

EXECUTION COPY

CEDAR KEY WATER AND SEWER DISTRICT

WATER REVENUE BOND RESOLUTION

ADOPTED June 7, 2011

TABLE OF CONTENTS

	PAGE
ARTICLE I GENERAL	
SECTION 1.01.	DEFINITIONS..... 1
SECTION 1.02.	AUTHORITY FOR RESOLUTION. 4
SECTION 1.03.	RESOLUTION TO CONSTITUTE CONTRACT. 4
SECTION 1.04.	FINDINGS..... 4
SECTION 1.05.	AUTHORIZATION OF PROJECT..... 4
ARTICLE II AUTHORIZATION, TERMS, EXECUTION AND REGISTRATION OF BONDS	
SECTION 2.01.	AUTHORIZATION OF BONDS. 5
SECTION 2.02.	AUTHORIZATION AND DESCRIPTION OF BONDS..... 5
SECTION 2.03.	APPLICATION OF BOND PROCEEDS. 6
SECTION 2.04.	EXECUTION OF BONDS. 6
SECTION 2.05.	BONDS MUTILATED, DESTROYED, STOLEN OR LOST..... 6
SECTION 2.06.	INTERCHANGEABILITY, NEGOTIABILITY AND TRANSFER..... 7
SECTION 2.07.	FORM OF BONDS..... 8
ARTICLE III REDEMPTION OF BONDS	
SECTION 3.01.	PRIVILEGE OF REDEMPTION. 15
SECTION 3.02.	SELECTION OF BONDS TO BE REDEEMED. 15
SECTION 3.03.	NOTICE OF REDEMPTION. 15
SECTION 3.04.	REDEMPTION OF PORTIONS OF BONDS. 15
SECTION 3.05.	PAYMENT OF REDEEMED BONDS. 15
ARTICLE IV SECURITY, SPECIAL FUNDS AND APPLICATION THEREOF	
SECTION 4.01.	BONDS NOT TO BE INDEBTEDNESS OF ISSUER. 16
SECTION 4.02.	SECURITY FOR BONDS..... 16
SECTION 4.03.	CONSTRUCTION ACCOUNT. 16

SECTION 4.04.	FUNDS AND ACCOUNTS	17
SECTION 4.05.	FLOW OF FUNDS.....	17
SECTION 4.06.	INVESTMENTS.	19
SECTION 4.07.	SEPARATE ACCOUNTS.....	19

ARTICLE V
COVENANTS OF THE ISSUER

SECTION 5.01.	SUBORDINATED INDEBTEDNESS.....	20
SECTION 5.02.	ISSUANCE OF ADDITIONAL BONDS.	20
SECTION 5.03.	BOND ANTICIPATION NOTES.	21
SECTION 5.04.	BOOKS AND RECORDS.....	21
SECTION 5.05.	ANNUAL AUDIT.....	21
SECTION 5.06.	ARBITRAGE.	22
SECTION 5.07.	NO IMPAIRMENT.....	22
SECTION 5.08.	ENTITLEMENT TO PAYMENTS.....	22
SECTION 5.09.	FIDELITY BONDS.....	22
SECTION 5.10.	COMPLIANCE WITH LAWS AND REGULATIONS.....	22
SECTION 5.11.	INSURANCE.	22
SECTION 5.12.	OPERATION AND MAINTENANCE.....	232
SECTION 5.13.	ANNUAL BUDGET.....	243
SECTION 5.14.	NO MORTGAGE OR SALE OF THE SYSTEM	23
SECTION 5.15.	NO FREE SERVICE.....	24
SECTION 5.16.	ENFORCEMENT OF CHARGES	24
SECTION 5.17.	CONSULTING ENGINEER	24

ARTICLE VI
DEFAULTS AND REMEDIES

SECTION 6.01.	EVENTS OF DEFAULT	25
SECTION 6.02.	REMEDIES	25

ARTICLE VII
SUPPLEMENTAL RESOLUTIONS

SECTION 7.01.	SUPPLEMENTAL RESOLUTION .WITHOUT BONDHOLDERS' CONSENT.....	27
SECTION 7.02.	SUPPLEMENTAL RESOLUTION WITH BONDHOLDERS' CONSENT.....	27

ARTICLE VIII
MISCELLANEOUS

SECTION 8.01.	DEFEASANCE.....	29
SECTION 8.02.	SALE OF BONDS.	30
SECTION 8.03.	SEVERABILITY OF INVALID PROVISIONS.....	30
SECTION 8.04.	VALIDATION AUTHORIZED.	30
SECTION 8.05.	REPEAL OF INCONSISTENT RESOLUTIONS.	30
SECTION 8.06.	EFFECTIVE DATE.	31

RESOLUTION NO. 2011-04

A RESOLUTION AUTHORIZING THE ISSUANCE BY THE CEDAR KEY WATER AND SEWER DISTRICT OF NOT EXCEEDING \$1,180,000 IN AGGREGATE PRINCIPAL AMOUNT OF WATER REVENUE BONDS, SERIES 2012 TO FINANCE THE COST OF THE ACQUISITION, CONSTRUCTION AND EQUIPPING OF ADDITIONAL IMPROVEMENTS TO THE DISTRICT'S WATER SYSTEM; PLEDGING THE NET REVENUES FROM THE WATER SYSTEM TO SECURE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON SAID BONDS; PROVIDING FOR THE RIGHTS OF THE HOLDERS OF SAID BONDS; AND PROVIDING FOR AN EFFECTIVE DATE FOR THIS RESOLUTION.

BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF THE CEDAR KEY WATER AND SEWER DISTRICT OF LEVY COUNTY, FLORIDA (THE "ISSUER"):

ARTICLE I

GENERAL

SECTION 1.01. DEFINITIONS. When used in this Resolution, the following terms shall have the following meanings, unless the context clearly otherwise requires:

"Act" shall mean Chapter 98-473, Laws of Florida, Special Acts of 1998, as amended and supplemented, and other applicable provisions of law.

"Authorized Investments" shall mean any of the following, if and to the extent that the same are at the time legal for investment of funds of the Issuer:

- (1) Direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, including obligations issued or held in book entry form by the Department of the Treasury of the United States.
- (2) Bonds, debentures, notes, participation certificates or other evidences of indebtedness issued, the principal of and interest on which are unconditionally guaranteed, by any agency or instrumentality of or corporation wholly owned by the United States of America, which

evidence of indebtedness involves a pledge of the full faith and credit of the United States of America.

(3) Bank time deposits evidenced by certificates of deposit, and bankers' acceptances, issued by any bank, savings and loan association, trust company or national banking association, which are (a) fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or (b) secured by obligations described in paragraphs (1) or (2) of this definition.

(4) Units of participation in the Local Government Surplus Funds Trust Fund established pursuant to Part IV, Chapter 218, Florida Statutes, or any similar common trust fund which is established pursuant to law as a legal depository of public moneys and for which the State Board of Administration acts as custodian.

"Authorized Issuer Officer" shall mean any person authorized by resolution of the Issuer to perform such act or sign such document.

"Bonds" shall mean the Issuer's Water Revenue Bonds, Series 2012, authorized pursuant hereto in an amount not to exceed \$1,180,000.

"Construction Account" shall mean the account established pursuant to Section 4.03 hereof.

"Federal Securities" shall mean direct obligations of the United States of America and obligations the principal of and interest on which are fully guaranteed by the United States of America, none of which permit redemption prior to maturity at the option of the obligor. Federal Securities shall include any certificates or any other evidences of an ownership interest in the aforementioned obligations or in specified portions thereof (which may consist of specified portions of the interest thereon).

"Government" shall mean the United States of America, Acting through the United States Department of Agriculture, Rural Development.

"Gross Revenues" derived from the operation of the System shall mean all moneys received from rates, fees, rentals or other charges or income received by the Issuer or accruing to it in the management and operation of the System, all calculated in accordance with sound accounting practice.

