliable, cost effective, and environmentally responsible sources of water and must provide effective treatment of water and wastewater to supply the demands of their customers;

WHEREAS, mutual advantage may be obtained from the coordinated planning, permitting, acquisition, construction, financing and operation of new and existing facilities, and from joint purchases, sales and exchanges of water supply and joint treatment facilities;

WHEREAS, additional mutual advantage may be obtained from the coordinated planning, permitting, acquiring, constructing, financing and operating of certain water and wastewater projects and resources;

WHEREAS, pursuant to Sections 65.210 to 65.300 of the Kentucky Revised Statutes, as amended, entitled the "Interlocal Cooperation Act" (the "Act"), public agencies, as defined therein, are authorized and empowered to join with each other to make the most efficient use of their powers by enabling them to cooperate on a basis of mutual advantage;

WHEREAS, the Initial Participants are public agencies that operate water and/or wastewater systems in rural communities;

WHEREAS, in addition and supplemental to their other powers, the Initial Participants hereto are authorized and empowered by the Act to join with each other, and with other public agencies, to enter into an interlocal cooperation agreement creating an "interlocal agency" as defined in the Act, for the purposes of financing, acquiring, permitting, constructing, managing, operating, purchasing, utilizing and owning water and wastewater projects or resources;

WHEREAS, in the implementation of the Act, the undersigned Initial Participants may create an interlocal agency for the accomplishment of the purposes thereof;

WHEREAS, in addition and supplemental to their other powers, the undersigned Initial Participants, pursuant to the Act, are authorized and empowered to cooperate with each other on a basis of mutual advantage and thereby to provide resources, services and facilities in a manner and

pursuant to forms of governmental organization that will accord best with geographic, economic, demographic, and other factors influencing the needs and development of local communities and that will benefit the public health, safety and general welfare of the citizens of the public agencies;

WHEREAS, mutual advantage can be obtained from the implementation of pooled financing or borrowing for water and wastewater projects or conservation programs, pooled resource planning and pooled financing to meet other needs of the Participants (hereinafter defined) who may wish to participate in the programs of the interlocal agency, including financing alternatives that might not otherwise be available to them individually; and

WHEREAS, the Governing Body, as herein defined, of each of the Initial Participants has duly adopted a resolution approving this Agreement and authorizing the applicable Initial Participant to become a party to this Agreement pursuant to the Act.

NOW THEREFORE, for and in consideration of the mutual covenants herein set forth and other good and valuable consideration, the receipt of which is hereby acknowledged by each party, the parties hereto mutually covenant and agree that this Interlocal Cooperation Agreement (the "Agreement") is entered into pursuant to the Act, and the parties hereto further covenant and agree:

ARTICLE I ESTABLISHMENT OF INTERLOCAL AGENCY

Section 1.1 Establishment of Joint Public Agency. An interlocal agency, constituting a public agency with the purposes and powers hereinafter set forth, is hereby created under the authority of the Act, to be known as the Rural Water Financing Agency (hereinafter referred to as the "Agency"). The undersigned parties and any other Public Agencies added as parties to this Agreement in accordance with Section 8.7 hereof shall be known as the "Participants" of the Agency.

Section 1.2 Location. The principal office of the Agency shall be located at 1151 Old Porter Pike, Bowling Green, Kentucky 42103. The Agency may change the location of the principal office in Kentucky and/or establish such other offices within the Commonwealth of Kentucky (the "Commonwealth") as it deems appropriate.

Section 1.3 Nature of the Agency and this Agreement. (a) The Agency shall be an interlocal agency created by this Agreement pursuant to the Act. The Agency is not intended to be, shall not be deemed to be, and shall not be treated as, a general partnership, limited partnership, joint venture, corporation, investment company, joint stock association, joint stock company or common law trust.

(b) The relationship of the Participants to the Agency shall be solely in their capacity as Participants in accordance with the rights conferred upon them herein. The Agency is formed to allow the Participants to effectively collaborate to do all things necessary or convenient to provide

to their customers with water and wastewater services that meet the standards for clean and safe water supply and resources.

(c) This Agreement is an agreement for a perpetual term.

Section 1.4 Definitions. As used in this Agreement, the following terms shall have the following meanings unless the context hereof otherwise requires:

"Act" shall mean the Interlocal Cooperation Act, Sections 65.210 through 65.300 of the Kentucky Revised Statutes.

"Agency" shall mean the Rural Water Financing Agency created pursuant to the Act and this Agreement.

"Agreement" shall mean this Agreement as amended, restated or modified from time to time. References in this Agreement to "Agreement", "hereof", "herein", "hereby" and "hereunder" shall be deemed to refer to the Agreement and shall not be limited to the particular text, article or section in which such words appear.

"Board" or *"Directors"* shall mean the individuals selected to manage the Agency pursuant to Article VI herein.

"Governing Body" shall mean the legislative body of a Participant.

"Initial Participants" shall mean City of Calvert City, Kentucky, the City of Lebanon, Kentucky, Daviess County Water District, Oldham County Water District, Simpson County Water District and Warren County Water District, which public agencies initially formed the Agency by the execution and adoption of this Agreement.

"Laws" shall mean common law and all ordinances, statutes, rules, regulations, orders, injunctions, decisions, opinions or decrees of any government or political subdivision or agency thereof, or any court or similar entity established by thereof.

"Participants" shall mean the Initial Participants and the Public Agencies that adopt this Agreement pursuant to Section 8.7 hereof.

"Person" shall mean and include individuals, corporations, limited partnerships, general partnerships, joint stock companies or associations, joint ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts or other entities (whether or not legal entities) and governments and agencies and political subdivisions thereof.

"Programs" shall mean such programs or endeavors of the Agency to provide for and promote the public health, safety and general welfare of the Participants' customers through the

development, improvement, operation and maintenance of clean and safe water and wastewater systems owned and operated by Participants, including the joint training of managers and operators, the financing of additions, improvements, equipping and maintenance of the Participants' Systems, including long-term and interim construction financing of projects.

