

**RESOLUTION NO. 2012-003**

**A RESOLUTION PRESCRIBING THE FORM AND DETAILS OF GENERAL OBLIGATION REFUNDING AND IMPROVEMENT BONDS, SERIES 2012, IN THE PRINCIPAL AMOUNT OF \$7,525,000, OF THE CITY OF PAOLA, KANSAS, AS AUTHORIZED BY ORDINANCE NO. 3043 OF THE CITY; MAKING COVENANTS AND AGREEMENTS AND AUTHORIZING CERTAIN OTHER DOCUMENTS REGARDING THE BONDS.**

WHEREAS, the governing body of the City of Paola, Kansas (the “City”) has adopted Ordinance No. 3043 (the “Bond Ordinance”) authorizing the issuance of the City’s General Obligation Refunding and Improvement Bonds, Series 2012 (the “Bonds”); and

WHEREAS, the Bond Ordinance authorized the governing body of the City to adopt a resolution prescribing certain details and conditions and to make certain covenants with respect to the issuance of the Bonds.

NOW, THEREFORE, BE IT RESOLVED BY THE GOVERNING BODY OF THE CITY OF PAOLA, KANSAS:

SECTION 1. Authority for Bonds; Security. In the Bond Ordinance the City has authorized the issuance of the Bonds for the purposes described in the Bond Ordinance. Payment of the Bonds is secured as described in the Bond Ordinance. Terms used in this Bond Resolution and not defined herein shall have the meanings given them in the Bond Ordinance.

SECTION 2. Details of Bonds; Payment of Principal and Interest. The Bonds shall be issued in the principal amount of \$7,525,000 designated “City of Paola, Kansas, General Obligation Refunding and Improvement Bonds, Series 2012”; and shall be dated as of the date of delivery (the “Dated Date”). The Bonds mature on September 1 (the “Principal Payment Date”) in each of the years and in the principal amounts and bear interest at the respective rates per annum (computed on the basis of a 360-day year of twelve 30-day months), as follows:

Maturity Schedule  
SERIAL BONDS

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
09/01/2012	\$ 35,000	2.000%
09/01/2013	315,000	2.000%
09/01/2014	565,000	2.000%
09/01/2015	620,000	2.000%
09/01/2016	455,000	2.000%
09/01/2017	270,000	2.000%
09/01/2018	280,000	2.500%
09/01/2019	290,000	2.500%

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
09/01/2020	305,000	2.500%
09/01/2021	320,000	2.750%
09/01/2022	335,000	2.750%
09/01/2023	345,000	2.750%
09/01/2024	365,000	2.750%
09/01/2025	380,000	2.625%
09/01/2026	395,000	3.000%
09/01/2027	410,000	3.000%
09/01/2028	430,000	3.000%
09/01/2029	450,000	3.000%

TERM BONDS

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
09/01/2031	\$960,000.00	3.200%

Subject to the book-entry provisions of Section 6 of this Resolution, the Bonds shall be issued as fully registered certificated bonds without coupons in denominations of \$5,000, or integral multiples thereof not exceeding the principal amount of Bonds maturing on the respective Principal Payment Date; and the Bonds shall be numbered in such manner as the Bond Registrar (hereinafter defined) shall determine.

The principal amount of the Bonds shall be payable in lawful money of the United States of America by check or draft of the Paying Agent upon the presentation of the Bonds for payment and cancellation at the Paying Agent's principal office in the City of Topeka, Kansas. The interest on the Bonds shall be payable in lawful money of the United States of America to the owners of bonds (the "Owners") of record as of the as of the fifteenth (15th) day of the month prior to the Interest Payment Date (the "Record Date"), by check or draft of the Paying Agent mailed to the Owners at their addresses as shown on the Registration Books (defined in Section 5), or at such other address as an Owner has furnished in writing to the Paying Agent and Bond Registrar, or in the case of an interest payment to an Owner of \$500,000 or more aggregate principal amount of the Bonds or an Owner that is a securities depository, by electronic transfer, upon written notice given to the Paying Agent by that Owner, not less than 15 days before the Record Date for such payment, containing the electronic transfer instructions, including the bank address, ABA routing number and account number where the wire transfer should be directed.

