

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410
Telephone (502) 569-7525 Telefax (502) 569-7555 www.rubinhays.com

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

January 5, 2015

RECEIVED
JAN 7 2015
PUBLIC SERVICE
COMMISSION

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

Re: Fleming County Water Association PSC Application

Dear Mr. Derouen:

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

This Application requests approval for the issuance of securities for the purpose of refunding certain high interest Bonds of the Association held by USDA, Rural Development.

Please be advised that the Association is requesting the Commission to expedite this Application and issue the approving Order on or before January 29, 2015 due to the fact that an upward shift in the current interest rate market could negate any interest cost savings to the Association.

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. Kevin Cornette, Fleming County Water Association
Ms. Kristen Millard, Raymond James and Associates

RECEIVED

JAN 7 2015

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

THE APPLICATION OF THE FLEMING COUNTY)
 WATER ASSOCIATION, INC., TO)
 ISSUE SECURITIES IN THE APPROXIMATE)
 PRINCIPAL AMOUNT OF \$790,000 FOR)
 THE PURPOSE OF REFUNDING CERTAIN)
 OUTSTANDING INDEBTEDNESS OF THE) Case No. 2014 - _____
 ASSOCIATION PURSUANT TO THE PROVISIONS)
 OF KRS 278.300 AND 807 KAR 5:001)

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

APPLICATION

The Applicant, Fleming County Water Association, 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 \$790,000 (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 Fleming County, created and existing under the provisions of Chapter 273 of the Kentucky Revised Statutes. The Association was incorporated in the Commonwealth of Kentucky on October 9, 1969 and is currently in good standing with the Kentucky Secretary of State. 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:

Fleming County Water Association, Inc.
c/o Mr. Kevin Cornette, Superintendent
P.O. Box 327
Flemingsburg, Kentucky 41041
Telephone: (606) 845-3981
Fax: (606) 845-3982
Email: kcornette@altiusbb.com

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 2013 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 \$790,000 (subject to adjustment of up to 10%) (the "KRWFC Loan") for the purpose of refunding the outstanding indebtedness of the Association designated as (i) Fleming County Water Association Promissory Note, dated July 14, 1992, in the original principal amount of \$504,000, bearing interest at the rate of 5.00% per annum (the "1992 Note"); and (ii) Fleming County Water Association Promissory Note, dated April 23, 1997, in the original principal amount of \$529,000, bearing interest at the rate of 5.00% per annum (the "1997 Note") (hereinafter the 1992 Note and the 1997 Note shall

be collectively referred to as the "Prior Loans"). All of said Prior Loans are currently held the United States Department of Agriculture, acting through Rural Development ("RD") .

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 present value cashflow savings of approximately \$59,402.47. 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 (i) Statement of Financial Position; (ii) Statement of Activities; and (iii) Statement of Cash Flows for the twelve month period ending on December 31, 2013 are attached hereto and incorporated herein by reference as **Exhibit E** respectively.

15. Pursuant to 807 KAR 5:001, Section 12 - Financial Exhibit; the Association hereby responds as follows:

- (i) Section 12(1)(b): The Association states that it had less than \$5,000,000 in gross annual revenue in the immediate past calendar year and that no material changes to the Association's financial condition have occurred since the end of the twelve (12) month period contained in the Association's most recent annual report on file with the Commission.
- (ii) Section 12(2)(a), (b) and (c) Stock: The Association does not have any authorized, issued or outstanding stock as of the date hereof.

- (iii) Section 12(2)(d) Mortgages: The Association's mortgages are attached hereto as **Exhibit F**.
 - (iv) Section 12(2)(e), (f) and (g) Indebtedness: The information concerning the outstanding indebtedness of the Association is contained in the 2013 Annual Report on file with this Commission.
 - (v) Section 12(2)(h) Dividends: The Association has no outstanding stock and therefore pays no dividends.
 - (vi) Section 12(2)(i) Financial Statements: See paragraph #14 above.
16. Pursuant to 807 KAR 5:001, Section 18, the Association hereby responds as follows:
- (i) Section 18(1)(a): The Association has complied with the requirements of 807 KAR 5:001, Section 14.
 - (ii) Section 18(1)(b): A general description of the Association's property, its field of operation and a statement of original cost of said property and the cost to the Association is contained in the Association's 2013 Annual Report on file with this Commission.
 - (iii) Section 18(1)(c): The Association is not issuing any stock as part of this financing. The information concerning the proposed KRWFC Loan is contained in this Application. The KRWFC Loan will be secured by and payable from the gross revenues of the Association's water system.
 - (iv) Section 18(1)(d): The proceeds of the KRWFC Loan are being used to refund the outstanding Prior Loans.

- (v) Section 18(1)(e): No property is being acquired with the proceeds of the KRWFC Loan.
- (vi) Section 18(1)(f): The details of the refunding of the Prior Loans are contained in this Application and the Exhibits hereto.
- (vii) Section 18(1)(g): Written notification of the proposed issuance of the KRWFC Loan is being provided to the State Local Debt Officer.
- (viii) Section 18(2)(a): See paragraph #15 above.
- (ix) Section 18(2)(b): The Association does not have any outstanding trust deeds. Copies of the Association's outstanding mortgages are attached hereto as **Exhibit F**.
- (x) Section 18(2)(c): No property is being acquired with the proceeds of the KRWFC Loan.

