
LOAN AGREEMENT

By and Between

KENTUCKY RURAL WATER FINANCE CORPORATION

and

ALLEN COUNTY WATER DISTRICT
GOVERNMENTAL AGENCY

dated April 18, 2006

LOAN AGREEMENT

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LOAN AGREEMENT

This Loan Agreement made and entered into as of April 18, 2006 (the "Loan Agreement") by and between the Kentucky Rural Water Finance Corporation, a non-profit corporation and instrumentality of various entities of the Commonwealth of Kentucky (the "Corporation") and the Allen County Water District (the "Governmental Agency"):

WITNESSETH

WHEREAS, the Corporation has established its Public Projects Construction Financing Program (the "Program") designed to provide financing of construction to governmental entities under which the Corporation has determined to issue under its Public Projects Construction Notes, Series 2003, dated October 1, 2003 (the "Notes") pursuant to a Trust Indenture dated as of October 1, 2003 (the Indenture") between the Corporation and The Bank of New York Trust Company, N.A., trustee, as successor to Fifth Third Bank (the "Trustee"), the net proceeds of which will be applied for the benefit of such governmental entities by making Loans, pursuant to Loan Agreements for Construction of their Projects, in order to provide a centralized source of interim construction financing and to reduce interest costs financing expenses of such governmental entities; and

WHEREAS, the Governmental Agency has obtained a commitment for Permanent Financing for its Project as hereinafter defined, from RD; and

WHEREAS, the Governmental Agency has determined that it is necessary and desirable to acquire, construct, and finance the Project, and the Corporation has determined that the Project is a project within the meaning of the Act and the Indenture, thereby qualifying for financial assistance from the Corporation; and

WHEREAS RD has or will appropriate funds in amounts sufficient to enable it to honor said commitments for Permanent Financing of such Projects; and

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

WHEREAS, pursuant to this Loan Agreement the Governmental Agency will proceed with the construction of the Project; and

WHEREAS, pursuant to this Loan Agreement the Governmental Agency will irrevocably assign to the Trustee, for the benefit of the Corporation, all right, title and interest in and to monies to be received pursuant to the Permanent Financing, which monies will be used by the Trustee to pay principal of and interest on the Notes; and

WHEREAS, the Corporation 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 Corporation and the Governmental Agency have determined to enter into this Loan 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 interest thereon and subject to the terms of the commitment for Permanent Financing;

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:

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. All of the terms utilized in this Loan Agreement will have the same definitions and meaning as ascribed to them in the Act and the Indenture, which Act and Indenture are hereby incorporated in this Loan Agreement by reference, the same as if set forth hereby verbatim provided, however, that those definitions utilized in the Act and the Indenture having general application are hereby modified in certain instances to apply specifically to the Governmental Agency and its Project.

"*Act*" shall mean Chapter 58 of the Kentucky Revised Statutes, as amended.

"*Adjusted Interest Rate*" shall mean the interest rate per annum, adjusted from time to time on each Interest Rate Conversion Date, determined and calculated by the Remarketing Agent, that is necessary to cover the interest costs on the Notes and the administrative fees, expenses and costs of the Program, including but not limited to the costs incurred in issuing the Loan and the Notes issued to fund the Loan; provided however that the Adjusted Interest Rate shall not exceed 6.00% per annum.

"*Application*" means those specific details of the Project identified in Exhibit A hereto, all of which are incorporated by reference in this Loan Agreement.

"*Authorized Officer*" shall mean the President, Vice-President, Treasurer or Secretary of the Corporation, and any other of its members, officers, agents, or employees duly authorized by resolution of the Corporation to perform the act or sign the document in question.

"*Business Day*" means any day other than a Saturday, a Sunday, a day on which banking institutions in the State of Kentucky or the State of New York are required to be made or the principal corporate trust office of the Trustee is located are closed as authorized or obligated by law or administrative order or a day on which the New York Stock Exchange is closed.

"*Code*" shall mean the Internal Revenue Code of 1986, as amended, and shall include the Regulations of the United States Department of the Treasury promulgated thereunder.

"*Commitment Letter*" means the RD Commitment Letter evidencing the approval by RD of Permanent Financing for the Project.

"*Commonwealth*" or "*State*" shall mean the Commonwealth of Kentucky.

"*Corporation*" shall mean the Kentucky Rural Water Finance Corporation, a non-profit corporation and an instrumentality of the Governmental Agency and other governmental entities.

"Costs" or "Project Costs" shall mean the costs of the Project as approved by RD including interest during the construction of the Project.

"Engineers" means the firm of consulting engineers employed by the Governmental Agency in connection with the Project identified in the Application.

"Governmental Agency " shall mean any agency or unit of government within the Commonwealth, now having or hereafter granted the authority and power to finance, acquire, construct, and operate a Project, including specifically but not by way of limitation, incorporated cities, counties, sanitation districts, water districts, public authorities, sewer construction districts, metropolitan sewer districts, sanitation taxing districts, and any other agencies, commissions, districts, or authorities (either acting alone, or in combination with one another pursuant to any regional or area compact, or multi-municipal agreement), now or hereafter established pursuant to the laws of the Commonwealth having and possessing such described powers; and for the purposes of this Loan Agreement shall mean the Governmental Agency identified in the Application.

"Governmental Agency's Account" shall mean the separate accounts within the Program Fund under the Indenture, established for each particular Project.

"Immediate Notice" shall mean notice given by telephone, telecopy, telegraph or other electronic means, promptly confirming in writing in accordance with the requirements of the Indenture.

"Indenture" shall mean the Trust Indenture dated as of October 1, 2003, between the Corporation and the Trustee, outstanding to which the Notes have been issued and are secured.

"Interest Rate" shall mean 4.40% per annum accruing from the date of this Loan Agreement to the next succeeding Interest Rate Conversion Date and thereafter from the Interest Rate Conversion Date to the earlier of the next succeeding Interest Rate Conversion Date or the Maturity Date at the Adjusted Interest Rate.

"Interest Rate Conversion Date" shall mean the first Business Day of each April and October beginning on the first Interest Rate Conversion Date succeeding the date of this Loan Agreement.

"Investment Earnings" shall mean interest earned on amounts on deposit in the Governmental Agency's Account established for the Governmental Agency.