"Program Obligations" means revenue bonds, revenue bond anticipation notes or other forms of indebtedness issued pursuant to the Act or the Laws of the Commonwealth of Kentucky and which are secured by revenues received by the Agency for the payment of said indebtedness.

"Program Property" shall mean, as of any particular time, any and all property, real, personal or otherwise, tangible or intangible, which is transferred, conveyed or paid to the Program or the Agency and all income, profits and gains therefrom and which, at such time, is owned or held by, or for the account of, the Program or the Agency.

"Project" shall mean a project undertaken by a Participant, the Agency or a Public Agency for public purposes.

"Public Agencies" shall have the same meaning as set forth in Section 65.230 (3) of the Act.

"System" shall mean a Participant's water or wastewater system or utility system.

ARTICLE II

Purpose and Powers of the Agency

Section 2.1 General. The Agency may do and perform such acts and things as in its sole judgment and discretion are necessary and proper for conducting the affairs of the Agency or promoting the interests of the Agency and the Participants in the Program. The enumeration of any specific power or authority herein shall not be construed as limiting the aforesaid general power or authority or any specific power or authority. The Agency may exercise any power authorized and granted to it by this Agreement.

Section 2.2 Purpose. Through joint cooperative efforts and effective programs, the purpose and objective of the Agency is to assist water and wastewater systems, particularly in rural communities, in securing reliable, cost effective, and environmentally responsible sources of water and in providing effective treatment of water and wastewater to supply the demands of their customers. Such cooperative efforts may include, but shall not be limited to, joint training of System managers and operators and the financing through a centralized source for the purpose of reducing interest costs and financing expenses for additions, improvements, equipping and maintenance of the Participants' Systems, including long-term and interim financing or refinancing of Projects.

The Agency shall act as an agency and instrumentality on behalf of the Participants for the purpose of carrying out the Programs.

Section 2.3 Powers of the Agency. In order to carry out the purposes of the Agency set forth herein, the Agency shall have the following powers:

- (a) Acquire, construct, develop, purchase, plan, lease, own, assign, sell, create, expand, transmit, finance or operate its Programs or Projects;
- (b) Sue and be sued, complain and defend any action in its name;
- (c) Purchase, receive, lease, or otherwise acquire, own, hold, improve, use and otherwise deal with, real or personal property, or any legal or equitable interest in property, wherever located;
- (d) Sell, convey, mortgage, pledge, lease, exchange, and otherwise dispose of all or any part of its property, including Program Property;
- (e) Make contracts and guarantees, incur liabilities, borrow money, issue its notes or bonds, to the extent permitted by law, to finance the cost or operation of its Programs or Projects or for any other purpose of the Agency, and secure any of its obligations by mortgage or pledge of any of its property or income;
- (f) Be a promoter, partner, member, associate, or manager of any public partnership, joint public venture, public trust, or other public entity;
- (g) Appoint or hire officers, employees and agents of the Agency, define their duties, and fix their compensation;
- (h) Transact any lawful business that will aid the purpose of the Agency in providing assistance and Programs to its Participants;
- (i) Make payments or donations, or do any other act, not inconsistent with law, that furthers the business and affairs of the Agency;
- (j) Enter into all other contracts necessary or convenient in connection with any Program or Project undertaken by the Agency or in connection with the services it provides to its Participants;
- (k) Issue bonds or notes to finance or refinance the cost or operation of its Programs, Projects or for any other lawful purpose of the Agency or incur debts, liabilities, or obligations, including but not limited to, bank or governmental loans, which do not constitute debts, liabilities or obligations of the Participants;
- (l) Invest money of the Agency not required for immediate use, including proceeds from the sale of any bonds, in such obligations, securities, and other investments

as authorized by applicable law and any applicable provisions of any bond resolution or other instruments governing the fund or funds in which such money is deposited;

(m) Establish, operate and manage a pooled purchasing, financing or loan Program for utilization by the Agency or one or more of its Participants;

(n) Grant liens or mortgages or otherwise pledge, assign, or encumber all or part of its property, assets, contractual rights and interests, and all or part of the revenues and receipts therefrom, whether then owned or thereafter acquired;

(o) Receive and accept from the federal government, the Commonwealth, or any other public agency grants for or in aid of the operation of any Program or the construction of any Project, and receive and accept aid or contributions from any source of money, property, labor, or other things of value to be held, used, or applied for the purposes for which the grant or contribution is made.

(p) Procure insurance from such insurers as it deems desirable, to establish self-insurance, to otherwise establish a Program or Project to provide insurance for the Agency and/or its Participants, its officers and directors or any combination thereof to insure against any losses or claims in connection with the activities, property, operations or assets of the Agency, its Participants or its officers and directors;

(q) Exercise any power, privilege or authority necessary or desirable to further the purposes of the Agency and which the Participants might exercise in their individual capacities; and

(r) To undertake or participate in any other lawful activity.

Nothing in this Section 2.3 shall be interpreted to limit the powers of the Agency to provide its Participants with other resources, services or benefits.

Section 2.4 Legal Title. (a) Legal title to all of the Program Property shall be vested in the Agency and be held by and transferred to the Agency, except that the Agency shall have full and complete power to cause legal title to any Program Property to be held, on behalf of one or more Participants, by or in the name of the Agency, or in the name of any other Person as nominee, on such terms, in such manner, and with such powers as the Board may determine, so long as in their judgment the interest of the Agency and the Participants is adequately protected.

(b) No Director shall have any right, title or interest in or to any of the Program Property, except in his or her capacity as a Director.