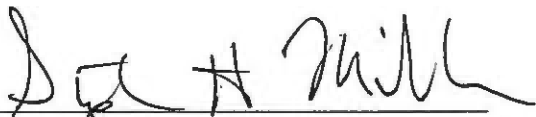
17. No rate adjustment will be necessary.

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

1. Authorize the issuance of the securities requested in the Application;
2. Due to the volatility of the present bond market and in order to achieve substantial interest cost savings to the Association by taking full advantage of current low interest rates, the Association requests that the Commission issued its Order on or before **January 29, 2015**; and
3. Process this Application without a formal hearing in order to save time and expense.

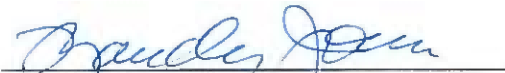
The Association will promptly respond to any information requests by the Commission's staff.

Fleming County Water Association, Inc.

By 

President
P.O. Box 327
Flemingsburg, Kentucky 41041
Phone: (606) 845-3981
Fax: (606) 845-3982
Email: kcornette@altiusbb.com

Rubin & Hays

By 

W. Randall Jones
450 South Third Street
Louisville, Kentucky 40202
Phone: (502) 569-7525
Fax: (502) 569-7555
Email: wrjones@rubinhays.com
Counsel for Fleming County Water
Association, Inc.

STATE OF KENTUCKY)
) SS
COUNTY OF FLEMING)

The affiant, Stephen H. Miller, being first duly sworn, states: That he is the President of the Fleming County Water Association, 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 22nd day of December, 2014.



Stephen H. Miller, President

SUBSCRIBED, SWORN TO AND ACKNOWLEDGED before me by Stephen H. Miller, President of the Fleming County Water Association, Inc., on this the 22nd day of December, 2014.

My Commission expires: 10-22-2017.



NOTARY PUBLIC
ID # 498054

\$790,000

Fleming County Water Association
Potential Refunding through the
Kentucky Rural Water Finance Corporation

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
12/15/2014	-	-	-	-	-
08/01/2015	-	-	17,592.21	17,592.21	17,592.21
12/31/2015	-	-	-	-	-
02/01/2016	30,000.00	0.700%	14,011.50	44,011.50	-
08/01/2016	-	-	13,906.50	-	-
12/31/2016	-	-	-	-	57,918.00
02/01/2017	30,000.00	1.140%	13,906.50	43,906.50	-
08/01/2017	-	-	13,735.50	13,735.50	-
12/31/2017	-	-	-	-	57,642.00
02/01/2018	30,000.00	1.610%	13,735.50	43,735.50	-
08/01/2018	-	-	13,484.00	13,484.00	-
12/31/2018	-	-	-	-	57,229.50
02/01/2019	35,000.00	2.340%	13,494.00	48,494.00	-
08/01/2019	-	-	13,084.50	13,084.50	-
12/31/2019	-	-	-	-	61,578.50
02/01/2020	35,000.00	2.440%	13,084.50	48,084.50	-
08/01/2020	-	-	12,657.50	12,657.50	-
12/31/2020	-	-	-	-	60,742.00
02/01/2021	35,000.00	2.740%	12,657.50	47,657.50	-
08/01/2021	-	-	12,178.00	12,178.00	-
12/31/2021	-	-	-	-	59,835.50
02/01/2022	35,000.00	2.990%	12,178.00	47,178.00	-
08/01/2022	-	-	11,654.75	11,654.75	-
12/31/2022	-	-	-	-	58,832.75
02/01/2023	35,000.00	3.240%	11,654.75	46,654.75	-
08/01/2023	-	-	11,087.75	11,087.75	-
12/31/2023	-	-	-	-	57,742.50
02/01/2024	35,000.00	3.390%	11,087.75	46,087.75	-
08/01/2024	-	-	10,494.50	10,494.50	-
12/31/2024	-	-	-	-	56,582.25
02/01/2025	35,000.00	3.540%	10,494.50	45,494.50	-
08/01/2025	-	-	9,875.00	9,875.00	-
12/31/2025	-	-	-	-	55,169.50
02/01/2026	40,000.00	4.040%	9,875.00	49,875.00	-
08/01/2026	-	-	9,067.00	9,067.00	-
12/31/2026	-	-	-	-	58,942.00
02/01/2027	45,000.00	4.040%	9,067.00	54,067.00	-
08/01/2027	-	-	8,158.00	8,158.00	-
12/31/2027	-	-	-	-	62,225.00
02/01/2028	45,000.00	4.040%	8,158.00	53,158.00	-
08/01/2028	-	-	7,249.00	7,249.00	-
12/31/2028	-	-	-	-	60,407.00
02/01/2029	45,000.00	4.040%	7,249.00	52,249.00	-
08/01/2029	-	-	6,340.00	6,340.00	-
12/31/2029	-	-	-	-	58,589.00
02/01/2030	45,000.00	4.040%	6,340.00	51,340.00	-
08/01/2030	-	-	5,431.00	5,431.00	-
12/31/2030	-	-	-	-	56,771.00
02/01/2031	45,000.00	4.040%	5,431.00	50,431.00	-
08/01/2031	-	-	4,522.00	4,522.00	-
12/31/2031	-	-	-	-	54,953.00
02/01/2032	55,000.00	4.760%	4,522.00	59,522.00	-
08/01/2032	-	-	3,213.00	3,213.00	-
12/31/2032	-	-	-	-	62,735.00
02/01/2033	25,000.00	4.760%	3,213.00	28,213.00	-
08/01/2033	-	-	2,618.00	2,618.00	-
12/31/2033	-	-	-	-	30,811.00
02/01/2034	25,000.00	4.760%	2,618.00	27,618.00	-
08/01/2034	-	-	2,023.00	2,023.00	-
12/31/2034	-	-	-	-	29,641.00
02/01/2035	25,000.00	4.760%	2,023.00	27,023.00	-
08/01/2035	-	-	1,428.00	1,428.00	-
12/31/2035	-	-	-	-	28,451.00
02/01/2036	30,000.00	4.760%	1,428.00	31,428.00	-
08/01/2036	-	-	714.00	714.00	-
12/31/2036	-	-	-	-	31,142.00
02/01/2037	30,000.00	4.760%	714.00	30,714.00	-
12/31/2037	-	-	-	-	30,714.00
Total	\$790,000.00		\$377,465.71	\$1,167,465.71	

