



Kenvirons, Inc.

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Civil & Environmental Engineering and Laboratory Services

April 23, 2013

Mr. Gerald Wuetcher
Executive Advisor/Attorney
Public Service Commission of Kentucky
P.O. 615
Frankfort, KY 40601

RECEIVED

APR 23 2013

**PUBLIC SERVICE
COMMISSION**

RE: Henderson County Water District
Rate Adjustment
Case No. 2013-00154

Dear Mr. Wuetcher:

IN response to your April 19, 2013 email regarding the water district's outstanding debt instruments missing from the referenced submittal, please find attached six (6) copies of the KIA Assistance Agreements (2003B and 2006A).

It was also discovered that the values for the 14,000 gallon rate increment is missing in the usage table for the 2-inch meter category. Please find also six (6) copies of the corrected usage table. The resultant difference in the projected revenue is \$168. This difference was considered insignificant regarding revisions on pages 1 and 2 of the Schedule of Adjusted Operations.

Please advise if anything additional is needed.

Respectfully,

Carlos F. Miller, P.E.
Vice President

CFM/pmw

From: [Wuetcher, Jerry \(PSC\)](#)
To: cmiller@kenvirons.com
Subject: Case No. 2013-00154: Henderson County Water District
Date: Friday, April 19, 2013 10:11:38 AM
Importance: High

Mr. Miller:

Commission Staff has conducted its initial review of Henderson County Water's application for a rate adjustment pursuant to 807 KAR 5:076. It appears that application does not contain a copy of the water district's outstanding debt instruments. It appears a copy of the KIA Assistance Agreements (2003B and 2006A) and the Notes referenced in the application are required. The absence of these documents may prevent the application from being accepted for filing purposes.

If the water district can scan and e-mail the documents to me, I will take steps to ensure that they are placed in the record. This action would speed acceptance of the application for filing purposes.

If you have any questions, please contact me.

Respectfully,

Gerald E. Wuetcher
Executive Advisor/Attorney
Public Service Commission of Kentucky
gerald.wuetcher@ky.gov
Office: (502) 564-3940
Direct: (502) 782-2590
Cell: (502) 229-6500

Revenue from Present/Proposed Rates
 Test Period from 01-01-12 to 12-31-12

USAGE TABLE

Usage by Rate Increment

Class: 2" Meter

First 16,000 Next 14,000 Over 30,000

(1)	(2) Bills	(3) Gallons/Mcf	(4)	(5)	(6)	(7)	(8)	(9) Total
First 16,000	84	1255	1255					
Next 14,000								
Over 30,000	24	1782	384	336	1062			
Totals	108	3037	1639	336	1062			

REVENUE TABLE

Revenue by Rate Increment

(1)	(2) Bills	(3) Gallons/Mcf	(4) Rates	(5) Revenue
First 16,000	108		100.20	10,822
Next 14,000		336	5.63	1,892
Over 30,000		1062	5.13	5,448
Totals				18,162

Instructions for Completing Revenue Table:

- (9) Complete Columns No. 1, 2, and 3 using information from Usage Tables.
- (10) Complete Column No. 4 using rates either present or proposed.
- (11) Column No. 5 is completed by first multiplying the bills times the minimum charge. Then, starting with the second rate increment, multiply Column No. 3 by Column No. 4 and total.

ASSISTANCE AGREEMENT
BETWEEN
KENTUCKY RURAL WATER FINANCE CORPORATION
AND
HENDERSON COUNTY WATER DISTRICT
DATED APRIL 11, 2006
IN THE AMOUNT OF \$4,692,000

This document was prepared by:

RUBIN & HAYS
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202
(502) 569-7525

By

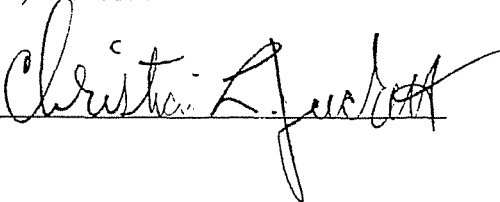


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* Note: No debt reserve fund required.

ASSISTANCE AGREEMENT

This Assistance Agreement made and entered into as of April 11, 2006 (the "Assistance Agreement") by and between the Kentucky Rural Water Finance Corporation, a non-profit corporation and instrumentality of various entities of the Commonwealth of Kentucky (the "Issuer") and the Henderson County Water District, City of Henderson, Kentucky (the "Governmental Agency"):

WITNESSETH

WHEREAS, the Issuer has established its Public Projects Flexible Term Program (the "Program") designed to provide financing for the expansion, addition and improvements of public projects for governmental entities under which the Issuer issued its Kentucky Rural Water Finance Corporation Multimodal Public Projects Revenue Bonds (Flexible Term Program), Series 2001, dated April 4, 2001, in the aggregate principal amount of \$46,000,000 (the "Series 2001 Bonds") pursuant to a Trust Indenture dated as of April 4, 2001 (the "Indenture") between the Issuer and The Bank of New York Trust Company, N.A. (as successor in interest to Fifth Third Bank), as trustee, the net proceeds of which will be applied for the benefit of such governmental entities by making loans, pursuant to Assistance Agreements; and

WHEREAS, pursuant to the Indenture, the Issuer has authorized the issuance of the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2006A (the "Series 2006A Bonds") in the aggregate principal amount of \$7,745,000, pursuant to a Supplemental Trust Indenture No. 20, dated as of April 11, 2006 by and between the Issuer and Regions Bank, Nashville, Tennessee (the "Trustee"), which Series 2006A Bonds will rank on a parity with the Series 2001 Bonds and the proceeds of which will be used by certain Governmental Agencies to refund and refinance certain outstanding obligations that were issued to acquire, construct and equip public projects, as described in various Assistance Agreements by and between the Governmental Agencies and the Issuer; and

WHEREAS, the Governmental Agency has determined that it is necessary and desirable and in the public interest to advance refund certain outstanding indebtedness of said Governmental Agency (the "Project"), and the Issuer has determined that the Project is a project within the meaning of the Act and the Indenture, thereby qualifying for financial assistance from the Issuer; and

WHEREAS, the Issuer has found and determined that the Project will be in furtherance of the purposes of the Issuer and the Governmental Agency under the Act; and

WHEREAS, the Governmental Agency has designated the Issuer as its instrumentality and agency; and

WHEREAS, pursuant to this Assistance Agreement the Governmental Agency will proceed with the Project; and

WHEREAS, the Governmental Agency, presently owns and operates the Water System (the "System") of said Governmental Agency; and

WHEREAS, in and by the Prior Bond Legislation (as hereinafter defined), the right and privilege was reserved by the Governmental Agency under conditions and restrictions set out in said Prior Bond Legislation, of issuing additional bonds from time to time, payable from the income and revenues of the System and ranking on a parity with the Governmental Agency's outstanding Prior Bonds (as hereinafter defined), for the purpose, among other things, of financing the costs of extensions, additions and improvements to the System, and refinancing certain outstanding indebtedness, which conditions and restrictions are found to currently exist and prevail so as to permit the issuance of certain proposed additional bonds so as to rank, when issued, on a parity with the outstanding Prior Bonds; and

WHEREAS, the Governmental Agency has heretofore issued its (i) Henderson County Water District Water Revenue Bonds, Series 1997, dated July 1, 1997, in the original principal amount of \$1,800,000 (the "Series 1997 Bonds"), authorized by a Resolution adopted by the Board of Commissioners (the "Governing Body") on June 11, 1997 (the "Bond Legislation of 1997"); and (ii) Henderson County (Kentucky) Water District Water Revenue Bonds, Series of 2000, dated June 1, 2000, in the original principal amount of \$2,625,000 (the "Series 2000 Bonds"), authorized by a Resolution adopted by the Governing Body on May 24, 2000 (the "Bond Legislation of 2000"); and

WHEREAS, the Governmental Agency has found and determined that it is in the public interest to advance refund the Series 1997 Bonds and the Series 2000 Bonds in order to achieve interest savings; and

WHEREAS, it is deemed necessary and advisable for the best interests of the Governmental Agency that it enter into this Assistance Agreement with the Issuer in order to borrow funds (the "Loan") in the amount of \$4,692,000 [the "Obligations"], for the purpose of providing funds for the Project, and to reaffirm the conditions and restrictions under which similar bonds or obligations may be subsequently issued ranking on a parity therewith; and

WHEREAS, under the provisions of Sections 58.010 through 58.140, inclusive, of the Kentucky Revised Statutes, and under the provisions of the Prior Bond Legislation, the Governmental Agency is authorized to enter into this Assistance Agreement and to borrow the Obligations to provide such funds for the purpose aforesaid; and

WHEREAS, the Issuer is willing to cooperate with the Governmental Agency in making available the Loan pursuant to the Act and the Indenture to be applied to the Project upon the conditions hereinafter enumerated and the covenants by the Governmental Agency herein contained; and

WHEREAS, the Issuer and the Governmental Agency have determined to enter into this Assistance Agreement pursuant to the terms of the Act and the Indenture and to set forth their

respective duties, rights, covenants, and obligations with respect to the financing of the Project subject to the repayment of the Loan and the Obligations and the interest thereon;

NOW, THEREFORE, FOR AND IN CONSIDERATION OF THE MUTUAL COVENANTS HEREIN SET FORTH, THE LOAN HEREBY EFFECTED AND OTHER GOOD AND VALUABLE CONSIDERATION, THE RECEIPT OF WHICH IS HEREBY ACKNOWLEDGED BY EACH PARTY, THE PARTIES HERETO MUTUALLY COVENANT AND AGREE, EACH WITH THE OTHER AS FOLLOWS:

Section 1. Definitions. As used in this Assistance Agreement, unless the context requires otherwise:

“*Act*” refers to Chapters 58 and 74 of the Kentucky Revised Statutes.

“*Assistance Agreement*” refers to this Assistance Agreement authorizing the Loan and the Obligations.

“*Bond Counsel*” refers to a nationally recognized firm of Bond Counsel which firm has prepared the legal proceedings for the Obligations, has furnished all of the customary services of Bond Counsel in this financing and will continue to furnish such services until the Obligations are delivered and paid for, including the rendering of the final approving legal opinion with regard to the legality of the Obligations and the tax exemption of the interest thereon.

“*Bond Legislation of 1997*” refers to the Resolution authorizing the Series 1997 Bonds, duly adopted by the Governing Body on June 11, 1997.

“*Bond Legislation of 2000*” refers to the Resolution authorizing the Series 2000 Bonds, duly adopted by the Governing Body on May 24, 2000.

“*Bondowner*,” “*Owner*,” “*Bondholder*” means and contemplates, unless the context otherwise indicates, the registered owner of one or more of the Bonds at the time issued and outstanding hereunder.

“*Bonds*” refers to the Obligations, the Prior Bonds and any additional Parity Bonds.

“*Certified Public Accountants*” refers to an independent Certified Public Accountant or firm of Certified Public Accountants, duly licensed in Kentucky and knowledgeable about the affairs of the System and/or of other Governmental Agency financial matters.

“*Code*” refers to the United States Internal Revenue Code of 1986, as amended, and any regulations issued thereunder.

“*Compliance Group*” refers to the Compliance Group identified and defined in the Indenture.

“Depreciation Fund” refers to the Henderson County Water District System Depreciation Fund created in the Prior Bond Legislation and which Depreciation Fund will continue to be maintained for the benefit of all of the Bonds.

“Engineer” or *“Independent Consulting Engineer”* refers to an Independent Consulting Engineer or firm of Engineers of excellent national reputation or of recognized excellent reputation in Kentucky in the fields of waterworks and sewer engineering.

“Funds” refers to the Revenue Fund, the Sinking Fund, the Depreciation Fund, the Operation and Maintenance Fund and the Governmental Agency Account.

“Governing Body” means the Board of Commissioners of the Governmental Agency or such other body as shall be the governing body of said Governmental Agency under the laws of Kentucky at any given time.

“Governmental Agency” refers to the Henderson County Water District.

“Governmental Agency Chief Executive” refers to the Chairman of the Governmental Agency.

“Governmental Agency Clerk” refers to the Secretary of the Governmental Agency.

“Indenture” means the Trust Indenture, dated as of April 4, 2001, as originally executed or as it may from time to time be supplemented, modified or amended by any supplemental mortgage, including the Supplemental Trust Indenture No. 20, dated April 11, 2006, by and between the Issuer and the Trustee.

“Interest Payment Date” shall mean the 1st day of each month, commencing June 1, 2006, and continuing through and including January 1, 2026 or until the Loan has been paid in full.

“Issuer” refers to the Kentucky Rural Water Finance Corporation, Bowling Green, Kentucky.

“KIA” refers to the Kentucky Infrastructure Authority, a body corporate and politic and an agency of the Commonwealth of Kentucky.

“KIA Loans” refers to the District’s outstanding Kentucky Infrastructure Authority loans dated December 1, 1991, in the original principal amount of \$365,407, and dated December 1, 1991, in the original principal amount of \$618,381.

“Obligations” refers to the Loan authorized by this Assistance Agreement in the principal amount of \$4,692,000.

“*Operation and Maintenance Fund*” refers to the “Henderson County Water District System Operation and Maintenance Fund” created and confirmed in the Prior Bond Legislation and which Operation and Maintenance Fund will continue to be maintained for the benefit of the System.

“*Outstanding Bonds*” refers collectively to all outstanding Prior Bonds, the outstanding Obligations and any outstanding Parity Bonds, and does not refer to any bonds that have been defeased.

“*Parity Bonds*” means bonds issued in the future, which will, pursuant to the provisions of this Assistance Agreement, rank on a basis of parity with the Obligations and shall not be deemed to include, or to prohibit the issuance of, bonds ranking inferior in security to the Obligations.

“*Permitted Investments*” refers to investments of funds on deposit in the various funds created herein and includes:

- (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, including instruments evidencing an ownership interest in securities described in this clause (1);
- (2) obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following:

Federal Home Loan Bank System, Export-Import Bank of the United States, Federal Financing Bank, Federal Land Banks, Government National Mortgage Association, Federal Home Loan Mortgage Corporation or Federal Housing Administration;
- (3) repurchase agreements (including those of the Trustee or the Bank) fully secured by collateral security described in clause (1) or (2) of this definition, which collateral (a) is held by the Trustee or a third party agent during the term of such repurchase agreement, (b) is not subject to liens or claims of third parties and (c) has a market value (determined at least once every fourteen days) at least equal to the amount so invested;
- (4) certificates of deposit of, or time deposits in, any bank (including the Trustee or the Bank) or savings and loan association (a) the debt obligations of which (or in the case of the principal bank of a bank holding company, the debt obligations of the bank holding company of which) have been rated at least equal to the rating

assigned to the Bonds by each Rating Agency then rating the Bonds or (b) which are fully insured by the Federal Deposit Insurance Corporation or (c) which are secured at all times, in the manner and to the extent provided by law, by collateral security (described in clause (1) or (2) of this definition) of a market value (valued at least quarterly) of no less than the amount of money so invested;

- (5) shares in any investment company registered under the Federal Investment Governmental Agency Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and whose only investments are government securities described in clause (1) or (2) of this definition and repurchase agreements fully secured by government securities described in clause (1) or (2) of this definition and/or other obligations rated AAA by S&P;
- (6) tax-exempt obligations of any state of the United States, or political subdivision thereof, which are rated AA or better by S&P or mutual funds invested only in such obligations;
- (7) units of a taxable or nontaxable government money-market portfolio composed of U.S. Government obligations and repurchase agreements collateralized by such obligations;
- (8) commercial paper rated A-1 or A-1+ by S&P;
- (9) corporate notes or bonds with one year or less to maturity rated in one of the two highest Rating Categories by S&P; or
- (10) shares of mutual funds, each of which shall have the following characteristics:
 - (i) The mutual fund shall be an open-end diversified investment company registered under the Federal Investment company Act of 1940, as amended;
 - (ii) The management company of the investment company shall have been in operation for at least five (5) years; and
 - (iii) All of the securities in the mutual fund shall be in investments in any one or more of the investments described in (1) and (3) above.

“Prior Bond Legislation” refers to the Series 2003B Assistance Agreement.

“Prior Bonds” refers to the Series 2003B Loan.

“Program” refers to the Issuer’s Public Projects Flexible Term Program designed to provide financing for the expansion, addition and improvements of public projects for governmental entities.

“Program Administrator” refers to the Kentucky Rural Water Association, Inc., Bowling Green, Kentucky.

“Program Reserve Fund” refers to the Reserve Fund created and established pursuant to Section 4.2 of the Indenture.

“Project” refers to advance refunding of the Governmental Agency’s Series 1997 Bonds and Series 2000 Bonds with the proceeds of the Obligations.

“Requisition Certificate” means the form attached hereto as Exhibit B to be utilized by the Governmental Agency in obtaining disbursements of the Loan from the Governmental Agency Account for the Project.

“Revenue Fund” refers to the Henderson County Water District Revenue Fund created in the Prior Bond Legislation and which Revenue Fund will continue to be maintained for the benefit of all of the Bonds.

“Series 1997 Bonds” refers to the outstanding Henderson County Water District Water Revenue Bonds, Series 1997, dated July 1, 1997 in the original principal amount of \$1,800,000.

“Series 2000 Bonds” refers to the outstanding Henderson County (Kentucky) Water District Water Revenue Bonds, Series of 2000, dated June 1, 2000, in the original principal amount of \$2,625,000.

“Series 2003B Assistance Agreement” refers to the Assistance Agreement between the Kentucky Rural Water Finance Corporation and the Governmental Agency, dated August 28, 2003, authorizing the loan in the principal amount of \$955,000 from the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2003B.

“Series 2003B Loan” refers to the loan to the Governmental Agency in the principal amount of \$955,000 from the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2003B.

“Sinking Fund” refers to the Henderson County Water District Revenue Bond and Interest Redemption Fund created and confirmed in the Prior Bond Legislation and which Sinking Fund will continue to be maintained for the benefit of the System.

