

ORANGE WATER AND SEWER AUTHORITY

MEETING OF THE BOARD OF DIRECTORS

OCTOBER 12, 2006

The Board of Directors of the Orange Water and Sewer Authority (OWASA) met in regular session on Thursday, October 12, 2006, at 7:00 P.M., in the OWASA Community Room.

Directors present: Michael A. (Mac) Clarke, Chair; Randy Kabrick, P.E., Vice Chair; Milton S. Heath, Jr.; Marge Anders Limbert; Penny Rich; and Laura Sandvik. Directors absent: Fred Battle; Gordon Merklein, Secretary; and William Stott.

OWASA staff: Ed Kerwin, Stuart Carson, Mason Crum, Patrick Davis, Ed Holland, John Greene, and Andrea Orbich; and Robert Epting, Esquire, Epting and Hackney.

Others present: Meg Holton, Water, Wastewater, and Stormwater Manager, UNC; Patti Hucks and Cam Hill, Carolina Masters Crew Club; and Jo Lynn Arseniu, Account Executive, UnitedHealthcare.

There being a quorum present, Chair Mac Clarke called the meeting to order.

MOTIONS ACTED UPON

1. Milton Heath moved to adopt the minutes of the August 24, 2006, Meeting of the Board of Directors. The motion was seconded by Laura Sandvik, and carried by unanimous vote.

2. Milton Heath moved to adopt the minutes of the September 14, 2006, Meeting of the Board of Directors. The motion was seconded by Laura Sandvik, and carried by unanimous vote.

3. Milton Heath moved to adopt the minutes of the September 28, 2006, Closed Session of the Board of Directors for the purpose of discussing a personnel issue. The motion was seconded by Laura Sandvik, and carried by unanimous vote.

4. Marge Anders Limbert moved to approve the selection of Board Committees Chairs as follows: Milton Heath, Budget and Financial Planning Committee; Penny Rich, Human Resources Committee; Randy Kabrick, Natural Resources/Technical Systems Committee; Gordon Merklein, Ad Hoc Community Outreach Committee; Gordon Merklein, Ad Hoc Art Committee; Laura Sandvik, Ad Hoc Property Committee. The motion was seconded by Laura Sandvik, and carried by unanimous vote.

5. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt a *Resolution Authorizing the Executive Director to Execute a Contract with UnitedHealthcare for Health Insurance*. (Resolution so titled attached hereto and made a part of these minutes. Motion made by Marge Anders Limbert, seconded by Laura Sandvik, and carried by unanimous vote.)

6. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt a *Resolution Authorizing the Executive Director to Execute a Contract with UnitedHealthcare for Dental Insurance*. (Resolution so titled attached hereto and made a part of these minutes. Motion made by Marge Anders Limbert, seconded by Penny Rich, and carried by unanimous vote.)

7. BE IT RESOLVED THAT the Orange Water and Sewer Authority adopt a *Series Resolution of the Orange Water and Sewer Authority Relating to the Issuance of Not Exceeding \$23,355,000 Water and Sewer Revenue Bonds, Series 2006 of Said Authority Pursuant to the Provisions of Section 2.08 of an Amended and Restated Bond Order Adopted by Said Authority on September 13, 2001, and Requesting to Local Government Commission of North Carolina to Award Said Bonds at Private Sale*. (Resolution so titled attached hereto and made a part of these minutes. Motion made by Milton Heath, seconded by Laura Sandvik, and carried by majority vote.)

8. Penny Rich moved that the Board convene in Closed Session to discuss an issue that may lead to litigation. The motion was seconded by Laura Sandvik, and carried by unanimous vote.

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ITEM ONE: ANNOUNCEMENTS

CONFLICT OF INTEREST

Mac Clarke said any Board Member who knows of a conflict of interest or potential conflict of interest with respect to any item on the agenda tonight is asked to disclose the same at this time. There were none.

ITEM TWO: PETITIONS AND REQUESTS FROM THE PUBLIC

Mac Clarke asked for petitions and requests from the public. There were none.

ITEM THREE: PETITIONS AND REQUESTS FROM THE BOARD

Mac Clarke asked for petitions and requests from the Board. There were none.

ITEM FOUR: PETITIONS AND REQUESTS FROM STAFF

Mac Clarke asked for petitions and requests from staff.

Ed Kerwin said that before the Closed Session staff will update the Board on the biosolids tanker accident on Thursday, October 5, 2006.

ITEM FIVE: MINUTES

Milton Heath moved to adopt the minutes of the August 24, 2006, Meeting of the Board of Directors. The motion was seconded by Laura Sandvik, and carried by unanimous vote. Please see Motion No. 1 above.

Milton Heath moved to adopt the minutes of the September 14, 2006, Meeting of the Board of Directors. The motion was seconded by Laura Sandvik, and carried by unanimous vote. Please see Motion No. 2 above.

Milton Heath moved to adopt the minutes of the September 28, 2006, Closed Session of the Board of Directors to discuss a personnel issue. The motion was seconded by Laura Sandvik, and carried by unanimous vote. Please see Motion No. 3 above.

ITEM SIX: DISCUSSION ON THE CAROLINA MASTERS CREW CLUB PETITION FOR LIMITED ROWING ACCESS AT CANE CREEK

John Greene updated the Board on the Carolina Masters Crew Club's request to have access to Cane Creek Reservoir during normal operating hours for rowing. They also requested a variance from the 14-foot boat length limit in order to allow 60- and 24-foot long boats on the reservoir; and have approval to put the 60-foot boat in the reservoir by wading into the water, and to store the 60-foot boat at the reservoir.

Cam Hill thanked the Board and staff for their support and said he looks forward to working with OWASA.

The Board concurred with staff's recommendation that staff will work with the Carolina Masters Crew Club to accommodate their petition including possible revisions to OWASA's *Regulations Governing In-Lake Activities and Uses*.

ITEM SEVEN: REPORT ON VISITORS TO UNIVERSITY LAKE DURING THE DAWN TO DUSK TRIAL PERIOD

The Board received from staff information on the number of lake visitors, revenue and expense associated with the extended operating hours trial at University Lake.

Mac Clarke suggested that continuation of the extended hours and possible revisions to the lake use rate to accommodate the extended hours at the lakes be addressed during the upcoming rate study and requested that this topic be discussed again at a future Board meeting.

ITEM EIGHT: SELECTION OF CHAIRS FOR OWASA BOARD COMMITTEES'

Marge Anders Limbert moved to support the following Board Committee Chairs:

Milton Heath, Budget and Financial Planning Committee
Penny Rich, Human Resources Committee
Randy Kabrick, Natural Resources/Technical Systems Committee
Gordon Merklein, Ad Hoc Community Outreach
Gordon Merklein, Ad Hoc Art
Laura Sandvik, Ad Hoc Property

The motion was seconded by Laura Sandvik and carried by unanimous vote. Please see Motion No. 4 above.

ITEM NINE: RESOLUTION AUTHORIZING THE EXECUTIVE DIRECTOR TO EXECUTE A CONTRACT WITH UNITED HEALTHCARE FOR HEALTH INSURANCE

Marge Anders Limbert moved to adopt the resolution; it was seconded by Laura Sandvik, and carried by unanimous vote. Please see Motion No. 5 above.

ITEM TEN: RESOLUTION AUTHORIZING THE EXECUTIVE DIRECTOR TO EXECUTE A CONTRACT WITH UNITED HEALTHCARE FOR DENTAL INSURANCE

Marge Anders Limbert moved to adopt the resolution; it was seconded by Penny Rich, and carried by unanimous vote. Please see Motion No. 6 above.

ITEM ELEVEN: SERIES RESOLUTION OF THE ORANGE WATER AND SEWER AUTHORITY RELATING TO THE ISSUANCE OF NOT EXCEEDING \$23,355,000 WATER AND SEWER REVENUE BONDS, SERIES 2006 OF SAID AUTHORITY PURSUANT TO THE PROVISIONS OF SECTION 2.08 OF AN AMENDED AND RESTATED BOND ORDER ADOPTED BY SAID AUTHORITY ON SEPTEMBER 13, 2001, AND REQUESTING TO LOCAL GOVERNMENT COMMISSION OF NORTH CAROLINA TO AWARD SAID BONDS AT PRIVATE SALE

Milton Heath moved to adopt the resolution; it was seconded by Fred Battle, and carried by unanimous vote. Please see Motion No. 7 above.

ITEM TWELVE: BIOSOLIDS TANKER ACCIDENT INVESTIGATION AND FINDINGS

Ed Kerwin reported that at approximately 7:30 A.M. on Thursday, October 5, 2006, an OWASA biosolids tanker truck overturned on the westbound ramp at the intersection of Interstate 40 and N.C. Highway 54 in Durham County. OWASA personnel were dispatched to the site to assist the driver, evaluate the situation, assist in off-loading about 6,500 gallons of biosolids, and to contain leakage from the tanker.

There were no injuries in the accident although the tractor and trailer were damaged. Mr. Kerwin further stated that this accident was preventable and a final report on costs will be provided to the Board.

ITEM THIRTEEN: CLOSED SESSION

Penny Rich moved that the Board convene in closed session to discuss issues that may lead to litigation. The motion was seconded by Laura Sandvik, and carried by unanimous vote. Please see Motion No. 8 above.

There being no further business to come before the Board, the meeting was adjourned at 8:45 P.M.

