
LOAN AGREEMENT

Dated as of July 1, 1999

between the

**STATE ENVIRONMENTAL IMPROVEMENT
AND ENERGY RESOURCES AUTHORITY**

and

THE RAYTOWN WATER COMPANY

Relating to

\$2,470,000

**Water Facilities Refunding Revenue Bonds
(The Raytown Water Company)
Series 1999A**

and

\$200,000

**Taxable Water Facilities Revenue Bonds
(The Raytown Water Company)
Series 1999B**

**THIS LOAN AGREEMENT HAS BEEN ASSIGNED TO, AND IS SUBJECT TO A SECURITY
INTEREST IN FAVOR OF UMB BANK, N.A., TRUSTEE UNDER AN INDENTURE OF TRUST
DATED AS OF JULY 1, 1999, AS AMENDED AND SUPPLEMENTED FROM TIME TO TIME.**

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Exhibit A - Form of Promissory Note

LOAN AGREEMENT

THIS LOAN AGREEMENT dated as of July 1, 1999 (this "Loan Agreement"), by and between the **STATE ENVIRONMENTAL IMPROVEMENT AND ENERGY RESOURCES AUTHORITY**, a body corporate and politic and a governmental instrumentality of the State of Missouri (the "Authority"), and **THE RAYTOWN WATER COMPANY**, a corporation organized and existing under the laws of the State of Missouri (the "Company");

RECITALS:

1. The Authority is authorized and empowered, under the provisions of Sections 260.005 to 260.125, inclusive, R.S.Mo., as amended, and Appendix B(1) thereto (the "Act"), to issue bonds and loan the proceeds thereof for any of the purposes of the Act, including the payment of "costs" of "water facilities" as defined in the Act.

2. Pursuant to the Act and a resolution duly adopted by the Authority, the Authority previously issued its \$3,000,000 original principal amount of Water Facilities Revenue Bonds (The Raytown Water Company) Series 1992 (the "Prior Bonds"), under an Indenture of Trust dated as of March 1, 1992 between the Authority and BNY Trust Company of Missouri (as successor to Boatmen's Trust Company, the "Prior Trustee") for the purpose of making a loan to the Company, to provide funds to finance the construction, acquisition and installation of transmission mains and an elevated water tank at 9906 East 63rd Street (Rear), Raytown, Missouri (the "Project").

3. The Company has requested that the Authority make a loan to the Company for the purpose of providing funds to refund the Prior Bonds and to pay certain related costs, all as more fully defined and described in this Loan Agreement and in the below defined Indenture, in consideration of payments by the Company which will be sufficient to pay the principal of, redemption premium, if any, and the interest on the Bonds issued by the Authority.

4. In order to provide funds to make the loan to the Company, the Authority is issuing \$2,470,000 principal amount of Water Facilities Refunding Revenue Bonds (The Raytown Water Company) Series 1999A (the "Series 1999A Bonds") and \$200,000 principal amount of Taxable Water Facilities Revenue Bonds (The Raytown Water Company) Series 1999B (the "Series 1999B Bonds," together with the Series 1999A Bonds, the "Series 1999 Bonds") pursuant to the Act and the Indenture of Trust dated as of July 1, 1999 (the "Indenture") by and between the Authority and UMB Bank, N.A., Kansas City, Missouri, as Trustee (the "Trustee"); and

5. To evidence the loan, the Company is concurrently with the delivery of this Loan Agreement issuing to the Authority its Promissory Note, Series 1999 (the "Series 1999 Note"), in the principal amount of \$2,670,000, substantially in the form of Exhibit A.

6. The Authority and the Company are entering into this Loan Agreement to provide for the loan of the proceeds of the Series 1999 Bonds to the Company and the repayment of the Series 1999 Note.

AGREEMENT:

ARTICLE I

DEFINITIONS; RULES OF CONSTRUCTION

Section 1.1. Definitions of Words and Terms. In addition to words and terms defined in the Indenture, the following words and terms as used in this Loan Agreement have the following meanings, unless some other meaning is plainly intended:

"Act of Insolvency" means:

(a) admission by a Person of insolvency or bankruptcy or its inability or failure to pay its debts as they become due, or the making by a Person of an assignment for the benefit of creditors or the application for or the consent to the appointment of a trustee, custodian or receiver for a Person or for the substantial part of its Property or a Person is generally not paying its debts as such debts become due; or

(b) appointment of a trustee, custodian or receiver for a Person or for the substantial part of its Property and the failure to obtain a discharge of such appointment within 60 days after such appointment; or

(c) institution of bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or other proceeding for relief under any bankruptcy law or similar law for the relief of debtors by or against a Person and the failure of the Person to dismiss, stay or otherwise nullify the same within 60 days after the institution thereof.

"Environmental Laws" means applicable federal, state, county or local statutes, laws, regulations, rules, ordinances, codes, standards, orders, licenses and permits of any governmental authorities relating to asbestos, underground storage tanks and other environmental matters, including by way of illustration and not by way of limitation, (a) the Clean Air Act, the Federal Water Pollution Control Act of 1972, the Resource Conservation and Recovery Act of 1976, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986 and the Toxic Substances Control Act (including any amendments or extensions thereof and any rules, regulations, standards or guidelines issued pursuant to any of Environmental Laws).

"Environmental Lien" has the meaning set forth in Section 5.16(b) hereof.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and any successor statute of similar import, together with the regulations thereunder, in each case as in effect from time to time. References to sections of ERISA shall be construed to also refer to any successor sections.

"ERISA Affiliate" means any corporation, trade or business that is, along with the Company, a member of a controlled group of corporations or a controlled group of trades or businesses, as described in sections 414(b) and 414(c), respectively, of the Code, or section 4001 of ERISA.

"Financial Statements" means the financial statement or statements of the Company described or referred to in Section 5.5.

"Material Adverse Effect" means any material and adverse change in the financial condition of the Company.

"Multiemployer Plan" means "multiemployer plan" as defined in ERISA.

"Net Income" means, for any Fiscal Year, an excess of revenues over expenses, exclusive of any extraordinary gains or losses.

"Net Loss" means, for any Fiscal Year, an excess of expenses over revenues, exclusive of any extraordinary gains or losses.

"Net Worth" means, at any time, the total consolidated stockholders' equity of the Company and its Subsidiaries (if any) as determined in accordance with generally accepted accounting principles consistently applied.

"PBGC" means the Pension Benefit Guaranty Corporation and its successors.

"Pension Plan" means a "pension plan," as such term is defined in Section 3(2) of ERISA, which is subject to the provisions of Title IV of ERISA and which is established or maintained by the Company or any ERISA Affiliate, other than a Multiemployer Plan.

"Subsidiary" means any corporation of which more than 50% of the issued and outstanding securities having ordinary voting power for the election of directors is owned or controlled, directly or indirectly, by the Company or one or more of its subsidiaries.

"Year 2000 Compliant" means, with respect to any Person, that all software, embedded microchips and other computer and processing capabilities utilized by such Person, or included in any software, products, goods or services sold or leased by such Person, are able to correctly and properly recognize, interpret, process, calculate, compare, sequence and manipulate data and date-sensitive functions on and involving all calendar dates (including, without limitation, dates in and after the year 2000).

Section 1.2. Rules of Construction.

(a) Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Unless the context otherwise indicates, words importing the singular number shall include the plural and vice versa, and words importing persons shall include firms, associations and corporations, including public bodies, as well as natural persons.

(b) All references in this instrument to designated "Articles", "Sections" and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed. The words "herein", "hereof" and "hereunder" and other words of similar import refer to this Loan Agreement as a whole and not to any particular Article, Section or other subdivision unless the context indicates otherwise.

(c) The table of contents hereto and the headings and captions herein are not a part of this document.

(d) Accounting terms used herein and not otherwise defined herein or in the Indenture shall have the meaning ascribed to them by generally accepted accounting principles.

(e) References to any particular section of the Code, the Act, any other legislation or federal or state regulations shall be deemed to refer also to any successor section thereto or to redesignations thereof for codification purposes.

(f) Whenever an item or items are listed after the word "including," the listing is not intended to be a listing that excludes items not listed.

ARTICLE II

REPRESENTATIONS

Section 2.1. Representations by the Authority. The Authority represents to the Company and the Trustee as follows:

(a) *Organization and Authority.* The Authority (1) is a governmental instrumentality and body corporate and politic duly organized and existing under the laws of the State, and (2) has lawful power and authority to enter into, execute and deliver this Loan Agreement and to carry out its obligations hereunder and to endorse and deliver the Series 1999 Note, and by all necessary corporate action has been duly authorized to execute and deliver this Loan Agreement and the Series 1999 Note and any other Bond Documents required to be executed and delivered by it in connection with the issuance of the Series 1999 Bonds, acting by and through its duly authorized officers.

(b) *No Defaults or Violations of Law.* The execution and delivery of this Loan Agreement, the Series 1999 Note and any other Bond Documents by the Authority will not result in a breach of any of the terms of, or constitute a default under, any indenture, mortgage, deed of trust, lease or other agreement or instrument to which the Authority is a party or by which it or any of its property is bound or its bylaws or any of the constitutional or statutory rules or regulations applicable to the Authority or its property.

Section 2.2. Representations by the Company. The Company represents to the Authority and the Trustee as follows:

(a) *Existence.* The Company is a corporation duly organized, legally existing and in good standing under the laws of the State and is in good standing under the laws of all jurisdictions wherein the business transacted by it makes such qualification necessary; has all requisite power and authority and all necessary licenses and permits to own and operate its properties and to carry on its business as now conducted and as presently proposed to be conducted and to enter into those Bond Documents to which it is a party and the other agreements referred to herein and transactions contemplated thereby and to carry out the provisions and conditions of those Bond Documents to which it is a party.

(b) *Due Execution and Delivery.* The Company has full power, authority and legal right to incur the obligations provided for in, to execute and deliver and to perform and observe the terms and provisions of, the Bond Documents to which it is a party, and each of the Bond Documents to which it is a party has been duly executed and delivered by the Company by appropriate and all required action, and the Company has obtained all requisite consents to the transactions contemplated thereby under any instrument to which it is a party, and those Bond Documents to which it is a party constitute the legal, valid and binding obligations of the Company enforceable in accordance with their respective terms except to the extent enforcement thereof may be limited by bankruptcy, insolvency, reorganization or other laws affecting creditors rights or principles of equity.

(c) *No Breach of Other Instruments.* Neither the execution and delivery of those Bond Documents to which the Company is a party nor the compliance by the Company with the terms and conditions of such Bond Documents, nor the consummation of the transactions contemplated thereby, will conflict with or result in a breach of any of the terms, conditions or provisions of its organizational documents or any agreement or instrument or other restriction or law, regulation, rule or order of any governmental body or agency to which the Company is now a party or is subject, or constitute a default thereunder, or result in the creation or imposition of a lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Company in violation of the terms of any such agreement or instrument.

(d) *Governmental Consent.* Because the Company is a public utility regulated by the Missouri Public Service Commission (the "Commission") pursuant to Chapters 386 and 393 of the Missouri Revised Statutes, execution of the Bond Documents, consummation of the transactions therein contemplated, and the offer, issue, sale and delivery of the Bonds require the authorization of the Commission. The Commission's authorization was obtained in the Report and Order issued by the Commission on April 15, 1999 in case No. WF-99-412. Other than recordation of the Deed of Trust and filing of those UCC-1 financing statements to be filed in order to perfect the security interests granted in the Deed of Trust, no other governmental action or approval is required for the offer, issue, sale and delivery of the Bonds and the receipt of the loan of the proceeds of the Bonds by the Company.

(e) *Collateral.* The Company has good title to the Mortgaged Property, free and clear of all liens, pledges, mortgages, security interests, charges, claims and other encumbrances, except for Permitted Encumbrances and as otherwise provided in the Bond Documents. The Mortgage, if properly recorded and as to which appropriate UCC financing statements have been filed and recorded, will create a valid perfected security interest in favor of the Authority in the Mortgaged Property, subject to no other liens or encumbrances arising by, through or under the Company or any other person, except as otherwise provided in the Bond Documents.

(f) *Absence of Defaults, Etc.* The Company is not (i) in default under any indenture or material contract or agreement to which it is a party, (ii) in violation of its organizational documents, (iii) in default with respect to any order, writ, injunction or decree of any court, or (iv) in default under any charter, order or license of any federal or state governmental department, which default or violation in any of the aforesaid cases has a Material Adverse Effect. There exists no condition, event or act which constitutes, or after notice or lapse of time or both would constitute, an Event of Default.

(g) *Financial Condition.* The annual financial statements of the Company for its Fiscal Year ended December 31, 1998 and the interim financial statements of the Company for the month ended April 30, 1999 (including any related schedules or notes), which have been delivered to the Authority or the Original Purchaser, have been prepared in accordance with generally accepted accounting principles, consistently applied, and present fairly the financial condition and changes in financial position of the Company as at the date or dates and for the period or periods stated (subject only to normal year-end audit adjustments with respect to such unaudited interim statements). Since December 31, 1998, the Company has not incurred any material liabilities or obligations, direct or contingent, not in the ordinary course of business and there has not been any change in the business, properties or condition, financial or otherwise, of the Company, except for changes arising in the ordinary course of business.

(h) *Litigation.* Except as described in the Financial Statements or as otherwise disclosed in writing to the Authority, at the date of this Agreement there is no litigation, legal or administrative proceeding, investigation or other action of any nature pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary which involves the possibility of any judgment or liability not fully covered by insurance and which would have a Material Adverse Effect,

except for the proceedings before the Commission in the Company's pending permanent rate case, which is discussed under the heading "Water Rates" in Appendix A to the Official Statement.

(i) *Pension and Welfare Plans.* Each Pension Plan, if any, complies in all material respects with all applicable statutes and governmental rules and regulations; no reportable event has occurred and is continuing with respect to any Pension Plan; neither the Company nor any ERISA Affiliate has withdrawn from any Multiemployer Plan in a "complete withdrawal" or a "partial withdrawal" as defined in sections 4203 or 4205 of ERISA, respectively; no steps have been instituted by the Company to terminate any Pension Plan which termination would have a Material Adverse Effect upon the Company; no condition exists or event or transaction has occurred in connection with any Pension Plan or Multiemployer Plan which could result in the Company or any ERISA Affiliate incurring any material liability, fine or penalty. Neither the Company nor any ERISA Affiliate is a "contributing sponsor" as defined in Section 4001(a)(13) of ERISA of a "single-employer plan" as defined in Section 4001(a)(15) of ERISA which has two or more contributing sponsors at least two of whom are not under common control. Neither the Company nor any Subsidiary has any contingent liability with respect to any "employee welfare benefit plans," as defined in Section 3(1) of ERISA, which covers retired employees and their beneficiaries.

(j) *Patents, Licenses, Etc.* The Company possesses all of the necessary patents, licenses, trademarks, trademark rights, tradenames, tradename rights and copyrights to conduct its businesses as now conducted, without conflict with any patent, license, trademark, tradename or copyright of any other Person, except as to which the failure of such possession would not have a Material Adverse Effect upon the Company.

(k) *Taxes.* The Company has filed or caused to be filed all federal, state and local tax returns which are required to be filed and has paid or caused to be paid all taxes as shown on said returns or on any assessment to the extent such taxes have become due, except for taxes which are being contested in good faith and against which reserves, in accordance with generally accepted accounting principles consistently applied, have been established and except for taxes with respect to which a failure to so file returns or make payment would not have a Material Adverse Effect upon the Company. The Company is not aware of any proposed material tax assessments against it.

(l) *Compliance with Law.* The Company is currently in compliance with any and all laws, ordinances or governmental rules and regulations to which it is subject and has obtained any and all licenses, permits, franchises or other governmental authorizations necessary to the ownership of its Properties or to the conduct of its businesses, except as to which such violation or failure to obtain would not have a Material Adverse Effect upon the Company.

(m) *Environmental and Safety and Health Matters.* (i) The operations of the Company and each Subsidiary of the Company, to the best of Company's knowledge and without having conducted any environmental studies other than a phase I environmental audit as to the real property purchased with proceeds of the Prior Bonds, comply in all material respects with (A) all applicable Environmental Laws, and (B) all applicable occupational safety and health laws; (ii) None of the operations of the Company or any Subsidiary are subject to any judicial or administrative proceeding alleging the violation of any Environmental Law or occupational safety and health law; (iii) None of the operations of the Company or any Subsidiary is the subject of federal or state investigation evaluating whether any remedial action is needed to respond to (A) spillage, disposal or release into the environment of any Hazardous Material or other hazardous, toxic or dangerous waste, substance of constituent, or other substances, or (B) unsafe or unhealthful condition at any premises of the Company or any Subsidiary; (iv) Neither the Company nor any Subsidiary of the Company has filed any notice under any Environmental Law or occupational safety and health law indicating or reporting (A) any past or present spillage, disposal or release into the

environment of, or treatment, storage or disposal of, any Hazardous Material or other hazardous, toxic or dangerous waste, substance or constituent, or other substance or (B) any unsafe or unhealthful condition at any premises of the Company.

(n) *Representations and Warranties in Other Bond Documents.* The Company represents and warrants that all of the representations and warranties of the Company in the other Bond Documents to which the Company is a party were true and correct in all material respects when made and are true and correct in all material respects on the Closing Date.

ARTICLE III

LOAN TO THE COMPANY; USE OF PROCEEDS

Section 3.1. Loan of Funds to the Company. Simultaneously with the execution and delivery of this Loan Agreement, the Authority will loan the proceeds of the sale of the Series 1999 Bonds to the Company. The Company agrees to receive such loan from the Authority, for the purposes provided herein and in the Indenture. The loan is evidenced by the Series 1999 Note in the principal sum of \$2,670,000.

Section 3.2. Use of Proceeds. The proceeds of the Series 1999 Bonds will be deposited with the Trustee and applied as provided in the Indenture and in this Loan Agreement, together with other available funds of the Company, to refund the Prior Bonds in whole, to fund a debt service reserve and to pay certain costs related to the issuance of the Series 1999 Bonds.

ARTICLE IV

LOAN PAYMENTS AND OTHER PAYMENTS

Section 4.1. Loan Payments.

(a) The Company will duly and punctually pay the principal of, prepayment penalty, if any, and interest on the Notes on the dates and at the places and in the manner specified in the Notes and in this Loan Agreement, according to the true intent and meaning thereof and hereof. Notwithstanding any schedule of payments upon the Notes set forth in this Loan Agreement or in the Notes, the Company agrees to make payments upon the Notes and be liable therefor at the times and in the amounts (including principal, interest and redemption premium, if any) equal to the amounts to be paid as interest, premium, if any, and principal, whether at maturity or by redemption, upon the Bonds Outstanding under the Indenture.

(b) To provide for the payment of the Series 1999 Note, and the principal of and interest on the Series 1999 Bonds, subject to the prepayment requirements of Section 4.5, the Company will make the following payments directly to the Trustee, from moneys available to the Company, for the account of the Authority, for deposit in the Debt Service Fund, on the following dates, and otherwise as set out below:

(1) *Interest:* On the fifteenth day of each calendar month (or on the next Business Day thereafter if the fifteenth is not a Business Day), commencing August 15, 1999, the amount of interest to become due on the Bonds on September 1, 1999, and on the fifteenth day of each calendar month thereafter (or on the next Business Day thereafter if the fifteenth is not a

Business Day) commencing with the month of September, 1999, an amount which is not less than one-sixth of the interest to become due on the next ensuing Interest Payment Date on the Bonds. The Company's obligation will be reduced by the amount of the applicable credits under Section 4.3.

(2) *Principal:* On the fifteenth day of each month (or on the next Business Day thereafter if the fifteenth is not a Business Day) commencing August 15, 1999 and ending on February 15, 2000, a pro rata portion of principal due on the Bonds on March 1, 2000, and on the fifteenth day of each month thereafter (or on the next Business Day thereafter if the fifteenth is not a Business Day) commencing March 15, 2000, an amount which is not less than one-twelfth of the next installment of principal due on the Bonds, whether by maturity, mandatory sinking fund redemption or otherwise. The Company's obligation will be reduced by the amount of the applicable credits under Section 4.3.