The interest on the Bonds shall be payable semiannually on March 1 and September 1 of each year (the "Interest Payment Dates"), commencing September 1, 2012, to the Owners of the Bonds as shown on the Registration Books as of the Record Date. The Bonds shall bear interest from the Dated Date or from the most recent Interest Payment Date immediately preceding the effective authentication date of such Bond, unless the effective authentication date is an Interest Payment Date, when the Bonds shall bear interest from such Interest Payment Date. The effective date of authentication shall be the date of authentication by the Bond Registrar, as set forth on each Bond.

If a Principal Payment Date or an Interest Payment Date (collectively, a “Payment Date”) occurs on a date which is a Saturday, a Sunday or any day designated as a holiday by the Congress of the United States or by the legislature of the State of Kansas and on which the Paying Agent is normally scheduled to be closed, then the payment of such principal, premium or interest may be made on the next succeeding business day with the same force and effect as if made on the scheduled Payment Date, and no interest shall accrue for the period after the scheduled Payment Date.

The Paying Agent shall make payment directly to DTC or its nominee, as the registered owner, for the principal of and the interest on the Bonds; and DTC will remit such principal and interest to its Direct Participants for distribution to the Beneficial Owners, all as defined and in the manner set forth in Section 6 and as governed by the terms of the Letter of Representation (hereinafter defined).

SECTION 3. Redemption of Bonds.

(A) Optional Redemption. The Bonds maturing in the years 2012 to 2020, inclusive, shall become due and payable on their respective maturity dates without the option of prior call for redemption. At the option of the City, the Bonds maturing in the year 2021, and thereafter, may be called for redemption and payment prior to their respective maturities, on September 1, 2020 or any time thereafter, as a whole or in part, as determined by the City, at a redemption price equal to the principal amount, plus accrued interest to the date of redemption, without premium.

(B) Mandatory Redemption of Term Bonds. Each of the Bonds maturing on September 1, 2031 (the “Term Bonds”), shall be subject to mandatory redemption and payment as described herein, beginning September 1, 2030, and continuing on September 1 of each year thereafter pursuant to the redemption schedule set out below, at the principal amount thereof, plus accrued interest thereon to the date fixed for redemption and payment, without premium.

The transfers to the Series 2012 Principal and Interest Account required by this Resolution which are to be made for payments commencing September 1, 2030, shall be sufficient to redeem, and the City hereby agrees to redeem, the following principal amounts of the Term Bonds on September 1 in each of the following years:

<u>Redemption Date</u>	<u>Principal Amount</u>
2030	\$470,000

(Leaving \$490,000 to mature on September 1, 2031)

The Term Bonds to be redeemed and paid as described above shall be selected by the Paying Agent in such equitable manner as it may designate. The Paying Agent shall each year in which the Term Bonds are to be redeemed make timely selection of the Term Bonds to be so redeemed and shall give notice thereof to the Owners as herein provided without further instructions from the City.

(C) Selection of Bonds to be Redeemed. The Bonds shall be redeemed only in face amounts of \$5,000 or integral multiples thereof. If the City elects to call for redemption less than all of the Bonds at the time outstanding, the Bonds shall be redeemed in such manner as the City shall determine, with Bonds of less than a full maturity to be selected by lot in units of \$5,000; and the City shall, in the case of Bonds registered in denominations greater than \$5,000, treat each \$5,000 of face value of a Bond so registered as though it were a separate Bond in the denomination of \$5,000. If it is determined that one or more, but not all, of the \$5,000 units of face value represented by any fully registered Bond certificate is selected for redemption, then the Owner of such Bond shall present and surrender such Bond to the Paying Agent for payment of the redemption price of the \$5,000 unit or units of face value called for redemption, and for exchange, without charge to the Owner, for a new Bond or Bonds of the aggregate principal amount of the unredeemed portion of the principal amount of such Bond. If the Owner of any such Bond of a denomination greater than \$5,000 fails to present such Bond to the Paying Agent for payment and exchange, such Bond shall, nevertheless, become due and payable on the redemption date to the extent of the principal amount thereof called for redemption (and to that extent only).

