

FINAL

Date/Time: October 23, 2003

INTER-LOCAL AGREEMENT FOR WATER SUPPLY
NEUSE REGIONAL WATER AND SEWER AUTHORITY

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STATE OF NORTH CAROLINA
COUNTY OF LENOIR

INTER-LOCAL AGREEMENT FOR WATER SUPPLY

THIS AGREEMENT, made and entered into as of the 23rd day of
Oct., 2003, by and between the NEUSE REGIONAL WATER AND SEWER
AUTHORITY, a body corporate and politic ("Authority") and the following entities:

City of Kinston ("Kinston")
Town of La Grange ("La Grange")
Town of Pink Hill ("Pink Hill")
North Lenoir Water Corporation ("North Lenoir")
Deep Run Water Corp. ("Deep Run")
County of Greene ("Greene County")
Bell Arthur Water Corporation ("BAWC")
Town of Ayden ("Ayden")
Town of Grifton ("Grifton"), and
Town of Farmville ("Farmville")
(hereinafter collectively "the Member Entities")

WITNESSETH:

WHEREAS, the Authority was organized under the North Carolina Water and Sewer Authorities Act, N.C. Gen. Stat. § 162A, for the purpose of providing water and sewer services to the residents of Lenoir, Greene, and Pitt Counties, North Carolina and the surrounding region (hereinafter "Region"); and

WHEREAS, the Member Entities are organizing political subdivisions of the Authority and the owner and operator of water systems in Lenoir, Greene, and Pitt Counties, North Carolina, and are engaged in the distribution of water to customers in their respective service areas (hereinafter "Service Areas"); and

WHEREAS, the Member Entities are required by state law to develop alternative sources of water due to the continuing depletion of the Central Coastal Plain Cretaceous Aquifer (hereinafter "Aquifer"), which is the current source of supply for each Member Entity; and

WHEREAS, the Authority intends to construct a raw water intake on the Neuse River and an associated water treatment and distribution system for supplying treated water to the Member Entities of the Authority; and

WHEREAS, the Member Entities desire to purchase and receive from the Authority a supply of treated water for distribution to their respective customers as a supplement to or replacement of their existing sources of supply in order to comply with applicable state law regarding continued use of the Aquifer and to provide a dependable long-term source of water supply to support growth and economic development; and

WHEREAS, the Authority and Member Entities agree that it is desirable and in the public interest for the Authority to sell and supply treated water to the Member Entities for distribution to their respective customers and for the Authority and Member Entities to coordinate the operation of the Authority's and Member Entities' systems for the benefit of the customers of all Member Entities; and

WHEREAS, the parties to the Agreement acknowledge and agree that a coordinated approach to supplying water to the Region's customers will be a public benefit by providing a dependable long-term supply of treated water and by supporting growth and economic development in the Region.

NOW, THEREFORE, for and in consideration of the premises and the mutual promises, covenants, agreements, and conditions hereinafter set forth, and other good and valuable consideration, receipt and sufficiency of which hereby are acknowledged, the parties hereby agree as follows:

1. PROJECT DESCRIPTION AND PURPOSES. The Authority intends to plan, design, finance, construct, and operate a water treatment and transmission system with an initial effective capacity of twenty (20) million gallons per day ("MGD"), expandable up to thirty (30) MGD or more in the future ("the Project"). The maximum capacity contemplated is thirty (30) MGD, subject to state approval of any future expansions up to or beyond that capacity.

The Project shall consist of a raw water intake located near Pot Neck on the Neuse River in Lenoir County; a water treatment plant and associated raw water storage impoundment, sludge disposal facilities, operational systems, laboratories, and other equipment; and a transmission system (collectively "the System"), and shall include any future modifications or expansions

thereof [including without limitation an Aquifer Storage and Recovery ("ASR")] The System will be connected with the water supply facilities of the various Member Entities at the Point(s) of Supply as defined in Paragraph 5.h. below of this Agreement. The purposes of the Project include:

a. Augmentation of Existing Supplies. The Project shall augment the existing supply sources of the Member Entities by providing a dependable long-term alternative source of supply which can be used by the Member Entities at their discretion in conjunction with, supplementary to, or as a replacement for their respective groundwater well systems to comply with the State's Central Coastal Plain Capacity Use Rules ("Rules"), 15A N.C. Admin. Code § 2E .0200, that require a reduction in the use of groundwater by at least seventy-five (75) percent by August 1, 2018, and for other purposes.

b. Coordinated Regional Management of Water Resource. The Project is intended to achieve a coordinated Regional approach to the use of the Neuse River and available groundwater resources as sources of potable water for the Region. The Authority shall serve as a wholesaler of treated water from the Neuse River to the Member Entities. Each Member Entity shall continue to own its own groundwater wells, distribution system, and customer billing systems unless or until the Authority and the Member Entities agree to do otherwise. The Authority and the Member Entities shall endeavor to manage the supply of surface and groundwater resources in the Region in a coordinated manner in order to comply with the Rules and meet the needs of the residents of the Region in a manner that is economically sound and that meets the technical requirements of each Member Entity. Member Entities may agree to allow the Authority centrally to control pumping rates and schedules of the Member Entities' respective well systems through use of a SCADA or other centralized control system, provided that the Authority shall ensure that any such centralized control shall be done only after consultation with the Member Entity and shall meet any reasonable requirements with respect to volumes or schedule that are specific to that Member Entity (e.g., automatic shut-off during certain hours for energy conservation purposes). Further, the parties agree that unless and until such time as the Member Entities agree to allow the Authority to use a SCADA or other centralized control system, each Member Entity shall have complete control and authority over its own groundwater wells. Member Entities agree to operate their respective well systems

during peak water demand periods by using groundwater resources to meet peak demand to the extent feasible. The Project may include the sale and/or purchase of treated water by the Authority to or from third parties who are not Member Entities as part of a broader Regional water resource management system.

c. Regional Growth and Economic Development. The parties to this Agreement recognize the critical role of having a dependable long term-water supply to support the growth and economic development of the Region. To that end, the Authority and the Member Entities shall coordinate the planning of future water supply needs and responding to the demand for additional water capacity in order to support the growth and economic development of the Region, including but not limited to the Global TransPark.

d. Protection of the Environment. The Project is intended to protect the Aquifer by reducing the dependence of the Member Entities on this valuable resource, thereby ensuring the aquifer's long-term sustainability for the benefit of future generations. Furthermore, the Project shall be carried out in a manner so as to protect the Neuse River, with the Authority serving as a positive influence on other communities to assist in ongoing efforts to enhance and maintain the water quality of the Neuse River.

e. Existing Contracts. The Authority and the Member Entities acknowledge that certain Member Entities are parties to existing contracts concerning the provision and/or sale of water to third parties or between various Member Entities, the terms of which impose obligations and burdens and provide benefits to those contracting Member Entities (the "Existing Contracts"). For example, North Lenoir Water Corporation and the City of Kinston are parties to an Accord and Statement of Intent with the North Carolina Air Cargo Airport Authority dated June 1, 1993. To the extent that this Agreement conflicts with any Existing Contracts, the provisions of the Existing Contracts shall control and the Existing Contracts shall remain in full force and effect.

f. Nothing in this Agreement shall waive or be deemed or construed to waive the protections afforded any Member Entity under the provisions of 7 U.S.C. § 1926(b) including their rights and benefits to this Agreement.

2. AUTHORITY OBLIGATIONS. The Authority shall arrange, provide, and pay for all planning, engineering, legal, survey, construction, testing, management and other

services and activities necessary for carrying out the Project. The Authority shall carry out the Project as soon as may be practicable and with all reasonable dispatch after funds are available for this purpose. This Agreement contemplates that the entire Project shall be carried out as part of a single project. Paragraph 11.k.1 notwithstanding, the Authority may carry out the Project in phases if adequate funding for the entire Project on terms acceptable to the Authority is not available, provided that any such phased approach shall be consistent with the Project's purposes, ensure that the Full Water Requirements of all Member Entities are met by utilizing the terms of paragraphs 9.e , and comply with the Rules. The Authority shall be responsible for the planning, design, financing, construction, testing, and operation of the System. The Authority shall be obligated under any bonds issued to finance the Project. The Authority shall not be obligated to construct the System, or any phase thereof, unless and until adequate funds are available for the Project or phase. Upon completion of the construction of the Project, the Authority shall provide for management of the System in a manner so as to meet the water supply obligations as set forth in this Agreement. The Authority's Board of Directors (hereinafter "Board") shall be responsible for meeting the Authority's management and other obligations under this Agreement in a manner consistent with the Authority's Articles of Incorporation and for adopting the necessary policies and procedures for implementing this Agreement in accordance with the Authority's By-laws.