Section 2.5 Disposition of Assets. Subject in all respects to the Laws from time to time of the Commonwealth, the Agency shall have full and complete power to sell, exchange or otherwise

dispose of any and all Program Property free and clear of any and all trusts and restrictions, at public or private sale, for cash or on terms, with or without advertisement, and subject to such restrictions, stipulations, agreements and reservations as they shall deem proper, and to execute and deliver any deed, power, assignment, bill of sale, or other instrument in connection with the foregoing. The Agency shall also have full and complete power, and in furtherance of the affairs and purposes of the Agency and its Programs, to give consents and make contracts relating to Program Property or its use.

Section 2.6 Rights as Holders of Program Property. The Agency shall have full and complete power to exercise all of the rights, powers and privileges appertaining to the ownership of all or any Program Property to the same extent that any individual might, and, without limiting the generality of the foregoing, to vote or give any consent, request or notice or waive any notice either in person or by proxy or power of attorney, with or without the power of substitution, to one or more Persons, which proxies and powers of attorney may be for meetings or actions generally, or for any particular meeting or action, and may include the exercise of discretionary powers.

Section 2.7 Delegation; Committees. The Agency shall have full and complete power (consistent with its continuing exclusive authority over the management of the Programs, the conduct of its affairs, the duties and obligations of the Directors as directors, and the management and disposition of Program Property), to delegate from time to time to such one or more Directors (who may be designated as constituting a committee of the Board as provided in Section 6.9 hereof) or to officers, employees or agents of the Agency the doing of such acts and things and the execution of such instruments either in the name of the Program, or the name of the Agency or as its attorney or attorneys, or otherwise as the Agency may from time to time deem expedient and appropriate in the furtherance of the business affairs and purposes of the Program.

Section 2.8 Collection. The Agency shall have full and complete power: (i) to collect, sue for, receive and receipt for all sums of money or other property due to the Agency or the Program; (ii) to consent to extensions of the time for payment, or to the renewal of any securities, investments or obligations; (iii) to engage or intervene in, prosecute, defend, compromise, abandon or adjust by arbitration or otherwise any actions, suits, proceedings, disputes, claims, demands or things relating to the Program Property; (iv) to foreclose any collateral, security or instrument securing any investments, notes, bills, bonds, obligations or contracts by virtue of which any sums of money are owed to the Agency or the Program; (v) to exercise any power of sale held by it, and to convey good title thereunder free of any and all trusts, and in connection with any such foreclosure or sale, to purchase or otherwise acquire title to any property; (vi) to be a party to reorganization and to transfer to and deposit with any corporation, committee, voting trustee or other Person any securities, investments or obligations of any Person that form a part of the Program Property, for the purpose of such reorganization or otherwise; (vii) to participate in any arrangement for enforcing or protecting the interests of the Agency as the owner or holder of such securities, investments or obligations and to pay any assessment levied in connection with such reorganization or arrangement; (viii) to extend the time (with or without security) for the payment or delivery of any debts or

property and to execute and enter into releases, agreements and other instruments; and (ix) to pay or satisfy any debts or claims upon any evidence that the Board shall deem sufficient.

Section 2.9 Payment of Expenses. The Agency shall have full and complete power: (i) to incur and pay any charges or expenses, which in the opinion of the Board, are necessary or incidental to or proper for carrying out any of the purposes of this Agreement; (ii) to reimburse others for the payment therefor; and (iii) to pay appropriate compensation or fees from the funds of the Agency or its Programs to Persons with whom the Agency has contracted or transacted business. The Board shall fix the compensation, if any, of all officers and employees of the Agency. The Directors shall not be paid compensation for their general services as Directors hereunder. The Directors may reimburse themselves or any one or more of themselves or any other Person for expenses reasonably incurred by any of them on behalf of the Agency or the Program.

Section 2.10 Deposits. The Agency shall have full and complete power to deposit, in such manner as may now or hereafter be permitted by Law, any moneys or funds included in the Program Property, and intended to be used for the payment of expenses of the Program or the Agency, with any credit union, bank, savings bank, trust company or savings and loan association that is authorized to transact business in the Commonwealth. Such deposits are to be subject to withdrawal in such manner as the Agency may determine, and the Directors shall have no responsibility for any loss which may occur by reason of the failure of the credit union, bank, savings bank, trust company or savings and loan association with which the moneys, investments, or securities have been deposited. Each such credit union, bank, savings bank, trust company and savings and loan association shall comply, with respect to such deposits, with all applicable requirements of all applicable Laws, including, but not limited to, Laws of the state relating to any Participant.

Section 2.11 Power to Contract, Appoint, Retain and Employ. (a) Subject to the provisions of Section 2.7 hereof with respect to delegation of authority by the Agency, the Agency shall have full and complete power to appoint, employ, retain, or contract with any Person of suitable qualifications and high repute as the Agency may deem necessary or desirable for the transaction of the affairs of the Agency, including any Person who, under the supervision of the Agency, may, among other things: (i) serve as the Agency's adviser and consultant in connection with policy decisions made by the Agency; (ii) serve as the Program's administrator or co-administrators; (iii) act as consultants, accountants, technical advisers, attorneys, brokers, underwriters, trustees, corporate fiduciaries, escrow agents, depositories, custodians or agents for collection, insurers or insurance agents, or in any other capacity deemed by the Agency to be necessary or desirable; and (iv) assist in the performance of such ministerial functions necessary in the management of the Program as may be agreed upon with the Agency.

(b) The manner of employing, engaging, compensating, transferring or discharging any Person as an employee of the Agency shall be subject to the Law of the Commonwealth. For purposes of the preceding sentence, "employee of the Agency" shall not include independent contractors, such as a financial advisor, an underwriter, a trustee, legal counsel or independent accountants and their respective employees.

Section 2.12 Seal. The Agency shall have full and complete power to adopt and use a seal for the Agency, but, unless otherwise required by the Agency, it shall not be necessary for the seal to be placed on, and its absence shall not impair the validity of, any document, instrument or other paper executed and delivered by or on behalf of the Agency.