"Interest Date" shall be such date or dates as shall be provided by Supplemental Resolution of the Issuer for payment of interest on the Bonds; provided, however, that annual interest shall be payable only on September 1 of each year.

"Net Revenues" shall mean Gross Revenues less Operating Expenses.

"Operating Expenses" of the System shall mean all current expenses, paid or accrued, for the operation, maintenance and repair of the System and its facilities, as calculated in accordance with sound accounting practice, and shall include, without limiting the generality of the foregoing, insurance premiums, administrative expenses of the Issuer related solely to the System, labor, cost of materials and supplies used for current operation, and charges for the accumulation of appropriate reserves for current expenses not annually recurrent but which are such as may reasonably be expected to be incurred in accordance with sound accounting practice. "Operating Expenses" shall not include any allowance for depreciation or for renewals or replacements of capital assets of the System.

"Pledged Funds" shall mean the Net Revenues of the System.

"Preauthorized Debit" means the preauthorization by means of Form SF 5510 of electronic debits by the Government from the Issuer's Interest and Principal Accounts in order to pay principal of and interest on the Bonds when due.

"Project" shall mean the extensions and improvements to the System to be constructed pursuant to the authorization contained in this Resolution in accordance with certain plans and specifications now on file with the Issuer.

"Redemption Price" shall mean, with respect to any Bond or portion thereof, the principal amount or portion thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or this Resolution.

"Resolution" shall mean this Resolution, as the same may from time to time be amended, modified or supplemented by Supplemental Resolution.

"Supplemental Resolution" shall mean any resolution of the Issuer amending or supplementing this Resolution enacted and becoming effective in accordance with the terms of Sections 7.01 and 7.02.

"System" shall mean the Issuer's water production and distribution facilities. To the extent the Issuer operates its water and sewer systems as a combined system, "System" as used herein shall refer only to the water portion of said combined system.

The terms "herein," "hereunder," "hereby," "hereto," "hereof," and any similar terms, shall refer to this Resolution; the term "heretofore" shall mean before the date of adoption of this Resolution; and the term "hereafter" shall mean after the date of adoption of this Resolution.

Words importing the masculine gender include every other gender.

Words importing the singular number include the plural number, and vice versa.

SECTION 1.02. AUTHORITY FOR RESOLUTION. This Resolution is adopted pursuant to the provisions of the Act.

SECTION 1.03. RESOLUTION TO CONSTITUTE CONTRACT. In consideration of the purchase and acceptance of any or all of the Bonds by those who shall hold the same from time to time, the provisions of this Resolution shall be a part of the contract of the Issuer with the Holders of the Bonds, and shall be deemed to be and shall constitute a contract between the Issuer and the Holders from time to time of the Bonds. The pledge made in the Resolution and the provisions, covenants and agreements herein set forth to be performed by or on behalf of the Issuer shall be for the equal benefit, protection and security of the Holders of any and all of said Bonds. All of the Bonds, regardless of the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof except as expressly provided in or pursuant to this Resolution.

SECTION 1.04. FINDINGS. It is hereby ascertained, determined and declared:

(A) That the Issuer deems it necessary, desirable and in the best interests of the Issuer that the Project be acquired, constructed and equipped.

(B) That the Project shall be financed by the proceeds of the Bonds issued pursuant to this Resolution.

(C) That the estimated Pledged Funds will be sufficient to pay the principal of and interest on the Bonds to be issued pursuant to this Resolution, as the same become due, and all other payments provided for in this Resolution.

(D) That the principal of and interest on the Bonds to be issued pursuant to this Resolution, and all other payments provided for in this Resolution will be paid solely from the Pledged Funds; and neither the ad valorem taxing power nor any other funds of the Issuer will ever be necessary or authorized to pay the principal of and interest on the Bonds to be issued pursuant to this Resolution and, except as otherwise provided herein, the Bonds shall not constitute a lien upon any property of the Issuer.

SECTION 1.05. AUTHORIZATION OF PROJECT. The Issuer does hereby authorize the acquisition, construction and equipping of the Project.

ARTICLE II

AUTHORIZATION, TERMS, EXECUTION AND REGISTRATION OF BONDS

SECTION 2.01. AUTHORIZATION OF BONDS. This Resolution creates an issue of Bonds of the Issuer to be designated as "Cedar Key Water and Sewer District of Levy County, Florida Water Revenue Bonds."

The Bonds may, if and when authorized by the Issuer pursuant to this Resolution, be issued with such further appropriate particular designations added to or incorporated in such title for the Bonds as the Issuer may determine and as may be necessary.

The Bonds shall bear interest at such rate or rates not exceeding the maximum rate permitted by law and shall be payable on such dates as determined by Supplemental Resolution of the Issuer.

The Bonds shall contain such redemption provisions and shall mature in such years and amounts, all as determined by Supplemental Resolution of the Issuer.

SECTION 2.02. AUTHORIZATION AND DESCRIPTION OF BONDS. Bonds entitled to the benefit, protection and security of this Resolution are hereby authorized in the aggregate principal amount of not exceeding \$1,180,000 for the purposes of financing the Cost of the Project. Such Bonds shall be designated by the title, "Cedar Key Water and Sewer District of Levy County, Florida Water Revenue Bonds, Series 2012."

The Bonds shall be dated as of the date of delivery thereof, shall be issued as one fully registered Bond, shall be issued in denominations of \$1,000 or integral multiples thereof, shall mature on such date not to exceed 40 years from the date of issuance thereof, as established by Supplemental Resolution, shall be numbered R-1, shall bear interest from their date of issue and shall be payable as to both principal and interest to the registered owner by check or draft, in lawful money of the United States of America, mailed to the address provided to the Issuer by the registered owner in writing on the date the Bond is issued, or at such change of address given by the registered owner to the Issuer at least five (5) days prior to any payment date. The Bonds shall be initially sold and delivered to the United States of America, acting through the United States Department of Agriculture, Rural Development. The Bonds shall be payable as to principal and interest on September 1 of each year.

The principal of or Redemption Price, if applicable, on the Bonds are payable upon presentation of the Bonds to the Issuer; provided, that as long as the Bonds are owned by the Government, payment shall be by Preauthorized Debit. Interest payable on any Bond on any Interest Date will be paid by check of the Issuer to the Holder in whose name such Bond shall be registered at the close of business on the date which shall be the fifteenth day (whether or not a

business day) of the calendar month next preceding such Interest Date; provided, that as long as the Bonds are owned by the Government, payment shall be by Preauthorized Debit. All payments of principal of or Redemption Price, if applicable, and interest on the Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

SECTION 2.03. APPLICATION OF BOND PROCEEDS. Except as otherwise provided herein or by Supplemental Resolution of the Issuer, the proceeds derived from the sale of the Bonds, including accrued interest and premium, if any, shall, simultaneously with the delivery of the Bonds to the purchaser or purchasers thereof, be applied by the Issuer as follows:

(A) Accrued interest and proceeds of the Bonds representing capitalized interest, if any, shall be deposited in the Interest Account and shall be used only for the purpose of paying the interest which shall thereafter become due on the Bonds.

(B) The balance of the Bond proceeds shall be deposited in the Construction Account.

SECTION 2.04. EXECUTION OF BONDS. The Bonds shall be executed in the name of the Issuer with the manual or facsimile signature of the Chairman and the official seal of the Issuer shall be imprinted thereon, attested and countersigned with the manual or facsimile signature of the Secretary. In case any one or more of the officers who shall have signed or sealed any of the Bonds or whose facsimile signature shall appear thereon shall cease to be such officer of the Issuer before the Bonds so signed and sealed have been actually sold and delivered such Bonds may nevertheless be sold and delivered as herein provided and may be issued as if the person who signed or sealed such Bonds had not ceased to hold such office. Any Bond may be signed and sealed on behalf of the Issuer by such person who at the actual time of the execution of such Bond shall hold the proper office of the Issuer, although at the date of such Bond such person may not have held such office or may not have been so authorized. The Issuer may adopt and use for such purposes the facsimile signatures of any such persons who shall have held such offices at any time after the date of the adoption of this Resolution, notwithstanding that either or both shall have ceased to hold such office at the time the Bonds shall be actually sold and delivered.