3. PROJECT FINANCING.

a. Authority of Board. The Authority is authorized to secure the necessary funds for the Project through a combination of loans, grants, and borrowings in accordance with the United States Department of Agriculture/Rural Utilities Services Act, 7 U.S.C. §1921 et seq., the North Carolina Clean Water Revolving Loan and Grant Act, N.C. Gen. Stat. § 159G-1, et seq., the State and Local Government Revenue Bond Act, N.C. Gen. Stat. § 159-80 et seq., and other applicable laws and regulations.

b. Revenue Bonds. The Authority may issue revenue bonds or otherwise borrow the necessary funds in accordance with applicable laws for the purpose of financing the planning, design, and construction of the Project.

c. Agreement As Security for Debt. The parties acknowledge that the Authority may pledge the revenues generated under this Agreement as security for the bonds, loans, or other financing secured by the Authority for the Project.

d. Expenses. The Authority shall be authorized to retain bond counsel and such other professional assistance as may be appropriate to undertake Project financing and shall be reimbursed for all such expenses from the proceeds of the bonds or other financing. In addition, pursuant to N.C. Gen. Stat. §162A-16, any contributions, advances or assessments made by any Member Entity to the Authority shall not be repaid by the Authority from the proceeds of bonds issued by the Authority pursuant to Article 1, Chapter 162A of the North Carolina General Statutes, except upon approval of the Board .

4. MEMBER ENTITY OBLIGATIONS.

a. Payment for Water Services. Each Member Entity shall be responsible for paying for the water provided by the Authority in accordance with the payment terms and conditions as set forth in this Agreement.

b. Approval of Connection. Each Member Entity shall review and approve of the System's design as that design pertains to the connection of the System with their respective water supply facilities to ensure adequate facilities to deliver the capacity necessary to meet the Full Water Requirements of the Member Entities under Paragraph 5.b. of this Agreement.

c. Participation in Management. Each Member Entity may have input into the management and operation of the System through any management or operator committees established for coordination or recommendation purposes. The Authority shall form a budget committee comprised of no less than six (6) members of the Board. The budget committee shall seek the comments of Member Entity water supply facility operators and others with management responsibility for each Member Entity and shall make recommendations to the Authority on an annual basis with respect to the operating and capital budgets of the Authority and other operational matters.

d. No Individual Liability. Member Entities and members of the Board shall not be individually liable under: (1) any bonds issued by the Authority; or (2) any other evidence of indebtedness entered into by the Authority. The liability of Member Entities shall be limited to the contractual obligations as set forth in this Agreement.

e. Individual Policies. Each Member Entity shall continue to establish its own individual policies and procedures regarding connection to and extensions of the water supply facilities to individual customers within its Service Area.

5. SALE AND PURCHASE OF WATER.

a. Mutual Obligation. The Authority agrees to sell treated water to each Member Entity and each Member Entity agrees to purchase and pay for treated water from the Authority on the terms and subject to the conditions as set forth in this Agreement.

b. Full Water Requirements. The Authority shall sell and supply treated water to each Member Entity in such quantity as the Member Entity may need to meet the Full Water Requirements of its customers. For purposes of this Agreement, the term "Full Water Requirements" is defined as the annual average water demand under normal operating conditions (expressed in MGD) for the aggregate of each Member Entity's then-current customers, without regard to the source of supply (i.e., total customer demand). For purposes of this Agreement, the term "then-current customers" shall include any third party (e.g., local governments, water corporations, or utilities) with which the Member Entity has contracted for the wholesale supply of water per Paragraph 5.g. below of this Agreement. Each Member Entity shall provide the Authority with an annual projection (January 1 – December 31) beginning on the date of this Agreement and annually thereafter (but no later than January 10th of each year) of the quantity of water needed by the Member Entity to meet its Full Water Requirements for the upcoming annual period (the "Annual Period"). The Authority shall use its best efforts to supply to each Member Entity the projected Full Water Requirements as approved and accepted by the Authority, subject to the limits of supply as set forth in paragraph 5.c. of this Agreement. The initial Full Water Requirements for each Member Entity are set forth in the attached Exhibit A, which is hereby incorporated by reference and made a part of this Agreement.

c. Limits on Supply. The obligation of the Authority to supply treated water to each Member Entity shall be limited by: (1) the amount of water available to the Authority; (2) the capacity of the System; (3) ordinary transmission loss, including standard metering error, between the Authority's source of supply and the Point(s) of Supply as defined in Paragraph 5.h. of this Agreement; or (4) Force Majeure events as defined in Paragraph 11.h. of this Agreement. In the event that the Authority is unable to meet the Full Water Requirements of

any Member Entity, the Authority shall allocate the volume of treated water available to each Member entity on a pro-rata basis in accordance with the proportionate share of each Member Entity. The proportionate share of each Member Entity shall be a fraction, the numerator of which shall be the projection of Full Water Requirements for the most recent Annual Period for that Member Entity and the denominator of which shall be the aggregate Full Water Requirements for all Member Entities for the same Annual Period. Neither a Member Entity nor the Authority shall enter into water supply agreements with any third parties in excess of: (1) the capacity of the System; (2) the total amount of water available to the Authority from the Neuse River; (3) an amount that would decrease the amount of water then being supplied or committed to be supplied in the future to all the Member Entities in accordance with the annual projections provided by each Member Entity regarding its Full Water Requirements.

d. Temporary Increases in Demand. If a Member Entity determines at any time that it will require, for a temporary period, a supply of water in a greater quantity than projected to be its Full Water Requirements, the Member Entity shall provide the Authority with at least forty-eight (48) hours prior written notice to such effect, or as soon as reasonably possible after such determination has been made, if less than forty-eight (48) hours. The Authority shall use its best efforts to supply such additional water, if possible, and shall do so on the same payment terms and subject to the limitations set forth in Paragraph 6.b. of this Agreement, except that the Authority, in its sole discretion, may discount the unit rate charged for any such temporary increase that is the result of a major fire or other community emergency, if and to the extent the volume of water consumed for the billing period exceeds the Minimum Purchase amount specified in Paragraph 6.a. of this Agreement. The determination concerning the ability of the Authority to provide the requested quantity of water shall be at the Authority's sole discretion.

e. Emergency Curtailments or Shut-Off. The Authority shall use its best efforts to provide a constant and reliable supply of water to each Member Entity, but reserves the right at any time to curtail or shut-off temporarily the water in its transmission lines due to emergencies or required maintenance. The Authority shall give the affected Member Entities notice of any such curtailment or shut-off not less than forty-eight (48) hours in advance,

except that in emergencies it shall give notice that is reasonable under the particular circumstances.

f. Emergency Use of Other Sources. In the event of an emergency or other curtailment or shut-off of supply from the Authority's water supply sources, the Authority shall be authorized to purchase or acquire treated water from other sources, including but not limited to groundwater wells operated by the Member Entities, and from other jurisdictions or water suppliers in the Region. Any purchases of water by the Authority from Member Entities shall be at the same rate and on the same payment terms as for the sale of water under this Agreement. Similarly, each Member Entity shall be authorized to increase its use of groundwater from its respective wells or to purchase or acquire water from other sources during any such emergency, subject to applicable state law and regulations concerning groundwater usage.

g. Sale of Water to Third Parties. Any Member Entity is allowed to contract for the wholesale supply of water to third parties, including local governments, water corporations, or utilities. The selling Member Entity shall coordinate any such sale with the Authority to ensure that the Full Water Requirements of each Member Entity can be met during the period of any such water supply contract. The following requirements apply after the Commencement Date as defined in Paragraph 6.a. of this Agreement. Any such sale shall be subject to: (1) the limits of supply set forth in Paragraph 5.c. above of this Agreement; and (2) the selling Member Entity's available system capacity, defined as the total of seventy-five percent (75%) of the selling Member Entity's Full Water Requirements plus the volume of water that can be withdrawn from groundwater sources by the selling Member Entity under the Rules and any other applicable state law and regulations concerning usage of groundwater, less seventy-five percent (75%) of the selling Member Entity's Full Water Requirements. A contract for sale to a third party shall not be for a term, including any extension, longer than five (5) years without approval of the Authority. The Authority shall be under no obligation to increase the capacity of the System or make other modifications to the System to accommodate any such third party sale, but is authorized to do so in its sole discretion. The volume of water represented by any such sale to a third party shall be included in the Full Water Requirements projections of the selling Member Entity. Any cost of transferring or "wheeling" water from the selling Member

Entity to the third party purchaser shall be borne by the selling Member Entity, except as otherwise provided in this Agreement.