“System” refers to the Governmental Agency’s water system, together with all future extensions, additions and improvements to said System.

“Treasurer” refers to the Treasurer of the Governmental Agency.

“Trustee” refers to Regions Bank, Nashville, Tennessee.

“U.S. Obligations” refers to bonds, notes, or Treasury Bills which are direct obligations of the United States of America or obligations fully guaranteed by the United States of America, including book-entry obligations of the United States Treasury-State and Local Government Series, and Trust Receipts representing an ownership interest in direct obligations of the United States.

Section 2. Reaffirmation of Declaration of Water System. That all proceedings heretofore taken for the establishment of and the supplying of water service in and to said Governmental Agency as a water system are hereby in all respects ratified and confirmed; and so long as any of the Obligations hereinafter authorized or permitted to be issued remain outstanding, said System shall be owned, controlled, operated and maintained for the security and source of payment of the Obligations. Said System is hereby declared to constitute a public project within the meaning and application of Sections 58.010 to 58.140, inclusive, of the Kentucky Revised Statutes.

Section 3. Authorization of Obligations; Place of Payment; Manner of Execution. That pursuant to the Constitution and laws of Kentucky, and particularly said Sections 58.010 to 58.140, inclusive of the Kentucky Revised Statutes, the Governmental Agency hereby authorizes the borrowing of \$4,692,000 from the Program, for the purpose of providing funds for the Project. Said Obligations shall mature on each January 1 beginning January 1, 2008 and continuing thereafter through and until January 1, 2026, in such principal amounts, and shall bear interest payable on the Interest Payment Dates, commencing June 1, 2006 in the maturities and at the interest rates set forth in Exhibit A attached hereto.

The principal of, redemption price, if any, and interest on the Obligations shall be payable in lawful money of the United States of America on the Interest Payment Dates, beginning June 1, 2006 to the Trustee for the Program. Such payment shall be made by the Governmental Agency from funds on deposit in the Sinking Fund pursuant to the ACH Debit Direct Payment Method (the “ACH Debit Direct Payment Method”) as described and detailed in the ACH Debit Direct Payment Authorization Form (the “ACH Authorization Form”) in a form as provided by the Trustee to the Governmental Agency. The ACH Authorization Form shall be completed, signed and forwarded to the Trustee prior to the Governmental Agency receiving any of the proceeds of the Loan.

Pursuant to the ACH Debit Direct Payment Method, there shall be transferred to the Trustee on or before the first day of each month, from the Sinking Fund, the amounts hereinafter specified:

- (1) An amount equal to one-sixth (1/6) of the interest becoming due on the Obligations on the next succeeding interest due date, and subject to a credit for the amount on deposit in the Sinking Fund transferred thereto on the date of issue of the Obligations; plus

- (2) An amount equal to one-twelfth (1/12) of the principal amount of all Obligations maturing on the next succeeding January 1.

Notwithstanding the provisions of paragraph (1) above, because the Issuer must make payments on the Series 2006A Bonds every February 1 and August 1, and the Governmental Agency must make monthly principal and interest payments on the Interest Payment Date totaling the Governmental Agency's pro rata share of the principal and interest payments on the Series 2006A Bonds by each January 1 and July 1, the Governmental Agency's initial two (2) payments on the Obligations will include interest amortized from April 11, 2006 to August 1, 2006.

In addition, in the event the Issuer is required to withdraw moneys from the Program Reserve Fund established pursuant to the Indenture to pay the principal of and interest on the Obligations and any other payments due under this Assistance Agreement on behalf of the Governmental Agency (the "Reserve Withdrawal"), the Governmental Agency shall pay to the Trustee, in each month, pursuant to the ACH Debit Direct Payment Method an amount equal to at least 1/12 of the Reserve Withdrawal, plus accrued interest thereon at the rate equal to the highest rate of interest paid by the investments making up the Program Reserve Fund until such Reserve Withdrawal has been replenished.

Section 4. Redemption. *(a) Optional Redemption.* Obligations maturing on and prior to January 1, 2016 shall not be subject to redemption prior to maturity. Subject to the prior written approval of the Compliance Group, Obligations maturing on or after January 1, 2017, are subject to redemption, in whole or in part, by the Governmental Agency prior to their stated maturities, at any time falling on or after January 1, 2016, at a redemption price equal to 100% of the principal amount of the Obligations called for redemption, plus unpaid interest accrued to the date of redemption.

In the event that the Governmental Agency desires to optionally redeem a portion of its Obligations, such redemption shall be in a denomination equal to \$5,000 or any integral multiple thereof.

(b) Notice of Redemption. The Governmental Agency shall give the Issuer and the Trustee notice of any redemption by sending at least one such notice by first class United States mail not less than 45 and not more than 90 days prior to the date fixed for redemption.

All of said Obligations as to which the Governmental Agency reserves and exercises the right of redemption and as to which notice as aforesaid shall have been given, and for the retirement of which, upon the terms aforesaid, funds are duly provided, will cease to bear interest on the redemption date.

Section 5. Obligations Payable Out of Revenues on a Parity with Prior Bonds. All of the Obligations and Prior Bonds, together with the interest thereon and such additional

bonds ranking on a parity therewith heretofore issued and outstanding and that may be hereafter issued and outstanding from time to time under the conditions and restrictions hereinafter set forth, shall be payable out of the Sinking Fund, as heretofore created in the Prior Bond Legislation and as hereinafter more specifically provided and shall be a valid claim of the holder thereof only against said fund and the fixed portion or amount of the income and revenues of the System of said Governmental Agency pledged to said fund.

Section 6. Compliance with Parity Coverage Requirements of the Prior Bond Legislation. It is hereby declared that in accordance with the provisions of the Prior Bond Legislation, and prior to the issuance of any of the Obligations hereby authorized, there will be procured and filed with the Governmental Agency Clerk of said Governmental Agency any and all statements or certifications for the purpose of having both principal and interest on the Prior Bonds and the Obligations hereby authorized payable on a parity from the income and revenues of said System with said outstanding Prior Bonds.

Section 7. Flow of Funds. All proceedings preliminary to and in connection with the issuance of the Prior Bonds, whereby provision was made for the receipt, custody, and application of the proceeds of the Prior Bonds; for the operation of said System on a revenue-producing basis; for the segregation, allocation, and custody of the revenues derived from the operation of the System; and for the enforcement and payment of the Prior Bonds; and all other covenants for the benefit of the bondholders set out in the Prior Bond Legislation, are hereby ratified and confirmed and shall continue in force and inure to the security and benefit of the Bonds, the same as if such provisions and proceedings were repeated in full herein; provided, further, that, hereafter, the income and revenues of the System shall be collected, segregated, accounted for, and distributed as follows:

A. Revenue Fund. The Governmental Agency covenants and agrees that it will continue to deposit in the Revenue Fund, promptly as received from time to time, all revenues of the System, as same may be extended and improved from time to time. The moneys in the Revenue Fund shall continue to be used, disbursed and applied by the Governmental Agency only for the purpose and in the manner and order of priorities specified in the Prior Bond Legislation, as hereinafter modified by this Assistance Agreement, all as permitted by the Act, and in accordance with previous contractual commitments.

B. Sinking Fund. A separate and special fund or account of the Governmental Agency, distinct and apart from all other funds and accounts, was created in and by the Prior Bond Resolution and designated and identified as the "Henderson County Water District Revenue Bond and Interest Redemption Fund," which shall continue to be maintained so long as any of the Outstanding Bonds or any additional Parity Bonds herein permitted to be issued are outstanding; and all moneys deposited therein from time to time shall be used and disbursed and applied, and are hereby irrevocably pledged, solely for the purpose of paying the principal of and interest on the Outstanding Bonds and any Parity Bonds hereafter issued and outstanding pursuant to the provisions of this Assistance Agreement.

There shall be set aside and transferred on or before the 20th day of each month from the Revenue Fund, as a first charge thereon, and deposited in the Sinking Fund Sums sufficient to pay when due the principal and interest requirements on the Outstanding Bonds. Specifically, there shall be paid into the Sinking Fund on or before the 20th day of each month, on account of the Outstanding Bonds, not less than the following:

- (1) An amount equal to one-sixth (1/6) of the next succeeding six-month interest payment to become due on the Outstanding Bonds, plus
- (2) A sum equal to one-twelfth (1/12) of the principal of any Outstanding Bonds maturing on the next succeeding principal payment date.

Notwithstanding the provisions of paragraph (1) above, because the Issuer must make payments on the Series 2006A Bonds every February 1 and August 1, and the Governmental Agency must make monthly principal and interest payments on the Interest Payment Date totaling the Governmental Agency's pro rata share of the principal and interest payments on the Series 2006A Bonds by each January 1 and July 1, the Governmental Agency's initial two (2) payments on the Obligations will include interest amortized from April 11, 2006 to August 1, 2006.

In the event additional Parity Bonds are issued pursuant to the conditions and restrictions hereinafter prescribed, the monthly deposits to the Sinking Fund shall be increased to provide for payment of interest thereon and the principal thereof as the same respectively become due.

If for any reason there should be a failure to pay into the Sinking Fund the full amounts above stipulated, then an amount equivalent to such deficiency shall be set apart and paid into the Sinking Fund from the first available income and revenues of the System, subject to the aforesaid priorities.

No further payments need to be made into the Sinking Fund if and when the amount held therein and in any other available fund is at least equal to the amount required to retire all Outstanding Bonds and Parity Bonds and paying all interest that will accrue thereon.

C. Depreciation Fund. Pursuant to the provisions of the Prior Bond Legislation, there shall next be transferred from the Revenue Fund a sum sufficient, each month, to maintain a balance in said Depreciation Fund of at least the sum required by the Prior Bond Legislation, which shall be deposited into the Depreciation Fund.

> 250,000

Moneys in the Depreciation Fund may be withdrawn and used by the Governmental Agency, upon appropriate certification of the Governing Body, in accordance with the provisions of the Prior Bond Legislation, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals and replacements not included in the annual budget of current expenses and/or of paying the costs of constructing future extensions, additions

and improvements to the System which will either enhance its revenue-producing capacity or will provide a higher degree of service, and when necessary, for the purpose of making payments of principal and interest on the Bonds if the amount on deposit in the Sinking Fund is not sufficient to make such payments.

D. Operation and Maintenance Fund. There shall next be transferred monthly from the Revenue Fund and deposited into said Operation and Maintenance Fund, sums sufficient to meet the current expenses of operating and maintaining the System. The balance maintained in said Operation and Maintenance Fund shall not be in excess of the amount required to cover anticipated System expenditures for a two-month period pursuant to the Governmental Agency's annual budget.

E. Surplus Funds. Subject to the provisions for the disposition of the income and revenues of the System as set forth hereinabove, which provisions are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred, within sixty days after the end of each fiscal year, the balance of excess funds in the Revenue Fund on such date, to the Depreciation Fund for application in accordance with the terms of this Assistance Agreement or to the Sinking Fund to be applied to the maximum extent feasible, to the prompt purchase or redemption of Outstanding Bonds.

Provided, however, notwithstanding anything to the contrary in any Prior Bond Legislation, the Governmental Agency shall be allowed a credit to the extent of moneys on deposit in the Program Reserve Fund for the purpose of meeting any parity requirements in any Prior Bond Legislation; subject however, to the limitation that moneys in the Program Reserve Fund may only be used to make payments of the Government Agency due under this Assistance Agreement, if necessary, and; provided further, that the Trustee may not seek payment for any reserve funds held by the Governmental Agency under any Prior Bond Legislation for payment of any amounts due from the Governmental Agency under this Assistance Agreement.

Section 8. Disposition of Proceeds of the Obligations; Governmental Agency Account. Upon (i) the execution of this Assistance Agreement, (ii) the deliverance of this Assistance Agreement to the Trustee, (iii) certification of the Compliance Group that the Loan is to be accepted in the Program and (iv) upon receipt by the Governmental Agency of the proceeds of the Obligations, the proceeds shall be applied as follows:

(a) Disposition of the Proceeds. There shall first be deducted and paid from the proceeds of the Obligations the fees and costs incurred by the Governmental Agency and any other pertinent expenses incident to the issuance, sale and delivery of the Obligations and such other appropriate expenses as may be approved by the Governmental Agency Chief Executive, including but not limited to the Governmental Agency's pro rata share of the Program's fees and expenses.

The balance shall be deposited to the Governmental Agency Account to be used for the Project.

(b) *Governmental Agency Account.* It is hereby acknowledged that a fund entitled “Henderson County Water District Governmental Agency Account” (the “Governmental Agency Account”) has been created and maintained by the Trustee pursuant to the Indenture; and the amount on deposit in said Governmental Agency Account shall be applied to the extent necessary, to pay the cost of the Project.

Investment income derived from investment of the Governmental Agency Account, which shall be invested in Permitted Investments in accordance with this Assistance Agreement, shall, as received, be deposited in the Governmental Agency Account.

The Trustee shall be obligated to send written notice to the Governmental Agency of the need for investment directions if and whenever funds in excess of \$50,000 shall remain uninvested for a period of more than five days. In the absence of written direction from the Governmental Agency with respect to investment of moneys held in the Governmental Agency Account, the Trustee is hereby directed to invest funds in money market mutual funds of the Trustee or its affiliates that qualify as Permitted Investments under this Assistance Agreement.

Payment from the Governmental Agency Account for costs in connection with the Project shall be made only upon a Requisition Certificate delivered to the Trustee and signed by the Governmental Agency Chief Executive.

No expenditure shall be made from the Governmental Agency Account except for proper and authorized expenses relating to the Project.

After completion of the Project, as certified by the Engineers, any balance then remaining on deposit in the Governmental Agency Account shall, subject to any and all applicable legal provisions and applicable arbitrage regulations necessary to assure the exemption of interest on the Obligations from Federal income taxation, upon orders of the Governing Body, be transferred to the Sinking Fund, to be used for the purposes thereof.

Section 9. Arbitrage Limitations. (a) The Governmental Agency covenants that neither the proceeds of the Obligations, nor “Non-Exempt Revenues” of the System, as defined below, will be invested in investments which will produce a net adjusted yield in excess of the net interest cost (effective yield) of the Obligations, if such investment would cause such Obligations to be treated as “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code, as amended, and the applicable regulations thereunder; provided, however, that such proceeds and/or revenues may be invested to whatever extent and whenever the Code and/or applicable regulations permit same to be invested without causing the Obligations to be treated as “arbitrage bonds.”

(b) “Non-Exempt Revenues” within the meaning of the foregoing shall be deemed to refer to revenues of the System deposited in any of the funds earmarked for or reasonably

expected to be used for the payment of debt service on the Obligations, in excess of “Exempt Revenues,” which Exempt Revenues are:

(1) amounts deposited in the Sinking Fund for the purpose of paying debt service on any Obligations against the System within thirteen (13) months from the date of deposit; and

(2) amounts deposited in the Depreciation Fund or any similar reserve for replacements, reasonably expected to be used for extensions, additions, improvements or replacements to the System, and not reasonably expected to be used to pay debt service (even if pledged to be used to pay debt service in the event of the unexpected inadequacy of other funds pledged for that purpose).

(c) If, and to the extent that any Non-Exempt Revenues are on deposit and are available for investment by reason of the foregoing, such funds shall be subject to the investment limitations set out in Subsection (a) above.

(d) On the basis of information furnished to the Governmental Agency, on known facts, circumstances and reasonable expectations on the date of enactment of this Assistance Agreement, the Governmental Agency certifies as follows:

(1) That it is not expected or contemplated that the proceeds of the Obligations will be used or invested in any manner which will cause any of the Obligations to be treated as “arbitrage bonds” within the meaning of Section 148 of the Code and the applicable regulations thereunder.

(2) That it is not expected or contemplated that the Governmental Agency will make any use of the proceeds of the Obligations, which, if such use had been reasonably anticipated on the date of issuance of the Obligations, would have caused the Obligations to be arbitrage bonds.

(3) That it is expected and contemplated that the Governmental Agency will comply with (i) all of the requirements of Section 148 of the Code; and (ii) all of the requirements of the applicable regulations thereunder, to whatever extent is necessary to assure that the Obligations will not be treated as arbitrage bonds.

(4) That it is anticipated that amounts on deposit in the Sinking Fund will be used within 13 months from the date of deposit for the payment of debt service on the outstanding Obligations and all Prior Bonds payable from said Sinking Fund.

(5) That amounts accumulated in the Sinking Fund shall not exceed the limitations set forth in this Assistance Agreement.

(6) That it is not reasonably anticipated that amounts accumulated in the Depreciation Fund will be used for payment of debt service on any bonds payable from the revenues of the System, even though such Depreciation Fund will be so available if necessary to prevent a default in the payment of principal and interest on such bonds.

Prior to or at the time of delivery of the Obligations, the Governmental Agency Chief Executive and/or the Governmental Agency Treasurer are authorized to execute the appropriate certification with reference to the matters referred to above, setting out all known and contemplated facts concerning such anticipated investment of the proceeds of the Obligations, including the execution of necessary and/or desirable certifications of the type contemplated by the Code and applicable regulations, as amended, in order to assure that interest on the Obligations will be exempt from all federal income taxes and that the Obligations will not constitute or be treated as arbitrage bonds.

Section 10. Parity Bonds. The Obligations shall not be entitled to priority one over the other in the application of the income and revenues of the System, regardless of the time or times of their issuance, it being the intention that there shall be no priority among the Obligations, regardless of the fact they may be actually issued and delivered at different times, and provided further that the lien and security of and for any bonds or obligations hereafter issued that are payable from the income and revenues of the System, shall, except as set out herein, be subject to the priority of the Prior Bonds and the Obligations as may from time to time be outstanding; provided the Governmental Agency has in said Prior Bond Legislation reserved the right and privilege, and does hereby reserve the right and privilege, of issuing additional bonds from time to time payable from the income and revenues of the System ranking on a parity with the Prior Bonds and with the Obligations, but only under the conditions specified in the Prior Bond Legislation, which conditions are hereinafter repeated, taking into account the issuance of the Obligations.