**RESOLUTION AUTHORIZING THE RENEWAL OF THE HEALTH INSURANCE
CONTRACT WITH UNITEDHEALTHCARE**

WHEREAS, in June 2006 OWASA sent out a Request for Proposals for employee health insurance and on August 10th received two competitive bids from BlueCross BlueShield of North Carolina (BCBS) and UnitedHealthcare (UHC); and

WHEREAS, the UHC bid offered an approximate 7.6% reduction in cost and BCBS proposed an approximate 5.5% increase; and

WHEREAS, to adequately provide quality and cost effective health and hospital insurance coverage for OWASA employees, it is desirable to move to a new healthcare provider, UHC; and

WHEREAS, it is determined that UHC offers a healthcare package at nearly the same benefit level as the current plan; and

WHEREAS, the existing health insurance contract with BCBS expires on December 31, 2006;

NOW, THEREFORE, BE IT RESOLVED:

1. That the Board of Directors approves participation by all full-time employees in the health plan offered through UHC in accordance with provisions of the plan.
2. That OWASA pay the full employee premium of the health care plan and 50% of dependent costs.
3. That the Executive Director is hereby authorized and directed to execute the contract with UHC.
4. That the term of the above insurance coverage shall be for a period of eighteen months beginning January 1, 2007.

Adopted this 12th day of October 2006.

**RESOLUTION AUTHORIZING THE EXECUTIVE DIRECTOR TO
EXECUTE CONTRACT WITH UNITED HEALTHCARE FOR DENTAL INSURANCE**

WHEREAS, in June 2006 OWASA sent out a Request for Proposals for employee dental insurance and on August 10th received a competitive bid from UnitedHealthcare (UHC); and

WHEREAS, the UHC bid offered an approximate 4.6% increase and our current provider, BlueCross BlueShield, proposed an approximate 20.4% increase; and

WHEREAS, to adequately provide quality and cost effective dental insurance coverage for OWASA employees, it is desirable to move to a new healthcare provider, UHC; and

WHEREAS, dental insurance has been provided to employees since July 1, 1988 with OWASA making payment of the individual premium and supplementing dependent coverage by 40%; and

WHEREAS, it is determined that UHC offers a healthcare package at the same benefit level as the current plan; and

WHEREAS, the existing dental insurance contract with BCBS expires on December 31, 2006;

NOW, THEREFORE, BE IT RESOLVED:

1. That the Board of Directors approves participation by all full-time employees in the dental plan offered through UHC in accordance with provisions of the plan.
2. That the annual cost of dental coverage shall increase by 4.6%.
3. That the Executive Director is hereby authorized and directed to execute a contract with UHC.
4. That the term of the above insurance coverage shall be for a period of eighteen months beginning January 1, 2007.

Adopted this 12th day of October 2006.

SERIES RESOLUTION OF THE ORANGE WATER AND SEWER AUTHORITY RELATING TO THE ISSUANCE OF NOT EXCEEDING \$23,355,000 WATER AND SEWER SYSTEM REVENUE BONDS, SERIES 2006 OF SAID AUTHORITY PURSUANT TO THE PROVISIONS OF SECTION 2.08 OF AN AMENDED AND RESTATED BOND ORDER ADOPTED BY SAID AUTHORITY ON SEPTEMBER 13, 2001, AND REQUESTING THE LOCAL GOVERNMENT COMMISSION OF NORTH CAROLINA TO AWARD SAID BONDS AT PRIVATE SALE

WHEREAS, the Orange Water and Sewer Authority (“OWASA”), a public body and body politic and corporate of the State of North Carolina, is authorized under the provisions of the North Carolina Water and Sewer Authorities Act, as amended, and The State and Local Government Revenue Bond Act, as amended (collectively, the “Act”), to acquire, lease, construct, reconstruct, improve, extend, enlarge, equip, repair, maintain and operate water and sewer systems or any part thereof within Orange County, North Carolina and to issue revenue bonds of OWASA to pay the cost of such water and sewer systems; and

WHEREAS, OWASA has heretofore issued (a) \$32,165,000 principal amount of its Water and Sewer System Revenue Refunding Bonds, Series 1993, none of which are currently outstanding, (b) \$15,120,000 principal amount of its Water and Sewer System Revenue Bonds, Series 1999, which are currently outstanding in the principal amount of \$2,025,000, (c) \$34,540,000 principal amount of its Water and Sewer System Revenue Bonds, Series 2001, which are currently outstanding in the principal amount of \$22,000,000, (d) \$13,875,000 principal amount of its Water and Sewer System Revenue Refunding Bonds, Series 2003, which are currently outstanding in the principal amount of \$9,480,000, (e) \$21,265,000 principal amount of its Water and Sewer System Revenue Bonds, Series 2004A, which are currently outstanding in the principal amount of \$20,220,000, (f) \$20,000,000 principal amount of its Water and Sewer System Revenue Bonds, Series 2004B, all of which are currently outstanding, and (g) \$18,675,000 principal amount of its Water and Sewer System Revenue Refunding Bonds, Series 2005, all of which are currently outstanding, pursuant to the Act and an amended and restated bond order adopted on September 13, 2001 (the “Amended and Restated Bond Order”, and, together with any orders supplemental thereto and amendatory thereof, the “Order”); and

WHEREAS, Section 2.08 of the Order authorizes the issuance of additional revenue bonds of OWASA in one or more series from time to time for the purpose of providing funds for paying, with any other available funds, all or any part of the Cost of any Additional Project (as defined in the Order) and all or any part of completing payment of the Cost of the Project (as defined in the Order) and any Additional Project; and

WHEREAS, OWASA has determined that it is necessary to acquire and construct a certain Additional Project which is described in Appendix A to this Series Resolution (the “Additional Project”) and to pay a portion of the cost of the Additional Project by issuing an additional series of revenue bonds and using any other available funds as authorized by Section 2.08 of the Order; and

WHEREAS, OWASA has determined that it will be able to satisfy the requirements of Section 2.08 of the Order with respect to the issuance of such series of revenue bonds; and

WHEREAS, pursuant to Section 2.08 of the Order, such series of revenue bonds will have such terms and provisions as may be provided by a series resolution to be adopted by OWASA prior to the issuance thereof;

NOW, THEREFORE, THE ORANGE WATER AND SEWER AUTHORITY DOES HEREBY DETERMINE AND RESOLVE, as follows:

Section 1. Definitions. Unless otherwise required by the context, capitalized words and terms used in this Resolution (this "Series Resolution") and not otherwise defined herein shall have the same meanings in this Series Resolution as such words and terms are given in the Order, and the following words and terms shall have the following meanings:

"Average Annual Debt Service" means, at any given time of determination, the average annual Principal and Interest Requirements for the Series 2006 Bonds until their final maturity.

"Bond Registrar" means The Bank of New York Trust Company, N.A. as designated by Section 2 of this Series Resolution, or any successor.

"Bond Year" means the period commencing on July 1 of any year and ending on June 30 of the following year.

"Business Day" means a day on which the Trustee, the Bond Registrar and the New York Stock Exchange are open for the purpose of conducting their businesses.

"Closing" means the delivery of and payment for the Series 2006 Bonds.

"Closing Date" means the date of the Closing.

"Financial Security" means Financial Security Assurance Inc., a New York stock insurance company, and any successor thereto or assignee thereof, as the issuer of the Reserve Policy.

"Insurance Agreement" means the Insurance Agreement, dated as of October 26, 2006, between OWASA and Financial Security, including all amendments or supplements thereto as therein permitted.

"Interest Payment Date" means January 1, 2007, and each January 1 and July 1 thereafter, to and including the final maturity date of the Series 2006 Bonds.

"Interest Requirements" for any Bond Year means the amount that is required to pay interest on all Outstanding Series 2006 Bonds on January 1 in such Bond Year and on July 1 of the following Bond Year.

“Maximum Annual Debt Service on the Series 2006 Bonds” means, at any given time of determination, the maximum Principal and Interest Requirements for the Series 2006 Bonds for the then current or any succeeding Bond Year.

“Principal and Interest Requirements” for any Bond Year means the sum of the Principal Requirements and the Interest Requirements for such Bond Year.

“Principal Requirements” for any Bond Year means the sum of (i) the amount required to pay the principal of all Outstanding Series 2006 Bonds that are Serial Bonds, if any, on July 1 of the following Bond Year and (ii) the Sinking Fund Requirement for Series 2006 Bonds that are Term Bonds, if any, on July 1 of the following Bond Year.

“Regular Record Date” means the 15th day of the month preceding any Interest Payment Date, whether or not a Business Day.

“Reserve Policy” means the Municipal Bond Debt Service Reserve Insurance Policy issued by Financial Security in connection with the issuance of the Series 2006 Bonds insuring certain payments with respect to the Series 2006 Bonds and subject to the limitations set forth therein. The Reserve Policy is a Reserve Alternative Instrument within the meaning of such term.

“Reserve Policy Late Payment Rate” means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in The City of New York, as its prime or base lending rate (“Prime Rate”) (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Series 2006 Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Reserve Policy Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate, the Prime Rate shall be the prime or base lending rate of such national bank as Financial Security shall designate.

“Securities Depository” means The Depository Trust Company, New York, New York, or other recognized securities depository selected by OWASA, which maintains a book-entry system in respect of the Series 2006 Bonds, and shall include any substitute for or successor to the securities depository initially acting as Securities Depository.

“Securities Depository Nominee” means, as to any Securities Depository, such Securities Depository or the nominee of such Securities Depository in whose name there shall be registered on the registration books maintained by the Bond Registrar the Series 2006 Bond certificates to be delivered to and immobilized at such Securities Depository during the continuation with such Securities Depository of participation in its book-entry system.

“Series Certificate” shall have the meaning given to such term by Section 4 of this Series Resolution.

“Series 2006 Additional Project Account” means the account in the Construction Fund created and so designated by Section 5 of this Series Resolution.

“Series 2006 Bonds” means OWASA’s Water and Sewer System Revenue Bonds, Series 2006.

“Series 2006 Special Debt Service Reserve Account” means the Orange Water and Sewer Authority Water and Sewer System Revenue Bonds, Series 2006 Special Debt Service Reserve Account created and so designated by Section 5 of this Series Resolution.