h. Point of Supply. The Authority shall supply water to each Member Entity at a point or points where the System connects with each Member Entity's water supply facilities based on the approved plans and specifications of the System ("Point(s) of Supply"), which Point(s) of Supply shall be mutually agreed upon between the Authority and each Member Entity.

i. Provision of Meters. The Authority shall provide and install at its own expense a master water meter ("Meter") meeting the standards of the American Waterworks Association at the Points of Supply by which the parties shall determine the Member Entity's purchase of treated water from the Authority. The Authority shall provide written notice to the Member Entity at least five (5) business days prior to the installation of the Meter, and the Member Entity shall be permitted to observe the installation of the Meter. The Authority shall calibrate and test the Meter for accuracy no less often than once per year. The Authority shall notify the Member Entity of the planned calibration and testing at least fifteen (15) days prior to the scheduled date, and the Member Entity shall be permitted to observe any calibration and testing of the Meter. No Meter shall be placed in service or allowed to remain in service which has an error in registration in excess of two percent (2%) under normal operating conditions. The Authority shall promptly notify the Member Entity of any known problems with or defects in the Meter and shall replace or repair such Meter as soon as practicable after discovery of a problem. If any Meter is out of service or out of repair so that the amount of water supplied cannot be reasonably ascertained or computed from the reading thereof, the Authority shall estimate the amount supplied either by mathematical calculations or calibration tests or by using the average amount delivered in preceding periods under similar operating circumstances, or any other reasonable manner agreed upon by the Authority and Member Entity affected, including but not limited to review of a Member Entity's customer meter readings for the same period. The Member Entity's bill for water service shall be adjusted accordingly. All records of meter readings shall be available at the Authority offices during normal business hours for inspection by any Member Entity or the public.

j. Back Flow Prevention Devices. The Authority shall, at its own expense, install an appropriate back flow prevention device on the Member Entity's side of the Point(s) of Supply, to prevent the back flow of water from the Member Entity's water supply facilities. The Member Entity shall promptly notify the Authority of any known problems with or defects in the back flow prevention device. The Authority shall be responsible for testing annually, maintaining, repairing, and, if necessary, replacing the back flow prevention device.

k. Water Quality. All water provided to the Member Entities shall be of sufficient quality to meet the requirements of all federal and state drinking water laws and regulations. The Authority shall bear no responsibility for the contamination of water or deterioration of water quality originating beyond the Point(s) of Supply, except where treated water is being transferred or "wheeled" through one Member Entity's water supply facilities to another, in which event the Authority shall, in conjunction with the transferring Member Entity, ensure that such water meets all applicable standards when it passes through the Point of Supply of the receiving Member Entity.

l. Use of Any Excess Capacity. Notwithstanding any other provisions of this Agreement, if the System has excess capacity after meeting the Full Water Requirements of each Member Entity, the Authority may sell water to other Member Entities or third parties, including local governments, water corporations, or utilities, with the proceeds from any such sale being applied either to payment of the debt service of the Authority with respect to the Project or to reduce/limit the unit rate for the succeeding Annual Period. Under no circumstances shall the Authority sell or otherwise provide water to the extent that such sale would impair the ability of the Authority to meet the Full Water Requirements of each Member Entity or if such sale can reasonably be accomplished by a Member Entity in accordance with Paragraph 5.g. of this Agreement.

m. Connection to Authority Lines. The Authority is authorized, but shall not be required, to allow direct connections to its water transmission lines to serve retail-type customers (i.e., residential and business customers) if such connection is the most cost-effective approach to serving a certain area; provided, however, that any such customer(s) served by a direct connection to any part of the System shall become or remain the customer(s) of the Member Entity that serves, or reasonably could serve, that area. All policies, procedures, and

billing of any such customer(s) shall be the responsibility of said Member Entity and not the Authority. The responsibility of the Authority shall be the same obligations as applies to any Member Entity under this Agreement, including without limitation the provision of a Master Meter at such Point of Supply, water quality, limits of supply, and other obligations contained herein. Any such customers shall be included as part of the responsible Member Entity's Full Water Requirements projection.

6. PAYMENTS.

a. Water Rate. Each Member Entity shall pay the Authority for water supplied based on the unit rate established from time to time by the Board. The unit rate paid by all Member Entities shall be the same, subject to the provisions of Paragraph 5.d. of this Agreement. That unit rate shall be expressed in dollars per one thousand (1,000) gallons of water. The unit rate shall be based on: (1) the total revenues required each month to cover Debt Service (defined as the principal and interest payment on any bonds, loans, notes, or other long-term obligations of the Authority); (2) the cost for Operation and Maintenance of the System (defined as all direct costs and expenses incurred by the Authority for operation and maintenance of the System, including without limitation labor, supplies, chemicals, utilities, insurance, and support services); (3) Administration of the System expenses (defined as the approximate percentage of the Authority's administrative expenses for the budget year which reasonably can be allocated to the Project) ; (4) restricted Capital Reserve (defined as a reserve fund for ensuring that the Authority has adequate funds to pay Debt Service as may be required for the purpose of maintaining the bond rating of the Authority); and (5) a restricted Operation and Maintenance Reserve (defined as a reserve fund for the purpose of meeting any extraordinary or emergency expenses or repairs). The method of calculating the unit rate is shown in Exhibit B, which is hereby incorporated into and made a part of this Agreement. The initial unit rate (prior to commencement of operation of the System) shall include only the amount necessary to pay interest on any anticipatory note and cover administrative expenses and shall not include any allocation for Operation and Maintenance of the System prior to commencement of operation. Payments based on the initial unit rate shall commence on the earlier of: (1) thirty (30) months after start of construction of the System; (2) closing on the purchase of permanent bonds by USDA/Rural Development or other financing entities for design and construction of the System;

or (3) the Authority's acceptance of other financial obligations for the Project, including without limitation any anticipatory note(s) during the construction phase of the Project (the "Commencement Date"). Following the establishment of the initial unit rate, the Authority shall conduct a review of the unit rate and present its findings at the Authority's last February meeting prior to the Commencement Date, and annually thereafter, and revise the unit rate as necessary to pay for Debt Service, Operation and Maintenance of the System, Administration of the System, Capital Reserve, and Operation and Maintenance Reserve, including any needed modifications or improvements based on the projected water demand for the coming year. Payments based on the unit rate shall commence upon commencement of operations of the System. The Board is authorized to adjust the unit rate more often than annually if cost or revenue increases, emergencies, or other factors have made such an adjustment necessary or appropriate. The Board shall provide notice of any proposed unit rate adjustment to each Member Entity at least twenty-one (21) days in advance of the March Meeting or other meeting at which the unit rate change will be considered. No change in the unit rate shall become effective unless approved by at least two-thirds (2/3) of the members of the Board. No adjustment or change in unit rate shall be made unless the same adjustment or change is made for all Member Entities, subject to the provisions of Paragraph 5.d. of this Agreement.

b. Minimum Purchase. For purposes of this Agreement, the term "Minimum Purchase" means the volume of water as shown in Exhibit A below of this Agreement, which is equal to seventy-five percent (75%) of the Full Water Requirements of each Member Entity based on actual 2002 consumption levels. The minimum purchase for each Member Entity based on the volume of water as shown in Exhibit A below of this Agreement shall not change during the term of this Agreement, except at the request of the Member Entity upon approval of the Board. Minimum purchase payments shall be based on the unit rate in effect at the time of purchase.

c. Payment Terms. The Authority shall invoice each Member Entity for its respective share of water purchased at the applicable rate based on the Meter readings made in accordance with Paragraph 5.i. of this Agreement. The parties agree that even if no water is purchased or received from the Authority during the billing period, the Authority shall invoice each Member Entity and each Member Entity shall pay for its respective Minimum

Purchase of water as required under Paragraph 6.d. of the Agreement. All invoices shall be due and payable within thirty (30) days of the date of the invoice. Payments not made by the due date specified on the invoice shall accrue a late payment charge of one and one-half percent (1½%) per month (0.0493 per day) for each month (day) the payment is overdue. Payment for all invoices shall be deemed paid when the funds in payment thereof are received by the Authority at its administrative office. If payment of any undisputed invoice is not made within sixty (60) days of the applicable due date, the Authority, at its option and after giving at least thirty (30) days written notice by certified mail, shall have the right to terminate water service to such defaulting Member Entity until such time as the account is paid in full. Under such circumstances, the Member Entity shall be liable for any costs incurred by the Authority in discontinuing and reconnecting service to the defaulting Member Entity.