The Governmental Agency reserves the right to finance future extensions, additions, and/or improvements to the System by the issuance of one or more additional series of bonds to be secured by a parity lien on and ratably payable from, the revenues of the System pledged to the Prior Bonds and the Obligations, provided;

(a) The facility or facilities to be constructed from the proceeds of the additional parity bonds is or are made a part of the System and its or their revenues are pledged as additional security for the additional parity bonds and the outstanding Prior Bonds and Obligations.

(b) The Governmental Agency is in compliance with all covenants and undertakings in connection with all of the bonds then outstanding and payable from the revenues of the System or any part thereof.

(c) The annual net revenues (defined as gross revenues less operating expenses), of the then existing System for 12 consecutive months out of the preceding 18 months, adjusted as

hereinafter provided, shall be certified by an independent Certified Public Accountant to be equal at least one hundred thirty percent (130%) of the maximum annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the System, including such requirements of the Obligations, any Parity Bonds then outstanding plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued. The calculation of average annual debt service requirements of principal and interest on the additional Parity Bonds to be issued shall, regardless of whether such additional Parity Bonds are to be serial or term bonds, be determined on the basis of the principal of and interest on such Parity Bonds being payable in approximately equal annual installments.

(d) The “annual net revenues” referred to above may be adjusted for the purpose of the foregoing computations to reflect:

(i) any revision in the schedule of rates or charges being imposed at the time of the issuance of any such additional Parity Bonds, and

(ii) any increase in the “annual net revenues” to be realized, within 12 months of the completion of the Project, from the proposed extensions, additions, and/or improvements being financed (in whole or in part) by such additional Parity Bonds; provided all such adjustments shall be based upon and included in a certification of a Certified Public Accountant.

(e) Reference is made to the necessity of obtaining the written consent of the United States Department of Agriculture Rural Development or its successor [the “RD”] for the issuance of future bonds encumbering the System while the RD holds any bonds payable from the revenues of the System.

The Governmental Agency hereby covenants and agrees that in the event any additional Parity Bonds are issued, the Governmental Agency shall:

(i) Adjust the monthly amount to be deposited into the Sinking Fund on the same basis as that prescribed in the provisions establishing such Sinking Fund, to reflect the annual debt service requirements of the additional Parity Bonds; and

(ii) Adjust the minimum annual amount to be deposited monthly into the Sinking Fund on the same basis as that prescribed in the provisions establishing such Sinking Fund, taking into account the future debt service requirements of all first lien bonds which will then be outstanding against the System.

The Governmental Agency reserves the right to issue parity bonds to refund or refinance any part or all of the Prior Bonds and the Obligations, provided that prior to the issuance of such additional parity bonds for that purpose, there shall have been procured and filed with the Governmental Agency Clerk of the Governmental Agency a statement by a Certified Public Accountant, as defined herein, reciting the opinion based upon necessary investigation that:

(i) after the issuance of such parity bonds, the annual net revenues, as adjusted and defined above, of the then existing system for the fiscal year preceding the date of issuance of such Parity Bonds, after taking into account the revised debt service requirements resulting from the issuance of such Parity Bonds and from the elimination of the Bonds being refunded or refinanced thereby, are equal to not less than 130% of the maximum annual debt service requirements then scheduled to fall due in any fiscal year thereafter for principal of and interest on all of the then Outstanding Bonds payable from the revenues of the System, calculated in the manner specified above; or

(ii) in the alternative, that the debt service requirements for the Prior Bonds, the Obligations, any previously issued Parity Bonds and the proposed refunding Parity Bonds, in any year of maturities thereof after the redemption of the Bonds scheduled to be refunded through the issuance of such proposed refunding Parity Bonds, shall not exceed the scheduled debt service requirements applicable to the then outstanding Prior Bonds, the Obligations and any previously issued Parity Bonds for any year prior to the issuance of such proposed Parity Bonds and the redemption of the Bonds to be refunded.

Section 11. Rates and Charges for Services of the System. While there are any Outstanding Bonds, the rates for all services of the System rendered by the Governmental Agency to its citizens, corporations, or others requiring the same, shall be reasonable and just, taking into account and consideration the cost and value of said System, the cost of maintaining and operating the same, the proper and necessary allowances for depreciation thereof, and the amounts necessary for the retirement of the Outstanding Bonds and the accruing interest on all Outstanding Bonds as may be outstanding under the provisions of this Assistance Agreement and the Prior Bond Legislation, and there shall be charged such rates and amounts as shall be adequate to meet all requirements of the provisions of this Assistance Agreement. Prior to the issuance of the Obligations a schedule of rates and charges for the services rendered by the System to all users adequate to meet all requirements of this Assistance Agreement has been established and adopted.

The Governmental Agency covenants that it will not reduce the rates and charges for the services rendered by the System without first filing with the Governmental Agency Clerk a certification of an Independent Consulting Engineer or a Certified Public Accountant that the "annual net revenues" (defined as gross revenues less operating expenses) of the then existing System for the fiscal year preceding the year in which such reduction is proposed, as such annual net revenues are adjusted, after taking into account the projected reduction in annual net revenues anticipated to result from any such proposed rate decrease, are equal to not less than 130% of the maximum annual debt service requirements for principal and interest on all of the then outstanding bonds payable from the revenues of the System, calculated in the manner specified in Section 10 hereof.

The Governmental Agency also covenants to cause a report to be filed with the Governing Body within four months after the end of each fiscal year by a Certified Public

Accountant, setting forth the precise debt service coverage percentage of the average annual debt service requirements falling due in any fiscal year thereafter for principal of and interest on all of the then Outstanding Bonds payable from the revenues of the System, produced or provided by the net revenues of the System in that fiscal year, calculated in the manner specified in Section 10 hereof; and the Governmental Agency covenants that if and whenever such report so filed shall establish that such coverage of net revenues for such year was less than 120% of the average annual debt service requirements, the Governmental Agency shall increase the rates by an amount sufficient, in the opinion of such Certified Public Accountant, to establish the existence of or immediate projection of, such minimum 120% coverage.

Section 12. All Obligations of this Issue Are Equal. The Obligations authorized and permitted to be issued hereunder, and from time to time outstanding, shall not be entitled to priority one over the other in the application of the income and revenues of the System regardless of the time or times of their issuance, it being the intention that there shall be no priority among the Obligations, the Prior Bonds and any Parity Bonds authorized or permitted to be issued under the provisions of this Assistance Agreement, regardless of the fact that they may be actually issued and delivered at different times.

Section 13. Defeasance and/or Refunding of Obligations. The Governmental Agency reserves the right, at any time, to cause the pledge of the revenues securing the outstanding Obligations to be defeased and released by paying an amount into an escrow fund sufficient, when invested (or sufficient without such investment, as the case may be) in direct obligations of or obligations guaranteed by the United States of America, including book entry obligations and trust receipts representing an ownership in direct obligations of the United States of America, to assure the availability in such escrow fund of an adequate amount (a) to call for redemption and to redeem and retire all of such outstanding Obligations, both as to principal and as to interest, on the next or any optional redemption date, including all costs and expenses in connection therewith, and to pay all principal and interest falling due on the outstanding Obligations to and on said date, or (b) to pay all principal and interest requirements on the outstanding Obligations as same mature, without redemption in advance of maturity, the determination of whether to defease under (a) or (b) or both to be made by the Governing Body. Such Permitted Investments shall have such maturities as to assure that there will be sufficient funds for such purpose. If such defeasance is to be accomplished pursuant to (a), the Governmental Agency shall take all steps necessary to publish the required notice of the redemption of the outstanding Obligations and the applicable redemption date. Upon the proper amount of such investments being placed in escrow and so secured, such revenue pledge shall be automatically fully defeased and released without any further action being necessary.

Section 14. Contractual Nature of Assistance Agreement. The provisions of this Assistance Agreement shall constitute a contract between the Governmental Agency and the Issuer; and after the issuance of any of such Obligations, no change, variation or alteration of any kind in the provisions of this Assistance Agreement, nor of the Prior Bond Legislation, shall be made in any manner except as herein or therein provided until such time as all of the Bonds authorized thereby and the interest thereon have been paid or provided for in full, or as otherwise

provided herein; provided (a) that the Governing Body may enact legislation for any other purpose not inconsistent with the terms of this Assistance Agreement, and which shall not impair the security of the Issuer and/or for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provisions contained herein or in any ordinance or other proceedings pertaining hereto.

Section 15. Appointment and Duties of Trustee. The Trustee is hereby designated as the bond registrar and paying agent with respect to the Obligations.

Its duties as Trustee shall be as follows:

- (a) To register all of the Obligations in the names of the Issuer;
- (b) To cancel and destroy (or remit to the Governmental Agency for destruction, if so requested by the Governmental Agency) all exchanged, matured, retired and redeemed Obligations, and to maintain adequate records relevant thereto;
- (c) To remit, but only to the extent that all required funds are made available to the Trustee by the Governmental Agency, semiannual interest payments directly to the Issuer's accounts for the Program;
- (c) To notify the Issuer of any Obligations to be redeemed and to redeem Obligations prior to their stated maturity upon receiving sufficient funds; and
- (d) To supply the Governmental Agency with a written accounting evidencing the payment of interest on and principal of the Obligations within thirty (30) days following each respective due date.

The Trustee shall be entitled to the advice of counsel and shall be protected for any acts taken by it in good faith in reliance upon such advice. The Trustee shall not be liable for any actions taken in good faith and believed by it to be within its discretion or the power conferred upon it by this Assistance Agreement, or the responsibility for the consequences of any oversight or error in judgment.

The Trustee may at any time resign from its duties set forth in this Assistance Agreement by filing its resignation with the Governmental Agency Clerk and notifying the Issuer. Thereupon, the Issuer shall notify the Governmental Agency of a successor Trustee which shall be an incorporated bank or trust company authorized to transact business in the United States of America. Notwithstanding the foregoing, in the event of the resignation of the Trustee, provision shall be made for the orderly transition of the books, records and accounts relating to the Obligations to the successor Trustee in order that there will be no delinquencies in the payment of interest or principal due on the Obligations.

Section 16. Provisions in Conflict Repealed. All ordinances, resolutions and orders,

or parts thereof, in conflict herewith are, to the extent of such conflict, hereby repealed; and it is hereby specifically ordered and provided that any proceedings heretofore taken for the issuance of other bonds payable or secured in any manner by all or any part of the income and revenues of the System, or any part thereof, and which have not heretofore been issued and delivered, are hereby revoked and rescinded, and none of such other bonds shall be issued and delivered.

Section 17. Covenant of Governmental Agency to Take All Action Necessary to Assure Compliance with the Internal Revenue Code of 1986. In order to assure purchasers of the Obligations that interest thereon will continue to be exempt from federal and Kentucky income taxation (subject to certain exceptions set out below), the Governmental Agency covenants to and with the Issuer that (1) the Governmental Agency will take all actions necessary to comply with the provisions of the Code, (2) the Governmental Agency will take no actions which will violate any of the provisions of the Code, or would cause the Obligations to become "private activity bonds" within the meaning of the Code, (3) none of the proceeds of the Obligations will be used for any purpose which would cause the interest on the Obligations to become subject to federal income taxation, and the Governmental Agency will comply with any and all requirements as to rebate (and reports with reference thereto) to the United States of America of certain investment earnings on the proceeds of the Obligations.

The Governmental Agency reserves the right to amend this Assistance Agreement but only with the consent of the Issuer (i) to whatever extent shall, in the opinion of Bond Counsel, be deemed necessary to assure that interest on the Obligations shall be exempt from federal income taxation, and (ii) to whatever extent shall be permissible (without jeopardizing such tax exemption or the security of such owners) to eliminate or reduce any restrictions concerning the investment of the proceeds of these Obligations, or the application of such proceeds or of the revenues of the System. The purchasers of these Obligations are deemed to have relied fully upon these covenants and undertakings on the part of the Governmental Agency as part of the consideration for the purchase of the Obligations. To the extent that the Governmental Agency obtains an opinion of nationally recognized bond counsel to the effect that non-compliance with any of the covenants contained in this Assistance Agreement or referred to in this Assistance Agreement would not subject interest on the Obligations to federal income taxes or Kentucky income taxes, the Governmental Agency shall not be required to comply with such covenants or requirements.

This Assistance Agreement is enacted in contemplation that Bond Counsel will render an opinion as to exemption of principal of the Obligations from Kentucky ad valorem taxation and as to exemption of interest on the Obligations from federal and Kentucky income taxation, based on the assumption by Bond Counsel that the Governmental Agency complies with covenants made by the Governmental Agency with respect to compliance with the provisions of the Code, and based on the assumption of compliance by the Governmental Agency with requirements as to any required rebate (and reports with reference thereto) to the United States of America of certain investment earnings on the proceeds of the Obligations. The Governmental Agency has been advised that based on the foregoing assumptions of compliance, Bond Counsel is of the opinion that the Obligations are not "arbitrage bonds" within the meaning of Section 148 of the

Code.

Section 18. Insurance. *(a) Fire and Extended Coverage.* If and to the extent that the System includes structures above ground level, the Governmental Agency shall, upon receipt of the proceeds of the sale of the Obligations, if such insurance is not already in force, procure fire and extended coverage insurance on the insurable portion of all of the facilities of the System, of a kind and in such amounts as would ordinarily be carried by private companies or public bodies engaged in operating a similar utility.

The foregoing fire and extended coverage insurance shall be maintained so long as any of the Obligations are outstanding and shall be in amounts sufficient to provide for not less than full recovery whenever a loss from perils insured against does not exceed eighty percent (80%) of the full insurable value of the damaged facility.

In the event of any damage to or destruction of any part of the System the Governmental Agency shall promptly arrange for the application of the insurance proceeds for the repair or reconstruction of the damaged or destroyed portion thereof.

(b) Liability Insurance on Facilities. So long as any of the Obligations are outstanding, the Governmental Agency shall, procure and maintain, public liability insurance relating to the operation of the facilities of the System, with limits of not less than \$200,000 for one person and \$1,000,000 for more than one person involved in one accident, to protect the Governmental Agency from claims for bodily injury and/or death; and not less than \$200,000 from claims for damage to property of others which may arise from the Governmental Agency's operations of the System and any other facilities constituting a portion of the System.

(c) Vehicle Liability Insurance. If and to the extent that the Governmental Agency owns or operates vehicles in the operation of the System, upon receipt of the proceeds of the Obligations, the Governmental Agency shall, if such insurance is not already in force, procure and maintain, so long as any of the Obligations are outstanding, vehicular public liability insurance with limits of not less than \$200,000 for one person and \$1,000,000 for more than one person involved in one accident, to protect the Governmental Agency from claims for bodily injury and/or death, and not less than \$200,000 against claims for damage to property of others which may arise from the operation of such vehicles by the Governmental Agency.

Section 19. Event of Default; Remedies. The following items shall constitute an "Event of Default" on the part of the Governmental Agency:

(a) The failure to pay principal on the Obligations when due and payable, either at maturity or by proceedings for redemption;

(b) The failure to pay any installment of interest on the Obligations when the same shall become due and payable;

(c) The failure of the Governmental Agency to fulfill any of its obligations pursuant to this Assistance Agreement and to cure any such failure within 30 days after receipt of written notice of such failure; and/or

(d) The failure to promptly repair, replace or reconstruct essential facilities of the System after any major damage and/or destruction thereof.

Upon the occurrence of an Event of Default, the Issuer or the Trustee on its behalf, as owner of the Obligations, may enforce and compel the performance of all duties and obligations of the Governmental Agency as set forth herein. Upon the occurrence of an Event of Default, then, upon the filing of suit by the Trustee or the Issuer, any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the Governmental Agency, with power to charge and collect rates sufficient to provide for the payment of the principal of and interest on the Obligations, and for the payment of operation and maintenance expenses of the System, and to provide and apply the income and revenues in conformity with this Assistance Agreement and with the laws of the Commonwealth of Kentucky.

In addition to and apart from the foregoing, upon the occurrence of an Event of Default, the owner of any of the Obligations may require the Governmental Agency by demand, court order, injunction, or otherwise, to raise all applicable rates charged for services of the System a reasonable amount, consistent with the requirements of this Assistance Agreement.

Section 20. Annual Reports. The Governmental Agency hereby agrees to provide or cause to be provided to the Issuer and the Compliance Group audited financial statements prepared in accordance with generally accepted accounting principles (commencing with the fiscal year ended August 31, 2006) and such other financial information and/or operating data as requested by the Issuer or the Compliance Group.

The annual financial information and operating data, including audited financial statements, will be made available on or before 120 days after the end of each fiscal year (August 31).

Section 21. Supplemental Assistance Agreement. The Governmental Agency may, but only with the consent of the Issuer, execute one or more supplemental Assistance Agreements as shall not be inconsistent with the terms and provisions hereof for any one or more of the following purposes:

(a) to cure any ambiguity or formal defect or omission in this Assistance Agreement;

(b) to subject to the lien and pledge of this Assistance Agreement additional revenues, properties, or collateral which may legally be subjected;

(c) to add to the conditions, limitations and restrictions on the issuance of bonds, other conditions, limitations and restrictions thereafter to be observed;

(d) to add to the covenants and agreements of the Governmental Agency in this Assistance Agreement, other covenants and agreements thereafter to be incurred by the Governmental Agency or to surrender any right or power herein reserved to or conferred upon the Governmental Agency;

(e) to effect the issuance of additional Parity Bonds; and/or

(f) to modify the terms and conditions of this Assistance Agreement at the request of the Issuer in order to assist the Issuer in operating the Program or to maintain any rating the Issuer may have on its Program obligations.

Section 22. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Issuer is intended to be exclusive, and every such remedy will be cumulative and will be in addition to every other remedy given hereunder and every remedy now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power and any such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 23. Waivers. In the event that any agreement contained herein should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach hereunder.