"Loan" shall mean the loan effected, pursuant to one or more draws, under this Loan Agreement from the Corporation to the Governmental Agency in the principal amount set forth in the Application, for the purpose of defraying the costs incidental to the Construction of the Project.

"*Loan Agreement*" shall mean this agreement made and entered into by and between a Governmental Agency and the Corporation, providing for a Loan to the Governmental Agency by the Corporation, and for the repayment thereof to the Corporation by the Governmental Agency.

"*Loan Note*" shall mean the notes of the Governmental Agency to the Corporation dated as of their respective dates assigned to the Trustee representing the loan obligations of the Governmental Agency set forth in this Loan Agreement.

"*Loan Payment Date*" shall mean the Business Day agreed to by the Trustee which day shall be no more than three (3) Business Days after receipt by the Governmental Agency of the proceeds of the Permanent Financing.

"*Loan Payments*" shall mean all payments to the Corporation by the Governmental Agency under this Loan Agreement.

"*Maturity Date*" shall mean the Maturity Date for the Loan.

"*Note*" or *Notes*" shall mean any of the Corporation's Public Projects Construction Notes, Series 2003, issued from time to time in one or more series.

"*Permanent Financing*" shall mean bonds issued by the Governmental Agency and delivered to RD as purchaser.

"*Person*" shall mean any individual, firm, partnership, association, corporation or Governmental Agency.

"*Program*" shall mean the Public Projects Construction Financing Program of the Corporation as distinguished from any other programs of the Corporation.

"*Project*" shall mean, when used generally, an infrastructure project as defined in the Act, and when used in specific reference to the Governmental Agency, the Project described in the Application.

"*Remarketing Agent*" shall mean Morgan Keegan & Co., Inc., acting in its capacity as remarketing agent for the Notes, and its successors and assigns as remarketing agent for the Notes appointed under the Indenture.

"*RD*" means the Rural Development of the United States Department of Agriculture or its successors or assigns.

"*Requisition for Funds*" means the form attached hereto as Exhibit B to be utilized by the Governmental Agency in obtaining disbursements of the Loan from the Corporation as construction of the Project progresses.

"*System*" shall mean the utility system owned and operated by the Governmental Agency of which the Project shall become a part.

"*Trustee*" shall mean The Bank of New York Trust Company, N.A., Cincinnati, Ohio, as successor to Fifth Third Bank, and its successor or successors, and any other corporation acting at any time as Trustee under the Indenture.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1. Representations and Warranties of Corporation. The Corporation represents and warrants for the benefit of the Governmental Agency as follows:

(A) The Corporation is a non-profit corporation and an instrumentality of the Governmental Agency and other governmental entities, has all necessary power and authority to enter into, and perform its obligations under, this Loan Agreement, and has duly authorized the execution and delivery of this Loan Agreement.

(B) Neither the execution and delivery hereof, nor the fulfillment of or compliance with the terms and conditions hereof, nor the consummation of the transactions contemplated hereby, conflicts with or results in a breach of the terms, conditions and provisions of any restriction or any agreement or instrument to which the Corporation is now a party or by which the Corporation is bound, or constitutes a default under any of the foregoing.

(C) To the knowledge of the Corporation, there is no litigation or proceeding pending or threatened against the Corporation or any other person affecting the right of the Corporation to execute or deliver this Loan Agreement or to comply with its obligations under this Loan Agreement. Neither the execution and delivery of this Loan Agreement by the Corporation, nor compliance by the Corporation with its obligations under this Loan Agreement, require the approval of any regulatory body, or any other entity, which approval has not been obtained.

(D) The authorization, execution and delivery of this Loan Agreement and all actions of the Corporation with respect thereto, are in compliance with the Act and any regulations issued thereunder.

Section 2.2. Representations and Warranties of Governmental Agency. The Governmental Agency hereby represents and warrants for the benefit of the Corporation as follows:

(A) The Governmental Agency is a duly organized and validly existing Governmental Agency, as described in the Act, with full power to own its properties, conduct its affairs, enter into this Loan Agreement and consummate the transactions contemplated hereby.

(B) The negotiation, execution and delivery of this Loan Agreement and the consummation of the transactions contemplated hereby have all been duly authorized by requisite action of the governing body of the Governmental Agency.

(C) This Loan Agreement and the Loan Note has been duly executed and delivered by the Governmental Agency and are valid and binding obligations of the Governmental Agency enforceable in accordance with their terms, except to the extent that the enforceability thereof may

be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies generally.

(D) There is no controversy or litigation of any nature pending or threatened, in any court or before any board, tribunal or administrative body, to challenge in any manner the authority of the Governmental Agency or its governing body to make payments under this Loan Agreement or to construct the Project, or to challenge in any manner the authority of the Governmental Agency or its governing body to take any of the actions which have been taken in the authorization or delivery of this Loan Agreement or the construction of the Project, or in any way contesting or affecting the validity of this Loan Agreement, or in any way questioning any proceedings taken with respect to the authorization or delivery by the Governmental Agency of this Loan Agreement, or the application of the proceeds thereof or the pledge or application of any monies or security provided therefor, or in any way questioning the due existence or powers of the Governmental Agency, or otherwise wherein an unfavorable decision would have an adverse impact on the transactions authorized in connection with this Loan Agreement.

(E) The authorization and delivery of this Loan Agreement and the consummation of the transactions contemplated hereby will not constitute an event of default or violation or breach, nor an event which, with the giving of notice or the passage of time or both, would constitute an event of default or violation or breach, under any contract, agreement, instrument, indenture, lease, judicial or administrative order, decree, rule or regulation or other document or law affecting the Governmental Agency or its governing body.

(F) Attached hereto as Exhibit D is a true, accurate and complete copy of the resolution or ordinance of the governing body of the Governmental Agency approving and authorizing the execution and delivery of this Loan Agreement. Such resolution or ordinance was duly enacted or adopted at a meeting of the governing body of the Governmental Agency at which a quorum was present and acting throughout; such resolution or ordinance is in full force and effect and has not been superseded, altered, amended or repealed as of the date hereof; and such meeting was duly called and held in accordance with law.