Yield Statistics

Bond Year Dollars	59,215.94
Average Life	11.691 Years
Average Coupon	4.0869205%
Net Interest Cost (NIC)	4,215,231.6%
True Interest Cost (TIC)	4,189,243.3%
Bond Yield for Arbitrage Purposes	4,019,910.6%
All Inclusive Cost (AIC)	4,498,051.7%

IRS Form 8038

Net Interest Cost	4,086,920.5%
Weighted Average Maturity	11.691 Years

Public Finance

Raymond James

\$790,000

Fleming County Water Association
Potential Refunding through the
Kentucky Rural Water Finance Corporation

Total Issue Sources And Uses

Dated 12/15/2014 | Delivered 12/15/2014

	Sereis 1992	Series 1997	Issue Summary
Sources Of Funds			
Par Amount of Bonds	\$360,000.00	\$430,000.00	\$790,000.00
Transfers from Prior Issue Debt Service Funds	12,449.69	18,294.12	30,743.81
Total Sources	\$372,449.69	\$448,294.12	\$820,743.81
Uses Of Funds			
Total Underwriter's Discount (1.500%)	5,400.00	6,450.00	11,850.00
Costs of Issuance	6,539.24	7,810.76	14,350.00
Deposit to Current Refunding Fund	356,601.20	436,650.63	793,251.83
Rounding Amount	3,909.25	(2,617.27)	1,291.98
Total Uses	\$372,449.69	\$448,294.12	\$820,743.81

\$790,000

Fleming County Water Association
Potential Refunding through the
Kentucky Rural Water Finance Corporation

Debt Service Comparison

Date	Total P+I	Expenses	Net New D/S	Old Net D/S	Savings
12/31/2014	-	-	-	-	-
12/31/2015	17,592.21	450.00	18,042.21	61,240.62	43,198.41
12/31/2016	57,918.00	450.00	58,368.00	61,240.61	2,872.61
12/31/2017	57,642.00	450.00	58,092.00	61,240.61	3,148.61
12/31/2018	57,229.50	450.00	57,679.50	61,240.60	3,561.10
12/31/2019	61,578.50	450.00	62,028.50	61,240.60	(787.90)
12/31/2020	60,742.00	450.00	61,192.00	61,240.61	48.61
12/31/2021	59,835.50	450.00	60,285.50	61,240.62	955.12
12/31/2022	58,832.75	450.00	59,282.75	61,240.61	1,957.86
12/31/2023	57,742.50	450.00	58,192.50	61,240.61	3,048.11
12/31/2024	56,582.25	450.00	57,032.25	61,240.61	4,208.36
12/31/2025	55,369.50	450.00	55,819.50	61,240.61	5,421.11
12/31/2026	58,942.00	450.00	59,392.00	61,240.62	1,848.62
12/31/2027	62,225.00	450.00	62,675.00	61,240.61	(1,434.39)
12/31/2028	60,407.00	450.00	60,857.00	61,240.60	383.60
12/31/2029	58,589.00	450.00	59,039.00	61,240.61	2,201.61
12/31/2030	56,771.00	450.00	57,221.00	61,240.61	4,019.61
12/31/2031	54,953.00	450.00	55,403.00	61,240.61	5,837.61
12/31/2032	62,735.00	450.00	63,185.00	61,240.61	(1,944.39)
12/31/2033	30,831.00	450.00	31,281.00	31,361.35	80.35
12/31/2034	29,641.00	450.00	30,091.00	31,361.36	1,270.36
12/31/2035	28,451.00	450.00	28,901.00	31,361.36	2,460.36
12/31/2036	32,142.00	450.00	32,592.00	31,361.35	(1,230.65)
12/31/2037	30,714.00	450.00	31,164.00	31,361.36	197.36
Total	\$1,167,465.71	\$10,350.00	\$1,177,815.71	\$1,259,137.76	\$81,322.05

