

KENTUCKY RURAL WATER SERIES 2005B

PHASE 8

KENTUCKY RURAL WATER FINANCE CORPORATION FLEXIBLE TERM FINANCE PROGRAM SERIES 2005 B

Borrower: **Bullock Pen WD**
 Dated Date: **10/19/05**

Borrower Payment Schedule

Payment Date	Principal	Interest Rate	Interest	Trustee Fees	Total	Fiscal Total
10/19/05						
		Loan Balance				
07/01/06			18,369.46	250.00	18,619.46	18,619.46
01/01/07	12,000.00	5.090%	11,021.68		23,021.68	
07/01/07	0.00		10,776.28	250.00	11,026.28	34,047.96
01/01/08	13,000.00	4.090%	10,776.28		23,776.28	
07/01/08	0.00		10,510.43	250.00	10,760.43	34,536.71
01/01/09	14,000.00	4.090%	10,510.43		24,510.43	
07/01/09	0.00		10,224.13	250.00	10,474.13	34,984.56
01/01/10	14,000.00	4.090%	10,224.13		24,224.13	
07/01/10	0.00		9,937.83	250.00	10,187.83	34,411.96
01/01/11	14,000.00	4.090%	9,937.83		23,937.83	
07/01/11	0.00		9,651.53	250.00	9,901.53	33,839.36
01/01/12	15,000.00	4.090%	9,651.53		24,651.53	
07/01/12	0.00		9,344.78	250.00	9,594.78	34,246.31
01/01/13	15,000.00	4.090%	9,344.78		24,344.78	
07/01/13	0.00		9,038.03	250.00	9,288.03	33,632.81
01/01/14	16,000.00	4.090%	9,038.03		25,038.03	
07/01/14	0.00		8,710.83	250.00	8,960.83	33,998.86
01/01/15	17,000.00	4.090%	8,710.83		25,710.83	
07/01/15	0.00		8,363.18	250.00	8,613.18	34,324.01
01/01/16	17,000.00	4.090%	8,363.18		25,363.18	
07/01/16	0.00		8,015.53	250.00	8,265.53	33,628.71
01/01/17	19,000.00	4.090%	8,015.53		27,015.53	
07/01/17	0.00		7,626.98	250.00	7,876.98	34,892.51
01/01/18	19,000.00	4.090%	7,626.98		26,626.98	
07/01/18	0.00		7,238.43	250.00	7,488.43	34,115.41
01/01/19	20,000.00	4.090%	7,238.43		27,238.43	
07/01/19	0.00		6,829.43	250.00	7,079.43	34,317.86
01/01/20	20,000.00	4.190%	6,829.43		26,829.43	
07/01/20	0.00		6,410.43	250.00	6,660.43	35,489.86
01/01/21	21,000.00	4.215%	6,410.43		27,410.43	
07/01/21	0.00		5,967.85	250.00	6,217.85	33,628.28
01/01/22	21,000.00	4.290%	5,967.85		26,967.85	
07/01/22	0.00		5,517.40	250.00	5,767.40	32,735.25
01/01/23	22,000.00	4.340%	5,517.40		27,517.40	
07/01/23	0.00		5,040.00	250.00	5,290.00	32,807.40
01/01/24	23,000.00	4.340%	5,040.00		28,040.00	
07/01/24	0.00		4,540.90	250.00	4,790.90	32,830.90
01/01/25	25,000.00	4.390%	4,540.90		29,540.90	
07/01/25	0.00		3,992.15	250.00	4,242.15	33,783.05
01/01/26	26,000.00	4.440%	3,992.15		29,992.15	
07/01/26	0.00		3,414.95	250.00	3,664.95	33,657.10
01/01/27	28,000.00	4.465%	3,414.95		31,414.95	
07/01/27	0.00		2,789.85	250.00	3,039.85	34,454.80
01/01/28	28,000.00	4.465%	2,789.85		10,789.85	
07/01/28	0.00		2,164.75	250.00	2,414.75	33,204.60
01/01/29	31,000.00	4.490%	2,164.75		33,164.75	
07/01/29	0.00		1,468.80	250.00	1,718.80	34,883.55
01/01/30	31,000.00	4.590%	1,468.80		32,468.80	
07/01/30	0.00		757.35	250.00	1,007.35	33,476.15
01/01/31	33,000.00	4.590%	757.35		33,757.35	
07/01/31	0.00			250.00	250.00	34,007.35
Totals	514,000.00		346,054.78	6,500.00	866,304.78	

	Monthly Principal	Monthly Interest	Total Monthly Sinking Fund Payments
12/5-1/6	-	2,296.18	2,296.18
2/6-7/6	1,000.00	2,296.18	3,296.18
8/6-1/7	1,000.00	1,836.95	2,836.95
2/7-7/7	1,083.33	1,796.05	2,879.38
8/7-1/8	1,083.33	1,796.05	2,879.38
2/8-7/8	1,166.67	1,751.74	2,918.41
8/8-1/9	1,166.67	1,751.74	2,918.41
2/9-7/9	1,166.67	1,704.02	2,870.69
8/9-1/10	1,166.67	1,704.02	2,870.69
2/10-7/10	1,166.67	1,656.31	2,822.97
8/10-1/11	1,166.67	1,656.31	2,822.97
2/11-7/11	1,250.00	1,608.59	2,858.59
8/11-1/12	1,250.00	1,608.59	2,858.59
2/12-7/12	1,250.00	1,557.46	2,807.46
8/12-1/13	1,250.00	1,557.46	2,807.46
2/13-7/13	1,333.33	1,506.34	2,839.67
8/13-1/14	1,333.33	1,506.34	2,839.67
2/14-7/14	1,416.67	1,451.81	2,868.47
8/14-1/15	1,416.67	1,451.81	2,868.47
2/15-7/15	1,416.67	1,393.86	2,810.53
8/15-1/16	1,416.67	1,393.86	2,810.53
2/16-7/16	1,583.33	1,335.92	2,919.26
8/16-1/17	1,583.33	1,335.92	2,919.26
2/17-7/17	1,583.33	1,271.16	2,854.50
8/17-1/18	1,583.33	1,271.16	2,854.50
2/18-7/18	1,666.67	1,206.41	2,873.07
8/18-1/19	1,666.67	1,206.41	2,873.07
2/19-7/19	1,666.67	1,138.24	2,804.91
8/19-1/20	1,666.67	1,138.24	2,804.91
2/20-7/20	1,750.00	1,068.41	2,818.41
8/20-1/21	1,750.00	1,068.41	2,818.41
2/21-7/21	1,750.00	994.64	2,744.64
8/21-1/22	1,750.00	994.64	2,744.64
2/22-7/22	1,833.33	919.57	2,752.90
8/22-1/23	1,833.33	919.57	2,752.90
2/23-7/23	1,916.67	840.00	2,756.67
8/23-1/24	1,916.67	840.00	2,756.67
2/24-7/24	2,083.33	756.82	2,840.15
8/24-1/25	2,083.33	756.82	2,840.15
2/25-7/25	2,166.67	665.36	2,832.03
8/25-1/26	2,166.67	665.36	2,832.03
2/26-7/26	2,333.33	569.16	2,902.49
8/26-1/27	2,333.33	569.16	2,902.49
2/27-7/27	2,333.33	464.98	2,798.31
8/27-1/28	2,333.33	464.98	2,798.31
2/28-7/28	2,583.33	360.79	2,944.13
8/28-1/29	2,583.33	360.79	2,944.13
2/29-7/29	2,583.33	244.80	2,828.13
8/29-1/30	2,583.33	244.80	2,828.13
2/30-7/30	2,750.00	126.23	2,876.23
8/30-2/31	2,750.00	126.23	2,876.23
Totals	514,000.00	346,054.78	866,054.78

KENTUCKY RURAL WATER FINANCE CORPORATION

2/21/13

Phase 3

Approved
Bill Hays
2005-10-19

ASSISTANCE AGREEMENT
BETWEEN
KENTUCKY RURAL WATER FINANCE CORPORATION
AND
BULLOCK PEN WATER DISTRICT
DATED OCTOBER 19, 2005
IN THE AMOUNT OF \$514,000

This document was prepared by:

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

By _____

INDEX TO ASSISTANCE AGREEMENT

<u>Section 1.</u>	<u>Definitions</u>	3
<u>Section 2.</u>	<u>Reaffirmation of Declaration of Waterworks System</u>	8
<u>Section 3.</u>	<u>Authorization of Obligations; Place of Payment; Manner of Execution</u>	9
<u>Section 4.</u>	<u>Redemption</u>	10
<u>Section 5.</u>	<u>Obligations Payable Out of Revenues on a Parity with Prior Bonds</u>	10
<u>Section 6.</u>	<u>Compliance with Parity Coverage Requirements of the Prior Bond Legislation</u> ..	10
<u>Section 7.</u>	<u>Flow of Funds</u>	11
<u>Section 8.</u>	<u>Disposition of Proceeds of the Obligations; Governmental Agency Account</u>	13
<u>Section 9.</u>	<u>Arbitrage Limitations</u>	14
<u>Section 10.</u>	<u>Parity Bonds</u>	15
<u>Section 11.</u>	<u>Rates and Charges for Services of the System</u>	17
<u>Section 12.</u>	<u>All Obligations of this Issue Are Equal</u>	18
<u>Section 13.</u>	<u>Defeasance and/or Refunding of Obligations</u>	18
<u>Section 14.</u>	<u>Contractual Nature of Assistance Agreement</u>	19
<u>Section 15.</u>	<u>Appointment and Duties of Trustee</u>	19
<u>Section 16.</u>	<u>Provisions in Conflict Repealed</u>	20
<u>Section 17.</u>	<u>Covenant of Governmental Agency to Take All Action Necessary to Assure</u> <u>Compliance with the Internal Revenue Code of 1986</u>	20
<u>Section 18.</u>	<u>Insurance</u>	21
<u>Section 19.</u>	<u>Event of Default; Remedies</u>	22
<u>Section 20.</u>	<u>Annual Reports</u>	22
<u>Section 21.</u>	<u>Supplemental Assistance Agreement</u>	22
<u>Section 22.</u>	<u>No Remedy Exclusive</u>	23
<u>Section 23.</u>	<u>Waivers</u>	23
<u>Section 24.</u>	<u>Agreement to Pay Attorneys' Fees and Expenses</u>	23
<u>Section 25.</u>	<u>Signatures of Officers</u>	23
<u>Section 26.</u>	<u>Severability Clause</u>	23