SECTION 2.05. BONDS MUTILATED, DESTROYED, STOLEN OR LOST. In case any Bond shall become mutilated, or be destroyed, stolen or lost, the Issuer may, in its discretion, issue, deliver, and authenticate a new Bond of like tenor as the Bond so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Bond upon surrender and cancellation of such mutilated Bond or in lieu of and substitution for the Bond destroyed, stolen or lost, and upon the Holder furnishing the Issuer proof of his ownership thereof and satisfactory indemnity and complying with such other reasonable regulations and conditions as the Issuer may prescribe and paying such expenses as the Issuer may incur. All Bonds so surrendered shall be cancelled by the Issuer. If any of the Bonds shall have matured or be about to mature, instead of issuing a substitute Bond, the Issuer may pay the same or cause the Bond to be paid, upon being indemnified as aforesaid, and if such Bonds be lost, stolen or destroyed, without surrender thereof.

Any such duplicate Bonds issued pursuant to this Section 2.05 shall constitute original, additional contractual obligations on the part of the Issuer whether or not the lost, stolen or destroyed Bond be at any time found by anyone, and such duplicate Bond shall be entitled to equal and proportionate benefits and rights as to lien on the Pledged Funds to the same extent as all other Bonds issued hereunder.

SECTION 2.06. INTERCHANGEABILITY, NEGOTIABILITY AND TRANSFER. Bonds, upon surrender thereof to the Issuer with a written instrument of transfer satisfactory to the Issuer, duly executed by the Holder thereof or his attorney duly authorized in writing, may, at the option of the Holder thereof, be exchanged for an equal aggregate principal amount of registered Bonds of the same maturity of any other authorized denominations.

The Bonds issued under this Resolution shall be and have all the qualities and incidents of negotiable instruments under the law merchant and the Uniform Commercial Code of the State of Florida, subject to the provisions for registration and transfer contained in this Resolution and in the Bonds. So long as any of the Bonds shall remain Outstanding, the Issuer shall maintain and keep books for the registration and transfer of the Bonds.

Each Bond shall be transferable only upon the books of the Issuer, under such reasonable regulations as the Issuer may prescribe, by the Holder thereof in person or by his attorney duly authorized in writing upon surrender thereof together with a written instrument of transfer satisfactory to the Issuer duly executed and guaranteed by the Holder or his duly authorized attorney. Upon the transfer of any such Bond, the Issuer shall issue, and cause to be authenticated, in the name of the transferee a new Bond or Bonds of the same aggregate principal amount and maturity as the surrendered Bond. The Issuer may deem and treat the Person in whose name any Outstanding Bond shall be registered upon the books of the Issuer as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal or Redemption Price, if applicable, and interest on such Bond and for all other purposes, and all such payments so made to any such Holder or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid and neither the Issuer nor any other fiduciary of the Issuer shall be affected by any notice to the contrary.

In all cases in which the privilege of exchanging Bonds or transferring Bonds is exercised, the Issuer shall execute, deliver and authenticate Bonds in accordance with the provisions of this Resolution. Execution of Bonds by the Chairman and Secretary for purposes of exchanging, replacing or transferring Bonds may occur at the time of the original delivery of the Bonds. For every such exchange or transfer of Bonds, the Issuer may make a charge sufficient to reimburse it for any tax, fee, expense or other governmental charge required to be paid with respect to such exchange or transfer. The Issuer shall not be obligated to make any such exchange or transfer of any Bonds during the fifteen (15) days next preceding an Interest Date on such Bonds.

SECTION 2.07. FORM OF BONDS. The text of the Bonds shall be in substantially the following form with such omissions, insertions and variations as may be necessary and/or desirable and approved by the Chairman or the Secretary prior to the issuance thereof (which necessity and/or desirability and approval shall be presumed by such officer's execution of the Bonds and the Issuer's delivery of the Bonds to the purchaser or purchasers thereof):

UNITED STATES OF AMERICA
STATE OF FLORIDA
CEDAR KEY WATER AND SEWER DISTRICT OF
LEVY COUNTY, FLORIDA
WATER REVENUE BOND,
SERIES _____

KNOW ALL MEN BY THESE PRESENTS that the Cedar Key Water and Sewer District of Levy County, Florida (the "Issuer"), for value received, hereby promises to pay, in the manner provided herein, to the United States of America, Acting through the United States Department of Agriculture, Rural Development, as registered owner, or registered assigns, the principal sum of

_____ **DOLLARS**

solely from the Pledged Funds (hereinafter defined) and to pay interest on the unpaid balance thereof from the date hereof to the registered owner hereof by check or draft mailed to the registered owner at its address as it is recorded by the Issuer five (5) days prior to the interest payment date. Interest shall be payable on the first day of September in each year, commencing on September 1, _____ at an annual rate equal to ___% computed based on a 365-day year.

All payments on this Bond shall be applied first to payment of interest and thereafter to reduction of the principal amount outstanding. The principal hereof shall be payable annually on September 1, commencing September 1 _____, in the following amounts on the following dates:

Payment Dates

Principal Amounts

with the balance of all principal plus interest accrued to the due date due _____.

This Bond is issued to finance the acquisition, construction and equipping of additions and extensions to the Issuer's existing water system (the "System"), under the authority of and in full compliance with the Constitution and laws of the State of Florida, particularly Chapter 98-473, Laws of Florida, Special Acts of 1998, as amended, and other applicable provisions of law (the "Act"), and a resolution duly adopted by the Board of Commissioners of the Issuer on June 7, 2011, as amended and supplemented (the "Resolution"), and is subject to all the terms and conditions of the Resolution.

This Bond and the interest hereon are payable solely from and secured by a lien upon and a pledge of the Net Revenues of the System (collectively, the "Pledged Funds"), all in the manner and to the extent described in the Resolution. It is expressly agreed by the Registered Holder of this Bond that the full faith and credit of the Issuer are not pledged to the payment of the principal of, premium, if any, and interest on this Bond and that such Holder shall never have the right to require or compel the exercise of any taxing power of the Issuer to the payment of such principal, premium, if any, and interest. This Bond and the obligation evidenced hereby shall not constitute a lien upon any property of the Issuer, but shall constitute a lien only on, and shall be payable solely from, the Pledged Funds.

Neither the members of the governing board of the Issuer nor any person executing this Bond shall be liable personally hereon or be subject to any personal liability or accountability by reason of the issuance hereof.

This Bond is one of a series of Bonds which were validated by judgment of the Circuit Court for Levy County, Florida, rendered on _____, 2011.

IN WITNESS WHEREOF, the Cedar Key Water and Sewer District of Levy County, Florida has issued this Bond and has caused the same to be executed by the manual or facsimile signature of the Chairman of its Board of Commissioners and by the manual or facsimile signature of the Secretary of the Board of Commissioners and its official seal or a facsimile thereof to be affixed or reproduced hereon, all as of the ____ day of _____, ____.