(c) Unpaid Loan Payments will bear interest from the due date at the annual rate of the Prime Rate plus 2% calculated on the actual number of days elapsed and a 360-day year. Any interest charged and collected on unpaid Loan Payments will be deposited in the Debt Service Fund and applied to pay interest on overdue amounts in accordance with Section 707 of the Indenture.

(d) Any supplements to this Loan Agreement authorizing the issuance of Additional Bonds and Additional Notes will provide for similar monthly deposits to the Debt Service Fund of amounts sufficient to provide for the prompt payment of the principal of, premium, if any, and interest on any Additional Bonds or Additional Notes as the same become due.

(e) It is the intent of this Section that the Company's loan repayment obligation be in the amounts and at the times necessary to enable the Trustee, on behalf of the Authority, to pay all amounts payable with respect to the Bonds when due, whether as principal, premium, interest or otherwise, and whether at maturity or by redemption or acceleration of maturity or otherwise

Section 4.2. Additional Payments. The Company agrees to make the following additional payments:

(a) *Rebate Payments:* to the Trustee, all rebate payments required under Section 148(f) of the Code and the Tax Compliance Agreement, to the extent such amounts are not available to the Trustee in the Rebate Fund or other funds and accounts held under the Indenture;

(b) *Trustee Fees and Professional Fees:* to the Trustee and any Paying Agent, registrars, counsel, accountants, engineers and other Persons, when due, all reasonable fees, charges and expenses of such Persons for services rendered under the Indenture and under any Bond Document and expenses incurred in the performance of such services under the Indenture and any Bond Document for which such Persons are entitled to payment or reimbursement;

(c) *Authority Fees and Expenses:* to the Authority upon demand, its regular fees and charges and all reasonable expenses incurred by the Authority in relation to the transactions contemplated by this Loan Agreement, the Indenture and any other Bond Document which are not otherwise required to be paid by the Company under the terms of this Loan Agreement, including all fees and charges of the Authority as provided for under the Act and payable to the Authority;

(d) *Advances:* to the Authority or the Trustee, as the case may be, the amount of all advances of funds made by any of them under the provisions of Section 8.8, with interest thereon at the Prime Rate plus 2%;

(e) *Debt Service Reserve Fund Deposits:* to the Trustee upon demand, for deposit in the Debt Service Reserve Fund, monthly on the next Loan Payment date which follows the Trustee's demand, one-sixth of any valuation deficiency in the Debt Service Reserve Fund, one-twelfth of any deficiency for moneys withdrawn from the Debt Service Reserve Fund, or such other amount according to a schedule approved by the Owners of not less than a majority in principal amount of Bonds then Outstanding as provided in Section 406(c) of the Indenture;

(f) *Repair and Replacement Fund Deposits:* The Company will establish in its custody a Repair and Replacement Fund for the operation of its water facilities. The Company shall deposit in the Repair and Replacement Fund, the sum of \$25,000 at the time of issuance of the Series 1999 Bonds, and \$10,000 on the fifteenth day of each month (or on the next Business Day thereafter if the fifteenth day is not a Business Day), if at any time the amount on deposit in the Repair and Replacement Fund is less than \$25,000 until the amount in the Repair and Replacement Fund aggregates \$25,000. Moneys in the Repair and Replacement Fund may be first used by the Company to make up any deficiencies in the Debt Service Fund and the Debt Service Reserve Fund (in that order), and the balance, so long as no Event of Default exists under the Bond Documents, may be withdrawn by the Company to pay the costs of repairs and replacements to the Facilities. Any supplements to this Loan Agreement authorizing the issuance of Additional Bonds and Additional Notes will provide for similar monthly deposits into the Repair and Replacement Fund amounts sufficient to increase, if necessary, the deposits to the Repair and Replacement Fund as required by the Indenture or this Loan Agreement; and

(g) *Attorneys Fees and Other Expenses:* to the Authority and the Trustee, as applicable, all indemnity payments required to be made under Sections 5.18 and 5.19 (such indemnity payments being due to the Authority or the Trustee, as applicable, upon written demand therefor and accruing interest at the annual rate of the Prime Rate plus 2% following 60 days after notice of demand therefor).

Section 4.3. Credits on Loan Payments.

(a) Any moneys deposited by the Trustee or the Company in the Debt Service Fund (including moneys received as accrued interest from the sale of Bonds and any initial deposit made from the proceeds of the sale of any series of Bonds) will be credited against the obligation of the Company to pay interest on the Notes as the same become due.

(b) Any moneys deposited by the Trustee or the Company in the Debt Service Fund shall be credited against the obligation of the Company to pay the principal of the Notes as the same become due in the order of maturity thereof, except that prepayments for purposes of making an optional deposit for redemption will be applied to the maturities of principal of the respective Note corresponding to the series and maturities of the Bonds to be redeemed or purchased, delivered and cancelled from the proceeds of such optional deposit.

(c) The principal amount of Bonds of any series and maturity purchased by the Company and delivered to the Trustee, or purchased by the Trustee and cancelled, shall be credited against the obligation of the Company to pay principal on the Note related to such series of Bonds so purchased (including installment payments corresponding to mandatory sinking fund payments, if any, on the

Bonds); provided, however, that deposit of a Bond of one series and maturity may not be credited against a payment which would be used, in the normal course, to retire a Bond of another series and maturity.

(d) The amount of any moneys transferred by the Trustee from any other fund held under the Indenture and deposited in the Debt Service Fund shall be credited against the obligation of the Company to pay interest or principal, as the case may be, as the same become due.

Section 4.4. Obligations of Corporation Unconditional. The Company covenants and agrees with and for the express benefit of the Authority and the Owners of the Bonds that it will pay all Loan Payments and Additional Payments due under this Loan Agreement and perform its obligations, covenants and agreements under this Loan Agreement, without notice or demand, and without abatement, deduction, set-off, counterclaim, recoupment or defense or any right of termination or cancellation arising from any circumstances whatsoever, whether now existing or hereafter arising, and regardless of whether or not the Project is completed, any change in the tax or other law of the United States of America, the State or any political subdivision of either thereof, any change in the Authority's legal organization or status, or any default of the Authority hereunder, and regardless of the invalidity of any action of the Authority, and regardless of the invalidity of any portion of this Loan Agreement. To the extent permitted by law, the Company waives the provisions of any statute or other law now or hereafter in effect contrary to any of its obligations, covenants or agreements under this Loan Agreement or which releases or purports to release the Company therefrom. Nothing in this Loan Agreement will be construed as a waiver by the Company of any rights or claims the Company may have against the Authority under this Loan Agreement or otherwise, but any recovery upon such rights or claims shall be had from the Authority separately, it being the intent of this Loan Agreement that the Company is unconditionally and absolutely obligated to perform fully all of its obligations, agreements and covenants under this Loan Agreement and the Notes for the benefit of the Owners of the Bonds.

Section 4.5. Prepayment. Whenever any Bonds have been called for redemption under any provision of the Indenture, the Company will prepay the applicable Note in such amount as is required to redeem the Bonds, including the principal, redemption premium, if any, and accrued interest thereon to the redemption date. The Company further agrees that in the event the payment of principal of and interest on the Bonds is accelerated upon the occurrence of an Event of Default under the Indenture, all Loan Payments payable under Section 4.1 for the remainder of the term of this Loan Agreement will be accelerated and prepayment will be made on the applicable Note in such amounts. Any prepayments will be deposited in the Debt Service Fund, as required by the Indenture or this Loan Agreement or as designated by the Company and applied by the Trustee in accordance with the provisions of the Indenture. Any prepayment shall be credited against Loan Payments to become due on the applicable Note. The Company may also prepay any Note in whole or in part by providing for the payment of all or any portion of the Bonds in accordance with Article XI of the Indenture.

ARTICLE V

COVENANTS OF THE COMPANY

Section 5.1. Existence. The Company will perform all acts necessary to maintain and preserve its existence as a corporation, in good standing, under the laws of the State and will not omit to do anything necessary to that end, nor will it by omission or commission do anything that will cause a forfeiture of any substantial part of its Property.

Section 5.2. Insurance. The Company will at all times keep its insurable Properties insured (including reasonable co-insurance and self-insurance) to such extent and against such risks, including, without limitation, hazard insurance, public liability insurance, business interruption insurance, worker's

compensation and other insurance required by laws, as the Company may in good faith determine (upon which determination the Authority and the Trustee shall be entitled to rely) are customary with companies of comparable size in the same or similar business. The Company will deliver to the Trustee certificates of each insurer (or other such evidence as may be satisfactory to the Trustee) indicating the types and amounts of such insurance. Insurance proceeds from Property securing the Bonds will be applied as provided in the Bond Documents.

Section 5.3. Payment of Indebtedness. The Company will punctually pay and discharge, when due (taking into account any cure periods provided for hereunder), or renew or extend, any Indebtedness heretofore or hereafter incurred by it, and discharge, perform and observe the covenants, provisions and conditions to be performed, discharged and observed on the part of the Company, in connection therewith.

Section 5.4. Taxes. The Company will pay and discharge promptly all lawful taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits, or upon any of its Property. The Company will not be required to pay any tax, assessment, charge or levy if the same shall not at the time be due and payable or can be paid thereafter without penalty or if the validity thereof shall concurrently be contested in good faith by appropriate proceedings and if it shall have set aside on its books reserves reasonably deemed by it adequate with respect to such tax, assessment, charge or levy or if nonpayment of such item would not have a Material Adverse Effect upon the Company; provided, that the Company will pay or cause to be paid all such taxes, assessments, charges or levies forthwith upon the commencement of proceedings to foreclose any lien which attached as security therefor.

Section 5.5. Financial Statements. The Company will furnish or cause to be furnished to the Authority and the Trustee, (a) as soon as available but in any event within 120 days after the end of each Fiscal Year, balance sheets and statements of income and retained earnings of the Company, reviewed by an Accountant in accordance with generally accepted accounting principles consistently applied, and (b) such other information concerning the business affairs, properties, financial condition or operations of the businesses of the Company as the Authority or the Trustee from time to time may reasonably request.

Section 5.6. Annual Certificate of Compliance. Concurrently with the furnishing of the financial statements pursuant to Section 5.5 corresponding to the end of each Fiscal Year, the Company will furnish or cause to be furnished, to the Authority, the Trustee and, at its written request, any Significant Bondowner, a certificate of compliance signed by the chief financial officer of the Company: (a) stating that a review of the activities of the Company has been made under that officer's supervision with a view to determining whether the Company has fulfilled all of its obligations under this Agreement and the other Bond Documents; (b) stating that the Company has fulfilled its obligations under such instruments and that all representations made herein continue to be true and correct in all material respects (or specifying the nature of any change), or if the Company is in Default, specifying the Default and the nature and status thereof; (c) to the extent requested from time to time by Authority, the Trustee or any Significant Bondowner, specifically affirming compliance in all material respects of the Company with any of its covenants under such instruments; and (D) containing or accompanied by such financial or other details, information and material as the Authority, the Trustee or any Significant Bondowner may reasonably request to evidence such compliance.

Section 5.7. Maintenance. The Company will maintain its existence and its material rights and franchises and maintain its Properties used in the ordinary course of its business operations (and any Properties leased by or consigned to it or held under title retention or conditional sales and contracts) in good and workable condition, ordinary wear and tear excepted, at all times and make all repairs,

replacements, additions, betterments and improvements to Properties as are needed and proper so that the business carried on in connection therewith may be conducted properly and efficiently at all times.

Section 5.8. Further Assurances. The Company will promptly cure or cause the cure of any defects in the creation and issuance of the Notes and the execution and delivery of the Bond Documents, including this Loan Agreement. The Company, at its expense, will promptly execute and deliver to the Authority and the Trustee, upon written request, or cause the execution and delivery of, all such other and further documents, agreements and instruments in compliance with or accomplishment of the covenants and agreements of the Company in the Bond Documents, including this Loan Agreement, or to further evidence and more fully describe the collateral intended as security for the Note, to correct any omissions in the Bond Documents, to more fully state the security obligations set out herein or in any of the Bond Documents, to perfect, protect or preserve any liens or security interests created pursuant to any of the Bond Documents, or to make any recordings, file any notices or obtain any consents, all as may be reasonably necessary or appropriate in connection therewith.

Section 5.9. Right of Inspection. The Company agrees to permit upon reasonable advance request an examination of the books, records, journals, accounts or other financial records of the Company and all physical plant operations and properties by officers and representatives of the Authority and the Trustee at reasonable times so long as such examination does not unreasonably interrupt the Company's business operations.

Section 5.10. Notice of Defaults. The Company will promptly notify the Authority and the Trustee in writing when the Company learns of the occurrence of (i) any event which constitutes an Event of Default or a default under any of the other Bond Documents, together with a detailed statement by a responsible officer or designated person of the Company of the steps being taken to cure the effect of such an Event of Default or default under any of the other Bond Documents; or (ii) any claims made against the Company which might have a Material Adverse Effect, or any litigation filed affecting the Company which if decided adversely would have a Material Adverse Effect.

Section 5.11. Sale, Lease or Other Disposition of Property. The Company will not in any Fiscal Year, sell, lease or otherwise dispose of any Property comprising the Facilities, except transfers of Property:

(a) to any Person if, prior to the sale, lease or other disposition, there is delivered to the Trustee an Officer's Certificate stating (1) that in the judgment of the signer the Property has become, or within the next succeeding 24 calendar months is reasonably expected to become, inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary, (2) the sale, lease or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property of the Company, and (3) that any proceeds realized from such sale, lease or other disposition are to be applied either to acquire or enter into a Capitalized Lease for additional Property to be used in the operation of the Facility or deposited in the Debt Service Fund and used to pay the principal of the Bonds at the earliest permissible date;

(b) to any Person in the ordinary course of business;

(c) to any Person in an arm's length transaction for value and there is delivered to the Trustee an Officer's Certificate stating (1) that the transfer will not result in an Event of Default or impair the ability of the Company to meet its obligations under the Notes, this Loan Agreement or any other Bond Document and (2) that any proceeds realized from the sale, lease or other disposition are to be applied either to acquire or enter into a Capitalized Lease for

additional Property to be used in the operation of the Facilities or deposited in the Debt Service Fund and used to pay the principal of the Bonds on their next principal payment date; or

- (d) as part of a merger, consolidation, sale or conveyance permitted by Section 5.12.

Section 5.12. Merger, Consolidation, Sale, or Conveyance.

(a) The Company will not merge or consolidate with any other Person or sell or convey, except as otherwise permitted in this Loan Agreement, all or substantially all of its Property to any other Person unless:

- (1) either the Company will be the surviving Person or the successor or transferee Person shall be a Person organized and existing under the laws of the United States of America or a state thereof, and expressly assumes in writing the due and punctual payment of the principal of and premium, if any, and interest on all Notes according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of this Loan Agreement by a Supplemental Loan Agreement satisfactory to the Authority and the Trustee, executed and delivered by the Authority and successor or transferee Person;

- (2) the Trustee has received an Officer's Certificate to the effect that immediately after the merger, consolidation, sale or conveyance the successor or transferee Person could meet the conditions described in this Loan Agreement for incurring one dollar of Additional Indebtedness under Section 6.3(a)(1)(A) or (B);

- (3) if there remains unpaid any Bond which bears interest that is excludable from gross income for federal income tax purposes, the Trustee has received an opinion of Bond Counsel, in form and substance satisfactory to the Trustee, to the effect that under then existing law the consummation of the merger, consolidation, sale or conveyance, would not cause the interest on the Bond to become includable in gross income for federal income tax purposes;

- (4) the Trustee has received an Officer's Certificate which demonstrates and certifies that immediately upon such merger, consolidation, sale or conveyance the successor or transferee Person will not, as a result thereof, be in default in the performance or observance of any covenant or agreement to be performed or observed by it under this Loan Agreement, the Indenture or any other Bond Document; and

- (5) the Trustee has received an opinion of Counsel to the effect that the successor or transferee possesses all licenses and permits to operate the Facilities.

(b) Upon any assumption by the successor or transferee Person, the successor or transferee Person shall succeed to and be substituted for its predecessor, with the same effect as if it had been named as the Company.

(c) Changes in phraseology and form (but not in substance) may be made in any Notes thereafter to be issued as may be appropriate.

(d) The Trustee may rely upon an opinion of Counsel as conclusive evidence that any merger, consolidation, sale or conveyance, and any assumption, complies with the provisions of this Section and that it is proper for the Trustee under the provisions of this Section to consent to the execution of the Supplemental Loan Agreement provided for in this Section.

Section 5.13. Compliance with Security Documents. The Company will in all material respects observe, comply with and perform each and all of its obligations under any and all mortgages, deeds of trust, security agreements, assignments, other instruments or documents at any time providing collateral security for the obligations of the Company hereunder.

Section 5.14. Damage, Destruction, Condemnation or Taking.

(a) If the Facilities or any portion thereof are damaged or destroyed from fire or other casualty or condemned or taken for any public or quasi-public use or title thereto is found to be deficient (a "casualty or condemnation") and the resulting Net Proceeds are \$100,000 or less, the Net Proceeds will be paid directly to the Company. The Company will, to the extent permitted by law, promptly replace, repair, reconstruct and restore the Facilities to substantially the same or an improved condition or utility value as existed prior to the damage or destruction and will to the extent necessary apply the Net Proceeds of any insurance relating to such damage received by the Company to the payment or reimbursement of the costs of such replacement, repair, reconstruction and restoration. Any remaining balance not required for said purpose shall be paid to the Trustee for deposit in the Debt Service Fund. Net Proceeds relating to damage or destruction exceeding \$100,000 will be paid directly to the Trustee.

(b) If the Facilities or any portion thereof are damaged or destroyed by fire or other casualty and the damage or destruction is estimated to exceed \$100,000, the Company agrees to promptly notify the Authority and the Trustee of such event and the Company shall, within 90 days after such damage or destruction, elect, one of the following two options by written notice of such election to the Trustee:

(1) *Repair, Restoration and Improvement.* The Company may elect to use all or part of such Net Proceeds to replace, repair, reconstruct and restore the damaged facilities or improve the Facilities. In such event the Company shall proceed forthwith to replace, repair, reconstruct and restore the damaged facilities to substantially the same condition or utility value as existed prior to the casualty or condemnation and will apply the Net Proceeds of any insurance relating to such damage or destruction received by the Company from the Trustee to the payment or reimbursement of the costs of such replacement, repair, reconstruction and restoration. If the Company is not in default hereunder, any Net Proceeds of insurance relating to such damage or destruction received by the Trustee shall be deposited in a separate account to be established by the Trustee and released from time to time by the Trustee to the Company upon the receipt of:

(A) the Written Request of the Company specifying the expenditures made or to be made or the indebtedness incurred in connection with such repair, reconstruction and restoration and stating that such Net Proceeds, together with any other moneys legally available for such purposes, will be sufficient to complete such replacement, repair, reconstruction and restoration; and

(B) the written approval of the Written Request by an Engineer.

(2) *Prepayment of Bonds.* The Company may elect to have all or part of the Net Proceeds payable as a result of casualty or condemnation applied to the redemption of the Bonds, any Additional Bonds or any Additional Obligations if the Company provides the Authority and the Trustee with a written opinion of an Engineer stating that the Property destroyed or condemned was not essential to the use of the Facilities as a complete and operational facility and that the Company's Net Revenues Available for Debt Service will not be materially adversely affected by such casualty or condemnation. If all Outstanding Indebtedness is to be redeemed and paid, no opinion is required and the Company, in its notice of election to the Trustee, will direct the Trustee to apply the Net Proceeds or a specified portion thereof to the

redemption of the Bonds in whole. If only part of the Net Proceeds is applied to the redemption of the Bonds, then the remaining Net Proceeds shall be applied as provided under (1) above.

(c) If the Company elects the option under (1) above or is unable to obtain the opinion required by the option under (2) above, the Company will complete the replacement, repair, reconstruction, restoration and improvement of the Facilities, whether or not the Net Proceeds received by the Company for such purposes are sufficient. Upon completion of the replacement, repair, reconstruction and restoration, any excess Net Proceeds shall be deposited by the Trustee in the Debt Service Fund. If the Company elects to use only part of the Net Proceeds for replacement, repair, reconstruction and restoration of the Facilities, the remaining Net Proceeds will be applied to the redemption of the Bonds and in such event the Company, in its notice of election to the Trustee, will direct the Trustee to deposit the remaining Net proceeds in the Debt Service Fund.