ASSISTANCE AGREEMENT

This Assistance Agreement made and entered into as of October 19, 2005 (the "Assistance Agreement") by and between the Kentucky Rural Water Finance Corporation, Bowling Green, Kentucky, a non-profit corporation and instrumentality of the various entities of the Commonwealth of Kentucky (the "Issuer") and the Bullock Pen Water District, Crittenden, 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 Revenue Bonds (Flexible Term Program), Series 2005B (the "Series 2005B Bonds") in the aggregate principal amount of \$4,855,000, pursuant to a Supplemental Trust Indenture No. 18, dated as of October 1, 2005 by and between the Issuer and the Trustee, which Series 2005B Bonds will rank on a parity with the Series 2001 Bonds and the proceeds of which will be used by certain Governmental Agencies to acquire, construct and equip public projects described in various Assistance Agreements by and between the Governmental Agencies and the Issuer; and

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

WHEREAS, the Governmental Agency has determined that it is necessary and desirable and in the public interest to finance improvements to the System (hereinafter more specifically defined as 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, 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, 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 \$514,000 [the "Obligations"], for the purpose of financing 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, on this same date the Governmental Agency will enter in to a separate Assistance Agreement with the Issuer in order to borrow funds in the amount of \$219,000, for the purpose of financing a different project (the "Series 2005B Loan"); 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 1978*” or “*1978 Bond Legislation*” refers to the resolution authorizing the Series 1978 Bonds, which was adopted by the Governing Body on March 29, 1978.

“*Bond Legislation of 1982*” or “*1982 Bond Legislation*” refers to the resolution authorizing the Series 1982 Bonds, which was adopted by the Governing Body on July 20, 1982.

“*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 Bullock Pen Water District Waterworks Revenue Bond Depreciation Reserve 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 Reserve 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 Bullock Pen 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 indenture, including the Supplemental Trust Indenture No. 18, dated October 1, 2005, by and between the Issuer and the Trustee.

"Interest Payment Date" shall mean the 1st day of each month, commencing December 1, 2005 and continuing through and including January 1, 2031 or until the Loan has been paid in full.

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

"Obligations" refers to the Loan authorized by this Assistance Agreement in the principal amount of \$514,000.

"Operation and Maintenance Fund" refers to the Bullock Pen Water District Waterworks 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, 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 1978 Bond Legislation, the 1982 Bond Legislation, the Series 2001C Assistance Agreement, the Series 2002 Assistance Agreement, the Series 2001G Assistance Agreement, the Series 2004D Assistance Agreement, and the Series 2005B Assistance Agreement.

"*Prior Bonds*" refers collectively to the Series 1978 Bonds, the Series 1982 Bonds, the Series 2001C Loan, the Series 2002 Loan, the Series 2001G Loan, the Series 2004D Loan, and the Series 2005B Loan.

"*Program*" refers to the Issuer's Public Projects Flexible Term Program designed to provide financing for the expansion, addition and improvement 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 Program Reserve Fund created and established pursuant to Section 4.2 of the Indenture.

"*Project*" refers to financing the construction of a water line extension of approximately 21.75 miles to serve 173 new customers in Grant County, including new water line extensions along Chapman road, Lawrenceville Road, Juett Road, Gold Valley Road, Tanglewood Estates, Mt. Pisgah Road, Gold Valley Spur, Kinman Road, Kentucky 36, Jonesville Folsom Road, Calendar Road, and Buffalo Ridge, with appurtenances, 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 B to be utilized by the Governmental Agency in obtaining disbursements of the Loan from the Governmental Agency Account as the Project progresses.

"Reserve Fund" refers to the Bullock Pen Water District Waterworks Debt Service Reserve Fund, created in the Prior Bond Legislation and which Reserve Fund will continue to be maintained for the benefit of all of the Bonds.

"Revenue Fund" refers to the Bullock Pen Water District Waterworks 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 1978 Bonds" refers to the original authorized \$1,277,000 of Bullock Pen Water District Waterworks Revenue Bonds of 1978, dated December 21, 1978.

"Series 1982 Bonds" refers to the original authorized \$125,000 of Bullock Pen Water District Waterworks Revenue Bonds of 1982, dated August 6, 1982.

"Series 2001C Assistance Agreement" refers to the Assistance Agreement between the Kentucky Rural Water Finance Corporation and the Governmental Agency, dated May 1, 2002, authorizing the loan in the principal amount of \$715,000 from the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds (Flexible Term Program), Series 2001C.

"Series 2001C Loan" refers to the loan to the Governmental Agency in the principal amount of \$715,000 from the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds (Flexible Term Program), Series 2001C.

"Series 2001G Assistance Agreement" refers to the Assistance Agreement between the Kentucky Rural Water Finance Corporation and the Governmental Agency, dated July 30, 2003, authorizing the loan in the principal amount of \$460,000 from the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds (Flexible Term Program), Series 2001G.

"Series 2001G Loan" refers to the loan to the Governmental Agency in the principal amount of \$460,000 from the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds (Flexible Term Program), Series 2001G.

"Series 2002 Assistance Agreement" refers to the Assistance Agreement between the Kentucky Rural Water Finance Corporation and the Governmental Agency, dated July 31, 2002, authorizing the loan in the principal amount of \$574,000 from the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2002.

"Series 2002 Loan" refers to the loan to the Governmental Agency in the principal amount of \$574,000 from the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2002.

“Series 2004D Assistance Agreement” refers to the Assistance Agreement between the Kentucky Rural Water Finance Corporation and the Governmental Agency, dated October 19, 2004, authorizing the loan in the principal amount of \$98,000 from the Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds (Flexible Term Program), Series 2004D.

“Series 2004D Loan” refers to the loan to the Governmental Agency in the principal amount of \$98,000 from the Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds (Flexible Term Program), Series 2004D.

“Series 2005B Assistance Agreement” refers to the Assistance Agreement between the Kentucky Rural Water Finance Corporation and the Governmental Agency, dated October 19, 2004, authorizing a loan in the principal amount of \$290,000 of a total loan of \$804,000, dated October 19, 2005, to the Bullock Pen Water District from the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds (Flexible Term Program), Series 2005B.

“Series 2005B Loan” refers to \$290,000 of a total loan of \$804,000, dated October 19, 2005, to the Bullock Pen Water District from the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds (Flexible Term Program), Series 2005B. The Series 2005B Loan is evidenced by a separate Assistance Agreement of the same date as this Assistance Agreement, and will be used to finance the construction of a water line extension of approximately 7.9 miles to serve 152 new customers in Boone County, including new water line extensions along Buffalo Road (Highway 1292), Highway 42, Dickerson Road, Crouch Road, Cleeks Lane and Webb Road, with appurtenances.

“Sinking Fund” refers to the Bullock Pen Water District Waterworks Revenue Bond Sinking Fund created and confirmed in the Prior Bond Legislation.

“System” refers to the Governmental Agency’s waterworks 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 Waterworks System. That all proceedings heretofore taken for the establishment of and the supplying of water service in and to said Governmental Agency as a waterworks 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 \$514,000 from the Program, for the purpose of providing funds for the Project. The Obligations shall mature on each January 1 beginning January 1, 2007 and continuing thereafter through and until January 1, 2031, in such principal amounts, and shall bear interest payable on the Interest Payment Dates, commencing December 1, 2005 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 December 1, 2005 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 2005B 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 2005B Bonds by each January 1 and July 1, the Governmental Agency's initial eight (8) payments on the Obligations will include interest amortized from October 1, 2005 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 112 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, 2015, 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, 2016, 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, 2015 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, 2016 through December 31, 2016	101.00%
January 1, 2017 through December 31, 2017	100.05%
January 1, 2018 and thereafter	100.00%

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 into 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. It is hereby recognized that the Governmental Agency is obligated upon the issuance of the Obligations to provide for the additional debt service requirements of the Obligations.

There shall be transferred from the Revenue Fund and deposited into the Sinking Fund on or before the 20th day of each month, for payment of interest on and principal of the Outstanding Bonds, including the Obligations, a sum equal to the total of 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 2005B 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 2005B Bonds by each January 1 and July 1, the Governmental Agency's initial eight (8) payments on the Obligations will include interest amortized from October 1, 2005 to August 1, 2006.

If the Governmental Agency for any reason shall fail to make any monthly deposit as required, then an amount equal to the deficiency shall be set apart and deposited into the Sinking Fund out of the first available revenues in the ensuing months, which amount shall be in addition to the monthly deposit otherwise required during such succeeding months. Whenever there shall accumulate in the Sinking Fund amounts in excess of the requirements during the next twelve months for paying the principal of and interest due on the Outstanding Bonds, as same fall due, such excess may be used for redemption or prepayment of any Outstanding Bonds, subject to the terms and conditions set forth therein, prior to maturity.

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 for the Project.

(b) Governmental Agency Account. It is hereby acknowledged that a fund entitled "Bullock Pen 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 which has been approved by the Engineers having charge of supervising the Project, 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 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. (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 essential operation and maintenance expenses), of the then existing System for the fiscal year preceding the year in which such parity bonds are to be issued, adjusted as hereinafter provided, shall be certified by an independent Certified Public Accountant to equal at least 120% of the average annual debt service requirements for principal of and interest on the Outstanding Bonds, plus the anticipated 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 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:

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

(2) 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:

(a) 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

(b) Adjust the minimum annual amount to be deposited monthly into the Depreciation Fund on the same basis as that prescribed in the provisions establishing such Depreciation Fund, taking into account the future replacement costs of the facilities to be constructed and acquired with the proceeds of such additional Parity Bonds.