d. Disputed Payments. If the amount of an invoice is disputed by any Member Entity due to questions regarding the accuracy of the Meter readings or for other reasons, the Member Entity so billed shall pay the full amount of the invoice as billed and include with the payment an explanation of the amount in dispute and the reason therefor. The Authority and affected Member Entity shall in good faith cooperate to resolve any such protest or discrepancy in billing in a timely manner. The Member Entity shall pay the difference between the amount previously paid for the month in question and the revised or amended invoice in a timely manner not to exceed thirty (30) days. If a refund is due, the Authority shall at its election either: (1) refund the difference to the Member Entity in a timely manner not to exceed thirty (30) days; or (2) credit the difference to the next month's invoice of the affected Member Entity. No adjustment shall be made unless notification to the Authority of the dispute is made before the applicable due date or within a reasonable period from the time the Member Entity knew, or should have known, of the facts giving rise to the dispute.

e. Take or Pay Obligation. Each Member Entity shall be obligated to pay for its respective Minimum Purchase, regardless of whether the Member Entity actually is delivered or receives any water during the billing period. In accordance with N.C. Gen. Stat. § 162A-6(b), each Member Entity acknowledges and agrees that the Minimum Purchase amount must be paid each month following the Commencement Date based on the unit rate in effect at the time, as determined in accordance with Paragraph 6.a. of this Agreement. Payments shall be

made in a timely manner and such obligation is absolute, unconditional, irrevocable, and required to be performed strictly in accordance with this Agreement and without abatement or reduction under all circumstances. The Authority and Member Entities acknowledge that such payment obligations of the Member Entities are in consideration of any output or capacity that may at any time be available from the System.

f. Obligation to Make Default Payments. Each Member Entity shall be obligated to pay its proportionate share of the amount needed to pay the Minimum Purchase amount of any Member Entity that defaults on its obligation to pay for its Minimum Purchase. The proportionate share of each Member Entity shall be a fraction, the numerator of which shall be the Member Entity's Minimum Purchase and the denominator of which shall be the Aggregate Minimum Purchases of all Member Entities. If a revenue shortage occurs due to the default of any Member Entity, the Authority shall send an invoice to each non-defaulting Member Entity stating the amount owed for the non-defaulting Member Entity's respective share of the defaulting Member Entity's shortfall. Each non-defaulting Member Entity shall remit payment to the Authority promptly and in no case less than thirty (30) days from receipt of the invoice. Payment of any such default payment shall not be subject to the disputed bill provisions of Paragraph 6.c. of this Agreement, except as to the amount of the proportionate share that is owed by the non-defaulting Member Entity. Default payments made by non-defaulting Member Entities shall not relieve the defaulting Member Entity of the obligation to pay for its Minimum Purchase or actual purchase of water as properly invoiced. Any subsequent payment by the defaulting Member Entity shall be credited to the accounts of each non-defaulting Member Entity in proportion to their respective share of the default payments made.

7. EXPANSIONS AND IMPROVEMENTS TO SYSTEM.

a. Planning for System Expansions and Improvements. The Authority shall be responsible for undertaking whatever planning, engineering analyses, and studies are necessary to expand the System to meet future water supply needs of the Member Entities, to meet any contractual obligations of the Authority to third party purchasers of water, to make improvements to the facilities, equipment, and services as necessary to comply with all applicable laws and regulations, and to provide a reliable and safe treated water supply to the Member Entities. The Authority may, but is not obligated to, provide financial, technical and

operational assistance to Member Entities for the maintenance, expansion, or improvement of their respective water supply facilities. Such assistance shall not increase any financial obligations of the Member Entities under this Agreement, except by agreement between the Authority and Member Entity. Related costs shall be paid for out of the Authority's capital improvements budget as approved by the Board. Prior to January 10th of each year, each Member Entity shall provide the Authority a five-year projection of its annual Full Water Requirements for planning purposes. A proposed one-year and five-year capital improvements budget shall be presented to the Authority at the February meeting, taking into consideration the recommendations of the budget committee to be established under Paragraph 4.c. of this Agreement, which budget shall include funding for expansions and improvements of the System, in addition to Operation and Maintenance of the System and Administrative Expenses of the System, as necessary and appropriate to provide for the future needs of the Member Entities. The proposed capital improvements budget shall subsequently be circulated to each Member Entity and the Board in conjunction with the proposed Operating Budget at least twenty- one (21) days in advance of the March meeting. A final capital improvements budget for the upcoming one-year and five-year period shall be approved at each March meeting and subsequently included as part of the annual financial report of the Authority presented at the Annual Meeting each year.

b. Financing of Expansions and Improvements to System. The Authority shall endeavor to finance expansions and improvements to the System from its regular operating and capital improvements budget using scheduled revenues or grant monies. As necessary and appropriate, the Authority may, after due notice and consultation with and subject to the consent of all Member Entities, incur additional bond or loan obligations to pay for any required capital improvements. Each Member Entity shall be obligated to pay for any such additional indebtedness on the same terms and conditions as set forth in this Agreement. Capital improvements may include without limitation construction of additional transmission lines to serve new or additional customers or Member Entities. At its sole discretion, the Authority may require any entity that joins the Authority after the date of this Agreement to pay a tap fee and/or availability fee or other fees to cover the costs of installing the additional transmission line(s) or treatment capacity required to serve such new or additional customers or entity. The amount of any such tap or availability fee shall be established after a feasibility study of adding such

customers or entity has been completed and approved by the Board and agreed upon and included in any water supply or joinder agreement entered into between the Authority and any other entity.

8. AUTHORITY COVENANTS.

a. Construction of System. The Authority shall proceed diligently, subject to the availability of adequate funds, with the construction of the System necessary to the performance of its obligations under this Agreement. The design and construction of the System shall be based on sound engineering standards and practices prevailing at the time of construction and shall be in accordance with the plans and specifications for the System as approved by the State of North Carolina. The Authority shall use its best efforts to have the entire System on line at the same time in order to have the ability to supply water to all Member Entities at the same time, except to the extent that the Authority elects to proceed with the Project in phases in accordance with Paragraph 2 of this Agreement. The Authority shall make a diligent effort to have the System completed and ready to commence operations by March, 2007, but the Authority does not guarantee delivery of water by that date. The Authority shall not be liable to any Member Entity for any damages occasioned by the delay in the construction or startup of the System, and all payments provided for under this Agreement related to the Minimum Purchase shall be due and payable in accordance with the terms of this Agreement notwithstanding any such delay.

b. Supply of Water. The Authority hereby warrants and represents, and shall be obligated to, subject to the availability of water, the limits on supply set forth in Paragraph 5.c. above of this Agreement, and all other terms and conditions of this Agreement, supply treated water meeting all applicable federal and state drinking water laws and regulations, at the Point(s) of Supply of each Member Entity in an amount required to meet the Member Entity's Full Water Requirements. The Authority shall use its best efforts to ensure that each storage tank within both the System and each Member Entity's water supply facilities remains full, subject to the availability of water and limits on supply set forth in Paragraph 5.c. of this Agreement. The foregoing notwithstanding, it is specifically understood and agreed that the responsibility of the Authority under this Agreement is limited to supplying treated water to the

Member Entity at the Point(s) of Supply, so that each Member Entity may distribute said water to its customers. Title to the water shall pass to the Member Entity as the water passes through the respective Point(s) of Supply, except to the extent that treated water is being transferred or "wheeled" to a Member Entity or other entity through a Member Entity's water supply facilities pursuant to Paragraph 9.f. of this Agreement, in which case title to the treated water shall remain with the Authority to the Point(s) of Supply of the receiving Member Entity or other entity. The Authority is not responsible for supplying treated water to the individual retail customers of each Member Entity, or for billing or otherwise administering the water supply facilities or services of the Member Entities.

c. Testing of System at Point(s) of Supply. The Authority shall furnish to each Member Entity, without charge, such water as is needed for the testing of the System, Point(s) of Supply, Meters, and back flow prevention devices, and for obtaining any permits or approvals needed to commence, continue, or resume operation of the System. Such testing shall include tests of the quality of the water supplied to each Member Entity to ensure that the water quality meets all applicable federal and state requirements pertaining to d water systems.

d. Operation and Maintenance of System. The Authority shall be responsible for the operation and maintenance of the System in accordance with the terms and conditions of this Agreement and any applicable law and regulations. The Authority shall employ qualified staff to operate the System, including without limitation treatment plant operators who are properly certified by the State of North Carolina, laboratory personnel who are qualified to conduct testing of the quality of the water being provided to the Member Entities, transmission system personnel who are capable of monitoring and repairing as needed the transmission lines in the System between the treatment plant and Points(s) of Supply, and management and administrative personnel who are qualified to conduct the normal planning, management, and financial affairs of the Authority.

e. Repairs. The Authority shall be responsible for making all routine and emergency repairs of the System and shall maintain the necessary personnel, equipment, and vehicles to carry out repairs. The Authority shall maintain an emergency number and make available to the appropriate officials of each Member Entity other means of contacting the