(D) Notice of Redemption. The City shall give notice of any call for redemption and payment in writing to the Paying Agent not less than forty-five (45) days prior to the redemption date; and the Paying Agent shall give notice of such call for redemption and payment in writing mailed via United States first class mail to the Owners of the Bonds so called not less than thirty (30) days prior to the redemption date, unless any Owner has waived written notice of redemption. The City shall also give or cause to be given any additional notice as may be required by the laws of the State of Kansas which are in effect as of the date of giving any such notice. All notices of redemption given under the provisions of this Section shall be dated at least 30 days prior to the redemption date, and shall state (i) the redemption date, (ii) the redemption price, (iii) if less than all Outstanding Bonds are to be redeemed, the identification (and in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed, (iv) that on the redemption date the principal amount, and premium, if any, will become due and payable upon each such Bond or portion thereof selected for redemption, and that the interest on such Bond will not accrue from and after the redemption date and (v) that the Bonds selected for redemption are to be surrendered to or at the principal office of the Paying Agent for payment. The failure of any Owner of the Bonds to receive notice as provided herein or an immaterial defect in such notice shall not invalidate any redemption.

During the time the Bonds are registered in the name of DTC or its nominee (as defined in Section 6), the notice described above shall be delivered to DTC or its nominee. DTC shall in turn, notify its participants. It is expected the participants will then notify or cause to be notified the beneficial owners of the Bonds. A failure on the part of DTC or upon the part of a nominee of beneficial owner of a Bond (having received notice from the Paying Agent, a DTC participant or otherwise) to notify the beneficial owner of the Bonds so affected, shall not affect the validity of the redemption of such Bonds.

In addition to the foregoing, the redemption notice shall contain with respect to each Bond being redeemed, (1) the CUSIP number, (2) the date of issue, (3) the interest rate, (4) the

maturity date, and (5) any other descriptive information determined by the Paying Agent necessary to identify the Bonds. If a redemption is a conditional redemption, the notice shall so state. The Paying Agent shall also send each notice of redemption at least thirty (30) days before the redemption date to (i) any rating service then rating the Bonds to be redeemed; and (ii) all of the registered clearing agencies known to the Paying Agent to be in the business of holding substantial amounts of bonds of a type similar to the Bonds. Any failure to give all or a portion of the additional notice described in this paragraph shall not affect the validity of a call for redemption given according to first paragraph of this Section 3 (C).

(E) Deposit of Moneys for and Payment of Redemption Price. On or prior to the redemption date, the City shall deposit with the Paying Agent sufficient funds to pay the redemption price, together with all unpaid and accrued interest thereon to the redemption date, of all Bonds or portions thereof selected for redemption on the redemption date. Upon the surrender by the Owners of Bonds selected for redemption, the Paying Agent shall pay the redemption price therefor to the Owners. If one or more, but not all, of the \$5,000 units of face value represented by any Bond is selected for redemption and surrendered and paid, then the Paying Agent shall prepare and furnish to the Owner thereof a new Bond or Bonds of the same maturity and in the amount of the unredeemed portion of such Bond as provided above. All Bonds selected, called and surrendered for redemption shall be canceled by the Paying Agent and shall not be reissued.

(F) Effect of Call for Redemption. Whenever any Bond, or one or more of the \$5,000 units of face value represented by any Bond, has been selected for redemption and payment as provided in this Section, all interest on such Bond, or such one or more of the \$5,000 units of face value represented by any such Bond, shall cease from and after the redemption date, provided funds are then available for its payment at the price hereinbefore specified.

SECTION 4. Designation of Paying Agent and Bond Registrar. In the Bond Ordinance the City has designated the State Treasurer of Kansas, Topeka, Kansas as the Bond Registrar and Paying Agent for the Bonds pursuant to the Issuer/Agent Agreement (as defined in the Bond Ordinance) and the Bond Act.

SECTION 5. Ownership; Transfers and Exchanges; Mutilated, Lost, Stolen or Destroyed Bonds. Pursuant to the Issuer/Agent Agreement, the Bond Registrar shall maintain books for the recording of the initial registration and any subsequent transfers of the ownership of the Bonds (the "Registration Books"), and the person(s) in whose name any Bond is registered as shown on the Registration Books shall be deemed and regarded as the absolute Owner thereof for all purposes. Payment of, or on account of, the principal of and the interest on any such Bond shall be made only to or upon the order of the Owner or his duly authorized agent. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond, including the interest thereon, to the extent of the sum or sums so paid.

In the event that the Bonds should be issued and delivered in certificated form at any time after the initial delivery of the Bonds, the Paying Agent shall maintain Registration Books for the ownership of the Bonds on behalf of the City; and the Paying Agent will make payment for the

Bonds directly to the registered owners of the Bonds as shown by the Registration Books in the manner set forth in Section 2.