PV Analysis Summary (Net to Net)

Net FV Cashflow Savings	81,322.05
Gross PV Debt Service Savings	65,989.84
Effects of changes in Expenses	(6,587.38)
Net PV Cashflow Savings @ 4.498%(AIC)	59,402.47
Transfers from Prior Issue Debt Service Fund	(30,743.81)
Contingency or Rounding Amount	1,291.98
Net Present Value Benefit	\$29,950.64
Net PV Benefit / \$772,296 Refunded Principal	3.878%
Net Future Value Benefit	\$51,870.22
Net PV Benefit / \$790,000 Refunding Principal	3.791%

Average Annual Cash Flow Savings	3,388.42
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Refunding Bond Information

Refunding Dated Date	12/15/2014
Refunding Delivery Date	12/15/2014

Raymond James

\$504,000

Fleming County Water Association

Series 1992

Total Refunded Debt Service

Date	Principal	Coupon	Interest	Total P+I
12/31/2015	12,415.45	5.000%	17,463.81	29,879.26
12/31/2016	13,036.22	5.000%	16,843.03	29,879.25
12/31/2017	13,688.03	5.000%	16,191.22	29,879.25
12/31/2018	14,372.43	5.000%	15,506.82	29,879.25
12/31/2019	15,091.05	5.000%	14,788.20	29,879.25
12/31/2020	15,845.60	5.000%	14,033.65	29,879.25
12/31/2021	16,637.89	5.000%	13,241.37	29,879.26
12/31/2022	17,469.78	5.000%	12,409.47	29,879.25
12/31/2023	18,343.27	5.000%	11,535.98	29,879.25
12/31/2024	19,260.43	5.000%	10,618.82	29,879.25
12/31/2025	20,223.45	5.000%	9,655.80	29,879.25
12/31/2026	21,234.63	5.000%	8,644.63	29,879.26
12/31/2027	22,296.36	5.000%	7,582.89	29,879.25
12/31/2028	23,411.17	5.000%	6,468.08	29,879.25
12/31/2029	24,581.73	5.000%	5,297.52	29,879.25
12/31/2030	25,810.82	5.000%	4,068.43	29,879.25
12/31/2031	27,101.36	5.000%	2,777.89	29,879.25
12/31/2032	28,456.43	5.000%	1,422.82	29,879.25
Total	\$349,276.10	-	\$188,550.43	\$537,826.53

Yield Statistics

Base date for Avg. Life & Avg. Coupon Calculation	12/15/2014
Average Life	10.377 Years
Average Coupon	5.000004%
Weighted Average Maturity (Par Basis)	10.377 Years

Refunding Bond Information

Refunding Dated Date	12/15/2014
Refunding Delivery Date	12/15/2014

\$529,000

Fleming County Water Association
Series 1997

Total Refunded Debt Service

Date	Principal	Coupon	Interest	Total P+I
12/31/2015	10,210.36	5.000%	21,151.00	31,361.36
12/31/2016	10,720.88	5.000%	20,640.48	31,361.36
12/31/2017	11,256.92	5.000%	20,104.44	31,361.36
12/31/2018	11,819.76	5.000%	19,541.59	31,361.35
12/31/2019	12,410.75	5.000%	18,950.60	31,361.35
12/31/2020	13,031.29	5.000%	18,330.07	31,361.36
12/31/2021	13,682.86	5.000%	17,678.50	31,361.36
12/31/2022	14,367.00	5.000%	16,994.36	31,361.36
12/31/2023	15,085.35	5.000%	16,276.01	31,361.36
12/31/2024	15,839.62	5.000%	15,521.74	31,361.36
12/31/2025	16,631.60	5.000%	14,729.76	31,361.36
12/31/2026	17,463.18	5.000%	13,898.18	31,361.36
12/31/2027	18,336.34	5.000%	13,025.02	31,361.36
12/31/2028	19,253.15	5.000%	12,108.20	31,361.35
12/31/2029	20,215.81	5.000%	11,145.55	31,361.36
12/31/2030	21,226.60	5.000%	10,134.76	31,361.36
12/31/2031	22,287.93	5.000%	9,073.43	31,361.36
12/31/2032	23,402.33	5.000%	7,959.03	31,361.36
12/31/2033	24,572.44	5.000%	6,788.91	31,361.35
12/31/2034	25,801.07	5.000%	5,560.29	31,361.36
12/31/2035	27,091.12	5.000%	4,270.24	31,361.36
12/31/2036	28,445.67	5.000%	2,915.68	31,361.35
12/31/2037	29,867.96	5.000%	1,493.40	31,361.36
Total	\$423,019.99	-	\$298,291.24	\$721,311.23