(d) The Company will apply Net Proceeds solely to the purposes specified in its notice of election. The Authority and the Trustee shall cooperate with the Company in the handling and conduct of any prospective or pending condemnation proceedings with respect to the Facilities or any part thereof.

Section 5.15. Additional Covenants.

(a) *Rate Covenant:*

(1) The Company will, prior to the close of each Fiscal Year, set rates and charges for the Facilities such that the Net Revenues Available for Debt Service will not be less than the sum of 125% of the Maximum Annual Debt Service on the Series 1999 Note, Additional Notes and Additional Obligations. If the Net Revenues Available for Debt Service, as calculated at the end of any Fiscal Year, is less than the rate covenant requirement, the Company will retain a Consultant to make recommendations to increase the annual Debt Service coverage for subsequent Fiscal Years to at least the rate covenant requirement. The Company will follow the recommendations of the Consultant. If the Company retains a Consultant and follows the Consultant's recommendations, and so long as the Net Revenues Available for Debt Service is in no event less than 110% of Maximum Annual Debt Service with respect to the Series 1999 Note, Additional Notes and Additional Obligations, the Company will be deemed in compliance with this subsection (a) for the Fiscal Year even if the Maximum Annual Debt Service coverage is below the rate covenant requirement. A copy of the Consultant's report will be delivered, at the expense of the Company, to the Original Purchaser, the Authority, the Trustee, and if requested in writing, any Significant Bondowner.

(2) The Company will not furnish or permit to be furnished by or from the Project or the Facilities any free water or other free service of any kind. The Company will levy charges for all water service of any kind furnished at the rates at the time established therefor by the Company.

(b) *Restrictions on Dividends:* Commencing with the close of Fiscal Year 1998, the Company will not declare any dividends, either cash or otherwise, on any common or preferred stock or repurchase or otherwise acquire any of the outstanding stock of the Company or authorize any new types, varieties or classes of capital stock, either preferred or common, voting or non-voting, or any bonds or debentures, subordinated or otherwise, or make any distribution of assets to its shareholders or creditors as such, in excess of \$17,548 annually unless the overall capital structure of the Company includes an equity ratio equal to or greater than 35%. The Company agrees that dividends will not exceed 70% of net income in any year during the time any of the Bonds are Outstanding.

(c) *Management:* Neal Clevenger will remain at all times effectively engaged in the management of the Company and perform duties substantially similar to those presently performed by him, whether in his present capacities, by management contract or otherwise; provided, however, that he may be succeeded by a person reasonably acceptable to the Authority and the Trustee (in making such determination the Authority and the Trustee shall be entitled to rely upon a report of a consultant familiar with the business of the Company, such report to be provided to the Authority and the Trustee by the Company) if such successor is approved within 90 days after Mr. Clevenger ceases to be so involved in the management of the Company.

(d) *Restrictions on Transfer or Sale of Stock:* The current shareholders of the Company will not sell, pledge, encumber or otherwise dispose of any shares of the stock (or any options or warrants to purchase stock or other securities exchangeable for or convertible into stock) of the Company without the consent of a majority in aggregate principal amount of the Bonds Outstanding; provided that nothing herein shall preclude the transfer of any or all shares of stock by gift to or for the benefit of the said shareholders, spouses of the shareholders, or other individuals within the third degree of consanguinity of said shareholders and provided further that nothing herein shall preclude the pledge of any shares of stock as security for the payment of the Series 1999 Note, Additional Notes and Additional Obligations; and provided, that, as long as Neal Clevenger has voting power of more than 50% of the voting stock of the Company, nothing herein shall preclude the transfer of any or all shares of stock among individuals within the third degree of consanguinity to Mr. Clevenger.

(e) *Transactions with Affiliates:* The Company will not enter into any transaction with any Affiliate except in the ordinary course of business.

(f) *Loans and Advances:* The Company shall make no loans or advances (excluding trade receivables in the ordinary course of business) to shareholders, Affiliates or parties related to shareholders, if the aggregate amount of said loans or advances would exceed \$500,000 at any one time.

(g) *Liens:* The Company will not enter into any binding agreement to, incur, create or permit to exist any pledge, lien, charge or other encumbrance of any nature whatsoever on the Property of the Company, whether now owned or hereafter acquired, other than the Bond Documents. The Company may, however, after giving written notice to the Authority and the Trustee, at its expense and in its own name and behalf contest in good faith any such lien or encumbrance and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom unless, in the reasonable opinion of the Authority, such action may result in the lien of any of the Bond Documents being subject to loss or forfeiture or loss of priority, in which event such lien or encumbrance shall be promptly satisfied or secured by posting with the Trustee or an appropriate court of record a bond in form and amount satisfactory to the Authority.

Section 5.16. Notices. The Company will notify the Authority and the Trustee in writing of any of the following immediately upon learning of the occurrence thereof, describing the same and, if applicable, the steps being taken by the Person(s) affected with respect thereto:

(a) *Pension Plans and Welfare Plans:* the occurrence of a reportable event with respect to any Pension Plan; the filing of a Notice of intent to terminate a Pension Plan by the Company, any ERISA Affiliate, or any other obligor, the institution of proceedings to terminate a Pension Plan by the PBGC or any other Person to terminate any Pension Plan; the withdrawal in a "complete withdrawal" or a "partial withdrawal" as defined in Sections 4203 and 4205 of ERISA, respectively, by the Company or any ERISA Affiliate from any Multiemployer Plan; or the Company or any Subsidiary incur any material increase in contingent liability with respect to

any "employee welfare benefit plan" as defined in Section 3(1) of ERISA which covers retired employees and their beneficiaries; and

(b) *Environmental and Safety and Health Matters:* receipt of any notice that the operations of the Company or any Subsidiary are not in full compliance with requirements of any applicable Environmental Law or any occupational safety and health law; receipt of notice that the Company or any Subsidiary is subject to federal, state or local investigation evaluating whether any remedial action is needed to respond to (i) any spillage, disposal or release into the environment of any Hazardous Material or other hazardous, toxic or dangerous waste, substance or constituent, or other substance, or (ii) any unsafe or unhealthful condition at any premises of the Company or any subsidiary; or receipt of notice that any properties or assets of the Company or any Subsidiary are subject to an Environmental Lien. "Environmental Lien" means a Lien in favor of any governmental entity for (i) any liability under any Environmental Law, or (2) damages arising from or costs incurred by such governmental entity in response to a spillage, disposal or release into the environment of any Hazardous Material or other hazardous, toxic or dangerous waste, substance or constituent, or other substance.

Section 5.17. Pension Plans. The Company will not permit, and not permit any Subsidiary to permit, any condition to exist in connection with any Pension Plan which might constitute grounds for the PBGC to institute proceedings to have the Pension Plan terminated or a trustee appointed to administer such Pension Plan, and not engage in, or permit to exist or occur, or permit any of its Subsidiaries to engage in, or permit to exist or occur, any other condition, event or transaction with respect to any Pension Plan which could result in the Company or any of its Subsidiaries incurring any material liability, fine or penalty.

Section 5.18. Environmental and Safety and Health Indemnity. The Company indemnifies the Authority and the Trustee, and their respective members, directors, officers, employees and agents and agrees to hold them harmless from and against any and all losses, liabilities, damages, injuries, costs, expenses and claims of any and every kind whatsoever (including, without limitation, court costs and attorney's fees) which at any time or from time to time may be paid, incurred or suffered by, or asserted against, the Authority and the Trustee, and their respective members, directors, officers, employees and agents, for, with respect to, or as a direct or indirect result of the violation by the Company or any of its Subsidiaries, of any Environmental Law or occupational safety and health law; or with respect to, or as a direct or indirect result of (i) the presence on or under, or the escape, seepage, leakage, spillage, disposal, discharge, emission or release from, properties utilized by the Company or any Subsidiary in the conduct of its business into or upon any land, the atmosphere, or any watercourse, body of water or wetland, of any Hazardous Material or other hazardous, toxic or dangerous waste, substance or constituent, or other substance (including, without limitation, any losses, liabilities, damages, injuries, costs, expenses or claims asserted or arising under the Environmental Laws) or (ii) the existence of any unsafe or unhealthful condition on or at any premises utilized by the Company or any Subsidiary in the conduct of its business. The provisions of and undertakings and indemnification set out in this Section will survive satisfaction and payment of the Indebtedness and termination of this Agreement. The Company, however, will not be liable for any such losses, liabilities, damages, injuries, costs, expenses or claims if they occur after the Company is no longer the owner or operator of the affected property or after payment in full of the Bonds and termination of this Agreement.

Section 5.19. General Indemnity. In addition to the payment of expenses pursuant to Section 4.2(b) and (c), the Company will pay and indemnify and save the Authority and the Trustee, and their respective members, directors, officers, employees and agents harmless, from and against all loss, liability, damage or expense arising out of any and all claims, demands, expenses, penalties, fines, taxes of any character or nature whatsoever regardless of by whom imposed, and losses of every conceivable

kind, character and nature whatsoever including, but not limited to, claims for loss or damage to any property or injury to or death of any person, asserted by or on behalf of any person, firm, corporation or governmental authority arising out of, or in any way connected with the Facilities, or the conditions, occupancy, use, possession, conduct or management of, or any work done in or about the Facilities. The Company also covenants and agrees at its expense to pay, and to indemnify and save the Authority and the Trustee and their respective members, directors, officers, employees and agents harmless of, from and against, all costs, reasonable counsel fees, expenses and liabilities incurred by them or by the Company in any action or proceeding brought by reason of any such claim, demand, expense, penalty, fine or tax. In the event that any action or proceeding is brought against the Authority or the Trustee or their respective members, directors, officers, employees or agents by reason of any such claim or demand, the Company, upon notice from the Authority or the Trustee, covenants to resist and defend such action or proceeding on demand of the Authority or the Trustee or their respective members, directors, officers, employees or agents. Notwithstanding the foregoing, neither the Authority nor the Trustee nor their respective members, directors, officers, employees and agents shall be indemnified against liability for damage arising out of bodily injury to persons or damage to property caused by their own negligent, willful and malicious acts or omissions or negligent, willful and malicious acts or omissions of their own members, directors, officers, agents or employees. The Company also covenants and agrees, at its expense, to pay, and to indemnify the Authority and the Trustee from and against, all costs, expenses and charges, including reasonable counsel fees, incurred in obtaining possession of the Facilities after default of the Company, or in enforcing any covenant or agreement of the Company contained in any Note, this Loan Agreement, the Indenture or any other Bond Document to which the Company is a party.

Section 5.20. No Amendment to Agreement. The Company covenants and agrees that it will not amend or modify, in any material respect, or terminate the Water Purchase Agreement dated June 30, 1991 between the Company and the City of Kansas City, Missouri without the prior written consent of the Authority and the Trustee.

Section 5.21. Continuing Disclosure. The Company will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. The Company acknowledges that the Company is the only "obligated person" with responsibility for continuing disclosure and that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under the Continuing Disclosure Agreement and has no liability to any person with respect to the Rule (as defined in the Continuing Disclosure Agreement).

Section 5.22. Year 2000 Compliance. The Company and its Subsidiaries have (a) undertaken a detailed inventory, review and assessment of all areas within their business and operations that could be adversely affected by the failure of the Company or any Subsidiary to be Year 2000 Compliant on a timely basis, (b) developed a detailed plan and timeline for becoming Year 2000 Compliant on a timely basis and (c) to date, implemented the plan in accordance with such timetable in all material respects. The Company reasonably anticipates that the Company and its Subsidiaries will be Year 2000 Compliant on a timely basis, except to the extent noncompliance could not reasonably be expected to have a material adverse effect on the Facilities or other assets, liabilities, business, operations, prospects, income or condition (financial or otherwise) of the Company and its Subsidiaries. The Company is not aware that any of the key suppliers, vendors or customers of the Company or any Subsidiary will not, on a timely basis, be Year 2000 Compliant, except to the extent noncompliance could not reasonably be expected to have a material adverse effect on the Facilities or other assets, liabilities, business, operations, prospects, income or condition (financial or otherwise) of that Person. For purposes of this Section, "key suppliers, vendors and customers" refers to those suppliers, vendors and customers of the Company or any Subsidiary, as the case may be, whose business failure could reasonably be expected to have a Material Adverse Effect on the Facilities or other assets, liabilities, business, operations, prospects, income or condition (financial or otherwise) of the Company and its Subsidiaries.

(i) an Officer's Certificate that the ratio of Net Revenues Available for Debt Service for the most recently ended Fiscal Year was not less than 1.25 of all Outstanding Long-Term Indebtedness (exclusive of any Outstanding Long-Term Indebtedness that is to be refunded or redeemed with proceeds of the Indebtedness proposed to be incurred) and the Long-Term Indebtedness proposed to be incurred; or

(ii) an Accountant's Certificate to the effect that for the most recently ended Fiscal Year the Debt Service Coverage Ratio of the Company was not less than 1.25 and a report or opinion by a Consultant to the effect that the estimated annual Debt Service Coverage Ratio for each of the first two full Fiscal Years following the estimated completion of the acquisition, construction, renovation or replacement being paid for with the proceeds of the additional Long-Term Indebtedness, or immediately after Long-Term Indebtedness for other purposes is incurred, will be not less than 1.35 after the application of the proceeds thereof;

(2) Refunding Indebtedness, if the maximum annual principal and interest payments will not increase by more than 10% or the conditions for Long-Term Indebtedness set forth in Section 6.3(a) have been met;

(3) Short-Term Indebtedness if immediately after the Short-Term Indebtedness is incurred, the principal amount of all Outstanding Short-Term Indebtedness does not exceed 15% of the Total Operating Revenues of the Company as shown on the financial statements of the Company for the most recent Fiscal Year; provided, however, for a period of at least 20 consecutive days within each Fiscal Year, the Company shall reduce the aggregate principal amount of all outstanding Short-Term Indebtedness to 5% or less of its Total Operating Revenues for the immediately preceding Fiscal Year, and if the Company fails to meet such requirement such Indebtedness shall be considered Long-Term Indebtedness of the Company subject to the requirements of subsection (a);

(4) Short-Term Indebtedness if such Short-Term Indebtedness could be incurred under Section 6.3(a) assuming it was Long-Term Indebtedness.

(5) Commitment Indebtedness;

(6) liabilities incurred pursuant to reimbursement agreements relating to letters or lines of credit or similar credit facilities used to secure Indebtedness (or provide liquidity support therefor);

(7) liabilities (other than for borrowed money or rents payable under Capital Leases) incurred by the Company in the regular operations of its business;

(8) Subordinated Indebtedness;

(9) Non-Recourse Indebtedness, if the principal amount of such Non-Recourse Indebtedness to be incurred, together with the then outstanding Non-Recourse Indebtedness incurred pursuant to this Section, does not exceed 15% of the Book Value of the Company's Property, Plant and Equipment;

(10) Guaranties if the requirements for Long Term or Short Term Indebtedness, as appropriate, are met;

(11) Capitalized Leases if Capitalized Leases could be incurred under Section 6.3(a) assuming the Capitalized Leases were Long-Term Indebtedness; and

(12) Purchase Money Indebtedness if the aggregate principal amount due on all Purchase Money Indebtedness then Outstanding, including the additional Purchase Money Indebtedness, will not be greater than 15% of the Revenues of the Company as shown on the financial statements of the Company for the most recent Fiscal Year for which financial statements are available and reviewed by an Accountant.

(b) Indebtedness may be classified and incurred under any of the above-referenced subsections with respect to which the tests set forth in such subsections are met. The Company may elect to have Indebtedness that was classified and issued pursuant to one provision of this Section, reclassified as having been incurred under another provision of this Section, by demonstrating compliance with the other provision assuming the Indebtedness is being reissued on the date of delivery of the materials required to be delivered under such other provision. Thereafter the Indebtedness shall be deemed to have been incurred under the provision with respect to which such compliance has been demonstrated until any subsequent reclassification of such Indebtedness.

(c) The Company, prior to, or as soon as reasonably practicable after, incurring any Indebtedness, will deliver to the Trustee an Officer's Certificate which identifies the Indebtedness incurred, identifies the subsection of this Section pursuant to which the Indebtedness was incurred, demonstrates compliance with the provisions of the applicable subsection and attaches a copy of the instrument evidencing the Indebtedness.

Section 6.4. Calculation of Debt Service.

(a) *Guaranties.* When calculating the principal and the Debt Service Requirements attributable to a Guaranty that is deemed to be Indebtedness of the Company:

(1) the principal amount of Indebtedness is deemed to equal the principal amount of the obligation guaranteed by the Company; and

(2) the Debt Service on such Indebtedness is deemed to be:

(A) 0% of the debt service requirements (calculated in the same manner as Debt Service of the Company) on the guaranteed obligation, if the Company has not been called upon to make a payment under Guaranty within the 12 months immediately preceding the date of the calculation, if the primary obligor's income available for debt service (calculated in the same manner as Net Revenues Available for Debt Service of the Company) for the period of calculation was or is projected or forecasted to be at least equal to 200% of the maximum annual debt service requirements of the primary obligor (calculated in the same manner as Maximum Annual Debt Service of the Company).

(B) 20% of the debt service requirements (calculated in the same manner as Debt Service of the Company) on the guaranteed obligation, if the Company has not been called upon to make a payment under Guaranty within the 12 months immediately preceding the date of the calculation, and the primary obligor's income available for debt service (calculated in the same manner as Net Revenues Available for Debt Service of

the Company) for the period of calculation was or is projected or forecasted to be at least equal to 125% (but less than 200%) of the maximum annual debt service requirements of the primary obligor (calculated in the same manner as Maximum Annual Debt Service of the Company); or

(C) 100% of the debt service requirements (calculated in the same manner as Debt Service) on the guaranteed obligation, if either (i) the Company has made any payment in respect of the debt service requirements on the guaranteed obligation within the 12 months immediately preceding the date of the calculation, or (ii) the income available for debt service (calculated in the same manner as Net Revenues Available for Debt Service of the Company) of the primary obligor for the period of calculation was or is projected or forecasted to be less than 125% of the maximum annual debt service requirements of the primary obligor (calculated in the same manner as Maximum Annual Debt Service of the Company);

(b) *Long-Term Indebtedness Supported By Commitment Indebtedness.* The Debt Service on Long-Term Indebtedness, with respect to which the Company has incurred Commitment Indebtedness that would refinance Long-Term Indebtedness for a period extending beyond its original maturity date, may, in the discretion of the Company, be deemed to be payable in accordance with the terms of the Commitment Indebtedness.

(c) *Variable Rate Indebtedness.* In determining the Debt Service on any Indebtedness which provides for interest to be payable thereon at a rate that may vary from time to time over the term thereof in accordance with procedures provided in the instrument creating the Indebtedness and which for any future period of time is not susceptible of precise determination, (a) the interest rate on the Indebtedness for any period prior to the date of calculation or for which the interest rate has been determined shall be the actual interest rate payable during such period, and (b) for each year in which such Indebtedness is Outstanding and for which the actual interest rate cannot be determined, the interest rate on such Indebtedness for the period of determination shall be deemed to be the higher of the average annual rate of interest payable on such Indebtedness during the 12 months immediately preceding the date of calculation or the current rate, or if such Indebtedness is to be incurred (or was incurred less than 12 months preceding such date), the higher of the initial rate or the average annual rate of interest payable on the Indebtedness during such period immediately preceding the date of calculation.

ARTICLE VII

TERM AND TERMINATION OF LOAN AGREEMENT

Section 7.1. Term of Loan Agreement. This Loan Agreement will be effective concurrently with the initial delivery of the Series 1999 Bonds and shall continue in force and effect until the principal of, redemption premium, if any, and interest on the Bonds have been fully paid (or provision for their payment has been made in accordance with Article XI of the Indenture) together with all sums to which the Authority and the Trustee are entitled from the Company under this Loan Agreement and the Notes.

Section 7.2. Defeasance.