**CEDAR KEY WATER AND SEWER
DISTRICT OF LEVY COUNTY, FLORIDA**

(SEAL)

Chairman
Board of Commissioners

Secretary
Board of Commissioners

(Provisions on Reverse Side of Bond)

This Bond is transferable in accordance with the terms of the Resolution only upon the books of the Issuer kept for that purpose by the Registered Holder hereof in person or by his attorney duly authorized in writing, upon the surrender of this Bond together with a written instrument of transfer satisfactory to the Issuer duly executed by the Registered Holder or his attorney duly authorized in writing, and thereupon a new Bond or Bonds in the same aggregate principal amount shall be issued to the transferee in exchange therefor, and upon the payment of the charges, if any, therein prescribed. The Bonds are issuable in the form of fully registered Bonds in the denomination of \$5,000 and any integral multiple thereof, not exceeding the aggregate principal amount of the Bonds. The Issuer may treat the Registered Holder of this Bond as the absolute owner hereof for all purposes, whether or not this Bond shall be overdue, and shall not be affected by any notice to the contrary. The Issuer shall not be obligated to make any exchange or transfer of the Bonds during the fifteen (15) days next preceding an interest payment date or, in the case of any proposed redemption of the Bonds, then, during the fifteen (15) days next preceding the date of the first mailing of notice of such redemption.

The Bonds are subject to redemption prior to maturity, in whole or in part, at the option of the Issuer, in inverse order of maturity, on any September 1, upon payment of a Redemption Price equal to the remaining principal amount thereof, plus accrued interest to the date of redemption.

The Bonds are subject to mandatory redemption, in part, on any date in inverse order of maturity, at a Redemption Price equal to the principal amount thereof plus interest accrued to the redemption date, to the extent excess moneys are on deposit in the Construction Account after completion of the Project.

Redemption of this Bond under the preceding paragraphs shall be made as provided in the Resolution upon notice given by first class mail sent at least thirty (30) days prior to the redemption date to the Registered Holder hereof at the address shown on the registration books maintained by the Issuer; provided, however, that failure to mail notice to the Registered Holder hereof, or any defect therein, shall not affect the validity of the proceedings for redemption of this Bond. In the event that less than the full principal amount hereof shall have been called for redemption, the Registered Holder hereof shall surrender this Bond in exchange for one or more Bonds in an aggregate principal amount equal to the unredeemed portion of principal, as provided in the Resolution.

Reference to the Resolution and any and all resolutions supplemental thereto and modifications and amendments thereof and to the Act is made for a description of the pledge and covenants securing this Bond, the nature, manner and extent of enforcement of such pledge and covenants, the rights, duties, immunities and obligations of the Issuer.

It is hereby certified and recited that all acts, conditions and things required to exist, to happen and to be performed precedent to and in the issuance of this Bond, exist, have happened and have been performed, in regular and due form and time as required by the laws and Constitution of the State of Florida applicable thereto, and that the issuance of the Bonds does not violate any constitutional or statutory limitations or provisions.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto

Insert Social Security or Other
Identifying Number of Assignee

(Name and Address of Assignee)

the within Bond and does hereby irrevocably constitute and appoint _____, as attorney to register the transfer of the said Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated:

Signature guaranteed:

NOTICE: Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

NOTICE: The signature to this assignment must correspond with the name of the Registered Holder as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever and the Social Security or other identifying number of such assignee must be supplied.

ARTICLE III

REDEMPTION OF BONDS

SECTION 3.01. PRIVILEGE OF REDEMPTION. The terms of this Article III shall apply to redemption of Bonds under this Resolution.

SECTION 3.02. SELECTION OF BONDS TO BE REDEEMED. The Bonds shall be redeemed only in the principal amount of \$5,000 each and integral multiples thereof and, in the case of redemptions in part, in inverse order of their maturity.

SECTION 3.03. NOTICE OF REDEMPTION. Notice of such redemption, which shall specify the Bond or Bonds (or portions thereof) to be redeemed and the date and place for redemption, shall be given by the Issuer, and shall be mailed first class, postage prepaid, at least thirty (30) days prior to the redemption date to all Holders of Bonds to be redeemed at their addresses as they appear on the registration books kept by the Issuer. Such notice shall further state that on such redemption date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Failure to mail notice to the Holders of the Bonds to be redeemed, or any defect therein, shall not affect the proceedings of redemption of such Bonds.

SECTION 3.04. REDEMPTION OF PORTIONS OF BONDS. Any Bond which is to be redeemed only in part shall be surrendered at any place of payment specified in the notice of redemption (with due endorsement by, or written instrument of transfer in form satisfactory to the Issuer duly executed by, the Holder thereof or his attorney duly authorized in writing) and the Issuer shall execute and deliver to the Holder of such Bond, without service charge, a new Bond or Bonds, of any authorized denomination, as requested by such Holder in an aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Bonds so surrendered.

SECTION 3.05. PAYMENT OF REDEEMED BONDS. Notice of redemption having been given substantially as aforesaid, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Issuer shall default in the payment of the Redemption Price) such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Issuer at the appropriate Redemption Price, plus accrued interest, if any. All Bonds which have been redeemed shall be cancelled and destroyed by the Issuer and shall not be reissued.

ARTICLE IV

SECURITY, SPECIAL FUNDS AND APPLICATION THEREOF

SECTION 4.01. BONDS NOT TO BE INDEBTEDNESS OF ISSUER. The Bonds shall not be or constitute general obligations or indebtedness of the Issuer as "bonds" within the meaning of any constitutional or statutory provision, but shall be special obligations of the Issuer, payable solely from and secured by a lien upon and pledge of the Pledged Funds in accordance with the terms of this Resolution. No Holder of any Bond shall ever have the right to compel the exercise of any ad valorem taxing power to pay such Bond, or be entitled to payment of such Bond from any moneys of the Issuer except from the Pledged Funds in the manner provided herein.

The Pledged Funds shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Issuer.

SECTION 4.02. SECURITY FOR BONDS. The payment of the principal of or Redemption Price, if applicable, and interest on the Bonds shall be secured forthwith equally and ratably by a pledge of and lien upon the Pledged Funds. The Issuer does hereby irrevocably pledge the Pledged Funds to the payment of the principal of or Redemption Price, if applicable, and interest on the Bonds in accordance with the provisions hereof.

SECTION 4.03. CONSTRUCTION ACCOUNT. The Issuer covenants and agrees to establish a separate fund in a bank or trust company in the State of Florida, which is a member of the Federal Deposit Insurance Corporation and is eligible under the laws of such State to receive funds of the Issuer, to be known as the "Cedar Key Water and Sewer District of Levy County Water Revenue Bonds Construction Account," which shall be used only for payment of the Cost of the Project. Moneys in the Construction Account, until applied in payment of any item of the Cost of the Project in the manner hereinafter provided, shall be held in trust by the Issuer and shall be subject to a lien and charge in favor of the Holders of the Bonds and for the further security of such Holders.

The Issuer is hereby authorized to make disbursements from the Construction Account to pay the Cost of the Project. The Issuer shall authorize such disbursement only upon receipt of (A) a requisition signed by the Authorized Issuer Officer stating (1) the requisition number, (2) the name and address of the person to whom the payment is to be made, (3) the amount to be paid, (4) the purpose on account of which the payment is to be made, showing the total amount to be paid, any amount previously paid, and the unpaid balance, (5) that the amount to be paid was properly incurred and is a proper charge against the Construction Account, and (6) that the amount requisitioned is due and unpaid.

The Issuer covenants and agrees to commence and proceed with completion of the Project with due diligence. If for any reason such proceeds of the Bonds or any part thereof are not necessary for or are not applied to the payment of Cost of the Project, then the unapplied proceeds shall be deposited by the Issuer into the Sinking Fund and used to redeem Bonds at the earliest possible date.

All income derived from investment of moneys in the Construction Account shall be retained in the Construction Account. The date of completion of the Project shall be determined by the Authorized Issuer Officer who shall certify such fact in writing to the Board of Commissioners of the Issuer.