Yield Statistics

Base date for Avg. Life & Avg. Coupon Calculation	12/15/2014
Average Life	13.458 Years
Average Coupon	5.0000001%
Weighted Average Maturity (Par Basis)	13.458 Years

Refunding Bond Information

Refunding Dated Date	12/15/2014
Refunding Delivery Date	12/15/2014

FLEMING COUNTY WATER ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2013

ASSETS

CURRENT ASSETS

Cash - Unrestricted	\$ 456,101
Cash - Restricted	226,725
Accounts Receivable	132,189
Unbilled Receivables	82,007
Inventory	60,012
Prepaid Expenses	<u>9,965</u>
 Total Current Assets	 966,999

NONCURRENT ASSETS

Cash - Restricted	<u>203,070</u>
 Total Noncurrent Assets	 203,070

PROPERTY AND EQUIPMENT
(Net of Accumulated Depreciation)

Land	54,273
Construction In Progress	1,063
Land Improvements	48,424
Buildings and Building Improvements	143,350
Machinery and Equipment	90,873
Vehicles	49,938
Tools, Shop and Garage Equipment	2,233
Communication Equipment	137
Office Furniture and Equipment	12,768
Water Lines	7,358,048
Tanks and Pumping Equipment	<u>492,195</u>
 Total Property and Equipment	 <u>8,253,302</u>

TOTAL ASSETS	<u>\$ 9,423,371</u>
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The accompanying notes are an integral part of the financial statements.

FLEMING COUNTY WATER ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2013

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accrued Payroll Taxes	\$	2,879
Accrued Salaries		3,015
Accounts Payable		69,221
Unearned Revenues		6,457
Accrued School and Sales Tax		5,293
Accrued Interest		47,014
Notes Payable		<u>68,800</u>
 Total Current Liabilities		 202,679

LONG-TERM LIABILITIES

Compensated Absences		77,615
Notes Payable		<u>2,635,179</u>
 Total Long-Term Liabilities		 2,712,794

OTHER LIABILITIES

Customer Deposits		<u>56,053</u>
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TOTAL LIABILITIES		2,971,526
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NET ASSETS

Temporarily Restricted		429,795
Unrestricted		<u>6,022,050</u>

TOTAL NET ASSETS		<u>6,451,845</u>
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TOTAL LIABILITIES AND NET ASSETS	\$	<u><u>9,423,371</u></u>
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The accompanying notes are an integral part of the financial statements.

FLEMING COUNTY WATER ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2013

CHANGE IN UNRESTRICTED NET ASSETS:

OPERATING REVENUES

Water Collection	\$ 1,678,985
Utility Relocation Proceeds	111,613
Late Penalties	36,196
Member Dues	2,900
Tap-On Fees	34,355
Miscellaneous Services	<u>43,877</u>
 Net Operating Revenues	 1,907,926

OPERATING EXPENSES

Salaries and Wages - Employees	336,466
Salaries and Wages - Directors	13,400
Employee Benefits	120,438
Purchased Water	612,856
Purchased Power	17,013
Taxes Other Than Income	26,637
Materials and Supplies	63,739
Contracted Services	49,427
Transportation Expense	42,663
Insurance	21,024
Advertising	493
Depreciation	266,918
Waterline Relocation Expenses	121,106
Miscellaneous Expenses	<u>23,915</u>
 Total Operating Expenses	 <u>1,716,095</u>

NET OPERATING INCOME 191,831

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

FLEMING COUNTY WATER ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2013

NON OPERATING REVENUES (EXPENSES)

Interest Expense	(128,675)
Interest Income	<u>720</u>
Total Non Operating Revenues (Expenses)	<u>(127,955)</u>

Change in Unrestricted Net Assets: 63,876

CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:

REVENUE

Investment Income	<u>1,284</u>
Change in Temporarily Restricted Net Assets:	1,284
Net Assets- Beginning	<u>6,386,685</u>
Total Net Assets - Ending	<u>\$ 6,451,845</u>

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

FLEMING COUNTY WATER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Payments from Customers	\$ 1,730,965
Late Penalties	36,196
Miscellaneous Services	43,877
Utility Relocation Proceeds	111,613
Member Dues	2,900
Payments to Vendors	(943,374)
Payments for Payroll and Related Expenses	<u>(518,846)</u>
Net Cash Provided/(Used) by Operating Activities:	463,331

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Additions to Capital Assets	(91,245)
Net (Deposits)/Withdrawals into or from Dep. Reserve Fund	(608)
Net (Deposits)/Withdrawals into or from Debt Service Fund	(678)
Net (Deposits)/Withdrawals into or from Construction Account	(505)
Interest Paid on Capital Debt	(134,549)
Reduction in Notes Payable	<u>(174,745)</u>
Net Cash Provided/(Used) by Capital and Related Financing Activities	\$ (402,330)

CASH FLOWS FROM INVESTING ACTIVITIES

Cash Received From Interest	<u>\$ 2,006</u>
Net Cash Provided/(Used) by Investing Activities	<u>2,006</u>