“Series 2006 Special Debt Service Reserve Account Requirement” means the least of (A) one hundred percent (100%) of Maximum Annual Debt Service on the Series 2006 Bonds, (B) one hundred twenty-five percent (125%) of Average Annual Debt Service and (C) ten percent (10%) of the stated principal amount of the Series 2006 Bonds; provided, however, that if the Series 2006 Bonds have original issue discount or premium that exceeds two percent (2%) of the stated redemption price at maturity plus any original issue premium attributable exclusively to underwriters’ compensation, the initial offering prices to the public will be used in lieu of the stated principal amount for purposes of the ten percent (10%) limitation.

“Series 2006 Subaccount of the Interest Account” means the subaccount created and so designated by Section 5 of this Series Resolution.

“Series 2006 Subaccount of the Principal Account” means the subaccount created and so designated by Section 5 of this Series Resolution.

“Series 2006 Subaccount of the Redemption Account” means the subaccount created and so designated by Section 5 of this Series Resolution.

“Series 2006 Subaccount of the Sinking Fund Account” means the subaccount created and so designated by Section 5 of this Series Resolution.

“Sinking Fund Requirement” means, with respect to the Series 2006 Bonds that are Term Bonds, if any, for any Bond Year, the principal amount fixed or computed for retirement by purchase or redemption on or prior to July 1 of the following Bond Year.

The Sinking Fund Requirements shall be initially the respective principal amounts set forth in the Series Certificate.

The aggregate amount of such Sinking Fund Requirements for the Term Bonds, together with the amount due upon the final maturity of such Term Bonds, shall be equal to the aggregate principal amount of the Term Bonds. The Sinking Fund Requirements for the Term Bonds shall begin in the Bond Year determined as provided in the Series Certificate and shall end with the Bond Year immediately preceding the maturity of such Term Bonds (such final installment being payable at maturity and not redeemed). Any principal amount of Term Bonds retired by operation of the Series 2006 Subaccount of the Sinking Fund Account by purchase in excess of

the total amount of the Sinking Fund Requirement for such Term Bonds, to and including such July 1, shall be credited against and reduce the future Sinking Fund Requirements for such Term Bonds in such manner as shall be specified in an Officer's Certificate filed with the Trustee pursuant to Section 6 of this Series Resolution.

On or before the 45th day next preceding any July 1 on which Term Bonds are to be retired pursuant to the Sinking Fund Requirement, OWASA may deliver to the Trustee for cancellation Term Bonds required to be redeemed on such July 1 in any aggregate principal amount desired and receive a credit against amounts required to be transferred from the Series 2006 Subaccount of the Sinking Fund Account on account of such Term Bonds in the amount of 100% of the principal amount of any such Term Bonds so purchased. Any principal amount of Term Bonds purchased by the Trustee and cancelled in excess of the principal amount required to be redeemed on such July 1, shall be credited against and reduce the principal amount of future Sinking Fund Requirements in such manner as shall be specified in an Officer's Certificate in substantially the form of the Officer's Certificate filed with the Trustee pursuant to Section 6 of this Series Resolution.

It shall be the duty of the Trustee, on or before the 15th day of July in each Bond Year, to recompute, if necessary, the Sinking Fund Requirement for such Bond Year and all subsequent Bond Years for the Term Bonds Outstanding. The Sinking Fund Requirement for such Bond Year as so recomputed shall continue to be applicable during the balance of such Bond Year and no adjustment shall be made therein by reason of Term Bonds purchased or redeemed or called for redemption during such Bond Year.

If any Term Bonds are paid or redeemed by operation of the Series 2006 Subaccount of the Redemption Account, the Trustee shall reduce future Sinking Fund Requirements therefor in such manner as shall be specified in an Officer's Certificate in substantially the form of the Officer's Certificate filed with the Trustee pursuant to Section 6 of this Series Resolution.

Section 2. Authorization of the Series 2006 Bonds Pursuant to the Order. (A) Series 2006 Bonds. Pursuant to the Act and Section 2.08 of the Order, OWASA hereby authorizes the issuance of revenue bonds of OWASA, designated "Orange Water and Sewer Authority Water and Sewer System Revenue Bonds, Series 2006" (the "Series 2006 Bonds") in an aggregate principal amount not exceeding \$23,355,000 for the purpose of providing funds, together with other available funds, to (1) pay a portion of the Cost of the Additional Project, (2) make a deposit to the credit of the Series 2006 Special Debt Service Reserve Account in the form of the Reserve Policy in an amount equal to the Series 2006 Special Debt Service Reserve Account Requirement and (3) pay certain expenses incurred in connection with the issuance of the Series 2006 Bonds. Each Series 2006 Bond shall be dated the date of its delivery.

(B) Bond Provisions. The Series 2006 Bonds may consist of Serial Bonds and Term Bonds, shall bear interest at the rates, and shall mature, subject to any optional and mandatory sinking fund redemption, in the amounts and on the dates, all as hereinafter provided.

(C) Details; Interest Payment Dates. The Series 2006 Bonds shall be numbered consecutively from R2006-1 upward, shall be in the denomination of five thousand dollars (\$5,000) and integral multiples thereof and shall be registered and exchangeable, and the transfer

thereof may be registered, all in accordance with the provisions of the Order. Interest on the Series 2006 Bonds shall be payable semiannually on each January 1 and July 1, commencing on January 1, 2007, until the maturity thereof.

(D) Book-Entry. The Series 2006 Bonds shall be issued by means of a book-entry system with no physical distribution of bond certificates to be made except as hereinafter provided. One bond certificate with respect to each date on which the Series 2006 Bonds are stated to mature, in the aggregate principal amount of the Series 2006 Bonds stated to mature on such date and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), will be issued. The book entry system will evidence ownership of the Series 2006 Bonds in the principal amount of \$5,000 or any multiple thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. The principal of and any redemption premium on each Series 2006 Bond and interest with respect thereto shall be payable to Cede & Co., or any other person appearing on the registration books maintained by the Bond Registrar, as the registered owner of such Series 2006 Bond or its registered assigns or legal representatives. Transfer of principal, interest and any redemption premium payments to participants of DTC will be the responsibility of DTC, and transfer of principal, interest and any redemption premium payments to beneficial owners of the Series 2006 Bonds by participants of DTC will be the responsibility of such participants and other nominees of such beneficial owners. OWASA, the Bond Registrar and the Trustee shall not be responsible or liable for such transfers of payments or for maintaining, supervising or reviewing records maintained by DTC, its participants or persons acting through such participants.

In the event that (a) DTC determines not to continue to act as Securities Depository for the Series 2006 Bonds or (b) OWASA determines that continuation of the book-entry system of evidence and transfer of ownership of the Series 2006 Bonds would adversely affect the interests of the beneficial owners of the Series 2006 Bonds, OWASA shall discontinue the book-entry system with DTC. If OWASA identifies another qualified Securities Depository to replace DTC, OWASA shall make arrangements with DTC and such other Securities Depository to effect such replacement and deliver replacement Series 2006 Bonds registered in the name of such other Securities Depository or its Securities Depository Nominee in exchange for the outstanding Series 2006 Bonds, and the references to DTC or Cede & Co. in this Series Resolution shall thereupon be deemed to mean such other Securities Depository or its Securities Depository Nominee. If OWASA fails to identify another qualified Securities Depository to replace DTC, OWASA shall deliver replacement Series 2006 Bonds in the form of fully registered certificates in the denomination of \$5,000 or any multiple thereof in exchange for the outstanding Series 2006 Bonds as required by DTC.

(E) Bond Registrar. The Bank of New York Trust Company, N.A. is hereby appointed Bond Registrar for the Series 2006 Bonds.

Section 3. Delegation and Standards. OWASA hereby delegates to the Chair, Vice-Chair, the Executive Director or the Director of Finance and Customer Service of OWASA, subject to the limitations contained herein, the power to determine and carry out the following with respect to the Series 2006 Bonds:

(A) Principal Amount. To determine the aggregate principal amount of the Series 2006 Bonds, such principal amount, not to exceed \$23,355,000, to be sufficient for the purposes described in Section 2(A) of this Series Resolution;

(B) Interest Rates. To determine the interest rate or rates on the Series 2006 Bonds, no such rate to exceed seven percent (7.00%) per annum;

(C) Maturities and Maturity Amounts. To determine the maturities and maturity amounts of the Series 2006 Bonds, no such maturity to extend beyond July 1, 2031;

(D) Serial and Term Bonds. To determine which Series 2006 Bonds are Serial Bonds, if any, and which Series 2006 Bonds are Term Bonds, if any, and the Sinking Fund Requirements for any such Term Bonds;

(E) Redemption Provisions. To determine the optional redemption provisions for the Series 2006 Bonds; provided, however, that the Series 2006 Bonds shall be made callable not later than 10½ years from their date and that the redemption price shall not exceed 103% of the face amount of the Series 2006 Bonds to be redeemed;

(F) Date of Sale. To determine the date of the sale of the Series 2006 Bonds;

(G) Negotiated Sale. To approve the sale of the Series 2006 Bonds in a negotiated sale in accordance with the provisions of Section 17 of this Series Resolution; provided, however, that the true interest cost for the Series 2006 Bonds shall not exceed four and four-tenths percent (4.40%) per annum and, provided further, that the price for the Series 2006 Bonds shall not be less than ninety-nine and forty-five one-hundredths percent (99.45%) of the par amount of the Series 2006 Bonds, less the amount of original issue discount, if any, plus the amount of original issue premium on the Series 2006 Bonds, if any; and

(H) Other Provisions. To determine any other provisions deemed advisable and not in conflict with the provisions of this Series Resolution or the Order.

Section 4. Series Certificate. The Chair, the Vice-Chair, the Executive Director or the Director of Finance and Customer Service of OWASA shall execute a certificate or certificates (collectively, the "Series Certificate") evidencing the determinations or other actions taken by him pursuant to the authority granted in this Series Resolution, and any such Series Certificate shall be conclusive evidence of the action taken.