(a) If the Company pays and discharges or provides for the payment or redemption and discharge of the all principal of, redemption premium, if any and interest on the Notes and Bonds at the time Outstanding as provided in the Indenture, and pays or causes to be paid all rebate amounts required under Section 148(f) of the Code and all other sums payable under this Agreement, or makes

arrangements satisfactory to the Trustee and the Authority for payment or redemption and discharge, then and in that case all property, rights and interest assigned or pledged by the Company will revert to the Company, and the right, title and interest of the Authority therein will then cease, terminate and become void; and this Loan Agreement, and the covenants of the Company contained in this Loan Agreement, will be discharged. The Authority, in such case on demand of the Company and at the cost and expense of the Company, will execute and deliver to the Company a proper instrument or proper instruments acknowledging the satisfaction and termination of this Loan Agreement, and will assign and transfer or cause to be assigned or transferred, and will deliver or cause to be delivered to the Company, all property, including money, then held by the Authority other than moneys deposited with the Trustee for the payment of the principal of, redemption premium, if any or interest on the Notes and Bonds together with the Notes marked paid or cancelled.

(b) If the Company pays and discharges or provides for the payment or redemption and discharge of the whole amount of the principal of, redemption premium, if any, and interest on any particular Note and Series of Bonds at the time outstanding as provided in the Indenture, or makes arrangements satisfactory to the Authority for such payment or redemption and discharge, that Note and Series of Bonds will cease to be entitled to any lien, benefit or security under this Loan Agreement or any other Bond Document, and all covenants, agreements and obligations of the Company to the owner of such Note will then cease, terminate and become void (provided that the rights of the Authority and the Trustee to indemnification shall survive such termination). The Authority then will deliver or cause the Trustee to deliver to the Company that Note marked paid or cancelled.

ARTICLE VIII

DEFAULT AND REMEDIES

Section 8.1. Events of Default. The occurrence and continuance of any of the following events constitutes an "Event of Default" under this Loan Agreement:

(a) the Company fails to make or cause to be made, when due, any payment on the Series 1999 Note, any Additional Note or any Additional Obligation;

(b) the Company fails to perform or observe any other covenant or provision contained in any of the Bond Documents and fails to remedy such default within 30 days after written notice thereof or, in the case of any such default which, in the opinion of the Authority or the Trustee, cannot with due diligence be cured within such 30 day period, failure of the Company to proceed promptly to cure the same and thereafter prosecute the curing of the same with due diligence;

(c) the occurrence of any "default" as defined in any of the Bond Documents or the breach of any of the terms or provisions of any of the Bond Documents, which default is continuing beyond any applicable cure period;

(d) the occurrence of a Determination of Taxability;

(e) any material warranty or representation by or on behalf of the Company contained in this Loan Agreement or in any of the Bond Documents or in any certificate or other instrument furnished to the Authority, the Trustee or the Original Purchaser in connection with this Loan Agreement or with any of other Bond Documents is false in any material respect when made;

- (f) the occurrence of an Act of Insolvency with respect to the Company;
- (g) any Bond Document ceases to be in full force and effect or is declared to be null and void at any time for any reason;
- (h) a final judgment for the payment of money in excess of \$50,000 is rendered against the Company and remains undischarged for a period of 30 days during which execution is not effectively stayed;
- (i) the occurrence of a reportable event with respect to any Pension Plan; the filing of a notice of intent to terminate a Pension Plan by the Company or any ERISA Affiliate which termination would have a Material Adverse Effect upon such obligor, the institution of proceedings to terminate a Pension Plan by the PBGC or any successor thereto to terminate any Pension Plan; the withdrawal in a "complete withdrawal" or a "partial withdrawal" as defined in Sections 4203 and 4205, respectively, by the Company or any ERISA Affiliate from any Multiemployer Plan; or the Company or any Subsidiary incurs any material increase in the contingent liability of the Company or any Subsidiary with respect to any "employee welfare benefit plan" (as defined in Section 3(1) of ERISA) which covers retired employees and their beneficiaries; or
- (j) the institution by the Company or any ERISA Affiliate of steps to terminate any Pension Plan if, in order to effectuate such termination, such obligor or any ERISA Affiliate would be required to make a contribution to such Pension Plan or would incur a liability or obligation to such Pension Plan, in excess of \$250,000; or the institution by the PBGC of steps to terminate any Pension Plan.

Section 8.2. Remedies Upon Default.

(a) Upon the occurrence and continuance of any Event of Default hereunder, the Authority shall have the following rights and remedies, in addition to any other remedies herein or by law provided:

(1) *Acceleration of Maturity; Waiver of Event of Default and Rescission of Acceleration.* The Trustee, as assignee of the Authority may, by written notice to the Company, declare the principal of the Series 1999 Note, any Additional Notes and, if deemed appropriate, any Additional Obligations (if not then due and payable) to be due and payable immediately, and upon any such declaration the principal of the Series 1999 Note, Additional Note or Additional Obligation, as the case may be, shall become and be immediately due and payable as if all of the sums of money payable thereunder were originally stipulated to be paid on such accelerated payment date, anything in the Series 1999 Note, Additional Note or Additional Obligation, as the case may be, or in this Loan Agreement contained to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of the Series 1999 Note, Additional Note or Additional Obligation has been declared and become due and payable and prior to the date of any sale of any part of the Mortgaged Property pursuant to the Mortgage, all arrears of interest and principal then due, if any, upon the Series 1999 Note, Additional Notes and Additional Obligations and the expenses of the Authority and the Trustee shall be paid by the Company, and every other default in the observance or performance of any covenant, condition or agreement contained in this Loan Agreement, any Supplemental Agreement, the Series 1999 Note, any Additional Note, any Additional Obligation and the Mortgage shall be made good, or be secured, to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate shall be made therefor, then and in every such case the

Trustee, by written notice to the Company, may waive the Event of Default by reason of which the principal of the Series 1999 Note, Additional Note or Additional Obligation has been so declared and become due and payable, and may rescind and annul such declaration and its consequences. No waiver, rescission or annulment will extend to or affect any subsequent Event of Default or impair any right consequent thereon.

(2) *Right to Bring Suit, Etc.* The Trustee, with or without entry, personally or by attorney, may in its discretion without notice or demand (A) proceed to protect and enforce its rights by a suit or suits in equity or at law, whether for damages or for the specific performance of any covenant or agreement contained in the Series 1999 Note, any Additional Note, any Additional Obligation, the Mortgage, this Loan Agreement or any other Bond Document, or in aid of the execution of any power herein or therein granted, or for any foreclosure, or for the enforcement of any other appropriate legal or equitable remedy, as the Trustee shall deem effectual to protect and enforce any of its rights or duties hereunder or thereunder, (B) take all actions necessary or appropriate to cause the Mortgage Trustee to exercise the rights and powers set forth in the Mortgage, or (C) avail itself of all other rights or remedies available to it.

(3) *Right to Enter.* The Trustee may enter and take possession of the Project or any part thereof without termination of this Loan Agreement and use its best efforts to lease the Project as provided in the Mortgage.

(b) If the Trustee or the Mortgage Trustee exercises any of its rights under this Article, it will give notice of such exercise to the Company and the Authority (i) in writing in the manner provided in Section 10.4 and (ii) by telephone or telegram, provided that failure to give notice by telephone or telegram will not affect the validity of the exercise of any right or remedy under this Article.

(c) If the Trustee elects to re-lease the Project or any part thereof under the provisions of the Mortgage, it may collect the rents from such re-lease and apply the same, first, to the payment of the expense of entry and leasing, and, second, to the Loan Payments payable hereunder. If the proceeds from the re-lease are not sufficient to pay in full the foregoing, the Company will remain and be liable therefor. The Company promises and agrees to pay the amount of any such deficiency from time to time, and the Trustee may at any time and from time to time sue and recover judgment for any such deficiency or deficiencies.

Section 8.3. Authority May Enforce Demand.

(a) If the Company fails to pay the principal and interest and other amounts payable hereunder upon demand, the Authority, in its own name, shall be entitled and empowered to institute such actions or proceedings at law or in equity for the collection of the amounts so due and unpaid, and may prosecute any such action or proceedings to judgment or final decree, and may enforce any such judgment or final decree against the Company and collect the moneys adjudged or decreed to be payable out of the property of the Company wherever situated, in the manner provided by law.

(b) If permitted by law, the Authority is entitled to recover judgment as aforesaid either before or after or during the pendency of any proceedings for the enforcement of the lien of the Mortgage; and the right of the Authority to recover such judgment shall not be affected by any sale hereunder or by the exercise of any other right, power or remedy for the enforcement of the provisions of the Mortgage or the foreclosure of the lien thereof; and in case of a sale of the Mortgaged Property and of the application of the proceeds of sale, as provided in the Mortgage to the payment of the debt hereby incurred, the Authority shall be entitled to enforce payment of and to receive all amounts then remaining

due and unpaid hereunder, and shall be entitled to recover judgment for any portion of the debt remaining unpaid, with interest at the greater of the Prime Rate or the Maximum Interest Rate.

(c) No recovery of any judgment by the Authority and no levy of any execution under any judgment upon the Mortgaged Property or upon any other property, shall affect the lien of the Mortgage or of this Loan Agreement or any lien, rights, powers (including but not limited to the power of sale) or remedies of the Authority hereunder, but such lien, rights, powers or remedies of the Authority shall continue unimpaired as before.

(d) Any moneys thus collected by the Authority under this Section shall be applied by the Authority as provided in Section 14 of the Mortgage for the application of moneys collected from the sale or other disposition of the Mortgaged Property, as defined therein.

Section 8.4. Appointment of Receiver. The Company further covenants that upon the happening of any Event of Default and thereafter during the continuance of such Event of Default unless the same shall have been waived as hereinbefore provided, the Trustee shall be entitled as a matter of right if it shall so elect, (i) forthwith and without declaring the principal of the Notes to be due and payable, or (ii) after declaring the same to be due and payable, or (iii) upon the commencement of any foreclosure of the Mortgage or action to enforce the specific performance thereof or in aid thereof or upon the commencement of any other proceedings, judicial or otherwise, to enforce any right of the Trustee to institute such actions or proceedings at law or in equity for the appointment of a receiver or receivers of the Mortgaged Property and all the earnings, revenues, rents, issues, profits and income thereof, with such powers as the court making such appointment shall confer.

Section 8.5. Remedies Cumulative. No remedy conferred upon or reserved to the Trustee in this Loan Agreement, the Series 1999 Note, the Mortgage or any other document or instrument is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. No delay or omission of the Trustee to exercise any right or power accruing upon any Event of Default shall impair any such right or power, or shall be construed to be a waiver of any such Event of Default or an acquiescence therein; and every power and remedy given by this Loan Agreement to the Trustee may be exercised from time to time and as often as may be deemed expedient by the Trustee.

Section 8.6. Uniform Commercial Code, Rights of a Secured Creditor. During the continuance of any default hereunder or under the Indenture or any other document or instrument evidencing, securing or otherwise relating to the Series 1999 Note, the Notes or any Additional Obligations, the Authority has all the rights of and remedies with regard to the Unrestricted Receivables and Revenues available to a secured creditor under the Missouri Uniform Commercial Code.

Section 8.7. Waiver of Extension, Stay Laws. To the extent permitted by law, the Company will not during the continuance of any event of default hereunder insist upon, or plead, or in any manner whatever claim or take any benefit or advantage of any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants and terms of performance of this Loan Agreement; and the Company hereby expressly waives all benefits or advantage of any such law or laws and covenants not to hinder, delay or impede the execution of any power herein granted or delegated to the Authority, but to suffer and permit the execution of every power as though no such law or laws had been made or enacted.

Section 8.8. Authority's Right to Perform Company's Covenants. In the event the Company fails to (a) pay any tax, charge, assessment or imposition pursuant hereto, (b) remove any lien,

encumbrance or charge pursuant hereto, (c) maintain the Facilities in repair pursuant to this Loan Agreement, (d) procure the insurance required hereby or pay any insurance premium with respect thereto, (e) pay any amount required to be rebated to the United States of America pursuant to the requirements of Section 148(f) of the Code and the Tax Compliance Agreement when due, or (f) make any other payment or perform any other act required to be performed hereunder, then and in each such case the Authority or the Trustee may (but shall not be obligated to) remedy such default for the account of the Company and make advances for that purpose. No performance or advance will release the Company from any default or prejudice any rights of the Trustee or the Bondowners arising under any of the Bond Documents in consequence of such failure. Any sums so advanced by the Authority or the Trustee will bear interest at the Prime Rate plus 2% from the date of the advance until repaid. The Authority or the Trustee has the right to enter the Facility or any portion thereof in order to effectuate the purposes of this Section.

Section 8.9. Right of Entry by Authority. The duly authorized agents of the Authority shall have the right at all reasonable times to enter the Facilities, or any parts thereof, for the purpose of inspecting the Facilities to insure compliance with Section 5.7 and the Act.

Section 8.10. Application of Moneys Collected. Any amounts collected pursuant to action taken under this Article shall be applied in accordance with the provisions of Article VII of the Indenture, and, to the extent applied to the payment of amounts due on the Bonds, shall be credited against amounts due on the Notes.

ARTICLE IX

ASSIGNMENTS

Section 9.1. Assignment of Security Interest in Unrestricted Receivables and Mortgage; Pledge and Assignment Under the Mortgage.

(a) In order to secure the payment of the Series 1999 Note and the performance of the duties and obligations of the Company under the Series 1999 Note, this Loan Agreement and the other Bond Documents, the Company pledges and assigns and pursuant to the Mortgage has pledged and assigned unto the Authority and its successors and assigns forever, and granted a security interest in, all Unrestricted Receivables of the Company, the creation of which security interest is governed by the Uniform Commercial Code of the State.

(b) The Company, at its own expense, will take all necessary action to maintain and preserve the security interest in the Unrestricted Receivables granted by this Loan Agreement and to the Personal Property granted by the Mortgage so long as any Bonds, the Series 1999 Note or any Additional Notes are Outstanding. In addition, the Company, immediately after the execution and delivery of this Loan Agreement and thereafter from time to time, will cause this Loan Agreement, the Mortgage any financing statements in respect thereof to be filed, registered and recorded in such manner and in such places as may be required by law in order to fully perfect and protect the security interest hereof and thereof and from time to time will perform or cause to be performed any other act as provided by law and will execute or cause to be executed any and all continuation statements and further instruments that may be requested by the Trustee for such perfection and protection. Except to the extent it is exempt therefrom, the Company shall pay or cause to be paid all filing, registration and recording fees and all expenses incident to the preparation, execution and acknowledgment of such instruments of perfection, and all federal or state fees and other similar fees, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of this Loan Agreement, the Mortgage and such instruments of perfection. In the event that the Company fails to execute any of such instruments within 10 days after

demand to do so, the Company does hereby make, constitute and irrevocably appoint the Trustee as its attorney-in-fact and in its name, place and stead so to do.

(c) Notwithstanding the security interest granted in the Company's Unrestricted Receivables under this Loan Agreement and the Personal Property pursuant to the Mortgage, it is understood and agreed that so long as the Company makes when due and payable all Loan Payments hereunder, all payments of principal of and interest on Additional Obligations and all Additional Payments required by the Loan Agreement, including without limitation the payments described in Sections 4.1 and 4.2, the Company shall be entitled to utilize its Unrestricted Receivables and Revenues for its proper corporate purposes.

(d) If no Event of Default has occurred and is continuing under this Loan Agreement, the Authority and the Trustee shall release, without the consent of any of the Bondowners, any of the property subject to the lien of the Mortgage upon compliance with the requirements for such release contained in the Mortgage.

Section 9.2. Assignment of Authority's Rights. Under the Indenture, the Authority will, as additional security for the Bonds, assign, transfer, pledge and grant a security interest in certain of its rights under the Notes and under this Loan Agreement to the Trustee. The Trustee is hereby given the right to enforce, either jointly with the Authority or separately, the performance of the obligations of the Company, and the Company hereby consents to the same and agrees that the Trustee may enforce such rights as provided in the Indenture and the Company will make payments required under this Loan Agreement and by the Notes directly to the Trustee.

ARTICLE X

MISCELLANEOUS PROVISIONS

Section 10.1. Amendments, Changes and Modifications. Subsequent to the issuance of any Bonds and prior to their payment in full (or provision thereof having been made in accordance with the provisions of the Indenture), this Loan Agreement may not be amended, changed, modified, altered or terminated without the written consent of the Trustee required by the Indenture.

Section 10.2. Instruments of Further Assurance. The Authority will do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, such Supplemental Loan Agreements, and such further acts, instruments, financing statements and other documents as the Trustee may reasonably require for the better assuring, pledging and assigning unto the Trustee the property and revenues herein described, to the payment of the principal of and interest on the Bonds. This Loan Agreement, all supplements to this Loan Agreement, the Series 1999 Note, any Additional Notes and all other Bond Documents and other documents, instruments or policies of insurance required by the Trustee shall be delivered to and held by the Trustee.

Section 10.3. Payments Due on Other Than Business Day. If any day for any payment due under this Loan Agreement is not a Business Day, payment may be made on the next succeeding Business Day with the same force and effect as if made on the date fixed for payment, and no interest shall accrue for the period after such date.

Section 10.4. Notices. It shall be sufficient service of any notice, request, complaint, demand or other paper required by this Loan Agreement to be given to or filed with the Authority, the Trustee, the Company if the same is given or filed in the manner and at the addresses specified in the Indenture.

Section 10.5. Immunity of Officers, Directors, Employees and Members of the Authority. No recourse shall be had for the payment of the principal of or premium or interest on any of the Notes or for any claim based thereon or upon any representation, obligation, covenant or agreement in this Loan Agreement contained against any past, present or future officer, member, employee, director or agent of the Authority, or of any successor public or private corporation thereto, as such, either directly or through the Authority, or any successor public or private corporation thereto, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such officers, members, employees, directors or agents as such is hereby expressly waived and released as a condition of and consideration for the execution of this Loan Agreement and the issuance of the Notes.

Section 10.6. No Violations of Law. Any other term or provision in this Loan Agreement to the contrary notwithstanding:

(a) in no event will this Loan Agreement be construed as:

(1) depriving the Authority of any right or privilege; or

(2) requiring the Authority or any member, director, officer, agent, employee, representative or advisor of the Authority to take or omit to take, or to permit or suffer the taking of, any action by itself or by anyone else,

which deprivation or requirement would violate, or result in the Authority's being in violation of the Act or any other applicable state or federal law; and

(b) at no time and in no event will the Company permit, suffer or allow any of the proceeds of the Notes to be transferred to any Person in violation of, or to be used in any manner which is prohibited by, the Act or any other State or federal law.

Section 10.7. Severability. If any provision of this Loan Agreement is held invalid or unenforceable by any court or competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof. All covenants of the Company will be given independent effect so that, if a particular action or condition is prohibited by any of such covenants, the fact that it would be permitted by an exception to, or be otherwise within the limitations of, another covenant shall not avoid the occurrence of a Default or Event of Default if such action is taken or condition exists.

Section 10.8. Counterparts. This Loan Agreement is being executed in any number of counterparts, each of which is an original and all of which are identical. Each counterpart of this Loan Agreement is to be deemed an original hereof and all counterparts collectively are to be deemed but one instrument.

Section 10.9. Governing Law. It is the intention of the parties hereto that this Loan Agreement and the rights and obligations of the parties hereunder shall be governed by and construed and enforced in accordance with the laws of the State.

Section 10.11. Entire Agreement. ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBT ARE NOT ENFORCEABLE. TO PROTECT THE COMPANY AND THE AUTHORITY FROM MISUNDERSTANDING OR DISAPPOINTMENT, ANY AGREEMENTS THE COMPANY AND

THE AUTHORITY REACH COVERING SUCH MATTERS ARE CONTAINED IN THIS WRITING, WHICH IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN THE AUTHORITY AND THE COMPANY, EXCEPT AS THE AUTHORITY AND THE COMPANY MAY LATER AGREE IN WRITING TO MODIFY IT.

[remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the Authority and the Company have caused this Loan Agreement to be executed as of the day and year first above written.