SECTION 4.04. FUNDS AND ACCOUNTS. The Issuer covenants and agrees to establish with a bank or trust company in the State of Florida, which is a member of the Federal Deposit Insurance Corporation and is eligible under the laws of such state to receive funds of the Issuer, separate funds to be known as the "Cedar Key Water and Sewer District Water Revenue Bonds Revenue Fund," the "Cedar Key Water and Sewer District Water Revenue Bonds Operation and Maintenance Fund," and the "Cedar Key Water and Sewer District Water Revenue Bonds Sinking Fund." The Issuer shall maintain in the Sinking Fund four accounts: the "Interest Account," the "Principal Account," the "Reserve Account" and the "Surplus Account."

SECTION 4.05. FLOW OF FUNDS. The Issuer shall deposit or credit all Gross Revenues, as received, into the Revenue Fund. Moneys in the Revenue Fund shall first be used each month to deposit or credit to the Operation and Maintenance Fund such sums as are necessary to pay Operating Expenses for the month taking into account other moneys on deposit in such Fund or other moneys reasonably expected to be available for such purpose; provided the Issuer may transfer moneys from the Revenue Fund to the Operation and Maintenance Fund at any time to pay Operating Expenses to the extent there is a deficiency in the Operation and Maintenance Fund for such purpose. Amounts in the Operation and Maintenance Fund shall be paid out from time to time by the Issuer for reasonable and necessary Operating Expenses; provided, however, that no such payment shall be made unless the provisions of Section 5.13 hereof in regard to the current Annual Budget are complied with. The remaining moneys in the Revenue Fund shall be deposited on or before the twenty-fifth (25th) day of each month, commencing in the month immediately following delivery of any of the Bonds to the purchasers thereof, or such later date as hereinafter provided, in the following manner and in the following order of priority:

(A) Interest Account. The Issuer shall deposit into the Interest Account the sum which, together with any moneys therein not theretofore allocated to supplement any previous monthly deposit, will be sufficient to pay one-twelfth (1/12) of all interest coming due and payable on the Bonds on the next Interest Date. Moneys in the Interest Account shall be used to pay interest on the Bonds as and when the same shall become due, whether by redemption or otherwise, and for no other purpose. The Issuer shall adjust the amount of the deposit into the Interest Account not later than the month immediately preceding any Interest Date so as to

provide sufficient moneys in the Interest Account to pay the interest on the Bonds coming due on such Interest Date.

(B) Principal Account. The Issuer shall next deposit into the Principal Account the sum which, together with any moneys therein not theretofore allocated to supplement any previous monthly deposit, will be sufficient to pay one-twelfth (1/12) of all principal coming due and payable on the Bonds during the current Bond Year. Moneys in the Principal Account shall be used to pay the principal of the Bonds as and when the same shall mature, and for no other purpose. The Issuer shall adjust the amount of deposit to the Principal Account no later than the month immediately preceding any principal payment date so as to provide sufficient moneys in the Principal Account to pay the principal on Bonds becoming due on such principal payment date.

(C) Reserve Account. The Issuer shall next deposit into the Reserve Account a sum sufficient to maintain therein an amount equal to the Reserve Account Requirement; provided, however, that in the event proceeds of the Bonds in an amount equal to the Reserve Account Requirement are not deposited therein, an amount equal to one-one hundred twentieth (1/120th) of the Reserve Account Requirement shall be deposited until the Reserve Account Requirement is on deposit therein. Moneys in the Reserve Account shall be used only for the purpose of (1) the payment of maturing principal of or interest on the Bonds when the other moneys in the Sinking Fund are insufficient therefor, (2) paying the cost of repairing or replacing any damage to the System which shall be caused by unseen catastrophe, and (3) constructing improvements or extensions to the System which shall increase its Net Revenues and which shall be approved by the Consulting Engineers, if the Issuer shall not then be in default under any provisions of the Resolution and for no other purpose. However, whenever the moneys on deposit in the Reserve Account exceed the Reserve Account Requirement, such excess shall be withdrawn and deposited into the Surplus Account.

Upon the issuance of any Additional Bonds under the terms, limitations and conditions as herein provided, the Issuer shall increase the sum required to be accumulated and maintained on deposit in the Reserve Account to be at least equal to the Reserve Account Requirement on all Outstanding Bonds and on the Additional Bonds becoming due in any ensuing Bond Year. Such required sum may be paid in full or in part from the proceeds of such Additional Bonds or may be accumulated in equal monthly payments in the Reserve Account over a period of years, not to exceed five (5) years, from the date of delivery of the issuance of the Additional Bonds, as determined by Supplemental Resolution.

Whenever the amount in the Reserve Account, together with the amount in the other accounts of the Sinking Fund (excluding the Surplus Account), is sufficient to fully pay all Outstanding Bonds in accordance with their terms (including principal or applicable Redemption Price and interest thereon), the funds on deposit in the Reserve Account may be transferred to the appropriate accounts of the Sinking Fund for the payment of the Bonds.

(D) Surplus Account. The Issuer shall next deposit into the Surplus Account the balance of any moneys after the deposits required by Subsections 4.05(A) through 4.05(C). Moneys in the Surplus Account shall be first used to make deposits to the Interest Account and the Principal Account to the extent the moneys therein shall be insufficient to pay the principal or Redemption Price, if applicable, and interest on the Bonds. Second, moneys in the Surplus Account shall be used to make up any deficiency in the Reserve Account. Thereafter, the Issuer may use the moneys in the Surplus Account for any lawful purpose.

SECTION 4.06. INVESTMENTS. The Revenue Fund, the Construction Account, the Principal Account, the Interest Account, the Reserve Account, the Surplus Account and the Operation and Maintenance Fund and any other special funds or accounts herein established and created shall constitute trust funds for the purposes provided herein for such funds or accounts and shall be subject to a lien and charge in favor of the Holders of the Bonds and for the further security for such Holders. All such funds and accounts shall be continuously secured in the manner by which the deposit of public funds are authorized to be secured by the Laws of the State of Florida. Moneys on deposit in the Revenue Fund, the Construction Account, the Operation and Maintenance Fund and the Sinking Fund, other than the Reserve Account, may be invested and reinvested in Authorized Investments maturing not later than the date on which the moneys therein will be needed. Moneys on deposit in the Reserve Account may be invested or reinvested in Authorized Investments which shall mature no later than seven (7) years from the date of acquisition thereof. Any and all income received by the Issuer from the investment of moneys in the Revenue Fund, the Construction Account, the Operation and Maintenance Fund and the Sinking Fund (including the Reserve Account, to the extent the amount therein is less than the Reserve Account Requirement), shall be retained in such respective Fund or Accounts. All moneys in the Reserve Account, to the extent of any amount therein in excess of the Reserve Account Requirement, shall be deposited in the Surplus Account.

SECTION 4.07. SEPARATE ACCOUNTS. The moneys required to be accounted for in each of the foregoing funds and accounts established herein may be deposited in a single bank account, and funds allocated to the various funds and accounts established herein may be invested in a common investment pool, provided that adequate accounting records are maintained to reflect and control the restricted allocation of the moneys on deposit therein and such investments for the various purposes of such funds and accounts as herein provided. All funds held by the Issuer hereunder must be secured by the depository bank in accordance with U.S. Treasury Department Circular 176 and laws of the State of Florida for securing public funds and must comply with all collateral requirements set forth in 31 CFR 202.

The designation and establishment of the various funds and accounts in and by this Resolution shall not be construed to require the establishment of any completely independent, self-balancing funds as such term is commonly defined and used in governmental accounting, but rather is intended solely to constitute an earmarking of certain revenues for certain purposes and to establish certain priorities for application of such revenues as herein provided.

