

Rubin & Hays

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CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

October 22, 2012

RECEIVED

OCT 23 2012

**PUBLIC SERVICE
COMMISSION**

Mr. Jeff Derouen, Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

Re: Butler County Water System, Inc. PSC Application

Dear Mr. Derouen:


Enclosed please find the original and ten (10) copies of the Application of the Butler County Water System, Inc. for an Order authorizing the Association to issue securities pursuant to KRS 278.300.

This Application requests approval of the issuance of securities for the purpose of refunding certain high interest debt of the Applicant.

Thank you for your assistance and if you need any additional information or documentation, please let us know.

Sincerely,

Rubin & Hays

By 
W. Randall Jones

WRJ:jlm
Enclosures

cc: Mr. Jeff Peeples, BCWS
Ms. Kristen Millard, Morgan Keegan

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED

OCT 23 2012

PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE APPLICATION OF THE BUTLER)
COUNTY WATER SYSTEM, INC., TO)
ISSUE SECURITIES IN THE APPROX-)
MATE PRINCIPAL AMOUNT OF \$3,085,000)
FOR THE PURPOSE OF REFUNDING CERTAIN)
OUTSTANDING INDEBTEDNESS OF THE) Case No. 2012 - _____
ASSOCIATION PURSUANT TO THE PROVISIONS)
OF KRS 278.300 AND 807 KAR 5:001)

** *** **** ***** **** ** **

APPLICATION

The Applicant, Butler County Water System, Inc. (the "Association"), files this Application pursuant to KRS 278.300, 807 KAR 5:001, and all other applicable laws and regulations, and requests that the Kentucky Public Service Commission (the "Commission") enter an Order authorizing the Association to issue certain securities in the approximate principal sum \$3,085,000 (subject to adjustment of up to 10%), for the purpose of refunding certain outstanding indebtedness of the Association. In support of this Application, and in compliance with the rules and regulations of the Commission, the Association states as follows:

1. The Association is a non-profit water association of Butler County, created and existing under the provisions of Chapter 273 of the Kentucky Revised Statutes. The Association's Articles of Incorporation are on file with the Commission in Case No. 2003-00486. The Association is now, and has been since its inception, regulated by the Commission, and all records and

proceedings of the Commission with reference to the Association are incorporated in this Application by reference.

2. The governing body of the Association is its Board of Directors, with power to make contracts in furtherance of its lawful and proper purpose as provided for in KRS Chapter 273 and all applicable law and regulations.

3. The mailing address of the Association is as follows:

Butler County Water System, Inc.
c/o Mr. Weymouth Martin, Vice President
P.O. Box 10180
Bowling Green, Kentucky 42102
Telephone: (270) 842-0052

4. A general description of the Association's water system property, together with a statement of the original cost, is contained in the Association's Annual Report for 2011 which is on file with the Commission. The Annual Report is incorporated herein by reference.

5. The Association proposes to borrow funds from the Kentucky Rural Water Finance Corporation ("KRWFC") pursuant to an Assistance Agreement in the estimated principal amount of \$3,085,000 (subject to adjustment of up to 10%) (the "KRWFC Loan"), for the purpose of refunding the outstanding indebtedness of the Association designated as (i) Butler County Water System, Inc. Promissory Note, dated June 27, 1977, in the original principal amount of \$357,000, bearing interest at the rate of 5.00% per annum (the "1977A Note"), currently held by the U.S. Department of Agriculture, acting through Rural Development ("RD"); (ii) Butler County Water System, Inc. Promissory Note, dated August 18, 1987, in the original principal amount of \$369,000, bearing interest at the rate of 5.00% per annum (the "1987 Note"), currently held by RD; (iii) Butler County Water System, Inc. Promissory Note, dated April 21, 1989, in the original principal amount

of \$940,000, bearing interest at the rate of 5.00% per annum (the "1989 Note"), currently held by RD; (iv) Butler County Water System, Inc. Promissory Note, dated February 19, 1992, in the original principal amount of \$752,000, bearing interest at the rate of 5.00% per annum (the "1992 Note"), currently held by RD; and (v) Butler County Water System, Inc. Promissory Note, dated February 10, 1994, in the original principal amount of \$1,998,000, bearing interest at the rate of 5.00% per annum (the "1994 Note"), currently held by RD (hereinafter, the 1977A Note, the 1987 Note, the 1989 Note, the 1992 Note and the 1994 Note shall be collectively referred to as the "Prior Loans").

6. The estimated debt service for the KRWFC Loan is shown in **Exhibit A**, which is attached hereto and incorporated herein by reference. The debt service schedule and estimated interest rate are subject to change because of market conditions. The final terms and details of the KRWFC Loan may vary from the present assumptions based upon market conditions and other business judgment factors.

7. The KRWFC Loan will provide the Association with the funds necessary to (i) refund the Prior Loans; and (iii) pay the costs, fees and expenses incident to the issuance of the KRWFC Loan.

8. The Sources and Uses of Funds to be obtained from the issuance of the KRWFC Loan are detailed as **Exhibit B**, which is attached hereto and incorporated herein by reference.

9. It is anticipated that the proposed refinancing will generate a net combined present value benefit of approximately \$115,505.16. These savings are shown on the Debt Service Comparison, which is attached hereto and incorporated herein by reference as **Exhibit C**.

10. The final principal amount of the KRWFC Loan may be adjusted, based upon the final interest rate as of closing of the proposed KRWFC Loan. Final financial figures will be submitted to the Commission in a timely manner. The Association will not issue the securities if interest rates in the financial markets shift to a point where the Association will not achieve any savings.

11. The Total Refunded Debt Schedule of the outstanding Prior Loans being refunded is set forth in **Exhibit D**.

12. The Association represents that the KRWFC Loan is in the public interest and is intended to accomplish the purpose of strengthening the financial condition of the Association by producing substantial debt service savings. This is a lawful object within the corporate purposes of the Association's utility operations. The KRWFC Loan is necessary, appropriate for, and consistent with the proper performance by the Association of its service to the public and will not impair its ability to perform that service.

13. The Association represents that it will, as soon as reasonably possible after the closing of the KRWFC Loan, file with the Commission a statement setting forth the date of issuance of the KRWFC Loan, the price paid, the costs and expenses incurred in the issuance of the KRWFC Loan, and the final terms and interest rates of the KRWFC Loan.

14. The detailed Statement of Revenue and Expenses, Balance Sheet and Statement of Cash Flows for the twelve month period ending on December 31, 2011 are attached hereto and incorporated herein by reference as **Exhibit E** respectively.

15. The remaining financial schedules and other information necessary for the Financial Exhibit required by 807 KAR 5:001, Section 6 and Section 11 (2) (a) are contained in the 2011

Annual Report which is on file with the Commission. The Annual Report is incorporated herein by reference.

16. Pursuant to 807 KAR 5:001, the Association hereby responds as follows:

- (a) Section 6(4) Mortgages: The Association's mortgages are attached hereto as **Exhibit F**.
- (b) Section 6(5) Bonds: The KRWFC Loan will be secured by a pledge of the revenues of the Association's System.
- (c) Section 11(2)(b): The Association does not have any trust deeds in effect as of the date hereof.
- (d) Section 11(2)(c): No property is being acquired as the proceeds of the securities are being used for the refunding of the Prior Loans.

17. The Association hereby requests and moves for a deviation, pursuant to 807 KAR 5:001, Section 14, from the requirements of 807 KAR 5:001, Section 6, which requires that the financial data filed with the Application be for a twelve (12) month period ending within ninety (90) days of the filing of the application. The Association states that there has been no change that is material in nature in the financial condition or operation of the Association since December 31, 2011. The financial data filed with this Application is for the twelve (12) month period ending December 31, 2011. This is the most recent published financial data available. Because of the volatility of the financial markets, the Association cannot run the risk of delaying the closing of the KRWFC Loan while more current financial data is compiled.

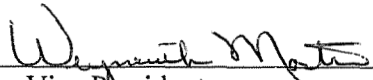
18. No rate adjustment will be necessary.

WHEREFORE, the Association respectfully requests that the Commission take the following actions:

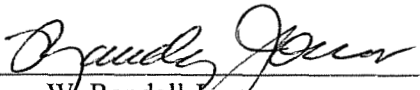
1. Authorize the issuance of the securities requested in the Application;
2. Grant the Association a deviation, to the extent necessary, from 807 KAR 5:001, Section 6 to allow the submission of the Association's 2011 Annual Report and 2011 audit in lieu of more recent financial data, there being no material change in the data in 2012 and due to the volatility of the present financial markets; and
3. Process this Application without a formal hearing in order to save time and expense.

The Association will promptly respond to any information requests by the Commission's staff.

Butler County Water System, Inc.

By 
Vice President
P.O. Box 10180
Bowling Green, Kentucky 42102
Phone: (270) 842-0052

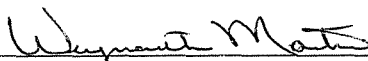
Rubin & Hays

By 
W. Randall Jones
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202
Phone: (502) 569-7525
Fax: (502) 569-7555
Counsel for Butler County System,
Inc.

STATE OF KENTUCKY)
) SS
COUNTY OF BUTLER)

The affiant, Weymouth Martin, being first duly sworn, states: That he is the Vice President of the Butler County Water System, Inc., the Applicant in this case; that he has read the foregoing Application and has noted the contents thereof; that the same are true of his own knowledge and belief, except as to matters which are herein stated to be based on information or belief, and that these matters, he believes to be true and correct.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on the 16th day of October, 2012.



Weymouth Martin, Vice President

SUBSCRIBED, SWORN TO AND ACKNOWLEDGED before me by Weymouth Martin, Vice President of the Butler County Water System, Inc., on this the 16th day of October, 2012.

My Commission expires: April 27, 2015.