Authority during emergency situations for the purpose of responding to emergency conditions that may arise. All such costs shall be paid by the Authority as they are incurred, and an estimate of costs for the year shall be included in the Authority's annual operating budget and be considered in establishing the unit rate to be charged to the Member Entities from time to time. A Member Entity may, in its sole discretion, call upon the Authority to undertake or assist with emergency repairs of the Member Entity's water supply facilities within its Service Area, provided that: (a) the Member Entity shall reimburse the Authority for the Authority's reasonable expenses and costs, and the Authority shall in no way assume any obligation to perform or liability whatsoever for such emergency repairs; and (b) the other Member Entities shall have no financial obligation to the Authority for such repairs, including the failure of the delinquent Member Entity to reimburse the Authority, except as provided in Paragraph 6.a. of this Agreement. In such instances, the Member Entity shall save and hold the Authority harmless from any and all damages, losses, or claims related to such emergency repair(s), except for the willful or negligent acts or omissions of the Authority in performing such repairs.

f. Insurance. The Authority shall carry insurance or maintain self-insurance of the kinds and in the amounts customarily carried or maintained by parties operating similar type and size water supply systems in North Carolina, including without limiting the generality of the foregoing, fire, casualty, directors and officers, and other casualty and public liability insurance or protection. Each Member Entity shall be listed as an additional insured on all policies, as applicable, and the Authority shall waive its subrogation rights with respect to the Member Entities. All monies received for losses under the insurance policies or on deposit as self-insurance reserve funds shall be used in making good the loss or damage for which such monies were paid, except to the extent not deemed by the Board to be useful or necessary for the continued operation of the System or required under any indebtedness documentation of the Authority.

9. MEMBER ENTITY COVENANTS.

a. Ownership and Operation of Member Entity Water Supply Facilities. Each Member Entity shall continue to own, operate, and maintain its respective water supply facilities, except as otherwise agreed by the Member Entity and the Authority. Each Member Entity shall be responsible for operating and maintaining its water supply facilities in a

manner so as not to interfere with, disrupt, contaminate, or otherwise adversely affect the operation of the System or the supply of water to other Member Entities. All costs for operating and maintaining the Member Entity's water supply facilities shall be borne by the respective Member Entity and shall under no circumstances become an obligation of the Authority; provided, however, the Authority with the consent of a Member Entity shall provide or pay for maintenance, modifications, or expansions of a Member Entity's water supply facilities, including without limitation, the Member Entity's well system, as necessary to meet the Authority's obligations under applicable federal and state laws and regulations, any contractual obligations of the Authority for the supply of water to third parties, or the terms and conditions of this Agreement. Any such maintenance, modifications or expansions shall not increase the financial obligations of any Member Entity under this Agreement, except by agreement between the Authority and Member Entity. The Authority covenants that it will not use the power of eminent domain granted by N.C. Gen. Stat. § 162A to acquire any Member Entity's water supply facilities or any portion thereof, including without limitation any groundwater wells. The parties agree, however, that at the request of a Member Entity and with the approval of the Authority, a Member Entity may transfer ownership or operation of any or all of its water supply facilities, including without limitation its groundwater wells, to the Authority on terms mutually agreeable to the respective Member Entity and Authority. Should a Member Entity sell or otherwise transfer ownership of its water supply facilities to the Authority, then, and in that event, the Authority agrees that for the term of this Agreement and any extension thereof, the obligations of the transferring Member Entity under this Agreement shall remain in full force and effect with respect to the assets, revenues, and customers transferred as if the Member Entity remained a party to this Agreement.

b. Modifications or Expansions of Water Supply Facilities. With respect to any planned modifications or expansions of a Member Entity's water supply facilities, each Member Entity agrees to: (1) be solely responsible for the planning, constructing, operating, and financing of any such maintenance, modifications or expansions except as otherwise agreed by the Member Entity and the Authority; (2) notify the Authority at least thirty (30) days in advance of any maintenance or modification and ninety (90) days in advance of any expansion that may have any effect on the operation of the System; (3) coordinate with the

Authority regarding the effect of any such changes on the System and compliance with the Rules; and (4) schedule such maintenance, modifications or expansions such that the Authority shall have a reasonable opportunity to construct or modify the System so as to meet the Member Entity's Full Water Requirements after completion of the maintenance, modification or expansion. The Authority shall be under no obligation to supply treated water to a Member Entity for any expansion of the Member Entity's water supply facilities: (1) absent proper notice; (2) without a reasonable opportunity to undertake any necessary modifications or expansions of the System; (3) if the limit on supply would be exceeded; (4) if adequate funding to pay for any necessary modifications or expansions of the System is not available on terms acceptable to the Authority; (5) if the maximum allocation of water for that Member Entity under this Agreement would be exceeded; or (6) if applicable laws or regulations would be contravened.

c. Financial Obligations of Member Entities. Each Member Entity shall be responsible for making payments as required under paragraph 6. to the Authority, including any default payments necessary to make up the shortfall in payments by other Member Entities, and shall promptly pay each monthly invoice received from the Authority, subject only to the payment dispute provisions of Paragraph 6.c. of this Agreement. Each Member Entity warrants and represents that it has the authority and ability to meet its respective financial obligations under this Agreement and that it shall adopt a budget each year that provides for the payment of the Member Entity's financial obligations under this Agreement. The Member Entity shall not incur any obligation or indebtedness with respect to any municipal water supply facilities that would impair its ability to meet its financial obligations under this Agreement. Each Member Entity agrees to adopt water rates for its customers and collect such revenues as are sufficient to meet the financial obligations of the Member Entity under this Agreement. Each Member Entity agrees to pay the cost of operating and maintaining its respective water supply facilities.

d. Member Entity Policies. Each Member Entity shall establish its own policies and procedures with respect to: (1) the sale of treated water to its customers; (2) the modification or expansion of its water supply facilities; (3) tap or availability fees or other charges; (4) connections by its customers to the Member Entity's water supply facilities; (5) customer water rates; (6) billing and collection; and (7) general administration of its water

supply facilities; provided, however, that all such policies and procedures shall not be in conflict with the operation of the System, the Authority's obligations under applicable federal and state laws and regulations, and the terms and conditions of this Agreement.

e. Transfer of Water to Other Member Entities. Each Member Entity agrees to allow and undertake as necessary the transfer or "wheeling" of water supplied by the Authority to any other Member Entity through the water supply facilities of the transferring Member Entity. In such instances, the Authority shall reimburse the transferring Member Entity for the reasonable design, planning, permitting, construction, pumping, operating, repair, maintenance, and other costs of such water transfers, including without limitation any transmission losses that occur during the transfer of water through the Member Entity's water supply facilities. Reimbursement for transmission losses shall be made monthly as an adjustment to the transferring Member Entity's invoice, unless agreed to otherwise, and shall be based on the transferring Member Entity's documented transmission line losses for the preceding Annual Period, with a maximum reimbursement of ten percent (10%) or the accepted industry standard for water transmission line losses as may be determined by the Authority in coordination with the affected Member Entity, whichever is less. The Authority shall save and hold the transferring Member Entity harmless from any losses, damages, or claims arising from any such water transfers, except for the willful or negligent acts or omissions of the transferring Member Entity. Title to such transferred or "wheeled" water shall remain with the Authority until it passes through the Point(s) of Supply of the receiving Member Entity.

10. ADDITIONAL MEMBER ENTITIES.

Additional entities may become Member Entities by joining the Authority in accordance with the procedures set forth in N.C. Gen. Stat. § 162A. As a prerequisite to joining the Authority, a joinder agreement shall be entered into between the new Member Entity and the Authority which shall specify the terms and conditions under which the new Member Entity shall participate in the Project and be subject to the rights and obligations under this Agreement. The Authority shall undertake a feasibility study of the engineering and financial feasibility of including additional Member Entities under this Agreement before entering into any joinder agreement and shall be under no obligation whatsoever to accept any new Member Entities or to charge the same rates as applicable to other Member Entities as of the date of this

Agreement. Any new Member Entity shall be required to join in this Agreement, including any amendments hereto, on the terms and conditions as set forth in the joinder agreement between the new Member Entity and the Authority. The Authority shall not charge water rates that are lower than the then-applicable unit rate or agree to the participation of any new Member Entity on terms which are more favorable than those provided to Member Entities at that time under this Agreement, including any amendments hereto. Any monies paid by a new Member Entity as a capacity availability fee under a joinder agreement shall be applied towards Debt Service.