(G) All actions taken by the Governmental Agency in connection with this Loan Agreement, the Loan Note and the Loan described herein and the Project have been in full compliance with the provisions of the Kentucky Open Meeting Law, KRS 61.805 to 61.850.

(H) The Governmental Agency has all licenses, permits and other governmental approvals (including, but not limited to, all required approvals of the Kentucky Public Service Commission) required to own, occupy, operate and maintain the Project, and to enter into this Loan Agreement, is not in violation of and has not received any notice of an alleged violation of any zoning or land use laws applicable to the Project, and has full right, power and authority to perform the acts and things as provided for in this Loan Agreement.

(I) Legal counsel to the Governmental Agency has duly executed and delivered the opinion of legal counsel substantially in the form set forth in Exhibit E hereto.

Section 2.3. Representations and Warranties of the Governmental Agency Concerning the Commitment Letter. The Governmental Agency additionally represents and warrants that the Governmental Agency has (i) received all approvals of RD required in connection with the Construction of the Project, (ii) received a commitment for Permanent Financing of its Project with presently obligated funds on or before the Maturity Date and (iii) if the Permanent Financing is to be provided by RD, sold its obligations representing the Permanent Financing to RD, as evidenced by an opinion of bond counsel.

Section 2.4. Representations Concerning the Permanent Financing . The Governmental Agency acknowledges and agrees that the Corporation has relied upon the establishment of the Permanent Financing by the Governmental Agency and RD, and that the Corporation and its officers, agents and employees have made an independent investigation thereof or otherwise attempted to verify the circumstances regarding the Permanent Financing. The Governmental Agency further represents to the Corporation that such Permanent Financing has been established by the Governmental Agency and RD with all due regard for the character and nature of the Project, including the potential impact of foreseeable occurrences that reasonably might be expected to delay the scheduled completion of the Project.

Section 2.5. Representations, Warranties and Covenants Concerning RD . If the Permanent Financing is to be provided by RD, the Governmental Agency further represents, warrants and covenants, as follows:

(A) The Governmental Agency is not in breach of or in default under any of the provisions of the loan documents or any instruments, proceedings or other documentation authorizing the issuance of or securing the payment of the Permanent Financing.

(B) The execution and delivery of the RD loan documents and the compliance with the provisions thereof, do not and will not in any material respect conflict with or constitute on the part of the Governmental Agency a breach of or default under any contract, agreement, instrument, indenture or proceedings or any law, regulation, court order or consent decree to which the Governmental Agency is now subject.

(C) The RD loan documents have been duly authorized, executed and delivered by the Governmental Agency and are valid and binding obligations of the Governmental Agency.

(D) The Permanent Financing has been duly authorized and sold to RD pursuant to law and shall constitute a valid and binding obligation of the Governmental Agency upon delivery to RD and the payment therefor in accordance with the terms of sale.

(E) There is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body known to be pending or threatened against the Governmental Agency in any way contesting or affecting any authority for the issuance of or the validity of the Permanent Financing or the RD loan documents or in any way adversely affecting the transactions contemplated thereby.

(F) The Governmental Agency will comply in all respects with the terms and provisions of the RD loan documents.

(G) The Governmental Agency will promptly remit, in accordance with the provisions of the RD loan documents, each disbursement from its Governmental Agency's Account to the person or persons to whom payment is then due and owing.

(H) The Governmental Agency will not unilaterally terminate, or enter into any agreement to terminate, any of the RD loan documents and will give to the Corporation and the Trustee prompt written notice, appropriately documented, of any amendment to or modification of any of the RD loan documents.

ARTICLE III

CORPORATION'S AGREEMENT TO MAKE LOAN; TERMS

Section 3.1. Determination of Eligibility . Pursuant to the terms of the Act and the Indenture, the Corporation has determined that the Governmental Agency's Project is a project under the Act and the Governmental Agency is entitled to financial assistance from the Corporation in connection with financing the Construction of the Project.

Section 3.2. Principal Amount Of Loan Established; Prepayment Premium; Loan Payments; Disbursement of Funds. The principal amount of the Loan shall be \$1,614,000 (the "Loan Amount"). Principal shall be paid in full on or before September 1, 2006 (the "Maturity Date"). Principal of the Loan may be prepaid at any time prior to maturity, provided, however, that a prepayment premium not to exceed 0.175% of the original face amount of the Loan may be assessed by the Corporation if such Loan is prepaid prior to the next succeeding Interest Rate Conversion Date following the date of this Loan Agreement. The aforesaid prepayment premium is subject to change on any Interest Rate Conversion Date.

The Loan shall bear interest from the date of this Loan Agreement at the Interest Rate and shall accrue on the outstanding principal amount of the Loan. The principal of and interest on the Loan shall be payable on the Loan Payment Date. The Loan shall be evidenced by the execution by the Governmental Agency of the Loan Note and delivery and assignment thereof to the Trustee.

By no later than 4:00 p.m., New York, New York time on or before the 14th calendar next preceding an Interest Rate Conversion Date (or if such day is not a Business Day, on the immediately succeeding Business Day), the Remarketing Agent shall determine the Adjusted Interest Rate to be in effect to the next succeeding Interest Rate Conversion Date and shall give Immediate Notice to the Governmental Agency, the Trustee and the Issuer of the Adjusted Interest Rate.

The proceeds of the Loan shall be deposited in a Governmental Agency's Account established for the Governmental Agency. The Corporation shall disburse amounts from such Governmental Agency's Account as Construction of the Project progresses upon the submission by the Governmental Agency of a Requisition for Funds in substantially the same form as Exhibit B hereto.

Payment of principal of the Loan shall be made at the principal corporate trust office of the Trustee on the Loan Payment Date, which date shall not be after the Maturity Date. In addition to the payment of principal of and interest on the Loan, the Governmental Agency shall pay to the Corporation all of the expenses and fees, including any share of investment earnings required to be rebated to the United States of America pursuant to the Code, arising from the making of the Loan by the Corporation to the Governmental Agency. The Governmental Agency shall receive a credit against its payment of principal hereunder in an amount equal to (i) amounts remaining in its Governmental Agency's Account on the date the Loan is paid in full and (ii) Investment Earnings.