NOTARY PUBLIC

Preliminary

\$3,085,000

butler Water Association

Potential Refunding through the Kentucky Rural Water Finance Corporation

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
11/01/2012	-	-	-	-	-
08/01/2013	80,000.00	0.780%	81,641.26	161,641.26	-
12/31/2013	-	-	-	-	161,641.26
02/01/2014	-	-	54,115.50	54,115.50	-
08/01/2014	140,000.00	0.970%	54,115.50	194,115.50	-
12/31/2014	-	-	-	-	248,231.00
02/01/2015	-	-	53,436.50	53,436.50	-
08/01/2015	140,000.00	1.260%	53,436.50	193,436.50	-
12/31/2015	-	-	-	-	246,873.00
02/01/2016	-	-	52,554.50	52,554.50	-
08/01/2016	145,000.00	1.810%	52,554.50	197,554.50	-
12/31/2016	-	-	-	-	250,109.00
02/01/2017	-	-	51,242.25	51,242.25	-
08/01/2017	150,000.00	2.110%	51,242.25	201,242.25	-
12/31/2017	-	-	-	-	252,484.50
02/01/2018	-	-	49,659.75	49,659.75	-
08/01/2018	135,000.00	2.460%	49,659.75	184,659.75	-
12/31/2018	-	-	-	-	234,319.50
02/01/2019	-	-	47,999.25	47,999.25	-
08/01/2019	135,000.00	2.710%	47,999.25	182,999.25	-
12/31/2019	-	-	-	-	230,998.50
02/01/2020	-	-	46,170.00	46,170.00	-
08/01/2020	135,000.00	3.600%	46,170.00	181,170.00	-
12/31/2020	-	-	-	-	227,340.00
02/01/2021	-	-	43,740.00	43,740.00	-
08/01/2021	140,000.00	3.450%	43,740.00	183,740.00	-
12/31/2021	-	-	-	-	227,480.00
02/01/2022	-	-	41,325.00	41,325.00	-
08/01/2022	145,000.00	3.650%	41,325.00	186,325.00	-
12/31/2022	-	-	-	-	227,650.00
02/01/2023	-	-	38,678.75	38,678.75	-
08/01/2023	150,000.00	3.850%	38,678.75	188,678.75	-
12/31/2023	-	-	-	-	227,357.50
02/01/2024	-	-	35,791.25	35,791.25	-
08/01/2024	160,000.00	4.050%	35,791.25	195,791.25	-
12/31/2024	-	-	-	-	231,582.50
02/01/2025	-	-	32,551.25	32,551.25	-
08/01/2025	165,000.00	4.200%	32,551.25	197,551.25	-
12/31/2025	-	-	-	-	230,102.50
02/01/2026	-	-	29,086.25	29,086.25	-
08/01/2026	170,000.00	4.300%	29,086.25	199,086.25	-
12/31/2026	-	-	-	-	228,172.50
02/01/2027	-	-	25,431.25	25,431.25	-
08/01/2027	180,000.00	4.400%	25,431.25	205,431.25	-
12/31/2027	-	-	-	-	230,862.50
02/01/2028	-	-	21,471.25	21,471.25	-
08/01/2028	165,000.00	4.500%	21,471.25	186,471.25	-
12/31/2028	-	-	-	-	207,942.50
02/01/2029	-	-	17,758.75	17,758.75	-
08/01/2029	160,000.00	4.590%	17,758.75	177,758.75	-
12/31/2029	-	-	-	-	195,517.50
02/01/2030	-	-	14,086.75	14,086.75	-
08/01/2030	125,000.00	4.640%	14,086.75	139,086.75	-
12/31/2030	-	-	-	-	153,173.50
02/01/2031	-	-	11,186.75	11,186.75	-
08/01/2031	135,000.00	4.690%	11,186.75	146,186.75	-
12/31/2031	-	-	-	-	157,373.50
02/01/2032	-	-	8,021.00	8,021.00	-
08/01/2032	130,000.00	4.740%	8,021.00	138,021.00	-
12/31/2032	-	-	-	-	146,042.00
02/01/2033	-	-	4,940.00	4,940.00	-
08/01/2033	105,000.00	4.940%	4,940.00	109,940.00	-
12/31/2033	-	-	-	-	114,880.00
02/01/2034	-	-	2,346.50	2,346.50	-
08/01/2034	95,000.00	4.940%	2,346.50	97,346.50	-
12/31/2034	-	-	-	-	99,693.00
Total	\$3,085,000.00	-	\$1,444,826.26	\$4,529,826.26	-

Yield Statistics

Bond Year Dollars	\$34,748.75
Average Life	11.264 Years
Average Coupon	4.1579230%
Net Interest Cost (NIC)	4.3132883%
True Interest Cost (TIC)	4.2870095%
Bond Yield for Arbitrage Purposes	4.0820529%
All Inclusive Cost (AIC)	4.4867365%

IRS Form 8038	
Net Interest Cost	4.1579230%
Weighted Average Maturity	11.264 Years
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Raymond James I Morgan Keegan

Preliminary

\$3,085,000

butler Water Association

Potential Refunding through the Kentucky Rural Water Finance Corporation

Total Issue Sources And Uses

Dated 11/01/2012 | Delivered 11/01/2012

	Refunding of Series 1977 A	Refunding of Series 1987	Refunding of Series 1989	Refunding of Series 1992	Refunding of Series 1994	Issue Summary
Sources Of Funds						
Par Amount of Bonds	\$95,000.00	\$230,000.00	\$630,000.00	\$555,000.00	\$1,575,000.00	\$3,085,000.00
Transfers from Prior Issue Debt Service Funds	7,055.76	3,646.45	27,621.93	29,463.60	78,281.37	146,069.11
Total Sources	\$102,055.76	\$233,646.45	\$657,621.93	\$584,463.60	\$1,653,281.37	\$3,231,069.11
Uses Of Funds						
Total Underwriter's Discount (1.750%)	1,662.50	4,025.00	11,025.00	9,712.50	27,562.50	53,987.50
Costs of Issuance	1,578.98	3,822.77	10,471.07	9,224.51	26,177.67	51,275.00
Deposit to Current Refunding Fund	94,689.15	228,305.53	635,680.62	566,774.28	1,597,193.89	3,122,643.47
Rounding Amount	4,125.13	(2,506.85)	445.24	(1,247.69)	2,347.31	3,163.14
Total Uses	\$102,055.76	\$233,646.45	\$657,621.93	\$584,463.60	\$1,653,281.37	\$3,231,069.11

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Public Finance

Raymond James I Morgan Keegan

Preliminary

\$3,085,000

butler Water Association

Potential Refunding through the Kentucky Rural Water Finance Corporation

Debt Service Comparison

Date	Total P+I	Net New D/S	Old Net D/S	Savings
12/31/2012	-	-	-	-
12/31/2013	161,641.26	161,641.26	259,907.30	98,266.04
12/31/2014	248,231.00	248,231.00	259,907.35	11,676.35
12/31/2015	246,873.00	246,873.00	259,909.05	13,036.05
12/31/2016	250,109.00	250,109.00	259,898.75	9,789.75
12/31/2017	252,484.50	252,484.50	259,908.80	7,424.30
12/31/2018	234,319.50	234,319.50	240,677.25	6,357.75
12/31/2019	230,998.50	230,998.50	238,741.45	7,742.95
12/31/2020	227,340.00	227,340.00	238,742.20	11,402.20
12/31/2021	227,480.00	227,480.00	238,741.60	11,261.60
12/31/2022	227,650.00	227,650.00	238,741.30	11,091.30
12/31/2023	227,357.50	227,357.50	238,741.10	11,383.60
12/31/2024	231,582.50	231,582.50	238,741.00	7,158.50
12/31/2025	230,102.50	230,102.50	238,741.15	8,638.65
12/31/2026	228,172.50	228,172.50	238,740.80	10,568.30
12/31/2027	230,862.50	230,862.50	236,490.30	5,627.80
12/31/2028	207,942.50	207,942.50	216,860.50	8,918.00
12/31/2029	195,517.50	195,517.50	208,870.30	13,352.80
12/31/2030	153,173.50	153,173.50	161,619.30	8,445.80
12/31/2031	157,373.50	157,373.50	161,618.35	4,244.85
12/31/2032	146,042.00	146,042.00	153,226.85	7,184.85
12/31/2033	114,880.00	114,880.00	117,422.95	2,542.95
12/31/2034	99,693.00	99,693.00	104,812.05	5,119.05
Total	\$4,529,826.26	\$4,529,826.26	\$4,811,059.70	\$281,233.44

PV Analysis Summary (Net to Net)

Net FV Cashflow Savings	281,233.44
Gross PV Debt Service Savings	258,411.13
Net PV Cashflow Savings @ 4.082%(Bond Yield)	258,411.13
Transfers from Prior Issue Debt Service Fund	(146,069.11)
Contingency or Rounding Amount	3,163.14
Net Future Value Benefit	\$138,327.47
Net Present Value Benefit	\$115,505.16
Net PV Benefit / \$3,027,366 Refunded Principal	3.815%
Net PV Benefit / \$3,085,000 Refunding Principal	3.744%

Refunding Bond Information

Refunding Dated Date	11/01/2012
Refunding Delivery Date	11/01/2012

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Raymond James I Morgan Keegan

Public Finance

Preliminary

\$357,000

Butler County Water Association
Series 1977 A

Total Refunded Debt Service

Date	Principal	Coupon	Interest	Total P+I
12/31/2013	16,513.00	5.000%	4,654.30	21,167.30
12/31/2014	17,338.00	5.000%	3,828.65	21,166.65
12/31/2015	18,205.00	5.000%	2,961.75	21,166.75
12/31/2016	19,115.00	5.000%	2,051.50	21,166.50
12/31/2017	20,071.00	5.000%	1,095.75	21,166.75
12/31/2018	1,844.00	5.000%	92.20	1,936.20
Total	\$93,086.00	-	\$14,684.15	\$107,770.15