The provisions, terms, conditions and requirements for the transfer and exchange of the Bonds, and for the replacement of a mutilated, lost, stolen or destroyed Bond shall be as described in the Issuer/Agent Agreement. Replacement bonds delivered upon any transfer or exchange made in compliance with the provisions, terms, conditions and requirements set forth in the Issuer/Agent Agreement shall be valid obligations of the City, evidencing the same debt as the Bonds surrendered, shall be secured by the pledges made in this Resolution and the Bond Ordinance and shall be entitled to the same security and benefits to the same extent as the bonds surrendered.

SECTION 6. Book-Entry-Only Bonds. The Bonds shall be initially distributed in book-entry-only form through The Depository Trust Company, New York, New York (“DTC”), by depositing with DTC one certificate for each maturity in fully registered form, registered in the name of DTC’s nominee, Cede & Co., in an amount equal to the total principal amount of the Bonds maturing on the respective Principal Payment Dates as authorized herein. Notwithstanding anything in this Resolution to the contrary, so long as the Bonds remain in book-entry-only form the manner of payment of the principal of and the interest on the Bonds to DTC, and other matters relating to the distribution of the Bonds in book-entry-only form through DTC, shall be governed by the provisions of this Section 6 and a Letter of Representations from the City to DTC (the “Letter of Representations”) which the Mayor or City Clerk is hereby authorized to execute and deliver on behalf of the City.

One certificate per maturity registered in the name of DTC’s nominee, Cede & Co., for the total principal amount of the Bonds maturing on the respective Principal Payment Dates will be issued to DTC in New York, New York; and such certificates will be immobilized in its custody. Purchases of the Bonds in denominations permitted by Section 2 hereof must be made by or through Direct Participants of DTC (as defined in the Letter of Representations), which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (the “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Transfers of ownership will be occur on the records of DTC and its Participants pursuant to the rules and procedures established by DTC and its Participants. Payment of principal and interest on the Bonds will be made in same day funds directly to DTC. The transfer of principal and interest to Participants of DTC will be the responsibility of DTC; the transfer of principal and interest to beneficial owners by Participants of DTC will be the responsibility of such Participants. Neither the City nor the Paying Agent and Bond Registrar will be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants.

In the event the Bond Registrar receives written notice from Participants having interest in not less than 50% of the Bonds outstanding, as shown on the records of DTC (and certified to such effect by DTC), that the continuation of a book-entry only system to the exclusion of any Bonds being issued to any Registered Owner other than Cede & Co., is no longer in the best interest of the Beneficial Owners of the Bonds, then the Bond Registrar shall notify the registered owners of such determination or such notice, and the Bond Registrar shall register in

the name of and authenticate and deliver replacement Bonds to the Beneficial Owners or their nominees in principal amounts representing the interest of each, making such adjustments as it may find necessary or appropriate as to accrued interest and previous calls for redemption (“Replacement Bonds”). If issued in certificated form, the certificates representing the Bonds shall be numbered in such manner as the Bond Registrar shall determine.

All references to DTC herein shall relate to the period of time when DTC has possession of at least one Bond. Upon the issuance of Replacement Bonds, all references herein to obligations imposed upon or to be performed by DTC shall be deemed to be imposed upon and performed by the Bond Registrar, to the extent applicable with respect to such Replacement Bonds. If DTC resigns and the City, the Bond Registrar or the Owners are unable to locate a qualified successor of the securities depository, then the Bond Registrar shall authenticate and cause delivery of Replacement Bonds to Owners, as provided herein. The Bond Registrar may rely on information from DTC and its Participants as to the names of the Beneficial Owners of the Bonds. The cost of printing, registration, authentication, and delivery of Replacement Bonds shall be paid for by the City.

In the event DTC resigns, is unable to properly discharge its responsibilities, or is no longer qualified to act as a securities depository and registered clearing agency under the Securities and Exchange Act of 1934, as amended, the City may appoint a successor securities depository provided the Bond Registrar receives written evidence satisfactory to the Bond Registrar with respect to the ability of the successor securities depository to discharge its responsibilities. Any such successor securities depository shall be a securities depository which is a registered clearing agency under the Securities and Exchange Act of 1934, as amended, or other applicable statute or regulation that operates a securities depository upon reasonable and customary terms. The Bond Registrar upon its receipt of a Bond or Bonds for cancellation shall cause the delivery of the Bonds to the successor securities depository in appropriate denominations and form as provided in this Resolution.