**STATE ENVIRONMENTAL IMPROVEMENT
AND ENERGY RESOURCES AUTHORITY**

By: *Jim Barman*
Chairman

[Seal]

ATTEST:

John P. Hill
Secretary

THE RAYTOWN WATER COMPANY

By: Neal S. Claugen
President

[SEAL]

ATTEST:

Carol C. Spadley
(Assistant) Secretary

**EXHIBIT A
TO LOAN AGREEMENT**

**PROMISSORY NOTE
(SERIES 1999)**

THIS PROMISSORY NOTE IS SECURED BY THAT CERTAIN DEED OF TRUST, MORTGAGE AND SECURITY AGREEMENT DATED AS OF JULY 1, 1999, FROM THE RAYTOWN WATER COMPANY TO NORMAN E. FRETWELL, AS MORTGAGE TRUSTEE, FOR THE BENEFIT OF THE STATE ENVIRONMENTAL IMPROVEMENT AND ENERGY RESOURCES AUTHORITY, IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF SECTION 443.055 OF THE REVISED STATUTES OF MISSOURI, AS AMENDED.

\$2,670,000

Dated as of July 1, 1999

FOR VALUE RECEIVED, the undersigned **RAYTOWN WATER COMPANY** (the "Company"), promises to pay to the order of the **STATE ENVIRONMENTAL IMPROVEMENT AND ENERGY RESOURCES AUTHORITY** (the "Authority"), at its office in Jefferson City, Missouri, or such other place as the owner hereof may designate in writing, the sum of **TWO MILLION SIX HUNDRED SEVENTY THOUSAND DOLLARS (\$2,670,000)**, with interest thereon from the date of delivery hereof at the rates per annum on the outstanding principal balance hereon from time to time as provided in the below defined Indenture. Terms not otherwise defined in this Note have the respective meanings as set forth in the Indenture.

The principal and interest on this Note shall be payable in installments at the times and in the amounts determined as provided in Section 3.9 of the Loan Agreement dated as of July 1, 1999 (as amended and supplemented in accordance with its terms, the "Loan Agreement"), between the Company and the Authority (the "Loan Agreement"), with the final payment of all outstanding principal and interest on this Note to be paid on March 1, 2009. Both principal and interest under this Note shall be payable at the principal corporate trust office of UMB BANK, N.A., Kansas City, Missouri (the "Trustee"). This Note is subject to mandatory and optional prepayment as provided in the Loan Agreement, with such prepayments being first applied to interest and next to principal.

This Note is made pursuant to the Loan Agreement wherein, among other things, the Authority has agreed to loan to the Company and the Company has agreed to take a loan in the principal amount above, being the proceeds from the sale of the Authority's Water Facilities Refunding Revenue Bonds (The Raytown Water Company) Series 1999A and Taxable Water Facilities Revenue Bonds (The Raytown Water Company) Series 1999B in the aggregate principal amount of \$2,670,000 (the "Bonds"). The Bonds are being issued by the Authority pursuant to the Indenture of Trust dated as of July 1, 1999 (as amended and supplemented in accordance with its terms, the "Indenture").

Upon the occurrence of any Event of Default as described in Section 8.1 of the Loan Agreement, all unpaid principal of and interest on this Note may be declared to be forthwith due and payable in the manner and with the effect provided in the Loan Agreement. Failure to exercise this option shall not constitute a waiver of the right to exercise the same in the event of any subsequent occurrence of such an Event of Default. If this Note shall be placed in the hands of an attorney or attorneys for collection, the Company

agrees to pay, in addition to the amount due hereon, the reasonable costs and expenses of collection, including reasonable attorneys' fees.

This Note is secured by the Deed of Trust and Security Agreement dated as of July 1, 1999 (the "Mortgage") by the Company to Norman E. Fretwell, as Mortgage Trustee for the Authority, the terms and provisions of each and all of the same being incorporated by reference.

The obligations of the Company to make Loan Payments and Additional Payments shall be absolute and unconditional, and the Company shall make such payments without abatement, diminution or deduction regardless of any cause or circumstances whatsoever including, without limitation, any defense, set-off, recoupment or counterclaim which the Company may have or assert against the Authority, the Trustee or any other Person.

If this Note is placed in the hands of an attorney or attorneys for collection, the Company agrees to pay, in addition to the amount due hereon, the reasonable costs and expenses of collection, including reasonable attorneys' fees. All parties to this Note, whether principal, surety, guarantor or endorser, hereby waive presentment for payment, demand, protest, notice or protest and notice of dishonor.

Oral agreements or commitments to loan money, extend credit or to forbear from enforcing repayment of a debt including promises to extend or renew such debt are not enforceable. To protect you (borrower) and us (creditor) from misunderstanding or disappointment, any agreements we reach covering such matters are contained in this writing, which is the complete and exclusive statement of the agreement between us, except as we may later agree in writing to modify it.

This Note shall be governed by the laws of the State of Missouri.

THE RAYTOWN WATER COMPANY

By: _____
President

[SEAL]

ATTEST:

(Assistant) Secretary

ENDORSEMENT

Pay to the order of UMB Bank, N.A., as Trustee, pursuant to the Indenture of Trust dated as of July 1, 1999, between the undersigned and said bank, the Trustee to hold and apply all funds received under this Note as provided in the Indenture of Trust. This assignment is without recourse against the undersigned.

STATE ENVIRONMENTAL IMPROVEMENT AND ENERGY RESOURCES AUTHORITY

By: _____
Chairman

FIRST SUPPLEMENTAL LOAN AGREEMENT

Dated as of September 1, 2008

between the

**STATE ENVIRONMENTAL IMPROVEMENT
AND ENERGY RESOURCES AUTHORITY**

and

THE RAYTOWN WATER COMPANY

Relating to

\$970,000

**Water Facilities Refunding and Improvement Revenue Bonds
(The Raytown Water Company)
Series 2008**

**THIS FIRST SUPPLEMENTAL LOAN AGREEMENT HAS BEEN ASSIGNED TO, AND IS
SUBJECT TO A SECURITY INTEREST IN FAVOR OF UMB BANK, N.A., TRUSTEE UNDER
AN INDENTURE OF TRUST DATED AS OF JULY 1, 1999, AS AMENDED BY THE FIRST
SUPPLEMENTAL INDENTURE OF TRUST DATED AS OF SEPTEMBER 1, 2008, AS
AMENDED AND SUPPLEMENTED FROM TIME TO TIME.**

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Exhibit A - Form of Promissory Note

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FIRST SUPPLEMENTAL LOAN AGREEMENT

THIS FIRST SUPPLEMENTAL LOAN AGREEMENT dated as of September 1, 2008 (this "First Supplemental Loan Agreement"), by and between the **STATE ENVIRONMENTAL IMPROVEMENT AND ENERGY RESOURCES AUTHORITY**, a body corporate and politic and a governmental instrumentality of the State of Missouri (the "Authority"), and **THE RAYTOWN WATER COMPANY**, a corporation organized and existing under the laws of the State of Missouri (the "Company");

RECITALS:

1. The Authority is authorized and empowered, under the provisions of Sections 260.005 to 260.125, inclusive, R.S.Mo., as amended, and Appendix B(1) thereto (the "Act"), to issue bonds and loan the proceeds thereof for any of the purposes of the Act, including the payment of "costs" of "water facilities" as defined in the Act.

2. Pursuant to the Act and a resolution duly adopted by the Authority, the Authority previously issued its \$2,470,000 original principal amount of Water Facilities Refunding Revenue Bonds (The Raytown Water Company) Series 1999A (the "Prior Bonds"), under an Indenture of Trust (the "Original Indenture") dated as of July 1, 1999 between the Authority and UMB Bank, N.A. (the "Trustee") for the purpose of making a loan to the Company pursuant to a Loan Agreement dated as of July 1, 1999 (the "Original Loan Agreement," with the Original Loan Agreement as amended by this First Supplemental Loan Agreement being the "Loan Agreement"), to provide funds to refinance the costs for construction, acquisition and installation of transmission mains and an elevated water tank at 9906 East 63rd Street (Rear), Raytown, Missouri.

3. The Company has requested that the Authority make a loan to the Company for the purpose of providing funds to refund the Prior Bonds, to finance the costs of other improvements for the Company and to pay certain related costs, all as more fully defined and described in this First Supplemental Loan Agreement and in the below defined Indenture, in consideration of payments by the Company which will be sufficient to pay the principal of, redemption premium, if any, and the interest on the bonds issued by the Authority.

4. In order to provide funds to make the loan to the Company, the Authority is issuing \$970,000 principal amount of Water Facilities Refunding and Improvement Revenue Bonds (The Raytown Water Company) Series 2008 (the "Series 2008 Bonds") pursuant to the Act and the Original Indenture, as supplemented by the First Supplemental Indenture of Trust dated as of September 1, 2008 (the "First Supplemental Indenture," with the Original Indenture as amended by the First Supplemental Indenture being the "Indenture") by and between the Authority and UMB Bank, N.A., Kansas City, Missouri, as Trustee (the "Trustee"); and

5. To evidence the loan, the Company is concurrently with the delivery of this First Supplemental Loan Agreement issuing to the Authority its Promissory Note, Series 2008 (the "Series 2008 Note"), in the principal amount of \$970,000, substantially in the form of Exhibit A.

6. The Authority and the Company are entering into this First Supplemental Loan Agreement to provide for the loan of the proceeds of the Series 2008 Bonds to the Company and the repayment of the Series 2008 Note.

AGREEMENT:

ARTICLE I

DEFINITIONS; RULES OF CONSTRUCTION

Section 1.1. Definitions of Words and Terms. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

ARTICLE II

REPRESENTATIONS

Section 2.1. Representations by the Authority. The Authority represents to the Company and the Trustee as follows:

(a) *Organization and Authority.* The Authority (1) is a governmental instrumentality and body corporate and politic duly organized and existing under the laws of the State, and (2) has lawful power and authority to enter into, execute and deliver this First Supplemental Loan Agreement and to carry out its obligations hereunder and to endorse and deliver the Series 2008 Note, and by all necessary corporate action has been duly authorized to execute and deliver this First Supplemental Loan Agreement and the Series 2008 Note and any other Bond Documents required to be executed and delivered by it in connection with the issuance of the Series 2008 Bonds, acting by and through its duly authorized officers.

(b) *No Defaults or Violations of Law.* The execution and delivery of this First Supplemental Loan Agreement, the Series 2008 Note and any other Bond Documents by the Authority will not result in a breach of any of the terms of, or constitute a default under, any indenture, mortgage, deed of trust, lease or other agreement or instrument to which the Authority is a party or by which it or any of its property is bound or its bylaws or any of the constitutional or statutory rules or regulations applicable to the Authority or its property.

Section 2.2. Representations by the Company. The Company represents to the Authority and the Trustee as follows:

(a) *Existence.* The Company is a corporation duly organized, legally existing and in good standing under the laws of the State and is in good standing under the laws of all jurisdictions wherein the business transacted by it makes such qualification necessary; has all requisite power and authority and all necessary licenses and permits to own and operate its properties and to carry on its business as now conducted and as presently proposed to be conducted and to enter into those Bond Documents to which it is a party and the other agreements referred to herein and transactions contemplated thereby and to carry out the provisions and conditions of those Bond Documents to which it is a party.

(b) *Due Execution and Delivery.* The Company has full power, authority and legal right to incur the obligations provided for in, to execute and deliver and to perform and observe the terms and provisions of, the Bond Documents to which it is a party, and each of the Bond Documents to which it is a party has been duly executed and delivered by the Company by appropriate and all required action, and the Company has obtained all requisite consents to the transactions contemplated thereby under any instrument to which it is a party, and those Bond Documents to which it is a party constitute the legal, valid and binding obligations of the Company enforceable in accordance with their respective terms

except to the extent enforcement thereof may be limited by bankruptcy, insolvency, reorganization or other laws affecting creditors rights or principles of equity.

(c) *No Breach of Other Instruments.* Neither the execution and delivery of those Bond Documents to which the Company is a party nor the compliance by the Company with the terms and conditions of such Bond Documents, nor the consummation of the transactions contemplated thereby, will conflict with or result in a breach of any of the terms, conditions or provisions of its organizational documents or any agreement or instrument or other restriction or law, regulation, rule or order of any governmental body or agency to which the Company is now a party or is subject, or constitute a default thereunder, or result in the creation or imposition of a lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Company in violation of the terms of any such agreement or instrument.

(d) *Governmental Consent.* Because the Company is a public utility regulated by the Missouri Public Service Commission (the "Commission") pursuant to Chapters 386 and 393 of the Missouri Revised Statutes, execution of the Bond Documents, consummation of the transactions therein contemplated, and the offer, issue, sale and delivery of the Series 2008 Bonds require the authorization of the Commission. The Commission's authorization was obtained in the Report and Order issued by the Commission on July 22, 2008, to be effective on August 1, 2008 in case No. WF-2008-0356. No other governmental action or approval is required for the offer, issue, sale and delivery of the Series 2008 Bonds and the receipt of the loan of the proceeds of the Series 2008 Bonds by the Company.

(e) *Collateral.* The Company has good title to its Property, free and clear of all liens, pledges, mortgages, security interests, charges, claims and other encumbrances, except for Permitted Encumbrances and as otherwise provided in the Bond Documents.

(f) *Absence of Defaults, Etc.* The Company is not (i) in default under any indenture or material contract or agreement to which it is a party, (ii) in violation of its organizational documents, (iii) in default with respect to any order, writ, injunction or decree of any court, or (iv) in default under any charter, order or license of any federal or state governmental department, which default or violation in any of the aforesaid cases has a Material Adverse Effect. There exists no condition, event or act which constitutes, or after notice or lapse of time or both would constitute, an Event of Default.

(g) *Financial Condition.* The annual financial statements of the Company for its Fiscal Year ended December 31, 2007, which have been delivered to the Authority or the Original Purchaser, have been prepared in accordance with generally accepted accounting principles, consistently applied, and present fairly the financial condition and changes in financial position of the Company as at the date or dates and for the period or periods stated. Since December 31, 2007, the Company has not incurred any material liabilities or obligations, direct or contingent, not in the ordinary course of business and there has not been any change in the business, properties or condition, financial or otherwise, of the Company, except for changes arising in the ordinary course of business.

(h) *Litigation.* Except as described in the Financial Statements or as otherwise disclosed in writing to the Authority, at the date of this Agreement there is no litigation, legal or administrative proceeding, investigation or other action of any nature pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary which involves the possibility of any judgment or liability not fully covered by insurance and which would have a Material Adverse Effect.

(i) *Pension and Welfare Plans.* Each Pension Plan, if any, complies in all material respects with all applicable statutes and governmental rules and regulations; no reportable event has occurred and is continuing with respect to any Pension Plan; neither the Company nor any ERISA Affiliate has

withdrawn from any Multiemployer Plan in a "complete withdrawal" or a "partial withdrawal" as defined in sections 4203 or 4205 of ERISA, respectively; no steps have been instituted by the Company to terminate any Pension Plan which termination would have a Material Adverse Effect upon the Company; and no condition exists or event or transaction has occurred in connection with any Pension Plan or Multiemployer Plan which could result in the Company or any ERISA Affiliate incurring any material liability, fine or penalty. Neither the Company nor any ERISA Affiliate is a "contributing sponsor" as defined in Section 4001(a)(13) of ERISA of a "single-employer plan" as defined in Section 4001(a)(15) of ERISA which has two or more contributing sponsors at least two of whom are not under common control. Neither the Company nor any Subsidiary has any contingent liability with respect to any "employee welfare benefit plans," as defined in Section 3(1) of ERISA, which covers retired employees and their beneficiaries.

(j) *Patents, Licenses, Etc.* The Company possesses all of the necessary patents, licenses, trademarks, trademark rights, tradenames, tradename rights and copyrights to conduct its businesses as now conducted, without conflict with any patent, license, trademark, tradename or copyright of any other Person, except as to which the failure of such possession would not have a Material Adverse Effect upon the Company.

(k) *Taxes.* The Company has filed or caused to be filed all federal, state and local tax returns which are required to be filed and has paid or caused to be paid all taxes as shown on said returns or on any assessment to the extent such taxes have become due, except for taxes which are being contested in good faith and against which reserves, in accordance with generally accepted accounting principles consistently applied, have been established and except for taxes with respect to which a failure to so file returns or make payment would not have a Material Adverse Effect upon the Company. The Company is not aware of any proposed material tax assessments against it.

(l) *Compliance with Law.* The Company is currently in compliance with any and all laws, ordinances or governmental rules and regulations to which it is subject and has obtained any and all licenses, permits, franchises or other governmental authorizations necessary to the ownership of its Properties or to the conduct of its businesses, except as to which such violation or failure to obtain would not have a Material Adverse Effect upon the Company.

(m) *Environmental and Safety and Health Matters.* (i) The operations of the Company and each Subsidiary of the Company, to the best of Company's knowledge and without having conducted any environmental studies, comply in all material respects with (A) all applicable Environmental Laws, and (B) all applicable occupational safety and health laws; (ii) none of the operations of the Company or any Subsidiary are subject to any judicial or administrative proceeding alleging the violation of any Environmental Law or occupational safety and health law; (iii) none of the operations of the Company or any Subsidiary is the subject of federal or state investigation evaluating whether any remedial action is needed to respond to (A) spillage, disposal or release into the environment of any Hazardous Material or other hazardous, toxic or dangerous waste, substance or constituent, or other substances, or (B) unsafe or unhealthful condition at any premises of the Company or any Subsidiary; (iv) neither the Company nor any Subsidiary of the Company has filed any notice under any Environmental Law or occupational safety and health law indicating or reporting (A) any past or present spillage, disposal or release into the environment of, or treatment, storage or disposal of, any Hazardous Material or other hazardous, toxic or dangerous waste, substance or constituent, or other substance or (B) any unsafe or unhealthful condition at any premises of the Company.

(n) *Representations and Warranties in Other Bond Documents.* The Company represents and warrants that all of the representations and warranties of the Company in the other Bond Documents

to which the Company is a party were true and correct in all material respects when made and are true and correct in all material respects on the Closing Date.

ARTICLE III

LOAN TO THE COMPANY; USE OF PROCEEDS

Section 3.1. Loan of Funds to the Company. Simultaneously with the execution and delivery of this First Supplemental Loan Agreement, the Authority will loan the proceeds of the sale of the Series 2008 Bonds to the Company. The Company agrees to receive such loan from the Authority, for the purposes provided herein and in the Indenture. The loan is evidenced by the Series 2008 Note in the principal sum of \$970,000.

Section 3.2. Use of Proceeds; Completion of the Project. The proceeds of the Series 2008 Bonds will be deposited with the Trustee and applied as provided in the Indenture and in the Loan Agreement, together with other available funds of the Company, to refund the Prior Bonds in whole, to finance and refinance the costs of the Project, to fund a debt service reserve and to pay certain costs related to the issuance of the Series 2008 Bonds.

The Company shall cause the Project to be diligently and continuously pursued and to be completed with reasonable dispatch, and to provide (from its own funds if required) all moneys necessary to complete the Project substantially in accordance with **Exhibit B** to this First Supplemental Loan Agreement.

The Company agrees to comply with all of the provisions set forth in the Indenture with respect to the construction of the Project and to perform all obligations of the Company set out in the Indenture.

Section 3.3. Project Documents. The Company, at its own cost and expense, shall maintain in its files and available for inspection by the Trustee copies of the following documents at such time as such documents become available and in any event by the time work is commenced on the portion of the Project to which they relate:

- (a) *Plans and Specifications.* All available preliminary and final plans and specifications for the Project.
- (b) *Construction Contracts.* All architect's and general contractor's contracts for the Project and all prime subcontractor's contracts and purchase orders for any equipment included in the Project.
- (c) *Licenses and Permits.* Licenses and permits to construct and occupy the Project and to operate the existing facilities of the Company, including all approvals and other permits for the acquisition, construction and equipping portions of the Project from any governmental agency as may be necessary for such work.
- (d) *Payment and Performance Bonds.* Payment and performance bonds insuring the Company, the Authority and the Trustee as their respective interests may appear against delays in completion of all construction contracts, against failure timely to complete the portion of the Project financed with the proceeds of the Series 2008 Bonds in accordance with the plans and specifications therefor, and against claims for payment to cover labor

and material used or reasonably required for use in the performance of the construction contracts.