Section 5. Establishment of Accounts and Subaccounts. The following accounts and subaccounts are hereby established:

- (a) Series 2006 Subaccount of the Interest Account;
- (b) Series 2006 Subaccount of the Principal Account;
- (c) Series 2006 Subaccount of the Redemption Account;
- (d) Series 2006 Subaccount of the Sinking Fund Account;

(e) Orange Water and Sewer Authority Water and Sewer System Revenue Bonds, Series 2006 Special Debt Service Reserve Account, which account constitutes a Special Reserve Account within the meaning of the Order; and

(f) Orange Water and Sewer Authority Water and Sewer System Revenue Bonds, Series 2006 Additional Project Account, which account constitutes an Additional Project Account within the meaning of the Order.

The accounts and subaccounts mentioned above shall be established with and held by the Trustee pursuant to the Order and this Series Resolution.

Section 6. Sinking Fund Redemption Provisions for the Series 2006 Bonds. The Series 2006 Bonds that are Term Bonds, if any, shall be subject to mandatory redemption in part on each July 1, as specified in the Series Certificate required by Section 4 of this Series Resolution.

Money held in the Series 2006 Subaccount of the Sinking Fund Account shall be applied during each Bond Year to the purchase or retirement of Term Bonds then Outstanding as follows:

(a) The Trustee shall, at the request of OWASA, endeavor to purchase and cancel Term Bonds or portions thereof subject to redemption by operation of the Series 2006 Subaccount of the Sinking Fund Account or maturing on the next ensuing July 1 at the most advantageous price obtainable with reasonable diligence. The purchase price of each such Term Bond shall not exceed par plus accrued interest to the date of purchase. The Trustee shall pay the interest accrued on such Term Bonds to the date of settlement therefor from the Series 2006 Subaccount of the Interest Account or other funds provided by OWASA and the balance of the purchase price from the Series 2006 Subaccount of the Sinking Fund Account, but no such purchase shall be made by the Trustee from money in the Series 2006 Subaccount of the Sinking Fund Account within the period of forty-five (45) days immediately preceding any July 1 on which such Term Bonds are subject to redemption. The aggregate purchase price of Term Bonds, exclusive of accrued interest, during such Bond Year shall not exceed the amount deposited in the Series 2006 Subaccount of the Sinking Fund Account on account of the Sinking Fund Requirement for the Term Bonds for such Bond Year. If in any Bond Year the sum of the amount on deposit in the Series 2006 Subaccount of the Sinking Fund Account for the payment of any Term Bonds and the principal amount of the Term Bonds that were purchased during such Bond Year pursuant to the provisions of this paragraph (a) or delivered during such Bond Year to the Trustee by OWASA exceeds the Sinking Fund Requirement for the Outstanding Term Bonds for such Bond Year, the Trustee shall endeavor to purchase Outstanding Term Bonds with such excess money; and

(b) The Trustee shall call for redemption on July 1 immediately following the then current Bond Year the Term Bonds then subject to redemption in a principal amount equal to the aggregate Sinking Fund Requirement for the Term Bonds for such Bond Year, less the principal amount of any such Term Bonds retired during such Bond Year by purchase pursuant to paragraph (a) of this Section or delivered during such Bond Year to the Trustee by OWASA. If such July 1 is the stated maturity date of any such Term Bonds, the Trustee shall not call such

Term Bonds for redemption but, on such maturity date, shall withdraw from the Sinking Fund Account and, not later than 10:00 A.M. on such date, remit by wire transfer to the Bond Registrar, in Federal Reserve or other immediately available funds, the amount required for paying the principal of such Term Bonds when due and payable. Not later than 10:00 A.M. on each such redemption date, the Trustee shall withdraw from the Series 2006 Subaccount of the Sinking Fund Account and remit by wire transfer to the Bond Registrar, in Federal Reserve or other immediately available funds, the respective amounts required for paying the Redemption Price of the Term Bonds or portions thereof so called for redemption.

If, in any Bond Year, by the application of money in the Series 2006 Subaccount of the Sinking Fund Account, the Trustee should purchase or receive from OWASA and cancel Term Bonds in excess of the aggregate Sinking Fund Requirement for such Bond Year, the Trustee shall file with OWASA not later than the twentieth (20th) day prior to the next July 1 on which Term Bonds are to be redeemed, a statement identifying the Term Bonds purchased or delivered during such Bond Year and the amount of such excess. OWASA shall thereafter cause an Officer's Certificate to be filed with the Trustee not later than the tenth (10th) day prior to such July 1, setting forth with respect to the amount of such excess the Bond Years in which the Sinking Fund Requirements with respect to Term Bonds are to be reduced and the amount by which the Sinking Fund Requirements so determined are to be reduced.

Upon the retirement of any Term Bonds by purchase or redemption pursuant to the provisions of this Section, the Trustee shall file with OWASA a statement identifying such Term Bonds and setting forth the date of purchase or redemption, the amount of the purchase price or the Redemption Price of such Term Bonds, and the amount paid as interest thereon. The expenses incurred in connection with the purchase or redemption of any such Term Bonds shall be paid by OWASA as Current Expenses or from any other available moneys.

Section 7. Selection of Series 2006 Bonds for Redemption. The Series 2006 Bonds shall be redeemed only in whole multiples of five thousand dollars (\$5,000). If less than all of the Series 2006 Bonds are to be called for redemption, the Series 2006 Bonds to be so redeemed shall be called for redemption in the manner that OWASA shall determine as set forth in an Officer's Certificate filed with the Trustee.

If less than all of the Series 2006 Bonds of any one maturity are called for redemption, the Bond Registrar shall select the Series 2006 Bonds to be redeemed by lot, each five thousand dollar (\$5,000) portion of principal being counted as one Series 2006 Bond for this purpose; provided, however, that so long as the only registered owner of the Series 2006 Bonds is a Securities Depository Nominee, such selection shall be made by the Securities Depository.

Section 8. Redemption Notice. Not less than thirty (30) days but not more than sixty (60) days prior to the redemption date of any Series 2006 Bonds to be redeemed, whether such redemption be in whole or in part, the Bond Registrar shall cause a notice of any such redemption signed by the Bond Registrar to be mailed, first class, postage prepaid, to all Owners of Series 2006 Bonds to be redeemed in whole or in part, provided that notice to any Securities Depository shall be sent by registered or certified mail and provided further that failure to mail any such notice to any Owner or any defect in such notice shall not affect the validity of the proceedings for such redemption as to the Series 2006 Bonds of any other Owner to whom such

notice has been properly given. The Bond Registrar shall also give such notice of redemption, by certified or registered mail, to the Local Government Commission of North Carolina, at least one securities depository and at least two national information services which disseminate redemption information, but failure to mail such notice or any defect therein shall not affect the validity of any proceedings for the redemption of any Series 2006 Bonds.

Each such notice shall set forth the designation and date of the Series 2006 Bonds, the CUSIP numbers of the Series 2006 Bonds to be redeemed, the date fixed for redemption, the Redemption Price to be paid, the address and phone number of the Trustee and Bond Registrar, the date of the redemption notice, the maturities of the Series 2006 Bonds to be redeemed and, if less than all of the Series 2006 Bonds of any one maturity then Outstanding shall be called for redemption, the distinctive numbers and letters, if any, of such Series 2006 Bonds to be redeemed and, in the case of Series 2006 Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. If any Series 2006 Bond is to be redeemed in part only, the notice of redemption shall also state also that on or after the redemption date, upon surrender of such Series 2006 Bond, a new Series 2006 Bond in principal amount equal to the unredeemed portion of such Series 2006 Bond will be issued.

Any notice of redemption may state that the redemption to be effected is conditioned upon the receipt by the Trustee or Bond Registrar, on or prior to the redemption date, of moneys sufficient to pay the Redemption Price of and interest on the Series 2006 Bonds to be redeemed and that if such moneys are not so received such notice shall be of no force or effect and such Series 2006 Bonds shall not be required to be redeemed. In the event that such notice contains such a condition and moneys sufficient to pay the Redemption Price of and interest on such Series 2006 Bonds are not received by the Trustee or Bond Registrar on or prior to the redemption date, the redemption shall not be made and the Bond Registrar shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Section 9. Series 2006 Subaccount of the Redemption Account. The Trustee shall apply money in the Series 2006 Subaccount of the Redemption Account to the purchase or redemption of Series 2006 Bonds as follows:

(a) Subject to the provisions of paragraph (c) of this Section, the Trustee shall endeavor to purchase and cancel Series 2006 Bonds or portions thereof, regardless of whether such Series 2006 Bonds or portions thereof are then subject to redemption, at the most advantageous price obtainable with reasonable diligence, provided that the purchase price of each Series 2006 Bond shall not exceed the Redemption Price that would be payable on the next redemption date to the Owner of such Series 2006 Bond under the provisions of the Series Certificate. The Trustee shall pay the interest accrued on such Series 2006 Bonds or portions thereof to the date of settlement from the Series 2006 Subaccount of the Interest Account or other funds provided by OWASA and the balance of the purchase price from the Series 2006 Subaccount of the Redemption Account, but no such purchase shall be made by the Trustee from money in the Series 2006 Subaccount of the Redemption Account within the period of forty-five (45) days immediately preceding any date on which such Series 2006 Bonds or portions thereof are to be redeemed.

(b) Subject to the provisions of paragraph (c) of this Section, the Trustee shall call for redemption on a date permitted by this Series Resolution and the Series Certificate such amount of Series 2006 Bonds or portions thereof as, with the redemption premium, if any, will exhaust the money then held in the Series 2006 Subaccount of the Redemption Account as nearly as may be practicable; provided, however, that not less than Fifty Thousand Dollars (\$50,000) in principal amount of the Series 2006 Bonds shall be called for redemption at any one time unless the Trustee is so instructed by OWASA. The Trustee shall pay the accrued interest on the Series 2006 Bonds or portions thereof to be redeemed to the date of redemption from the Series 2006 Subaccount of the Interest Account or other funds provided by OWASA and the Redemption Price of such Series 2006 Bonds or portions thereof from the Series 2006 Subaccount of the Redemption Account. The Trustee shall withdraw from the Series 2006 Subaccount of the Redemption Account and set aside the amount required to pay the Redemption Price of the Series 2006 Bonds or portions thereof so called for redemption.