INCREASE/(DECREASE) IN CASH 63,007

CASH AT BEGINNING OF YEAR 393,094

CASH AT END OF YEAR \$ 456,101

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

FLEMING COUNTY WATER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS (Continued)
For The Year Ended December 31, 2013

Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:

Net Operating Income	\$ 191,831
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	266,918
Changes in Assets/Liabilities:	
Accounts Receivable	3,287
Inventory	30
Accounts Payable	9,460
Accrued Payroll Taxes	(207)
Compensated Absences	(21,698)
Accrued School and Sales Tax	(628)
Customer Deposits	<u>14,338</u>
Net Cash Provided/Used by Operating Activities	<u>\$ 463,331</u>

Supplementary Information

Total Interest Cost	\$ 128,604
Interest Paid to Customers for Deposits	<u>71</u>
Interest Cost Charged to Operations	<u>\$ 128,675</u>

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

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Form RD 3550-14 KY
(11-96)

Space Above This Line For Recording Date

Form Approved
OMB No. 0575-0172

United States Department of Agriculture
Rural Housing Service

MORTGAGE FOR KENTUCKY

THIS MORTGAGE ("Security Instrument") is made on August 18, 2004. [Date]
The mortgagor is FLEMING COUNTY WATER ASSOCIATION, INC. ("Borrower").

This Security Instrument is given to the United States of America acting through the Rural Housing Service or successor agency, United States Department of Agriculture ("Lender"), whose address is Rural Housing Service, c/o Centralized Servicing Center, United States Department of Agriculture, P.O. Box 66889, St. Louis, Missouri 63166.

Borrower is indebted to Lender under the following promissory notes and/or assumption agreements (herein collectively called "Note") which have been executed or assumed by Borrower and which provide for monthly payments, with the full debt, if not paid earlier, due and payable on the maturity date:

<u>Date of Instrument</u>	<u>Principal Amount</u>	<u>Maturity Date</u>
SEE ATTACHMENT "A"		

This Security Instrument secures to Lender: (a) the repayment of the debt evidenced by the Note, with interest, and all renewals, extensions and modifications of the Note; (b) the payment of all other sums, with interest, advanced under paragraph 7 to protect the property covered by this Security Instrument; (c) the performance of Borrower's covenants and agreements under this Security Instrument and the Note, and (d) the recapture of any payment assistance and subsidy which may be granted to the Borrower by the Lender pursuant to 42 U.S.C. §§ 1472(g) or 1490a. For this purpose, Borrower does hereby mortgage, grant, and convey to Lender the following described property located in the County of Fleming, State of Kentucky

SEE SCHEDULE "A"

which has the address of 2772 Morehead Road Flemingsburg
Kentucky 41041 [ZIP] [Street] [City]
("Property Address");

TOGETHER WITH all the improvements now or hereafter erected on the property, and all easements, appurtenances, and fixtures which now or hereafter are a part of the property. All replacements and additions shall also be covered by this Security Instrument. All of the foregoing is referred to in this Security Instrument as the "Property."

BORROWER COVENANTS that Borrower is lawfully seised of the estate hereby conveyed and has the right to grant and convey the Property and that the Property is unencumbered, except for encumbrances of record.

Public reporting burden for this collection of information is estimated to average 15 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the U.S. Department of Agriculture, Clearance Officer, STOP-7602, 1400 Independence Ave., SW, Washington, D.C. 20250-7602. Please DO NOT RETURN this form to this address. Forward to the local USDA office only. You are not required to respond to this collection of information unless it displays a currently valid OMB number.

Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

THIS SECURITY INSTRUMENT combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property.

UNIFORM COVENANTS. Borrower and Lender covenant and agree as follows:

1. **Payment of Principal and Interest; Prepayment and Late Charges.** Borrower shall promptly pay when due the principal of and interest on the debt evidenced by the Note and any prepayment and late charges due under the Note.

2. **Funds for Taxes and Insurance.** Subject to applicable law or to a written waiver by Lender, Borrower shall pay to Lender on the day monthly payments are due under the Note, until the Note is paid in full, a sum ("Funds") for: (a) yearly taxes and assessments which may attain priority over this Security Instrument as a lien on the Property; (b) yearly leasehold payments or ground rents on the Property, if any; (c) yearly hazard or property insurance premiums; and (d) yearly flood insurance premiums, if any. These items are called "Escrow Items." Lender may, at any time, collect and hold Funds in an amount not to exceed the maximum amount a lender for a federally related mortgage loan may require for Borrower's escrow account under the federal Real Estate Settlement Procedures Act of 1974 as amended from time to time, 12 U.S.C. § 2601 *et seq.* ("RESPA"), unless another law or federal regulation that applies to the Funds sets a lesser amount. If so, Lender may, at any time, collect and hold Funds in an amount not to exceed the lesser amount. Lender may estimate the amount of Funds due on the basis of current data and reasonable estimates of expenditures of future Escrow Items or otherwise in accordance with applicable law.