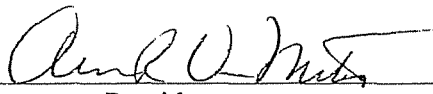
Section 24. Agreement to Pay Attorneys' Fees and Expenses. In the event that either party hereto shall become in default under any of the provisions hereof and the non-defaulting party employs attorneys or incurs other expenses for the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will pay on demand therefore to the non-defaulting party the fees of such attorneys and such other expenses so incurred by the non-defaulting party.

Section 25. Signatures of Officers. If any of the officers whose signatures or facsimile signatures appear on this Assistance Agreement or any other document evidencing the Obligations cease to be such officers before delivery of the Obligations, such signatures shall nevertheless be valid for all purposes the same as if such officers had remained in office until delivery, as provided by KRS 58.040 and KRS 61.390.

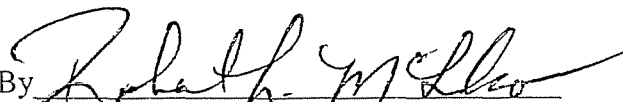
Section 26. Severability Clause. If any section, paragraph, clause or provision of this Assistance Agreement shall be held invalid, the invalidity of such section paragraph, clause or provision shall not affect any of the remaining provisions of this Assistance Agreement.

IN WITNESS WHEREOF, the Kentucky Rural Water Finance Corporation has caused this Assistance Agreement to be signed in its name by its President and attested by its Secretary/Treasurer and the Henderson County Water District has caused this Assistance Agreement to be signed in corporate name and by its officer thereunder duly authorized, all as of the day and year first above written.

KENTUCKY RURAL WATER FINANCE CORPORATION

By 
President


Attest:

By 
Secretary/Treasurer

HENDERSON COUNTY WATER DISTRICT

By 
Chairman

Attest:


By 
Secretary

IN WITNESS WHEREOF, the Kentucky Rural Water Finance Corporation has caused this Assistance Agreement to be signed in its name by its President and attested by its Secretary/Treasurer and the Henderson County Water District has caused this Assistance Agreement to be signed in corporate name and by its officer thereunder duly authorized, all as of the day and year first above written.

KENTUCKY RURAL WATER FINANCE CORPORATION

By _____
President

Attest:

By  _____
Secretary/Treasurer

HENDERSON COUNTY WATER DISTRICT

By _____
Chairman

Attest:

By _____
Secretary

GOVERNMENTAL AGENCY ACKNOWLEDGMENT

COMMONWEALTH OF KENTUCKY

COUNTY OF HENDERSON

The foregoing instrument was acknowledged before me this April 6th, 2006, by David Spainhoward who is the Chairman of the Henderson County Water District, on behalf of said District.

WITNESS my hand this April 6th, 2006.

My Commission expires: Oct. 21-2006.



Notary Public, State at Large, Kentucky

COMMONWEALTH OF KENTUCKY

COUNTY OF HENDERSON

The foregoing instrument was acknowledged before me this April 6th, 2006, by Robert L. McIndoo, who is the Secretary of the Henderson County Water District, on behalf of said District.

WITNESS my hand this April 6th, 2006.

My Commission expires: Oct. 21-2006.



Notary Public, State at Large, Kentucky

ISSUER ACKNOWLEDGMENT

COMMONWEALTH OF KENTUCKY

COUNTY OF HENDERSON

The foregoing instrument was acknowledged before me this April ____, 2006 by Allan VanMeter who is the President of the Kentucky Rural Water Finance Corporation, on behalf of said Corporation.

WITNESS my hand this April ____, 2006.

My Commission expires: _____.

Notary Public, State at Large, Kentucky

COMMONWEALTH OF KENTUCKY

COUNTY OF WARREN

The foregoing instrument was acknowledged before me this April 6th, 2006 by Gary Larimore who is the Secretary/Treasurer of the Kentucky Rural Water Finance Corporation, on behalf of said Corporation.

WITNESS my hand this April 6th, 2006.

My Commission expires: 7-11-06.

Robbie S. Shanahan
Notary Public, State at Large, Kentucky

EXHIBIT A

Debt Service Schedule

KENTUCKY RURAL WATER FINANCE CORPORATION FLEXIBLE TERM FINANCE PROGRAM SERIES 2006 A

Borrower: Henderson County Water District
 Closing Date: 04/11/06

Borrower Payment Schedule

Payment Date	Principal	Interest Rate	Interest	Trustee Fees	Total	Fiscal Total
04/11/06			0.00	0.00	0.00	0.00
07/01/06						
01/01/07	0.00	4.000%	155,802.10		155,802.10	
07/01/07	0.00		96,704.75	450.00	97,154.75	252,956.85
01/01/08	136,000.00	4.000%	96,704.75		232,704.75	
07/01/08	0.00		93,984.75	450.00	94,434.75	327,139.50
01/01/09	141,000.00	4.000%	93,984.75		234,984.75	
07/01/09	0.00		91,164.75	450.00	91,614.75	326,599.50
01/01/10	141,000.00	4.000%	91,164.75		232,164.75	
07/01/10	0.00		88,344.75	450.00	88,794.75	320,959.50
01/01/11	146,000.00	4.000%	88,344.75		234,344.75	
07/01/11	0.00		85,424.75	450.00	85,874.75	320,219.50
01/01/12	156,000.00	4.000%	85,424.75		241,424.75	
07/01/12	0.00		82,304.75	450.00	82,754.75	324,179.50
01/01/13	156,000.00	4.000%	82,304.75		238,304.75	
07/01/13	0.00		79,184.75	450.00	79,634.75	317,939.50
01/01/14	170,000.00	4.000%	79,184.75		249,184.75	
07/01/14	0.00		75,784.75	450.00	76,234.75	325,419.50
01/01/15	169,000.00	4.000%	75,784.75		244,784.75	
07/01/15	0.00		72,404.75	450.00	72,854.75	317,639.50
01/01/16	272,000.00	4.000%	72,404.75		344,404.75	
07/01/16	0.00		66,964.75	450.00	67,414.75	411,819.50
01/01/17	279,000.00	4.000%	66,964.75		345,964.75	
07/01/17	0.00		61,384.75	450.00	61,834.75	407,799.50
01/01/18	297,000.00	4.100%	61,384.75		358,384.75	
07/01/18	0.00		55,296.25	450.00	55,746.25	414,131.00
01/01/19	309,000.00	4.125%	55,296.25		364,296.25	
07/01/19	0.00		48,923.13	450.00	49,373.13	413,669.38
01/01/20	325,000.00	4.125%	48,923.13		373,923.13	
07/01/20	0.00		42,220.00	450.00	42,670.00	416,593.13
01/01/21	340,000.00	4.200%	42,220.00		382,220.00	
07/01/21	0.00		35,080.00	450.00	35,530.00	417,750.00
01/01/22	355,000.00	4.200%	35,080.00		390,080.00	
07/01/22	0.00		27,625.00	450.00	28,075.00	418,155.00
01/01/23	371,000.00	4.250%	27,625.00		398,625.00	
07/01/23	0.00		19,741.25	450.00	20,191.25	418,816.25
01/01/24	298,000.00	4.250%	19,741.25		317,741.25	
07/01/24	0.00		13,408.75	450.00	13,858.75	331,600.00
01/01/25	308,000.00	4.250%	13,408.75		321,408.75	
07/01/25	0.00		6,863.75	450.00	7,313.75	328,722.50
01/01/26	323,000.00	4.250%	6,863.75		329,863.75	
07/01/26	0.00		0.00	450.00	450.00	330,313.75
Totals	<u>4,692,000.00</u>		<u>2,441,422.86</u>	<u>9,000.00</u>	<u>7,142,422.86</u>	

KRWFC Flexible Term Program Series 2006 A
 Sinking Fund Payment Schedule

Borrower: Henderson County Water District
 Closing Date: 04/11/06

	Monthly Principal	Monthly Interest	Total Monthly Sinking Fund Payments
6/6-7/6	-	19,475.26	19,475.26
8/6-1/7	-	19,475.26	19,475.26
2/7-7/7	11,333.33	16,117.46	27,450.79
8/7-1/8	11,333.33	16,117.46	27,450.79
2/8-7/8	11,750.00	15,664.13	27,414.13
8/8-1/9	11,750.00	15,664.13	27,414.13
2/9-7/9	11,750.00	15,194.13	26,944.13
8/9-1/10	11,750.00	15,194.13	26,944.13
2/10-7/10	12,166.67	14,724.13	26,890.79
8/10-1/11	12,166.67	14,724.13	26,890.79
2/11-7/11	13,000.00	14,237.46	27,237.46
8/11-1/12	13,000.00	14,237.46	27,237.46
2/12-7/12	13,000.00	13,717.46	26,717.46
8/12-1/13	13,000.00	13,717.46	26,717.46
2/13-7/13	14,166.67	13,197.46	27,364.13
8/13-1/14	14,166.67	13,197.46	27,364.13
2/14-7/14	14,083.33	12,630.79	26,714.13
8/14-1/15	14,083.33	12,630.79	26,714.13
2/15-7/15	22,666.67	12,067.46	34,734.13
8/15-1/16	22,666.67	12,067.46	34,734.13
2/16-7/16	23,250.00	11,160.79	34,410.79
8/16-1/17	23,250.00	11,160.79	34,410.79
2/17-7/17	24,750.00	10,230.79	34,980.79
8/17-1/18	24,750.00	10,230.79	34,980.79
2/18-7/18	25,750.00	9,216.04	34,966.04
8/18-1/19	25,750.00	9,216.04	34,966.04
2/19-7/19	27,083.33	8,153.86	35,237.19
8/19-1-20	27,083.33	8,153.86	35,237.19
2/20-7/20	28,333.33	7,036.67	35,370.00
8/20-1/21	28,333.33	7,036.67	35,370.00
2/21-7/21	29,583.33	5,846.67	35,430.00
8/21-1/22	29,583.33	5,846.67	35,430.00
2/22-7/22	30,916.67	4,604.17	35,520.83
8/22-1/23	30,916.67	4,604.17	35,520.83
2/23-7/23	24,833.33	3,290.21	28,123.54
8/23-1/24	24,833.33	3,290.21	28,123.54
2/24-7/24	25,666.67	2,234.79	27,901.46
8/24-1/25	25,666.67	2,234.79	27,901.46
2/25-7/25	26,916.67	1,143.96	28,060.63
8/25-1/26	26,916.67	1,143.96	28,060.63
2/26-7/26	-	-	-
Totals	<u>4,692,000.00</u>	<u>2,441,422.86</u>	<u>7,133,422.86</u>

EXHIBIT B

**REQUEST FOR PAYMENT WITH RESPECT TO
KENTUCKY RURAL WATER FINANCE CORPORATION
(FLEXIBLE TERM PROGRAM)**

Request No. _____

Dated: _____

To: Regions Bank
315 Union Street
P.O. Box 198977
Nashville, Tennessee 37219
Fax Number: (615) 687-4503

From: Henderson County Water District ("Governmental Agency")

Contact Person: Allan VanMeter
Address: Henderson County Water District
P.O. Box 655
Henderson, Kentucky 42419

Ladies and Gentlemen:

The above identified Governmental Agency has entered into an Assistance Agreement with the Kentucky Rural Water Finance Corporation (the "Issuer") for the advance refunding of the outstanding (i) Henderson County Water District Water Revenue Bonds, Series 1997, dated July 1, 1997, in the amount of \$1,800,000 and (ii) Henderson County (Kentucky) Water District Water Revenue Bonds, Series of 2000, dated June 1, 2000, in the original principal amount of \$2,625,000, described in the Assistance Agreement as the "Project."

Pursuant to the Assistance Agreement, we hereby certify that we have incurred the following expenses in connection with the Project and that the Issuer's funding share of these expenses is in the amount so denoted in this request totaling \$ _____ and is set forth in Exhibit A attached hereto.

Respectfully submitted,

HENDERSON COUNTY WATER
DISTRICT

By _____
Chairman

ASSISTANCE AGREEMENT

BETWEEN

KENTUCKY RURAL WATER FINANCE CORPORATION

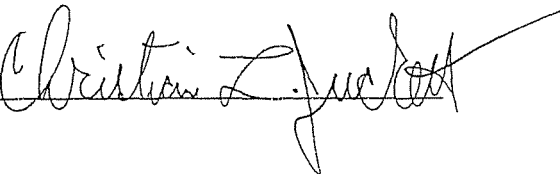
AND

HENDERSON COUNTY WATER DISTRICT

DATED AUGUST 28, 2003

This document was prepared by:

RUBIN & HAYS
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202
(502) 569-7525

By 

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ASSISTANCE AGREEMENT

This Assistance Agreement made and entered into as of the 28th day of August, 2003 (the "Assistance Agreement") by and between the Kentucky Rural Water Finance Corporation, a non-profit corporation and instrumentality of various entities of the Commonwealth of Kentucky (the "Issuer") and the Henderson County Water District, City of Henderson, Kentucky (the "Governmental Agency"):

WITNESSETH

WHEREAS, the Issuer has established its Public Projects Flexible Term Program (the "Program") designed to provide financing for the expansion, addition and improvements of public projects for governmental entities under which the Issuer issued its Kentucky Rural Water Finance Corporation Multimodal Public Projects Revenue Bonds (Flexible Term Program), Series 2001, dated April 4, 2001, in the aggregate principal amount of \$46,000,000 (the "Series 2001 Bonds") pursuant to a Trust Indenture dated as of April 4, 2001 (the "Indenture") between the Issuer and Fifth Third Bank, trustee (the "Trustee"), the net proceeds of which will be applied for the benefit of such governmental entities by making loans, pursuant to Assistance Agreements; and

WHEREAS, pursuant to the Indenture, the Issuer has authorized the issuance of the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2003B (the "Series 2003B Bonds") in the aggregate principal amount of \$955,000, pursuant to a Supplemental Trust Indenture No. 11, dated as of August 28, 2003 by and between the Issuer and the Trustee, which Series 2003B Bonds will rank on a parity with the Series 2001 Bonds and the proceeds of which will be used by certain Governmental Agencies to refund and refinance certain outstanding obligations which were issued for the purpose of acquiring, constructing and equipping the Project; and

WHEREAS, the Issuer has previously remarketed, reissued and delivered \$5,315,000 of the Series 2001 Bonds in a Fixed Rate Mode to be known as Kentucky Rural Water Finance Corporation Multimodal Public Projects Revenue Bonds (Flexible Term Program), Series 2001A (the "Series 2001A Bonds") pursuant to Supplemental Trust Indenture No. 1, dated as of June 27, 2001 by and between the Issuer and the Trustee (the "Series 2001A Indenture"); and

WHEREAS, the Issuer has previously remarketed, reissued and delivered \$1,005,000 of the Series 2001 Bonds in a Fixed Rate Mode to be known as Kentucky Rural Water Finance Corporation Multimodal Public Projects Revenue Bonds (Flexible Term Program), Series 2001B (the "Series 2001B Bonds") pursuant to Supplemental Trust Indenture No. 2, dated as of December 19, 2001 by and between the Issuer and the Trustee (the "Series 2001B Indenture"); and

WHEREAS, the Issuer has previously remarketed, reissued and delivered \$715,000 of the Series 2001 Bonds in a Fixed Rate Mode to be known as Kentucky Rural Water Finance Corporation Multimodal Public Projects Revenue Bonds (Flexible Term Program), Series 2001C (the "Series 2001C Bonds") pursuant to Supplemental Trust Indenture No. 3, dated as of May 15, 2002 by and between the Issuer and the Trustee (the "Series 2001C Indenture"); and

WHEREAS, the Issuer has previously issued and delivered \$1,640,000 of Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2002 (the "Series 2002 Bonds"), which rank on a parity with the Series 2001 Bonds, pursuant to Supplemental Trust Indenture No. 4, dated as of July 15, 2002 by and between the Issuer and the Trustee (the "Series 2002 Indenture"); and

WHEREAS, the Issuer has previously remarketed, reissued and delivered \$2,830,000 of the Series 2001 Bonds in a Fixed Rate Mode to be known as Kentucky Rural Water Finance Corporation Multimodal Public Projects Revenue Bonds (Flexible Term Program), Series 2001D (the "Series 2001D Bonds") pursuant to Supplemental Trust Indenture No. 5, dated as of September 25, 2002 by and between the Issuer and the Trustee (the "Series 2001D Indenture"); and

WHEREAS, the Issuer has previously issued and delivered \$1,375,000 of Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2002B (the "Series 2002B Bonds"), which rank on a parity with the Series 2001 Bonds, pursuant to Supplemental Trust Indenture No.6, dated as of October 30, 2002 by and between the Issuer and the Trustee (the "Series 2002B Indenture"); and

WHEREAS, the Issuer has previously remarketed, reissued and delivered \$1,810,000 of the Series 2001 Bonds in a Fixed Rate Mode to be known as Kentucky Rural Water Finance Corporation Multimodal Public Projects Revenue Bonds (Flexible Term Program), Series 2001E (the "Series 2001E Bonds") pursuant to Supplemental Trust Indenture No. 7, dated as of December 18, 2002 by and between the Issuer and the Trustee (the "Series 2001E Indenture"); and

WHEREAS, the Issuer has previously issued and delivered \$8,805,000 of Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2003A (the "Series 2003A Bonds"), which rank on a parity with the Series 2001 Bonds, pursuant to Supplemental Trust Indenture No.8, dated as of March 15, 2003 by and between the Issuer and the Trustee (the "Series 2003A Indenture"); and

WHEREAS, the Issuer has previously remarketed, reissued and delivered \$1,250,000 of the Series 2001 Bonds in a Fixed Rate Mode to be known as Kentucky Rural Water Finance Corporation Multimodal Public Projects Revenue Bonds (Flexible Term Program), Series 2001F (the "Series 2001F Bonds") pursuant to Supplemental Trust Indenture No. 9, dated as of May 28, 2003 by and between the Issuer and the Trustee (the "Series 2001F Indenture"); and