(c) Money in the Series 2006 Subaccount of the Redemption Account shall be applied by the Trustee in each Fiscal Year to the purchase or the redemption of Series 2006 Bonds then Outstanding in accordance with the latest Officer's Certificate filed with the Trustee designating the Series 2006 Bonds to be redeemed. In the event no such certificate is filed (i) the Trustee shall apply such money to the purchase of Series 2006 Bonds bearing the highest rate of interest, (ii) if Series 2006 Bonds of more than one maturity bear the same interest rate, the Trustee shall redeem such Series 2006 Bonds in the inverse order of maturities, and (iii) if the Series 2006 Bonds bearing the highest rate of interest are Term Bonds, the Trustee shall reduce the Sinking Fund Requirements for such Term Bonds in inverse order of the scheduled redemption of such Term Bonds.

Upon the retirement of any Series 2006 Bonds by purchase or redemption pursuant to the provisions of this Section, the Trustee shall file with OWASA a statement identifying such Series 2006 Bonds and setting forth the date of purchase or redemption, the amount of the purchase price or the Redemption Price of such Bonds and the amount paid as interest thereon. The expenses incurred by the Trustee in connection with the purchase or redemption of any such Series 2006 Bonds shall be paid by OWASA from the Revenue Account as Current Expenses or from any other available moneys.

Section 10. Form of Series 2006 Bond. The Series 2006 Bonds and the Certificate of the North Carolina Local Government Commission and the Certificate of Authentication to be endorsed on all the Series 2006 Bonds shall be substantially in the following forms, with such variations, omissions and insertions as are required or permitted by the Order or this Series Resolution:

[Form of Series 2006 Bond]

No. R2006-__

\$ _____

United States of America
State of North Carolina

ORANGE WATER AND SEWER AUTHORITY

Water and Sewer System Revenue Bond,
Series 2006

<u>Maturity Date</u>	<u>Dated Date</u>	<u>Interest Rate</u>	<u>CUSIP</u>
July 1, 20__	October 26, 2006	___%	_____

Principal Amount: _____ DOLLARS (\$ _____)

Registered Owner:

The Orange Water and Sewer Authority (the "Authority"), a public body and body politic and corporate of the State of North Carolina, is justly indebted and for value received hereby promises to pay, solely from the sources and in the manner hereinafter set forth, to the Registered Owner shown above or registered assigns or legal representative, on the maturity date specified above (or earlier as stated hereinafter), upon the presentation and surrender hereof at the corporate trust office of The Bank of New York Trust Company, N.A., in East Syracuse, New York, or any successor bond registrar (the "Bond Registrar"), the principal amount shown above, and to pay, solely from such sources, to the person in whose name this bond (or one or more Predecessor Bonds, as defined in the Order hereinafter mentioned) is registered at the close of business on the regular record date for such interest, which shall be the 15th day of the calendar month next preceding an interest payment date (the "Regular Record Date"), interest on this bond from the interest payment date next preceding the date on which it is authenticated, unless it is authenticated on an interest payment date, in which event it shall bear interest from such date, or it is authenticated prior to January 1, 2007, in which event it shall bear interest from its date, payable on January 1, 2007 and semiannually thereafter on January 1 and July 1 of each year, at the rate per annum specified above until the principal sum hereof is paid. Any such interest not so punctually paid shall forthwith cease to be payable to the person who was the registered owner on such Regular Record Date and may be paid to the person in whose name this bond (or one or more Predecessor Bonds) is registered at the close of business on a Special Record Date, as defined in the Order, for the payment of such defaulted interest to be fixed by the Trustee hereinafter mentioned, notice whereof being given to registered owners not more than fifteen (15) days and not less than ten (10) days prior to such Special Record Date, or may be paid in any other lawful manner not inconsistent with the requirements of applicable law or any securities exchange on which the bonds may be listed and upon such notice as may be required by such law or exchange, all as more fully provided in the Order. All such payments shall be made in the lawful money of the United States of America.

This bond is one of a duly authorized series of revenue bonds of the Authority, designated "Orange Water and Sewer Authority Water and Sewer System Revenue Bonds, Series 2006" (the "Series 2006 Bonds"), and issued for the purpose of providing funds, together with any other available funds, to (i) pay a portion of the cost of acquiring certain real property for watershed protection and acquiring and constructing certain improvements to the Water and Sewer System (as defined in the Order) of the Authority, (ii) make a deposit to the credit of the Series 2006 Special Debt Service Reserve Account (as defined in the Series Resolution hereinafter mentioned) in the form of a municipal bond debt service reserve insurance policy in an amount equal to the Series 2006 Special Debt Service Reserve Account Requirement (as defined in the Series Resolution) and (iii) pay certain expenses incurred in connection with the issuance of the Series 2006 Bonds.

The Series 2006 Bonds are being issued by means of a book-entry system with no physical distribution of bond certificates to be made except as provided in the Series Resolution. One Series 2006 Bond certificate with respect to each date on which the Series 2006 Bonds are stated to mature, registered in the name of the Securities Depository Nominee (as defined in the Series Resolution), is being issued and required to be deposited with the Securities Depository (as defined in the Series Resolution) and immobilized in its custody. The book-entry system will evidence positions held in the Series 2006 Bonds by the Securities Depository's participants, beneficial ownership of the Series 2006 Bonds in the principal amount of \$5,000 or any integral multiple thereof being evidenced in the records of such participants. Transfers of ownership will be effected on the records of the Securities Depository and its participants pursuant to rules and procedures established by the Securities Depository and its participants. The Authority, the Bond Registrar and the Trustee will recognize the Securities Depository Nominee, while the registered owner of this Series 2006 Bond, as the owner of this Series 2006 Bond for all purposes, including (i) payments of principal of, and redemption premium, if any, and interest on, this Series 2006 Bond, (ii) notices and (iii) voting. Transfer of principal, interest and any redemption premium payments to participants of the Securities Depository will be the responsibility of the Securities Depository, and transfer of principal, interest and any redemption premium payments to beneficial owners of the Series 2006 Bonds by participants of the Securities Depository will be the responsibility of such participants and other nominees of such beneficial owners. The Authority, the Bond Registrar and the Trustee will not be responsible or liable for such transfers of payments or for maintaining, supervising or reviewing the records maintained by the Securities Depository, the Securities Depository Nominee, the Securities Depository's participants or persons acting through such participants. While the Securities Depository Nominee is the registered owner of this Series 2006 Bond, notwithstanding the provisions hereinabove contained, payments of principal of, redemption premium, if any, and interest on this Series 2006 Bond shall be made in accordance with existing arrangements between the Bond Registrar or its successors under the Series Resolution and the Securities Depository.

The Series 2006 Bonds are being issued under and pursuant to the Constitution and laws of the State of North Carolina, including the North Carolina Water and Sewer Authorities Act, as amended, and The State and Local Government Revenue Bond Act, as amended (collectively, the "Act"), an amended and restated bond order duly adopted by the Authority on September 13, 2001 (said amended and restated bond order, together with all orders supplemental and

amendatory thereto as therein permitted, being herein called the "Order") and a series resolution duly adopted by the Authority on October 12, 2006 (the "Series Resolution"). The Authority has heretofore issued and secured under the Order \$32,165,000 original aggregate principal amount of its Water and Sewer System Revenue and Revenue Refunding Bonds, Series 1993, \$15,120,000 original aggregate principal amount of its Water and Sewer System Revenue Bonds, Series 1999 (the "Series 1999 Bonds"), \$34,540,000 original aggregate principal amount of its Water and Sewer System Revenue Bonds, Series 2001 (the "Series 2001 Bonds"), \$13,875,000 original aggregate principal amount of its Water and Sewer System Revenue Refunding Bonds, Series 2003 (the "Series 2003 Bonds"), \$21,265,000 original aggregate principal amount of its Water and Sewer System Revenue Bonds, Series 2004A (the "Series 2004A Bonds"), \$20,000,000 original aggregate principal amount of its Water and Sewer System Revenue Bonds, Series 2004B (the "Series 2004B Bonds") and \$18,675,000 original aggregate principal amount of its Water and Sewer System Revenue Refunding Bonds, Series 2005 (the "Series 2005 Bonds"). The Order provides for the issuance from time to time under the conditions, limitations and restrictions therein set forth of additional bonds to provide funds for paying all or any part of the cost of any Additional Project (as defined in the Order), to provide funds for completing payment of the cost of the Project (as defined in the Order) and any Additional Project, and to provide funds to pay the cost (including financing costs) of refunding any bonds issued under the Order, Parity Debt (as defined in the Order) or Subordinated Indebtedness (as defined in the Order) (such additional bonds, the Series 2006 Bonds, the outstanding Series 2005 Bonds, the outstanding Series 2004A Bonds, the outstanding Series 2004B Bonds, the outstanding Series 2003 Bonds, the outstanding Series 2001 Bonds and the outstanding Series 1999 Bonds being herein collectively called the "Bonds"). Copies of the Order and the Series Resolution are on file at the corporate trust office of The Bank of New York Trust Company, N.A. (the "Trustee") in Jacksonville, Florida. By the acceptance of this bond, the registered owner hereof assents to all of the provisions of the Order and the Series Resolution.

The Series 2006 Bonds are special obligations of the Authority secured by a pledge, charge and lien upon Net Receipts (as defined in the Order). The Authority is not obligated to pay the principal of or the interest on the Series 2006 Bonds except, as provided in the Order, from Net Receipts or certain other monies made available therefor under the Order, and neither the faith and credit nor the taxing power of the State of North Carolina or any political subdivision thereof or the Authority is pledged to the payment of the principal of and the interest on the Series 2006 Bonds. The Order provides for the issuance or incurrence from time to time under the conditions, limitations and restrictions therein set forth of Bonds and Parity Debt (as defined in the Order) secured on a parity as to the pledge of Net Receipts.