**SECTION 7. Execution and Authentication.** The Bonds shall be executed for and on behalf of the City by the manual or facsimile signature of its Mayor, attested by the manual or facsimile signature of its City Clerk, and a facsimile of the City’s official seal shall be printed on or affixed to the Bonds. The Bonds shall be registered in the Office of the City Clerk, evidenced by the manual or facsimile signature of the City Clerk on a Certificate of Registration printed on the bonds, attested by a facsimile of the City’s official seal. The Bonds shall be registered by the State Treasurer in the municipal bond register in his office, which registration shall be evidenced by his manual or facsimile signature on a Certificate of State Treasurer printed on the Bonds, and attested by a facsimile of his official seal. If any officer of the City or of the State whose signature appears on the Bonds is no longer such officer before the actual delivery of the Bonds, their signature shall nevertheless be valid and sufficient for all purposes as if such officer had remained in office until delivery of the Bonds.

No bond shall be valid or obligatory for any purpose until the Certificate of Authentication on the bond is properly executed by the Bond Registrar, and such executed certificate on any Bond shall be conclusive evidence that it has been authenticated and delivered under this Resolution. The Bond Registrar’s Certificate of Authentication on any Bond is

properly executed by the Bond Registrar when manually signed by an authorized officer or signatory thereof. It is not necessary that the same officer or signatory of the Bond Registrar manually sign the Certificate of Authentication on all Bonds issued under this Resolution.

SECTION 8. Bonds Not Presented for Payment. If a Bond is not presented for payment when the principal is due at maturity and if funds sufficient to pay such Bond have been made available to the Paying Agent, then all liability of the City to the Owner thereof for the payment of such Bond shall cease and be completely discharged, and it shall be the duty of the Paying Agent to hold such funds, without liability for interest, for the benefit of the Owner of such Bond, who shall be restricted exclusively to such funds for any claim of whatever nature on his part under this Bond Resolution or on, or with respect to, said Bond. If a Bond is not presented for payment within four (4) years following the date when such Bond becomes due at maturity, the Paying Agent shall repay to the City the funds held by it for payment of such Bond, and such Bond shall, subject to the defense of any applicable statute of limitation, thereafter be an unsecured obligation of the City, and the Owner thereof shall be entitled to look only to the City for payment, and then only to the extent of the amount so repaid to it by the Paying Agent, and City shall not be liable for any interest thereon and shall not be regarded as a trustee of such money.

SECTION 9. Payment of Costs. The City shall pay out of the proceeds of the Bonds all costs incurred in connection with the issuance, transfer, exchange, registration, redemption and payment of the bonds except (a) the reasonable fees and expenses of replacing a Bond or Bonds which have been mutilated, stolen, lost or destroyed, or (b) any tax or other governmental charge imposed in relation to the transfer, exchange, registration, redemption or payment of the Bonds.

SECTION 10. Form of Bonds. The Bonds issued under this Resolution shall be evidenced by printed certificates in the form required by the laws of the State of Kansas, and shall contain recitals as required by the Constitution and Laws of the State of Kansas, including a recital that the Bonds are issued in the manner prescribed by the Bond Act, and pursuant to the authority of the Project Act and K.S.A. 10-427 *et seq.*, for the purpose of refunding the Refunded Bonds and paying the costs of the Improvements.

The governing body hereby authorizes and directs Triplett, Woolf & Garretson, LLC, the City's Bond Counsel, to prepare the form and text of the certificates for the Bonds, and to cause the same to be printed as the definitive bond certificates for the Bonds.

SECTION 11. Creation and Ratification of Accounts. Simultaneously with the issuance and delivery of the Bonds, the following accounts for the Bonds are created within the Treasury of the City:

General Obligation Refunding and Improvement Bonds, Series 2012 Principal and Interest Account (the "Series 2012 Principal and Interest Account"); and

General Obligation Refunding and Improvement Bonds, Series 2012 Project Fund (the "Project Fund"); and

General Obligation Refunding and Improvement Bonds, Series 2012 Escrow Trust Account (the “Escrow Trust Account”); and

Costs of Issuance Account, Series 2012 (the “Costs of Issuance Account”).