WHEREAS, the Issuer has previously remarketed, reissued and delivered \$795,000 of the Series 2001 Bonds in a Fixed Rate Mode to be known as Kentucky Rural Water Finance Corporation Multimodal Public Projects Revenue Bonds (Flexible Term Program), Series 2001G (the "Series 2001G Bonds") pursuant to Supplemental Trust Indenture No. 10, dated as of July 30, 2003 by and between the Issuer and the Trustee (the "Series 2001G Indenture"); and

WHEREAS, the Governmental Agency has determined that it is necessary and desirable to refinance and currently refund certain outstanding indebtedness of said Governmental Agency (the "Project"), and the Issuer has determined that the Project is a project within the meaning of the Act and the Indenture, thereby qualifying for financial assistance from the Issuer; and

WHEREAS, the Issuer has found and determined that the Project will be in furtherance of the purposes of the Issuer and the Governmental Agency under the Act; and

WHEREAS, the Governmental Agency has designated the Issuer as its instrumentality and agency; and

WHEREAS, pursuant to this Assistance Agreement the Governmental Agency will proceed with the Project; and

WHEREAS, the Governmental Agency, presently owns and operates the Water System (the "System") of said Governmental Agency; and

WHEREAS, the Governmental Agency has heretofore issued its Prior Bonds (as hereinafter defined); and

WHEREAS, in and by the Prior Bond Legislation (as hereinafter defined), the right and privilege was reserved by the Governmental Agency under conditions and restrictions set out in said Prior Bond Legislation, of issuing additional bonds from time to time, payable from the income and revenues of the System and ranking on a parity with the outstanding Prior Bonds, for the purpose, among other things, of financing the costs of extensions, additions and improvements to the System, and refinancing certain outstanding indebtedness, which conditions and restrictions are found to currently exist and prevail so as to permit the issuance of certain proposed additional bonds so as to rank, when issued, on a parity with the outstanding Prior Bonds; and

WHEREAS, the Governmental Agency has heretofore issued its (i) Henderson County Water District Water Refunding Revenue Bonds, Series 1993, dated March 1, 1993, in the original principal amount of \$1,250,000 (the "Series 1993 Bonds"), authorized by a Resolution adopted by the Board of Commissioners (the "Governing Body") on January 11, 1993 (the "Bond Legislation of 1993"); and (ii) Henderson County Water District Water Refunding and Improvement Revenue Bonds, Series 1994, dated January 1, 1994, in the original principal amount of \$1,220,000 (the "Series 1994 Bonds"), authorized by a Resolution adopted by the Governing Body on November 17, 1993 (the "Bond Legislation of 1994"); and

WHEREAS, the Governmental Agency has found and determined that it is in the public interest to refinance and currently refund the Series 1993 Bonds and the Series 1994 Bonds in order to achieve interest savings; and

WHEREAS, it is deemed necessary and advisable for the best interests of the Governmental Agency that it enter into this Assistance Agreement with the Issuer in order to borrow funds (the "Loan") in the amount of \$955,000 [the "Obligations"], for the purpose of providing funds for the Project, and to reaffirm the conditions and restrictions whereunder similar bonds or obligations may be subsequently issued ranking on a parity therewith; and

WHEREAS, under the provisions of Sections 58.010 through 58.140, inclusive, of the Kentucky Revised Statutes, and under the provisions of the Prior Bond Legislation, the Governmental Agency is authorized to enter into this Assistance Agreement and to borrow the Obligations to provide such funds for the purpose aforesaid; and

WHEREAS, the Issuer is willing to cooperate with the Governmental Agency in making available the Loan pursuant to the Act and the Indenture to be applied to the Project upon the conditions hereinafter enumerated and the covenants by the Governmental Agency herein contained; and

WHEREAS, the Issuer and the Governmental Agency have determined to enter into this Assistance Agreement pursuant to the terms of the Act and the Indenture and to set forth their respective duties, rights, covenants, and obligations with respect to the construction and financing of the Project subject to the repayment of the Loan and the Obligations and the interest thereon;

NOW, THEREFORE, FOR AND IN CONSIDERATION OF THE MUTUAL COVENANTS HEREIN SET FORTH, THE LOAN HEREBY EFFECTED AND OTHER GOOD AND VALUABLE CONSIDERATION, THE RECEIPT OF WHICH IS HEREBY ACKNOWLEDGED BY EACH PARTY, THE PARTIES HERETO MUTUALLY COVENANT AND AGREE, EACH WITH THE OTHER AS FOLLOWS:

Section 1. Definitions. As used in this Assistance Agreement, unless the context requires otherwise:

"*Act*" refers to Chapters 58 and 74 of the Kentucky Revised Statutes.

"*Assistance Agreement*" refers to this Assistance Agreement authorizing the Loan and the Obligations.

"*Bond Counsel*" refers to a nationally recognized firm of Bond Counsel which firm has prepared the legal proceedings for the Obligations, has furnished all of the customary services of Bond Counsel in this financing and will continue to furnish such services until the Obligations are delivered and paid for, including the rendering of the final approving legal opinion with regard to the legality of the Obligations and the tax exemption of the interest thereon.

"*Bond Legislation of 1993*" refers to the Resolution authorizing the Series 1993 Bonds, duly adopted by the Governing Body on January 11, 1993.

“Bond Legislation of 1994” refers to the Resolution authorizing the Series 1994 Bonds, duly adopted by the Governing Body on November 17, 1993.

“Bond Legislation of 1997” refers to the Resolution authorizing the Series 1997 Bonds, duly adopted by the Governing Body on June 11, 1997.

“Bond Legislation of 2000” refers to the Resolution authorizing the Series 2000 Bonds, duly adopted by the Governing Body on _____.

“Bondowner,” “Owner,” “Bondholder” means and contemplates, unless the context otherwise indicates, the registered owner of one or more of the Bonds at the time issued and outstanding hereunder.

“Bonds” refers to the Obligations, the Prior Bonds and any additional Parity Bonds.

“Certified Public Accountants” refers to an independent Certified Public Accountant or firm of Certified Public Accountants, duly licensed in Kentucky and knowledgeable about the affairs of the System and/or of other Governmental Agency financial matters.

“Code” refers to the United States Internal Revenue Code of 1986, as amended, and any regulations issued thereunder.

“Compliance Group” refers to the Compliance Group identified and defined in the Indenture.

“Depository Bank” refers to the bank or banks in which the Funds referred to in this Assistance Agreement will be deposited and maintained as the depository(ies) for such Funds; as determined by the Governmental Agency.

“Depreciation Fund” refers to the Henderson County Water District System Depreciation Fund created in the Prior Bond Legislation and which Depreciation Fund will continue to be maintained for the benefit of all of the Bonds.

“Engineer” or *“Independent Consulting Engineer”* refers to an Independent Consulting Engineer or firm of Engineers of excellent national reputation or of recognized excellent reputation in Kentucky in the fields of waterworks and sewer engineering.

“Funds” refers to the Revenue Fund, the Sinking Fund, the Depreciation Fund, the Operation and Maintenance Fund and the Governmental Agency Account.

“Governing Body” means the Board of Commissioners of the Governmental Agency or such other body as shall be the governing body of said Governmental Agency under the laws of Kentucky at any given time.

“*Governmental Agency*” refers to the Henderson County Water District.

“*Governmental Agency Chief Executive*” refers to the Chairman of the Governmental Agency.

“*Governmental Agency Clerk*” refers to the Secretary of the Governmental Agency.

“*Indenture*” means the Trust Indenture, dated as of April 4, 2001, as originally executed or as it may from time to time be supplemented, modified or amended by any supplemental mortgage, including the Supplemental Trust Indenture No. 11, dated August 15, 2003, by and between the Issuer and the Trustee.

“*Interest Payment Date*” shall mean the 1st day of each month, commencing January 1, 2004 and continuing through and including January 1, 2015 or until the Loan has been paid in full.

“*Issuer*” refers to the Kentucky Rural Water Finance Corporation.

“*KIA*” refers to the Kentucky Infrastructure Authority, a body corporate and politic and an agency of the Commonwealth of Kentucky.

“*KIA Loans*” refers to the District's outstanding Kentucky Infrastructure Authority loans dated December 1, 1991, in the original principal amount of \$365,407, and dated December 1, 1991, in the original principal amount of \$618,381.

“*Obligations*” refers to the Loan authorized by this Assistance Agreement in the principal amount of \$955,000.

“*Operation and Maintenance Fund*” refers to the “Henderson County Water District System Operation and Maintenance Fund” created and confirmed in the Prior Bond Legislation and which Operation and Maintenance Fund will continue to be maintained for the benefit of the System.

“*Outstanding Bonds*” refers collectively to all outstanding Prior Bonds, the outstanding Obligations and any outstanding Parity Bonds, and does not refer to any bonds which have been defeased.

“*Parity Bonds*” means bonds issued in the future, which will, pursuant to the provisions of this Assistance Agreement, rank on a basis of parity with the Obligations and shall not be deemed to include, nor to prohibit the issuance of, bonds ranking inferior in security to the Obligations.

“*Permitted Investments*” refers to investments of funds on deposit in the various funds created herein and includes:

- (1) direct obligations of the United States of America (including obligations issued or

held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, including instruments evidencing an ownership interest in securities described in this clause (1);

- (2) obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following:

Federal Home Loan Bank System, Export-Import Bank of the United States, Federal Financing Bank, Federal Land Banks, Government National Mortgage Association, Federal Home Loan Mortgage Corporation or Federal Housing Administration;

- (3) repurchase agreements (including those of the Trustee or the Bank) fully secured by collateral security described in clause (1) or (2) of this definition, which collateral (a) is held by the Trustee or a third party agent during the term of such repurchase agreement, (b) is not subject to liens or claims of third parties and (c) has a market value (determined at least once every fourteen days) at least equal to the amount so invested;
- (4) certificates of deposit of, or time deposits in, any bank (including the Trustee or the Bank) or savings and loan association (a) the debt obligations of which (or in the case of the principal bank of a bank holding company, the debt obligations of the bank holding company of which) have been rated at least equal to the rating assigned to the Bonds by each Rating Agency then rating the Bonds or (b) which are fully insured by the Federal Deposit Insurance Corporation or (c) which are secured at all times, in the manner and to the extent provided by law, by collateral security (described in clause (1) or (2) of this definition) of a market value (valued at least quarterly) of no less than the amount of money so invested;
- (5) shares in any investment company registered under the Federal Investment Governmental Agency Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and whose only investments are government securities described in clause (1) or (2) of this definition and repurchase agreements fully secured by government securities described in clause (1) or (2) of this definition and/or other obligations rated AAA by S&P;
- (6) tax-exempt obligations of any state of the United States, or political subdivision thereof, which are rated AA or better by S&P or mutual funds invested only in such obligations;
- (7) units of a taxable or nontaxable government money-market portfolio composed of U.S. Government obligations and repurchase agreements collateralized by such obligations;

- (8) commercial paper rated A-1 or A-1+ by S&P;
- (9) corporate notes or bonds with one year or less to maturity rated in one of the two highest Rating Categories by S&P; or
- (10) shares of mutual funds, each of which shall have the following characteristics:
 - (i) The mutual fund shall be an open-end diversified investment company registered under the Federal Investment company Act of 1940, as amended;
 - (ii) The management company of the investment company shall have been in operation for at least five (5) years; and
 - (iii) All of the securities in the mutual fund shall be in investments in any one or more of the investments described in (1) and (3) above.

"Prior Bond Legislation" refers collectively to the Bond Legislation of 1997 and the Bond Legislation of 2000..

"Prior Bonds" refers to the Series 1997 Bonds and the Series 2000 Bonds.

"Program" refers to the Issuer's Public Projects Flexible Term Program designed to provide financing for the expansion, addition and improvements of public projects for governmental entities.

"Program Administrator" refers to the Kentucky Rural Water Association, Inc., Bowling Green, Kentucky.

"Program Reserve Fund" refers to the Reserve Fund created and established pursuant to Section 4.2 of the Indenture.

"Project" refers to refinancing and current refunding of the Governmental Agency's Series 1993 Bonds and Series 1994 Bonds with the proceeds of the Obligations.

"Record Date" shall mean with respect to any Interest Payment Date, the close of business on the 15th day next preceding such Interest Payment Date, whether or not such day is a business day.

"Requisition Certificate" means the form attached hereto as Exhibit C to be utilized by the Governmental Agency in obtaining disbursements of the Loan from the Governmental Agency Account as construction of the Project progresses.

"Revenue Fund" refers to the Henderson County Water District Revenue Fund created in the Prior Bond Legislation and which Revenue Fund will continue to be maintained for the benefit of

all of the Bonds.

“*Series 1993 Bonds*” refers to the outstanding Henderson County Water Refunding Revenue Bonds, Series 1993, dated March 1, 1993, in the original principal amount of \$1,250,000.

“*Series 1994 Bonds*” refers to the outstanding Henderson County Water District Water Refunding and Improvement Revenue Bonds, Series 1994, dated January 1, 1994, in the original principal amount of \$1,220,000.

“*Series 1997 Bonds*” refers to the outstanding Henderson County Water District Water Revenue Bonds, Series 1997, dated July 1, 1997 in the original principal amount of \$1,800,000.

“*Series 2000 Bonds*” refers to the outstanding Henderson County (Kentucky) Water District Water Revenue Bonds, Series of 2000, dated June 1, 2000, in the original principal amount of \$2,625,000.

“*Sinking Fund*” refers to the Henderson County Water District Revenue Bond and Interest Redemption Fund created and confirmed in the Prior Bond Legislation and which Sinking Fund will continue to be maintained for the benefit of the System.

“*System*” refers to the Governmental Agency's water system, together with all future extensions, additions and improvements to said System.

“*Treasurer*” refers to the Treasurer of the Governmental Agency.

“*Trustee*” refers to Fifth Third Bank, Cincinnati, Ohio.

“*U.S. Obligations*” refers to bonds, notes, or Treasury Bills which are direct obligations of the United States of America or obligations fully guaranteed by the United States of America, including book-entry obligations of the United States Treasury-State and Local Government Series, and Trust Receipts representing an ownership interest in direct obligations of the United States.

Section 2. Reaffirmation of Declaration of Water System. That all proceedings heretofore taken for the establishment of and the supplying of water service in and to said Governmental Agency as a water system are hereby in all respects ratified and confirmed; and so long as any of the obligations hereinafter authorized or permitted to be issued remain outstanding, said System shall be owned, controlled, operated and maintained for the security and source of payment of said obligations. Said System is hereby declared to constitute a public project within the meaning and application of Sections 58.010 to 58.140, inclusive, of the Kentucky Revised Statutes.

Section 3. Authorization of Obligations; Place of Payment; Manner of Execution. That pursuant to the Constitution and laws of Kentucky, and particularly said Sections 58.010 to 58.140, inclusive of the Kentucky Revised Statutes, the Governmental Agency hereby authorizes the

borrowing of \$955,000 from the Program, for the purpose of providing funds for the Project. Said Obligations shall mature on each January 1 beginning January 1, 2004 and continuing thereafter through and until January 1, 2015, in such principal amounts, and shall bear interest payable on the Interest Payment Dates, commencing July 1, 2004 in the maturities and at the interest rates set forth in Exhibit A attached hereto.

The principal of, redemption price, if any, and interest on the Obligations shall be payable in lawful money of the United States of America on the Interest Payment Dates, beginning January 1, 2004 to the Trustee for the Program. Such payment shall be made by the Governmental Agency from funds on deposit in the Sinking Fund pursuant to the ACH Debit Direct Payment Method (the "ACH Debit Direct Payment Method") as described and detailed in the ACH Debit Direct Payment Authorization Form (the "ACH Authorization Form") attached hereto as Exhibit B. The ACH Authorization Form shall be completed, signed and forwarded to the Trustee prior to the Governmental Agency receiving any of the proceeds of the Loan.

Pursuant to the ACH Debit Direct Payment Method, there shall be transferred to the Trustee on or before the first day of each month, from the Sinking Fund, the amounts hereinafter specified:

- (1) An amount equal to one-sixth (1/6) of the interest becoming due on the Obligations on the next succeeding interest due date [provided that for the first seven payments one-seventh (1/7) of the interest due on the Obligations on the next succeeding interest due date], and subject to a credit for the amount on deposit in the Sinking Fund transferred thereto on the date of issue of the Obligations; plus
- (2) An amount equal to one-twelfth (1/12) of the principal amount of all Obligations maturing on the next succeeding January 1 [provided that for the first seven payments one-seventh (1/7) of the principal due on the Obligations on January 1].

In addition, in the event the Issuer is required to withdraw moneys from the Program Reserve Fund established pursuant to the Indenture to pay the principal of and interest on the Obligations and any other payments due under this Assistance Agreement on behalf of the Governmental Agency (the "Reserve Withdrawal"), the Governmental Agency shall pay to the Trustee, in each month, pursuant to the ACH Debit Direct Payment Method an amount equal to at least 1/12 of the Reserve Withdrawal, plus accrued interest thereon at the rate equal to the highest rate of interest paid by the investments making up the Program Reserve Fund until such Reserve Withdrawal has been replenished.

Section 4. Redemption. (a) *Optional Redemption.* Subject to the prior written approval of the Compliance Group, Obligations maturing on and prior to January 1, 2012 shall not be subject to redemption prior to maturity. Obligations maturing on or after January 1, 2013, are subject to redemption, in whole or in part, by the Issuer prior to their stated maturities, at any time falling on or after January 1, 2012, upon payment of the principal amount to be redeemed plus accrued interest to the date of redemption, on the dates, subject to redemption premium stated as a percentage of the principal amount to be redeemed, as follows:

<u>Redemption Dates (Inclusive)</u>	<u>Redemption Price</u>
January 1, 2012 through December 31, 2012	101.0%
January 1, 2013 through December 31, 2013	100.5%
January 1, 2014 and thereafter	100.0%

In the event that the Governmental Agency desires to optionally redeem a portion of its Obligations, such redemption shall be in a denomination equal to \$5,000 or any integral multiple thereof.