Reference is made to the Order and the Series Resolution for a more complete statement of the provisions thereof and of the rights of the Authority, the Trustee and the registered owners of the Series 2006 Bonds.

The Order provides for the creation of a special fund designated "Orange Water and Sewer Authority Water and Sewer System Revenue Bonds Bond Fund" (the "Bond Fund"). Pursuant to the Series Resolution, special subaccounts have been created within the various accounts of the Bond Fund with respect to the Series 2006 Bonds (the "Subaccounts"), which Subaccounts are pledged to and charged with the payment of the principal of and the interest on

the Series 2006 Bonds. The Series Resolution also provides for the deposit of Net Receipts to the credit of the Subaccounts to the extent and in the manner provided in the Order and the Series Resolution. The Series 2006 Bonds are additionally secured by a Reserve Alternative Instrument (as defined in the Order) deposited to the credit of the Series 2006 Special Debt Service Reserve Account created and so designated by the Series Resolution.

The Series 2006 Bonds are issuable as registered bonds without coupons, in denominations of \$5,000 or any integral multiple thereof. At the principal corporate trust office of the Bond Registrar, in the manner and subject to the limitations and conditions provided in the Order, Series 2006 Bonds may be exchanged for an equal aggregate principal amount of Bonds of the same maturity, of authorized denominations and bearing interest at the same rate.

The transfer of this bond is registrable by the registered owner hereof in person or by his attorney or legal representative at the principal corporate trust office of the Bond Registrar but only in the manner and subject to the limitations and conditions provided in the Order and upon surrender and cancellation of this bond. Upon any such registration of transfer the Authority shall execute and the Bond Registrar shall authenticate and deliver in exchange for this bond a new Series 2006 Bond or Series 2006 Bonds, registered in the name of the transferee, of authorized denominations, in aggregate principal amount equal to the principal amount of this bond, of the same maturity and bearing interest at the same rate. The Authority or the Bond Registrar may make a charge for every such exchange or registration of transfer of Series 2006 Bonds sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, but no other charge shall be made to any registered owner for the privilege of exchanging or registering the transfer of Series 2006 Bonds. Neither the Authority nor the Bond Registrar shall be required to make any such exchange or registration of transfer of Series 2006 Bonds during the fifteen (15) days immediately preceding the date of first giving of notice of any redemption of Series 2006 Bonds or any portion thereof or of any Series 2006 Bond after such Series 2006 Bond or any portion thereof has been selected for redemption.

The Series 2006 Bonds maturing on or after July 1, 20__ are subject to redemption, at the option of the Authority, on or after July 1, 20__, in whole or in part (by lot within a maturity) at any time. Any such redemption will be at the redemption prices (expressed as a percentage of the principal amount of Series 2006 Bonds to be redeemed), plus accrued interest thereon to the redemption date, all as set forth in the following table:

<u>Redemption Periods</u>	<u>Redemption Prices</u>
July 1, 20__ through June 30, 20__	%
July 1, 20__ through June 30, 20__	
July 1, 20__ and thereafter	

The Series 2006 Bonds at the time outstanding that are stated to mature on July 1, 20__ are required to be redeemed in part by lot on July 1, 20__ and on each July 1 thereafter, in accordance with the Sinking Fund Requirements (as defined in the Series Resolution) therefor, from moneys deposited with the Trustee for such purpose. Such redemption shall be at a

redemption price equal to 100% of the principal amount of the Series 2006 Bonds to be redeemed, plus accrued interest thereon to the redemption date.

If less than all of the Series 2006 Bonds are to be called for redemption, the Series 2006 Bonds to be so redeemed shall be called for redemption in the manner that the Authority shall determine as set forth in an Officer's Certificate filed with the Trustee. If less than all of the Series 2006 Bonds of any one maturity are called for redemption, the Bond Registrar shall select the Series 2006 Bonds to be redeemed by lot, each \$5,000 portion of principal being counted as one Series 2006 Bond for this purpose; provided, however, that so long as the only registered owner of the Series 2006 Bonds is the Securities Depository Nominee, such selection shall be made by the Securities Depository.

Not less than thirty (30) days but not more than sixty (60) days prior to the redemption date of any Series 2006 Bonds, either in whole or in part, the Bond Registrar shall cause a notice of any such redemption, signed by the Bond Registrar, to be mailed, first class, postage prepaid, to all registered owners of Series 2006 Bonds or portions of Series 2006 Bonds to be redeemed at their addresses as they appear on the registration books maintained by the Bond Registrar, but failure so to mail any such notice shall not affect the validity of the proceedings for such redemption as to any registered owners to whom such notice was given as so required. The Bond Registrar shall also cause a notice of any such redemption to be given to such other parties as provided in the Series Resolution. On the date designated for redemption, notice having been given as aforesaid, the Series 2006 Bonds or portions of Series 2006 Bonds so called for redemption shall become and be due and payable at the redemption price provided for the redemption of such Series 2006 Bonds or portions thereof on such date, and, if the moneys for payment of the redemption price and the accrued interest are held by the Bond Registrar, as provided in the Order, interest on such Series 2006 Bonds or portions thereof shall cease to accrue, such Series 2006 Bonds or portions thereof shall cease to be entitled to any benefit or security under the Order, and the registered owners thereof shall have no rights in respect of such Series 2006 Bonds or portions thereof except to receive payment of the redemption price thereof and the accrued interest so held by the Bond Registrar. If a portion of this bond shall be called for redemption, a new Series 2006 Bond or Series 2006 Bonds in principal amount equal to the unredeemed portion hereof will be issued to the registered owner upon surrender hereof.

With respect to any notice of redemption of Series 2006 Bonds (other than a notice given with respect to a mandatory sinking fund redemption), such notice may state that such redemption shall be conditional upon the receipt by the Trustee or the Bond Registrar, on or prior to the date fixed for such redemption, of moneys sufficient to pay the redemption price of and accrued interest on such Series 2006 Bonds to be redeemed, and that if such moneys shall not have been so received, said notice shall be of no force and effect and the Authority shall not be required to redeem such Series 2006 Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption shall not be made and the Bond Registrar shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

The registered owner of this bond shall have no rights to enforce the provisions of the Order or to institute action to enforce the covenants therein, or to take any action with respect to

any event of default under the Order or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Order.

In certain events, on the conditions, in the manner and with the effect set forth in the Order, the principal of all the Bonds and Parity Debt then outstanding under the Order may become or may be declared due and payable before the stated maturities thereof, together with the interest accrued thereon.

Modifications or alterations of the Order may be made by the Authority only to the extent and in the circumstances permitted by the Order.

As declared by the Act, this bond, subject only to the provisions for registration and registration of transfer stated herein and contained in the Order, is an investment security within the meaning of and for all the purposes of Article 8 of the Uniform Commercial Code of the State of North Carolina.

This bond is issued with the intent that the laws of the State of North Carolina shall govern its construction.

All acts, conditions and things required by the Constitution and laws of the State of North Carolina, the Order and the Series Resolution to happen, exist and be performed precedent to and in the issuance of this bond have happened, exist and have been performed as so required.

This bond shall not be valid or become obligatory for any purpose or be entitled to any benefit or security under the Order until this bond shall have been authenticated by the execution by the Bond Registrar of the certificate of authentication endorsed hereon.

IN WITNESS WHEREOF, the Orange Water and Sewer Authority has caused this bond to be signed by its Chair and its Secretary-Treasurer and the corporate seal of the Authority to be impressed hereon, all as of the 26th day of October, 2006.

[Seal]

ORANGE WATER AND SEWER AUTHORITY

By: _____
Chair

By: _____
Secretary

CERTIFICATE OF LOCAL GOVERNMENT COMMISSION

The issuance of the within bond has been approved under the provisions of The State and Local Government Revenue Bond Act of North Carolina.

Secretary, Local Government Commission
of North Carolina

CERTIFICATE OF AUTHENTICATION

This bond is one of the Bonds of the series designated therein and issued under the provisions of the within mentioned Order and Series Resolution.

THE BANK OF NEW YORK TRUST
COMPANY, N.A.,
as Bond Registrar

By: _____
Vice President

Date of authentication: _____

ASSIGNMENT

FOR VALUE RECEIVED the undersigned registered owner thereof hereby sells, assigns and transfers unto _____

[Please Print or Typewrite Name and Address of Transferee]

the within Bond and all rights thereunder and hereby irrevocably constitutes and appoints _____ attorney to register the transfer of said Bond on the books kept for registration thereof, with full power of substitution in the premises

Dated: _____

NOTICE: The assignor's signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.

Signature Guaranteed:

NOTICE: Signature must be guaranteed by an institution which is a participant in the Securities Transfer Agent Medallion program (STAMP) or similar program.

Section 11. Series 2006 Special Debt Service Reserve Account; Reserve Policy. On the Closing Date, OWASA shall cause to be deposited to the credit of the Series 2006 Special Debt Service Reserve Account the Reserve Policy in an amount equal to the Series 2006 Special Debt Service Reserve Account Requirement. All amounts in the Series 2006 Special Debt Service Reserve Account shall be held in trust and applied for the further security of the Owners of the Series 2006 Bonds as provided in this Series Resolution.

The Trustee shall draw on the Reserve Policy or any other Reserve Alternative Instrument delivered to the Trustee in the future for deposit in the Series 2006 Special Debt Service Reserve Account and shall use any cash and Investment Obligations in the Series 2006 Special Debt Service Reserve Account to make transfers to the Series 2006 Subaccount of the Interest Account, the Series 2006 Subaccount of the Principal Account or the Series 2006 Subaccount of the Sinking Fund Account to the extent necessary to pay interest on and principal of (whether at maturity, by acceleration or in satisfaction of the Sinking Fund Requirement therefor) the Series 2006 Bonds, whenever and to the extent that the money on deposit in the Series 2006 Subaccount of the Interest Account, the Series 2006 Subaccount of the Principal Account or the Series 2006 Subaccount of the Sinking Fund Account is insufficient for such purposes and OWASA has failed to cure such deficiency.