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 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:

(a) after the issuance of the 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 the Parity Bonds, after taking into account the revised debt service requirements resulting from the issuance of the Parity Bonds and from the elimination of the Outstanding Bonds being refunded or refinanced thereby, are equal to not less than 120% of the average annual debt service requirements then scheduled to fall due in any fiscal year thereafter for principal of and interest on all of the Outstanding Bonds payable from the revenues of the System, calculated in the manner specified above; or

(b) in the alternative, that the average annual debt service requirements for the Prior Bonds, the Obligations, any previously issued Parity Bonds and the proposed Parity Bonds, in any year of maturities thereof after the redemption of the Outstanding Bonds scheduled to be refunded through the issuance of the proposed Parity Bonds, shall not exceed the average annual 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 the proposed Parity Bonds and the redemption of the Outstanding 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 essential operation and maintenance 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 120% of the average 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;
- (d) To notify the Issuer of any Obligations to be redeemed and to redeem Obligations prior to their stated maturity upon receiving sufficient funds; and
- (e) 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 December 31, 2005) 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 (December 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 Bullock Pen Water District has caused this Assistance Agreement to be signed in corporate name and by its officers thereunder duly authorized, all as of the day and year first above written.

KENTUCKY RURAL WATER FINANCE CORPORATION

By _____
President

Attest:

Secretary/Treasurer

BULLOCK PEN WATER DISTRICT

By *[Signature]*
Chairman

Attest:

[Signature]
Secretary

ISSUER ACKNOWLEDGMENT

COMMONWEALTH OF KENTUCKY

COUNTY OF HENDERSON

The foregoing instrument was acknowledged before me this October ____, 2005 by Allan VanMeter who is the President of the Kentucky Rural Water Finance Corporation, on behalf of said Corporation.

WITNESS my hand this October ____, 2005.

My Commission expires: _____

Notary Public, in and for said County and State

COMMONWEALTH OF KENTUCKY

COUNTY OF _____

The foregoing instrument was acknowledged before me this October ____, 2005 by Gary Larimore who is the Secretary/Treasurer of the Kentucky Rural Water Finance Corporation, on behalf of said Corporation.

WITNESS my hand this October ____, 2005.

My Commission expires: _____

Notary Public, in and for said County and State

GOVERNMENTAL AGENCY ACKNOWLEDGMENT

COMMONWEALTH OF KENTUCKY

COUNTY OF GRANT

The foregoing instrument was acknowledged before me this October 17, 2005 by Bobby Burgess and Jimmie A. King who are the Chairman and Secretary of the Bullock Pen Water District, on behalf of said District.

WITNESS my hand this October 17, 2005.

My Commission expires: 9-15-07

Paula A. Massie

Notary Public, in and for said County and State

EXHIBIT A

Debt Service Schedule

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: Bullock Pen Water District ("Governmental Agency")

Contact Person: _____

Address: _____

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 acquisition and construction of facilities 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,

BULLOCK PEN WATER DISTRICT

By _____

Title _____

**Certificate of Consulting Engineers as to
Payment Request**

The undersigned, a duly qualified and licensed Engineer hereby certifies that he or she represents the Governmental Agency submitting this request and that all expenses represented in this request were duly incurred for the construction of the "Project," and that such expenses have not been the subject of any request for disbursement previously submitted.

Engineer/Consultant

Firm Name _____

By _____

Title _____

Ernie Fletcher
Governor

Lajuana S. Wilcher, Secretary
Environmental and Public
Protection Cabinet

Christopher L. Lilly
Commissioner
Department of Public Protection



Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

Mark David Goss
Chairman

Teresa J. Hill
Vice Chairman

Gregory Coker
Commissioner

Honorable Thomas R. Nienaber
Attorney at Law
The Horwitz Law Firm, P.S.C. Attorneys and Counselors at Law
541 Buttermilk Pike
Suite 305
Crescent Spring, KY 41017-1689

August 17, 2005

RE: Case No. 2005-00231

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

BOD/jc
Enclosure

Bobby J. Burgess
Chairman
Bullock Pen Water District
One Farrell Drive
P. O. Box 188
Crittenden, KY 41030

Honorable Thomas R. Nienaber
Attorney at Law
The Horwitz Law Firm, P.S.C.
Attorneys and Counselors at Law
541 Buttermilk Pike
Suite 305
Crescent Spring, KY 41017-1689

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE BULLOCK PEN WATER)	
DISTRICT FOR A CERTIFICATE OF PUBLIC)	
CONVENIENCE AND NECESSITY TO)	CASE NO.
CONSTRUCT AND FINANCE IMPROVEMENT)	2005-00231
PROJECTS AND TO IMPLEMENT SURCHARGES)	
TO ITS EXISTING RATES PURSUANT TO KRS)	
278.020 AND 278.300)	

INTERIM ORDER

On June 17, 2005, Bullock Pen Water District ("Bullock Pen") applied for a Certificate of Public Convenience and Necessity ("CPCN") to construct and finance a waterworks project in two phases, Phase 8 and Phase 10, with construction costs in the amount of \$1,886,000 and \$926,800, respectively, and debt issuance costs in the amount of \$19,500 and \$11,428, respectively. Bullock Pen also applied for approval to implement surcharges to its existing rates in order to pay the debt service on the indebtedness necessary to finance a portion of the project. Phase 8 involves the construction and installation of approximately 21.75 miles of 8-inch, 6-inch, and 2-inch waterline, and will provide potable water to new customers in Grant County. Phase 10 involves the construction and installation of approximately 7.9 miles of 8-inch waterline, and will provide potable water to new customers in Boone County. Bullock Pen states the project will have no adverse affect or impact on existing customers.

Bullock Pen proposes to finance Phase 8 through a Kentucky Infrastructure Authority ("KIA") Tobacco Grant in the amount of \$66,500, a KIA Grant (2005) in the amount of \$600,000, a loan in the amount of \$514,000 from the Kentucky Rural Water

Finance Corporation ("KRWFC"), and tap-on fees in the amount of \$66,500. Bullock Pen proposes to finance Phase 10 through a KIA Grant in the amount of \$300,000, a loan in the amount of \$290,000 from the KRWFC, a contribution of \$308,933 from the Boone County Fiscal Court, and tap-on fees in the amount of \$39,115.

Bullock Pen has requested that Commission approval of the proposed construction and financing be granted as expeditiously as possible so that construction may begin in a timely manner. By subsequent Order in this case, the Commission will address the proposed surcharge.

Having reviewed the application and being otherwise sufficiently advised, the Commission finds that:

1. Bullock Pen is a water district organized pursuant to KRS Chapter 74.
2. Bullock Pen owns and operates facilities used to distribute water for compensation to approximately 6,000 customers in Grant, Kenton, Pendleton, Boone, and Gallatin counties, Kentucky.
3. Bullock Pen proposes to construct approximately 29.65 miles of 8-inch, 6-inch, and 2-inch waterline in Grant and Boone counties.
4. The proposed project will provide potable water to new customers in Grant and Boone counties.
5. CMW, Inc of Richmond, Kentucky prepared the plans and specifications for the proposed project.
6. The Division of Water of the Kentucky Environmental and Public Protection Cabinet has approved the plans and specifications for the proposed project.

7. No utility is presently providing water service in the area that the proposed project will serve.

8. The proposed construction will neither create wasteful duplication of plant, equipment, property, or facilities, nor result in uneconomic or wasteful competition between public utilities.

9. Public convenience and necessity require the construction set forth in Bullock Pen's application.

10. The estimated total cost of the proposed project, including construction cost, contingencies, and engineering and inspection fees, is \$2,843,000.

11. Bullock Pen proposes to finance the proposed project through a KIA Tobacco Grant in the amount of \$725,000, other KIA Grants in the amounts of \$600,000 and \$300,000, tap-on fees in the amounts of \$66,500 and \$39,115, loans from the KRWFC in the amounts of \$514,000 and \$290,000, and a contribution from the Boone County Fiscal Court in the amount of \$308,933.

12. Bullock Pen's proposed loans from KRWFC are for a lawful object within Bullock Pen's corporate purposes, are necessary and appropriate for and consistent with Bullock Pen's proper performance of its service to the public and will not impair its ability to perform that service, and are reasonably necessary and appropriate for such purpose.

IT IS THEREFORE ORDERED that:

1. Bullock Pen is granted a CPCN to construct the proposed waterworks project as set forth in the plans and specifications of record herein.

2. Bullock Pen's application for a surcharge to its existing rate with respect to Phase 8 and Phase 10 is continued generally. Nothing contained in this Order shall be construed as Commission approval of the assessment of the proposed surcharge.

3. Bullock Pen is authorized to enter into the proposed loan agreements with KRWFC to borrow \$514,000 and \$290,000 and to repay such loans over a 25-year period at interest rates varying from 3.38 percent to 5.05 percent. Bullock Pen shall use the proceeds from the loan authorized herein only for the purpose of financing the proposed project.

4. Bullock Pen shall obtain approval from the Commission prior to performing any additional construction not expressly authorized within this Order.

5. Any deviation from the construction approved herein shall be undertaken only with the prior approval of the Commission.

6. Bullock Pen shall furnish documentation of the total costs of this project, including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.), within 60 days of the date that construction is substantially completed. Construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by the Commission.

7. Bullock Pen shall require the construction to be inspected under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering, to ensure that the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

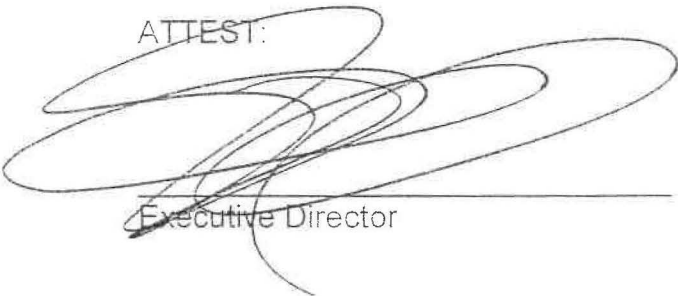
8. Bullock Pen shall file a copy of the "as-built" drawings and a certified statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the substantial completion of the construction certificated herein.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

Done at Frankfort, Kentucky, this 17th day of August, 2005.