11. MISCELLANEOUS PROVISIONS.

a. Effective Date and Term. This Agreement shall take effect as of the hereof and shall continue in effect to and including the later of the 30th day of June, 2043 or forty (40) years from the closing date of any U.S. Department of Agriculture permanent financing (the "Initial Term"). This Agreement shall automatically renew as to each Member Entity for an additional period of forty (40) years or such other term as the Board shall authorize, unless a Member Entity notifies the Authority in writing of its intention not to renew at least twelve (12) months prior to the expiration of the Initial Term..

b. Entire Agreement. This Agreement contains the entire agreement and understanding between the Authority and the Member Entities with regard to the subject matters hereof; and there are no oral understandings, terms, or conditions, and none of the parties has relied upon any representation, express or implied, not contained herein. All prior negotiations and understandings are merged into this Agreement. The recitals set forth in this Agreement are incorporated into and are a part of this Agreement.

c. Amendments. The terms of this Agreement may not be amended or modified except by written agreement duly executed by the Authority and the Member Entities. Amendments to this Agreement shall be approved by a vote of at least two-thirds (2/3) of the Authority's board of directors. No party may assign its rights and obligations under this Agreement without the prior written consent of the other parties.

d. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Authority and the Member Entities and their respective successors and permitted assigns.

e. Severability. If any of the terms, covenants, conditions, or agreements of this Agreement for any reason shall be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any of the other terms, covenants, conditions, or agreements of this Agreement; and any terms, covenants, conditions, and agreements hereof thereafter shall be construed as if such invalid, illegal, or unenforceable terms, covenants, conditions, and agreements never were contained herein.

f. Interpretation. The Authority and the Member Entities each have read and fully understand the terms of this Agreement, and they have had the opportunity to have this Agreement reviewed by legal counsel. The rule of construction providing that ambiguities in an agreement shall be construed against the party drafting the same shall not apply.

g. Multiple Originals. This Agreement is executed in multiple originals; and the Authority and each Member Entity acknowledge receipt of one such original, agree that the multiple originals hereof are identical, and further agree that any such original shall be admissible in any proceeding, legal or otherwise, without the production of any other such original.

h. Force Majeure. In case, by reason of Force Majeure, any party hereto shall be rendered unable, wholly or in part, to carry out its obligation under this Agreement, then, if such party shall give notice and full particulars of such Force Majeure in writing to the other parties within a reasonable time after occurrence of the event or cause relied on, the obligation of the party giving such notice, so far as it is affected by such Force Majeure shall be suspended during the continuance of the inability then claimed, but for no longer period. For purposes of this Agreement, the term "Force Majeure" means an acts of God, including without limitation floods, hurricanes, tornadoes, washouts, droughts, lightening strikes, or fires, civil disturbances, including without limitation, strikes, sabotage, terrorism, riots, lockouts, or other industrial disturbances, or acts of a public enemy, and governmental actions, including without limitation, orders, moratoria, laws, rules, decrees, prohibitions, or judgments, and any other event that is beyond the control of the parties to this Agreement and which causes the Authority or Member Entity to be unable to fulfill its obligations under this Agreement . Any such party shall endeavor to remove or overcome such inability with all reasonable dispatch. The above requirement that any Force Majeure shall be remedied with all reasonable dispatch shall

not require the settlement of strikes and lockouts acceding to the demands of opposing parties when, in the judgment of the party having the difficulty, such settlement would be unfavorable to it. No Force Majeure which renders any of the parties unable to perform under this Agreement shall relieve a Member Entity of its obligation to make payments to the Authority as required under Paragraph 6 of this Agreement.

i. Authority Defaults. The Authority's failure to deliver treated water to a Member Entity as required by this Agreement or the Authority's failure to perform any other obligation under this Agreement and the continuation of that failure to perform for thirty (30) days after written notice from such Member Entity to the Authority of such failure shall be a default of the Authority under this Agreement unless any such failure is excused pursuant to Paragraph 11 of this Agreement.

j. Member Entity Remedies in Event of Authority Default. In the event of a default by the Authority under this Agreement and for so long as the Authority shall remain obligated under any Federal or State bond, note or loan, a Member Entity may bring any action against the Authority, including an action in equity and actions for mandamus and specific performance, to the extent allowed by law, but in any event, whether or not there is an Authority default, such Member Entity shall have no right to cancel or rescind this Agreement, no right to withhold payments due or to become due under this Agreement, no right to recover amounts previously paid under this Agreement, no right of reduction of or set off against amounts due or to become due under this Agreement, and no claim on any amounts in any fund or account of the Authority other than the surplus account of the Authority's water revenue fund, the bond anticipation note debt service fund, the general fund, or the Member Entity deposit funds. Election of any remedy shall not be a waiver of any other remedy. The Authority shall issue its bonds in specific reliance on the limitations set forth in this Paragraph.

k. Member Entity Defaults. A Member Entity's failure to make Minimum Payments as required by Paragraph 6 of this Agreement and the continuation of that failure to perform for sixty (60) days after written notice from the Authority of such failure (routine late payment notices or invoices showing overdue amount shall not constitute notice) shall be a default of the Member Entity under this Agreement, unless such failure is excused pursuant to Paragraph 11 of this Agreement. The failure of a Member Entity that is required to

transfer or "wheel" water to another Member Entity as required under this Agreement shall be a default, unless such failure is excused pursuant to Paragraph 11 of this Agreement.

l. Authority Remedies in Event of Member Entity Default. In the event of a default by a Member Entity under this Agreement and for so long as the Authority shall remain obligated under any Federal or State bond, note or loan, the Authority may bring any action against a Member Entity in default, including an action in equity and actions for mandamus and specific performance to the extent allowed by law. The parties acknowledge that they may have no adequate means to protect their rights under this Agreement other than by securing an injunction. Election of any remedy shall not be a waiver of any other remedy.

m. Conditions Precedent to Authority and Member Entity Obligations.

The Authority and each Member Entity shall be obligated under this Agreement only if: (1) adequate funding for the Project on terms acceptable to the Authority has been secured; and (2) construction costs for the Project, based on valid bids received and certified by the Authority's engineers, do not exceed an amount of one-hundred nine million dollars (\$109 million). In either such event, any ongoing obligations of the Authority and Member Entities under the Agreement shall terminate, unless and until adequate funding is obtained and/or a revised Project cost is approved by the Authority and the Member Entities; (3) all Member Entities participating in the Project execute this Agreement and (4) this Agreement, as written, is approved by USDA/Rural Development and any other state or federal agencies that mandate approval of the form and/or content of inter-local agreements in order for the Authority to obtain bond, note or loan financing.

IN TESTIMONY WHEREOF, each Member Entity has caused this instrument to be executed in its corporate name by its Mayor or President and its seal to be hereunto affixed and attested by its City Clerk or Secretary; and the Authority has caused this instrument to be executed in its corporate name by its Chairman and its seal to be hereunto affixed and attested by its secretary, all as of the date first above written.

transfer or "wheel" water to another Member Entity as required under this Agreement shall be a default, unless such failure is excused pursuant to Paragraph 11 of this Agreement.

l. Authority Remedies in Event of Member Entity Default. In the event of a default by a Member Entity under this Agreement and for so long as the Authority shall remain obligated under any Federal or State bond, note or loan, the Authority may bring any action against a Member Entity in default, including an action in equity and actions for mandamus and specific performance to the extent allowed by law. The parties acknowledge that they may have no adequate means to protect their rights under this Agreement other than by securing an injunction. Election of any remedy shall not be a waiver of any other remedy.

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IN TESTIMONY WHEREOF, each Member Entity has caused this instrument to be executed in its corporate name by its Mayor or President and its seal to be hereunto affixed and attested by its City Clerk or Secretary; and the Authority has caused this instrument to be executed in its corporate name by its Chairman and its seal to be hereunto affixed and attested by its secretary, all as of the date first above written.

Exhibit A
Full Water Requirements

Member Entity	Full Water Requirement (MGD) ¹
City of Kinston	4.094
Town of Pink Hill	0.087
North Lenoir Water Coporation	1.194
Deep Run Water Corporation	0.992
Bell Arthur Water Corporation	0.722
Town of Ayden	0.515
Town of Grifton	0.193

¹Actual 2002 Full Water Requirements, in millions of gallons per day (MGD).

Exhibit B
Minimum Purchases

Member Entity	Minimum Purchase (per month)	
	MG ¹	Dollars ²
City of Kinston	93.394	\$ 243,800
Town of Pink Hill	1.985	\$ 5,200
North Lenoir Water Coporation	27.238	\$ 71,100
Deep Run Water Corporation	22.630	\$ 59,100
Bell Arthur Water Corporation	16.471	\$ 43,000
Town of Ayden	11.748	\$ 30,700
Town of Grifton	4.403	\$ 11,500

¹Based on 75 percent of the Full Water Requirements over a one month period

²Based on an estimated rate of \$2.61 per 1,000 gallons

IN TESTIMONY WHEREOF, each Member Entity has caused this instrument to be executed in its corporate name by its Mayor or President and its seal to be hereunto affixed and attested by its City Clerk or Secretary; and the Authority has caused this instrument to be executed in its corporate name by its Chairman and its seal to be hereunto affixed and attested by its secretary, all as of the date first above written.