Section 2.13 Remedies. Notwithstanding any provision in this Agreement, when the Agency deems that there is a significant risk that an obligor to the Agency may default or is in default under the terms of any obligation to the Agency, the Agency shall have full and complete power to pursue any remedies permitted by Law, which, in its sole judgment, are in the interests of the Agency and the Programs, and the Agency shall have full and complete power to enter into any investment, commitment or obligation of the Agency resulting from the pursuit of such remedies as is necessary or desirable to dispose of property acquired in the pursuit of such remedies.

Section 2.14 Further Powers. The Agency shall have full and complete power to take all such actions, do all such matters and things and execute all such instruments as the Board deems necessary, proper or desirable in order to carry out, promote or advance the interests and purposes of the Agency, the Programs or any Project, although such actions, matters or things are not herein specifically mentioned. Any determination as to what is in the best interests of the Agency and the Programs made by the Board in good faith shall be conclusive. In construing the provisions of this Agreement, the presumption shall be in favor of a grant of power to the Agency. The Agency shall not be required to obtain any court order to deal with the Program Property.

Section 2.15 Compliance with Laws. The Directors shall at all times exercise all powers granted hereunder in compliance with, and the operations of the Agency shall at all times be conducted in accordance with, the applicable Laws of the Commonwealth.

ARTICLE III

Program Obligations

Section 3.1 Program Obligations. In the event the Agency issues any Program Obligations or assumes any Program Obligations, the proceedings authorizing any issue or assumption of Program Obligations may provide for the pledging of all or any part of the revenues and receipts, and the investment income therefrom, to be received by or on behalf of the Agency from the public agencies participating in a Program, including but not limited to the receipt of the proceeds from the governmental loans and grants, and such proceedings may provide that, as security for the revenue bonds, the Agency may pledge or grant security interests in bonds, notes, loan agreements or other obligations purchased or financed under the Program and in any other funds or revenues contributed to or received by the Agency in connection with the Program.

Program Obligations issued by the Agency under this Agreement shall be revenue obligations for the benefit of the Public Agencies participating in a Program pursuant to this Agreement, payable solely from and secured by a pledge of the revenues assigned, pledged or paid to the Program,

including, but not limited to, the proceeds of the governmental loans or grants until disbursed, the investment of such proceeds, and all revenues, funds, proceeds of insurance and other assets pledged under any indenture or security document authorizing and securing the Program Obligations, which amount shall be pledged to be set aside as a special fund or funds for that purpose, and such Program Obligations shall not constitute an indebtedness of any of the Participants, or the Commonwealth or any other state or public agency or be payable out of any tax revenues of the Participants, the Commonwealth or any other state or public agency, within the meaning of any constitutional provision or limitation.

None of the officers, officials or employees of the Participants, or their Governing Bodies, or any members thereof, shall be subject to or in any way liable for any debt or contract created pursuant to this Agreement or the Programs.

Section 3.2 Termination of Programs. Pursuant to Section 65.250 of the Kentucky Revised Statutes, it is agreed that in the event of termination of the Agreement, all of the then remaining assets of any Program shall be distributed and/or transferred as required or contemplated by any provision of Federal or Commonwealth Law, and, if and to the extent not so required or contemplated, shall be distributed and transferred solely and only to the respective Public Agencies who participated in the Program on a pro rata basis; provided, that if at that time any such Public Agencies shall have merged into a different governmental unit, then the amount to which such Public Agency would have been entitled shall be paid or transferred to such successor Public Agency. Provided, however, that the Participants shall have the right at any time, to agree unanimously on any other method of partial or complete termination and distribution, to whatever extent may be permissible, in the opinion of legal counsel.

No Program or Agency Project may be terminated, unless (a) all Program Obligations of the Agency with respect to such Program or Project, and the interest thereon, have been paid or adequate provision for such payment made in accordance with the provisions of such Program Obligations and (b) all contractual obligations undertaken by the Agency with respect to such Programs or Project and all liens, charges and encumbrances to which the property constituting a part of such Program or Project is subject have been satisfied, released or adequately provided for in accordance with the terms of the instruments governing such matters.

ARTICLE IV

Limitations of Liability

Section 4.1 Liability to Third Persons. No Participant shall be subject to any personal liability whatsoever, in tort, contract or otherwise to any other Participant or Person in connection with Program Property or the affairs of the Agency or its Programs; and no Director, officer, employee or agent of the Agency shall be subject to any personal liability whatsoever in tort, contract or otherwise, to any other Person in connection with Program Property or the affairs of the Agency or its Programs, except that each shall, to the extent permitted by law, be personally liable for his bad

faith, willful misconduct, gross negligence or reckless disregard of his or her duties or for his failure to act in good faith in the reasonable belief that his action was in the best interests of the Agency and all such other Persons shall look solely to the Program Property for satisfaction of claims of any nature arising in connection with the affairs of the Agency or the Programs. If any Director, officer, employee or agent of the Agency or any Participant or any Public Agency participating in any Program, as such, of the Agency is made a party to any suit or proceedings to assert or enforce any such liability, he shall not on account thereof be held to any personal liability.

Section 4.2 Liability to the Agency or to the Participants. No Director, officer, employee or agent of the Agency shall be liable to the Agency or the Program or to any Director, officer, employee or agent of the Agency or any Participant or any Public Agency participating in a Program for any action or failure to act (including, without limitation, the failure to compel in any way any former or acting Director to redress any breach of his duties hereunder) except for his own bad faith, willful misfeasance, gross negligence or reckless disregard of his duties, provided, however, that the provisions of this Section 4.2 shall not limit the liability of any agent of the Agency with respect to breaches by it of any contract between it and the Agency.

Section 4.3 Indemnification. (a) The Agency shall indemnify and hold each Participant harmless from and against all claims and liabilities, whether they proceed to judgment or are settled or otherwise brought to a conclusion, to which such Participant may become subject by reason of its being or having been a Participant, and shall reimburse such Participant for all legal and other expenses reasonably incurred by it in connection with any such claim or liability. The rights accruing to a Participant under this Section 4.3 shall not exclude any other right to which such Participant may be lawfully entitled, nor shall anything herein contained restrict the right of the Agency to indemnify or reimburse a Participant in any appropriate situation even though not specifically provided herein.