Section 3.3. Rebate to Governmental Agency. Within ninety (90) days following the payment in full of the Notes of the Corporation issued under the Indenture, the Corporation shall rebate or cause to be rebated to the Governmental Agency a portion of the monies remaining in the accounts held by the Trustee under the Indenture after repayment of or provision for repayment of all necessary fees, costs and expenses of the Trustee and the Administrative Costs of the Program (the "Rebate Amount"), on the following basis:

- (A) All interest paid on the Loans provided that if the remaining Rebate Amount is not sufficient to rebate all interest paid on all Loans, the rebate will be equal to the remaining Rebate Amount multiplied by a ratio whose numerator is the Governmental Agency's Loan amount and whose denominator is the total Loan amounts on all Governmental Agency's Accounts.

Section 3.4. Covenant Regarding Permanent Financing. The Governmental Agency does hereby separately covenant that if for any reason RD fails to provide the Permanent Financing by accepting delivery thereof on or before the Maturity Date, the Governmental Agency shall continue to pay interest on the Loan at the rate set forth in Section 3.2 from amounts in its Governmental Agency's Account or its own funds, as determined by the Corporation, and if RD has not purchased the Permanent Financing by September 1, 2006 retire the Loan on such date. Such retirement shall be effected from the proceeds of other temporary or Permanent Financing or other borrowing of whatever nature or from any other legally available funds of the Governmental Agency.

The Governmental Agency will give to the Corporation and the Trustee prompt written notice, appropriately documented, of any modification, suspension, termination, annulment or other change in status of the RD commitment for Permanent Financing. In such event the Corporation shall provide express written instructions to the Trustee specifically detailing to the Trustee the manner in which the duties of the Trustee under the Indenture will change as a result of such modification, suspension, annulment or other change.

Section 3.5. Conversion to an RD Multiple Advance Loan. If the Remarketing Agent, pursuant to the terms of the Indenture, has not remarketed the Notes by 3:00 p.m. on the 15th calendar day preceding any Interest Rate Conversion Date (or if such day is not a Business Day, on the next succeeding Business Day) then the Remarketing Agent shall give Immediate Notice to the Issuer, the Trustee and RD of the principal amount of Notes which the Remarketing Agent was unable to successfully remarket (the "Unremarketed Notes").

On the 14th calendar day preceding any Interest Rate Conversion Date (or if such day is not a Business Day, on the next succeeding Business Day) the Trustee, the Issuer and RD shall determine if the Governmental Agency's Loan shall be assigned to RD on the next succeeding Interest Rate Conversion Date and that if such Loan is to be assigned to RD, the interest rate on the Loan shall be converted to the applicable RD multiple advance rate (the "RD Rate"). The Trustee shall notify the Governmental Agency that (i) the Trustee shall assign the Loan to RD on the Interest Rate Conversion Date, (ii) the interest rate on the Loan shall thereafter be fixed at the RD Rate, (iii) the

amount to be advance by RD to purchase the Loan and (iv) from the date of assignment of the Loan to RD, the terms of the Loan shall be subject to the terms and conditions of the RD multiple advance program.

ARTICLE IV

CONDITIONS PRECEDENT TO DISBURSEMENT; REQUISITION FOR FUNDS

Section 4.1. Covenants of Governmental Agency and Conditions of Loan . By the execution of this Loan Agreement, the Governmental Agency agrees that prior to any requests for the disbursement of all or a portion of the Loan made hereunder, the Governmental Agency shall supply the Corporation, if requested, appropriate documentation, satisfactory to the Corporation, in its sole discretion, indicating the following:

(A) That the Corporation and any appropriate regulatory agency of the Commonwealth as may be designated by the Corporation, and their respective duly authorized agents, shall have the right at all reasonable times, subject to prior notice to the Governmental Agency, to enter upon the Project and to examine and inspect same.

(B) All real estate and interest in real estate and all personal property constituting the Project and the Project sites heretofore or hereafter acquired shall at all times be and remain the property of the Governmental Agency and constitute a part of the System.

(C) In the event the Governmental Agency is required to provide financing for the Project from sources other than the Corporation (as described in the Application) the Corporation shall have the right to receive such reasonable proofs as it may require of the ability of the Governmental Agency to finance the costs of construction of the Project over and above the Loan, prior to the disbursement by the Corporation of any portion of the Loan.

(D) The Governmental Agency shall do all things necessary to acquire all proposed and necessary sites, easements and rights of way necessary or required in respect of the Project and demonstrate its ability to construct the Project in accordance with the plans, design and specifications prepared for the Governmental Agency by its Engineers.

(E) Actual construction and installation incident to the Project shall be performed by either the lump-sum (fixed price) or unit price contract method, and adequate legal methods of obtaining public, competitive bidding will be employed prior to the awarding of the construction contract for the Project in accordance with Kentucky law.

(F) Unless construction of the Project has already been initiated as of the date of this Loan Agreement, pursuant to due compliance with state law and applicable regulations, the Project will not be advertised or placed on the market for construction bidding by the Governmental Agency until the final plans, designs and specifications therefor have been approved by such state and federal agencies and authorities as may be legally required, and until written notification of such approvals has been received by the Governmental Agency and furnished to the Corporation.

(G) Duly authorized representatives of the Corporation and such other agencies of the Commonwealth as may be charged with responsibility will have reasonable access to the construction work whenever it is in preparation or progress, and the Governmental Agency will assure that the contractor or contractors will provide facilities for such access and inspection.

(H) The construction contract or contracts shall require the contractor to comply with all provisions of federal and state law legally applicable to such work, and any amendments or modifications thereto, together with all other applicable provisions of law, to cause appropriate provisions to be inserted in subcontracts to insure compliance therewith by all subcontractors subject thereto, and to be responsible for the submission of any statements required of subcontractors thereunder.

(I) A work progress schedule utilizing a method of standard acceptance in the engineering community shall be prepared prior to the institution of construction in connection with each construction contract, or, if construction has already been initiated as of the date of this Loan Agreement, at the earliest practicable date, to indicate the proposed schedule as to completion of the Project, and same shall be maintained monthly thereafter to indicate the actual construction progress of the Project.

(J) All construction contracts will be so prepared that federal participation costs, if any, and state participation costs may be readily segregated from local participation costs, if any, and from each other, and in such manner that all materials and equipment furnished to the Governmental Agency may be readily itemized.