If (i) there shall be cash and Investment Obligations on deposit in the Series 2006 Special Debt Service Reserve Account and (ii) on any date of valuation the amount held in the Series 2006 Special Debt Service Reserve Account, including the interest earnings on such Account, exceeds for any reason the Series 2006 Special Debt Service Reserve Account Requirement, an amount equal to such excess shall be transferred by the Trustee, (A) to the Series 2006 Subaccount of the Interest Account, the Series 2006 Subaccount of the Principal Account or the Series 2006 Subaccount of the Sinking Fund Account, as OWASA shall direct, or (B) if OWASA shall deliver to the Trustee a written statement setting forth the use which OWASA proposes to make of such excess amount, accompanied by an opinion of bond counsel to OWASA addressed to the Trustee to the effect that such proposed use will not cause the interest on the Series 2006 Bonds to be includable in the gross income of the owners thereof for purposes of federal income taxation, to OWASA.

So long as a Reserve Alternative Instrument shall be in effect, the Trustee shall give such notices and execute such documents as shall be required to assure that funds are available in such amounts and at such times to assure timely payment of principal of and interest on the Series 2006 Bonds.

The Trustee shall ascertain the necessity for a claim upon the Reserve Policy and provide notice to Financial Security in accordance with the terms of the Reserve Policy at least five (5)

Business Days prior to each date upon which interest or principal is due on the Series 2006 Bonds.

OWASA shall pay Financial Security (i) the principal amount of any draws under the Reserve Policy, (ii) all related reasonable expenses incurred by Financial Security and (iii) accrued interest on such draws and expenses from the date of payment by Financial Security at the Reserve Policy Late Payment Rate.

Repayment of draws on the Reserve Policy and payment of expenses and the interest accrued thereon at the Reserve Policy Late Payment Rate (collectively, "Policy Costs") shall commence in the first month following each such draw, and each such monthly payment shall be in an amount equal to not less than 1/12th of the aggregate of the Policy Costs related to such draw.

Amounts in respect of Policy Costs paid to Financial Security shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to Financial Security on account of principal due, the coverage under the Reserve Policy shall be increased by a like principal amount, subject to the terms of the Reserve Policy.

All cash and Investment Obligations, if any, deposited to the credit of the Series 2006 Special Debt Service Reserve Account after the delivery of the Reserve Policy shall be transferred to the Series 2006 Subaccount of the Interest Account, the Series 2006 Subaccount of the Principal Account or the Series 2006 Subaccount of the Sinking Fund Account, as the case may be, for payment of debt service on the Series 2006 Bonds before any draw shall be made on the Reserve Policy or on any other Reserve Alternative Instrument on deposit to the credit of the Series 2006 Special Debt Service Reserve Account. Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all Reserve Alternative Instruments on deposit to the credit of the Series 2006 Special Debt Service Reserve Account (including the Reserve Policy) on which there is available coverage shall be made on a pro rata basis (calculated by reference to coverage then available under each such Reserve Alternative Instrument on deposit to the credit of the Series 2006 Special Debt Service Reserve Account) after applying available cash and Investment Obligations on deposit to the credit of the Series 2006 Special Debt Service Reserve Account. Payment of Policy Costs and reimbursement of amounts with respect to Reserve Alternative Instruments on deposit to the credit of the Series 2006 Special Debt Service Reserve Account shall be made on a pro rata basis prior to replenishment of any cash drawn from the Series 2006 Special Debt Service Reserve Account.

If OWASA shall fail to pay any Policy Costs in accordance with the requirements of this Series Resolution and the Insurance Agreement, Financial Security shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Order and this Series Resolution, other than (i) acceleration of the maturity of the Series 2006 Bonds or (ii) remedies which would adversely affect the Owners of the Series 2006 Bonds.

The Order and this Series Resolution shall not be repealed until all Policy Costs owing to Financial Security shall have been paid in full. OWASA's obligation to pay such amounts shall expressly survive payment in full of the Series 2006 Bonds.

It is the intent of this Series Resolution and it is hereby expressly recognized and acknowledged by OWASA that the covenant set forth in Section 7.04(b) of the Order applies by its terms and provisions to the coverage of any Policy Costs then due and owing.

In order to secure the payment obligations of OWASA with respect to any Policy Costs, the right of Financial Security to the payment of such Policy Costs shall be subordinate and junior in right of payment from Net Receipts only to the prior payment in full of the Series 2006 Bonds and any other Parity Indebtedness.

Section 12. Series 2006 Additional Project Account. On the Closing Date, OWASA shall cause to be deposited, from the proceeds of the Series 2006 Bonds, to the credit of the Series 2006 Additional Project Account in the Construction Fund, such amount as is required by Section 13 of this Series Resolution. The Series 2006 Additional Project Account shall be governed by the provisions of Article IV of the Order, and the moneys in the Series 2006 Additional Project Account shall be applied to pay the cost of the Additional Project and the costs of issuance of the Series 2006 Bonds.

Section 13. Application of Proceeds of the Series 2006 Bonds. On the Closing Date, the Trustee shall apply the proceeds of the Series 2006 Bonds as follows:

- (i) an amount equal to the premium for the Reserve Policy to be deposited in the Series 2006 Special Debt Service Reserve Account shall be transferred to Financial Security; and
- (ii) the balance of such proceeds shall be deposited to the credit of the Series 2006 Additional Project Account.

Section 14. Application of Net Receipts. On or before the dates set forth below, OWASA shall, subject to the provisions of the Order, deposit or cause to be deposited, from Net Receipts held in the Revenue Account, with the Trustee the following amounts, and the Trustee shall apply such amounts to the various subaccounts and accounts specified in this Series Resolution in the following order:

(a) into the Series 2006 Subaccount of the Interest Account, on the Business Day immediately preceding each Interest Payment Date, an amount equal to the interest payable on the Series 2006 Bonds on such Interest Payment Date;

(b) into the Series 2006 Subaccount of the Principal Account, on the Business Day immediately preceding each July 1, beginning in the year specified in the Series Certificate, an amount equal to the principal of all Series 2006 Bonds that are Serial Bonds, if any, due on such July 1;

(c) into the Series 2006 Subaccount of the Sinking Fund Account, on the Business Day immediately preceding each July 1, beginning in the year specified in the Series Certificate, the amount required to retire the Series 2006 Bonds that are Term Bonds, if any, to be called by mandatory redemption or to be paid at maturity on such July 1 in accordance with the Sinking Fund Requirement therefor;

(d) so long as the Reserve Policy or any other Reserve Alternative Instrument shall be in effect, any deficiency in the Series 2006 Special Debt Service Reserve Account resulting from a draw on the Reserve Policy or such other Reserve Alternative Instrument shall be made up as provided in the Reserve Policy or such other Reserve Alternative Instrument, or the documentation relating thereto; and

(e) if the Reserve Policy or another Reserve Alternative Instrument shall not be in effect, beginning on the twenty-fifth (25th) day of the month following the month in which money is transferred from the Series 2006 Special Debt Service Reserve Account to the Series 2006 Subaccount of the Interest Account, the Series 2006 Subaccount of the Principal Account or the Series 2006 Subaccount of the Sinking Fund Account to cure a deficiency therein with respect to the Series 2006 Bonds, and continuing on the twenty-fifth (25th) day of each month thereafter, into the Series 2006 Special Debt Service Reserve Account, one-twelfth (1/12) of the amount or amounts so transferred until the amount then on deposit in the Series 2006 Special Debt Service Reserve Account is equal to the Series 2006 Special Debt Service Reserve Account Requirement; and, beginning on the twenty-fifth (25th) day of the month following a valuation made in accordance with Section 6.03 of the Order in which the amount on deposit in the Series 2006 Special Debt Service Reserve Account is less than ninety percent (90%) of the Series 2006 Special Debt Service Reserve Account Requirement due to a loss resulting from a decline in the value of Investment Obligations held for the credit of the Series 2006 Special Debt Service Reserve Account, and continuing on the twenty-fifth (25th) day of each month thereafter, into the Series 2006 Special Debt Service Reserve Account, one-sixth (1/6) of the amount by which the Series 2006 Special Debt Service Reserve Account Requirement exceeds such balance until the amount on deposit to the credit of the Series 2006 Special Debt Service Reserve Account is equal to the Series 2006 Special Debt Service Reserve Account Requirement.

In addition, the Trustee shall deposit to the credit of the Series 2006 Subaccount of the Redemption Account all amounts as shall be delivered to the Trustee by OWASA from time to time with instructions that such amounts be so deposited for the redemption of the Series 2006 Bonds.

Section 15. Investment of Money. Money held for the credit of the Series 2006 Additional Project Account, the Series 2006 Special Debt Service Reserve Account and the subaccounts established by this Series Resolution shall be continuously invested and reinvested by the Trustee in Investment Obligations to the extent practicable. Any such Investment Obligations shall mature not later than the respective dates when the money held for the credit of such account or subaccounts will be required for the purposes intended; provided, however, that any Investment Obligations held for the credit of the Series 2006 Special Debt Service Reserve Account may mature not later than ten (10) years from their date of deposit therein. No Investment Obligations in any such account or subaccount may mature beyond the latest maturity date of any Series 2006 Bonds Outstanding at the time such Investment Obligations are deposited.

Investment Obligations acquired with money in or credited to any account or subaccount established hereunder shall be deemed at all times to be part of such account or subaccount. Any loss realized upon the disposition or maturity of such Investment Obligations shall be charged against such account or subaccount. The interest accruing on any such Investment Obligations

and any profit realized upon the disposition or maturity of such Investment Obligations shall be credited to such account or subaccounts as follows:

<u>Accounts or Subaccounts</u>	<u>Credited to</u>
Series 2006 Additional Project Account	Series 2006 Additional Project Account
All Subaccounts	Respective Subaccounts
Series 2006 Special Debt Service Reserve Account	Series 2006 Subaccount of the Interest Account, the Principal Account or the Sinking Fund Account, as directed by OWASA

Any such interest accruing and any such profit realized shall be transferred upon the receipt thereof by OWASA or the Trustee, as the case may be, pursuant to the provisions of the Order and this Series Resolution.