Yield Statistics

Base date for Avg. Life & Avg. Coupon Calculation	11/01/2012
Average Life	2.811 Years
Average Coupon	5.0000000%
Weighted Average Maturity (Par Basis)	2.811 Years

Refunding Bond Information

Refunding Dated Date	11/01/2012
Refunding Delivery Date	11/01/2012

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Preliminary

\$369,000

Butler County Water Association
Series 1987

Total Refunded Debt Service

Date	Principal	Coupon	Interest	Total P+I
12/31/2013	10,578.00	5.000%	11,300.70	21,878.70
12/31/2014	11,107.00	5.000%	10,771.80	21,878.80
12/31/2015	11,663.00	5.000%	10,216.45	21,879.45
12/31/2016	12,246.00	5.000%	9,633.30	21,879.30
12/31/2017	12,858.00	5.000%	9,021.00	21,879.00
12/31/2018	13,501.00	5.000%	8,378.10	21,879.10
12/31/2019	14,176.00	5.000%	7,703.05	21,879.05
12/31/2020	14,885.00	5.000%	6,994.25	21,879.25
12/31/2021	15,629.00	5.000%	6,250.00	21,879.00
12/31/2022	16,410.00	5.000%	5,468.55	21,878.55
12/31/2023	17,231.00	5.000%	4,648.05	21,879.05
12/31/2024	18,093.00	5.000%	3,786.50	21,879.50
12/31/2025	18,997.00	5.000%	2,881.85	21,878.85
12/31/2026	19,947.00	5.000%	1,932.00	21,879.00
12/31/2027	18,693.00	5.000%	934.65	19,627.65
Total	\$226,014.00	-	\$99,920.25	\$325,934.25

Yield Statistics

Base date for Avg. Life & Avg. Coupon Calculation	11/01/2012
Average Life	8.639 Years
Average Coupon	5.0000000%
Weighted Average Maturity (Par Basis)	8.639 Years

Refunding Bond Information

Refunding Dated Date	11/01/2012
Refunding Delivery Date	11/01/2012

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Preliminary

\$940,000

Butler County Water Association
Series 1989

Total Refunded Debt Service

Date	Principal	Coupon	Interest	Total P+I
12/31/2013	24,277.00	5.000%	30,966.85	55,243.85
12/31/2014	25,491.00	5.000%	29,753.00	55,244.00
12/31/2015	26,766.00	5.000%	28,478.45	55,244.45
12/31/2016	28,104.00	5.000%	27,140.15	55,244.15
12/31/2017	29,509.00	5.000%	25,734.95	55,243.95
12/31/2018	30,984.00	5.000%	24,259.50	55,243.50
12/31/2019	32,534.00	5.000%	22,710.30	55,244.30
12/31/2020	34,160.00	5.000%	21,083.60	55,243.60
12/31/2021	35,868.00	5.000%	19,375.60	55,243.60
12/31/2022	37,662.00	5.000%	17,582.20	55,244.20
12/31/2023	39,545.00	5.000%	15,699.10	55,244.10
12/31/2024	41,522.00	5.000%	13,721.85	55,243.85
12/31/2025	43,598.00	5.000%	11,645.75	55,243.75
12/31/2026	45,778.00	5.000%	9,465.85	55,243.85
12/31/2027	48,067.00	5.000%	7,176.95	55,243.95
12/31/2028	50,470.00	5.000%	4,773.60	55,243.60
12/31/2029	45,002.00	5.000%	2,250.10	47,252.10
Total	\$619,337.00	-	\$311,817.80	\$931,154.80

Yield Statistics

Base date for Avg. Life & Avg. Coupon Calculation	11/01/2012
Average Life	9.542 Years
Average Coupon	5.0000000%
Weighted Average Maturity (Par Basis)	9.542 Years

Refunding Bond Information

Refunding Dated Date	11/01/2012
Refunding Delivery Date	11/01/2012

9/18/2012 | 3:16 PM

Raymond James I Morgan Keegan

Public Finance

Preliminary

\$752,000

Butler County Water Association

Series 1992

Total Refunded Debt Service

Date	Principal	Coupon	Interest	Total P+I
12/31/2013	16,815.00	5.000%	27,380.40	44,195.40
12/31/2014	17,656.00	5.000%	26,539.65	44,195.65
12/31/2015	18,539.00	5.000%	25,656.85	44,195.85
12/31/2016	19,456.00	5.000%	24,729.90	44,185.90
12/31/2017	20,439.00	5.000%	23,757.10	44,196.10
12/31/2018	21,461.00	5.000%	22,735.15	44,196.15
12/31/2019	22,534.00	5.000%	21,662.10	44,196.10
12/31/2020	23,661.00	5.000%	20,535.40	44,196.40
12/31/2021	24,844.00	5.000%	19,352.35	44,196.35
12/31/2022	26,086.00	5.000%	18,110.15	44,196.15
12/31/2023	27,390.00	5.000%	16,805.85	44,195.85
12/31/2024	28,759.00	5.000%	15,436.35	44,195.35
12/31/2025	30,198.00	5.000%	13,998.40	44,196.40
12/31/2026	31,707.00	5.000%	12,488.50	44,195.50
12/31/2027	33,293.00	5.000%	10,903.15	44,196.15
12/31/2028	34,957.00	5.000%	9,238.50	44,195.50
12/31/2029	36,705.00	5.000%	7,490.65	44,195.65
12/31/2030	38,541.00	5.000%	5,655.40	44,196.40
12/31/2031	40,468.00	5.000%	3,728.35	44,196.35
12/31/2032	34,099.00	5.000%	1,704.95	35,803.95
Total	\$547,608.00	-	\$327,909.15	\$875,517.15

Yield Statistics

Base date for Avg. Life & Avg. Coupon Calculation	11/01/2012
Average Life	11.276 Years
Average Coupon	5.0000000%
Weighted Average Maturity (Par Basis)	11.276 Years

Refunding Bond Information

Refunding Dated Date	11/01/2012
Refunding Delivery Date	11/01/2012

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Preliminary

\$1,998,000

Butler County Water Association

Series 1994

Total Refunded Debt Service

Date	Principal	Coupon	Interest	Total P+I
12/31/2013	40,356.00	5.000%	77,066.05	117,422.05
12/31/2014	42,374.00	5.000%	75,048.25	117,422.25
12/31/2015	44,493.00	5.000%	72,929.55	117,422.55
12/31/2016	46,718.00	5.000%	70,704.90	117,422.90
12/31/2017	49,054.00	5.000%	68,369.00	117,423.00
12/31/2018	51,506.00	5.000%	65,916.30	117,422.30
12/31/2019	54,081.00	5.000%	63,341.00	117,422.00
12/31/2020	56,786.00	5.000%	60,636.95	117,422.95
12/31/2021	59,625.00	5.000%	57,797.65	117,422.65
12/31/2022	62,606.00	5.000%	54,816.40	117,422.40
12/31/2023	65,736.00	5.000%	51,686.10	117,422.10
12/31/2024	69,023.00	5.000%	48,399.30	117,422.30
12/31/2025	72,474.00	5.000%	44,948.15	117,422.15
12/31/2026	76,098.00	5.000%	41,324.45	117,422.45
12/31/2027	79,903.00	5.000%	37,519.55	117,422.55
12/31/2028	83,897.00	5.000%	33,524.40	117,421.40
12/31/2029	88,093.00	5.000%	29,329.55	117,422.55
12/31/2030	92,498.00	5.000%	24,924.90	117,422.90
12/31/2031	97,122.00	5.000%	20,300.00	117,422.00
12/31/2032	101,979.00	5.000%	15,443.90	117,422.90
12/31/2033	107,078.00	5.000%	10,344.95	117,422.95
12/31/2034	99,821.00	5.000%	4,991.05	104,812.05
Total	\$1,541,321.00	-	\$1,029,362.35	\$2,570,683.35

Yield Statistics

Base date for Avg. Life & Avg. Coupon Calculation	11/01/2012
Average Life	12.632 Years
Average Coupon	5.0000000%
Weighted Average Maturity (Par Basis)	12.632 Years

Refunding Bond Information

Refunding Dated Date	11/01/2012
Refunding Delivery Date	11/01/2012

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Raymond James I Morgan Keegan

Public Finance

Butler County Water System, Inc.
Balance Sheets

December 31,	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 166,512	\$ 462,449
Accounts receivable:		
Customer accounts receivable, net of allowance for uncollectibles of \$67,512 and \$63,278	41,637	59,123
Accounts receivable – other	45,503	76,112
Prepaid insurance	16,159	15,886
Total current assets	269,811	613,570
Property, Plant and Equipment		
Land and land rights	101,521	101,521
Utility plant in service	25,217,869	25,125,971
Construction in progress	893,307	640,269
Less: accumulated depreciation	(7,029,654)	(6,747,087)
Property, plant and equipment, net	19,183,043	19,120,674
Other Assets		
Restricted cash and cash equivalents	1,456,049	1,408,554
Restricted short-term investments	119,635	118,855
Deferred charges	45,611	30,470
Total other assets	1,621,295	1,557,879
Total Assets	\$ 21,074,149	\$ 21,292,123

December 31,	2011	2010
Liabilities and Members' Equity		
Current Liabilities		
Accounts payable	\$ 61,545	\$ 99,470
Accounts payable – WCWD	80,153	107,613
Accrued interest payable	149,000	153,041
Other current liabilities	4,430	4,506
Current portion of long-term debt	165,117	157,686
Total current liabilities	460,245	522,316
Long-Term Liabilities		
Rebates payable	14,625	63,126
Customer deposits	119,136	117,501
Long-term debt, net of current portion	4,465,594	4,617,717
Total long-term liabilities	4,599,355	4,798,344
Total liabilities	5,059,600	5,320,660
Members' Equity		
Contributions in aid of construction	13,644,563	13,577,062
Retained earnings	2,369,986	2,394,401
Total members' equity	16,014,549	15,971,463
Total Liabilities and Members' Equity	\$ 21,074,149	\$ 21,292,123

The accompanying notes to the financial statements are an integral part of this financial statement.