(K) The construction, including the letting of contracts in connection therewith, will conform in all respects to applicable requirements of federal, state and local laws, ordinances, rules and regulations.

(L) The Governmental Agency will proceed expeditiously with and complete the Project in accordance with the approved surveys, plans specifications and designs or amendments thereto, prepared by the Engineers to the Governmental Agency and approved by state and federal agencies, but only to the extent such approvals may be required.

(M) If requested, the Governmental Agency will erect at the Project sites, signs satisfactory to the Corporation noting the participation of the Corporation in the financing of the Project.

(N) Except as otherwise provided in this Loan Agreement, the Governmental Agency shall have the sole and exclusive charge of all details of the Construction.

(O) The Governmental Agency shall keep complete and accurate records of the costs of acquiring the Project sites and the costs of Construction. The Governmental Agency shall permit the Corporation, acting by and through its duly authorized representatives, and the duly authorized representatives of state and/or federal agencies to inspect all books, documents, papers and records

relating to the Project at any and all reasonable times for the purpose of audit and examination, and the Governmental Agency shall submit to the Corporation such documents and information as such public bodies may reasonably require in connection with the administration of any federal or state grants.

(P) The Governmental Agency shall require that any bid for any portion of the Construction of the Project be accompanied by a bid bond, certified check or other negotiable instrument payable to the Governmental Agency, as assurance that the bidder will, upon acceptance of such bid, execute the necessary contractual documents within the required time.

(Q) The Governmental Agency shall require that each construction contractor or contractors furnish a performance and payment bond in an amount at least equal to one hundred percent (100%) of the contract price or the portion of the project covered by the particular contract as security for the faithful performance of such contract.

(R) The Governmental Agency shall require that each of its contractors and all subcontractors maintain during the life of the construction contract, worker's compensation insurance, public liability insurance, property damage insurance and vehicle liability insurance in amounts and on terms satisfactory to the Corporation. Until the Project facilities are completed and accepted by the Governmental Agency, the contractor, shall maintain builders risk insurance (fire and extended coverage) on a one hundred percent (100%) basis (completed value form) on the insurable portion of the Project, such insurance to be made payable to the order of the Corporation, the Governmental Agency, the prime contractor, and all subcontractors, as their interests may appear.

(S) The Governmental Agency shall provide and maintain competent and adequate resident engineering services covering the supervision and inspection of the development and construction of the Project, and bearing the responsibility of assuring that Construction conforms to the approved plans, specifications and designs prepared by the Engineers. Such resident engineer shall certify to the Corporation, any involved state or federal agencies, and the Governmental Agency at the completion of construction that construction is in accordance with the approved plans, specifications and designs, or, approved amendments thereto.

Section 4.2. Disbursements of Loan; Requisition for Funds. The Governmental Agency shall submit to the Trustee a Loan Note and a Requisition for Funds during the first five days of each month (or such other designated period as is acceptable to the Trustee). The Loan Note shall be in substantially the same form as that attached to this Loan Agreement as Exhibit C and made a part hereof and the Requisition of Funds shall be in substantially the same form as that attached to this Loan Agreement as Exhibit B and made a part hereof.

Upon the Corporation's receipt of the Loan Note and the Requisition for Funds, and such additional documentation as it may require, the Corporation may direct the Trustee to remit the amount requested to the Governmental Agency as a draw upon the Loan.

ARTICLE V

ASSIGNMENT AND GENERAL COVENANTS OF THE GOVERNMENTAL AGENCY

Section 5.1. Pledge and Assignment. The Governmental Agency does hereby irrevocably assign and pledge to the Corporation and its successors or assigns, for the benefit of the owners of all Notes issued under the Indenture, all right, title and interest of the Governmental Agency in and to the proceeds of the Permanent Financing and all monies to be received from RD, as applicable, pursuant to RD's expressed intention to provide Permanent Financing for the Project. The Governmental Agency acknowledges and agrees that the Corporation pursuant to the Indenture has assigned and pledged to the Trustee for the benefit and security of the owners of the Notes all of its rights under the provisions of this Loan Agreement and the Loan Note. Accordingly, this Loan Agreement shall not be terminated, modified or changed by the Corporation or the Governmental Agency except with the consent of the Trustee in the manner and subject to the conditions permitted by the terms and provisions of the Indenture.

Section 5.2. Further Assurance At any time and all times the Governmental Agency shall, so far as it maybe authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, assets and revenues herein pledged or assigned, or intended so to be, or which the Governmental Agency may hereafter become bound to pledge or assign.

Section 5.3. Completion of Project . The Governmental Agency hereby covenants and agrees to proceed expeditiously with and promptly complete the Project in accordance with the plans, designs and specifications prepared by the Engineers for the Governmental Agency so that the Permanent Financing can be delivered on or prior to the Maturity Date.

Section 5.4. Tax Covenant. The Governmental Agency shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure such exclusion and shall take such actions as may be directed by the Corporation in order to accomplish the foregoing. The Governmental Agency shall not permit (i) the proceeds of the Loan to be used directly or indirectly in any trade or business, (ii) its payments hereunder to be secured directly or indirectly by property to be used in a trade or business, (iii) any management agreement for the operation of the System or (iv) any federal guarantee of its obligations hereunder without the prior written consent of the Corporation. The Governmental Agency will not acquire or pledge any obligations which would cause the Bonds to be "arbitrage bonds" within the meaning of the Code.

Section 5.5 Accounts and Reports. The Governmental Agency shall at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all its transactions relating to the Project, which shall at all reasonable times be subject to the inspection of the Corporation.

Section 5.6. General. The Governmental Agency shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Governmental Agency under the provisions of any agreements regarding the Permanent Financing and under any provisions of the Act and this Loan Agreement in accordance with the terms of such provisions.

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

Section 6.1. Events of Default Defined. The following will be "Events of Default" under this Loan Agreement and the term "Event of Default" or "Default" will mean, whenever it is used in this Loan Agreement, any one or more of the following events:

(A) Failure by the Governmental Agency to pay any Loan payments at the times specified herein including the principal and interest due on the Loan Note.

(B) Failure by the Governmental Agency to observe or perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in subsection (A) of this Section, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied will have been given to the Governmental Agency by the Corporation unless the Corporation agrees in writing to an extension of such time prior to its expiration provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Corporation will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Governmental Agency within the applicable period and diligently pursued until such failure is corrected.