(b) The Agency shall indemnify each of its Directors and officers, employees and agents designated by the Agency to receive such indemnification, against all liabilities and expenses (including, without limitation, amounts paid in satisfaction of judgments, in compromise or as fines and penalties, and counsel fees) reasonably incurred by him in connection with the defense or disposition of any action, suit or other proceeding by the Agency or any other Person, whether civil or criminal, in which he may be involved or with which he may be threatened, while in office or thereafter, by reason of his being or having been such a Director, officer, employee or agent, except as to any matter as to which he shall have been adjudicated to have acted in bad faith or with willful misfeasance or reckless disregard of his duties or gross negligence, provided, however, that the provisions of this Section 4.3 shall not be construed to permit the indemnification of any agent of the Agency with respect to breaches by it of any contract between it and the Agency; and further provided, however, that as to any matter disposed of by a compromise payment by such Director, officer, employee or agent, pursuant to a consent decree or otherwise, no indemnification either for said payment or for any other expenses shall be provided unless the Agency shall have received a written opinion from independent legal counsel, approved by the Agency, to the effect that if the foregoing matters had been adjudicated, the defenses that could have been presented on behalf of

such Director, officer, employee or agent were meritorious. The rights accruing to any Director, officer, employee or agent under the provisions of this paragraph (b) of this Section 4.3 shall not exclude any other right to which he may be lawfully entitled; provided, however, that no Director, officer, employee or agent may satisfy any right of indemnity or reimbursement granted herein or to which he may be otherwise entitled except out of the Program Property, and no Participant shall be personally liable to any Person with respect to any claim for indemnity or reimbursement or otherwise. The Agency may make advance payments in connection with indemnification under this paragraph (b) of this Section 4.3, provided that the indemnified Director, officer, employee or agent shall have given a written undertaking to reimburse the Agency in the event that it is subsequently determined that he is not entitled to such indemnification.

(c) Any action taken by, or conduct on the part of a Director, an officer, an employee or an agent of the Agency in conformity with, or in good faith reliance upon, the provisions of Section 4.7 hereof shall not, for the purpose of this Agreement (including, without limitation, Sections 4.1 and 4.2 and this Section 4.3) constitute bad faith, willful misfeasance, gross negligence or reckless disregard of his duties.

Section 4.4 Surety Bonds. No Director shall, as such, be obligated to give any bond or surety or other security for the performance of any of his duties.

Section 4.5 Apparent Authority. No purchaser, seller, transfer agent or other Person dealing with the Agency or any officer, employee or agent of the Agency shall be bound to make any inquiry concerning the validity of any transaction purporting to be made by the Agency or by such officer, employee or agent or make inquiry concerning or be liable for the application of money or property paid, transferred or delivered to or on the order of the Agency or of such officer, employee or agent.

Section 4.6 Recitals. Any written instrument creating an obligation of the Agency shall be conclusively taken to have been executed by a Director or an officer, employee or agent of the Agency only in his capacity as a Director under this Agreement or in his capacity as an officer, employee or agent of the Agency. Any written instrument creating an obligation of the Agency shall refer to this Agreement and contain a recital to the effect that the obligations thereunder are not personally binding upon, nor shall resort be had to the property of, any of the Directors, officers, employees or agents of the Agency, or of any of the Participants or of any of the Public Agencies participating in a Program, and that only the Program Property or a specific portion thereof shall be bound, and such written instrument may contain any further similar recital deemed appropriate; provided, however, that the omission of any recital pursuant to this Section 4.6 shall not operate to impose personal liability on any of the Directors, officers, employees or agents of the Agency or on any of the Participants or on any of the Public Agencies participating in the Program.

Section 4.7 Reliance on Experts, Etc. Each Director and each officer of the Agency shall, in the performance of his duties, be fully and completely justified and protected with regard to any act or any failure to act resulting from reliance in good faith upon the books of account or other

records of the Agency, upon an opinion of counsel or upon reports made to the Agency by any of its officers or employees or by the accountants, appraisers or other experts or consultants selected with reasonable care by the Agency or officers of the Agency.

Section 4.8 Waiver. Nothing in this Agreement shall be construed as constituting the waiver of any immunity from liability available to the Agency or the Directors, officers, employees or agents of the Agency or the Participants or the Public Agencies participating in a Program pursuant to any applicable provision of Law.

ARTICLE V

Participants

Section 5.1 Voting. Each Participant of record shall be entitled to one vote as a matter of right with respect to the following matters: (i) special election of Directors as provided in Section 6.3 hereof and (ii) amendment of this Agreement or termination of the Agency and any Program as provided in Section 7.1 hereof.

Section 5.2 Right to Initiate a Vote of the Participants. The Participants shall, by an instrument or concurrent instruments in writing delivered to the Agency signed by at least ten percent (10%) of the Participants, have the right to initiate a vote of the Participants as to any matter described in clause (i) or clause (ii) of Section 5.1 hereof.

Section 5.3 Inspection of Records. The records of the Agency and the Program shall be open to inspection at all reasonable times pursuant to Sections 61.870 to 61.884 of the Kentucky Revised Statutes.

Section 5.4 Meetings of Participants. (a) Meetings of the Participants may be called at any time by a majority of the Directors and shall be called by any Director upon written request of not less than ten percent (10%) of the Participants, such request specifying the purpose or purposes for which such meeting is to be called. Any such meeting shall be held at such place, on such day and at such time as the Agency shall designate.

(b) Subject to and pursuant to the provisions of Kentucky Law, the Participants entitled to vote at such meeting present in person (including, if permitted by applicable law, participation by video conference, telephone or similar communications equipment by means of which all Persons participating in the meeting can see and/or hear each other) or by proxy shall constitute a quorum at any meeting of Participants.