Butler County Water System, Inc.
Statements of Operations

Years Ended December 31,	2011	2010
Operating Revenues		
Metered sales:		
Residential	\$ 1,493,939	\$ 1,516,261
Commercial	201,157	209,277
Resale	1,115	68
Total metered sales	1,696,211	1,725,606
Forfeited discounts	31,605	29,938
Miscellaneous service revenue	28,430	33,033
Total operating revenues	1,756,246	1,788,577
Operating Expenses		
Pumping expense:		
Purchased power	39,342	39,680
Salaries and benefits	120	83
Insurance	2,650	2,545
Miscellaneous	1,473	1,084
Professional services	480	479
Total pumping expense	44,065	43,871
Water treatment expense:		
Purchased power	86,203	86,015
Chemicals	55,766	52,678
Materials and supplies	5,195	3,521
Insurance	5,301	5,090
Salaries and benefits	91,107	91,187
Contractual services	757	703
Miscellaneous	6,169	6,312
Professional services	972	958
Total water treatment expense	251,470	246,464
General distribution expense:		
Purchased power	4,008	2,968
Salaries and benefits	105,530	93,424
Materials and supplies	43,504	38,530
Insurance	11,485	11,029
Miscellaneous	26,659	23,616
Contractual services	14,979	14,648
Professional services	487	480
Total general distribution expense	206,652	184,695

Years Ended December 31,	2011	2010
Customer accounts expense:		
Salaries and benefits	173,629	185,147
Contractual services	39,587	40,266
Uncollectible accounts	4,233	4,488
Materials and supplies	2,376	1,045
Insurance	1,325	1,273
Miscellaneous	28,767	32,732
Professional services	1,459	1,438
Total customer accounts expense	251,376	266,389
Maintenance expense:		
Pumping equipment and storage expense	26,440	20,998
Salaries and benefits	117,573	117,064
Contractual services	41,565	38,524
Professional services	972	959
Total maintenance expense	186,550	177,545
Administrative and general expense:		
Salaries and benefits	61,662	64,779
Materials and supplies	5,775	5,531
Insurance	2,240	2,186
Miscellaneous	2,739	2,854
Contractual services	23,880	21,957
Professional services	1,609	1,538
Total administrative and general expense	97,905	98,845
Depreciation expense	528,254	495,687
Total operating expenses	1,566,272	1,513,496
Operating income	189,974	275,081
Non-Operating Revenues (Expenses)		
Other income	1	27
Interest income	17,778	19,083
Interest expense on long-term debt	(228,606)	(236,180)
Interest expense on customer deposits	(827)	(1,311)
Gain on sale of assets	0	3,732
PSC taxes	(2,735)	(2,771)
Total non-operating revenues (expenses)	(214,389)	(217,420)
Net Income (Loss)	\$ (24,415)	\$ 57,661

The accompanying notes to the financial statements are an integral part of this financial statement.

Butler County Water System, Inc.
Statements of Changes in Members' Equity

Years Ended December 31, 2011 and 2010	Retained Earnings	Contributions in Aid of Construction	Total
Balance, January 1, 2010	\$ 2,336,740	\$ 13,534,832	\$ 15,871,572
Net income	57,661	0	57,661
Contributions in aid of construction	0	42,230	42,230
Balance, December 31, 2010	2,394,401	13,577,062	15,971,463
Net loss	(24,415)	0	(24,415)
Contributions in aid of construction	0	67,501	67,501
Balance, December 31, 2011	\$ 2,369,986	\$ 13,644,563	\$ 16,014,549

The accompanying notes to the financial statements are an integral part of this financial statement.

Butler County Water System, Inc.
Statements of Cash Flows

December 31,	2011	2010
Cash Flows From Operating Activities		
Receipts from customers and agencies	\$ 1,804,341	\$ 1,771,492
Payments to suppliers for goods and services	(618,651)	(423,885)
Payments for contractual services	(549,842)	(551,684)
Net cash provided by operating activities	635,848	795,923
Cash Flows From Non-Capital Financing Activities		
Interest paid on customer deposits	(827)	(1,311)
Net cash used in non-capital financing activities	(827)	(1,311)
Cash Flows From Capital and Related Financing Activities		
Receipt of other receivable	0	1,931,685
Principal repayment on long-term debt	(144,692)	(149,757)
Contributions in aid of construction	67,501	42,230
Purchases of capital assets	(590,623)	(2,292,340)
Gain on sale of capital assets	0	(3,732)
Interest paid on long-term debt	(232,647)	(244,167)
Net cash used in capital and related financing activities	(900,461)	(716,081)
Cash Flows From Investing Activities		
Purchase of short-term investments	(119,635)	(118,857)
Maturity of short-term investments	118,855	0
Interest income	17,778	19,083
Net cash provided by (used in) investing activities	16,998	(99,774)
Net Decrease in Cash and Cash Equivalents	(248,442)	(21,243)
Balances – Beginning of Year	1,871,003	1,892,246
Balances – End of Year	\$ 1,622,561	\$ 1,871,003

December 31,	2011	2010
Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Operating income	\$ 189,974	\$ 275,081
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation expense	528,254	495,687
Non-utility rental income	1	23
Payment of PSC taxes	(2,735)	(2,771)
Changes in assets and liabilities:		
Net decrease in accounts receivable, net	48,095	(16,908)
Net increase in prepaid insurance	(273)	(482)
Net increase in deferred charge	(15,141)	(7,192)
Net increase (decrease) in accounts payable	(65,385)	47,803
Net increase (decrease) in rebates payable	(48,501)	1,497
Net decrease in other current liabilities	(76)	71
Net increase in customer deposits	1,635	3,114
Net Cash Provided By Operating Activities	\$ 635,848	\$ 795,923

The accompanying notes to the financial statements are an integral part of this financial statement.

BOOK M313
BOOK 247 Position 5
PAGE 116

REAL ESTATE MORTGAGE FOR KENTUCKY

THIS MORTGAGE is made and entered into by The Butler County Water System, Inc. is a
corporation organized and existing under the laws of Kentucky, by and through Roland
Stephens, President and Garry Robbins, Secretary/Treasurer

residing in Butler County, Kentucky, whose post office
address is P. O. Box 1118, Bowling Green, Kentucky 42102-1118
herein called "Borrower," and:

WHEREAS Borrower is indebted to the United States of America, acting through the Farmers Home Administration, United States Department of Agriculture, herein called the "Government," as evidenced by one or more promissory note(s) or assumption agreement(s), herein called "note," which has been executed by Borrower, is payable to the order of the Government, authorizes acceleration of the entire indebtedness at the option of the Government upon any default by Borrower, and is described as follows:

7-9-98
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<u>Date of Instrument</u>	<u>Principal Amount</u>	<u>Annual Rate of Interest</u>	<u>Due Date of Final Installment</u>
7/7/98	\$545,000.00	4.75%	7/7/2038

The interest rate for limited resource farm ownership or limited resource operating loan(s) secured by this instrument will be increased after 3 years, as provided in the Farmers Home Administration regulations and the note.

And the note evidences a loan to Borrower, and the Government, at any time, may assign the note and insure the payment thereof pursuant to the Consolidated Farm and Rural Development Act, Title V of the Housing Act of 1949 or any other statute administered by the Farmers Home Administration.

And it is the purpose and intention of this instrument that, among other things, at all times when the note is held by the Government, or in the event the Government should assign this instrument without insurance of the note, this instrument shall secure payment of the note; but when the note is held by an insured holder this instrument shall not secure payment of the note or attach to the debt evidenced thereby, but as to the note and such debt shall constitute an indemnity mortgage to secure the Government against loss under its insurance contract by reason of any default by Borrower.

And this instrument also secures the recapture of any interest credit or subsidy which may be granted to the Borrower by the Government pursuant to 42 U.S.C. §1490a.

NOW, THEREFORE, in consideration of the loan(s) and (a) at all times when the note is held by the Government, or in the event the Government should assign this instrument without insurance of the payment of the note, to secure prompt payment of the note and any renewals and extensions thereof and any agreements contained therein, including any provision for the payment of an insurance or other charge, (b) at all times when the note is held by an insured holder, to secure performance of Borrower's agreement herein to indemnify and save harmless the Government against loss under its insurance contract by reason of any default by Borrower, and (c) in any event and at all times to secure the prompt payment of all advances and expenditures made by the Government, with interest, as hereinafter described, and the performance of every covenant and agreement of Borrower contained herein or in any supplementary agreement, Borrower does hereby sell, convey, and assign, with general warranty, unto the Government the following property situated in the State of Kentucky,

County(ies) of Butler and Muhlenberg :

For a full description of the properties being mortgaged herein with complete source of title, see Exhibit "B" attached hereto and made a part of this mortgage.

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JUL 31 1998

LESSIE R. JOHNSON
CLERK
Ohio County, Kentucky

117

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being the same (or part of the same) land conveyed*

together with all rights, interests, easements, hereditaments and appurtenances thereunto belonging, the rents, issues, and profits thereof and revenues and income therefrom, all improvements and personal property now or later attached thereto or reasonably necessary to the use thereof, including, but not limited to, ranges, refrigerators, clothes washers, clothes dryers, or carpeting purchased or financed in whole or in part with loan funds, all water, water rights, and water stock pertaining thereto, and all payments at any time owing to Borrower by virtue of any sale, lease, transfer, conveyance, or condemnation of any part thereof or interest therein-all of which are herein called "the property";

TO HAVE AND TO HOLD the property unto the Government and its assigns forever in fee simple.