(C) The dissolution or liquidation of the Governmental Agency, or the voluntary initiation by the Governmental Agency of any proceeding under any federal or state law relating to bankruptcy, insolvency, arrangement, reorganization, readjustment of debt or any other form of debtor relief, or the initiation against the Governmental Agency of any such proceeding which will remain undismissed for sixty (60) days, or the entry by the Governmental Agency into an agreement of composition with creditors or the failure generally by the Governmental Agency to pay its debts as they become due.

Section 6.2. Remedies on Default. Whenever any Event of Default referred to in Section 6.1 has occurred and is continuing, the Corporation may, without any further demand or notice, take one or any combination of the following remedial steps:

(A) Declare all payments due hereunder, as set forth in the Schedule of Payments to be immediately due and payable.

(B) Exercise all the rights and remedies of the Corporation set forth in the Act.

(C) Take whatever action at law or in equity appear necessary or desirable to enforce its rights under this Loan Agreement.

Section 6.3. Appointment of Receiver. Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of Judicial proceedings to enforce the rights of the Corporation under this Loan Agreement, the Corporation shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the System and all receipts therefrom, pending such proceedings, with such power as the court making such appointment shall confer; provided, however, that the Corporation may, with or without action under this Section, pursue any available remedy to enforce the payment obligations hereunder, or to remedy any Event of Default.

Section 6.4. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Corporation 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 6.5. Consent to Powers of Corporation Under Act and this Loan Agreement. The Governmental Agency hereby acknowledges to the Corporation its understanding of the provisions of the Act and this Loan Agreement, vesting in the Corporation certain powers, rights and privileges in respect of the Project upon the occurrence of an Event of Default, and the Governmental Agency hereby covenants and agrees that if the Corporation should in the future have recourse to said rights and powers, the Governmental Agency shall take no action of any nature whatsoever calculated to inhibit, nullify, void, delay or render nugatory such actions of the Corporation in the due and prompt implementation of this Loan Agreement.

Section 6.6. 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 6.7. Agreement to Pay Attorneys' Fees and Expenses. In the event that either party hereto is in default under any of the provisions hereof and the nondefaulting 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 therefor to the nondefaulting party the fees of such attorneys and such other expenses so incurred by the nondefaulting party.

ARTICLE VII

MISCELLANEOUS PROVISIONS

Section 7.1. Approval not to be Unreasonably Withheld . Any approval of the Corporation required by this Loan Agreement shall not be unreasonably withheld and shall be deemed to have been given on the thirtieth (30th) day following the submission of any matter requiring approval to the Corporation, unless disapproved in writing prior to such thirtieth (30th) day. Any provision of this Loan Agreement requiring the approval of the Corporation or the satisfaction or the evidence of satisfaction of the Corporation shall be interpreted as requiring action by an authorized officer of the Corporation granting, authorizing or expressing such approval or satisfaction, as the case may be, unless such provision expressly provides otherwise.

Section 7.2. Effective Date This Loan Agreement shall become effective as of the date first set forth herein above and shall continue to full force and effect until the date the obligations of the Governmental Agency pursuant to the provisions of this Loan Agreement have been fully satisfied.

Section 7.3. Binding Effect This Loan Agreement shall be binding upon, and shall inure to the benefit of the parties hereto, and to any person, officer, board, department, agency, municipal corporation, or body politic and corporate succeeding by operation of law to the powers and duties of either of the parties hereto. This Loan Agreement shall not be revocable by either of the parties, nor assignable by either parties without the written consent of the other party.

Section 7.4. Severability. In the event that any provision of this Loan Agreement will be held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

Section 7.5. Execution in Counterparts . This Loan Agreement may be simultaneously executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

Section 7.6. Applicable Law. This Loan Agreement will be governed by and construed in accordance with the laws of the Commonwealth.

Section 7.7. Captions. The captions or headings herein are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Loan Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Loan Agreement to be executed by their respective duly authorized officers as of the day and year above written.

KENTUCKY RURAL WATER FINANCE
CORPORATION

By _____

Title _____

ALLEN COUNTY WATER DISTRICT
GOVERNMENTAL AGENCY

By John H Jones
Chairman

EXHIBIT A

**KENTUCKY RURAL WATER FINANCE CORPORATION
PUBLIC PROJECTS INTERIM CONSTRUCTION FINANCING**

APPLICATION FOR INTERIM FINANCING FOR RD LOANS

Governmental Entity:

Name: _____

Address: _____

Contact Person: _____

Telephone Number: _____ Fax Number: _____

Project Engineer:

Name: _____

Address: _____

Contact Person: _____

Telephone Number: _____ Fax Number: _____

RD District Loan Officer:

Name: _____

Address: _____

Telephone Number: _____ Fax Number: _____

Bond Counsel:

Name: _____

Address: _____

Contact Person: _____

Telephone Number: _____ Fax Number: _____

Brief Description of Project: _____

Date of RD Letter of Conditions: _____

Amount of Interim Financing Requested: _____

Estimated Date of Construction Commencement (RD Pre-Closing): _____

Estimated Date of Construction Completion: _____

Estimated Date of RD Final Closing: _____

Depository Bank for Construction Account:

Name: _____

Address: _____

Contact Person: _____

Telephone Number: _____ Fax Number: _____

Wire Instructions (if known): _____

Please return application and RD Letter of Conditions to:
Kentucky Rural Water Finance Corporation
3251 Spring Hollow Avenue
Bowling Green, Kentucky 42102-1424

EXHIBIT B

**REQUEST FOR PAYMENT WITH RESPECT TO
KENTUCKY RURAL WATER FINANCE CORPORATION
(PUBLIC PROJECTS CONSTRUCTION FINANCING PROGRAM)**

Request No. _____

Dated _____

To: The Bank of New York Trust Company, N.A.
525 Vine Street, Suite 900
Cincinnati, Ohio 45202
Fax Number: (513) 721-3240

From: _____ ("Governmental Agency")

Contact Person: _____

Address: _____

Ladies and Gentlemen:

The above identified Governmental Agency has entered into a Loan Agreement with the Kentucky Rural Water Finance Corporation (the "Corporation") for the acquisition and construction of facilities described in the Loan Agreement as the "Project."