By the Commission

ATTEST:



Executive Director

KENTUCKY RURAL WATER SERIES 2005B
PHASE 10

Phase 10

Approved
P.E.C. Board

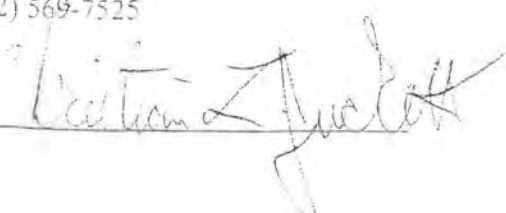
20051019

ASSISTANCE AGREEMENT
BETWEEN
KENTUCKY RURAL WATER FINANCE CORPORATION
AND
BULLOCK PEN WATER DISTRICT
DATED OCTOBER 19, 2005
IN THE AMOUNT OF \$290,000

This document was prepared by:

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

By



INDEX TO ASSISTANCE AGREEMENT

Section 1.	Definitions	3
Section 2.	Reaffirmation of Declaration of Waterworks System.....	8
Section 3.	Authorization of Obligations; Place of Payment; Manner of Execution.....	9
Section 4.	Redemption.....	10
Section 5.	Obligations Payable Out of Revenues on a Parity with Prior Bonds.....	10
Section 6.	Compliance with Parity Coverage Requirements of the Prior Bond Legislation ..	10
Section 7.	Flow of Funds	11
Section 8.	Disposition of Proceeds of the Obligations; Governmental Agency Account	13
Section 9.	Arbitrage Limitations	14
Section 10.	Parity Bonds.....	15
Section 11.	Rates and Charges for Services of the System.....	17 ✓
Section 12.	All Obligations of this Issue Are Equal.....	18
Section 13.	Defeasance and/or Refunding of Obligations	18
Section 14.	Contractual Nature of Assistance Agreement.....	19
Section 15.	Appointment and Duties of Trustee	19
Section 16.	Provisions in Conflict Repealed.....	20
Section 17.	Covenant of Governmental Agency to Take All Action Necessary to Assure Compliance with the Internal Revenue Code of 1986.....	20
Section 18.	Insurance.....	21
Section 19.	Event of Default; Remedies.....	22
Section 20.	Annual Reports.....	22
Section 21.	Supplemental Assistance Agreement	22
Section 22.	No Remedy Exclusive	23
Section 23.	Waivers.....	23
Section 24.	Agreement to Pay Attorneys' Fees and Expenses.....	23
Section 25.	Signatures of Officers.....	23
Section 26.	Severability Clause.....	23

ASSISTANCE AGREEMENT

This Assistance Agreement made and entered into as of October 19, 2005 (the "Assistance Agreement") by and between the Kentucky Rural Water Finance Corporation, Bowling Green, Kentucky, a non-profit corporation and instrumentality of the various entities of the Commonwealth of Kentucky (the "Issuer") and the Bullock Pen Water District, Crittenden, 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 Revenue Bonds (Flexible Term Program), Series 2005B (the "Series 2005B Bonds") in the aggregate principal amount of \$4,855,000, pursuant to a Supplemental Trust Indenture No. 18, dated as of October 1, 2005 by and between the Issuer and the Trustee, which Series 2005B Bonds will rank on a parity with the Series 2001 Bonds and the proceeds of which will be used by certain Governmental Agencies to acquire, construct and equip public projects described in various Assistance Agreements by and between the Governmental Agencies and the Issuer; and

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

WHEREAS, the Governmental Agency has determined that it is necessary and desirable and in the public interest to finance improvements to the System (hereinafter more specifically defined as 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, 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, 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 \$290,000 [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, on this same date the Governmental Agency will enter in to a separate Assistance Agreement with the Issuer in order to borrow funds in the amount of \$514,000, for the purpose of financing a different project (the "Series 2005B Loan"); 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 1978" or *"1978 Bond Legislation"* refers to the resolution authorizing the Series 1978 Bonds, which was adopted by the Governing Body on March 29, 1978.

"Bond Legislation of 1982" or *"1982 Bond Legislation"* refers to the resolution authorizing the Series 1982 Bonds, which was adopted by the Governing Body on July 20, 1982.

"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 Bullock Pen Water District Waterworks Revenue Bond Depreciation Reserve 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 Reserve 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 Bullock Pen 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 indenture, including the Supplemental Trust Indenture No. 18, dated October 1, 2005, by and between the Issuer and the Trustee.

"Interest Payment Date" shall mean the 1st day of each month, commencing December 1, 2005 and continuing through and including January 1, 2031 or until the Loan has been paid in full.

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

"Obligations" refers to the Loan authorized by this Assistance

- (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 1978 Bond Legislation, the 1982 Bond Legislation, the Series 2001C Assistance Agreement, the Series 2002 Assistance Agreement, the Series 2001G Assistance Agreement, the Series 2004D Assistance Agreement, and the Series 2005B Assistance Agreement.

"Prior Bonds" refers collectively to the Series 1978 Bonds, the Series 1982 Bonds, the Series 2001C Loan, the Series 2002 Loan, the Series 2001G Loan, the Series 2004D Loan, and the Series 2005B Loan.

"Program" refers to the Issuer's Public Projects Flexible Term Program designed to provide financing for the expansion, addition and improvement 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 Program Reserve Fund created and established pursuant to Section 4.2 of the Indenture.

"Project" refers to financing the construction of a water line extension of approximately 7.9 miles to serve 152 new customers in Boone County, including new water line extensions along Buffalo Road (Highway 1292), Highway 42, Dickerson Road, Crouch Road, Cleeks Lane and Webb Road, with appurtenances, 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 B to be utilized by the Governmental Agency in obtaining disbursements of the Loan from the Governmental Agency Account as the Project progresses.

"Reserve Fund" refers to the Bullock Pen Water District Waterworks Debt Service Reserve Fund, created in the Prior Bond Legislation and which Reserve Fund will continue to be maintained for the benefit of all of the Bonds.

"Revenue Fund" refers to the Bullock Pen Water District Waterworks 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 1978 Bonds" refers to the original authorized \$1,277,000 of Bullock Pen Water District Waterworks Revenue Bonds of 1978, dated December 21, 1978.

"Series 1982 Bonds" refers to the original authorized \$125,000 of Bullock Pen Water District Waterworks Revenue Bonds of 1982, dated August 6, 1982.

"Series 2001C Assistance Agreement" refers to the Assistance Agreement between the Kentucky Rural Water Finance Corporation and the Governmental Agency, dated May 1, 2002, authorizing the loan in the principal amount of \$715,000 from the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds (Flexible Term Program), Series 2001C.

"Series 2001C Loan" refers to the loan to the Governmental Agency in the principal amount of \$715,000 from the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds (Flexible Term Program), Series 2001C.

"Series 2001G Assistance Agreement" refers to the Assistance Agreement between the Kentucky Rural Water Finance Corporation and the Governmental Agency, dated July 30, 2003, authorizing the loan in the principal amount of \$460,000 from the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds (Flexible Term Program), Series 2001G.

"Series 2001G Loan" refers to the loan to the Governmental Agency in the principal amount of \$460,000 from the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds (Flexible Term Program), Series 2001G.

"Series 2002 Assistance Agreement" refers to the Assistance Agreement between the Kentucky Rural Water Finance Corporation and the Governmental Agency, dated July 31, 2002, authorizing the loan in the principal amount of \$574,000 from the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2002.

"Series 2002 Loan" refers to the loan to the Governmental Agency in the principal amount of \$574,000 from the Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program), Series 2002.

"Series 2004D Assistance Agreement" refers to the Assistance Agreement between the Kentucky Rural Water Finance Corporation and the Governmental Agency, dated October 19, 2004, authorizing the loan in the principal amount of \$98,000 from the Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds (Flexible Term Program), Series 2004D.

"Series 2004D Loan" refers to the loan to the Governmental Agency in the principal amount of \$98,000 from the Kentucky Rural Water Finance Corporation Public Projects Refunding and Improvement Revenue Bonds (Flexible Term Program), Series 2004D.

"Series 2005B Assistance Agreement" refers to the Assistance Agreement between the Kentucky Rural Water Finance Corporation and the Governmental Agency, dated October 19, 2004, authorizing a loan in the principal amount of \$514,000 of a total loan of \$804,000, dated October 19, 2005, to the Bullock Pen Water District from the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds (Flexible Term Program), Series 2005B.

"Series 2005B Loan" refers to \$514,000 of a total loan of \$804,000, dated October 19, 2005, to the Bullock Pen Water District from the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds (Flexible Term Program), Series 2005B. The Series 2005B Loan is evidenced by a separate Assistance Agreement of the same date as this Assistance Agreement, and will be used to finance the construction of a water line extension of approximately 21.75 miles to serve 173 new customers in Grant County, including new water line extensions along Chapman road, Lawrenceville Road, Juett Road, Gold Valley Road, Tanglewood Estates, Mt. Pisgah Road, Gold Valley Spur, Kinman Road, Kentucky 36, Jonesville Folsom Road, Calendar Road, and Buffalo Ridge, with appurtenances.

"Sinking Fund" refers to the Bullock Pen Water District Waterworks Revenue Bond Sinking Fund created and confirmed in the Prior Bond Legislation.

"System" refers to the Governmental Agency's waterworks 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 Waterworks System. That all proceedings heretofore taken for the establishment of and the supplying of water service in and to said Governmental Agency as a waterworks 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 \$290,000 from the Program, for the purpose of providing funds for the Project. The Obligations shall mature on each January 1 beginning January 1, 2007 and continuing thereafter through and until January 1, 2031, in such principal amounts, and shall bear interest payable on the Interest Payment Dates, commencing December 1, 2005 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 December 1, 2005 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 2005B 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 2005B Bonds by each January 1 and July 1, the Governmental Agency's initial eight (8) payments on the Obligations will include interest amortized from October 1, 2005 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, 2015, 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, 2016, 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, 2015 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, 2016 through December 31, 2016	101.00%
January 1, 2017 through December 31, 2017	100.05%
January 1, 2018 and thereafter	100.00%

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 into 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. It is hereby recognized that the Governmental Agency is obligated upon the issuance of the Obligations to provide for the additional debt service requirements of the Obligations.

There shall be transferred from the Revenue Fund and deposited into the Sinking Fund on or before the 20th day of each month, for payment of interest on and principal of the Outstanding Bonds, including the Obligations, a sum equal to the total of 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 2005B 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 2005B Bonds by each January 1 and July 1, the Governmental Agency's initial eight (8) payments on the Obligations will include interest amortized from October 1, 2005 to August 1, 2006.