NEUSE REGIONAL WATER AND SEWER
AUTHORITY

BY: Wayne M. Malm
Chairman

(SEAL)

J. Lee Poff
Secretary

STATE OF NORTH CAROLINA
COUNTY OF LENOIR

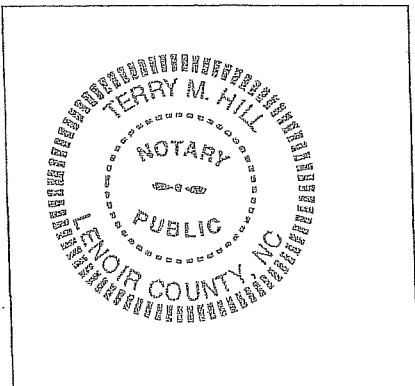
I, Terry M. Hill, a notary public in and for said county and state, do hereby certify that on the 5th day of Nov, 2003 before me personally appeared Wayne D. Malone, who, being by me duly sworn, says that he is the Chairman of the NEUSE REGIONAL WATER AND SEWER the Authority, a political subdivision of the State, and that J. Allen Parrott is the Secretary of the NEUSE REGIONAL WATER AND SEWER AUTHORITY, the body politic described in and which executed the foregoing instrument; that he knows its common seal; that the seal affixed to the foregoing instrument is said common seal; that the name of said body politic was subscribed thereto by the said Secretary; that the said common seal was affixed; all by order of its and that the said instrument is its act and deed.

WITNESS my hand and notary seal, this 5th day of Nov., 2003.

Terry M. Hill
Notary Public

My Commission Expires:

2/26/2005



Notary seal or stamp must appear within above box.

IN TESTIMONY WHEREOF, each Member Entity has caused this instrument to be executed in its corporate name by its Mayor or President and its seal to be hereunto affixed and attested by its City Clerk or Secretary; and the Authority has caused this instrument to be executed in its corporate name by its Chairman and its seal to be hereunto affixed and attested by its secretary, all as of the date first above written.

NEUSE REGIONAL WATER AND SEWER
AUTHORITY

By: _____
Chairman

[SEAL]

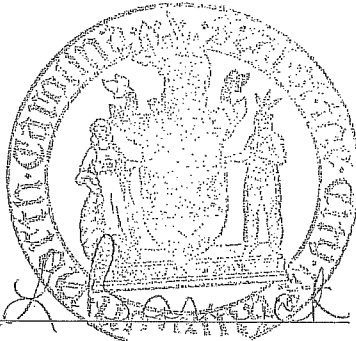
Secretary

CITY OF KINSTON

By: Johnnie Mosley
Mayor

[SEAL]

Carol K. [Signature]
City Clerk



TOWN OF LA GRANGE

By: _____
Mayor

[SEAL]

Town Clerk

STATE OF NORTH CAROLINA
COUNTY OF LENOIR

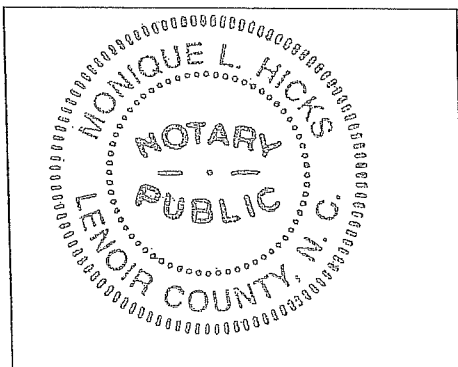
I, MONIQUE L. HICKS, a Notary Public in and for said County and State, do hereby certify that on the 3rd day of November, 2003, before me personally appeared JOHNNIE MOSLEY with whom I am personally acquainted, who, being by me duly sworn, says that he is Mayor and that CAROL L. BARWICK is Town Clerk of the CITY OF KINSTON, the municipal corporation described in and which executed the foregoing instrument; that he knows the common seal of said municipal corporation; that the seal affixed to the foregoing instrument is said common seal; that the name of the municipal corporation was subscribed thereto by the said Mayor; that the said Mayor and Town Clerk subscribed their names thereto and the said common seal was affixed, all by authority of the governing body of said municipal corporation; and that the said instrument is the act and deed of said municipal corporation.

WITNESS my hand and notarial seal, this the 3rd day of November, 2003.

Monique L. Hicks
Notary Public

My commission Expires:

July 4, 2006



Notary seal or stamp must appear within above box.

TOWN OF PINK HILL

BY: Anthony Mitchell
Mayor

(SEAL)

Carol Ayer
Town Clerk



STATE OF NORTH CAROLINA
COUNTY OF LENOIR

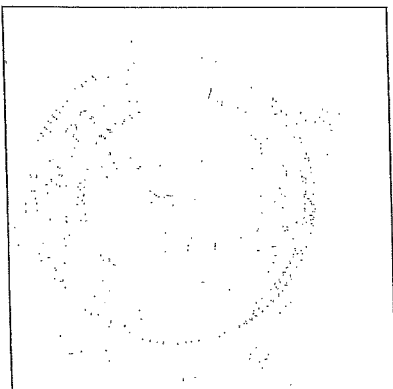
I, George L. Jenkins Jr., a Notary Public in and for said County and State, do hereby certify that on the 11th day of November, 2003, before me personally appeared Anthony Mitchell with whom I am personally acquainted, who, being by me duly sworn, says that he is Mayor and that CAROL SYKES is Town Clerk of the TOWN OF PINK HILL, the municipal corporation described in and which executed the foregoing instrument; that he knows the common seal of said municipal corporation; that the seal affixed to the foregoing instrument is said common seal; that the name of the municipal corporation was subscribed thereto by the said Mayor; that the said Mayor and Town Clerk subscribed their names thereto and the said common seal was affixed, all by authority of the governing body of said municipal corporation; and that the said instrument is the act and deed of said municipal corporation.

WITNESS my hand and notarial seal, this the 11 day of November, 2003.

George L. Jenkins Jr.
Notary Public

My Commission Expires:

4/7/2007



Notary seal or stamp must appear within above box.

NORTH LENOIR WATER CORP.

BY: John W. Pope
President

ATTEST:

W. Balnt Taylor Jr
Secretary

(CORPORATE SEAL)



STATE OF NORTH CAROLINA
COUNTY OF LENOIR

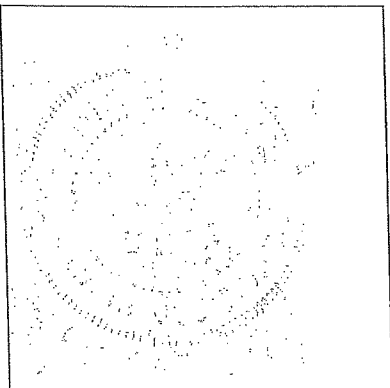
I, Addie H Duke, a Notary Public in and for said County and State, do hereby certify that on the 19th day of November, 2003, before me personally appeared John W. Pope with whom I am personally acquainted, who, being by me duly sworn, says that he is presiding President and that W. Ralph Taylor Jr is presiding Secretary of NORTH LENOIR WATER CORPORATION, the corporation described in and which executed the foregoing instrument; that he knows the common seal of said corporation; that the seal affixed to the foregoing instrument is said common seal; that the name of the corporation was subscribed thereto by the said presiding President; that the said presiding President and presiding Secretary subscribed their names thereto and the said common seal was affixed, all by authority of the Board of Directors of said corporation; and that the said instrument is the act and deed of said corporation.

WITNESS my hand and notarial seal, this the 19th day of November, 2003.

Addie H Duke
Notary Public

My Commission Expires:

April 29, 2006



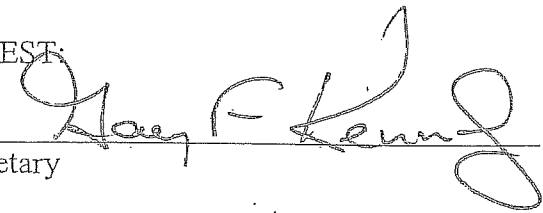
Notary seal or stamp must appear within above box.