Pursuant to the Loan Agreement, we hereby certify that we have incurred the following expenses in connection with the Project and that the Corporation'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,

Governmental Agency

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 _____

APPROVED:

Rural Development

By _____

Title _____

EXHIBIT C

**UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY**

REVENUE BOND ANTICIPATION NOTE

Dated: _____ \$ _____

For value received, the _____ (the "Issuer"), acting by and through its _____ (the "Governing Body"), hereby acknowledges itself indebted to and promises to pay to the order of:

KENTUCKY RURAL WATER FINANCE CORPORATION

the principal sum of

_____ (\$ _____)

on or before September 1, 2005, with interest thereon payable on the date of maturity (or prior prepayment) from the date hereof at the Interest Rate (hereinafter defined).

This Note represents the authorized aggregate principal amount of \$ _____, authorized to be issued by the Issuer for the purpose of obtaining funds to finance on an interim basis the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing _____ system (the "System") of the Issuer, pending the issuance and delivery of \$ _____ of _____ Revenue Bonds, (the "Bonds"), authorized by the Bond _____ of the Governing Body of the Issuer, adopted on _____, _____ (the "Bond Legislation"), the proceeds of which Bonds will be supplemented by (a) certain federal grants (the "Grants") as set forth and accepted in the Bond Legislation and (b) certain connection charges. The United States of America, acting through Rural Development (the "RD"), has agreed to purchase said Bonds.

For the purpose of this Note, the terms set forth below shall be defined as follows:

"Adjusted Interest Rate" shall mean the interest rate per annum, adjusted from time to time on each Interest Rate Conversion Date, determined and calculated by the Remarketing Agent, that is necessary to cover the interest costs on the Notes and the administrative fees, expenses and costs of the Program, including but not limited to the costs incurred in issuing the Loan and the Notes issued to fund the Loan; provided however that the Adjusted Interest Rate shall not exceed 6.00% per annum.

"Business Day" means any day other than a Saturday, a Sunday, a day on which banking institutions in the State of Kentucky or the State of New York are required to be made or the

principal corporate trust office of the Trustee is located are closed as authorized or obligated by law or administrative order or a day on which the New York Stock Exchange is closed.

"Interest Rate" shall mean _____% per annum accruing from the date of this Loan Agreement to the next succeeding Interest Rate Conversion Date and thereafter from the Interest Rate Conversion Date to the earlier of the next succeeding Interest Rate Conversion Date or the Maturity Date at the Adjusted Interest Rate.

"Interest Rate Conversion Date" shall mean the first Business Day of each April and October beginning on the first Interest Rate Conversion Date succeeding the date of this Loan Agreement.

"Remarketing Agent" shall mean Morgan Keegan & Co., Inc.

This Note is a special obligation of the Issuer, payable solely from the proceeds of the sale of the Bonds, the proceeds of said Grants, and, from the income and revenues to be derived from the operation of said System, which Bond proceeds, Grants and revenues are hereby irrevocably pledged to the payment of this Note, as authorized by said Bond Legislation.

This Note is issued pursuant to Chapters 58 and _____ of the Kentucky Revised Statutes (the "Act") and in anticipation of the issuance of the aforesaid Bonds and the receipt of the aforesaid Grants and revenues, and neither this Note, nor the interest hereon, constitutes or evidences an indebtedness of the Issuer.

It is hereby certified that the proceeds of this Note will be disbursed in accordance with the Bond Legislation, authorizing the issuance of Bond Anticipation Notes, and that the proceeds of this Note will be subject to all of the conditions of said Bond Legislation.

It is further certified that the undersigned is the _____ of said Issuer, that he is duly authorized to execute this Note on behalf of said Issuer, and that this Note represents a liability of said Issuer only, payable out of the first proceeds of said sources, herein above mentioned, and that the undersigned, by executing this Note, does not become personally and/or individually liable hereon as his personal or individual debt.

IN WITNESS WHEREOF, said _____, in the Commonwealth of Kentucky, by its Governing Body, has caused this Note to be executed by the _____ of said Issuer and its Corporate Seal to be hereunto affixed, on the date of this Note, which is _____, 20____.

By _____

Title _____

(Seal of Issuer)

EXHIBIT D

RESOLUTION _____

RESOLUTION OF THE _____ APPROVING AND
AUTHORIZING A LOAN AGREEMENT WITH THE KENTUCKY RURAL
WATER FINANCE CORPORATION

WHEREAS, the _____ ("Governing Authority") of
_____, ("Governmental Agency") has previously determined that it is in the public
interest to acquire and construct certain facilities and improvements to the Governmental Agency's
_____ System (the "Project"); and

WHEREAS, the Governmental Agency desires the Kentucky Rural Water Finance
Corporation (the "Corporation") to act as its agency and instrumentality for the purpose of providing
monies to construct the Project and has made an application to the Corporation therefore; and

WHEREAS, in order to obtain such monies, the Governmental Agency is required to enter
into a Loan Agreement with the Corporation;

NOW, THEREFORE, BE IT RESOLVED by the Governing Authority of
_____, as follows:

SECTION 1. That the Governing Authority hereby requests to the Corporation to act as its
agency and instrumentality in obtaining interim financing and hereby approves and authorizes the
Loan Agreement between the Governmental Agency and the Corporation substantially in the form
on file with the Governmental Agency for the purpose of providing the necessary financing to the
Governmental Agency for the Project and the Loan Note from the Governmental Agency to the
Corporation in the amount not to exceed \$_____.

SECTION 2. That any officer of the Governmental Agency be and hereby is authorized,
directed and empowered to execute necessary documents or agreements, and to otherwise act on
behalf of the Governmental Agency to effect such financing.

SECTION 3. That this resolution shall take effect at the earliest time provided by law.

Adopted on _____.

By _____

Title _____

Attest:

By _____

Title _____

CERTIFICATE

I, the undersigned, hereby certify that I am the duly qualified and acting _____ of _____; that the foregoing is a full, true and correct copy of a Resolution adopted by the Governing Authority of _____ at a meeting duly held on _____, 20__; 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 ____ day of _____, 20__.