ARTICLE V

COVENANTS OF THE ISSUER

SECTION 5.01. SUBORDINATED INDEBTEDNESS. The Issuer will not issue any other obligations, except under the conditions and in the manner provided herein, payable from the Pledged Funds or voluntarily create or cause to be created any debt, lien, pledge, assignment, encumbrance or other charge having priority to or being on a parity with the lien thereon in favor of the Bonds and the interest thereon. The Issuer may at any time or from time to time issue evidences of indebtedness payable in whole or in part out of the Pledged Funds and which may be secured by a pledge of Pledged Funds; provided, however, that such pledge shall be, and shall be expressed to be, subordinated in all respects to the pledge of the Pledged Funds created by this Resolution. The Issuer agrees to pay promptly any Subordinated Indebtedness as the same shall become due and from the sources provided therefor.

SECTION 5.02. ISSUANCE OF ADDITIONAL BONDS. No Additional Bonds, payable *pari passu* with the Bonds then Outstanding pursuant to this Resolution, shall be issued except upon the conditions and in the manner herein provided. The Issuer may issue Additional Bonds for any one or more of the following purposes: (i) financing the Cost of completion of the Project, (ii) financing the Cost of an additional project, or the completion thereof, or (iii) refunding any or all Outstanding Bonds or any Subordinated Indebtedness of the Issuer.

No such Additional Bonds shall be issued unless the following conditions are complied with:

(A) Except as otherwise provided in Subsection 5.02(D) hereof, there shall have been obtained and filed with the Issuer a statement of an independent certified public accountant of reasonable experience and responsibility: (1) stating that the books and records of the Issuer relating to the operation of the Sinking Fund have been examined by him; (2) setting forth the amount of the Net Revenues which have been received by the Issuer during any twelve (12) consecutive months within the eighteen (18) months immediately preceding the date of delivery of such Additional Bonds with respect to which such statement is made; and (3) stating that the amount of the Net Revenues received during the aforementioned 12-month period equals at least 1.20 times the Maximum Annual Debt Service which will thereafter become due in any Bond Year with respect to all Bonds then Outstanding and such Additional Bonds with respect to which such statement is made.

(B) The Supplemental Resolution authorizing the issuance of the Additional Bonds will recite that all of the provisions and covenants herein contained will be applicable to the Additional Bonds.

(C) Additional Bonds shall be deemed to have been issued pursuant to this Resolution the same as the Outstanding Bonds, and all of the other covenants and other provisions of this

Resolution (except as to details of such Additional Bonds inconsistent therewith) shall be for the equal benefit, protection and security of the Holders of all Bonds issued pursuant to this Resolution. All Bonds, regardless of the time or times of their issuance, shall rank equally with respect to their lien on the Pledged Funds and their sources and security for payment therefrom without preference of any Bonds over any other.

(D) In the event any Additional Bonds are issued for the purpose of refunding any Bonds then Outstanding, the conditions of Subsection 5.02(A) hereof shall not apply, provided that the issuance of such Additional Bonds shall not result in an increase in the aggregate amount of principal of and interest on the Outstanding Bonds becoming due in the current Bond Year and all subsequent Bond Years.

(E) In the event any Bonds are owned by the Government, the consent of the Government shall be an additional requirement to the issuance of Additional Bonds hereunder.

SECTION 5.03. BOND ANTICIPATION NOTES. The Issuer may issue notes in anticipation of the issuance of the Bonds which shall have such terms and details and be secured in such manner, not inconsistent with this Resolution, as shall be provided by resolution of the Issuer.

SECTION 5.04. BOOKS AND RECORDS. The Issuer will keep books and records of the receipt of the Net Revenues in accordance with generally accepted accounting principles for governmental units, and any Holder or Holders of Bonds in an aggregate principal amount of at least five percent (5%) of the Bonds Outstanding shall have the right at all reasonable times to inspect the records, accounts and data of the Issuer relating thereto.

The Issuer covenants that within one hundred twenty (120) days of the close of each Fiscal Year it will cause to be prepared and filed with the Clerk and mailed to all Holders who shall have filed their names and addresses with the Clerk for such purpose a statement setting forth in respect of the preceding Fiscal Year: (A) the amount of the Net Revenues received in the preceding Fiscal Year; (B) the total amounts deposited to the credit of each fund and account created under the provisions of this Resolution; (C) the principal amount of all Bonds issued, paid, purchased or redeemed; and (D) the amounts on deposit at the end of such Fiscal Year to the credit of each such fund or account.

SECTION 5.05. ANNUAL AUDIT. The Issuer shall, immediately after the close of each Fiscal Year, cause the financial statements of the Issuer to be properly audited by a recognized independent firm of certified public accountants, and shall require such accountants to complete their report on the annual financial statements in accordance with applicable law. Such annual financial statements shall contain, but not be limited to, a balance sheet, an income statement, a statement of changes in financial position, a statement of changes in retained earnings and any other statements as required by law or accounting convention, and a report by such accountants disclosing any material default on the part of the Issuer of any covenant or

agreement herein which is disclosed by the audit of the financial statements. The annual financial statement shall be prepared in conformity with generally accepted accounting principles. A copy of the audited financial statements for each Fiscal Year shall be furnished to any Holder of a Bond who shall have furnished his address to the Clerk and requested in writing that the same be furnished to him.

SECTION 5.06. ARBITRAGE. The Issuer at all times while the Bonds are Outstanding shall comply with the requirements of Section 148 of the Internal Revenue Code of 1986, as amended, and any applicable rules and regulations promulgated thereunder. The Issuer further agrees that it will take no action which may render the interest on any of the Bonds includable in gross income for purposes of Federal income taxation.

SECTION 5.07. NO IMPAIRMENT. The pledging of the Pledged Funds in the manner provided herein shall not be subject to repeal, modification or impairment by any subsequent ordinance, resolution or other proceedings of the Board of Commissioners.

SECTION 5.08. ENTITLEMENT TO PAYMENTS. The Issuer will take all lawful action necessary or required to continue to entitle the Issuer to receive the Pledged Funds in the maximum amount provided by law and will take no action which will impair or adversely affect its receipt of Pledged Funds. The Issuer covenants to account separately for its water revenues and sewer revenues.

SECTION 5.09. FIDELITY BONDS. The Issuer will require each employee who may handle any Pledged Funds to be covered by a fidelity bond written by a recognized indemnity.

SECTION 5.10. COMPLIANCE WITH LAWS AND REGULATIONS. The Issuer covenants and agrees to perform and comply with, in every respect, all loan agreements which it may have with the Government or with any other governmental agency and with all applicable federal and state laws and regulations.

SECTION 5.11. INSURANCE. The Issuer covenants and agrees to, at all times Bonds remain outstanding hereunder, maintain insurance coverage, including property, public liability, vehicular public liability and worker's compensation insurance, in such amounts as are standard for political subdivisions similar to the Issuer.

SECTION 5.12. OPERATION AND MAINTENANCE. The Issuer will maintain or cause to be maintained the System and all portions thereof in good condition and will operate or cause to be operated the same in an efficient and economical manner, making or causing to be made such expenditures for equipment and for renewals, repairs and replacements as may be proper for the economical operation and maintenance thereof. The Issuer covenants to comply with all State and federal laws and regulations applicable to its ownership and operation of the System.

SECTION 5.13. ANNUAL BUDGET. The Issuer shall annually prepare and adopt, prior to the beginning of each Fiscal Year, an Annual Budget in accordance with applicable law. No expenditure for the operation and maintenance of the System shall be made in any Fiscal Year in excess of the amount provided therefor in the Annual Budget, (A) without a written finding and recommendation by an Authorized Issuer Officer, which finding and recommendation shall state in detail the purpose of and necessity for such increased expenditures, and (B) until the Governing Body shall have approved such finding and recommendation.

If for any reason the Issuer shall not have adopted the Annual Budget before the first day of any Fiscal Year, other than the first Fiscal Year, the Annual Budget for the preceding Fiscal Year shall be deemed to be in effect for such Fiscal Year until the Annual Budget for such Fiscal Year is adopted.