DEEP RUN WATER CORP

BY: 

President

ATTEST:


Secretary

(CORPORATE SEAL)

STATE OF NORTH CAROLINA
COUNTY OF Lenoir

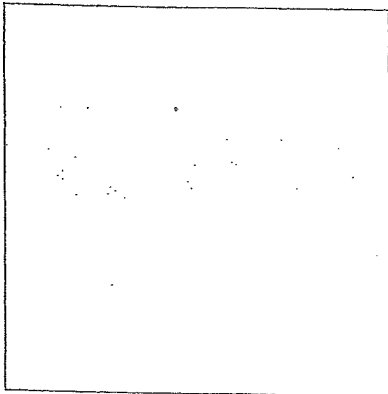
I, Angela H. Nethercutt, a Notary Public in and for said County and State, do hereby certify that on the 14th day of November, 2003, before me personally appeared Leroy R. Stroud with whom I am personally acquainted, who, being by me duly sworn, says that he is _____ President and that Mary F. Kennedy is _____ Secretary of DEEP RUN WATER CORP., the corporation described in and which executed the foregoing instrument; that he knows the common seal of said corporation; that the seal affixed to the foregoing instrument is said common seal; that the name of the corporation was subscribed thereto by the said _____ President; that the said _____ President and _____ Secretary subscribed their names thereto and the said common seal was affixed, all by authority of the Board of Directors of said corporation; and that the said instrument is the act and deed of said corporation.

WITNESS my hand and notarial seal, this the 14th day of November, 2003.

Angela H. Nethercutt
Notary Public

My Commission Expires:

3-27-04



Notary seal or stamp must appear within above box.

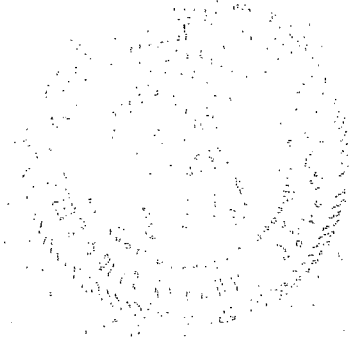
BELL ARTHUR WATER CORPORATION

BY: Glen Leibel
President

ATTEST:

Sastor Monk
Secretary

(CORPORATE SEAL)



STATE OF NORTH CAROLINA
COUNTY OF Pitt

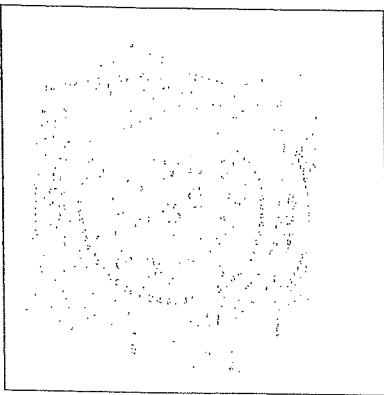
I, Janice J. Barrett, a Notary Public in and for said County and State, do hereby certify that on the 27th day of October, 2003, before me personally appeared Glenn Strickland with whom I am personally acquainted, who, being by me duly sworn, says that he is _____ President and that Gaston Mock is _____ Secretary of BELL ARTHUR WATER CORPORATION, the corporation described in and which executed the foregoing instrument; that he knows the common seal of said corporation; that the seal affixed to the foregoing instrument is said common seal; that the name of the corporation was subscribed thereto by the said _____ President; that the said _____ President and _____ Secretary subscribed their names thereto and the said common seal was affixed, all by authority of the Board of Directors of said corporation; and that the said instrument is the act and deed of said corporation.

WITNESS my hand and notarial seal, this the 27th day of October, 2003.

Janice J. Barrett
Notary Public

My Commission Expires:

November 23, 2006



Notary seal or stamp must appear within above box.

TOWN OF AYDEN

BY: Michael J. Aus
Mayor

ATTEST:

Dorothy C. Budjic
Town Clerk

(SEAL)

STATE OF NORTH CAROLINA
COUNTY OF PITT

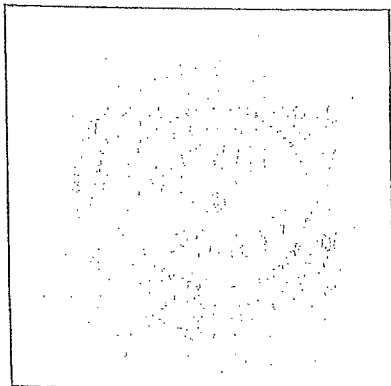
I, Cynthia W. Duxon, a Notary Public in and for
said County and State, do hereby certify that on the 12th day of November,
2003, before me personally appeared Michael Q. House with whom I am
personally acquainted, who, being by me duly sworn, says that he is Mayor and that
Dorothy C. Bridges is Town Clerk of the TOWN OF AYDEN, the municipal
corporation described in and which executed the foregoing instrument; that he knows the
common seal of said municipal corporation; that the seal affixed to the foregoing instrument is
said common seal; that the name of the municipal corporation was subscribed thereto by the said
Mayor; that the said Mayor and Town Clerk subscribed their names thereto and the said common
seal was affixed, all by authority of the governing body of said municipal corporation; and that
the said instrument is the act and deed of said municipal corporation.

WITNESS my hand and notarial seal, this the 12th day of November,
2003.

Cynthia W. Duxon
Notary Public

My Commission Expires:

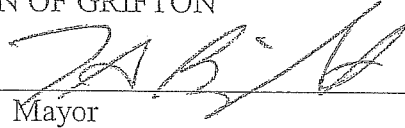
March 19, 2008



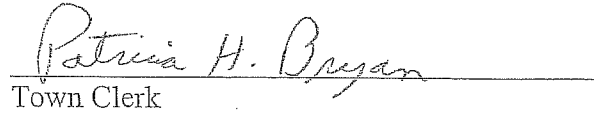
Notary seal or stamp must appear within above box.

TOWN OF GRIFTON

BY:


Mayor

ATTEST:


Town Clerk

(SEAL)

STATE OF NORTH CAROLINA
COUNTY OF PITT

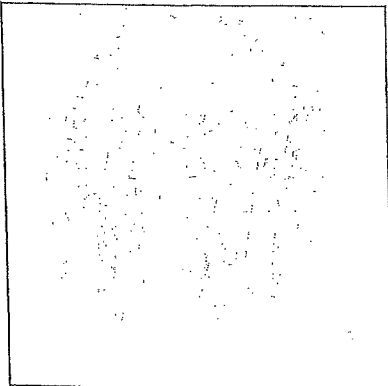
I, Frederica R. Hudson, a Notary Public in and for said County and State, do hereby certify that on the 11 day of November, 2003, before me personally appeared T.A. Bright with whom I am personally acquainted, who, being by me duly sworn, says that he is Mayor and that Patricia H. Bryan is Town Clerk of the TOWN OF GRIFTON, the municipal corporation described in and which executed the foregoing instrument; that he knows the common seal of said municipal corporation; that the seal affixed to the foregoing instrument is said common seal; that the name of the municipal corporation was subscribed thereto by the said Mayor; that the said Mayor and Town Clerk subscribed their names thereto and the said common seal was affixed, all by authority of the governing body of said municipal corporation; and that the said instrument is the act and deed of said municipal corporation.

WITNESS my hand and notarial seal, this the 11 day of November, 2003.

Frederica R. Hudson
Notary Public

My Commission Expires:

2-16-04



Notary seal or stamp must appear within above box.

TOWN OF LA GRANGE

BY: Woodard H. Gwiley
Mayor

(SEAL)

Phyllis J. Harrison
Town Clerk

STATE OF NORTH CAROLINA
COUNTY OF LENOIR

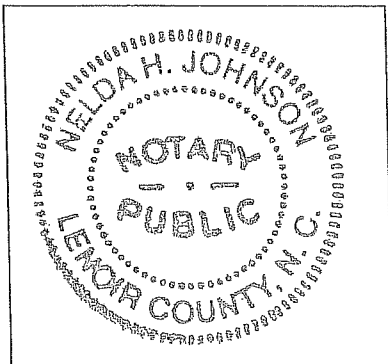
I, Nelda H. Johnson, a Notary Public in and for said County and State, do hereby certify that on the 23 day of August, 2004, before me personally appeared Woodard H. Gurley with whom I am personally acquainted, who, being by me duly sworn, says that he is Mayor and that Phyllis T. Harrison is Town Clerk of the TOWN OF LA GRANGE, the municipal corporation described in and which executed the foregoing instrument; that he knows the common seal of said municipal corporation; that the seal affixed to the foregoing instrument is said common seal; that the name of the municipal corporation was subscribed thereto by the said Mayor; that the said Mayor and Town Clerk subscribed their names thereto and the said common seal was affixed, all by authority of the governing body of said municipal corporation; and that the said instrument is the act and deed of said municipal corporation.

WITNESS my hand and notarial seal, this the 23 day of August, 2004.

Nelda H. Johnson
Notary Public

My Commission Expires:

October 5, 2007



Notary seal or stamp must appear within above box.