SECTION 12. Sale and Delivery of Bonds; Bond Purchase Agreement; Disposition of Proceeds. The Mayor and City Clerk are authorized and directed to prepare and execute the Bonds in the form and manner specified in this resolution, including a reasonable inventory quantity of bond certificates for transfer, exchange and replacement in accordance with the provisions hereof; and when executed the Bonds shall be registered in the office of the City Clerk and in the office of the State Treasurer, as required by law and as provided herein. The Bonds shall be delivered to Piper Jaffray & Co., Leawood, Kansas (the “Original Purchaser” or “Underwriter”), according to the terms of a Bond Purchase Agreement between the City and the Original Purchaser. The Bonds will be delivered through the clearing facilities of DTC, upon receipt by the City of the full purchase price of 100% of the principal amount of the Bonds, plus an original issue premium of \$110,227.70 and less an underwriter’s discount of \$75,250.00 and plus accrued interest from the Dated Date to the date of issuance and delivery. The form of the Bond Purchase Agreement is approved and the Mayor and the City Clerk are authorized and directed to execute the Bond Purchase Agreement on behalf of the City.

The proceeds from the sale of the Bonds shall be deposited into the City’s accounts and applied as follows:

- (A) accrued interest on the Bonds, if any, shall be deposited in the 2012 Principal and Interest Account; and
- (B) \$6,296,227.48 shall be credited to and deposited in the Project Fund; and
- (C) The amount of \$1,174,704.40 of the proceeds shall be immediately credited to and deposited in the Escrow Trust Account to provide for payment and redemption of the Refunded Bonds as provided in the Escrow Trust Agreement; and
- (D) \$89,045.82 shall be credited to the Costs of Issuance account and applied to pay costs of issuing the Bonds, including bond insurance premium..

SECTION 13. Application of Money in Accounts; Investments. *2012 Principal and Interest Account.* The 2012 Principal and Interest Account shall be administered and maintained solely for the purpose of depositing moneys accrued interest and premium, if any, paid on the delivery of the Bonds and for taxes levied or other funds legally available to make payments of principal and interest on the Bonds on any Payment Date. All moneys credited to the 2012 Principal and Interest Account shall be expended by the City solely for the purpose of paying the principal of, premium, if any, and interest on the Bonds and the usual and customary fees of the Paying Agent, provided that, amounts so deposited representing accrued interest on the Bonds will be used toward the payment of the first maturing interest on the Bonds, and amounts representing any premium paid on the Bonds will be used toward the payment of the first maturing principal on the Bonds. The 2012 Principal and Interest Account may be a sub-account

of the City's Bond and Interest Fund. Any amounts remaining in the 2012 Principal and Interest Account the Bonds are paid in full shall become a part of the City's Bond and Interest Fund.

*Project Fund.* Proceeds of the Bonds deposited and credited to the Project Fund shall be immediately applied to prepay the Loans (including loan service fees) entered into to pay costs of the Improvements. Any amounts remaining in the Project Fund after prepayment of the Loans shall be transferred to the 2012 Principal and Interest Account and applied to the payment of the Bonds.

*Escrow Trust Account.* The Escrow Trust Account is established with Security Bank of Kansas City, Kansas City, Kansas, as Escrow Trustee (the "Escrow Trustee") according to the Escrow Trust Agreement dated as of April 17, 2012 (the "Escrow Trust Agreement") to provide for the payment of the principal of and interest on the Refunded Bonds through September 1, 2012 for the Series A, 2005 Bonds and through September 1, 2013 for the 2006-A Bonds. Any earnings from investments of the Escrow Trust Account not applied to the payment of the Refunded Bonds shall be paid to the City and deposited in the Project Fund.

*Costs of Issuance Account.* Moneys credited to the Costs of Issuance account shall be applied to pay costs of issuing the Bonds and administered by the Escrow Trustee under the terms of the Escrow Trust Agreement (defined in the preceding paragraph). Amounts remaining in the Costs of Issuance account after the payment of all costs of issuance of the Bonds shall be transferred by the Escrow Trustee to the Series 2012 Principal and Interest Account, not later than the later of 30 days before the first Principal Payment Date or one year after the date the Bonds are issued and applied to pay a portion of the first principal due on the Bonds.