Title _____

EXHIBIT E

OPINION OF COUNSEL

[Letterhead of Counsel to Governmental Agency]

Kentucky Rural Water Finance Corporation
Bowling Green, Kentucky

The Bank of New York Trust Company
Cincinnati, Ohio

Loan Agreement by and between Kentucky Rural Water Finance Corporation
and _____ dated as of _____

Ladies and Gentlemen:

The undersigned is an attorney at law duly admitted to the practice of law in the Commonwealth of Kentucky and is legal counsel to _____ (the "Governmental Agency"). I am familiar with the organization and existence of the Governmental Agency and the laws of the Commonwealth applicable thereto. Additionally I am familiar with the project (the "Project") with respect to which the Loan Agreement (the "Loan Agreement") by and between the Kentucky Rural Water Finance Corporation ("Corporation") and the Governmental Agency is being authorized, executed and delivered and the Loan Notes (the "Loan Note") from the Governmental Agency to the Corporation is being authorized, and which may be executed and delivered.

I have reviewed the form of Loan Agreement, the Loan Note, the resolution or ordinance of the Governmental Agency authorizing the execution and delivery of said Loan Agreement and Loan Note and the plans, designs and specifications prepared by the Engineers for the Governmental Agency with respect to the Project.

Based upon my review I am of the opinion that:

(1) The Governmental Agency is a duly organized and existing political subdivision or body politic of the Commonwealth of Kentucky validly existing under the Constitution and statutes of the Commonwealth of Kentucky.

(2) The Loan Agreement and the Loan Note have been duly executed and delivered by the Governmental Agency and is a valid and binding obligation of the Governmental Agency enforceable in accordance with their terms, except to the extent that the enforceability thereof may be limited by equitable principles and by bankruptcy, reorganization, moratorium, insolvency or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors rights or remedies generally.

(3) The Governmental Agency has all necessary power and authority to enter into, perform and consummate all transactions contemplated by the Loan Agreement and the Loan Note, and to execute and deliver the documents and instruments to be executed and delivered by it in connection with the construction of the Project.

(4) The execution and delivery of the Loan Agreement and the Loan Note and the performance by the Governmental Agency of their obligations thereunder does not and will not conflict with, violate or constitute a default under any court or administrative order, decree or ruling, or any law, statute, ordinance or regulation, or any agreement, indenture, mortgage, lease, note or other obligation or instrument, binding upon the Governmental Agency, or any of its properties or assets. The Governmental Agency has obtained each and every authorization, consent, permit, approval or license of, or filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality, or any specifically granted exemption from any of the foregoing, that is necessary to the valid execution, delivery or performance by the Governmental Agency of the Loan Agreement and the Loan Note.

(5) To the best of my knowledge after due inquiry there is no action, suit, proceedings or investigation at law or in equity before any court, public board or body pending or threatened against, affecting or questioning (i) the valid existence of the Governmental Agency, (ii) the right or title of the members and officers of the Governmental Agency to their respective positions, (iii) the authorization, execution, delivery or enforceability of the Loan Agreement, the Loan Note or the application of any monies or security therefor, (iv) the construction of the Project, or (v) that would have a material adverse impact on the ability of the Governmental Agency to perform its obligations under the Loan Agreement or the Loan Note.

(6) None of the proceedings taken by the Governmental Agency for the authorization, execution or delivery of the Loan Agreement or the Loan Note has or have been repealed, rescinded, or revoked.

(7) All proceedings and actions of the Governmental Agency with respect to which the Loan Agreement or the Loan Note is to be delivered were had or taken at meetings properly convened and held in substantial compliance with the applicable provisions of Sections 61.805 to 61.850 of the Kentucky Revised Statutes.

Very truly yours,

EXHIBIT F

OPINION OF BOND COUNSEL

[Letterhead of Bond Counsel to Governmental Agency]

[Date]

Loan Agreement by and between Kentucky Rural Water Finance Corporation
and _____ dated as of _____

We hereby certify that we have reviewed and are familiar with the proceedings of _____ (the "Governing Authority") of the _____ (the "Governmental Agency"), in connection with the authorization, execution and delivery of a Loan Agreement between the Kentucky Rural Water Finance Corporation, (the "Corporation") and the Governmental Agency, dated _____, 20____ (the "Loan Agreement") and the form of the Loan Notes from the Governmental Agency to the Corporation (the "Loan Note") evidencing the loan in the amount not to exceed \$ _____ being issued by the Corporation to the Governmental Agency pursuant to the Loan Agreement and the Loan Note to provide interim financing (the "Loan") for the construction of a project (the "Project") consisting of improvements to the _____ system of the Governmental Agency (the "System"); and the proposed issuance of bonds by the Governmental Agency in the amount of \$ _____, to be dated the date of the issuance thereof (the "Bonds") to repay the Loan and provide permanent financing for the Project.

Our examination of such proceedings included (a) the proceedings of the Governing Authority held on _____, 20____, adopting a resolution authorizing the Loan Agreement (the "Resolution") (b) the proceedings of the Governing Authority held on _____, 20____, adopting legislation authorizing the Bonds (the "Bond Legislation"); and (c) the proceedings of the Governing Authority held on _____, 20____, accepting the successful bid of the United States Department of Agriculture, Rural Development (the "RD") for the purchase of the Bond.

Based upon our examination of the aforesaid proceedings, we are of the opinion that the Governmental Agency has a valid contract with the RD, in which the Governmental Agency has agreed to sell and RD has agreed to purchase Bonds at par, and that the Bonds, when issued in accordance with the aforesaid proceedings, will be valid and legally binding upon the Governmental Agency and will be secured by and payable from a pledge of the gross revenues of the System.

Based upon our review of such proceedings and applicable laws, it is our opinion that the Loan Agreement has been validly authorized, executed and delivered by and on behalf of the Governmental Agency.

The rights and remedies of the Corporation under the Loan Agreement may be limited by any applicable bankruptcy, insolvency, reorganization, or similar laws, or judicial decisions affecting the

rights of creditors generally, and by the application of equitable principles where equitable remedies are sought.

This opinion letter is issued to, and solely for the benefit and reliance of, the Corporation and may not be relied upon by any persons other than the Corporation.

Respectfully Submitted,

EXHIBIT G

RD COMMITMENT LETTER