(b) *Notice of Redemption.* The Governmental Agency shall give the Issuer and the Trustee notice of any redemption by sending at least one such notice by first class United States mail not less than 45 and not more than 90 days prior to the date fixed for redemption.

All of said Obligations as to which the Governmental Agency reserves and exercises the right of redemption and as to which notice as aforesaid shall have been given, and for the retirement of which, upon the terms aforesaid, funds are duly provided, will cease to bear interest on the redemption date.

Section 5. Obligations Payable Out of Revenues on a Parity with Prior Bonds. All of the Obligations and Prior Bonds, together with the interest thereon and such additional bonds ranking on a parity therewith heretofore issued and outstanding and that may be hereafter issued and outstanding from time to time under the conditions and restrictions hereinafter set forth, shall be payable out of the Sinking Fund, as heretofore created in the Prior Bond Legislation and as hereinafter more specifically provided and shall be a valid claim of the holder thereof only against said fund and the fixed portion or amount of the income and revenues of the System of said Governmental Agency pledged to said fund.

Section 6. Compliance with Parity Coverage Requirements of the Prior Bond Legislation. It is hereby declared that in accordance with the provisions of the Prior Bond Legislation, and prior to the issuance of any of the Obligations hereby authorized, there will be procured and filed with the Governmental Agency Clerk of said Governmental Agency any and all statements or certifications for the purpose of having both principal and interest on the Prior Bonds and the Obligations hereby authorized payable on a parity from the income and revenues of said

System with said outstanding Prior Bonds.

Section 7. Flow of Funds. All proceedings preliminary to and in connection with the issuance of the Prior Bonds, whereby provision was made for the receipt, custody, and application of the proceeds of the Prior Bonds; for the operation of said System on a revenue-producing basis; for the segregation, allocation, and custody of the revenues derived from the operation of the System; and for the enforcement and payment of the Prior Bonds; and all other covenants for the benefit of the bondholders set out in the Prior Bond Legislation, are hereby ratified and confirmed and shall continue in force and inure to the security and benefit of the Bonds, the same as if such provisions and proceedings were repeated in full herein; provided, further, that, hereafter, the income and revenues of the System shall be collected, segregated, accounted for, and distributed as follows:

A. Revenue Fund. The Governmental Agency covenants and agrees that it will continue to deposit in the Revenue Fund, promptly as received from time to time, all revenues of the System, as same may be extended and improved from time to time. The moneys in the Revenue Fund shall continue to be used, disbursed and applied by the Governmental Agency only for the purpose and in the manner and order of priorities specified in the Prior Bond Legislation, as hereinafter modified by this Assistance Agreement, all as permitted by the Act, and in accordance with previous contractual commitments.

B. Sinking Fund. A separate and special fund or account of the Governmental Agency, distinct and apart from all other funds and accounts, was created in and by the Prior Bond Resolution and designated and identified as the "Henderson County Water District Revenue Bond and Interest Redemption Fund," which shall continue to be maintained so long as any of the Outstanding Bonds or any additional Parity Bonds herein permitted to be issued are outstanding; and all moneys deposited therein from time to time shall be used and disbursed and applied, and are hereby irrevocably pledged, solely for the purpose of paying the principal of and interest on the Outstanding Bonds and any Parity Bonds hereafter issued and outstanding pursuant to the provisions of this Assistance Agreement.

There shall be set aside and transferred on or before the 20th day of each month from the Revenue Fund, as a first charge thereon, and deposited in the Sinking Fund Sums sufficient to pay when due the principal and interest requirements on the Outstanding Bonds. Specifically, there shall be paid into the Sinking Fund on or before the 20th day of each month, on account of the Outstanding Bonds, not less than the following:

- (1) An amount equal to one-sixth (1/6) of the next succeeding six-month interest payment to become due on the Outstanding Bonds [provided that for the first seven payments one-seventh (1/7) of the interest due on the Obligations on the next succeeding interest due date], plus
- (2) A sum equal to one-twelfth (1/12) of the principal of any Outstanding Bonds maturing on the next succeeding principal payment date [provided that for the

first seven payments one-seventh (1/7) of the principal due on the Obligations].

In the event additional Parity Bonds are issued pursuant to the conditions and restrictions hereinafter prescribed, the monthly deposits to the Sinking Fund shall be increased to provide for payment of interest thereon and the principal thereof as the same respectively become due.

If for any reason there should be a failure to pay into the Sinking Fund the full amounts above stipulated, then an amount equivalent to such deficiency shall be set apart and paid into the Sinking Fund from the first available income and revenues of the System, subject to the aforesaid priorities.

No further payments need to be made into the Sinking Fund if and when the amount held therein and in any other available fund is at least equal to the amount required to retire all Outstanding Bonds and Parity Bonds and paying all interest that will accrue thereon.

C. Depreciation Fund. Pursuant to the provisions of the Prior Bond Legislation, there shall next be transferred from the Revenue Fund a sum sufficient, each month, to maintain a balance in said Depreciation Fund of at least the sum required by the Prior Bond Legislation, which shall be deposited into the Depreciation Fund.

Moneys in the Depreciation Fund may be withdrawn and used by the Governmental Agency, upon appropriate certification of the Governing Body, in accordance with the provisions of the Prior Bond Legislation, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals and replacements not included in the annual budget of current expenses and/or of paying the costs of constructing future extensions, additions and improvements to the System which will either enhance its revenue-producing capacity or will provide a higher degree of service, and when necessary, for the purpose of making payments of principal and interest on the Bonds if the amount on deposit in the Sinking Fund is not sufficient to make such payments.

D. Operation and Maintenance Fund. There shall next be transferred monthly from the Revenue Fund and deposited into said Operation and Maintenance Fund, sums sufficient to meet the current expenses of operating and maintaining the System. The balance maintained in said Operation and Maintenance Fund shall not be in excess of the amount required to cover anticipated System expenditures for a two-month period pursuant to the Governmental Agency's annual budget.

E. Surplus Funds. Subject to the provisions for the disposition of the income and revenues of the System as set forth hereinabove, which provisions are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred, within sixty days after the end of each fiscal year, the balance of excess funds in the Revenue Fund on such date, to the Depreciation Fund for application in accordance with the terms

of this Assistance Agreement or to the Sinking Fund to be applied to the maximum extent feasible, to the prompt purchase or redemption of Outstanding Bonds.

Provided, however, notwithstanding anything to the contrary in any Prior Bond Legislation, the Governmental Agency shall be allowed a credit to the extent of moneys on deposit in the Program Reserve Fund for the purpose of meeting any parity requirements in any Prior Bond Legislation; subject however, to the limitation that moneys in the Program Reserve Fund may only be used to make payments of the Government Agency due under this Assistance Agreement, if necessary, and; provided further, that the Trustee may not seek payment for any reserve funds held by the Governmental Agency under any Prior Bond Legislation for payment of any amounts due from the Governmental Agency under this Assistance Agreement.

Section 8. Disposition of Proceeds of the Obligations; Governmental Agency Account.

Upon (i) the execution of this Assistance Agreement, (ii) the deliverance of this Assistance Agreement to the Trustee, (iii) certification of the Compliance Group that the Loan is to be accepted in the Program and (iv) upon receipt by the Governmental Agency of the proceeds of the Obligations, the proceeds shall be applied as follows:

(a) *Disposition of the Proceeds.* There shall first be deducted and paid from the proceeds of the Obligations the fees and costs incurred by the Governmental Agency and any other pertinent expenses incident to the issuance, sale and delivery of the Obligations and such other appropriate expenses as may be approved by the Governmental Agency Chief Executive, including but not limited to the Governmental Agency's pro rata share of the Program's fees and expenses.

The balance shall be deposited to the Governmental Agency Account to be used to complete the Project.

(b) *Governmental Agency Account.* It is hereby acknowledged that a fund entitled "Henderson County Water District Governmental Agency Account" (the "Governmental Agency Account") has been created and maintained by the Trustee pursuant to the Indenture; and the amount on deposit in said Governmental Agency Account shall be applied to the extent necessary, to pay the cost of additions and improvements to and the construction of the Project.

Investment income derived from investment of the Governmental Agency Account, which shall be invested in Permitted Investments in accordance with this Assistance Agreement, shall, as received, be deposited in the Governmental Agency Account.

The Trustee shall be obligated to send written notice to the Governmental Agency of the need for investment directions if and whenever funds in excess of \$50,000 shall remain uninvested for a period of more than five days. In the absence of written direction from the Governmental Agency with respect to investment of moneys held in the Governmental Agency Account, the Trustee is hereby directed to invest funds in money market mutual funds of the Trustee or its affiliates that qualify as Permitted Investments under this Assistance Agreement.

Payment from the Governmental Agency Account for costs in connection with the Project shall be made only upon a Requisition Certificate delivered to the Trustee which has been approved by the Engineers having charge of supervising such acquisition, improvement and construction, and countersigned by the Governmental Agency Chief Executive, said Engineers to certify in each instance that the Requisition Certificate represents a sum actually earned by and due to the proposed payee under a contract with said Governmental Agency for work performed and/or materials furnished in connection with the Project, or represents a sum necessary to be expended for land and/or rights of way necessary to be acquired by the Governmental Agency in connection with said Project.

No expenditure shall be made from the Governmental Agency Account except for proper and authorized expenses relating to the acquisition, improvement and construction of the Project in accordance with the contracts, plans and specifications approved by the Governmental Agency.

After completion of the Project, as certified by the Engineers, any balance then remaining on deposit in the Governmental Agency Account shall, subject to any and all applicable legal provisions and applicable arbitrage regulations necessary to assure the exemption of interest on the Obligations from Federal income taxation, upon orders of the Governing Body, be transferred to the Sinking Fund, to be used for the purposes thereof.

Section 9. Arbitrage Limitations. (1) The Governmental Agency covenants that neither the proceeds of the Obligations, nor "Non-Exempt Revenues" of the System, as defined below, will be invested in investments which will produce a net adjusted yield in excess of the net interest cost (effective yield) of the Obligations, if such investment would cause such Obligations to be treated as "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code, as amended, and the applicable regulations thereunder; provided, however, that such proceeds and/or revenues may be invested to whatever extent and whenever the Code and/or applicable regulations permit same to be invested without causing the Obligations to be treated as "arbitrage bonds."

(2) "Non-Exempt Revenues" within the meaning of the foregoing shall be deemed to refer to revenues of the System deposited in any of the funds earmarked for or reasonably expected to be used for the payment of debt service on the Obligations, in excess of "Exempt Revenues," which Exempt Revenues are:

- (a) amounts deposited in the Sinking Fund for the purpose of paying debt service on any Obligations against the System within thirteen (13) months from the date of deposit; and
- (b) amounts deposited in the Depreciation Fund or any similar reserve for replacements, reasonably expected to be used for extensions, additions, improvements or replacements to the System, and not reasonably expected to be used to pay debt service (even if pledged to be used to pay debt service in the event of the unexpected

inadequacy of other funds pledged for that purpose).

(3) If, and to the extent that any Non-Exempt Revenues are on deposit and are available for investment by reason of the foregoing, such funds shall be subject to the investment limitations set out in Subsection (1) above.

On the basis of information furnished to the Governmental Agency, on known facts, circumstances and reasonable expectations on the date of enactment of this Assistance Agreement, the Governmental Agency certifies as follows:

- (a) That it is not expected or contemplated that the proceeds of the Obligations will be used or invested in any manner which will cause any of the Obligations to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code and the applicable regulations thereunder.
- (b) That it is not expected or contemplated that the Governmental Agency will make any use of the proceeds of the Obligations, which, if such use had been reasonably anticipated on the date of issuance of the Obligations, would have caused the Obligations to be arbitrage bonds.
- (c) That it is expected and contemplated that the Governmental Agency will comply with (i) all of the requirements of Section 148 of the Code; and (ii) all of the requirements of the applicable regulations thereunder, to whatever extent is necessary to assure that the Obligations will not be treated as arbitrage bonds.
- (d) That it is anticipated that amounts on deposit in the Sinking Fund will be used within 13 months from the date of deposit for the payment of debt service on the outstanding Obligations and all Prior Bonds payable from said Sinking Fund.
- (e) That amounts accumulated in the Sinking Fund shall not exceed the limitations set forth in this Assistance Agreement.
- (f) That it is not reasonably anticipated that amounts accumulated in the Depreciation Fund will be used for payment of debt service on any bonds payable from the revenues of the System, even though such Depreciation Fund will be so available if necessary to prevent a default in the payment of principal and interest on such bonds.

Prior to or at the time of delivery of the Obligations, the Governmental Agency Chief Executive and/or the Governmental Agency Treasurer are authorized to execute the appropriate certification with reference to the matters referred to above, setting out all known and contemplated facts concerning such anticipated investment of the proceeds of the Obligations, including the execution of necessary and/or desirable certifications of the type contemplated by the Code and applicable regulations, as amended, in order to assure that interest on the Obligations will be exempt

from all federal income taxes and that the Obligations will not constitute or be treated as arbitrage bonds.

Section 10. Parity Bonds. The Obligations shall not be entitled to priority one over the other in the application of the income and revenues of the System, regardless of the time or times of their issuance, it being the intention that there shall be no priority among the Obligations, regardless of the fact they may be actually issued and delivered at different times, and provided further that the lien and security of and for any bonds or obligations hereafter issued that are payable from the income and revenues of the System, shall, except as set out herein, be subject to the priority of the Prior Bonds and the Obligations as may from time to time be outstanding; provided the Governmental Agency has in said Prior Bond Legislation reserved the right and privilege, and does hereby reserve the right and privilege, of issuing additional bonds from time to time payable from the income and revenues of the System ranking on a parity with the Prior Bonds and with the Obligations, but only under the conditions specified in the Prior Bond Legislation, which conditions are hereinafter repeated, taking into account the issuance of the Obligations.

The Governmental Agency reserves the right to finance future extensions, additions, and/or improvements to the System by the issuance of one or more additional series of bonds to be secured by a parity lien on and ratably payable from, the revenues of the System pledged to the Prior Bonds and the Obligations, provided;

(a) The facility or facilities to be constructed from the proceeds of the additional parity bonds is or are made a part of the System and its or their revenues are pledged as additional security for the additional parity bonds and the outstanding Prior Bonds and Obligations.

(b) The Governmental Agency is in compliance with all covenants and undertakings in connection with all of the bonds then outstanding and payable from the revenues of the System or any part thereof.

(c) The annual net revenues (defined as gross revenues less operating expenses), of the then existing System for 12 consecutive months out of the preceding 18 months, adjusted as hereinafter provided, shall be certified by an independent Certified Public Accountant to be equal at least one hundred thirty percent (130%) of the maximum annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the System, including such requirements of the Obligations, any Parity Bonds then outstanding plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued. The calculation of average annual debt service requirements of principal and interest on the additional Parity Bonds to be issued shall, regardless of whether such additional Parity Bonds are to be serial or term bonds, be determined on the basis of the principal of and interest on such Parity Bonds being payable in approximately equal annual installments.

(d) The "annual net revenues" referred to above may be adjusted for the purpose of the foregoing computations to reflect:

(i) any revision in the schedule of rates or charges being imposed at the time of the issuance of any such additional Parity Bonds, and

(ii) any increase in the "annual net revenues" to be realized, within 12 months of the completion of the Project, from the proposed extensions, additions, and/or improvements being financed (in whole or in part) by such additional Parity Bonds; provided all such adjustments shall be based upon and included in a certification of a Certified Public Accountant.

(e) Reference is made to the necessity of obtaining the written consent of the United States Department of Agriculture Rural Development or its successor [the "RD"] for the issuance of future bonds encumbering the System while the RD holds any bonds payable from the revenues of the System.

The Governmental Agency hereby covenants and agrees that in the event any additional Parity Bonds are issued, the Governmental Agency shall:

(i) Adjust the monthly amount to be deposited into the Sinking Fund on the same basis as that prescribed in the provisions establishing such Sinking Fund, to reflect the annual debt service requirements of the additional Parity Bonds; and

(ii) Adjust the minimum annual amount to be deposited monthly into the Sinking Fund on the same basis as that prescribed in the provisions establishing such Sinking Fund, taking into account the future debt service requirements of all first lien bonds which will then be outstanding against the System.

The Governmental Agency reserves the right to issue parity bonds to refund or refinance any part or all of the Prior Bonds and the Obligations, provided that prior to the issuance of such additional parity bonds for that purpose, there shall have been procured and filed with the Governmental Agency Clerk of the Governmental Agency a statement by a Certified Public Accountant, as defined herein, reciting the opinion based upon necessary investigation that:

(i) after the issuance of such parity bonds, the annual net revenues, as adjusted and defined above, of the then existing system for the fiscal year preceding the date of issuance of such Parity Bonds, after taking into account the revised debt service requirements resulting from the issuance of such Parity Bonds and from the elimination of the Bonds being refunded or refinanced thereby, are equal to not less than 130% of the maximum annual debt service requirements then scheduled to fall due in any fiscal year thereafter for principal of and interest on all of the then Outstanding Bonds payable from the revenues of the System, calculated in the manner specified above; or

(ii) in the alternative, that the debt service requirements for the Prior Bonds, the

Obligations, any previously issued Parity Bonds and the proposed refunding Parity Bonds, in any year of maturities thereof after the redemption of the Bonds scheduled to be refunded through the issuance of such proposed refunding Parity Bonds, shall not exceed the scheduled debt service requirements applicable to the then outstanding Prior Bonds, the Obligations and any previously issued Parity Bonds for any year prior to the issuance of such proposed Parity Bonds and the redemption of the Bonds to be refunded.

Section 11. Rates and Charges for Services of the System. While any Bonds are outstanding and unpaid, the rates for all services of the System rendered by the Governmental Agency to its citizens, corporations, or others requiring the same, shall be reasonable and just, taking into account and consideration the cost and value of said System, the cost of maintaining and operating the same, the proper and necessary allowances for depreciation thereof, and the amounts necessary for the retirement of the outstanding Bonds and the accruing interest on all such Bonds as may be outstanding under the provisions of this Assistance Agreement and the Prior Bond Legislation, and there shall be charged such rates and amounts as shall be adequate to meet all requirements of the provisions of this Assistance Agreement. Prior to the issuance of the Obligations a schedule of rates and charges for the services rendered by the System to all users adequate to meet all requirements of this Assistance Agreement has been established and adopted.