BORROWER for Borrower's self, Borrower's heirs, executors, administrators, successors and assigns WARRANTS THE TITLE to the property to the Government against all lawful claims and demands whatsoever except any liens, encumbrances, easements, reservations, or conveyances specified hereinabove, and COVENANTS AND AGREES as follows:

(1) To pay promptly when due any indebtedness to the Government hereby secured and to indemnify and save harmless the Government against any loss under its insurance of payment of the note by reason of any default by Borrower. At all times when the note is held by an insured holder, Borrower shall continue to make payments on the note to the Government, as collection agent for the holder.

(2) To pay to the Government such fees and other charges as may now or hereafter be required by regulations of the Farmers Home Administration.

(3) If required by the Government, to make additional monthly payments of 1/12 of the estimated annual taxes, assessments, insurance premiums and other charges upon the mortgaged premises.

(4) Whether or not the note is insured by the Government, the Government may at any time pay any other amounts required herein to be paid by Borrower and not paid by Borrower when due, as well as any costs and expenses for the preservation, protection, or enforcement of this lien, as advances for the account of Borrower. All such advances shall bear interest at the rate borne by the note which has the highest interest rate.

(5) All advances by the Government as described in this instrument, with interest, shall be immediately due and payable by Borrower to the Government without demand at the place designated in the latest note and shall be secured hereby. No such advance by the Government shall relieve Borrower from breach of Borrower's covenant to pay. Any payment made by Borrower may be applied on the note or any indebtedness to the Government secured hereby, in any order the Government determines.

(6) To use the loan evidenced by the note solely for purposes authorized by the Government.

(7) To pay when due all taxes, liens, judgments, encumbrances, and assessments lawfully attaching to or assessed against the property, including all charges and assessments in connection with water, water rights and water stock pertaining to or reasonably necessary to the use of the real property described above, and promptly deliver to the Government without demand receipts evidencing such payments.

(8) To keep the property insured as required by and under insurance policies approved by the Government and, at its request, to deliver such policies to the Government.

(9) To maintain improvements in good repair and make repairs required by the Government; operate the property in a good and husbandmanlike manner; comply with such farm conservation practices and farm and home management plans as the Government from time to time may prescribe, and not to abandon the property, or cause or permit waste, lessening or impairment of the security covered hereby, or without the written consent of the Government, cut, remove, or lease any timber, gravel, oil, gas, coal, or other minerals except as may be necessary for ordinary domestic purposes.

- (10) To comply with all laws, ordinances, and regulations affecting the property.
- (11) To pay or reimburse the Government for expenses reasonably necessary or incidental to the protection of the lien and priority hereof and to the enforcement of or the compliance with the provisions hereof and of the note and any supplementary agreement (whether before or after default), including but not limited to costs of evidence of title to and survey of the property, costs of recording this and other instruments, attorneys' fees, trustees' fees, court costs, and expenses of advertising, selling, and conveying the property.
- (12) Neither the property nor any portion thereof or interest therein shall be leased, assigned, sold, transferred, or encumbered voluntarily or otherwise, without the written consent of the Government. The Government shall have the sole and exclusive rights as mortgagee hereunder, including but not limited to the power to grant consents, partial releases, sub-ordinations, and satisfaction, and no insured holder shall have any right, title or interest in or to the lien or any benefits hereof.
- (13) At all reasonable times the Government and its agents may inspect the property to ascertain whether the covenants and agreements contained herein or in any supplementary agreement are being performed.
- (14) The Government may (a) extend or defer the maturity of, and renew and reschedule the payments on, the debt evidenced by the note or any indebtedness to the Government secured by this instrument, (b) release any party who is liable under the note or for the debt from liability to the Government, (c) release portions of the property and subordinate its lien, and (d) waive any other of its rights under this instrument. Any and all this can and will be done without affecting the lien or the priority of this instrument or Borrower's or any other party's liability to the Government for payment of the note or debt secured by this instrument unless the Government says otherwise in writing. HOWEVER, any forbearance by the Government—whether once or often—in exercising any right or remedy under this instrument, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any such right or remedy.
- (15) If at any time it shall appear to the Government that Borrower may be able to obtain a loan from a production credit association, a Federal land bank, or other responsible cooperative or private credit source, at reasonable rates and terms for loans for similar purposes and periods of time, Borrower will, upon the Government's request, apply for and accept such loan in sufficient amount to pay the note and any indebtedness secured hereby and to pay for any stock necessary to be purchased in a cooperative lending agency in connection with such loan.
- (16) Default hereunder shall constitute default under any other real estate, or under any personal property, or other security instrument held or insured by the Government and executed or assumed by Borrower, and default under any such other security instrument shall constitute default hereunder.
- (17) SHOULD DEFAULT occur in the performance or discharge of any obligation in this instrument or secured by this instrument, or should any one of the parties named as Borrower die or be declared an incompetent, a bankrupt, or an insolvent, or make an assignment for the benefit of creditors, the Government, at its option, with or without notice, may: (a) declare the entire amount unpaid under the note and any indebtedness to the Government hereby secured immediately due and payable, (b) for the account of Borrower incur and pay reasonable expenses for repair or maintenance of and take possession of, operate or rent the property, (c) upon application by it and production of this instrument, without other evidence and without notice of hearing of said application, have a receiver appointed for the property, with the usual powers of receivers in like cases, (d) foreclose this instrument as provided herein or by law, and (e) enforce any and all other rights and remedies provided herein or by present or future law.
- (18) The proceeds of foreclosure sale shall be applied in the following order to the payment of: (a) costs and expenses incident to enforcing or complying with the provisions hereof, (b) any prior liens required by law or a competent court to be so paid, (c) the debt evidenced by the note and all indebtedness to the Government secured hereby, (d) inferior liens of record required by law or a competent court to be so paid, (e) at the Government's option, any other indebtedness of Borrower owing to or insured by the Government, and (f) any balance to Borrower. At foreclosure or other sale of all or any part of the property, the Government and its agents may bid and purchase as a stranger and may pay the Government's share of the purchase price by crediting such amount on any debts of Borrower owing to or insured by the Government, in the order prescribed above.
- (19) Borrower agrees that the Government will not be bound by any present or future State laws, (a) providing for valuation, appraisal, homestead or exemption of the property, (b) prohibiting maintenance of an action for a deficiency judgment or limiting the amount thereof or the time within which such action may be brought, (c) prescribing any other statute of limitations, (d) allowing any right of redemption or possession following any foreclosure sale, or (e) limiting the conditions which the Government may by regulation impose, including the interest rate it may charge, as a condition of approving a transfer of the property to a new Borrower. Borrower expressly waives the benefit of any such State law. Borrower hereby relinquishes, waives, and conveys all rights, inchoate or consummate, of descent, dower, and curtesy.
- (20) If any part of the loan for which this instrument is given shall be used to finance the purchase, construction or repair of property to be used as an owner-occupied dwelling (herein called "the dwelling") and if Borrower intends to sell or rent the dwelling and has obtained the Government's consent to do so (a) neither Borrower nor anyone authorized to act for Borrower will, after receipt of a bona fide offer, refuse to negotiate for the sale or rental of the dwelling or will otherwise make unavailable or deny the dwelling to anyone because of race, color, religion, sex or national origin, and (b) Borrower recognizes as illegal and hereby disclaims, and will not comply with or attempt to enforce any restrictive covenants on the dwelling relating to race, color, religion, sex or national origin.
- (21) This instrument shall be subject to the present regulations of the Farmers Home Administration, and to its future regulations not inconsistent with the express provisions hereof.
- (22) Notices given hereunder shall be sent by certified mail, unless otherwise required by law, addressed, unless and until some other address is designated in a notice so given, in the case of the Government to Farmers Home Administration at 333 Waller Avenue, Lexington, Kentucky 40504, and in the case of Borrower at the address shown in the Farmers Home Administration Finance Office records (which normally will be the same as the post office address shown above).

(23) If any provision of this instrument or application thereof to any person or circumstances is held invalid, such invalidity will not affect other provisions or applications of the instrument which can be given effect without the invalid provision or application, and to that end the provisions hereof are declared to be severable.

Given under the hand(s) and seal(s) of Borrower this 7th day of July, 1998.

[Signature] (SEAL)
Garry Robbins (SEAL)

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STATE OF KENTUCKY }
COUNTY OF Butler } ss:

Before me, Richard J. Deye, a Notary Public in and for the County of Butler personally appeared Roland Stephens, President and Garry Robbins, Secretary/Treasurer for and on behalf of the Butler County Water System and [Signature], his wife,

who acknowledged that they executed the foregoing instrument on the 7th day of July, 1998, as their free act and deed.

WITNESS my hand and official seal this 7th day of July, 1998.

(SEAL) Richard J. Deye Notary Public
My commission expires: March 7, 2001

PREPARER'S STATEMENT

The form of this instrument was drafted by the Office of the General Counsel of the United States Department of Agriculture, and the material in the blank spaces in the form was inserted by or under the direction of Richard J. Deye, Attorney

P. O. Box 340, Morgantown, KY 42261 (name)
Richard J. Deye (address) (Signature)

RECORDER'S CERTIFICATE

STATE OF KENTUCKY }
COUNTY OF Butler } ss:

I, R. Dallas Embry, Clerk of the County Court for the County aforesaid, do certify that the foregoing mortgage was on the 7th day of July, 1998, lodged for record at 3:45 o'clock P. M., whereupon the same, with the foregoing and this certificate, have been duly recorded in my office.

Given under my hand this 7th day of July, 1998.