Moneys in each of the funds and accounts created by this Resolution shall be deposited and secured according to the laws of the state of Kansas. Moneys held in such accounts may be invested in investments permitted by the laws of the state of Kansas that mature at times as reasonably provide for moneys to be available for the authorized purposes of each account. All earnings and investments in such accounts shall accrue to and become a part of such fund or account.

SECTION 14. Resolution Constitutes Contract; Remedies of Owners. The provisions of this Resolution, and all of its covenants and agreements, shall constitute a contract between the City and the Owners of Bonds, and the Owners of not less 10% of the Bonds at the time Outstanding shall have the right, for the equal benefit and protection of all Owners similarly situated:

(A) By mandamus or other suit, action or proceeding at law or in equity to enforce his or their rights against the City and its officers, agents and employees, and to require and compel the City and its officers, agents and employees to perform all duties and obligations required by the provisions of this Resolution or by the Constitution and laws of the State of Kansas;

(B) By suit, action or other proceeding in equity or at law to require the City, its officers, agents and employees to account as if they were the trustees of an express trust; and

(C) By suit, action or other proceeding in equity or at law to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners.

SECTION 15. Limitation on Actions by Owners; Remedies Cumulative; Delay or Omission Not Waiver. No one or more of the Owners secured hereby shall have any right in any manner whatsoever by his or their action to affect, disturb or prejudice the security granted and provided for herein, or to enforce any right hereunder, except in the manner herein provided, and all proceedings at law or in equity shall be instituted, had and maintained for the equal benefit of all of the Owners. Nothing in this Resolution or in the Bonds shall affect or impair the obligations of the City to pay at the date of maturity thereof or on any prepayment date established for the Bonds, the principal of and the interest on the Bonds to the respective Owners thereof or affect or impair the right of action of any Owners to enforce payment of the Bonds held by them, or to reduce to judgment their claim against the City for the payment of the principal amount of and the interest on the Bonds without reference to or consent of any other Owners. No remedy herein conferred upon the Owners is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute, and may be exercised without regard to any other remedy however given. No delay or omission of any Owners to exercise any right, remedy or power accruing upon any default occurring and continuing as described herein shall impair any such right or power or be construed as an acquiescence in default, and every right, power and remedy given by this Resolution to the Owners, respectively, may be exercised from time to time and as often as may be deemed expedient. In case any proceeding taken by any Owners on account of any default shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Owners, then in every such case the City and the Owners shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Owners shall continue as though no such proceedings had been taken.

SECTION 16. Amendments. The City may, without the consent of the Owners, amend or supplement the provisions of this Resolution (i) to cure any ambiguity herein or to correct or supplement any provision herein which may be inconsistent with any other provision herein or to correct errors, provided such action shall not materially adversely affect the interest of the Owners, or (ii) to grant or confer upon the Owners any additional rights, remedies, powers or security, or (iii) to more precisely identify the Improvements, or (iv) to conform this Resolution to the Code (as herein defined) or future applicable Federal laws concerning tax-exempt obligations. The rights and duties of the City and the Owners and the terms and provisions of this Resolution may be modified or altered in any respect by an ordinance of the City with the consent of the Owners of not less than seventy-five percent (75%) in principal amount of the bonds then outstanding, such consent to be evidenced by an instrument or instruments executed by the Owners and duly acknowledged or proved in the manner of a deed to be recorded, and such instrument or instruments shall be filed with the City Clerk; provided that, the following modifications or alternations shall require the written consent of one hundred percent (100%) of the Owners of the then outstanding Bonds:

(A) Extending the maturity of any payment of principal or interest due upon the Bonds, or

(B) Effecting a reduction in the amount which the City is required to pay by way of principal or interest on the Bonds, or

(C) Permitting a preference or priority of any Bond or Bonds over any other Bond or Bonds, or

(D) Reducing the percentage of the principal amount of the then outstanding Bonds for which the written consent of the Owners is required for any modification or alteration of the provisions of this Resolution.

Any and all modifications made as provided above shall not become effective until a copy of the ordinance of the City authorizing the modifications, duly certified and published, and proof of consent to such modification by the required percentage of Owners, is filed with the City Clerk. It shall not be necessary to note on any of the outstanding Bonds any reference to such amendment or modification.