Section 3.4. Changes or Amendments to Project. The Company may make, authorize or permit such changes or amendments in the Project as it may reasonably determine to be necessary or desirable; provided, however, that no such change or amendment shall be made to the Project that would cause a material change in the cost, scope, nature, or function of the Project, unless the Company shall file with the Trustee:

(a) an Officer's Certificate to the effect that the Project will, after such change or amendment, continue to constitute "water facilities" within the meaning of the Act, and such change or amendment will not result in any Property of the Company being used for any purpose prohibited by the Loan Agreement or otherwise result in the Company failing to comply with any provisions of the Loan Agreement; and

(b) at the discretion of the Trustee, either (1) an opinion of Bond Counsel addressed to the Trustee and the Authority to the effect that (A) such change or amendment will not result in the interest on the Series 2008 Bonds becoming includable in gross income for purposes of federal income taxation, and (B) such change or amendment will not cause the average maturity of the Bonds to exceed 120% of the average reasonably expected economic life of the facilities financed or refinanced with proceeds of the Series 2008 Bonds, or (2) an Officer's Certificate to the effect that the Company expects to be able to shorten the average maturity of the Series 2008 Bonds to not exceed 120% of the average reasonably expected economic life of the facilities financed or refinanced with proceeds of the Series 2008 Bonds, as recalculated in accordance with the provisions of the Code, through the deposit to the Debt Service Fund as described below in this Section.

If any change or amendment would render materially inaccurate the description of the Project in Exhibit B to this First Supplemental Loan Agreement, there shall be delivered to the Trustee a revised Exhibit B containing a description of the Project that reflects such change, the accuracy of which shall have been certified by an Officer's Certificate.

If any change or amendment to the Project would cause a material change in the cost, scope, nature or function of the Project as described in this Section, the Company at the completion of the Project shall recalculate the average reasonably expected economic life of the Project, as completed. If any such recalculation demonstrates that the average maturity of the Series 2008 Bonds exceeds 120% of the average reasonably expected economic life of the facilities financed or refinanced with proceeds of such Bonds, the Company shall instruct the Authority and the Trustee to call Series 2008 Bonds for redemption pursuant to the Indenture and to pay to the Trustee for deposit in the Debt Service Fund held under the Indenture, as a prepayment of the Series 2008 Note, an amount which, when applied by the Trustee to redeem Series 2008 Bonds, is sufficient, based on an opinion of Bond Counsel addressed to the Trustee and the Authority, to cause the average maturity of the Series 2008 Bonds to be no more than 120% of the average reasonably expected economic life of the facilities financed or refinanced with proceeds of such Bonds. Such deposit to the Debt Service Fund shall be made at such time as will permit the Trustee to give proper notice of redemption pursuant to the Indenture on the first date the Bonds may be optionally redeemed.

Section 3.5. Enforcement of Contracts and Surety Bonds. In the event of a material default of any contractor or subcontractor under any construction contract or any other contract made in connection with the Project, or in the event of a material breach of warranty with respect to any

materials, workmanship or performance, the Company will promptly proceed, either separately or in conjunction with others, to pursue diligently the remedies of the Company against the contractor or subcontractor in default and against any surety on a bond securing the performance of such contract. Any amounts recovered by way of damages, refunds, adjustments or otherwise in connection with the foregoing, after deduction of expenses incurred in such recovery and after reimbursement to the Company of any amounts theretofore paid by the Company and not previously reimbursed to the Company for correcting or remedying of the default which gave rise to the proceedings against the contractor, subcontractor or surety, shall be paid into the Project Fund if received before the date of completion of the Project, and otherwise shall be deposited as provided in the Indenture.

ARTICLE IV

LOAN PAYMENTS AND OTHER PAYMENTS

Section 4.1. Loan Payments.

(a) The Company will duly and punctually pay the principal of, prepayment penalty, if any, and interest on the Notes on the dates and at the places and in the manner specified in the Notes and in this Loan Agreement, according to the true intent and meaning thereof and hereof. Notwithstanding any schedule of payments upon the Notes set forth in this Loan Agreement or in the Notes, the Company agrees to make payments upon the Notes and be liable therefor at the times and in the amounts (including principal, interest and redemption premium, if any) equal to the amounts to be paid as interest, premium, if any, and principal, whether at maturity or by redemption, upon the Bonds Outstanding under the Indenture.

(b) To provide for the payment of the Series 2008 Note, and the principal of and interest on the Series 2008 Bonds, subject to the prepayment requirements of Section 4.5 of the Original Loan Agreement, the Company will make the following payments directly to the Trustee, from moneys available to the Company, for the account of the Authority, for deposit in the Debt Service Fund, on the following dates, and otherwise as set out below:

(1) *Interest:* On the fifteenth day of each calendar month (or on the next Business Day thereafter if the fifteenth is not a Business Day), commencing October 15, 2008, a prorata portion of the amount of interest to become due on the Bonds on December 1, 2008, and on the fifteenth day of each calendar month thereafter (or on the next Business Day thereafter if the fifteenth is not a Business Day) commencing with the month of December, 2008, an amount which is not less than one-sixth of the interest to become due on the next ensuing Interest Payment Date on the Bonds. The Company's obligation will be reduced by the amount of the applicable credits under Section 4.3.

(2) *Principal:* On the fifteenth day of each month (or on the next Business Day thereafter if the fifteenth is not a Business Day) commencing December 15, 2008 and ending on November 15, 2009, a pro rata portion of principal due on the Bonds on December 1, 2009, and on the fifteenth day of each month thereafter (or on the next Business Day thereafter if the fifteenth is not a Business Day) commencing December 15, 2009, an amount which is not less than one-twelfth of the next installment of principal due on the Bonds, whether by maturity, mandatory sinking fund redemption or otherwise. The Company's obligation will be reduced by the amount of the applicable credits under Section 4.3.

(c) Unpaid Loan Payments will bear interest from the due date at the annual rate of the Prime Rate plus 2% calculated on the actual number of days elapsed and a 360-day year. Any interest

charged and collected on unpaid Loan Payments will be deposited in the Debt Service Fund and applied to pay interest on overdue amounts in accordance with Section 707 of the Indenture.

(d) Any supplements to the Loan Agreement authorizing the issuance of Additional Bonds and Additional Notes will provide for similar monthly deposits to the Debt Service Fund of amounts sufficient to provide for the prompt payment of the principal of, premium, if any, and interest on any Additional Bonds or Additional Notes as the same become due.

(e) It is the intent of this Section that the Company's loan repayment obligation be in the amounts and at the times necessary to enable the Trustee, on behalf of the Authority, to pay all amounts payable with respect to the Bonds when due, whether as principal, premium, interest or otherwise, and whether at maturity or by redemption or acceleration of maturity or otherwise

Section 4.2. Additional Payments. The Company agrees to make the following additional payments:

(a) *Rebate Payments:* to the Trustee, all rebate payments required under Section 148(f) of the Code and the Tax Compliance Agreement, to the extent such amounts are not available to the Trustee in the Rebate Fund or other funds and accounts held under the Indenture;

(b) *Trustee Fees and Professional Fees:* to the Trustee and any Paying Agent, registrars; counsel, accountants, engineers and other Persons, when due, all reasonable fees, charges and expenses of such Persons for services rendered under the Indenture and under any Bond Document and expenses incurred in the performance of such services under the Indenture and any Bond Document for which such Persons are entitled to payment or reimbursement;

(c) *Authority Fees and Expenses:* to the Authority upon demand, its regular fees and charges and all reasonable expenses incurred by the Authority in relation to the transactions contemplated by the Loan Agreement, the Indenture and any other Bond Document which are not otherwise required to be paid by the Company under the terms of the Loan Agreement, including all fees and charges of the Authority as provided for under the Act and payable to the Authority;

(d) *Advances:* to the Authority or the Trustee, as the case may be, the amount of all advances of funds made by any of them under the provisions of Section 8.8, with interest thereon at the Prime Rate plus 2%;

(e) *Debt Service Reserve Fund Deposits:* to the Trustee upon demand, for deposit in the Debt Service Reserve Fund, monthly on the next Loan Payment date which follows the Trustee's demand, one-sixth of any valuation deficiency in the Debt Service Reserve Fund, one-twelfth of any deficiency for moneys withdrawn from the Debt Service Reserve Fund, or such other amount according to a schedule approved by the Owners of not less than a majority in principal amount of Bonds then Outstanding as provided in Section 406(c) of the Original Indenture;

(f) *Repair and Replacement Fund Deposits:* The Company will establish in its custody a Repair and Replacement Fund for the operation of its water facilities. The Company shall deposit in the Repair and Replacement Fund, the sum of \$25,000 at the time of issuance of the Series 2008 Bonds, and \$10,000 on the fifteenth day of each month (or on the next Business Day thereafter if the fifteenth day is not a Business Day), if at any time the amount on deposit in the Repair and Replacement Fund is less than \$25,000 until the amount in the Repair and Replacement Fund aggregates \$25,000. Moneys in the Repair and Replacement Fund may be

first used by the Company to make up any deficiencies in the Debt Service Fund and the Debt Service Reserve Fund (in that order), and the balance, so long as no Event of Default exists under the Bond Documents, may be withdrawn by the Company to pay the costs of repairs and replacements to the Facilities. Any supplements to this Loan Agreement authorizing the issuance of Additional Bonds and Additional Notes will provide for similar monthly deposits into the Repair and Replacement Fund amounts sufficient to increase, if necessary, the deposits to the Repair and Replacement Fund as required by the Indenture or the Loan Agreement; and

(g) *Attorneys Fees and Other Expenses:* to the Authority and the Trustee, as applicable, all indemnity payments required to be made under Sections 5.18 and 5.19 (such indemnity payments being due to the Authority or the Trustee, as applicable, upon written demand therefor and accruing interest at the annual rate of the Prime Rate plus 2% following 60 days after notice of demand therefor) of the Original Loan Agreement.

Section 4.3. Credits on Loan Payments.

(a) Any moneys deposited by the Trustee or the Company in the Debt Service Fund (including moneys received as accrued interest from the sale of Bonds and any initial deposit made from the proceeds of the sale of any series of Bonds) will be credited against the obligation of the Company to pay interest on the Notes as the same become due.

(b) Any moneys deposited by the Trustee or the Company in the Debt Service Fund shall be credited against the obligation of the Company to pay the principal of the Notes as the same become due in the order of maturity thereof, except that prepayments for purposes of making an optional deposit for redemption will be applied to the maturities of principal of the respective Note corresponding to the series and maturities of the Bonds to be redeemed or purchased, delivered and cancelled from the proceeds of such optional deposit.

(c) The principal amount of Bonds of any series and maturity purchased by the Company and delivered to the Trustee, or purchased by the Trustee and cancelled, shall be credited against the obligation of the Company to pay principal on the Note related to such series of Bonds so purchased (including installment payments corresponding to mandatory sinking fund payments, if any, on the Bonds); provided, however, that deposit of a Bond of one series and maturity may not be credited against a payment which would be used, in the normal course, to retire a Bond of another series and maturity.

(d) The amount of any moneys transferred by the Trustee from any other fund held under the Indenture and deposited in the Debt Service Fund shall be credited against the obligation of the Company to pay interest or principal, as the case may be, as the same become due.

Section 4.4. Prepayment. Whenever any Bonds have been called for redemption under any provision of the Indenture, the Company will prepay the applicable Note in such amount as is required to redeem the Bonds, including the principal, redemption premium, if any, and accrued interest thereon to the redemption date. The Company further agrees that in the event the payment of principal of and interest on the Bonds is accelerated upon the occurrence of an Event of Default under the Indenture, all Loan Payments payable for the remainder of the term of the Loan Agreement will be accelerated and prepayment will be made on the applicable Note in such amounts. Any prepayments will be deposited in the Debt Service Fund, as required by the Indenture or the Loan Agreement or as designated by the Company and applied by the Trustee in accordance with the provisions of the Indenture. Any prepayment shall be credited against Loan Payments to become due on the applicable Note. The Company may also prepay any Note in whole or in part by providing for the payment of all or any portion of the Bonds in accordance with the Indenture.

Section 4.5. Assignment of Security Interest in Unrestricted Receivables and Personal Property.

(a) In order to secure the payment of the Series 2008 Note and the performance of the duties and obligations of the Company under the Series 2008 Note and the Loan Agreement, the Company pledges and assigns unto the Authority and its successors and assigns forever, and grants a security interest in, all Unrestricted Receivables of the Company and the tangible personal property and equipment financed with the proceeds of the Series 2008 Bonds (the "Secured Property"), the creation of which security interest is governed by the Uniform Commercial Code of the State.

(b) The Company, at its own expense, will take all necessary action to maintain and preserve the security interest in the Secured Property granted by the Loan Agreement so long as any Bonds, the Series 2008 Note, any Additional Notes or Additional Obligations are Outstanding. In addition, the Company, immediately after the execution and delivery of this First Supplemental Loan Agreement and thereafter from time to time, will cause the Loan Agreement and any financing statements in respect thereof to be filed, registered and recorded in such manner and in such places as may be required by law in order to fully perfect and protect the security interest hereof and thereof and from time to time will perform or cause to be performed any other act as provided by law and will execute or cause to be executed any and all continuation statements and further instruments that may be requested by the Trustee for such perfection and protection. Except to the extent it is exempt therefrom, the Company shall pay or cause to be paid all filing, registration and recording fees and all expenses incident to the preparation, execution and acknowledgment of such instruments of perfection, and all federal or state fees and other similar fees, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of the Loan Agreement and such instruments of perfection. In the event that the Company fails to execute any of such instruments within 10 days after demand to do so, the Company does hereby make, constitute and irrevocably appoint the Trustee as its attorney-in-fact and in its name, place and stead so to do.

(c) Notwithstanding the security interest granted in the Secured Property under the Loan Agreement, it is understood and agreed that so long as the Company makes when due and payable all Loan Payments hereunder, all payments of principal of and interest on Additional Obligations and all Additional Payments required by the Loan Agreement, including without limitation the payments described in Sections 4.1 and 4.2, the Company shall be entitled to utilize the Secured Property and Revenues for its proper corporate purposes.

ARTICLE V

MISCELLANEOUS PROVISIONS

Section 5.1. Term of First Supplemental Loan Agreement. This First Supplemental Loan Agreement shall be effective concurrently with the initial issuance and delivery of the Series 2008 Bonds and shall continue in force and effect until the principal of, redemption premium, if any, and interest on all of the Bonds have been fully paid (or provision for their payment shall have been made in accordance with the Indenture) together with all other sums to which the Authority and the Trustee are entitled from the Institution under the Loan Agreement and the Series 2008 Note.

Section 5.2. Consent of Company to First Supplemental Indenture. The Company hereby consents and agrees to the execution and delivery of and the provisions set forth in the First Supplemental Indenture.

Section 5.3. Applicability of the Original Loan Agreement and First Supplemental Loan Agreement. Except as otherwise provided in this First Supplemental Loan Agreement, the provisions of the Original Loan Agreement are hereby ratified, approved and confirmed and incorporated herein. This First Supplemental Loan Agreement shall be construed as having been authorized, executed and delivered under the provisions of Section 901(e) of the Original Indenture. The Authority and the Company consent and agree to the release of the Mortgaged Property and the Mortgage as security for the Bonds.

Section 5.4. Severability. If any provision of this First Supplemental Loan Agreement is held invalid or unenforceable by any court or competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof. All covenants of the Company will be given independent effect so that, if a particular action or condition is prohibited by any of such covenants, the fact that it would be permitted by an exception to, or be otherwise within the limitations of, another covenant shall not avoid the occurrence of a Default or Event of Default if such action is taken or condition exists.

Section 5.5. Counterparts. This First Supplemental Loan Agreement is being executed in any number of counterparts, each of which is an original and all of which are identical. Each counterpart of this First Supplemental Loan Agreement is to be deemed an original hereof and all counterparts collectively are to be deemed but one instrument.

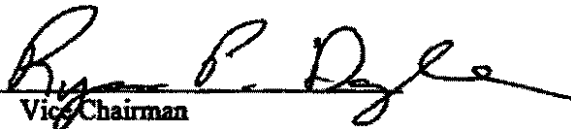
Section 5.6. Governing Law. It is the intention of the parties hereto that this First Supplemental Loan Agreement and the rights and obligations of the parties hereunder shall be governed by and construed and enforced in accordance with the laws of the State.

Section 5.7. Entire Agreement. ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBT ARE NOT ENFORCEABLE. TO PROTECT THE COMPANY AND THE AUTHORITY FROM MISUNDERSTANDING OR DISAPPOINTMENT, ANY AGREEMENTS THE COMPANY AND THE AUTHORITY REACH COVERING SUCH MATTERS ARE CONTAINED IN THIS WRITING, WHICH IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN THE AUTHORITY AND THE COMPANY, EXCEPT AS THE AUTHORITY AND THE COMPANY MAY LATER AGREE IN WRITING TO MODIFY IT.

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IN WITNESS WHEREOF, the Authority and the Company have caused this First Supplemental Loan Agreement to be executed as of the day and year first above written.

**STATE ENVIRONMENTAL IMPROVEMENT
AND ENERGY RESOURCES AUTHORITY**

By: 
Vice Chairman

[Seal]

ATTEST:


Secretary

THE RAYTOWN WATER COMPANY

By: Neal S. Clumpp
President

[SEAL]

ATTEST:

Michael J. Clumpp
Secretary

**EXHIBIT A
TO LOAN AGREEMENT**

**PROMISSORY NOTE
(SERIES 2008)**

\$970,000

Dated as of September 1, 2008

FOR VALUE RECEIVED, the undersigned **THE RAYTOWN WATER COMPANY** (the "Company"), promises to pay to the order of the **STATE ENVIRONMENTAL IMPROVEMENT AND ENERGY RESOURCES AUTHORITY** (the "Authority"), at its office in Jefferson City, Missouri, or such other place as the owner hereof may designate in writing, the sum of **NINE HUNDRED SEVENTY THOUSAND DOLLARS (\$970,000)**, with interest thereon from the date of delivery hereof at the rates per annum on the outstanding principal balance hereon from time to time as provided in the below defined Indenture. Terms not otherwise defined in this Note have the respective meanings as set forth in the Indenture.

The principal and interest on this Note shall be payable in installments at the times and in the amounts determined as provided in the Loan Agreement dated as of July 1, 1999, as amended by the First Supplemental Loan Agreement dated as of September 1, 2008 (as amended and supplemented in accordance with its terms, the "Loan Agreement"), between the Company and the Authority (the "Loan Agreement"), with the final payment of all outstanding principal and interest on this Note to be paid on December 1, 2014. Both principal and interest under this Note shall be payable at the principal corporate trust office of UMB BANK, N.A., Kansas City, Missouri (the "Trustee"). This Note is subject to mandatory and optional prepayment as provided in the Loan Agreement, with such prepayments being first applied to interest and next to principal.

This Note is made pursuant to the Loan Agreement wherein, among other things, the Authority has agreed to loan to the Company and the Company has agreed to take a loan in the principal amount above, being the proceeds from the sale of the Authority's Water Facilities Refunding and Improvement Revenue Bonds (The Raytown Water Company) Series 2008 (the "Bonds"). The Bonds are being issued by the Authority pursuant to the Indenture of Trust dated as of July 1, 1999, as amended by the First Supplemental Indenture of Trust dated as of September 1, 2008 (as amended and supplemented in accordance with its terms, the "Indenture").

Upon the occurrence of any Event of Default as described in the Loan Agreement, all unpaid principal of and interest on this Note may be declared to be forthwith due and payable in the manner and with the effect provided in the Loan Agreement. Failure to exercise this option shall not constitute a waiver of the right to exercise the same in the event of any subsequent occurrence of such an Event of Default. If this Note shall be placed in the hands of an attorney or attorneys for collection, the Company agrees to pay, in addition to the amount due hereon, the reasonable costs and expenses of collection, including reasonable attorneys' fees.

The obligations of the Company to make Loan Payments and Additional Payments shall be absolute and unconditional, and the Company shall make such payments without abatement, diminution or deduction regardless of any cause or circumstances whatsoever including, without limitation, any defense, set-off,

recoupment or counterclaim which the Company may have or assert against the Authority, the Trustee or any other Person.