SECTION 5.14. NO MORTGAGE OR SALE OF THE SYSTEM. Except as permitted by this Section 5.14, the Issuer irrevocably covenants, binds and obligates itself not to sell, lease, encumber or in any manner dispose of the System as a whole or any substantial part thereof until all of the Bonds and all interest thereon shall have been paid in full or provision for payment has been made in accordance with Section 8.01 hereof.

The foregoing provision notwithstanding, the Issuer shall have and hereby reserves the right to sell, lease or otherwise dispose of the property comprising a part of the System in the following manner, if any one of the following conditions exist: (A) such property is not necessary for the operation of the System, (B) such property is not useful in the operation of the System, (C) such property is not profitable in the operation of the System, or (D) in the case of a lease of such property, such lease will be advantageous to the System and will not adversely affect the security for the Bondholders.

Prior to any such sale, lease or other disposition of said property: (1) if the amount to be received therefor is not in excess of one-half of one percent of the value of the fixed assets of the System at original cost, an Authorized Issuer Officer shall make a finding in writing determining that one or more of the conditions for sale, lease or disposition of property provided for in the second paragraph of this Section 5.14 have been met; or (2) if the amount to be received from such sale, lease or other disposition of said property shall be in excess of one-half of one percent of the value of the gross plant of the System at original cost, (a) an Authorized Issuer Officer shall first make a finding in writing determining that one or more of the conditions for sale, lease or other disposition of property provided for in the second paragraph of this Section 5.14 have been met, (b) the Issuer shall, by resolution, duly adopt, approve and concur in the finding of the Authorized Issuer Officer and (c) the Issuer shall obtain an opinion of Bond Counsel to the effect that such sale, lease or other disposition is not in violation of the Act and will not adversely affect the Federal tax exempt status of interest on the Bonds.

The proceeds from such sale or other disposition shall be deposited or credited, first, to the Reserve Account to the extent necessary to make the amount therein equal to the Reserve Account Requirement, and, second, to the Surplus Account. Proceeds of any such lease shall constitute Gross Revenues and shall be deposited in the Revenue Fund.

Notwithstanding the foregoing provisions of this Section 5.14, the Issuer shall have the authority to sell for fair and reasonable consideration or to transfer without charge from the System to another department of the Issuer any land comprising a part of the System which, based upon the certification of an Authorized Issuer Officer, is no longer necessary or useful in the operation of the System and the proceeds derived from the sale of such land shall be disposed of in accordance with the provisions of the fourth paragraph of this Section 5.14.

The Issuer may make contracts or grant licenses for the operation of, or grant easements or other rights with respect to, any part of the System if such contract, license, easement or right does not, in the opinion of the Consulting Engineer, as evidenced by a certificate to that effect filed with the Issuer, impede or restrict the operation by the Issuer of the System, but any payments to the Issuer under or in connection with any such contract, license, easement or right in respect of the System or any part thereof shall constitute Gross Revenues.

SECTION 5.15. NO FREE SERVICE. The Issuer will not render, or cause to be rendered, any free services of any nature by its System or any part thereof, nor will any preferential rates be established for users of the same class.

SECTION 5.16. ENFORCEMENT OF CHARGES. The Issuer shall compel the prompt payment of rates, fees and charges imposed for service rendered on every lot or parcel connected with the System, and to that end will vigorously enforce all of the provisions of any ordinance or resolution of the Issuer having to do with water connections and charges, and all of the rights and remedies permitted the Issuer under law, including the requirement for the making of a reasonable deposit by each user, and the requirement for disconnection of all premises delinquent in payment for services.

SECTION 5.17. CONSULTING ENGINEER. The Issuer shall from time to time employ a Consulting Engineer or other professionals with expertise in utility systems, whose duties shall be to make any certificates and perform any other acts required or permitted of the Consulting Engineer or other professionals under this Resolution, and also to review the construction and operation of the System, to make an inspection of the System at least once every two years, and to submit to the Issuer a report with recommendations as to the proper maintenance, repair and operation of the System during the ensuing Fiscal Year, including recommendations for expansion and additions to the System to meet anticipated service demands, and an estimate of the amount of money necessary for such purposes. Copies of such reports, recommendations and estimates made as hereinabove provided shall be filed with the Issuer and made available for inspection by Bondholders, if such inspection is requested.

ARTICLE V

DEFAULTS AND REMEDIES

SECTION 6.01. EVENTS OF DEFAULT. The following events shall each constitute an "Event of Default":

(A) Default shall be made in the payment of the principal of or interest on any Bond when due.

(B) There shall occur the dissolution or liquidation of the Issuer, or the filing by the Issuer of a voluntary petition in bankruptcy, or the commission by the Issuer of any act of bankruptcy, or adjudication of the Issuer as a bankrupt, or assignment by the Issuer for the benefit of its creditors, or appointment of a receiver for the Issuer, or the entry by the Issuer into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Issuer in any proceeding for its reorganization instituted under the provisions of federal bankruptcy law, as amended, or under any similar act in any jurisdiction which may not be in effect or hereafter enacted.

(C) The Issuer shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in this Resolution on the part of the Issuer to be performed, and such default shall continue for a period of 30 days after written notice of such default shall have been received from the Holders of not less than 25 percent of the aggregate principal amount of Bonds Outstanding. Notwithstanding the foregoing, the Issuer shall not be deemed to be in default hereunder if such default can be cured within a reasonable period of time and if the Issuer in good faith institutes appropriate curative action and diligently pursues such action until default has been corrected; provided however, that if such default is not cured within 60 days, it shall become an Event of Default.

SECTION 6.02. REMEDIES. Any Holder of Bonds issued under the provisions of this Resolution or any trustee or receiver acting for such Bondholders may either at law or in equity, by suit, action, mandamus or other proceedings in any court of competent jurisdiction, protect and enforce any and all rights under the Laws of the State of Florida, or granted and contained in this Resolution, and may enforce and compel the performance of all duties required by this Resolution or by any applicable statutes to be performed by the Issuer or by any officer thereof.

The Holder or Holders of Bonds in an aggregate principal amount of not less than 25 percent of the Bonds then Outstanding may by a duly executed certificate in writing appoint a trustee for Holders of Bonds issued pursuant to this Resolution with authority to represent such Bondholders in any legal proceedings for the enforcement and protection of the rights of such Bondholders and certificate shall be executed by such Bondholders or their duly authorized attorneys or representatives, and shall be filed in the office of the Clerk. Notice of such

appointment, together with evidence of the requisite signatures of the Holders of not less than 25 percent in aggregate principal amount of Bonds Outstanding and the trust instrument under which the trustee shall have agreed to serve, shall be filed with the Issuer and the trustee and notice of such appointment shall be given to all Holders of Bonds in the same manner as notices of redemption are given hereunder. After the appointment of the first trustee hereunder, no further trustees may be appointed; however, the Holders of a majority in aggregate principal amount of all the Bonds then Outstanding may remove the trustee initially appointed and appoint a successor and subsequent successors at any time.

If remedial action is discontinued or abandoned, the Bondholders shall be restored to their respective positions held prior to commencement of such remedial action.

ARTICLE VII

SUPPLEMENTAL RESOLUTIONS

SECTION 7.01. SUPPLEMENTAL RESOLUTION WITHOUT BONDHOLDERS' CONSENT. The Issuer, from time to time and at any time, may adopt such Supplemental Resolutions without the consent of the Bondholders (which Supplemental Resolution shall thereafter form a part hereof) for any of the following purposes:

(A) To cure any ambiguity or formal defect or omission or to correct any inconsistent provisions in this Resolution or to clarify any matters or questions arising hereunder.

(B) To grant to or confer upon the Bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Bondholders.

(C) To add to the conditions, limitations and restrictions on the issuance of Bonds under the provisions of this Resolution other conditions, limitations and restrictions thereafter to be observed.