R. Dallas Embry
Clerk of Butler County Court
By [Signature], D.C.

REAL ESTATE MORTGAGE FOR KENTUCKY

Box 99
Page 402

THIS MORTGAGE is made and entered into by BUTLER COUNTY WATER SYSTEM, INC.

residing in Butler County, Kentucky, whose post office address is P. O. Box 1118, Bowling Green, Kentucky 42102-1118, herein called "Borrower," and:

WHEREAS Borrower is indebted to the United States of America, acting through the Farmers Home Administration, United States Department of Agriculture, herein called the "Government," as evidenced by one or more promissory note(s) or assumption agreement(s) or any shared appreciation or recapture agreement, herein called "note," which has been executed by Borrower, is payable to the order of the Government, authorizes acceleration of the entire indebtedness at the option of the Government upon any default by Borrower, and is described as follows:

<u>Date of Instrument</u>	<u>Principal Amount</u>	<u>Annual Rate of Interest</u>	<u>Due Date of Final Installment</u>
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See attached EXHIBIT A.

(The interest rate for limited resource farm ownership or limited resource operating loan(s) secured by this instrument may be increased as provided in the Farmers Home Administration regulations and the note.)

And the note evidences a loan to Borrower, and the Government, at any time, may assign the note and insure the payment thereof pursuant to the Consolidated Farm and Rural Development Act, Title V of the Housing Act of 1949 or any other statute administered by the Farmers Home Administration.

And it is the purpose and intention of this instrument that, among other things, at all times when the note is held by the Government, or in the event the Government should assign this instrument without insurance of the note, this instrument shall secure payment of the note; but when the note is held by an insured holder this instrument shall not secure payment of the note or attach to the debt evidenced thereby, but as to the note and such debt shall constitute an indemnity mortgage to secure the Government against loss under its insurance contract by reason of any default by Borrower.

And this instrument also secures the recapture of any interest credit or subsidy which may be granted to the Borrower by the Government pursuant to 42 U.S.C. §1490a, or any amounts due under any Shared Appreciation Agreement/Recapture Agreement entered into pursuant to 7 U.S.C. 2001.

NOW, THEREFORE, in consideration of the loan(s) and (a) at all times when the note is held by the Government, or in the event the Government should assign this instrument without insurance of the payment of the note, to secure prompt payment of the note and any renewals and extensions thereof and any agreements contained therein, including any provision for the payment of an insurance or other charge, (b) at all times when the note is held by an insured holder, to secure performance of Borrower's agreement herein to indemnify and save harmless the Government against loss under its insurance contract by reason of any default by Borrower, and (c) in any event and at all times to secure the prompt payment of all advances and expenditures made by the Government, with interest, as hereinafter described, and the performance of every covenant and agreement of Borrower contained herein or in any supplementary agreement, Borrower does hereby sell, convey, and assign, with general warranty, unto the Government the following property situated in the State of Kentucky,

County(ies) of Butler and Muhlenberg

For a full description of the properties being mortgaged herein with complete source of title, see EXHIBIT B attached hereto and made a part of this Mortgage.

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being the same (or part of the same) land conveyed*

together with all rights (including the rights to mining products, gravel, oil, gas, coal or other minerals), interests, easements, hereditaments and appurtenances thereunto belonging, the rents, issues and profits thereof and revenues and income therefrom, all improvements and personal property now or later attached thereto or reasonably necessary to the use thereof, including, but not limited to, ranges, refrigerators, clothes washers clothes dryers, or carpeting purchased or financed in whole or in part with loan funds, all water, water rights, and water stock pertaining thereto, and all payments at any time owing to Borrower by virtue of any sale, lease, transfer, conveyance, or condemnation of any part thereof or interest therein-all of which are herein called "the property"; All rents, profits and income from the property covered by this mortgagee are hereby assigned to the mortgagee for the purpose of discharging the debt hereby secured. Permission is hereby given to the mortgagor, so long as no default exist hereunder, to collect such rents, profits and income for use in accordance with Farmers Home Administration regulations.

TO HAVE AND TO HOLD the property unto the Government and its assigns forever in fee simple.

BORROWER for Borrower's self, Borrower's heirs, executors, administrators, successors and assigns WARRANTS THE TITLE to the property to the Government against all lawful claims and demands whatsoever except any liens, encumbrances, easements, reservations, or conveyances specified hereinabove, and COVENANTS AND AGREES as follows:

(1) To pay promptly when due any indebtedness to the Government hereby secured and to indemnify and save harmless the Government against any loss under its insurance of payment of the note by reason of any default by Borrower. At all times when the note is held by an insured holder, Borrower shall continue to make payments on the note to the Government, as collection agent for the holder.

(2) To pay to the Government such fees and other charges as may now or hereafter be required by regulations of the Farmers Home Administration.

(3) If required by the Government, to make additional monthly payments of 1/12 of the estimated annual taxes, assessments, insurance premiums and other charges upon the mortgaged premises.

(4) Whether or not the note is insured by the Government, the Government may at any time pay any other amounts required herein to be paid by Borrower and not paid by Borrower when due, as well as any costs and expenses for the preservation, protection, or enforcement of this lien, as advances for the account of Borrower. All such advances shall bear interest at the rate borne by the note which has the highest interest rate.

(5) All advances by the Government as described in this instrument, with interest, shall be immediately due and payable by Borrower to the Government without demand at the place designated in the latest note and shall be secured hereby. No such advance by the Government shall relieve Borrower from breach of Borrower's covenant to pay. Any payment made by Borrower may be applied on the note or any indebtedness to the Government secured hereby, in any order the Government determines.

(6) To use the loan evidenced by the note solely for purposes authorized by the Government.

(7) To pay when due all taxes, liens, judgments encumbrances, and assessments lawfully attaching to or assessed against the property, including all charges and assessments in connection with water, water rights and water stock pertaining to or reasonably necessary to the use of the real property described above, and promptly deliver to the Government without demand receipts evidencing such payments.

(8) To keep the property insured as required by and under insurance policies approved by the Government and, at its request, to deliver such policies to the Government.

(9) To maintain improvements in good repair and make repairs required by the Government; operate the property in a good and husbandmanlike manner; comply with such farm conservation practices and farm and home management plans as the Government from time to time may prescribe, and not to abandon the property, or cause or permit waste, lessening or impairment of the security covered hereby, or without the written consent of the Government, cut, remove, or lease any timber, gravel, oil, gas, coal, or other minerals except as may be necessary for ordinary domestic purposes.

(10) To comply with all laws, ordinances, and regulations affecting the property.

(11) To pay or reimburse the Government for expenses reasonably necessary or incidental to the protection of the lien and priority hereof and to the enforcement of or the compliance with the provisions hereof and of the note and any supplementary agreement (whether before or after default), including but not limited to costs of evidence of title to and survey of the property, costs of recording this and other instruments attorneys' fees, trustees' fees, court costs, and expenses of advertising, selling, and conveying the property. Upon termination of this mortgage, after payment in full, the mortgagee, at the mortgagor's expense, shall execute and file or record such instruments of release, satisfaction and termination in proper form pursuant to the requirements contained in KRS 382.365.

(12) Except as otherwise provided by the Farmers Home Administration regulations, neither the property nor any portion thereof or interest therein shall be leased, assigned, sold transferred, or encumbered voluntarily or otherwise, without the written consent of the Government. The Government shall have the sole and exclusive rights as mortgagee hereunder, including but not limited to the power to grant consents, partial releases, subordinations, and satisfaction, and no insured holder shall have any right, title or interest in or to the lien or any benefits hereof.

(13) At all reasonable times the Government and its agents may inspect the property to ascertain whether the covenants and agreements contained herein or in any supplementary agreement are being performed.

(14) The Government may (a) adjust the interest rate, payment, terms or balance due on the loan, (b) increase the mortgage by an amount equal to deferred interest on the outstanding principal balance, (c) extend or defer the maturity of, and renew and reschedule the payments on, the debt evidenced by the note or any indebtedness to the Government secured by this instrument, (d) release any party who is liable under the note or for the debt from liability to the Government, (e) release portions of the property and subordinate its lien and (f) waive any other of its rights under this instrument. Any and all this can and will be done without affecting the lien or the priority of this instrument or Borrower's or any other party's liability to the Government for payment of the note or debt secured by this instrument unless the Government says otherwise in writing. HOWEVER, any forbearance by the Government--whether once or often--in exercising any right or remedy under this instrument, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any such right or remedy.

(15) If at any time it shall appear to the Government that Borrower may be able to obtain a loan from a production credit association, a Federal land bank, or other responsible cooperative or private credit source, at reasonable rates and terms for loans for similar purposes and periods of time, Borrower will, upon the Government's request, apply for and accept such loan in sufficient amount to pay the note and any indebtedness secured hereby and to pay for any stock necessary to be purchased in a cooperative lending agency in connection with such loan.

(16) Default hereunder shall constitute default under any other real estate, or under any personal property, or other security instrument held or insured by the Government and executed or assumed by Borrower, and default under any such other security instrument shall constitute default hereunder.

(17) SHOULD DEFAULT occur in the performance or discharge of any obligation in this instrument or secured by this instrument, or should any one of the parties named as Borrower die or be declared an incompetent, or should any one of the parties named as Borrower be discharged in bankruptcy or declared an insolvent, or make an assignment for the benefit of creditors, the Government, at its option, with or without notice, may: (a) declare the entire amount unpaid under the note and any indebtedness to the Government hereby secured immediately due and payable, (b) for the account of Borrower incur and pay reasonable expenses for repair or maintenance of and take possession of, operate or rent the property, (c) upon application by it and production of this instrument, without other evidence and without notice of hearing of said application, have a receiver appointed for the property, with the usual powers of receivers in like cases, (d) foreclose this instrument as provided herein or by law, and (e) enforce any and all other rights and remedies provided herein or by present or future law.

(18) The proceeds of foreclosure sale shall be applied in the following order to the payment of: (a) costs and expenses incident to enforcing or complying with the provisions hereof, (b) any prior liens required by law or a competent court to be so paid, (c) the debt evidenced by the note and all indebtedness to the Government secured hereby, (d) inferior liens of record required by law or a competent court to be so paid, (e) at the Government's option, any other indebtedness of Borrower owing to or insured by the Government, and (f) any balance to Borrower. At foreclosure or other sale of all or any part of the property, the Government and its agents may bid and purchase as a stranger and may pay the Government's share of the purchase price by crediting such amount on any debts of Borrower owing to or insured by the Government, in the order prescribed above.