(c) Those Participants present at a meeting shall constitute a quorum for the purpose of conducting business and taking action at any meeting.

Section 5.5 Notice of Meetings and Votes. Notice of all meetings of the Participants, stating the time, place and purposes of the meeting, and notice of any vote without a meeting, stating the purpose and method thereof shall be given by the Agency by delivered or electronic mail to each Participant at its registered address, mailed at least ten (10) days and not more than thirty (30) days before the meeting or the day by which votes must be cast. Only the business stated in the notice of a meeting shall be considered at such meeting. Any adjourned meeting may be held as adjourned without further notice. Any notice required by the Kentucky's Open Meetings Law (Kentucky Revised Statutes Sections 61.800 through 61.850) shall also be given.

Section 5.6 Record Date for Meetings and Votes. For the purposes of determining the Participants that are entitled to vote or act at any meeting or any adjournment thereof, or who are entitled to participate in any vote, or for the purpose of any other action, the Agency may from time to time fix a date not more than thirty (30) days prior to the date of any meeting or vote of Participants or other action as a record date for the determination of Participants entitled to vote at such meeting or any adjournment thereof or to cast a ballot in such vote or to be treated as Participants of record for purposes of such other action. Any Participant which was a Participant in good standing at the time so fixed shall be entitled to vote at such meeting or any adjournment thereof, or to cast a ballot in such vote. No Participant becoming such after that date shall be so entitled to vote at such meeting or any adjournment thereof or to cast a ballot in such vote or to be treated as a Participant of record for purposes of such other action.

Section 5.7 Proxies. At any meeting of Participants, if permitted by Kentucky Law, any Participant entitled to vote thereat may vote by proxy, provided that no proxy shall be voted at any meeting unless it shall have been placed on file with the Secretary of the Agency, or with such other officer or agent of the Agency as the Secretary of the Agency may direct, for verification prior to the time at which such vote shall be taken. Pursuant to a resolution of a majority of the Directors, proxies may be solicited in the name of one or more of the officers of the Agency. All proxies shall be revocable at the option of the Participant.

Section 5.8 Number of Votes. Only Participants of record shall be entitled to vote and each Participant shall be entitled to one vote. A proxy purporting to be executed by or on behalf of a Participant shall be deemed valid unless challenged at or prior to its exercise, and the burden of proving invalidity shall rest on the challenger.

ARTICLE VI

Directors and Officers

Section 6.1 Number and Qualification. (a) The governing body of the Agency shall be the Board, the membership of which shall be determined as hereinafter provided. The number of Directors shall initially be nine (9) and shall thereafter be fixed from time to time by resolution of a majority of the voting Directors then in office, provided, however, that the number of voting Directors shall in no event be less than three or more than fifteen.

(b) Any vacancy created by an increase in the number of Directors may be filled by the appointment of an individual made by a resolution of a majority of the Directors then in office. Any such appointment shall not become effective, however, until the individual named in the resolution of appointment shall have (i) accepted in writing such appointment and (ii) agreed to be bound by the terms of this Agreement. No reduction in the number of Directors shall have the effect of removing any Director from office prior to the expiration or resignation of his term.

(c) Whenever a vacancy in the number of Directors shall occur, until such vacancy is filled as provided in Section 6.5 hereof, the Directors or Director continuing in office, regardless of their number, shall have all the powers granted to the Agency and shall discharge all the duties imposed upon the Agency by this Agreement.

(d) The Directors, in their capacity as Directors, shall not be required to devote their entire time to the business and affairs of the Agency.

Section 6.2 Organizational Directors. By the execution of this Agreement, the Initial Participants appoint the following nine (9) individuals to serve as voting Directors until their successors shall have been elected and qualified:

John Dix	Warren County Water District
Russell D. Rose	Oldham County Water District
Bob Pack	Paintsville Utilities
David Peterson	Caveland Environmental Authority
Roger Colburn	North Marshall Water District
William Ballard	East Clark Water District
Daren Thompson	Lebanon Water Works
Christina O'Bryan	Daviess County Water District
Gary Larimore	Kentucky Rural Water Association

From and after the effective date of this Agreement, the number of Directors constituting the Agency's Board shall be nine (9), and such Directors shall be the eight (8) members of the Board of Directors of the Kentucky Rural Water Association, Inc. (the "Association") and its Executive Director, as may be duly elected or otherwise duly appointed and serving in said capacity from time to time. Each member of the Board of Directors of the Association and its Executive Director shall continue to be a Director of this Agency during his tenure in such office. Upon termination of his tenure in office, or upon appointment of a successor, he shall automatically cease to be a Director of the Agency, without necessity for resignation, and the succeeding member of the Board of Directors of the Association or its appointed Executive Director shall succeed to such directorship.

The Directors of the Agency shall have the right immediately to transact business upon behalf of the Agency after this Agreement has been filed in the office of the Kentucky Secretary of State.

Section 6.3 Term and Election. (a) In the event the Board has vacancies due to the inability of a Director to serve or there is an insufficient number of Directors as provided for in Section 6.2 hereof, the remaining Directors shall nominate candidates for election as Directors.

(b) Each Director named herein, or elected or appointed as provided herein shall (except in the event of resignations or removals or vacancies pursuant to Section 6.4 or 6.5 hereof) hold office until his successor has been duly elected and has qualified to serve as a Director. Directors may succeed themselves in office.

Section 6.4 Resignation and Removal. Any Director may resign (without need for prior or subsequent accounting) by an instrument in writing signed by him and delivered to the Chairperson, the Vice Chairperson or the Secretary (referred to in Section 6.7 hereof) and such resignation shall be effective upon such delivery, or at a later date according to the terms of the notice. Any of the Directors may be removed (provided that the aggregate number of Directors after such removal shall not be less than the minimum number required by Section 6.1 hereof) with cause, by the action of two-thirds of the remaining Directors. Upon the resignation or removal of a Director, or his otherwise ceasing to be a Director, he shall execute and deliver such documents as the remaining Directors shall require for the purpose of conveying to the Agency or the remaining Directors any Program Property held in the name of the resigning or removed Director. Upon the incapacity or death of any Director, his legal representative shall execute and deliver on his behalf such documents as the remaining Directors shall require as provided in the preceding sentence.