The Governmental Agency covenants that it will not reduce the rates and charges for the services rendered by the System without first filing with the Governmental Agency Clerk a certification of an Independent Consulting Engineer or a Certified Public Accountant that the "annual net revenues" (defined as gross revenues less operating expenses) of the then existing System for the fiscal year preceding the year in which such reduction is proposed, as such annual net revenues are adjusted, after taking into account the projected reduction in annual net revenues anticipated to result from any such proposed rate decrease, are equal to not less than 130% of the maximum annual debt service requirements for principal and interest on all of the then outstanding bonds payable from the revenues of the System, calculated in the manner specified in Section 10 hereof.

The Governmental Agency also covenants to cause a report to be filed with the Governing Body within four months after the end of each fiscal year by a Certified Public Accountant, setting forth the precise debt service coverage percentage of the average annual debt service requirements falling due in any fiscal year thereafter for principal of and interest on all of the then Outstanding Bonds payable from the revenues of the System, produced or provided by the net revenues of the System in that fiscal year, calculated in the manner specified in Section 10 hereof; and the Governmental Agency covenants that if and whenever such report so filed shall establish that such coverage of net revenues for such year was less than 120% of the average annual debt service requirements, the Governmental Agency shall increase the rates by an amount sufficient, in the opinion of such Certified Public Accountant, to establish the existence of or immediate projection of, such minimum 120% coverage.

Section 12. All Obligations of this Issue Are Equal. The Obligations authorized and permitted to be issued hereunder, and from time to time outstanding, shall not be entitled to priority one over the other in the application of the income and revenues of the System regardless of the time or times of their issuance, it being the intention that there shall be no priority among the Obligations, the Prior Bonds and any Parity Bonds authorized or permitted to be issued under the provisions of this Assistance Agreement, regardless of the fact that they may be actually issued and delivered at different times.

Section 13. Defeasance and/or Refunding of Obligations. The Governmental Agency reserves the right, at any time, to cause the pledge of the revenues securing the outstanding Obligations to be defeased and released by paying an amount into an escrow fund sufficient, when invested (or sufficient without such investment, as the case may be) in direct obligations of or obligations guaranteed by the United States of America, including book entry obligations and trust receipts representing an ownership in direct obligations of the United States of America, to assure the availability in such escrow fund of an adequate amount (a) to call for redemption and to redeem and retire all of such outstanding Obligations, both as to principal and as to interest, on the next or any optional redemption date, including all costs and expenses in connection therewith, and to pay all principal and interest falling due on the outstanding Obligations to and on said date, or (b) to pay all principal and interest requirements on the outstanding Obligations as same mature, without redemption in advance of maturity, the determination of whether to defease under (a) or (b) or both to be made by the Governing Body. Such Permitted Investments shall have such maturities as to assure that there will be sufficient funds for such purpose. If such defeasance is to be accomplished pursuant to (a), the Governmental Agency shall take all steps necessary to publish the required notice of the redemption of the outstanding Obligations and the applicable redemption date. Upon the proper amount of such investments being placed in escrow and so secured, such revenue pledge shall be automatically fully defeased and released without any further action being necessary.

Section 14. Contractual Nature of Assistance Agreement. The provisions of this Assistance Agreement shall constitute a contract between the Governmental Agency and the Issuer; and after the issuance of any of such Obligations, no change, variation or alteration of any kind in the provisions of this Assistance Agreement, nor of the Prior Bond Legislation, shall be made in any manner except as herein or therein provided until such time as all of the Bonds authorized thereby and the interest thereon have been paid or provided for in full, or as otherwise provided herein; provided (a) that the Governing Body may enact legislation for any other purpose not inconsistent with the terms of this Assistance Agreement, and which shall not impair the security of the Issuer and/or for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provisions contained herein or in any ordinance or other proceedings pertaining hereto.

Section 15. Appointment and Duties of Trustee. The Trustee is hereby designated as the bond registrar and paying agent with respect to the Obligations.

Its duties as Trustee shall be as follows:

- (1) To register all of the Obligations in the names of the Issuer;
- (2) To cancel and destroy (or remit to the Governmental Agency for destruction, if so requested by the Governmental Agency) all exchanged, matured, retired and redeemed Obligations, and to maintain adequate records relevant thereto;
- (3) To remit, but only to the extent that all required funds are made available to the Trustee by the Governmental Agency, semiannual interest payments directly to the Issuer's accounts for the Program;
- (4) To notify the Issuer of any Obligations to be redeemed and to redeem Obligations prior to their stated maturity upon receiving sufficient funds; and
- (5) To supply the Governmental Agency with a written accounting evidencing the payment of interest on and principal of the Obligations within thirty (30) days following each respective due date.

The Trustee shall be entitled to the advice of counsel and shall be protected for any acts taken by it in good faith in reliance upon such advice. The Trustee shall not be liable for any actions taken in good faith and believed by it to be within its discretion or the power conferred upon it by this Assistance Agreement, or the responsibility for the consequences of any oversight or error in judgment.

The Trustee may at any time resign from its duties set forth in this Assistance Agreement by filing its resignation with the Governmental Agency Clerk and notifying the Issuer. Thereupon, the Issuer shall notify the Governmental Agency of a successor Trustee which shall be an incorporated bank or trust company authorized to transact business in the United States of America. Notwithstanding the foregoing, in the event of the resignation of the Trustee, provision shall be made for the orderly transition of the books, records and accounts relating to the Obligations to the successor Trustee in order that there will be no delinquencies in the payment of interest or principal due on the Obligations.

Section 16. Provisions in Conflict Repealed. All ordinances, resolutions and orders, or parts thereof, in conflict herewith are, to the extent of such conflict, hereby repealed; and it is hereby specifically ordered and provided that any proceedings heretofore taken for the issuance of other bonds payable or secured in any manner by all or any part of the income and revenues of the System, or any part thereof, and which have not heretofore been issued and delivered, are hereby revoked and rescinded, and none of such other bonds shall be issued and delivered.

Section 17. Covenant of Governmental Agency to Take All Action Necessary to Assure Compliance with the Internal Revenue Code of 1986. In order to assure purchasers of the Obligations that interest thereon will continue to be exempt from federal and Kentucky income

taxation (subject to certain exceptions set out below), the Governmental Agency covenants to and with the Issuer that (1) the Governmental Agency will take all actions necessary to comply with the provisions of the Code, (2) the Governmental Agency will take no actions which will violate any of the provisions of the Code, or would cause the Obligations to become "private activity bonds" within the meaning of the Code, (3) none of the proceeds of the Obligations will be used for any purpose which would cause the interest on the Obligations to become subject to federal income taxation, and the Governmental Agency will comply with any and all requirements as to rebate (and reports with reference thereto) to the United States of America of certain investment earnings on the proceeds of the Obligations.

The Governmental Agency hereby certifies that it does not reasonably expect to issue bonds or other obligations considered under the Code to be "tax-exempt obligations" in the aggregate principal amount in excess of \$5,000,000 during the calendar year in which the Obligations are being issued, and has irrevocably allocated that portion of its \$5,000,000 small issuer exemption equal to the principal amount of the Obligations, and for that reason the Governmental Agency has been advised by Bond Counsel that pursuant to Section 148(f)(4)(C) of the Code, neither the debt service fund nor any other fund or account established under the provisions of this Assistance Agreement is subject to the "rebate requirements" on excess earnings in favor of the United States of America imposed by the Code. The Governmental Agency covenants and agrees that in the event it is subsequently determined, upon advice of nationally recognized bond counsel, that any fund or account established under this Assistance Agreement, are subject to said rebate requirements and do, in fact, generate earnings from "non-purpose investments" in excess of the amount which said investments would have earned at a rate equal to the "yield" on the Obligations, plus any income attributable to such excess, it shall rebate to the United States of America any such excess generated from such investments and remit such excess to the United States of America on or before five (5) years from the date of issuance of the Obligations, and once every five years thereafter until the final retirement of the Obligations; the last installment, to the extent required, to be made no later than sixty (60) days following the date on which funds sufficient for the complete retirement of the Obligations are deposited with the Paying Agent or any escrow agent.

The Governmental Agency reserves the right to amend this Assistance Agreement but only with the consent of the Issuer (i) to whatever extent shall, in the opinion of Bond Counsel, be deemed necessary to assure that interest on the Obligations shall be exempt from federal income taxation, and (ii) to whatever extent shall be permissible (without jeopardizing such tax exemption or the security of such owners) to eliminate or reduce any restrictions concerning the investment of the proceeds of these Obligations, or the application of such proceeds or of the revenues of the System. The purchasers of these Obligations are deemed to have relied fully upon these covenants and undertakings on the part of the Governmental Agency as part of the consideration for the purchase of the Obligations. To the extent that the Governmental Agency obtains an opinion of nationally recognized bond counsel to the effect that non-compliance with any of the covenants contained in this Assistance Agreement or referred to in this Assistance Agreement would not subject interest on the Obligations to federal income taxes or Kentucky income taxes, the Governmental Agency shall not be required to comply with such covenants or requirements.

This Assistance Agreement is enacted in contemplation that Bond Counsel will render an opinion as to exemption of principal of the Obligations from Kentucky ad valorem taxation and as to exemption of interest on the Obligations from federal and Kentucky income taxation, based on the assumption by Bond Counsel that the Governmental Agency complies with covenants made by the Governmental Agency with respect to compliance with the provisions of the Code, and based on the assumption of compliance by the Governmental Agency with requirements as to any required rebate (and reports with reference thereto) to the United States of America of certain investment earnings on the proceeds of the Obligations. The Governmental Agency has been advised that based on the foregoing assumptions of compliance, Bond Counsel is of the opinion that the Obligations are not "arbitrage bonds" within the meaning of Section 148 of the Code.

Section 18. Insurance. (a) *Fire and Extended Coverage.* If and to the extent that the System includes structures above ground level, the Governmental Agency shall, upon receipt of the proceeds of the sale of the Obligations, if such insurance is not already in force, procure fire and extended coverage insurance on the insurable portion of all of the facilities of the System, of a kind and in such amounts as would ordinarily be carried by private companies or public bodies engaged in operating a similar utility.

The foregoing fire and extended coverage insurance shall be maintained so long as any of the Obligations are outstanding and shall be in amounts sufficient to provide for not less than full recovery whenever a loss from perils insured against does not exceed eighty percent (80%) of the full insurable value of the damaged facility.

In the event of any damage to or destruction of any part of the System the Governmental Agency shall promptly arrange for the application of the insurance proceeds for the repair or reconstruction of the damaged or destroyed portion thereof.

(b) *Liability Insurance on Facilities.* So long as any of the Obligations are outstanding, the Governmental Agency shall, procure and maintain, public liability insurance relating to the operation of the facilities of the System, with limits of not less than \$200,000 for one person and \$1,000,000 for more than one person involved in one accident, to protect the Governmental Agency from claims for bodily injury and/or death; and not less than \$200,000 from claims for damage to property of others which may arise from the Governmental Agency's operations of the System and any other facilities constituting a portion of the System.

(c) *Vehicle Liability Insurance.* If and to the extent that the Governmental Agency owns or operates vehicles in the operation of the System, upon receipt of the proceeds of the Obligations, the Governmental Agency shall, if such insurance is not already in force, procure and maintain, so long as any of the Obligations are outstanding, vehicular public liability insurance with limits of not less than \$200,000 for one person and \$1,000,000 for more than one person involved in one accident, to protect the Governmental Agency from claims for bodily injury and/or death, and not less than \$200,000 against claims for damage to property of others which may arise from the operation of such

vehicles by the Governmental Agency.

Section 19. Event of Default; Remedies. The following items shall constitute an "Event of Default" on the part of the Governmental Agency:

(a) The failure to pay principal on the Obligations when due and payable, either at maturity or by proceedings for redemption.

(b) The failure to pay any installment of interest on the Obligations when the same shall become due and payable.

(c) The failure of the Governmental Agency to fulfill any of its obligations pursuant to this Assistance Agreement and to cure any such failure within 30 days after receipt of written notice of such failure.

(d) The failure to promptly repair, replace or reconstruct essential facilities of the System after any major damage and/or destruction thereof.

Upon the occurrence of an Event of Default, the Issuer or the Trustee on its behalf, as owner of the Obligations, may enforce and compel the performance of all duties and obligations of the Governmental Agency as set forth herein. Upon the occurrence of an Event of Default, then, upon the filing of suit by the Trustee or the Issuer, any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the Governmental Agency, with power to charge and collect rates sufficient to provide for the payment of the principal of and interest on the Obligations, and for the payment of operation and maintenance expenses of the System, and to provide and apply the income and revenues in conformity with this Assistance Agreement and with the laws of the Commonwealth of Kentucky.

In addition to and apart from the foregoing, upon the occurrence of an Event of Default, the owner of any of the Obligations may require the Governmental Agency by demand, court order, injunction, or otherwise, to raise all applicable rates charged for services of the System a reasonable amount, consistent with the requirements of this Assistance Agreement.

Section 20. Annual Reports. The Governmental Agency hereby agrees to provide or cause to be provided to the Issuer and the Compliance Group audited financial statements prepared in accordance with generally accepted accounting principles (commencing with the fiscal year ended August 31, 2003) and such other financial information and/or operating data as requested by the Issuer or the Compliance Group.

The annual financial information and operating data, including audited financial statements, will be made available on or before 120 days after the end of each fiscal year (August 31).

Section 21. Supplemental Assistance Agreement. The Governmental Agency may, but only with the consent of the Issuer, execute one or more supplemental Assistance Agreements as shall not be inconsistent with the terms and provisions hereof for any one or more of the following purposes:

- (a) to cure any ambiguity or formal defect or omission in this Assistance Agreement;
- (b) to subject to the lien and pledge of this Assistance Agreement additional revenues, properties, or collateral which may legally be subjected;
- (c) to add to the conditions, limitations and restrictions on the issuance of bonds, other conditions, limitations and restrictions thereafter to be observed;
- (d) to add to the covenants and agreements of the Governmental Agency in this Assistance Agreement, other covenants and agreements thereafter to be incurred by the Governmental Agency or to surrender any right or power herein reserved to or conferred upon the Governmental Agency;
- (e) to effect the issuance of additional Parity Bonds; and/or
- (f) to modify the terms and conditions of this Assistance Agreement at the request of the Issuer in order to assist the Issuer in operating the Program or to maintain any rating the Issuer may have on its Program obligations.

Section 22. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Issuer is intended to be exclusive, and every such remedy will be cumulative and will be in addition to every other remedy given hereunder and every remedy now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power and any such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 23. Waivers. In the event that any agreement contained herein should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach hereunder.

Section 24. Agreement to Pay Attorneys' Fees and Expenses. In the event that either party hereto shall become in default under any of the provisions hereof and the non-defaulting party employs attorneys or incurs other expenses for the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will pay on demand therefore to the non-defaulting party the fees of such attorneys and such other expenses so incurred by the non-defaulting party.

Section 25. Signatures of Officers. If any of the officers whose signatures or facsimile signatures appear on this Assistance Agreement or any other document evidencing the Obligations cease to be such officers before delivery of the Obligations, such signatures shall nevertheless be valid for all purposes the same as if such officers had remained in office until delivery, as provided by KRS 58.040 and KRS 61.390.

Section 26. Severability Clause. If any section, paragraph, clause or provision of this Assistance Agreement shall be held invalid, the invalidity of such section paragraph, clause or provision shall not affect any of the remaining provisions of this Assistance Agreement.

IN WITNESS WHEREOF, the Kentucky Rural Water Finance Corporation has caused this Assistance Agreement to be signed in its name by its President and attested by its Secretary/Treasurer and the Henderson County Water District has caused this Assistance Agreement to be signed in corporate name and by its officer thereunder duly authorized, all as of the day and year first above written.

KENTUCKY RURAL WATER FINANCE CORPORATION

By Robert M^c Gloshlin
President

Attest:

[Signature]
Secretary/Treasurer

HENDERSON COUNTY WATER DISTRICT

By [Signature]
Chairman

Attest:

[Signature]
Secretary

ISSUER ACKNOWLEDGMENT

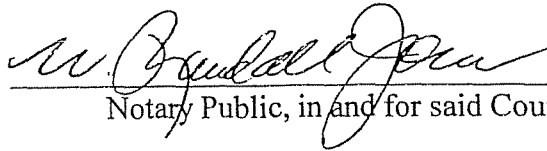
COMMONWEALTH OF KENTUCKY

COUNTY OF BOYD

The foregoing instrument was acknowledged before me this 26th day of August, 2003 by Bob McGlothlin who is the President of the Kentucky Rural Water Finance Corporation, on behalf of said Corporation.

WITNESS my hand this 26th day of August, 2003.

My Commission expires: October 5, 2003



Notary Public, in and for said County and State

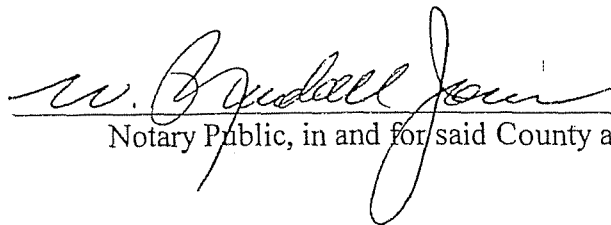
COMMONWEALTH OF KENTUCKY

COUNTY OF WARREN

The foregoing instrument was acknowledged before me this 26th day of August, 2003 by Gary Larimore who is the Secretary/Treasurer of the Kentucky Rural Water Finance Corporation, on behalf of said Corporation.

WITNESS my hand this 26th day of August, 2003.