If this Note is placed in the hands of an attorney or attorneys for collection, the Company agrees to pay, in addition to the amount due hereon, the reasonable costs and expenses of collection, including reasonable attorneys' fees. All parties to this Note, whether principal, surety, guarantor or endorser, hereby waive presentment for payment, demand, protest, notice or protest and notice of dishonor.

Oral agreements or commitments to loan money, extend credit or to forbear from enforcing repayment of a debt including promises to extend or renew such debt are not enforceable. To protect you (borrower) and us (creditor) from misunderstanding or disappointment, any agreements we reach covering such matters are contained in this writing, which is the complete and exclusive statement of the agreement between us, except as we may later agree in writing to modify it.

This Note shall be governed by the laws of the State of Missouri.

THE RAYTOWN WATER COMPANY

[SEAL]

By: _____
President

ATTEST:

(Assistant) Secretary

ENDORSEMENT

Pay to the order of UMB Bank, N.A., as Trustee, pursuant to the Indenture between the undersigned and said bank, the Trustee to hold and apply all funds received under this Note as provided in the Indenture. This assignment is without recourse against the undersigned.

STATE ENVIRONMENTAL IMPROVEMENT AND ENERGY RESOURCES AUTHORITY

By: _____
Chairman

**EXHIBIT B
TO LOAN AGREEMENT**

DESCRIPTION OF THE PROJECT

The Project includes the installation of water lines, the acquisition of vehicles and a valve exerciser.

SECOND SUPPLEMENTAL LOAN AGREEMENT

Dated as of February 1, 2013

between the

**STATE ENVIRONMENTAL IMPROVEMENT
AND ENERGY RESOURCES AUTHORITY**

and

THE RAYTOWN WATER COMPANY

Relating to

**\$1,015,000
Water Facilities Revenue Bonds
(The Raytown Water Company)
Series 2013**

THIS SECOND SUPPLEMENTAL LOAN AGREEMENT HAS BEEN ASSIGNED TO, AND IS SUBJECT TO A SECURITY INTEREST IN FAVOR OF UMB BANK, N.A., TRUSTEE UNDER AN INDENTURE OF TRUST DATED AS OF JULY 1, 1999, AS AMENDED BY THE FIRST SUPPLEMENTAL INDENTURE OF TRUST DATED AS OF SEPTEMBER 1, 2008, AND THE SECOND SUPPLEMENTAL INDENTURE OF TRUST DATED AS OF FEBRUARY 1, 2013, AS AMENDED AND SUPPLEMENTED FROM TIME TO TIME.

SECOND SUPPLEMENTAL LOAN AGREEMENT

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SECOND SUPPLEMENTAL LOAN AGREEMENT

THIS SECOND SUPPLEMENTAL LOAN AGREEMENT dated as of February 1, 2013 (this "Second Supplemental Loan Agreement"), by and between the **STATE ENVIRONMENTAL IMPROVEMENT AND ENERGY RESOURCES AUTHORITY**, a body corporate and politic and a governmental instrumentality of the State of Missouri (the "Authority"), and **THE RAYTOWN WATER COMPANY**, a corporation organized and existing under the laws of the State of Missouri (the "Company");

RECITALS:

1. The Authority is authorized and empowered, under the provisions of Sections 260.005 to 260.125, inclusive, R.S.Mo., as amended, and Appendix B(1) thereto (the "Act"), to issue bonds and loan the proceeds thereof for any of the purposes of the Act, including the payment of "costs" of "water facilities" as defined in the Act.

2. Pursuant to the Act and a resolution duly adopted by the Authority, the Authority previously issued its \$2,470,000 original principal amount of Water Facilities Refunding Revenue Bonds (The Raytown Water Company) Series 1999A (the "Prior Bonds"), under an Indenture of Trust (the "Original Indenture") dated as of July 1, 1999 between the Authority and UMB Bank, N.A. (the "Trustee") for the purpose of making a loan to the Company pursuant to a Loan Agreement dated as of July 1, 1999 (the "Original Loan Agreement"), to provide funds to refinance the costs for construction, acquisition and installation of transmission mains and an elevated water tank at 9906 East 63rd Street (Rear), Raytown, Missouri.

3. Pursuant to the Act and a resolution duly adopted by the Authority, the Authority previously issued its \$970,000 principal amount of Water Facilities Refunding and Improvement Revenue Bonds (The Raytown Water Company) Series 2008 (the "Series 2008 Bonds"), under a First Supplemental Trust Indenture dated as of September 1, 2008 (the "First Supplemental Indenture") for the purpose of making a loan to the Company under the terms of a First Supplemental Loan Agreement dated as of September 1, 2008 (the "First Supplemental Loan Agreement"), between the Authority and the Company, to provide funds, together with other available funds of the Company, to refund the Prior Bonds to finance and refinance the costs of the project financed with the Prior Bonds and to finance the costs of additional transmission mains, vehicles and equipment for the Company, to fund a debt service reserve and pay costs related to the issuance of the Series 2008 Bonds.

4. The Company has requested that the Authority make a loan to the Company for the purpose of providing funds to finance the costs of other improvements for the Company and to pay certain related costs, all as more fully defined and described in this Second Supplemental Loan Agreement (with the Original Loan Agreement as amended by the First Supplemental Loan Agreement and this Second Supplemental Loan Agreement being the "Loan Agreement") and in the below defined Indenture, in consideration of payments by the Company which will be sufficient to pay the principal of, redemption premium, if any, and the interest on the bonds issued by the Authority.

5. In order to provide funds to make the loan to the Company, the Authority is issuing \$1,015,000 principal amount of Water Facilities Revenue Bonds (The Raytown Water Company) Series 2013 (the "Series 2013 Bonds") pursuant to the Act and the Original Indenture, as supplemented by the First Supplemental Indenture and the Second Supplemental Indenture of Trust dated as of February 1, 2013 (the "Second Supplemental Indenture," with the Original Indenture as amended by the First

Supplemental Indenture and the Second Supplemental Indenture being the "Indenture") by and between the Authority and UMB Bank, N.A., Kansas City, Missouri, as Trustee (the "Trustee"); and

6. To evidence the loan, the Company is concurrently with the delivery of this Second Supplemental Loan Agreement issuing to the Authority its Promissory Note, Series 2013 (the "Series 2013 Note"), in the principal amount of \$1,015,000, substantially in the form of **Exhibit A**.

7. The Authority and the Company are entering into this Second Supplemental Loan Agreement to provide for the loan of the proceeds of the Series 2013 Bonds to the Company and the repayment of the Series 2013 Note.

AGREEMENT:

ARTICLE I

DEFINITIONS; RULES OF CONSTRUCTION

Section 1.1. Definitions of Words and Terms. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

ARTICLE II

REPRESENTATIONS

Section 2.1. Representations by the Authority. The Authority represents to the Company and the Trustee as follows:

(a) *Organization and Authority.* The Authority (1) is a governmental instrumentality and body corporate and politic duly organized and existing under the laws of the State, and (2) has lawful power and authority to enter into, execute and deliver this Second Supplemental Loan Agreement and to carry out its obligations hereunder and to endorse and deliver the Series 2013 Note, and by all necessary corporate action has been duly authorized to execute and deliver this Second Supplemental Loan Agreement and the Series 2013 Note and any other Bond Documents required to be executed and delivered by it in connection with the issuance of the Series 2013 Bonds, acting by and through its duly authorized officers.

(b) *No Defaults or Violations of Law.* The execution and delivery of this Second Supplemental Loan Agreement, the Series 2013 Note and any other Bond Documents by the Authority will not result in a breach of any of the terms of, or constitute a default under, any indenture, mortgage, deed of trust, lease or other agreement or instrument to which the Authority is a party or by which it or any of its property is bound or its bylaws or any of the constitutional or statutory rules or regulations applicable to the Authority or its property.

Section 2.2. Representations by the Company. The Company represents to the Authority and the Trustee as follows:

(a) *Existence.* The Company is a corporation duly organized, legally existing and in good standing under the laws of the State and is in good standing under the laws of all jurisdictions wherein the business transacted by it makes such qualification necessary; has all requisite power and authority and all necessary licenses and permits to own and operate its properties and to carry on its business as now conducted and as presently proposed to be conducted and to enter into those Bond Documents to

which it is a party and the other agreements referred to herein and transactions contemplated thereby and to carry out the provisions and conditions of those Bond Documents to which it is a party.

(b) *Due Execution and Delivery.* The Company has full power, authority and legal right to incur the obligations provided for in, to execute and deliver and to perform and observe the terms and provisions of, the Bond Documents to which it is a party, and each of the Bond Documents to which it is a party has been duly executed and delivered by the Company by appropriate and all required action, and the Company has obtained all requisite consents to the transactions contemplated thereby under any instrument to which it is a party, and those Bond Documents to which it is a party constitute the legal, valid and binding obligations of the Company enforceable in accordance with their respective terms except to the extent enforcement thereof may be limited by bankruptcy, insolvency, reorganization or other laws affecting creditors rights or principles of equity.

(c) *No Breach of Other Instruments.* Neither the execution and delivery of those Bond Documents to which the Company is a party nor the compliance by the Company with the terms and conditions of such Bond Documents, nor the consummation of the transactions contemplated thereby, will conflict with or result in a breach of any of the terms, conditions or provisions of its organizational documents or any agreement or instrument or other restriction or law, regulation, rule or order of any governmental body or agency to which the Company is now a party or is subject, or constitute a default thereunder, or result in the creation or imposition of a lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Company in violation of the terms of any such agreement or instrument.

(d) *Governmental Consent.* Because the Company is a public utility regulated by the Missouri Public Service Commission (the "Commission") pursuant to Chapters 386 and 393 of the Missouri Revised Statutes, execution of the Bond Documents, consummation of the transactions therein contemplated, and the offer, issue, sale and delivery of the Series 2013 Bonds require the authorization of the Commission. The Commission's authorization was obtained in the Report and Order issued by the Commission on September 4, 2012, to be effective on September 14, 2012, in case No. WF-2012-0413. No other governmental action or approval is required for the offer, issue, sale and delivery of the Series 2013 Bonds and the receipt of the loan of the proceeds of the Series 2013 Bonds by the Company.

(e) *Collateral.* The Company has good title to its Property, free and clear of all liens, pledges, mortgages, security interests, charges, claims and other encumbrances, except for Permitted Encumbrances and as otherwise provided in the Bond Documents.

(f) *Absence of Defaults, Etc.* The Company is not (i) in default under any indenture or material contract or agreement to which it is a party, (ii) in violation of its organizational documents, (iii) in default with respect to any order, writ, injunction or decree of any court, or (iv) in default under any charter, order or license of any federal or state governmental department, which default or violation in any of the aforesaid cases has a Material Adverse Effect. There exists no condition, event or act which constitutes, or after notice or lapse of time or both would constitute, an Event of Default.

(g) *Financial Condition.* The annual financial statements of the Company for its Fiscal Year ended December 31, 2011, which have been delivered to the Authority and the Original Purchaser, have been prepared in accordance with accounting principles generally accepted in the United States of America, consistently applied, and present fairly the financial condition and changes in financial position of the Company as at the date or dates and for the period or periods stated. Since December 31, 2011, the Company has not incurred any material liabilities or obligations, direct or contingent, not in the ordinary course of business and there has not been any change in the business, properties or condition, financial or otherwise, of the Company, except for changes arising in the ordinary course of business.

(h) *Litigation.* Except as described in the Financial Statements or as otherwise disclosed in writing to the Authority and the Original Purchaser, at the date of this Agreement there is no litigation, legal or administrative proceeding, investigation or other action of any nature pending or, to the knowledge of the Company, threatened against or affecting the Company or any Affiliate which involves the possibility of any judgment or liability not fully covered by insurance and which would have a material adverse effect on the Company or any Affiliate.

(i) *Pension and Welfare Plans.* Each pension plan, if any, complies in all material respects with all applicable statutes and governmental rules and regulations; no reportable event has occurred and is continuing with respect to any pension plan; neither the Company nor any ERISA Affiliate has withdrawn from any Multiemployer Plan in a "complete withdrawal" or a "partial withdrawal" as defined in sections 4203 or 4205 of ERISA, respectively; no steps have been instituted by the Company to terminate any pension plan which termination would have a material adverse effect upon the Company; and no condition exists or event or transaction has occurred in connection with any Pension Plan or Multiemployer Plan which could result in the Company or any ERISA Affiliate incurring any material liability, fine or penalty. Neither the Company nor any ERISA Affiliate is a "contributing sponsor" as defined in Section 4001(a)(13) of ERISA of a "single-employer plan" as defined in Section 4001(a)(15) of ERISA which has two or more contributing sponsors at least two of whom are not under common control. Neither the Company nor any Affiliate has any contingent liability with respect to any "employee welfare benefit plans," as defined in Section 3(1) of ERISA, which covers retired employees and their beneficiaries.

(j) *Patents, Licenses, Etc.* The Company possesses all of the necessary patents, licenses, trademarks, trademark rights, tradenames, tradename rights and copyrights to conduct its businesses as now conducted, without conflict with any patent, license, trademark, tradename or copyright of any other Person, except as to which the failure of such possession would not have a material adverse effect upon the Company.

(k) *Taxes.* The Company has filed or caused to be filed all federal, state and local tax returns which are required to be filed and has paid or caused to be paid all taxes as shown on said returns or on any assessment to the extent such taxes have become due, except for taxes which are being contested in good faith and against which reserves, in accordance with accounting principles generally accepted in the United States of America consistently applied, have been established and except for taxes with respect to which a failure to so file returns or make payment would not have a material adverse effect upon the Company. The Company is not aware of any proposed material tax assessments against it.

(l) *Compliance with Law.* The Company is currently in compliance with any and all laws, ordinances or governmental rules and regulations to which it is subject and has obtained any and all licenses, permits, franchises or other governmental authorizations necessary to the ownership of its Properties or to the conduct of its businesses, except as to which such violation or failure to obtain would not have a material adverse effect upon the Company.

(m) *Environmental and Safety and Health Matters.* (i) The operations of the Company and each Affiliate of the Company, to the best of Company's knowledge and without having conducted any environmental studies, comply in all material respects with (A) all applicable environmental laws, and (B) all applicable occupational safety and health laws; (ii) none of the operations of the Company or any Affiliate are subject to any judicial or administrative proceeding alleging the violation of any environmental law or occupational safety and health law; (iii) none of the operations of the Company or any Affiliate is the subject of federal or state investigation evaluating whether any remedial action is

needed to respond to (A) spillage, disposal or release into the environment of any hazardous material or other hazardous, toxic or dangerous waste, substance or constituent, or other substances, or (B) unsafe or unhealthful condition at any premises of the Company or any Affiliate; (iv) neither the Company nor any Affiliate of the Company has filed any notice under any environmental law or occupational safety and health law indicating or reporting (A) any past or present spillage, disposal or release into the environment of, or treatment, storage or disposal of, any hazardous material or other hazardous, toxic or dangerous waste, substance or constituent, or other substance or (B) any unsafe or unhealthful condition at any premises of the Company.

(n) *Representations and Warranties in Other Bond Documents.* The Company represents and warrants that all of the representations and warranties of the Company in the other Bond Documents to which the Company is a party were true and correct in all material respects when made and are true and correct in all material respects on the Closing Date.

ARTICLE III

LOAN TO THE COMPANY; USE OF PROCEEDS

Section 3.1. Loan of Funds to the Company. Simultaneously with the execution and delivery of this Second Supplemental Loan Agreement, the Authority will loan the proceeds of the sale of the Series 2013 Bonds to the Company. The Company agrees to receive such loan from the Authority, for the purposes provided herein and in the Indenture. The loan is evidenced by the Series 2013 Note in the principal sum of \$1,015,000.

Section 3.2. Use of Proceeds; Completion of the Series 2013 Project. The proceeds of the Series 2013 Bonds will be deposited with the Trustee and applied as provided in the Indenture and in the Loan Agreement, together with other available funds of the Company, to finance and refinance the costs of the Series 2013 Project, to fund a debt service reserve and to pay certain costs related to the issuance of the Series 2013 Bonds.

The Company shall cause the Series 2013 Project to be diligently and continuously pursued and to be completed with reasonable dispatch, and to provide (from its own funds if required) all moneys necessary to complete the Series 2013 Project substantially in accordance with **Exhibit B** to this Second Supplemental Loan Agreement.

The Company agrees to comply with all of the provisions set forth in the Indenture with respect to the construction of the Series 2013 Project and to perform all obligations of the Company set out in the Indenture.

Section 3.3. Project Documents. The Company, at its own cost and expense, shall maintain in its files and available for inspection by the Trustee copies of the following documents at such time as such documents become available and in any event by the time work is commenced on the portion of the Series 2013 Project to which they relate:

(a) *Plans and Specifications.* All available preliminary and final plans and specifications for the Series 2013 Project.

(b) *Construction Contracts.* All architect's and general contractor's contracts for the Series 2013 Project and all prime subcontractor's contracts and purchase orders for any equipment included in the Series 2013 Project.

(c) *Licenses and Permits.* Licenses and permits to construct and occupy the Series 2013 Project and to operate the existing facilities of the Company, including all approvals and other permits for the acquisition, construction and equipping portions of the Series 2013 Project from any governmental agency as may be necessary for such work.

(d) *Payment and Performance Bonds.* Payment and performance bonds insuring the Company, the Authority and the Trustee as their respective interests may appear against delays in completion of all construction contracts, against failure timely to complete the portion of the Series 2013 Project financed with the proceeds of the Series 2013 Bonds in accordance with the plans and specifications therefor, and against claims for payment to cover labor and material used or reasonably required for use in the performance of the construction contracts.

Section 3.4. Changes or Amendments to Series 2013 Project. The Company may make, authorize or permit such changes or amendments in the Series 2013 Project as it may reasonably determine to be necessary or desirable; provided, however, that no such change or amendment shall be made to the Series 2013 Project that would cause a material change in the cost, scope, nature, or function of the Series 2013 Project, unless the Company shall file with the Trustee:

(a) an Officer's Certificate to the effect that the Series 2013 Project will, after such change or amendment, continue to constitute "water facilities" within the meaning of the Act, and such change or amendment will not result in any Property of the Company being used for any purpose prohibited by the Loan Agreement or otherwise result in the Company failing to comply with any provisions of the Loan Agreement;

(b) an opinion of Bond Counsel addressed to the Trustee and the Authority to the effect that (A) such change or amendment will not result in the interest on the Series 2013 Bonds becoming includable in gross income for purposes of federal income taxation, and (B) such change or amendment will not cause the average maturity of the Series 2013 Bonds to exceed 120% of the average reasonably expected economic life of the facilities financed or refinanced with proceeds of the Series 2013 Bonds; and

(c) an Officer's Certificate to the effect that the Company expects to be able to shorten the average maturity of the Series 2013 Bonds to not exceed 120% of the average reasonably expected economic life of the facilities financed or refinanced with proceeds of the Series 2013 Bonds, as recalculated in accordance with the provisions of the Code, through the deposit to the Debt Service Fund as described below in this Section.

If any change or amendment would render materially inaccurate the description of the Series 2013 Project in **Exhibit B** to this Second Supplemental Loan Agreement, there shall be delivered to the Trustee a revised **Exhibit B** containing a description of the Series 2013 Project that reflects such change, the accuracy of which shall have been certified by an Officer's Certificate.

If any change or amendment to the Series 2013 Project would cause a material change in the cost, scope, nature or function of the Series 2013 Project as described in this Section, the Company at the completion of the Series 2013 Project shall recalculate the average reasonably expected economic life of the Series 2013 Project, as completed. If any such recalculation demonstrates that the average maturity of the Series 2013 Bonds exceeds 120% of the average reasonably expected economic life of the facilities financed or refinanced with proceeds of such Bonds, the Company shall instruct the Authority

and the Trustee to call Series 2013 Bonds for redemption pursuant to the Indenture and to pay to the Trustee for deposit in the Debt Service Fund held under the Indenture, as a prepayment of the Series 2013 Note, an amount which, when applied by the Trustee to redeem Series 2013 Bonds, is sufficient, based on an opinion of Bond Counsel addressed to the Trustee and the Authority, to cause the average maturity of the Series 2013 Bonds to be no more than 120% of the average reasonably expected economic life of the facilities financed or refinanced with proceeds of such Bonds. Such deposit to the Debt Service Fund shall be made at such time as will permit the Trustee to give proper notice of redemption pursuant to the Indenture on the first date the Bonds may be optionally redeemed.