Section 6.5 Vacancies. (a) The term of office of a Director shall terminate and a vacancy shall occur in the event of the death, resignation, bankruptcy, adjudicated incompetence or other incapacity to exercise the duties of the office, or removal of a Director.

(b) No such vacancy shall operate to annul this Agreement or to revoke any existing agency created pursuant to the terms of this Agreement.

Section 6.6 Meetings. (a) Meetings of the Board shall be held from time to time upon the call of the Chairperson, the Vice Chairperson, the Secretary or any two Directors. Regular meetings of the Directors may be held without call or notice at a time and place fixed by the By-Laws or by resolution of the Directors. Notice of any other meeting shall be mailed or otherwise given not less than 48 hours before the meeting but may be waived in writing by any Director either before or after such meeting. Any notice required by the Kentucky Open Meetings Law (Kentucky Revised Statutes Sections 61.800 through 61.850) shall also be given. The attendance of a Director at a meeting shall constitute a waiver of notice of such meeting except where a Director attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting has not been lawfully called or convened. The Directors may act with or, if permitted by applicable Law, without a meeting. A quorum for all meetings of the Board shall be a majority of the Directors. Unless specifically provided otherwise in this Agreement, any action of the Agency may be taken at a meeting by a vote of a majority of the Directors present (a quorum being present) or, if permitted by applicable Law, without a meeting, by written consents of a majority of the Directors. Any

agreement or other instrument or writing executed by one or more of the Directors or by any authorized Person shall be valid and binding upon the Agency when authorized or ratified by action of the Directors as provided in this Agreement.

(b) With a quorum present, which a majority of members thereof shall constitute a quorum, any committee of the Directors may act. Notice of such meeting, including such notice as may be required by the Kentucky Open Meetings Law (Kentucky Revised Statutes Sections 61.800 through 61.850), shall be given as provided in Section 6.6(a). Unless otherwise specifically provided in this Agreement, any action of any such committee may be taken at a meeting by vote of a majority of the members present (a quorum being present) or, if permitted by applicable Law, without a meeting, by written consent of a majority of the members.

(c) All or any one or more Directors may, if permitted by applicable Law, participate in a meeting of the Agency or any committee thereof by utilizing video conference, telephone or similar communications equipment by means of which all persons participating in the meeting, including members of the public, can see and/or hear each other and participation in a meeting pursuant to such communications shall constitute presence in person at such meeting. The minutes of any meeting of the Agency held by utilizing such communications equipment shall be prepared in the same manner as those of a meeting of the Agency held in person.

Section 6.7 Officers. The Directors shall annually elect, a Chairperson who shall be the chief officer of the Agency and a Vice Chairperson who shall have such duties as the Agency shall deem advisable and appropriate. The Directors may elect or appoint, from among their number or otherwise, or may authorize the Chairperson to appoint a Treasurer and a Secretary, one or more Assistant Secretaries and Assistant Treasurers and such other officers or agents, who shall have such powers, duties and responsibilities as the Directors may deem to be advisable and appropriate. Two or more offices, except those of Chairperson, Vice Chairperson and Secretary, may be held by the same person. The Treasurer and the Secretary may be the same person but do not have to be Directors, and shall attend meetings of the Agency, but shall have no voting power thereat, if such Treasurer or Secretary is not a Director.

Section 6.8 By-Laws. The Directors may adopt and, from time to time, amend or repeal By-Laws for the conduct of the business of the Agency, and in such By-Laws, among other things, may define the duties of the respective officers, agents, employees and representatives of the Agency.

Section 6.9 Committees. The Directors may elect from time to time committees consisting of one or more persons, the number composing such committees and the powers conferred upon the same to be determined by vote of the Directors.

ARTICLE VII

Amendment or Termination of the Agreement

Section 7.1 Amendment or Termination. (a) The provisions of this Agreement may be amended or altered (except as to the limitations on personal liability of the Participants and Directors), or the Agreement may be terminated, at any meeting of the Participants or pursuant to any vote of the Participants called for that purpose, by the affirmative vote of a majority of the Participants entitled to vote; provided, however, that the Agency may, from time to time by a two-thirds vote of the Directors, and after fifteen (15) days prior written notice to the Participants, amend or alter the provisions of this Agreement, or terminate the Agreement, without the vote or assent of the Participants, to the extent deemed by the Directors in good faith to be necessary to conform this Agreement to the requirements of applicable Laws or regulations or any interpretation thereof by a court or other governmental agency of competent jurisdiction, but the Directors shall not be liable for failing so to do. Notwithstanding the foregoing, no amendment may be made pursuant to this Section 7.1 that would diminish or eliminate any voting rights of the Participants, except with the vote or written consent of two-thirds of the Participants entitled to vote thereon.

(b) Upon the termination of the Agency pursuant to this Section 7.1: (i) the Agency shall carry on no business except for the purpose of winding up its affairs; and (ii) the Agency shall proceed to wind up the affairs of the Programs and all of the powers of the Agency under this Agreement shall continue until the affairs of the Programs shall have been wound up, including, without limitation, the power to fulfill or discharge the contracts of the Programs, collect its assets, sell, convey, assign, exchange, transfer or otherwise dispose of all or any part of the remaining Program Property to one or more persons at public or private sale for consideration which may consist in whole or in part of cash, securities or other property of any kind, discharge or pay its liabilities, and do all other acts appropriate to liquidate its affairs.