If the Governmental Agency for any reason shall fail to make any monthly deposit as required, then an amount equal to the deficiency shall be set apart and deposited into the Sinking Fund out of the first available revenues in the ensuing months, which amount shall be in addition to the monthly deposit otherwise required during such succeeding months. Whenever there shall accumulate in the Sinking Fund amounts in excess of the requirements during the next twelve months for paying the principal of and interest due on the Outstanding Bonds, as same fall due, such excess may be used for redemption or prepayment of any Outstanding Bonds, subject to the terms and conditions set forth therein, prior to maturity.

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 for the Project.

(b) *Governmental Agency Account.* It is hereby acknowledged that a fund entitled "Bullock Pen 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 which has been approved by the Engineers having charge of supervising the Project, 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 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. (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 essential operation and maintenance expenses), of the then existing System for the fiscal year preceding the year in which such parity bonds are to be issued, adjusted as hereinafter provided, shall be certified by an independent Certified Public Accountant to equal at least 120% of the average annual debt service requirements for principal of and interest on the Outstanding Bonds, plus the anticipated 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 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:

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

(2) 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:

(a) 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

(b) Adjust the minimum annual amount to be deposited monthly into the Depreciation Fund on the same basis as that prescribed in the provisions establishing such Depreciation Fund, taking into account the future replacement costs of the facilities to be constructed and acquired with the proceeds of such additional Parity Bonds.

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 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:

(a) after the issuance of the 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 the Parity Bonds, after taking into account the revised debt service requirements resulting from the issuance of the Parity Bonds and from the elimination of the Outstanding Bonds being refunded or refinanced thereby, are equal to not less than 120% of the average annual debt service requirements then scheduled to fall due in any fiscal year thereafter for principal of and interest on all of the Outstanding Bonds payable from the revenues of the System, calculated in the manner specified above; or

(b) in the alternative, that the average annual debt service requirements for the Prior Bonds, the Obligations, any previously issued Parity Bonds and the proposed Parity Bonds, in any year of maturities thereof after the redemption of the Outstanding Bonds scheduled to be refunded through the issuance of the proposed Parity Bonds, shall not exceed the average annual 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 the proposed Parity Bonds and the redemption of the Outstanding 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 essential operation and maintenance 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 120% of the average 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;
- (d) To notify the Issuer of any Obligations to be redeemed and to redeem Obligations prior to their stated maturity upon receiving sufficient funds; and
- (e) 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 December 31, 2005) 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 (December 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 Bullock Pen Water District has caused this Assistance Agreement to be signed in corporate name and by its officers thereunder duly authorized, all as of the day and year first above written.

KENTUCKY RURAL WATER FINANCE CORPORATION

By _____
President

Attest:

Secretary/Treasurer

BULLOCK PEN WATER DISTRICT

By *Bobby Buzger*
Chairman

Attest:

Jonathan A. King
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 Bullock Pen Water District has caused this Assistance Agreement to be signed in corporate name and by its officers thereunder duly authorized, all as of the day and year first above written.

KENTUCKY RURAL WATER FINANCE CORPORATION

By Alan R. U. [Signature]
President

Attest:

Secretary/Treasurer

BULLOCK PEN WATER DISTRICT

By _____
Chairman

Attest:

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 Bullock Pen Water District has caused this Assistance Agreement to be signed in corporate name and by its officers thereunder duly authorized, all as of the day and year first above written.

KENTUCKY RURAL WATER FINANCE CORPORATION

By _____
President

Attest:


Secretary/Treasurer

BULLOCK PEN WATER DISTRICT

By _____
Chairman

Attest:

Secretary

ISSUER ACKNOWLEDGMENT

COMMONWEALTH OF KENTUCKY

COUNTY OF HENDERSON

The foregoing instrument was acknowledged before me this October 27, 2005 by Allan VanMeter who is the President of the Kentucky Rural Water Finance Corporation, on behalf of said Corporation.

WITNESS my hand this October 27, 2005.

My Commission expires: 10-21-06

Sandra K. Wilkinson
Notary Public, in and for said County and State

COMMONWEALTH OF KENTUCKY

COUNTY OF _____

The foregoing instrument was acknowledged before me this October ____, 2005 by Gary Larimore who is the Secretary/Treasurer of the Kentucky Rural Water Finance Corporation, on behalf of said Corporation.

WITNESS my hand this October ____, 2005.

My Commission expires: _____

Notary Public, in and for said County and State

ISSUER ACKNOWLEDGMENT

COMMONWEALTH OF KENTUCKY

COUNTY OF HENDERSON

The foregoing instrument was acknowledged before me this October ____, 2005 by Allan VanMeter who is the President of the Kentucky Rural Water Finance Corporation, on behalf of said Corporation.

WITNESS my hand this October ____, 2005.

My Commission expires: _____.

Notary Public, in and for said County and State

COMMONWEALTH OF KENTUCKY

COUNTY OF Warren

The foregoing instrument was acknowledged before me this October 27, 2005 by Gary Larimore who is the Secretary/Treasurer of the Kentucky Rural Water Finance Corporation, on behalf of said Corporation.

WITNESS my hand this October 27, 2005.

My Commission expires: 7.11.06.

Bobbie S. Shenahan

Notary Public, in and for said County and State

GOVERNMENTAL AGENCY ACKNOWLEDGMENT

COMMONWEALTH OF KENTUCKY

COUNTY OF GRANT

The foregoing instrument was acknowledged before me this October 17, 2005 by Bobby Burgess and Jimmie A. King who are the Chairman and Secretary of the Bullock Pen Water District, on behalf of said District.

WITNESS my hand this October 17, 2005.

My Commission expires: 9-15-2007.

Paula A. Massie

Notary Public, in and for said County and State

RESOLUTION

RESOLUTION OF THE BULLOCK PEN WATER DISTRICT APPROVING AND AUTHORIZING AN ASSISTANCE AGREEMENT WITH THE KENTUCKY RURAL WATER FINANCE CORPORATION FOR THE PURPOSE OF FINANCING A CONSTRUCTION PROJECT OF THE DISTRICT

WHEREAS, the Board of Commissioners ("Governing Authority") of the Bullock Pen Water District (the "District") has previously determined that it is in the public interest to make improvements and extensions to the District's waterworks system (the "System");

WHEREAS, the District desires the Kentucky Rural Water Finance Corporation (the "Corporation") to act as its agency and instrumentality for the purpose of providing monies to finance the cost of said improvements and extensions consisting of the construction of a water line extension of approximately 7.9 miles to serve 152 new customers in Boone County, including new water line extensions along Buffalo Road (Highway 1292), Highway 42, Dickerson Road, Crouch Road, Cleeks Lane and Webb Road, with appurtenances (the "Project") and has made an application to the Corporation therefore;

WHEREAS, in order to obtain such monies, the District is required to enter into an Assistance Agreement with the Corporation; and

NOW, THEREFORE, BE IT RESOLVED by the Governing Authority of the Bullock Pen Water District, as follows:

1. **Authorization of Assistance Agreement and the Obligations Thereunder.** For the purpose of paying the costs, not otherwise provided, of the financing of the Project, the District hereby authorizes and approves the issuance of its obligations pursuant to the Assistance Agreement in the aggregate principal amount of \$290,000 (subject to adjustment minus ten percent (10%)) [the "Obligations"], which amount as adjusted shall be the maximum amount of such Obligations to be outstanding at any one time under the Assistance Agreement, issued as fully registered Obligations, in said maturities and terms as more fully provided for in the Assistance Agreement. The Obligations shall bear interest at such rates and shall be payable in such amounts and at such times as specified in the Assistance Agreement, all as agreed upon by the District and the Corporation.

2. **Approval and Authorization of Execution of Assistance Agreement.** The Assistance Agreement by and between the District and the Corporation in the respective form attached to this Resolution, is hereby approved, subject to such minor changes, changes of dates, insertions or omissions as may be approved by the Chairman, such approval to be conclusively evidenced by the execution of said Assistance Agreement, in order to effectuate the purposes of this Resolution; and the Chairman, or any other officer of the District, is hereby authorized to execute and acknowledge same for and on behalf of the District; and the Secretary is authorized

to attest same and to affix thereto the corporate seal of the District. The Assistance Agreement is hereby ordered to be filed in the office of the Secretary with this Resolution in the official records of the District

3. Disbursement of Proceeds of Obligations. The District's officers, employees and agents are authorized to carry out the procedures specified in the Assistance Agreement for the financing of the Project and for the payment from time to time of the costs and related expenses associated therewith.

4. Revenues of the Project. The revenues of the System are determined to be sufficient to pay the principal of and interest on the Obligations, as the same become due and payable; and said revenues, pursuant to the terms of the Assistance Agreement, are hereby pledged to secure all such payments, and in addition, for such other purposes as are more fully specified in the Assistance Agreement.

5. Chairman and Other District Officials to Take Any Other Necessary Action. Pursuant to the Constitution and Laws of the Commonwealth of Kentucky, the Chairman, the Treasurer, the Secretary and all other appropriate officials of the District are hereby authorized and directed to file any and all applications necessary to obtain approval of the issuance of the Obligations from the Kentucky Public Service Commission and to take any and all further action and to execute and deliver all other documents as may be reasonably necessary to effect the issuance and delivery of the Obligations and the Assistance Agreement.

6. Severability Clause. If any section, paragraph, clause or provision of this Resolution shall be ruled by any court of competent jurisdiction to be invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions hereof.

7. Captions of Clauses. The captions of this Resolution are for convenience only and are not to be construed as part of this Resolution nor as defining or limiting in any way the scope or intent of the provisions hereof.

8. Provisions in Conflict Repealed. All resolutions and orders, or parts thereof, in conflict with the provisions of this Resolution are, to the extent of such conflict, hereby repealed.

9. Effective Date of Resolution. This Resolution shall take effect from and after its adoption and approval

Adopted on August 2, 2005.