The Funds shall be held by a federal agency (including Lender) or in an institution whose deposits are insured by a federal agency, instrumentality, or entity. Lender shall apply the Funds to pay the Escrow Items. Lender may not charge Borrower for holding and applying the Funds, annually analyzing the escrow account, or verifying the Escrow Items, unless Lender pays Borrower interest on the Funds and applicable law permits Lender to make such a charge. However, Lender may require Borrower to pay a one-time charge for an independent real estate tax reporting service used by Lender in connection with this loan, unless applicable law provides otherwise. Unless an agreement is made or applicable law requires interest to be paid, Lender shall not be required to pay Borrower any interest or earnings on the Funds. Borrower and Lender may agree in writing, however, that interest shall be paid on the Funds. Lender shall give to Borrower, without charge, an annual accounting of the Funds, showing credits and debits to the Funds and the purpose for which each debit to the Funds was made. The Funds are pledged as additional security for all sums secured by this Security Instrument.

If the Funds held by Lender exceed the amounts permitted to be held by applicable law, Lender shall account to Borrower for the excess funds in accordance with the requirements of applicable law. If the amount of the Funds held by Lender at any time is not sufficient to pay the Escrow Items when due, Lender may so notify Borrower in writing, and, in such case Borrower shall pay to Lender the amount necessary to make up the deficiency. Borrower shall make up the deficiency in no more than twelve monthly payments, at Lender's sole discretion.

Upon payment in full of all sums secured by this Security Instrument, Lender shall promptly refund to Borrower any Funds held by Lender. If Lender shall acquire or sell the Property after acceleration under paragraph 22, Lender, prior to the acquisition or sale of the Property, shall apply any Funds held by Lender at the time of acquisition or sale as a credit against the sums secured by this Security Instrument.

3. **Application of Payments.** Unless applicable law or Lender's regulations provide otherwise, all payments received by Lender under paragraphs 1 and 2 shall be applied in the following order of priority: (1) to advances for the preservation or protection of the Property or enforcement of this lien; (2) to accrued interest due under the Note; (3) to principal due under the Note; (4) to amounts required for the escrow items under paragraph 2; (5) to late charges and other fees and charges.

4. **Charges; Liens.** Borrower shall pay all taxes, assessments, charges, fines and impositions attributable to the Property which may attain priority over this Security Instrument, and leasehold payments or ground rents, if any. Borrower shall pay these obligations in the manner provided in paragraph 2, or if not paid in that manner, Borrower shall pay them on time directly to the person owed payment. Borrower shall promptly furnish to Lender all notices of amounts to be paid under this paragraph. If Borrower makes these payments directly, Borrower shall promptly furnish to Lender receipts evidencing the payments.

Borrower shall promptly discharge any lien which has priority over this Security Instrument unless Lender has agreed in writing to such lien or Borrower: (a) agrees in writing to the payment of the obligation secured by the lien in a manner acceptable to Lender; (b) contests in good faith the lien by, or defends against enforcement of the lien in, legal proceedings which in the Lender's opinion operate to prevent the enforcement of the lien; or (c) secures from the holder of the lien an agreement satisfactory to Lender subordinating the lien to this Security Instrument. If Lender determines that any part of the Property is subject to a lien which may attain priority over this Security Instrument, Lender may give Borrower a notice identifying the lien. Borrower shall satisfy the lien or take one or more of the actions set forth above within ten (10) days of the giving of notice.

Borrower shall pay to Lender such fees and other charges as may now or hereafter be required by regulations of Lender, and pay or reimburse Lender for all of Lender's fees, costs, and expenses in connection with any full or partial release or subordination of this instrument or any other transaction affecting the property.

5. **Hazard or Property Insurance.** Borrower shall keep the improvements now existing or hereafter erected on the Property insured against loss by fire, hazards included within the term "extended coverage" and any other hazards, including floods or flooding, for which Lender requires insurance. This insurance shall be maintained in the amounts and for the periods that Lender requires. The insurer providing the insurance shall be chosen by Borrower subject to Lender's approval which shall not be unreasonably withheld. If Borrower fails to maintain coverage described above, at Lender's option Lender may obtain coverage to protect Lender's rights in the Property pursuant to paragraph 7.

All insurance policies and renewals shall be in a form acceptable to Lender and shall include a standard mortgagee clause. Lender shall have the right to hold the policies and renewals. If Lender requires, Borrower shall promptly give to Lender all receipts of paid premiums and renewal notices. In the event of loss, Borrower shall give prompt notice to the insurance carrier and Lender. Lender may make proof of loss if not made promptly by Borrower.

Unless Lender and Borrower otherwise agree in writing, insurance proceeds shall be applied to restoration or repair of the Property damaged, if the restoration or repair is economically feasible and Lender's security is not lessened. If the restoration or repair is not economically feasible or Lender's security would be lessened, the insurance proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with any excess paid to Borrower. If Borrower abandons the Property, or does not answer within thirty (30) days a notice from Lender that the insurance carrier has offered to settle a claim, then Lender may collect the insurance proceeds. Lender may use the proceeds to repair or restore the Property or to pay sums secured by this Security Instrument, whether or not then due. The thirty (30) day period will begin when the notice is given.