(c) Upon termination of the Programs and distribution as herein provided, a majority of the Directors shall execute and lodge among the records of the Agency an instrument in writing setting forth the fact of such termination, and the Directors shall thereupon be discharged from all further liabilities and duties hereunder, and the right, title and interest of all Participants shall cease and be canceled and discharged.

(d) A certification signed by a majority of the Directors setting forth an amendment and reciting that it was duly adopted by the Participants or by the Directors as aforesaid or a copy of the Agreement, as amended, and executed by a majority of the Directors, shall be conclusive evidence of such amendment.

ARTICLE VIII

Miscellaneous

Section 8.1 Governing Law. This Agreement is executed by the Initial Participants and delivered in the Commonwealth and with reference to the Laws thereof, and the rights of all parties and the validity, construction and effect of every provision hereof shall be subject to and construed according to the Laws of the Commonwealth.

Section 8.2 Prohibition of Discrimination. No person engaged in activities or transactions contemplated in this Agreement, shall discriminate against any person on the basis of race, color, religion, gender, creed, ancestry, national origin, sexual orientation, or physical or mental handicap in connection with any such activities or transactions.

Section 8.3 Counterparts. This Agreement may be executed in several counterparts, each of which when so executed shall be deemed to be an original, and such counterparts, together, shall constitute but one and the same instrument, which shall be sufficiently evidenced by any such original counterpart.

Section 8.4 Reliance by Third Parties. Any certificate executed by an individual who, according to the records of the Agency, or of any official or public body or office in which this Agreement may be recorded, appears to be a Director hereunder or the Secretary or the Treasurer of the Agency, certifying to: (i) the number or identity of Directors or Participants; (ii) the due authorization of the execution of any instrument or writing; (iii) the form of any vote passed at a meeting of Directors or taken pursuant to a vote of Participants; (iv) the fact that the number of Directors or Participants present at any meeting or executing any written instrument satisfies the requirements of this Agreement; (v) the form of any By-Law adopted by or the identity of any officers elected by the Directors; or (vi) the existence of any fact or facts which in any manner relate to the affairs of the Agency, shall be conclusive evidence as to the matters so certified in favor of any Person dealing with the Agency and the successors of such Person.

Section 8.5 Provisions in Conflict with Law. The provisions of this Agreement are severable, and if the Agency shall determine, with the advice of counsel, that any one or more of such provisions (the "Conflicting Provisions") are in conflict with applicable federal or Kentucky Laws, the Conflicting Provisions shall be deemed never to have constituted a part of this Agreement; provided, however, that such determination by the Agency shall not affect or impair any of the remaining provisions of this Agreement or render invalid or improper any action taken or omitted (including, but not limited to, the election of Directors) prior to such determination.

Section 8.6 Gender; Section Headings. (a) Words of the masculine gender shall mean and include correlative words of the feminine and neuter genders and words importing the singular number shall mean and include the plural number and vice versa.

(b) Any headings preceding the texts of the several Articles and Sections of this Agreement and any table of contents or marginal notes appended to copies hereof, shall be solely for the convenience of reference and shall neither constitute a part of this Agreement nor affect its meaning, construction or effect.

Section 8.7 Adoption by Public Agencies Electing to Become Additional Participants; Resignation of Participants. (a) Any Public Agency meeting the requirements of the Act may become an additional Participant of the Agency by (i) taking any appropriate official action to adopt this Agreement, (ii) furnishing the Agency with satisfactory evidence that such official action has been taken, and (iii) if requested by the Agency, providing the Agency with an opinion of counsel to the effect that such party desiring to become a Participant of the Agency is a Public Agency. A copy of this Agreement may be adopted by executing a written instrument of adoption in such form as may be prescribed by the Agency. Delivering an acknowledged copy of such instrument shall constitute satisfactory evidence of the adoption contemplated by this Section 8.7.

(b) Any Participant may resign and withdraw from the Agency by sending a written notice to such effect to the Secretary of the Agency. The written notice shall be in a form of action of the Governing Body of the Participant, stating the Public Agency's intention to resign from the Agency. Provided such Participant is not obligated under any Program or under a Program Obligation, such resignation and withdrawal shall become effective upon the receipt thereof by the Secretary of the Agency. No resignation and withdrawal by a Participant shall operate to annul this Agreement or terminate the existence of the Agency or any of its Programs.

IN WITNESS WHEREOF, the undersigned Initial Participants have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the day and year-first above written.

CITY OF CALVERT, KENTUCKY

By Gene Colburn

Title MAYOR

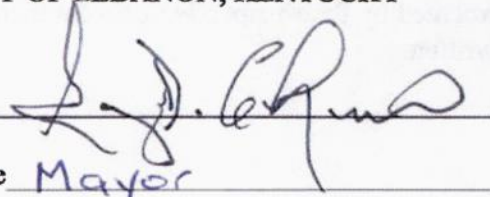
Attest Stenda Adair

Title City Clerk Treasurer

(Additional signature page follows)

CITY OF LEBANON, KENTUCKY

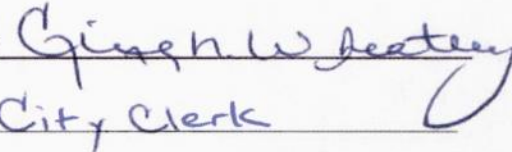
By



Title

Mayor

Attest



Title

City Clerk

(Additional signature page follows)

DAVISS COUNTY WATER DISTRICT

By Christina O'Byrne

Title Chairman

Attest [Signature]

Title SECRETARY

(Additional signature page follows)

OLDHAM COUNTY WATER DISTRICT

By 

Title CHAIRMAN

Attest 

Title SECRETARY

(Additional signature page follows)

SIMPSON COUNTY WATER DISTRICT

By Ray Mann

Title Chairman

Attest Joe H. Richards

Title Secretary-Treasurer

(Additional signature page follows)

WARREN COUNTY WATER DISTRICT

By Glen Johnson

Title Chairman

Attest [Signature]

Title Secretary