My Commission expires: October 5, 2003



Notary Public, in and for said County and State

GOVERNMENTAL AGENCY ACKNOWLEDGMENT

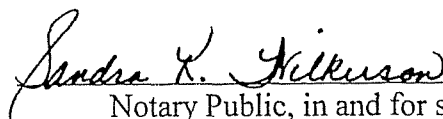
COMMONWEALTH OF KENTUCKY

COUNTY OF HENDERSON

The foregoing instrument was acknowledged before me this 22 day of August, 2003 by DAVID C. HOUSE and Robert McIndoo who are the Chairman and Secretary of the Henderson County Water District, on behalf of said District.

WITNESS my hand this 22 day of August, 2003.

My Commission expires: Oct. 21-2006.



Notary Public, in and for said County and State

EXHIBIT A

Debt Service Schedule

KENTUCKY RURAL WATER FINANCE CORPORATION FLEXIBLE TERM FINANCE PROGRAM, SERIES 2003 B

Borrower: Henderson County Water District
 Dated Date: 08/28/03

Borrower Payment Schedule

Payment Date	Principal	Interest	Trustee Fees	Total	Fiscal Total
08/28/03			0.00	79,948.07	95,856.82
01/01/04	65,000.00	14,948.07	350.00	15,908.75	
07/01/04	0.00	15,558.75	0.00	80,558.75	
01/01/05	65,000.00	15,558.75	350.00	15,258.75	95,817.50
07/01/05	0.00	14,908.75	0.00	89,908.75	
01/01/06	75,000.00	14,908.75	350.00	14,508.75	104,417.50
07/01/06	0.00	14,158.75	0.00	89,158.75	
01/01/07	75,000.00	14,158.75	350.00	13,571.25	102,730.00
07/01/07	0.00	13,221.25	0.00	88,221.25	
01/01/08	75,000.00	13,221.25	350.00	12,446.25	100,667.50
07/01/08	0.00	12,096.25	0.00	87,096.25	
01/01/09	75,000.00	12,096.25	350.00	11,227.50	98,323.75
07/01/09	0.00	10,877.50	0.00	90,877.50	
01/01/10	80,000.00	10,877.50	350.00	9,787.50	100,665.00
07/01/10	0.00	9,437.50	0.00	89,437.50	
01/01/11	80,000.00	9,437.50	350.00	8,237.50	97,675.00
07/01/11	0.00	7,887.50	0.00	92,887.50	
01/01/12	85,000.00	7,887.50	350.00	6,484.38	99,371.88
07/01/12	0.00	6,134.38	0.00	91,134.38	
01/01/13	85,000.00	6,134.38	350.00	4,678.13	95,812.51
07/01/13	0.00	4,328.13	0.00	99,328.13	
01/01/14	95,000.00	4,328.13	350.00	2,600.00	101,928.13
07/01/14	0.00	2,250.00	0.00	102,250.00	
01/01/15	100,000.00	2,250.00	350.00	350.00	102,600.00
07/01/15	0.00	0.00			
Totals	955,000.00	236,665.59	4,200.00	1,195,865.59	

	Monthly Principal	Monthly Interest	Total Monthly Sinking Fund Payments
8/3-1/4	16,250.00	3,737.02	19,987.02
2/4-7/4	5,416.67	2,593.13	8,009.79
8/4-1/5	5,416.67	2,593.13	8,009.79
2/5-7/5	6,250.00	2,484.79	8,734.79
8/5-1/6	6,250.00	2,484.79	8,734.79
2/6-7/6	6,250.00	2,359.79	8,609.79
8/6-1/7	6,250.00	2,359.79	8,609.79
2/7-7/7	6,250.00	2,203.54	8,453.54
8/7-1/8	6,250.00	2,203.54	8,453.54
2/8-7/8	6,250.00	2,016.04	8,266.04
8/8-1/9	6,250.00	2,016.04	8,266.04
2/9-7/9	6,666.67	1,812.92	8,479.58
8/9-1/10	6,666.67	1,812.92	8,479.58
2/10-7/10	6,666.67	1,572.92	8,239.58
8/10-1/11	6,666.67	1,572.92	8,239.58
2/11-7/11	7,083.33	1,314.58	8,397.92
8/11-1/12	7,083.33	1,314.58	8,397.92
2/12-7/12	7,083.33	1,022.40	8,105.73
8/12-1/13	7,083.33	1,022.40	8,105.73
2/13-7/13	7,916.67	721.36	8,638.02
8/13-1/14	7,916.67	721.36	8,638.02
2/14-7/14	8,333.33	375.00	8,708.33
8/14-1/15	8,333.33	375.00	8,708.33
2/15-7/15	0.00	-	-
	<u>955,000.00</u>	<u>236,665.59</u>	<u>1,191,665.59</u>

Direct Payment (ACH Debit) Authorization Form

TO BE COMPLETED BY CUSTOMER		
Customer Name	Federal Tax Identification Number or SSN	
Contact Name	Contact Phone Number	Second Phone Number
Address	DTC/Company Identification Number	
City	State	Zip Code

ENTER BANK ACCOUNT INFORMATION		
Name of Bank, Thrift, Depository or Credit Union		
Branch		
City	State	Zip
Bank Identification Number [MUST BE PRESENT TO ACTIVATE DIRECT PAYMENT (ACH DEBIT)] (The first 9 digits on the bottom left of your checks)		
Checking Account Number [MUST BE PRESENT TO ACTIVATE DIRECT PAYMENT (ACH DEBIT)]		

SIGN CUSTOMER ACTIVATION AGREEMENT
<p>As an authorized representative of, and on behalf of, the customer referenced above ("Customer"), I authorize Fifth Third Bank as Trustee, or Paying Agent ("Company") to initiate transfers from Customer's Bank Account to the Company in order to initiate Payments and other related transactions. Payments will be initiated based on instructions the Company accepts from Customer and/or from payees that Customer designates. Customer agrees that participation in the service will be solely governed by the Company's Terms and Conditions, which may change from time to time.</p> <p>This authorization is to remain in full force and effect until Fifth Third has received written notification from me (or either of us) of its termination in such time and in such manner as to afford Fifth Third and Bank a reasonable opportunity to act on it.</p> <p>NOTE: ALL DEBIT AUTHORIZATIONS MUST PROVIDE THAT THE RECEIVER MAY REVOKE THE AUTHORIZATION ONLY BY NOTIFYING THE ORIGINATOR IN THE MANNER SPECIFIED IN THE AUTHORIZATION.</p>
<p>_____</p> <p>Customer Authorized Signature</p>
<p>By _____</p> <p>Title _____</p> <p>Date _____</p>

TO BE COMPLETED BY FIFTH THIRD CORPORATE TRUST COMPLIANCE		
Corporate Trust Account Numbers		
	(9)	_____
	(9)	_____
	(9)	_____
	(9)	_____
	(9)	_____
Date Received	Completed By	Employee Number

Route to Corporate Trust Compliance - MD 10 AT 60

DEFINITIONS

For purposes of this Agreement, the following terms shall have the meanings set forth below: (a) "Agreement" shall mean this Fifth Third Bank Services Agreement, any Addendum attached hereto or referencing this Agreement, and all other materials incorporated herein by reference; (b) "Fifth Third Bank Services" and "Services" shall mean the Fifth Third Bank data processing services offered by Company; (c) "Customer" shall mean the customers of Company, whether solicited by Company or Member, that have entered into an agreement with Company to participate in the Services; (d) "Company Service Marks" shall mean "Fifth Third Bank", their respective logos and any other trade names(s), trademarks(s) and service mark(s) used by Company and/or its affiliate(s) and used in connection with the Services; (e) "Standards" shall mean Company's operating and marketing standards concerning the Services which Company may amend from time to time and which are incorporated herein by reference; and (f) "Payment" shall mean a transfer of funds initiated through the Services. Other capitalized terms shall have the meanings set forth in the Agreement or in the Standards.

SERVICES

Company will perform the Services as set forth in the Agreement. Company may make changes in the Services based upon, but not limited to, technological developments, legislative or regulatory changes, or the introduction of new services by Company. Company will use its reasonable best efforts to advise Member of any such changes that will materially affect Member at least 30 days prior to the implementation date of any such change. Member agrees to abide by the Standards upon receipt thereof and to fully comply with the Standards currently in effect and as may be amended from time to time.

Customers may initiate Payments through one or more of Company's facilities or select the automatic payments option. For Customers who select the automatic payment option, Member agrees to provide Company on an ongoing basis a file in Company's format, and in accordance with the Standards, containing billing information deemed necessary by Company for Payments ("Payment Information"). As to all Payment Information, and the obligations represented thereby, submitted by Member to Company, Member represents and warrants to Company that: (a) each such obligation is a bona fide obligation of Customer to Member incurred in the ordinary course of business and for only the amount of such obligation; and (b) Member is in all respects in compliance with this Agreement, the Standards, the agreement between Company and Customer, the agreement or policies between Member and its customers and all laws, rules and regulations governing the same.

Company will make available to Member, in accordance with the Standards, information regarding Payments. Member agrees to credit Payments to its Customers' accounts effective as of the date such Payments are made available to Member.

Member acknowledges and agrees that Company hereby initiates Payments and that Company assumes no liability whatsoever arising in connection with Payments including but not limited to the amount of the Payment, late charges, interest or the like. Member agrees to look solely to Customers, and not Company, for any obligation owed Member. Member agrees that Company shall be the exclusive provider of the Services. Not limiting the generality of the foregoing, Member agrees not to submit or deliver any billing information relating to its customers to any financial institution, credit card processor, or other third party in order to initiate a transfer of funds from such customers.

Member acknowledges and agrees that the Customers shall determine when and if Company initiates a Payment notwithstanding any Payment Information supplied by Member. Should Company, on behalf of a Customer, credit Member in connection with a Payment but not receive for whatever reason the corresponding funds for such Payment, Member agrees to immediately reimburse Company for such Payment. Member agrees that Customers shall have the right to reverse any Payment initiated by them or made automatically, and Member agrees to accept such reversals. In addition, Payments may be adjusted by Company and/or Customers for any inaccuracies. Company may debit Member's Account to obtain any non collected, reversed or returned funds from Member.

Certain services and expenses will be the sole responsibility of Member and include but are not limited to the following: external costs for and allocation of monetary settlement; individual terminals, modems, upgrades, program sharing devices, etc.; data entry into Member's system or other systems; Payments, Payment Information, maintenance data, etc.; communications equipment, installation and maintenance costs to the Company; communications controller; costs associated with maintaining and implementing software and hardware necessary to interface to Company in accordance with the Standards; costs associated with Member's use of any third party for purposes of sending data to, or receiving data from, Company; costs associated with RJE; costs incurred by Company network control for contacting Member; third party expenses incurred by Member and/or Company in connection with the electronic or non-electronic delivery of reports, Payments, and any other data to or from Member; physical magnetic tape or disk file output for Member use; postage, printing, and courier costs associated with non-electronically transmitted reports or other data, and all other postage or third party costs associated with the Services provided herein.

TERM

The term of this Agreement shall commence the date Company executes this Agreement, and shall continue for a term of three (3) years from the 1st day of the calendar month following the later of the commencement date or the date Member commences use of the Services ("Initial Term"). Unless either party gives written notice to the other party at least 180 days prior to the expiration of the term, the Agreement shall be automatically extended for additional periods equal to the Initial Term. All obligations of Member incurred or existing under this Agreement as of the date of termination shall survive such termination.

FEES AND PAYMENT

Payment of Fees. Member agrees to pay Company the fees and expenses outlined in this Agreement including any Addenda. All fees shall be paid within 30 days of Member's receipt of Company's invoice unless otherwise provided herein. Company will debit Member's Account for such fees on or at any time after the first day of each month. Unless otherwise provided in the Agreement,

Company may not change the fees listed in this Agreement during the Initial Term. Thereafter, Company may, at its discretion, add or change any fee with notice to Member. Any such add or change shall become effective not less than 30 days after the date Company sends written notice to Member by ordinary mail. Company may charge for any non-specified service it provides and expense it incurs at the request of or on behalf of Member.

Member Account. Member shall always maintain an open checking account at a financial institution which Company or its agent can access through the ("Account"). Member authorizes Company to debit and/or credit the Account to settle any and all amounts due or payable under this Agreement and Addenda. Member shall always maintain the Account with sufficient clear funds to meet its obligations under this Agreement.

Miscellaneous. Notwithstanding any other provision, in the event that any law, rule, or regulation now existing or hereinafter enacted which Company or Member becomes obligated to change in any fashion their manner of doing business in order to comply with such law, rule or regulation and Company incurs any increased cost by virtue thereof, Company may reasonably increase fees to Member set forth in the attached Addenda as necessary to offset such increased costs. Any increased fees hereunder if any, shall not be taken into account for purposes of any price change. All fees and charges paid under this Agreement shall be made without set-off or deduction. Any fee not paid by the due date shall bear interest at an annual percentage rate of the higher of ten percent or the so called prime rate as announced by The Fifth Third Bank of Cincinnati, Ohio from time to time but in no event more than the highest interest rate permitted by law.

5. TITLE TO THE SERVICES

Member agrees it is acquiring only a nontransferable, non-exclusive right to use the Services. Company shall at all times retain exclusive title to the Services including without limitation, the Standards and any other materials delivered to Member hereunder and any patent, invention, development, product, trade name, trademark, service mark, software or hardware program developed in connection with providing the Services or during the term of this Agreement. Member acknowledges that Company has filed for a patent on certain aspects of the Services and, if granted, Company, and not Member, shall be the sole exclusive owner of such patent.

6. CONFIDENTIAL INFORMATION

Member acknowledges that the methods, techniques, programs, device operations of Company are of a confidential nature, and are valuable and unique assets of Company's business. During the term of this Agreement and following the expiration or termination thereof, Member shall not disclose any confidential information to any person or entity (other than to those employees and agents of Member who participate directly in the performance of the Agreement and need access to such information). Upon termination of this Agreement, Member shall deliver to Company all manuals, memoranda and papers, and all copies thereof, relating in any way to the Services or to Company. Member acknowledges that it does not have nor can Member acquire any right or claim to such confidential information. Member acknowledges that the information that would be sustained by Company as a result of the violation of this provision cannot be compensated solely by money damages, and therefore agrees that Company shall be entitled to injunctive relief and any other remedies as may be available at law or in equity in the event Member, its employees or agents violate the provisions contained in this Section. The restrictions contained in this Section do not apply to any information which becomes a matter of public knowledge other than through a violation of this Agreement or other agreements to which Company is a party.

Until such time as Member's customer becomes a Customer, Company agrees to hold in confidence any information concerning such customer that Company receives from Member and only use such information for purposes of soliciting for the Services.

7. GENERAL PROVISIONS

Member grants to Company and its agents the right to use Member's logos, and/or symbols ("Logos"), at no cost to Company and/or its agents, for preparation and promotion of the Services, related materials and art. Member shall provide and deliver to Company such Logos in its standard font and design, and Member shall provide and deliver to Company Member's standards and/or guidelines regarding such Logos.

Member acknowledges and agrees that Company and/or its affiliate Company Service Marks. Company only grants to Member during the term of this Agreement a nonexclusive, revocable and nontransferable license to use Company Service Marks in accordance with this Agreement and the Standards ("License"), and any use of the Company Service Marks by Member is subject to the prior written approval of Company. Member shall not grant any license to use any Company Service Marks covered by this Agreement without the prior written consent of Company. Except for the License granted to Member in this Section, Member shall neither have nor acquire any other rights whatsoever, including any ownership rights, in the Company Service Marks, trade names, inventions, patents or services relating to the Services. Member shall not in any way state or imply that any Company Service Marks covered by this Agreement are owned by Member or that Member's rights other than those granted hereunder to such Company Service Marks.

Member agrees to provide, or assist Company in providing, any information and/or data required by Customers and/or regulatory agencies in connection with the Services. Except for any customer service obligations specifically defined as the responsibility of Company in the Standards, Member shall provide necessary customer service to Customers.

Company shall exclusively define the contract terms, conditions and procedures between Customers and Company, and/or its designated agent, in connection with the Services. Member agrees that Company (and not Member) is entitled to any and all such fees and that Member will not charge Customers for Payments or the Services (except for any fees charged by Member for the commencement of this Agreement which may relate to the Services such as for a late Payment). Member agrees that Customers may utilize Company similar or other services including but not limited to Services with other than Company in its sole discretion may perform solicitations to prospective Customers then current Customers provided it does so at its sole expense.

EXHIBIT C

REQUEST FOR PAYMENT WITH RESPECT TO
KENTUCKY RURAL WATER FINANCE CORPORATION
(FLEXIBLE TERM PROGRAM)

Request No. _____

Dated: _____

To: Fifth Third Bank
Corporate Trust Administration
Mail Drop 1090D2
38 Fountain Square Plaza
Cincinnati, Ohio 45263
Fax Number: (513) 744-6785

From: Henderson County Water District ("Governmental Agency")

Contact Person: Allan VanMeter
Address: Henderson County Water District
c/o Mr. Allan VanMeter, Manager
P.O. Box 655
Henderson, Kentucky 42419

Ladies and Gentlemen:

The above identified Governmental Agency has entered into an Assistance Agreement with the Kentucky Rural Water Finance Corporation (the "Issuer") for the current refunding of the outstanding (i) Henderson County Water District Water Refunding Revenue Bonds, Series 1993, dated March 1, 1993, in the original principal amount of \$1,250,000 and (ii) Henderson County Water District Water Refunding and Improvement Revenue Bonds, Series 1994, dated January 1, 1994, in the original principal amount of \$1,220,000, described in the Assistance Agreement as the "Project."

Pursuant to the Assistance Agreement, we hereby certify that we have incurred the following expenses in connection with the Project and that the Issuer's funding share of these expenses is in the amount so denoted in this request totaling \$ _____ and is set forth in Exhibit A attached hereto.

Respectfully submitted,

HENDERSON COUNTY WATER DISTRICT

By _____

Title _____