SECTION 17. Defeasance. When the principal of and the interest on the Bonds shall have been paid and discharged, then the requirements contained herein and all other rights granted by this Resolution shall cease and terminate. The Bonds shall be deemed to have been paid and discharged within the meaning of this Resolution if there shall have been deposited with the Paying Agent or with a bank located in the State of Kansas and having full trust powers, at or prior to the maturity or date of redemption, as the case may be, of the Bonds, in trust for and irrevocably appropriated thereto, moneys and/or Government Securities consisting of direct obligations of, or obligations payment of the principal of and interest on which are guaranteed by, the United States of America, which together with the interest to be earned on such Government Securities, will be sufficient for the payment of the principal amount of and the interest on the Bonds, to the date of maturity or redemption, as the case may be, or if default in such payment shall have accrued on such date, then to the date of the tender of such payments; provided that, if such payment and discharge is to be made on a redemption date that notice of such redemption has been duly and properly given as provided by this Resolution and that all of the other terms and provisions of this Resolution relative to the call for and the redemption and payment of the Bonds shall have been complied with. Any moneys which at any time shall be deposited with the Paying Agent or such Kansas bank by or on behalf of the City, for the purpose of paying and discharging any of the Bonds or interest thereon, shall be and are hereby assigned, transferred and set over to the Paying Agent or such Kansas bank in trust for the respective Owners of the Bonds, and such moneys shall be and are hereby irrevocably appropriated to the payment and discharge thereof. All moneys so deposited with the Paying Agent or such Kansas bank shall be deemed to be deposited in accordance with and subject to all of the provisions contained in this Resolution.

SECTION 18. Surrender and Cancellation of Bonds. Whenever any outstanding Bond shall be delivered to the Bond Registrar after payment of the principal amount of and the interest represented thereof or for replacement pursuant to this Resolution, such Bond shall be canceled

and destroyed by the Bond Registrar and counterparts of a Certificate of Destruction describing such Bonds so destroyed and evidencing such destruction shall be furnished by the Bond Registrar to the City.

SECTION 19. Tax Covenants. The governing body of the City covenants and agrees that for as long as any of the Bonds remain outstanding and unpaid, it will not use or permit the use of the proceeds of the Bonds in a manner which, if such use had been reasonably expected on the date of issuance and delivery of the Bonds, would have caused the Bonds to be “arbitrage bonds” within the meaning of Section 103(b)(2) of the Internal Revenue Code of 1986, as amended (the “Code”); and that it will comply with all applicable requirements of Section 148 of the Code and the applicable rules and regulations of the United States Treasury Department promulgated under the Code. The governing body further covenants to take all such action in its power as may be required from time to time in order to assure the continued tax-exempt status of the interest on the Bonds, and to comply with all provisions of the Code, as the same be amended, and any applicable rules and regulations of the United States Treasury Department issued thereunder.

SECTION 20. Designation as Qualified Tax-Exempt Obligations. The governing body of the City has designated the Bonds as “qualified tax-exempt obligations” as defined in Section 265(b)(3) of the Code in the Bond Ordinance.

SECTION 21. Other Documents. The Mayor and City Clerk are authorized and directed to prepare and execute any and all supporting documents and certificates required for issuance of the Bonds, including final certificates to be included in the official transcript of proceedings relating to the authorization and issuance of the Bonds, and including, but not limited to, the Escrow Trust Agreement and the Bond Purchase Agreement. all without further action by the governing body.

SECTION 22. Further Authority. The City shall, and its officers, agents and employees are authorized and directed to, take such actions, expend such moneys and execute such other documents, certificates and instruments as may be necessary or desirable in order to carry out and comply with the provisions of the Ordinance and this Resolution and to give effect to the transactions described and authorized therein.

SECTION 23. Severability. If any section, paragraph, clause or provision of this Resolution is, for any reason, held invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, clause or provision shall not affect any remaining provisions of this Resolution.

SECTION 24. Effective Date. This Resolution shall be in force and take effect from and after its adoption and approval.

*[Remainder of Page Intentionally Left Blank]*

ADOPTED AND APPROVED by the governing body of the City of Paola, Kansas on  
March 27, 2012.

CITY OF PAOLA, KANSAS

[seal]

By \_\_\_\_\_  
Artie Stuteville, Mayor

ATTEST:

By \_\_\_\_\_  
Daniel G. Droste, City Clerk