BULLOCK PEN WATER DISTRICT

By 
Chairman

Attest:

By 
Secretary

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting Secretary of the Bullock Pen Water District; that the foregoing is a full, true and correct copy of a Resolution adopted by the Governing Authority of the Bullock Pen Water District at a meeting duly held on August 2, 2005; that said official action appears as a matter of public record in the official records or Journal of the Governing Authority; that said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.823; that a quorum was present at said meeting; that said official action has not been modified, amended, revoked or repealed and is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this August 2, 2005.


Secretary

CERTIFICATE OF OFFICERS OF
BULLOCK PEN WATER DISTRICT

Re: Loan in the amount of \$290,000, dated October 19, 2005, to the Bullock Pen Water District from the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds (Flexible Term Program), Series 2005B.

The undersigned officials of the Bullock Pen Water District (the "Borrower") under the Assistance Agreement identified above (the "Agreement") between the Borrower and the Kentucky Rural Water Finance Corporation ("KRWFC"), do hereby certify as follows:

1. That they are the duly elected or appointed, qualified and acting incumbents of their respective offices of the Borrower, as set forth after their signatures hereto, and as such are familiar with the books, records and affairs of the Borrower.

2. That the Borrower is a body politic and corporate, validly organized, existing and in good standing under and by virtue of the laws of the Commonwealth of Kentucky with all requisite power and authority to operate a waterworks system (the "System") and to carry on its business as now being conducted.

3. That included in the transcript of which this Certificate forms a part is a true, correct and complete copy of the Resolution duly adopted by the Governing Body of the Borrower on August 2, 2005 (the "Official Action"), authorizing the appropriate officials of the Borrower to execute the Agreement. The Official Action was duly adopted in accordance with all applicable laws.

4. The representations and warranties of the Borrower made in the Agreement are true and correct in all material respects on and as of the date hereof as if made on and as of the date hereof; the Official Action has not been amended or supplemented and is in full force and effect; and the Agreement has been entered into and is in full force and effect.

5. That the below-named persons were on the date or dates of the execution of the Agreement and are on the date of this Certificate the duly elected or appointed and qualified incumbents of the respective offices of the Borrower set forth opposite their names and that the signatures set forth opposite their names are their genuine signatures:

<u>Name</u>	<u>Title</u>	<u>Signature</u>
Bobby Burgess	Chairman	
Jimmie A. King	Secretary	

6. The Agreement has been duly authorized, executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms.

7. The Borrower is not in default under or in violation of (i) any provisions of applicable law, (ii) the Agreement, or (iii) any indenture, mortgage, lien, agreement, contract, deed, lease, loan agreement, note, bond, order, judgment, decree or other instrument or restriction of any kind or character to which it is a party or by which it or its properties are or may be bound, or to which it or any of its assets is subject, which default would have a material adverse effect on the condition, financial or otherwise, of the Borrower or on the ability of the Borrower to perform its obligations under the Agreement. Neither the execution and delivery of the Agreement nor compliance by the Borrower with the terms, conditions and provisions of the Agreement will conflict with or result in a breach of, or constitute a default under, any of the foregoing.

8. Since the date of the financial information provided to KRWFC, there have not been any material adverse changes in the business, properties, condition (financial or otherwise) or results of operations of the Borrower, whether or not arising from transactions in the ordinary course of business, and since such date, except in the ordinary course of business, the Borrower has not entered into any transaction or incurred any liability material to the financial position of the Borrower.

9. There is no claim, action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, or public board or body, pending or, to the best of our knowledge, threatened against or affecting the Borrower wherein an unfavorable decision, ruling or finding would materially adversely affect the business, properties, condition (financial or otherwise) or the results of operations of the Borrower or the ability of the Borrower to perform its obligations under the Agreement.

10. All authorizations, consents and approvals of, notices to, registrations or filings with, or other actions in respect of or by, any governmental body, agency or other instrumentality or court required in connection with the execution, delivery and performance by the Borrower of the Agreement have been duly obtained, given or taken (and copies thereof have been provided to KRWFC).

11. Any certificate signed by any official of the Borrower and delivered to KRWFC will be deemed to be a representation by the Borrower to KRWFC as to the statements made therein.

WITNESS our hands this October 19, 2005.

BULLOCK PEN WATER DISTRICT

By *Robert R. Ruggers*
Chairman

Attest:

By *Juanita D. King*
Secretary

SUPPLEMENTAL TAX CERTIFICATE

Re: Loan in the amount of \$290,000, dated October 19, 2005, to the Bullock Pen Water District from the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds (Flexible Term Program), Series 2005B.

THIS SUPPLEMENTAL TAX CERTIFICATE (the "Supplemental Tax Certificate") is made and entered into as of October 19, 2005 by and between the Kentucky Rural Water Finance Corporation ("KRWFC") and the Bullock Pen Water District (the "Borrower"):

WITNESSETH:

WHEREAS, the Borrower has agreed, in an Assistance Agreement dated the date hereof (the "Agreement") to borrow \$290,000 (the "Loan") pursuant to a Program administered by KRWFC and funded with a portion of the proceeds of the \$4,855,000 Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds (Flexible Term Program), Series 2005B which were issued on October 1, 2005 (the "Bonds") by KRWFC pursuant to and secured by a Trust Indenture, dated as of April 4, 2001 between the Issuer and The Bank of New York Trust Company, N.A. (as successor in interest to Fifth Third Bank), as supplemented by a Supplemental Trust Indenture No. 18, dated October 1, 2005, between the Issuer and Regions Bank, Nashville, Tennessee (collectively the "Indenture"), and to use the proceeds of the Loan to finance the cost of the construction of a water line extension of approximately 7.9 miles to serve 152 new customers in Boone County, including new water line extensions along Buffalo Road (Highway 1292), Highway 42, Dickerson Road, Crouch Road, Cleeks Lane and Webb Road, with appurtenances (the "Project") for the Borrower's waterworks system (the "System"); and

WHEREAS, it is necessary for the parties hereto to enter into this Supplemental Tax Certificate to ensure that interest paid on the Bonds and on the Loan shall all be and shall all remain excludable from gross income for Federal income purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code") and is not and will not become a specific item of tax preference under Section 57(a)(5)(C) of the Code for the federal alternative minimum tax and to comply with the requirements of KRWFC's Tax Certificate (the "Tax Certificate") dated as of April 4, 2001 issued with respect to the Bonds.

NOW, THEREFORE, the parties hereto agree and bind themselves as follows:

ARTICLE I DEFINITIONS

Section 1.01. Definitions. In addition to words and terms defined elsewhere in this Supplemental Tax Certificate, the Code and Regulations (each as herein defined), the Arbitrage Certificate (as hereinafter defined), the Indenture and the Agreement, the following capitalized words and terms used in this Supplemental Tax Certificate shall have the following meanings, unless some other meaning is plainly intended:

"Arbitrage Bond" means any obligation of a Governmental Entity that is treated as an arbitrage bond under Sections 103(b)(2) and 148 of the Code.

"Arbitrage Certificate" means the Tax Certificate under Sections 103(b)(2) and 148 of the Internal Revenue Code of 1986, as amended, for the Bonds given by KRWFC, including certifications given with respect thereto by the Financial Advisor, the Underwriter and KRWFC, and for the Loan given by the Borrower.

"Capital Expenditure" means any expense that is properly depreciable or amortizable or is otherwise treated as a capital expenditure under the Code, and for the purposes of determining eligible Reimbursement Allocations, including Costs of Issuance.

"Closing Date" means the date of this Supplemental Tax Certificate.

"Cost of Issuance" means any expenditure incurred in connection with the issuance of the Loan or the Borrower's share of such expenditures relating to the Bonds, including such costs as underwriters' spread, rating agency fees, appraisal costs, attorneys' and accountants' fees and printing costs, but excluding Qualified Guarantee Fees or expenditures incurred in connection with the construction of the Project.

"Disposition Proceeds" means the amounts, including property, received from the sale, exchange or other disposition of the Project.

"Federally-Guaranteed" means having the payment of either the principal of or interest on any portion of the Loan or any loan made with the Proceeds of any portion of the Loan guaranteed, in whole or in part, directly or indirectly, by the United States, or acquiring any Investment Property that is, directly or indirectly federally-insured, except as otherwise permitted by Section 149(b) of the Code.

"Governmental Entity" means any State and any political subdivision and agency of any State.

"Gross Proceeds" means Sale Proceeds and Replacement Proceeds, determined pursuant to Treas. Regs. §1.148-1(b) and -1(c), all until spent.

"Investment Proceeds" means any amounts actually or constructively earned or received from investing the Proceeds in Investment Property.

"Investment Property" means any security (as defined in Section 165(g)(2)(A) or (B) of the Code), obligation (including any Tax-Exempt Bond), annuity contract or other investment-type property.

"Non-Governmental Entity" means any person or entity, other than a Governmental Entity.

"Pledged Fund" means any amount pledged, directly or indirectly, to pay principal of or interest on the Loan and which provides reasonable assurance of such amounts being paid even if the Borrower experiences financial difficulties, including amounts subject to a negative pledge.

"Private Loan" means any loan, directly or indirectly, of any of the Proceeds of an obligation of a Governmental Entity to any Non-Governmental Entity.

"Private Use" means the use of any Proceeds of the Loan or any facilities financed with such Proceeds by Private Users.

"Private User" means any Non-Governmental Entity, other than a natural person not engaged in a trade or business.

"Rebate Amount" means the amount determined by KRWFC pursuant to the Tax Certificate.

"Rebate Payments" means any payment of the Rebate Amount made to the United States Treasury.

"Redemption Date" means the date on which the last of the principal of and interest on the Loan has been paid, whether upon maturity, redemption or acceleration thereof.

"Reimbursement Allocation" means a written allocation of the Proceeds of the Agreement intended to reimburse the Borrower for Capital Expenditures for the Project that were paid prior to the Closing Date, provided that any such allocation is made no later than eighteen (18) months after the later of the date the Capital Expenditure was paid or the date the Project was placed in service, but in no event later than three (3) years after the payment date. Any written allocation made within thirty (30) days after the Closing Date shall be treated as if made on the Closing Date.

"Reimbursement Resolution" means a declaration of intent by the Borrower to finance, by issuing debt, Capital Expenditures. For this purpose, the issuance of debt to finance specific facilities shall constitute a Reimbursement Resolution, the date of adoption of which shall be no later than the Closing Date of such debt.