Section 3.5. Enforcement of Contracts and Surety Bonds. In the event of a material default of any contractor or subcontractor under any construction contract or any other contract made in connection with the Series 2013 Project, or in the event of a material breach of warranty with respect to any materials, workmanship or performance, the Company will promptly proceed, either separately or in conjunction with others, to pursue diligently the remedies of the Company against the contractor or subcontractor in default and against any surety on a bond securing the performance of such contract. Any amounts recovered by way of damages, refunds, adjustments or otherwise in connection with the foregoing, after deduction of expenses incurred in such recovery and after reimbursement to the Company of any amounts theretofore paid by the Company and not previously reimbursed to the Company for correcting or remedying of the default which gave rise to the proceedings against the contractor, subcontractor or surety, shall be paid into the Project Fund if received before the date of completion of the Series 2013 Project, and otherwise shall be deposited as provided in the Indenture.

ARTICLE IV

LOAN PAYMENTS AND OTHER PAYMENTS

Section 4.1. Loan Payments.

(a) The Company will duly and punctually pay the principal of, prepayment penalty, if any, and interest on the Notes on the dates and at the places and in the manner specified in the Notes and in the Loan Agreement, according to the true intent and meaning thereof and hereof. Notwithstanding any schedule of payments upon the Notes set forth in the Loan Agreement or in the Notes, the Company agrees to make payments upon the Notes and be liable therefor at the times and in the amounts (including principal, interest and redemption premium, if any) equal to the amounts to be paid as interest, premium, if any, and principal, whether at maturity or by redemption, upon the Bonds Outstanding under the Indenture.

(b) To provide for the payment of the Series 2013 Note, and the principal of and interest on the Series 2013 Bonds, subject to the prepayment requirements of **Section 4.5** of the Original Loan Agreement, the Company will make the following payments directly to the Trustee, from moneys available to the Company, for the account of the Authority, for deposit in the Debt Service Fund, on the following dates, and otherwise as set out below:

(1) *Interest:* On the fifteenth day of each calendar month (or on the next Business Day thereafter if the fifteenth is not a Business Day), commencing March 15, 2013, a prorata portion of the amount of interest to become due on the Bonds on June 1, 2013, and on the fifteenth day of each calendar month thereafter (or on the next Business Day thereafter if the fifteenth is not a Business Day) commencing with the month of June, 2013, an amount which is not less than one-sixth of the interest to become due on the next ensuing Interest Payment Date on the Bonds. The Company's obligation will be reduced by the amount of the applicable credits under **Section 4.3**.

(2) *Principal:* On the fifteenth day of each month (or on the next Business Day thereafter if the fifteenth is not a Business Day) commencing December 15, 2014 and ending on November 15, 2015, a pro rata portion of principal due on the Bonds on December 1, 2015, and on the fifteenth day of each month thereafter (or on the next Business Day thereafter if the fifteenth is not a Business Day) commencing December 15, 2015, an amount which is not less than one-twelfth of the next installment of principal due on the Bonds, whether by maturity, mandatory sinking fund redemption or otherwise. The Company's obligation will be reduced by the amount of the applicable credits under **Section 4.3**.

(c) Unpaid Loan Payments will bear interest from the due date at the annual rate of the Prime Rate plus 2% calculated on the actual number of days elapsed and a 360-day year. Any interest charged and collected on unpaid Loan Payments will be deposited in the Debt Service Fund and applied to pay interest on overdue amounts in accordance with **Section 707** of the Indenture.

(d) Any supplements to the Loan Agreement authorizing the issuance of Additional Bonds and Additional Notes will provide for similar monthly deposits to the Debt Service Fund of amounts sufficient to provide for the prompt payment of the principal of, premium, if any, and interest on any Additional Bonds or Additional Notes as the same become due.

(e) It is the intent of this Section that the Company's loan repayment obligation be in the amounts and at the times necessary to enable the Trustee, on behalf of the Authority, to pay all amounts payable with respect to the Bonds when due, whether as principal, premium, interest or otherwise, and whether at maturity or by redemption or acceleration of maturity or otherwise

Section 4.2. Additional Payments. The Company agrees to make the following additional payments:

(a) *Rebate Payments:* to the Trustee, all rebate payments required under Section 148(f) of the Code and the Tax Compliance Agreement, to the extent such amounts are not available to the Trustee in the Rebate Fund or other funds and accounts held under the Indenture;

(b) *Trustee Fees and Professional Fees:* to the Trustee and any Paying Agent, registrars; counsel, accountants, engineers and other Persons, when due, all reasonable fees, charges and expenses of such Persons for services rendered under the Indenture and under any Bond Document and expenses incurred in the performance of such services under the Indenture and any Bond Document for which such Persons are entitled to payment or reimbursement;

(c) *Authority Fees and Expenses:* to the Authority upon demand, its regular fees and charges and all reasonable expenses incurred by the Authority in relation to the transactions contemplated by the Loan Agreement, the Indenture and any other Bond Document which are not otherwise required to be paid by the Company under the terms of the Loan Agreement, including all fees and charges of the Authority as provided for under the Act and payable to the Authority;

(d) *Advances:* to the Authority or the Trustee, as the case may be, the amount of all advances of funds made by any of them under the provisions of **Section 8.8**, with interest thereon at the Prime Rate plus 2%;

(e) *Debt Service Reserve Fund Deposits:* to the Trustee upon demand, for deposit in the Debt Service Reserve Fund, monthly on the next Loan Payment date which follows the Trustee's demand, one-sixth of any valuation deficiency in the Debt Service Reserve Fund, one-

twelfth of any deficiency for moneys withdrawn from the Debt Service Reserve Fund, or such other amount according to a schedule approved by the Owners of not less than a majority in principal amount of Bonds then Outstanding as provided in Section 406(c) of the Original Indenture;

(f) *Repair and Replacement Fund Deposits:* The Company will establish in its custody a Repair and Replacement Fund for the operation of its water facilities. The Company shall deposit in the Repair and Replacement Fund, the sum of \$25,000 at the time of issuance of the Series 2013 Bonds, and \$10,000 on the fifteenth day of each month (or on the next Business Day thereafter if the fifteenth day is not a Business Day), if at any time the amount on deposit in the Repair and Replacement Fund is less than \$25,000 until the amount in the Repair and Replacement Fund aggregates \$25,000. Moneys in the Repair and Replacement Fund may be first used by the Company to make up any deficiencies in the Debt Service Fund and the Debt Service Reserve Fund (in that order), and the balance, so long as no Event of Default exists under the Bond Documents, may be withdrawn by the Company to pay the costs of repairs and replacements to the Facilities. Any supplements to this Loan Agreement authorizing the issuance of Additional Bonds and Additional Notes will provide for similar monthly deposits into the Repair and Replacement Fund amounts sufficient to increase, if necessary, the deposits to the Repair and Replacement Fund as required by the Indenture or the Loan Agreement; and

(g) *Attorneys Fees and Other Expenses:* to the Authority and the Trustee, as applicable, all indemnity payments required to be made under Sections 5.18 and 5.19 (such indemnity payments being due to the Authority or the Trustee, as applicable, upon written demand therefor and accruing interest at the annual rate of the Prime Rate plus 2% following 60 days after notice of demand therefor) of the Original Loan Agreement.

Section 4.3. Credits on Loan Payments.

(a) Any moneys deposited by the Trustee or the Company in the Debt Service Fund (including moneys received as accrued interest from the sale of Bonds and any initial deposit made from the proceeds of the sale of any series of Bonds) will be credited against the obligation of the Company to pay interest on the Notes as the same become due.

(b) Any moneys deposited by the Trustee or the Company in the Debt Service Fund shall be credited against the obligation of the Company to pay the principal of the Notes as the same become due in the order of maturity thereof, except that prepayments for purposes of making an optional deposit for redemption will be applied to the maturities of principal of the respective Note corresponding to the series and maturities of the Bonds to be redeemed or purchased, delivered and cancelled from the proceeds of such optional deposit.

(c) The principal amount of Bonds of any series and maturity purchased by the Company and delivered to the Trustee, or purchased by the Trustee and cancelled, shall be credited against the obligation of the Company to pay principal on the Note related to such series of Bonds so purchased (including installment payments corresponding to mandatory sinking fund payments, if any, on the Bonds); provided, however, that deposit of a Bond of one series and maturity may not be credited against a payment which would be used, in the normal course, to retire a Bond of another series and maturity.

(d) The amount of any moneys transferred by the Trustee from any other fund held under the Indenture and deposited in the Debt Service Fund shall be credited against the obligation of the Company to pay interest or principal, as the case may be, as the same become due.

Section 4.4. Prepayment. Whenever any Bonds have been called for redemption under any provision of the Indenture, the Company will prepay the applicable Note in such amount as is required to redeem the Bonds, including the principal, redemption premium, if any, and accrued interest thereon to the redemption date. The Company further agrees that in the event the payment of principal of and interest on the Bonds is accelerated upon the occurrence of an Event of Default under the Indenture, all Loan Payments payable for the remainder of the term of the Loan Agreement will be accelerated and prepayment will be made on the applicable Note in such amounts. Any prepayments will be deposited in the Debt Service Fund, as required by the Indenture or the Loan Agreement or as designated by the Company and applied by the Trustee in accordance with the provisions of the Indenture. Any prepayment shall be credited against Loan Payments to become due on the applicable Note. The Company may also prepay any Note in whole or in part by providing for the payment of all or any portion of the Bonds in accordance with the Indenture.

Section 4.5. Assignment of Security Interest in Unrestricted Receivables and Personal Property.

(a) In order to secure the payment of the Series 2013 Note and the performance of the duties and obligations of the Company under the Series 2013 Note and the Loan Agreement, the Company pledges and assigns unto the Authority and its successors and assigns forever, and grants a security interest in, all Unrestricted Receivables of the Company and the tangible personal property and equipment financed with the proceeds of the Bonds (the "Secured Property"), the creation of which security interest is governed by the Uniform Commercial Code of the State.

(b) The Company, at its own expense, will take all necessary action to maintain and preserve the security interest in the Secured Property granted by the Loan Agreement so long as any Bonds, the Series 2013 Note, any Additional Notes or Additional Obligations are Outstanding. In addition, the Company, immediately after the execution and delivery of this Second Supplemental Loan Agreement and thereafter from time to time, will cause the Loan Agreement and any financing statements in respect thereof to be filed, registered and recorded in such manner and in such places as may be required by law in order to fully perfect and protect the security interest hereof and thereof and from time to time will perform or cause to be performed any other act as provided by law and will execute or cause to be executed any and all continuation statements and further instruments that may be requested by the Trustee for such perfection and protection. Except to the extent it is exempt therefrom, the Company shall pay or cause to be paid all filing, registration and recording fees and all expenses incident to the preparation, execution and acknowledgment of such instruments of perfection, and all federal or state fees and other similar fees, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of the Loan Agreement and such instruments of perfection. In the event that the Company fails to execute any of such instruments within 10 days after demand to do so, the Company does hereby make, constitute and irrevocably appoint the Trustee as its attorney-in-fact and in its name, place and stead so to do.

(c) Notwithstanding the security interest granted in the Secured Property under the Loan Agreement, it is understood and agreed that so long as the Company makes when due and payable all Loan Payments hereunder, all payments of principal of and interest on Additional Obligations and all Additional Payments required by the Loan Agreement, including without limitation the payments described in Sections 4.1 and 4.2, the Company shall be entitled to utilize the Secured Property and Revenues for its proper corporate purposes.

Section 4.6. Financial Statements. The Company will furnish or cause to be furnished to the Original Purchaser of the Series 2013 Bonds and, at the request addressed to the Company, any Owner of Bonds of at least 25% of the principal amount of the Series 2013 Bonds then Outstanding, as

soon as available but in any event within 120 days after the end of each Fiscal Year, balance sheets and statements of income and retained earnings of the Company, reviewed by an Accountant in accordance with accounting principles generally accepted in the United States of America.

ARTICLE V

MISCELLANEOUS PROVISIONS

Section 5.1. Term of Second Supplemental Loan Agreement. This Second Supplemental Loan Agreement shall be effective concurrently with the initial issuance and delivery of the Series 2013 Bonds and shall continue in force and effect until the principal of, redemption premium, if any, and interest on all of the Series 2013 Bonds have been fully paid (or provision for their payment shall have been made in accordance with the Indenture) together with all other sums to which the Authority and the Trustee are entitled from the Institution under the Loan Agreement and the Series 2013 Note.

Section 5.2. Consent of Company to Second Supplemental Indenture. The Company hereby consents and agrees to the execution and delivery of and the provisions set forth in the Second Supplemental Indenture.

Section 5.3. Applicability of the Original Loan Agreement, the First Supplemental Loan Agreement and Second Supplemental Loan Agreement. Except as otherwise provided in this Second Supplemental Loan Agreement, the provisions of the Original Loan Agreement and the First Supplemental Loan Agreement are hereby ratified, approved and confirmed and incorporated herein. This Second Supplemental Loan Agreement shall be construed as having been authorized, executed and delivered under the provisions of Section 901(e) of the Original Indenture.

Section 5.4. Severability. If any provision of this Second Supplemental Loan Agreement is held invalid or unenforceable by any court or competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof. All covenants of the Company will be given independent effect so that, if a particular action or condition is prohibited by any of such covenants, the fact that it would be permitted by an exception to, or be otherwise within the limitations of, another covenant shall not avoid the occurrence of a Default or Event of Default if such action is taken or condition exists.

Section 5.5. Counterparts. This Second Supplemental Loan Agreement is being executed in any number of counterparts, each of which is an original and all of which are identical. Each counterpart of this Second Supplemental Loan Agreement is to be deemed an original hereof and all counterparts collectively are to be deemed but one instrument.

Section 5.6. Governing Law. It is the intention of the parties hereto that this Second Supplemental Loan Agreement and the rights and obligations of the parties hereunder shall be governed by and construed and enforced in accordance with the laws of the State.

Section 5.7. Entire Agreement. ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBT ARE NOT ENFORCEABLE. TO PROTECT THE COMPANY AND THE AUTHORITY FROM MISUNDERSTANDING OR DISAPPOINTMENT, ANY AGREEMENTS THE COMPANY AND THE AUTHORITY REACH COVERING SUCH MATTERS ARE CONTAINED IN THIS WRITING, WHICH IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE

AGREEMENT BETWEEN THE AUTHORITY AND THE COMPANY, EXCEPT AS THE AUTHORITY AND THE COMPANY MAY LATER AGREE IN WRITING TO MODIFY IT.

Section 5.8. Electronic Transaction. The parties agree that the transactions described herein may be conducted and related documents may be stored by electronic means. In addition, the transactions described herein may be conducted and related documents may be stored by electronic means, copies, telecopies, facsimiles, electronic files and other reproductions of original executed documents shall be deemed to be authentic and valid counterparts of such original documents for all purposes, including the filing of any claim, action or suit in the appropriate court of law.

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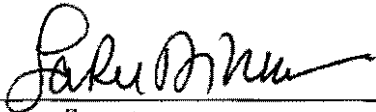
IN WITNESS WHEREOF, the Authority and the Company have caused this Second Supplemental Loan Agreement to be executed as of the day and year first above written.

**STATE ENVIRONMENTAL IMPROVEMENT
AND ENERGY RESOURCES AUTHORITY**

By: 
Chairman

[Seal]

ATTEST:


Secretary

THE RAYTOWN WATER COMPANY

By: Neal S. Clavenger
President

[SEAL]

ATTEST:

Mitsue J. Clavenger
Secretary

**EXHIBIT A
TO LOAN AGREEMENT**

**PROMISSORY NOTE
(SERIES 2013)**

\$1,015,000

Dated as of February 13, 2013

FOR VALUE RECEIVED, the undersigned **THE RAYTOWN WATER COMPANY** (the "Company"), promises to pay to the order of the **STATE ENVIRONMENTAL IMPROVEMENT AND ENERGY RESOURCES AUTHORITY** (the "Authority"), at its office in Jefferson City, Missouri, or such other place as the owner hereof may designate in writing, the sum of **ONE MILLION FIFTEEN THOUSAND DOLLARS (\$1,015,000)**, with interest thereon from the date of delivery hereof at the rates per annum on the outstanding principal balance hereon from time to time as provided in the below defined Indenture. Terms not otherwise defined in this Note have the respective meanings as set forth in the Indenture (defined herein).

The principal and interest on this Note shall be payable in installments at the times and in the amounts determined as provided in the Loan Agreement dated as of July 1, 1999, as amended by the First Supplemental Loan Agreement dated as of September 1, 2008 and the Second Supplemental Loan Agreement dated as of February 1, 2013 (as amended and supplemented in accordance with its terms, the "Loan Agreement"), between the Company and the Authority, with the final payment of all outstanding principal and interest on this Note to be paid on December 1, 2020. Both principal and interest under this Note shall be payable at the payment office of UMB BANK, N.A., Kansas City, Missouri (the "Trustee"). This Note is subject to mandatory and optional prepayment as provided in the Loan Agreement, with such prepayments being first applied to interest and next to principal.

This Note is made pursuant to the Loan Agreement wherein, among other things, the Authority has agreed to loan to the Company and the Company has agreed to take a loan in the principal amount above, being the proceeds from the sale of the Authority's Water Facilities Revenue Bonds (The Raytown Water Company) Series 2013 (the "Bonds"). The Bonds are being issued by the Authority pursuant to the Indenture of Trust dated as of July 1, 1999, as amended by the First Supplemental Indenture of Trust dated as of September 1, 2008 and the Second Supplemental Indenture of Trust dated as of February 1, 2013 (as amended and supplemented in accordance with its terms, the "Indenture").

Upon the occurrence of any Event of Default as described in the Loan Agreement, all unpaid principal of and interest on this Note may be declared to be forthwith due and payable in the manner and with the effect provided in the Loan Agreement. Failure to exercise this option shall not constitute a waiver of the right to exercise the same in the event of any subsequent occurrence of such an Event of Default.

The obligations of the Company to make Loan Payments and Additional Payments shall be absolute and unconditional, and the Company shall make such payments without abatement, diminution or deduction regardless of any cause or circumstances whatsoever including, without limitation, any defense, set-off, recoupment or counterclaim which the Company may have or assert against the Authority, the Trustee or any other Person.

If this Note is placed in the hands of an attorney or attorneys for collection, the Company agrees to pay, in addition to the amount due hereon, the reasonable costs and expenses of collection, including reasonable attorneys' fees. All parties to this Note, whether principal, surety, guarantor or endorser, hereby waive presentment for payment, demand, protest, notice or protest and notice of dishonor.

Oral agreements or commitments to loan money, extend credit or to forbear from enforcing repayment of a debt including promises to extend or renew such debt are not enforceable. To protect you (borrower) and us (creditor) from misunderstanding or disappointment, any agreements we reach covering such matters are contained in this writing, which is the complete and exclusive statement of the agreement between us, except as we may later agree in writing to modify it.

This Note shall be governed by the laws of the State of Missouri.

THE RAYTOWN WATER COMPANY

[SEAL]

By: _____
President

ATTEST:

Secretary

ENDORSEMENT

Pay to the order of UMB Bank, N.A., as Trustee, pursuant to the Indenture between the undersigned and said bank, the Trustee to hold and apply all funds received under this Note as provided in the Indenture. This assignment is without recourse against the undersigned.

STATE ENVIRONMENTAL IMPROVEMENT AND ENERGY RESOURCES AUTHORITY

By: _____
Chairman

**EXHIBIT B
TO LOAN AGREEMENT**

DESCRIPTION OF THE SERIES 2013 PROJECT

The Series 2013 Project includes the costs of certain drinking water facilities, including the costs of replacement and expansion of transmission mains and related facilities along 63rd Street, Raytown Road and Blue Ridge Boulevard in the City of Raytown, Missouri.