(19) Borrower agrees that the Government will not be bound by any present or future State laws, (a) providing for valuation, appraisal, homestead or exemption of the property, (b) prohibiting maintenance of an action for a deficiency judgment or limiting the amount thereof or the time within which such action may be brought, (c) prescribing any other statute of limitations, (d) allowing any right of redemption or possession following any foreclosure sale, or (e) limiting the conditions which the Government may by regulation impose, including the interest rate it may charge, as a condition of approving a transfer of the property to a new Borrower. Borrower expressly waives the benefit of any such State law. Borrower hereby relinquishes, waives, and conveys all rights, inchoate or consummate, of descent, dower, and curtesy.

(20) If any part of the loan for which this instrument is given shall be used to finance the purchase, construction or repair of property to be used as an owner-occupied dwelling (herein called "the dwelling") and if Borrower intends to sell or rent the dwelling and has obtained the Government's consent to do so (a) neither Borrower nor anyone authorized to act for Borrower will, after receipt of a bona fide offer, refuse to negotiate for the sale or rental of the dwelling or will otherwise make unavailable or deny the dwelling to anyone because of race, color, religion, sex, handicap, familial status, age or national origin, and (b) Borrower recognizes as illegal and hereby disclaims, and will not comply with or attempt to enforce any restrictive covenants on the dwelling relating to race, color, religion, sex, handicap, familial status, age or national origin.

(21) Borrower further agrees that the loan(s) secured by this instrument will be in default should any loan proceeds be used for a purpose that will contribute to excessive erosion of highly erodible land or to the conversion of wetlands to produce an agricultural commodity, as further explained in 7 CFR Part 1940, Subpart G, Exhibit M.

(22) This instrument shall be subject to the present regulations of the Farmers Home Administration, and to its future regulations not inconsistent with the express provisions hereof.

(23) Notices given hereunder shall be sent by certified mail, unless otherwise required by law, addressed, unless and until some other address is designated in a notice so given in the case of the Government to Farmers Home Administration at 333 Waller Avenue, Lexington, Kentucky 40504, and in the case of Borrower at the address shown in the Farmers Home Administration Finance Office records (which normally will be the same as the post office address shown above).

(24) If any provision of this instrument or application thereof to any person or circumstances is held invalid, such invalidity will not affect other provisions or applications of the instrument which can be given effect without the invalid provision or application, and to that end the provisions hereof are declared to be severable.

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Given under the hand(s) and seal(s) of Borrower this 18th day of December, 1997
BY: ROLAND STEVENS, President (SEAL)
(SEAL)

STATE OF KENTUCKY }
COUNTY OF WARREN }

Before me, Steve Myers, a Notary Public in and for

the County of WARREN personally appeared ROLAND STEVENS
President and _____, his wife,

who acknowledged that they executed the foregoing instrument on the 18
day of December, 1997, as their free act and deed.

WITNESS my hand and official seal this 18 day of December, 1997.

(SEAL) Steve Myers Notary Public
My commission expires: 4-1-2001

PREPARER'S STATEMENT

The form of this instrument was drafted by the Office of the General Counsel of the United States Department of Agriculture, and the material in the blank spaces in the form was inserted by or under the direction of KEITH M. CARNELL ENGLISH, LUCAS, PRIEST & OWSLEY

1101 College Street, P. O. Box 770, Bowling Green, KY, 42102-0770
(address) Keith M. Carnell (Signature)
KEITH M. CARNELL (Signature)

RECORDER'S CERTIFICATE

STATE OF KENTUCKY }
COUNTY OF Butler }
I, R Dallas Embrey, Clerk of the County Court for the County aforesaid, do certify
that the foregoing mortgage was on the 19 day of Dec, 1997, lodged for record
at 2:22 o'clock P. M., whereupon the same, with the foregoing and this certificate, have been duly recorded in my office.

Given under my hand this 19 day of Dec, 1997
R Dallas Embrey
Clerk of _____ County Court
By R Dallas Embrey D.C.

EXHIBIT A

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DATE OF INSTRUMENT	PRINCIPAL AMOUNT	ANNUAL RATE OF INTEREST	DUE DATE OF FINAL INSTALLMENT
December 18, 1997	\$154,253.98	3.75%	December 18, 2007
December 18, 1997	40,013.47	5%	December 18, 2016
December 18, 1997	197,213.53	4.5%	December 18, 2034

USDA-FmHA
Form FmHA 427-1 KY
(Rev. 6-91)

REAL ESTATE MORTGAGE FOR KENTUCKY

THIS MORTGAGE is made and entered into by The Butler County Water System Inc is
a Corporation organized and existing under the laws of Kentucky, by
and through Roland Stephens, President, and Garry Robbins, Sec-Tres.
residing in Butler County, Kentucky, whose post office
address is P.O. Box 1118 Bowling Green, Kentucky 42102-1118
herein called "Borrower," and:

WHEREAS Borrower is indebted to the United States of America, acting through the Farmers Home Administration, United States Department of Agriculture, herein called the "Government," as evidenced by one or more promissory note(s) or assumption agreement(s) or any shared appreciation or recapture agreement, herein called "note" which has been executed by Borrower, is payable to the order of the Government, authorizes acceleration of the entire indebtedness at the option of the Government upon any default by Borrower, and is described as follows:

<u>Date of Instrument</u>	<u>Principal Amount</u>	<u>Annual Rate of Interest</u>	<u>Due Date of Final Installment</u>
August 8, 1996	\$950,000.00	4.50%	August 8, 2036

For additional notes see attached Exhibit "A"

(The interest rate for limited resource farm ownership or limited resource operating loan(s) secured by this instrument may be increased as provided in the Farmers Home Administration regulations and the note.)

And the note evidences a loan to Borrower, and the Government, at any time, may assign the note and insure the payment thereof pursuant to the Consolidated Farm and Rural Development Act, Title V of the Housing Act of 1949 or any other statute administered by the Farmers Home Administration.

And it is the purpose and intention of this instrument that, among other things, at all times when the note is held by the Government, or in the event the Government should assign this instrument without insurance of the note, this instrument shall secure payment of the note; but when the note is held by an insured holder this instrument shall not secure payment of the note or attach to the debt evidenced thereby, but as to the note and such debt shall constitute an indemnity mortgage to secure the Government against loss under its insurance contract by reason of any default by Borrower.

And this instrument also secures the recapture of any interest credit or subsidy which may be granted to the Borrower by the Government pursuant to 42 U.S.C. §1490a, or any amounts due under any Shared Appreciation Agreement/Recapture Agreement entered into pursuant to 7 U.S.C. 2001.

NOW, THEREFORE, in consideration of the loan(s) and (a) at all times when the note is held by the Government, or in the event the Government should assign this instrument without insurance of the payment of the note, to secure prompt payment of the note and any renewals and extensions thereof and any agreements contained therein, including any provision for the payment of an insurance or other charge, (b) at all times when the note is held by an insured holder, to secure performance of Borrower's agreement herein to indemnify and save harmless the Government against loss under its insurance contract by reason of any default by Borrower, and (c) in any event and at all times to secure the prompt payment of all advances and expenditures made by the Government, with interest, as hereinafter described, and the performance of every covenant and agreement of Borrower contained herein or in any supplementary agreement, Borrower does hereby sell, convey, and assign, with general warranty, unto the Government the following property situated in the State of Kentucky,

County(ies) of Butler :

For a full description of the properties being mortgaged herein with complete source of title, see Exhibit B attached hereto and made a part of this Mortgage.

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being the same (or part of the same) land conveyed*

together with all rights (including the rights to mining products, gravel, oil, gas, coal or other minerals), interests, easements, hereditaments and appurtenances thereunto belonging, the rents, issues and profits thereof and revenues and income therefrom, all improvements and personal property now or later attached thereto or reasonably necessary to the use thereof, including, but not limited to, ranges, refrigerators, clothes washers clothes dryers, or carpeting purchased or financed in whole or in part with loan funds, all water, water rights, and water stock pertaining thereto, and all payments at any time owing to Borrower by virtue of any sale, lease, transfer, conveyance, or condemnation of any part thereof or interest therein-all of which are herein called "the property"; All rents, profits and income from the property covered by this mortgagee are hereby assigned to the mortgagee for the purpose of discharging the debt hereby secured. Permission is hereby given to the mortgagor, so long as no default exist hereunder, to collect such rents, profits and income for use in accordance with Farmers Home Administration regulations.

TO HAVE AND TO HOLD the property unto the Government and its assigns forever in fee simple.

BORROWER for Borrower's self, Borrower's heirs, executors, administrators, successors and assigns WARRANTS THE TITLE to the property to the Government against all lawful claims and demands whatsoever except any liens, encumbrances, easements, reservations, or conveyances specified hereinabove, and COVENANTS AND AGREES as follows:

(1) To pay promptly when due any indebtedness to the Government hereby secured and to indemnify and save harmless the Government against any loss under its insurance of payment of the note by reason of any default by Borrower. At all times when the note is held by an insured holder, Borrower shall continue to make payments on the note to the Government, as collection agent for the holder.

(2) To pay to the Government such fees and other charges as may now or hereafter be required by regulations of the Farmers Home Administration.

(3) If required by the Government, to make additional monthly payments of 1/12 of the estimated annual taxes, assessments, insurance premiums and other charges upon the mortgaged premises.

(4) Whether or not the note is insured by the Government, the Government may at any time pay any other amounts required herein to be paid by Borrower and not paid by Borrower when due, as well as any costs and expenses for the preservation, protection, or enforcement of this lien, as advances for the account of Borrower. All such advances shall bear interest at the rate borne by the note which has the highest interest rate.