"Replacement Proceeds" means amounts replaced by Proceeds of the Loan, including any sinking fund, Pledged Fund, restricted gifts (not including qualified endowment funds, pursuant to Treas. Reg. §1.148-6(d)(3)(iii)(C)) or reserve or replacement fund, or other funds that would be available, directly or indirectly, to pay debt service on the Loan, within the meaning of Treas. Reg. §1.148-1(c).

"Research Agreement" means an agreement between the Borrower and a Private User under which the Borrower or the Private User uses any portion of the System to carry on research.

"Sale Proceeds" means the Loan amount.

"*Service Contract*" means a contract between the Borrower and a Service Provider under which the Service Provider provides services involving any portion or function of a Governmental Facility financed with Governmental Bonds.

"*Service Provider*" means any Private User that provides management or other services.

"*State*" means any state and possession of the United States and the District of Columbia.

"*Treasury Regulation*" and "*Treas. Reg.*" means any Regulation, Proposed Regulation or Temporary Regulation, as may be applicable, issued by the United States Treasury Department pursuant to the Code or the 1954 Code, as appropriate.

"*Yield*" means, pursuant to Treas. Regs. §1.148-4 and -5, that discount rate which, when computing the present value of all payments of principal and interest to be paid on an obligation, produces an amount equal to, in the case of the Loan, the Issue Price and in the case of any Investment Property, the fair market value, as provided in Treas. Reg. §1.148-5(d).

"*Yield Reduction Amount*" means the amount determined by KRWFC pursuant to the Tax Certificate.

"*Yield Reduction Payment*" means any payment of the Yield Reduction Amount made to the United States Treasury.

Section 1.02. Interpretative Rules. For all purposes of this Supplemental Tax Certificate, except as otherwise expressly provided or unless the context otherwise requires (a) "Supplemental Tax Certificate" means this instrument, as originally executed and as it may from time to time be supplemented or amended pursuant to the applicable provisions hereof; (b) all references in this instrument to designated "Articles", "Sections" and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed; (c) the words "herein", "hereof", "hereunder", "herewith" and other words of similar import refer to this Supplemental Tax Certificate as a whole and not to any particular Article, Section or other subdivision; (d) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular; (e) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles; (f) the terms defined elsewhere in this Supplemental Tax Certificate shall have the meanings therein prescribed for them; (g) words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders; and (h) the headings used in this Supplemental Tax Certificate are for convenience of reference only and shall not define or limit the provisions hereof.

ARTICLE II

COVENANTS, REPRESENTATIONS, ACKNOWLEDGMENTS AND DIRECTIONS

Section 2.01. Authority and Organization. (a) The Borrower represents for the benefit of KRWFC that it is a political subdivision of the Commonwealth of Kentucky with the power,

expected to exceed the amount necessary for the Borrower to accomplish the governmental purposes described in the Agreement.

Section 2.09. Records. The Borrower represents that proper records and accounts, containing complete and correct entries of all transactions relating to the Agreement, the use of the Gross Proceeds of the Agreement and the expenditures made in connection with the Project, will be maintained. The information described in this Section will be retained for at least six (6) years after the Redemption Date.

Section 2.10. Payment of Arbitrage Compliance Amounts. The Borrower represents that all actions necessary to comply with the Yield limitations applicable to investments of the Sale Proceeds and Investment Proceeds of the Loan and the rebate requirements contained in Section 148(f) of the Code and the Treasury Regulations thereunder will be taken. Immediately upon the request of KRWFC, the Borrower will assemble copies of records concerning investments of Gross Proceeds of the Loan, including any amounts held by any provider of a letter of credit or guarantor under a reimbursement or other similar agreement. In particular, the Borrower will provide KRWFC with information that will enable KRWFC to determine if any Rebate Amount is payable. The Borrower will pay any Rebate Payment and any Yield Reduction Payment owed with respect to the Gross Proceeds of the Loan, as determined by KRWFC. The information described in this Section will be retained for at least six (6) years after the Redemption Date.

Section 2.11. Election to Apply Rebate Exception Separately to the Loan. The Borrower hereby elects and KRWFC has previously elected to have the spending exceptions of Treas. Reg. 1.148-7 and the small issuer exceptions of Treas. Reg. 1.148-8 applied separately to the Loan.

The applicable beginning date in applying the spending exceptions of Treas. Reg. 1.148-7 is the Closing Date. The spending exceptions include the six-month exception described in Treas. Reg. 1.148-7(c), the eighteen-month exception described in Treas. Reg. 1.148-7(d), and the two-year exception described in Treas. Reg. 1.148-7(e).

Section 2.12. Information Reporting Requirements. The Borrower represents that it will timely execute and file any information reports required under Section 149(e) of the Code (Form 8038-G) or as required by KRWFC.

Section 2.13. Compliance with Supplemental Tax Certificate. (a) The Borrower may, at any time, employ bond counsel, independent certified public accountants, or other qualified experts acceptable to KRWFC to perform any of the requirements imposed upon the Borrower by this Supplemental Tax Certificate.

(b) KRWFC and the Borrower agree, to the extent reasonably possible, to comply with any amendments to the Code or any applicable Regulations, effective retroactively, and KRWFC and the Borrower shall take all actions necessary to amend this Supplemental Tax Certificate to comply therewith.

(c) Whenever any action or direction is required of the Borrower hereunder, such action or direction may, or in the absence of any such action or direction shall, be made by KRWFC.

ARBITRAGE CERTIFICATE

Re: Loan in the amount of \$290,000, dated October 19, 2005, to the Bullock Pen Water District from the Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds (Flexible Term Program), Series 2005B.

The undersigned officer of the Bullock Pen Water District (the "Borrower") hereby certifies with respect to the loan in the amount of \$290,000 (the "Loan") made pursuant to the Assistance Agreement (the "Agreement") by and between the Kentucky Rural Water Finance Corporation ("KRWFC") and the Borrower, derived from the proceeds of the \$4,855,000 Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds (Flexible Term Program), Series 2005B (the "Bonds") issued by KRWFC, which Agreement is entered into for the purpose of financing certain improvements (the "Project") to the Borrower's existing waterworks system (the "System") and made as of the date hereof (the "Closing Date"), which is the date of delivery of, and payment for, the Loan, that the following facts, estimates and circumstances regarding the amount and use of all of the Proceeds, as defined in Treas. Reg. §1.148-1(b), issued under the Internal Revenue Code of 1986, as amended (the "Code"), of the Loan are, as of the Closing Date and according to the Borrower's best knowledge, information and belief, reasonably expected to exist or to occur:

1. **Proceeds.** The Proceeds of the Loan consist, and will consist, of the Sale Proceeds and Investment Proceeds, each as defined in Treas. Reg. §1.148-1(b), issued under the Code, and equal to the Loan amount.

2. **Purpose of Loan.**

a. The Proceeds of the Loan, together with certain other funds, will be used to finance the cost of the construction of a water line extension of approximately 7.9 miles to serve 152 new customers in Boone County, including new water line extensions along Buffalo Road (Highway 1292), Highway 42, Dickerson Road, Crouch Road, Cleeks Lane and Webb Road, with appurtenances (the "Project"), which constitutes a valid governmental purpose (the "Governmental Purpose").

b. The total amount of Proceeds received by the Borrower will not exceed the amount necessary to finance the Governmental Purpose. The Agreement is being entered into at this time in such amount because the Borrower is obligated or soon will be obligated to make certain expenditures for the construction of the Project.

3. **Yield on the Loan.**

a. The price at which the Loan was sold to the Issuer, which intends to hold the Loan for investment purposes and not for resale to the general public, is equal to the Loan Amount.

b. The Yield on the Loan, as defined in Treas. Reg. §1.148-4, issued under the Code, is 4.3001%.

4. **Application of Proceeds.** All of the Sale Proceeds will be used to pay the cost of the Governmental Purpose, including issuance expenses and accrued interest to the Closing Date. No amount received as Proceeds of the Loan will be used in the manner not set forth in this section.

5. **Expenditure of Proceeds for the Governmental Purpose.** The acquisition of the Project will commence promptly following the Closing Date, and the Borrower has incurred, or will incur, within six (6) months after the Closing Date, a substantial binding commitment to expend at least five percent (5%) of the Net Sales Proceeds (defined in Treas. Reg. §1.148-1(b) as Sales Proceeds less an amount that is the lesser of five percent (5%) of the Sales Proceeds or \$100,000) on the Project. The Borrower will expend at least eighty-five percent (85%) of the Net Sales Proceeds by October 1, 2007.

6. **Investment of Proceeds.**

a. The Borrower has agreed in the Supplemental Tax Certificate, executed by the Borrower on this date, that it will not invest any of the Proceeds of the Loan without the express consent of KRWFC, and any such investments will be done so that such investment will not cause interest on either the Loan or the Bonds to be includable in the holder's gross income for purposes of federal income taxation or the debt to be treated as "arbitrage bonds" under Sections 103(b)(2) and 148 of the Code and the Treasury Regulations thereunder.

b. Not more than fifty percent (50%) of the Proceeds of the Loan will be invested in investments that both do not carry out the Governmental Purpose of the Agreement and have a substantially guaranteed yield for at least four (4) years.

c. Amounts deposited in the Borrower's Sinking Fund will be used to pay the principal of and interest on the Loan, and the Borrower reasonably expects that there will be no other funds that will be so used or which will be pledged to payment of the Loan under circumstances such that the holder of the Loan is reasonably assured such fund will be available for payment of debt service on the Loan. The Sinking Fund is a fund that is used primarily to achieve a proper matching of revenues and debt service within each bond year. Money deposited in the Sinking Fund will be used within thirteen (13) months from the date of deposit for the payment of debt service on the outstanding Loan and other parity obligations and, except for an amount equal to not more than the greater of (i) one-twelfth (1/12) of debt service requirements of the Loan and other parity obligations for the then ensuing year or (ii) one year's earnings on the Sinking Fund, the Sinking Fund will be depleted annually through such application for current debt service requirements of the Loan and other parity obligations. Any income earned from the investment of amounts deposited in the Sinking Fund will be retained in the Sinking Fund and expended within one year from the date of receipt.

d. Any unexpended portion of the Proceeds of the Loan, including any amounts in any reasonably required reserve or replacement fund, will be invested in the investment contract described in the Trust Indenture for the Bonds and other than any funds described herein invested during a temporary period permitted under Treas. Regs.