(D) To add to the covenants and agreements of the Issuer in this Resolution other covenants and agreements thereafter to be observed by the Issuer or to surrender any right or power herein reserved to or conferred upon the Issuer.

(E) To specify and determine the matters and things referred to in Sections 2.01 or 2.02 hereof, and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with this Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first delivery of such Bonds.

SECTION 7.02. SUPPLEMENTAL RESOLUTION WITH BONDHOLDERS' CONSENT. Subject to the terms and provisions contained in this Section 7.02 and Section 7.01 hereof, the Holder or Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, anything contained in this Resolution to the contrary notwithstanding, to consent to and approve the adoption of such Supplemental Resolution or Resolutions hereto as shall be deemed necessary or desirable by the Issuer for the purpose of supplementing, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Resolution; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified Series or maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section 7.02. No Supplemental Resolution may be approved or adopted which shall permit or require (A) an extension of the maturity of, the principal of or the payment of the interest on any Bond issued hereunder, (B) reduction in the principal amount of any Bond or the Redemption Price or the rate of interest thereon, (C) the creation of a lien upon or a

pledge of the Pledged Funds other than the lien and pledge created by this Resolution which adversely affects any Bondholders, (D) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (E) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Resolution. Nothing herein contained, however, shall be construed as making necessary the approval by Bondholders of the adoption of any Supplemental Resolution as authorized in Section 7.01 hereof.

If at any time the Issuer shall determine that it is necessary or desirable to adopt any Supplemental Resolution pursuant to this Section 7.02, the Secretary shall give notice of the proposed adoption of such Supplemental Resolution and the form of consent to such adoption to be mailed, postage prepaid, to all Bondholders at their addresses as they appear on the registration books. Such notice shall briefly set forth the nature of the proposed Supplemental Resolution and shall state that copies thereof are on file at the offices of the Issuer for inspection by all Bondholders. The Issuer shall not, however, be subject to any liability to any Bondholder by reason of its failure to cause the notice required by this Section 7.02 to be mailed and any such failure shall not affect the validity of such Supplemental Resolution when consented to and approved as provided in this Section 7.02.

Whenever the Issuer shall deliver to the Secretary an instrument or instruments in writing purporting to be executed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, which instrument or instruments shall refer to the proposed Supplemental Resolution described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the Issuer may adopt such Supplemental Resolution in substantially such form, without liability or responsibility to any Holder of any Bond, whether or not such Holder shall have consented thereto.

If the Holders of not less than a majority in aggregate principal amount of the Bonds Outstanding at the time of the adoption of such Supplemental Resolution shall have consented to and approved the adoption thereof as herein provided, no Holder of any Bond shall have any right to object to the adoption of such Supplemental Resolution, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the adoption thereof, or to enjoin or restrain the Issuer from adopting the same or from taking any action pursuant to the provisions thereof.

Upon the adoption of any Supplemental Resolution pursuant to the provisions of this Section 7.02, this Resolution shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Resolution of the Issuer and all Holders of Bonds then Outstanding shall thereafter be determined, exercised and enforced in all respects under the provisions of this Resolution as so modified and amended.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. DEFEASANCE. If the Issuer shall pay or cause to be paid or there shall otherwise be paid to the Holders of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in this Resolution, then the pledge of the Pledged Funds, and all covenants, agreements and other obligations of the Issuer to the Bondholders, shall thereupon cease, terminate and become void and be discharged and satisfied.

Any Bonds or interest installments appertaining thereto, whether at or prior to the maturity or redemption date of such Bonds, shall be deemed to have been paid within the meaning of this Section 8.01 if (A) in case any such Bonds are to be redeemed prior to the maturity thereof, there shall have been taken all action necessary to call such Bonds for redemption and notice of such redemption shall have been duly given or provision shall have been made for the giving of such notice, and (B) there shall have been deposited in irrevocable trust with a banking institution or trust company by or on behalf of the Issuer either moneys in an amount which shall be sufficient, or Federal Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with such bank or trust company at the same time shall be sufficient, to pay the principal of or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be. Except as hereafter provided, neither the Federal Securities nor any moneys so deposited with such bank or trust company nor any moneys received by such bank or trust company on account of principal of or Redemption Price, if applicable, or interest on said Federal Securities shall be withdrawn or used for any purpose other than, and all such moneys shall be held in trust for and be applied to, the payment, when due, of the principal of or Redemption Price, if applicable, of the Bonds for the payment or redemption of which they were deposited and the interest accruing thereon to the date of maturity or redemption.

In the event the Bonds for which moneys are to be deposited for the payment thereof in accordance with this Section 8.01 are not by their terms subject to redemption within the next succeeding sixty (60) days, the Issuer shall mail a notice to the Holders of such Bonds that the deposit required by this Section 8.01 of moneys or Federal Securities has been made and said Bonds are deemed to be paid in accordance with the provisions of this Section 8.01 and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal of or Redemption Price, if applicable, and interest on said Bonds.

For purposes of this Section 8.01, the term "Federal Securities," in addition to the securities provided in the definition of such term in Section 1.01 hereof, shall include any bonds or other obligations of any state of the United States of America or Puerto Rico or of any agency, instrumentality or local governmental unit of any such state or Puerto Rico (A) which are (1) not callable prior to maturity or (2) as to which irrevocable instructions have been given to the fiduciary

for such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (B) which are secured as to principal, redemption premium, if any, and interest by a fund consisting only of cash or Federal Securities, secured in the manner set forth in this Section 8.01, which fund may be applied only to the payment of such principal of, redemption premium, if any, and interest on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as the case may be, and (C) as to which the principal of and interest on the Federal Securities, which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of, redemption premium, if any, and interest on the bonds or other obligations on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (A) above.

Nothing herein shall be deemed to require the Issuer to call any of the Outstanding Bonds for redemption prior to maturity pursuant to any applicable optional redemption provisions, or to impair the discretion of the Issuer in determining whether to exercise any such option for early redemption.

Notwithstanding anything herein to the contrary, no Bonds held by the Government may be defeased.

SECTION 8.02. SALE OF BONDS. The Bonds shall be issued and sold at public or private sale at one time or in installments from time to time and at such price or prices as shall be consistent with the provisions of the Act, the requirements of this Resolution and other applicable provisions of law.

SECTION 8.03. SEVERABILITY OF INVALID PROVISIONS. If any one or more of the covenants, agreements or provisions of this Resolution shall be held contrary to any express provision of law or contrary to the policy of express law, though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants, agreements or provisions shall be null and void and shall be deemed separable from the remaining covenants, agreements and provisions of this Resolution and shall in no way affect the validity of any of the other covenants, agreements or provisions hereof or of the Bonds issued hereunder.

SECTION 8.04. VALIDATION AUTHORIZED. The Issuer's attorney is hereby authorized in his discretion to institute appropriate proceedings for the validation of the Bonds in the Eighth Judicial Circuit Court in and for Levy County, and the proper officers of the Issuer are hereby authorized to verify on behalf of the Issuer any pleadings in such proceedings.

SECTION 8.05. REPEAL OF INCONSISTENT RESOLUTIONS. All ordinances, resolutions or parts thereof in conflict herewith are hereby superseded and repealed to the extent of such conflict. Resolution No. 2010-08 of the District, adopted October 11, 2010, as amended, is hereby repealed.

SECTION 8.06. EFFECTIVE DATE. This Resolution shall take effect immediately upon its adoption.

Passed on first reading by a vote of 3 to 0 on the 24th day of May, 2011.

Passed on second reading, after required notice, by a vote of 5 to 0 on the 7th day of June, 2011.

CEDAR KEY WATER AND SEWER DISTRICT



Dottie Haldeman
Dottie Haldeman, Chair

ATTEST:

Ann Richburg
Ann Richburg, Secretary