(5) All advances by the Government as described in this instrument, with interest, shall be immediately due and payable by Borrower to the Government without demand at the place designated in the latest note and shall be secured hereby. No such advance by the Government shall relieve Borrower from breach of Borrower's covenant to pay. Any payment made by Borrower may be applied on the note or any indebtedness to the Government secured hereby, in any order the Government determines.

(6) To use the loan evidenced by the note solely for purposes authorized by the Government.

(7) To pay when due all taxes, liens, judgments encumbrances, and assessments lawfully attaching to or assessed against the property, including all charges and assessments in connection with water, water rights and water stock pertaining to or reasonably necessary to the use of the real property described above, and promptly deliver to the Government without demand receipts evidencing such payments.

(8) To keep the property insured as required by and under insurance policies approved by the Government and, at its request, to deliver such policies to the Government.

(9) To maintain improvements in good repair and make repairs required by the Government; operate the property in a good and husbandmanlike manner; comply with such farm conservation practices and farm and home management plans as the Government from time to time may prescribe, and not to abandon the property, or cause or permit waste, lessening or impairment of the security covered hereby, or without the written consent of the Government, cut, remove, or lease any timber, gravel, oil, gas, coal, or other minerals except as may be necessary for ordinary domestic purposes.

(10) To comply with all laws, ordinances, and regulations affecting the property.

(11) To pay or reimburse the Government for expenses reasonably necessary or incidental to the protection of the lien and priority hereof and to the enforcement of or the compliance with the provisions hereof and of the note and any supplementary agreement (whether before or after default), including but not limited to costs of evidence of title to and survey of the property, costs of recording this and other instruments attorneys' fees, trustees' fees, court costs, and expenses of advertising, selling, and conveying the property. Upon termination of this mortgage, after payment in full, the mortgagee, at the mortgagor's expense, shall execute and file or record such instruments of release, satisfaction and termination in proper form pursuant to the requirements contained in KRS 382.365.

(12) Except as otherwise provided by the Farmers Home Administration regulations, neither the property nor any portion thereof or interest therein shall be leased, assigned, sold transferred, or encumbered voluntarily or otherwise, without the written consent of the Government. The Government shall have the sole and exclusive rights as mortgagee hereunder, including but not limited to the power to grant consents, partial releases, subordinations, and satisfaction, and no insured holder shall have any right, title or interest in or to the lien or any benefits hereof.

(13) At all reasonable times the Government and its agents may inspect the property to ascertain whether the covenants and agreements contained herein or in any supplementary agreement are being performed.

(14) The Government may (a) adjust the interest rate, payment, terms or balance due on the loan, (b) increase the mortgage by an amount equal to deferred interest on the outstanding principal balance, (c) extend or defer the maturity of, and renew and reschedule the payments on, the debt evidenced by the note or any indebtedness to the Government secured by this instrument, (d) release any party who is liable under the note or for the debt from liability to the Government, (e) release portions of the property and subordinate its lien and (f) waive any other of its rights under this instrument. Any and all this can and will be done without affecting the lien or the priority of this instrument or Borrower's or any other party's liability to the Government for payment of the note or debt secured by this instrument unless the Government says otherwise in writing. HOWEVER, any forbearance by the Government-whether once or often-in exercising any right or remedy under this instrument, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any such right or remedy.

(15) If at any time it shall appear to the Government that Borrower may be able to obtain a loan from a production credit association, a Federal land bank, or other responsible cooperative or private credit source, at reasonable rates and terms for loans for similar purposes and periods of time, Borrower will, upon the Government's request, apply for and accept such loan in sufficient amount to pay the note and any indebtedness secured hereby and to pay for any stock necessary to be purchased in a cooperative lending agency in connection with such loan.

(16) Default hereunder shall constitute default under any other real estate, or under any personal property, or other security instrument held or insured by the Government and executed or assumed by Borrower, and default under any such other security instrument shall constitute default hereunder.

(17) SHOULD DEFAULT occur in the performance or discharge of any obligation in this instrument or secured by this instrument, or should any one of the parties named as Borrower die or be declared an incompetent, or should any one of the parties named as Borrower be discharged in bankruptcy or declared an insolvent, or make an assignment for the benefit of creditors, the Government, at its option, with or without notice, may: (a) declare the entire amount unpaid under the note and any indebtedness to the Government hereby secured immediately due and payable, (b) for the account of Borrower incur and pay reasonable expenses for repair or maintenance of and take possession of, operate or rent the property, (c) upon application by it and production of this instrument, without other evidence and without notice of hearing of said application, have a receiver appointed for the property, with the usual powers of receivers in like cases, (d) foreclose this instrument as provided herein or by law, and (e) enforce any and all other rights and remedies provided herein or by present or future law.

(18) The proceeds of foreclosure sale shall be applied in the following order to the payment of: (a) costs and expenses incident to enforcing or complying with the provisions hereof, (b) any prior liens required by law or a competent court to be so paid, (c) the debt evidenced by the note and all indebtedness to the Government secured hereby, (d) inferior liens of record required by law or a competent court to be so paid, (e) at the Government's option, any other indebtedness of Borrower owing to or insured by the Government, and (f) any balance to Borrower. At foreclosure or other sale of all or any part of the property, the Government and its agents may bid and purchase as a stranger and may pay the Government's share of the purchase price by crediting such amount on any debts of Borrower owing to or insured by the Government, in the order prescribed above.

(19) Borrower agrees that the Government will not be bound by any present or future State laws, (a) providing for valuation, appraisal, homestead or exemption of the property, (b) prohibiting maintenance of an action for a deficiency judgment or limiting the amount thereof or the time within which such action may be brought, (c) prescribing any other statute of limitations, (d) allowing any right of redemption or possession following any foreclosure sale, or (e) limiting the conditions which the Government may by regulation impose, including the interest rate it may charge, as a condition of approving a transfer of the property to a new Borrower. Borrower expressly waives the benefit of any such State law. Borrower hereby relinquishes, waives, and conveys all rights, inchoate or consummate, of descent, dower, and curtesy.

(20) If any part of the loan for which this instrument is given shall be used to finance the purchase, construction or repair of property to be used as an owner-occupied dwelling (herein called "the dwelling") and if Borrower intends to sell or rent the dwelling and has obtained the Government's consent to do so (a) neither Borrower nor anyone authorized to act for Borrower will, after receipt of a bona fide offer, refuse to negotiate for the sale or rental of the dwelling or will otherwise make unavailable or deny the dwelling to anyone because of race, color, religion, sex, handicap, familial status, age or national origin, and (b) Borrower recognizes as illegal and hereby disclaims, and will not comply with or attempt to enforce any restrictive covenants on the dwelling relating to race, color, religion, sex, handicap, familial status, age or national origin.

(21) Borrower further agrees that the loan(s) secured by this instrument will be in default should any loan proceeds be used for a purpose that will contribute to excessive erosion of highly erodible land or to the conversion of wetlands to produce an agricultural commodity, as further explained in 7 CFR Part 1940, Subpart G, Exhibit M.

(22) This instrument shall be subject to the present regulations of the Farmers Home Administration, and to its future regulations not inconsistent with the express provisions hereof.

(23) Notices given hereunder shall be sent by certified mail, unless otherwise required by law, addressed, unless and until some other address is designated in a notice so given in the case of the Government to Farmers Home Administration at 333 Waller Avenue, Lexington, Kentucky 40504, and in the case of Borrower at the address shown in the Farmers Home Administration Finance Office records (which normally will be the same as the post office address shown above).

(24) If any provision of this instrument or application thereof to any person or circumstances is held invalid, such invalidity will not affect other provisions or applications of the instrument which can be given effect without the invalid provision or application, and to that end the provisions hereof are declared to be severable.

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Given under the hand(s) and seal(s) of Borrower this 8th day of August, 1996.

Roland Stephens President (SEAL)
Garry Robbins Secy (SEAL)

STATE OF KENTUCKY }
COUNTY OF Butler } ss:

Before me, Richard J. Deye, a Notary Public in and for the County of Butler personally appeared Roland Stephens, President, and Garry Robbins, Secretary-Treasurer, for and on behalf of the ~~XXXXX~~ Butler County Water System, Inc. who acknowledged that they executed the foregoing instrument on the 8th day of August, 1996, as their free act and deed.

WITNESS my hand and official seal this 8th day of August, 1996.
(SEAL) Richard J. Deye Notary Public
My commission expires: March 7, 1997

PREPARER'S STATEMENT

The form of this instrument was drafted by the Office of the General Counsel of the United States Department of Agriculture, and the material in the blank spaces in the form was inserted by or under the direction of Richard J. Deye, Attorney (name)
P.O. Box 340, Morgantown, KY 42261 (address)
Richard J. Deye (Signature)

RECORDER'S CERTIFICATE

STATE OF KENTUCKY }
COUNTY OF Butler } ss:

I, Dallas Embry, Clerk of the County Court for the County aforesaid, do certify that the foregoing mortgage was on the 8th day of August, 1996, lodged for record at o'clock M., whereupon the same, with the foregoing and this certificate, have been duly recorded in my office.

Given under my hand this 8th day of August, 1996.
R Dallas Embry
Clerk of Butler County Court
By Dallas Embry, D.C.

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EXHIBIT A

Date of Instrument	Principal Amount	Annual Rate of Interest	Due Date of Final Installment
March 13, 1973	\$ 116,000.00	5%	March 13, 2013
May 16, 1974	117,400.00	5%	May 16, 2014
June 27, 1977	357,000.00	5%	June 27, 2017
August 16, 1977	191,400.00	5%	August 16, 2017
February 15, 1979	152,000.00	5%	February 15, 2019
August 18, 1987	369,000.00	5%	August 18, 2027
April 21, 1989	940,000.00	5%	April 21, 2029
February 19, 1992	752,000.00	5%	February 19, 2032
February 10, 1994	1,998,000.00	5%	February 10, 2034