§1.148-1 through -11, issued under the Code, if any, or any amounts in any reasonably required reserve or replacement fund, as described in Treas. Reg. §1.148-2(f), no Proceeds of the Loan, or any moneys that may become Replacement Proceeds, as defined in Treas. Reg. §1.148-1(c), of the Loan, in excess of the lesser of (i) five percent (5%) of such Proceeds or (ii) \$100,000, have been invested in "higher yielding investments", as defined in the Code and the Treasury Regulations thereunder.

7. General.

a. The Borrower reasonably expects that neither the Project, nor any part thereof, will be sold or otherwise disposed of by the Borrower prior to the final principal maturity date of the Loan.

b. There are no amounts, other than any funds specifically contributed by the Borrower and the Gross Proceeds of the Loan, that are available for the Governmental Purpose and the term of the Loan is not longer than reasonably necessary for the Governmental Purpose.

c. Any Rebate Payments and any Yield Reduction Payments (each as defined in the Supplemental Tax Certificate), owed pursuant to Section 148(f) of the Code, will be remitted to the United States Treasury as directed by KRWFC, pursuant to the Supplemental Tax Certificate entered into with respect to the Bonds.

d. The Borrower has not employed in connection with the Loan a transaction or series of transactions that attempts to circumvent the provisions of Sections 103(b)(2) and 148 of the Code and the Treasury Regulations thereunder, enabling the Borrower to exploit the difference between tax-exempt and taxable interest rates to gain a material financial advantage and/or increasing the burden on the market for tax-exempt obligations through actions such as issuing more obligations, issuing obligations sooner or allowing them to remain outstanding longer than would otherwise be necessary for the Governmental Purpose.

e. KRWFC has never been advised of any listing or contemplated listing by the Internal Revenue Service to the effect that the Borrower's certification with respect to its obligations may not be relied upon and no notice to that effect has been published in the Internal Revenue Bulletin.

f. Certain of the facts, estimates and circumstances contained herein are based upon representations made by KRWFC in the attached certificate, or in other letters and reports that accompany the sundry closing documents related to the sale and delivery of the Loan. The Borrower is not aware of any facts, estimates or circumstances that would cause it to question the accuracy of such representations. To the best of the knowledge, information and belief of the undersigned, who is authorized by the Borrower to sign this certificate on behalf of the Borrower, the above expectations of the Borrower as stated herein are reasonable and there are no other facts, estimates or circumstances that would materially change the foregoing conclusion.

This certificate is being executed and delivered pursuant to Treas. Regs. §1.148-1 through -11 issued under the Code, of which the undersigned, with the advice of counsel, is generally familiar. On the basis of the foregoing, it is not expected that the proceeds of the Loan will be used in a manner that would cause the Loan or the Bonds to be "arbitrage bonds" under Sections 103(b)(2) and 148 of the Code or the Treasury Regulations thereunder.

Dated as of October 19, 2005.

BULLOCK PEN WATER DISTRICT

By: *Bobby Bruggen*
Title: *Chairman*

Ernie Fletcher
Governor

Lajuana S. Wilcher, Secretary
Environmental and Public
Protection Cabinet

Christopher L. Lilly
Commissioner
Department of Public Protection



Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

Mark David Goss
Chairman

Teresa J. Hill
Vice Chairman

Gregory Coker
Commissioner

Honorable Thomas R. Nienaber
Attorney at Law
The Horwitz Law Firm, P.S.C. Attorneys and Counselors at Law
541 Buttermilk Pike
Suite 305
Crescent Spring, KY 41017-1689

August 17, 2005

RE: Case No. 2005-00231

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

BOD/jc
Enclosure

Bobby J. Burgess
Chairman
Bullock Pen Water District
One Farrell Drive
P. O. Box 188
Crittenden, KY 41030

Honorable Thomas R. Nienaber
Attorney at Law
The Horwitz Law Firm, P.S.C.
Attorneys and Counselors at Law
541 Buttermilk Pike
Suite 305
Crescent Spring, KY 41017-1689

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE BULLOCK PEN WATER)
DISTRICT FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY TO)
CONSTRUCT AND FINANCE IMPROVEMENT)
PROJECTS AND TO IMPLEMENT SURCHARGES)
TO ITS EXISTING RATES PURSUANT TO KRS)
278.020 AND 278.300)

Approved
24 June 2005
Phase 8 + 10

CASE NO.
2005-00231

INTERIM ORDER

On June 17, 2005, Bullock Pen Water District ("Bullock Pen") applied for a Certificate of Public Convenience and Necessity ("CPCN") to construct and finance a waterworks project in two phases, Phase 8 and Phase 10, with construction costs in the amount of \$1,886,000 and \$926,800, respectively, and debt issuance costs in the amount of \$19,500 and \$11,428, respectively. Bullock Pen also applied for approval to implement surcharges to its existing rates in order to pay the debt service on the indebtedness necessary to finance a portion of the project. Phase 8 involves the construction and installation of approximately 21.75 miles of 8-inch, 6-inch, and 2-inch waterline, and will provide potable water to new customers in Grant County. Phase 10 involves the construction and installation of approximately 7.9 miles of 8-inch waterline, and will provide potable water to new customers in Boone County. Bullock Pen states the project will have no adverse affect or impact on existing customers.

Bullock Pen proposes to finance Phase 8 through a Kentucky Infrastructure Authority ("KIA") Tobacco Grant in the amount of \$66,500, a KIA Grant (2005) in the amount of \$600,000, a loan in the amount of \$514,000 from the Kentucky Rural Water

Finance Corporation ("KRWFC"), and tap-on fees in the amount of \$66,500. Bullock Pen proposes to finance Phase 10 through a KIA Grant in the amount of \$300,000, a loan in the amount of \$290,000 from the KRWFC, a contribution of \$308,933 from the Boone County Fiscal Court, and tap-on fees in the amount of \$39,115.

Bullock Pen has requested that Commission approval of the proposed construction and financing be granted as expeditiously as possible so that construction may begin in a timely manner. By subsequent Order in this case, the Commission will address the proposed surcharge.

Having reviewed the application and being otherwise sufficiently advised, the Commission finds that:

1. Bullock Pen is a water district organized pursuant to KRS Chapter 74.
2. Bullock Pen owns and operates facilities used to distribute water for compensation to approximately 6,000 customers in Grant, Kenton, Pendleton, Boone, and Gallatin counties, Kentucky.
3. Bullock Pen proposes to construct approximately 29.65 miles of 8-inch, 6-inch, and 2-inch waterline in Grant and Boone counties.
4. The proposed project will provide potable water to new customers in Grant and Boone counties.
5. CMW, Inc of Richmond, Kentucky prepared the plans and specifications for the proposed project.
6. The Division of Water of the Kentucky Environmental and Public Protection Cabinet has approved the plans and specifications for the proposed project.

7. No utility is presently providing water service in the area that the proposed project will serve.

8. The proposed construction will neither create wasteful duplication of plant, equipment, property, or facilities, nor result in uneconomic or wasteful competition between public utilities.

9. Public convenience and necessity require the construction set forth in Bullock Pen's application.

10. The estimated total cost of the proposed project, including construction cost, contingencies, and engineering and inspection fees, is \$2,843,000.

11. Bullock Pen proposes to finance the proposed project through a KIA Tobacco Grant in the amount of \$725,000, other KIA Grants in the amounts of \$600,000 and \$300,000, tap-on fees in the amounts of \$66,500 and \$39,115, loans from the KRWFC in the amounts of \$514,000 and \$290,000, and a contribution from the Boone County Fiscal Court in the amount of \$308,933.

12. Bullock Pen's proposed loans from KRWFC are for a lawful object within Bullock Pen's corporate purposes, are necessary and appropriate for and consistent with Bullock Pen's proper performance of its service to the public and will not impair its ability to perform that service, and are reasonably necessary and appropriate for such purpose.

IT IS THEREFORE ORDERED that:

1. Bullock Pen is granted a CPCN to construct the proposed waterworks project as set forth in the plans and specifications of record herein.

2. Bullock Pen's application for a surcharge to its existing rate with respect to Phase 8 and Phase 10 is continued generally. Nothing contained in this Order shall be construed as Commission approval of the assessment of the proposed surcharge.

3. Bullock Pen is authorized to enter into the proposed loan agreements with KRWFC to borrow \$514,000 and \$290,000 and to repay such loans over a 25-year period at interest rates varying from 3.38 percent to 5.05 percent. Bullock Pen shall use the proceeds from the loan authorized herein only for the purpose of financing the proposed project.

4. Bullock Pen shall obtain approval from the Commission prior to performing any additional construction not expressly authorized within this Order.

5. Any deviation from the construction approved herein shall be undertaken only with the prior approval of the Commission.

6. Bullock Pen shall furnish documentation of the total costs of this project, including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.), within 60 days of the date that construction is substantially completed. Construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by the Commission.

7. Bullock Pen shall require the construction to be inspected under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering, to ensure that the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

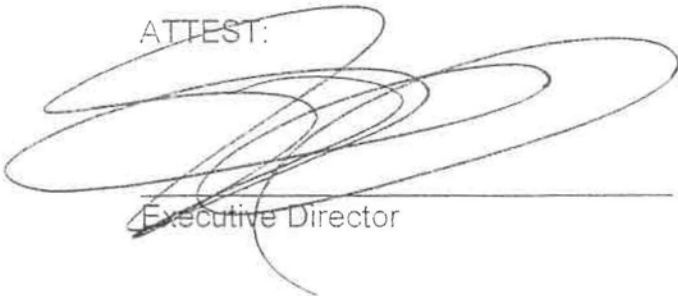
8. Bullock Pen shall file a copy of the "as-built" drawings and a certified statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the substantial completion of the construction certificated herein.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

Done at Frankfort, Kentucky, this 17th day of August, 2005.

By the Commission

ATTEST:



Executive Director