An Authorized Officer shall give to the Trustee written directions respecting the investment of any money required to be invested hereunder, subject, however, to the provisions of this Section, and the Trustee shall then invest such money as so directed. The Trustee may request in writing additional direction or authorization from the Authorized Officer with respect to the proposed investment of money. Upon receipt of such directions, the Trustee shall invest, subject to the provisions of this Section, such money in accordance with such directions. The Trustee shall not be liable to OWASA for any loss suffered by OWASA as a result of or in connection with any investment in Investment Obligations made by the Trustee in good faith as instructed by or approved by an Authorized Officer.

The Trustee shall sell at the best price obtainable or, acting in a commercially reasonable manner, reduce to cash a sufficient amount of such Investment Obligations whenever it is necessary to do so in order to provide money to make any payment from any such account or subaccount. The Trustee shall not be liable or responsible for any loss resulting from any such investment.

Whenever a transfer of money between two or more of the accounts or subaccounts is permitted or required, such transfer may be made as a whole or value determined at the time of such transfer in accordance with Article VI of the Order, provided that the Investment Obligations transferred are those in which money of the receiving account or subaccount could be invested at the date of such transfer.

Section 16. Approval of Official Statement. The Preliminary Official Statement, dated October 3, 2006, relating to the Series 2006 Bonds (the "Preliminary Official Statement") is hereby approved. OWASA hereby ratifies the use and distribution of the Preliminary Official Statement by Banc of America Securities LLC and Scott & Stringfellow, trading as BB&T Capital Markets (the "Underwriters"). OWASA authorizes and consents to the preparation and distribution of a final Official Statement relating to the Series 2006 Bonds (the "Official Statement"), in substantially the form of the Preliminary Official Statement, together with such

changes as are necessary to reflect the final terms of the Series 2006 Bonds. The Chair, the Vice-Chair or the Executive Director of OWASA is hereby authorized and directed to execute and deliver the Official Statement, in substantially the form of the Preliminary Official Statement, together with such changes, specifications, and deletions as the Chair, the Vice-Chair or the Executive Director of OWASA, with the advice of counsel, may deem necessary and appropriate; such execution and delivery shall be conclusive evidence of the approval and authorization in all respects of the form and content thereof.

Section 17. LGC Requested to Award the Series 2006 Bonds. OWASA hereby requests that the Local Government Commission of North Carolina award the Series 2006 Bonds at negotiated sale without advertisement to the Underwriters in the amount and at the interest rates fixed pursuant to this Series Resolution at a price of not less than ninety-nine and forty-five one hundredths percent (99.45%) of the par amount of the Series 2006 Bonds, less the amount of any original issue discount, plus the amount of any original issue premium on the Series 2006 Bonds, subject to the approval thereof by the Chair, the Vice-Chair or Executive Director of OWASA.

Section 18. Approval of Bond Purchase Agreement and Insurance Agreement. OWASA hereby approves the Bond Purchase Agreement relating to the Series 2006 Bonds (the "Bond Purchase Agreement"), in substantially the form of the draft dated September 1, 2006, and the Insurance Agreement, in substantially the form of the draft attached as Exhibit A to the municipal bond debt service reserve commitment letter of Financial Security, dated October __, 2006, and hereby authorizes the Chair, the Vice-Chair or the Executive Director of OWASA to execute the Bond Purchase Agreement and the Insurance Agreement, in substantially the forms of said drafts, together with such changes, modifications, insertions and deletions, as he, with the advice of counsel, may deem necessary and appropriate; such execution and delivery shall be conclusive evidence of the approval and authorization thereof by OWASA.

Section 19. Continuing Disclosure. OWASA hereby undertakes, for the benefit of the beneficial owners of the Series 2006 Bonds, to provide:

(A) by not later than seven months from the end of each Fiscal Year, commencing with the Fiscal Year ended June 30, 2006, to each nationally recognized municipal securities information repository ("NRMSIR") and to the state information depository for the State of North Carolina ("SID"), if any, audited financial statements of OWASA for such Fiscal Year, if available, prepared in accordance with Section 159-34 of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute, or, if such audited financial statements of OWASA are not available by seven months from the end of such Fiscal Year, unaudited financial statements of OWASA for such Fiscal Year to be replaced subsequently by audited financial statements of OWASA to be delivered within 15 days after such audited financial statements become available for distribution;

(B) by not later than seven months from the end of each Fiscal Year, commencing with the Fiscal Year ended June 30, 2006, to each NRMSIR, and to the SID, if any, (i) the financial and statistical data as of a date not earlier than the end of the preceding Fiscal Year for the type of information included under the following headings and tables in Appendix A to the

Official Statement relating to the Series 2006 Bonds to the extent such items are not included in the financial statements referred to in (A) above:

- (1) “Rates, Fees and Charges” (tables and other rate information therein, excluding tables showing comparative bills for surrounding municipalities and future rate increases);
- (2) “Customer Accounts” (tables therein); and
- (3) “Historical Operating Results” (table therein);

(C) in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board (“MSRB”), and to the SID, if any, notice of any of the following events with respect to the Series 2006 Bonds, if material:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions or events affecting the tax-exempt status of the Series 2006 Bonds;
- (7) modification to the rights of the beneficial owners of the Series 2006 Bonds;
- (8) bond calls, other than bond calls relating to any mandatory sinking fund redemptions;
- (9) defeasances;
- (10) release, substitution or sale of property securing repayment of the Series 2006 Bonds; and
- (11) rating changes; and

(D) in a timely manner, to each NRMSIR or to the MSRB, and to the SID, if any, notice of a failure of OWASA to provide required annual financial information described in (A) or (B) above on or before the date specified.

If OWASA fails to comply with the undertaking described above, the Trustee or any beneficial owner of the Series 2006 Bonds then Outstanding may take action to protect and enforce the rights of beneficial owners with respect to such undertaking, including an action for specific performance; provided, however, that failure to comply with such undertaking shall not be an event of default under the Order and shall not result in any acceleration of payment of the Series 2006 Bonds. All actions shall be instituted, had and maintained in the manner provided in this paragraph for the benefit of the beneficial owners of the Series 2006 Bonds.

OWASA reserves the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of OWASA, provided that:

(a) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of OWASA; and

(b) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 issued under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12") as of the date of the Official Statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and

(c) any such modification does not materially impair the interests of the beneficial owners, as determined either by parties unaffiliated with OWASA (such as bond counsel or the Trustee), or by approving vote of the registered owners of not less than fifty-one percent (51%) in aggregate principal amount of the Series 2006 Bonds then Outstanding pursuant to the terms of the Order, as it may be amended from time to time.

OWASA also agrees that the annual financial information containing the amended operating data or financial information will explain, in narrative form, the reasons for the amendments and the impact of the change in the type of operating data or financial information being provided.

So long as filing with DisclosureUSA.org is recognized by the Securities and Exchange Commission as a filing with each NRMSIR and the SID, if any, for purposes of Rule 15c2-12, any filings required to be made under this Section to each NRMSIR and the SID, if any, may be made by an appropriate filing with DisclosureUSA.org through its filing system, and such filing shall be considered a filing with each NRMSIR and the SID, if any, under this Series Resolution.

The provisions of this Section shall terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal of and interest on all of the Series 2006 Bonds.

Section 20. Authorization to OWASA Officials. The officers, agents and employees of OWASA and the officers and agents of the Trustee and the Bond Registrar are hereby authorized and directed to do all acts and things required of them by the provisions of the Series 2006 Bonds, the Order, the Bond Purchase Agreement, the Insurance Agreement, the Reserve Policy, this Series Resolution and any other related documents or agreements for the full, punctual and complete performance of the terms, covenants, provisions and agreements therein.

Section 21. Exclusion From Gross Income Covenant. OWASA covenants that it will not take any action which will, or fail to take any action which failure will, cause interest on the Series 2006 Bonds to become includable in the gross income of the owners thereof for federal income tax purposes pursuant to the provisions of the Internal Revenue Code of 1986, as amended.

Section 22. Effective Date. This Series Resolution shall take effect immediately upon its adoption. Notwithstanding the foregoing, if the Chair, the Vice-Chair, the Executive Director or the Director of Finance and Customer Service of OWASA shall determine that no Series 2006 Bonds shall be Term Bonds, as specified in the Series Certificate required by Section 4 of this Series Resolution, the terms and provisions of this Series Resolution with respect to Term Bonds and the mandatory redemption of Term Bonds pursuant to the Sinking Fund Requirements therefor shall be of no further force and effect.

Adopted this 12th day of October, 2006.

APPENDIX A

DESCRIPTION OF THE ADDITIONAL PROJECT

The Additional Project consists of the following:

1. the construction and equipping of various improvements at the Mason Farm Wastewater Treatment Plant (the "WWTP") to expand the capacity at the WWTP to at least 14.5 million gallons per day ("MGD") by the fiscal year ending June 30, 2007 and to provide the capability of meeting new phosphorus and nitrogen discharge limits;
2. the construction and equipping of improvements at the Stone Quarry Pump Station to increase raw water pumping capacity to 6 MGD;
3. the acquisition of certain real property adjacent to University Lake and Morgan Creek for watershed protection;
4. the installation of new biosolids dewatering facilities as part of the biosolids management program;
5. the installation of approximately 1,475 line feet of 8" gravity pipe as part of the phase-out of the North Forest Hills Pump Station;
6. the installation and rehabilitation of sewer mains and manholes to reduce storm water infiltration in the Bolin Creek Sewer Basin; and
7. the upgrading and rehabilitation of the Meeting of the Waters interceptor.