Unless Lender and Borrower otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the monthly payments referred to in paragraphs 1 and 2 or change the amount of the payments. If after acceleration the Property is acquired by Lender, Borrower's right to any insurance policies and proceeds resulting from damage to the Property prior to the acquisition shall pass to Lender to the extent of the sums secured by this Security Instrument immediately prior to the acquisition.

6. **Preservation, Maintenance, and Protection of the Property; Borrower's Loan Application; Leaseholds.** Borrower shall not destroy, damage or impair the Property, allow the Property to deteriorate, or commit waste on the Property. Borrower shall maintain the improvements in good repair and make repairs required by Lender. Borrower shall comply with all laws, ordinances, and regulations affecting the Property. Borrower shall be in default if any forfeiture action or proceeding, whether civil or criminal, is begun that in Lender's good faith judgment could result in forfeiture of the Property or otherwise materially impair the lien created by this Security Instrument or Lender's security interest. Borrower may cure such a default by causing the action or proceeding to be dismissed with a ruling that, in Lender's good faith determination, precludes forfeiture of the Borrower's interest in the Property or other material impairment of the lien created by this Security Instrument or Lender's security interest. Borrower shall also be in default if Borrower, during the loan application process, gave materially false or inaccurate information or statements to Lender (or failed to provide Lender with any material information) in connection with the loan evidenced by the Note. If this Security Instrument is on a leasehold, Borrower shall comply with all the provisions of the lease. If Borrower acquires fee title to the Property, the leasehold and the fee title shall not merge unless Lender agrees to the merger in writing.

7. **Protection of Lender's Rights in the Property.** If Borrower fails to perform the covenants and agreements contained in this Security Instrument, or there is a legal proceeding that may significantly affect Lender's rights in the Property (such as a proceeding in bankruptcy, probate, for condemnation or forfeiture or to enforce laws or regulations), then Lender may do and pay for whatever is necessary to protect the value of the Property and Lender's rights in the Property. Lender's actions may include paying any sums secured by a lien which has priority over this Security Instrument, appearing in court, paying reasonable attorneys' fees and entering on the Property to make repairs. Although Lender may take action under this paragraph 7, Lender is not required to do so.

Any amounts disbursed by Lender under this paragraph 7 shall become additional debt of Borrower secured by this Security Instrument. Unless Borrower and Lender agree to other terms of payment, these amounts shall bear interest from the date of disbursement at the Note rate and shall be payable, with interest, upon notice from Lender to Borrower requesting payment.

8. **Refinancing.** If at any time it shall appear to Lender that Borrower may be able to obtain a loan from a responsible cooperative or private credit source, at reasonable rates and terms for loans for similar purposes, Borrower will, upon the Lender's request, apply for and accept such loan in sufficient amount to pay the note and any indebtedness secured hereby in full.

9. **Inspection.** Lender or its agent may make reasonable entries upon and inspections of the Property. Lender shall give Borrower notice at the time of or prior to an inspection specifying reasonable cause for the inspection.

10. **Condemnation.** The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of any part of the Property, or for conveyance in lieu of condemnation, are hereby assigned and shall be paid to Lender. In the event of a total taking of the Property, the proceeds shall be

applied to the sums secured by this Security Instrument, whether or not then due, with any excess paid to Borrower. In the event of a partial taking of the Property in which the fair market value of the Property immediately before the taking is equal to or greater than the amount of the sums secured by this Security Instrument immediately before the taking, unless Borrower and Lender otherwise agree in writing, the sums secured by this Security Instrument shall be reduced by the amount of the proceeds multiplied by the following fraction: (a) the total amount of the sums secured immediately before the taking, divided by (b) the fair market value of the Property immediately before the taking. Any balance shall be paid to Borrower. In the event of a partial taking of the Property in which the fair market value of the Property immediately before the taking is less than the amount of the sums secured hereby immediately before the taking, unless Borrower and Lender otherwise agree in writing or unless applicable law otherwise provides, the proceeds shall be applied to the sums secured by this Security Instrument whether or not the sums are then due.

If the Property is abandoned by Borrower, or if, after notice by Lender to Borrower that the condemnor offers to make an award or settle a claim for damages, Borrower fails to respond to Lender within thirty (30) days after the date the notice is given, Lender is authorized to collect and apply the proceeds, at its option, either to restoration or repair of the Property or to the sums secured by this Security Instrument, whether or not then due. Unless Lender and Borrower otherwise agree in writing, any application of proceeds to principal shall not extend or postpone the due date of the monthly payments referred to in paragraphs 1 and 2 or change the amount of such payments.

11. Borrower Not Released; Forbearance By Lender Not a Waiver. Extension of the time for payment or modification of amortization of the sums secured by this Security Instrument granted by Lender to Borrower and any successor in interest of Borrower shall not operate to release the liability of the original Borrower or Borrower's successors in interest. Lender shall not be required to commence proceedings against any successor in interest or refuse to extend time for payment or otherwise modify amortization of the sums secured by this Security Instrument by reason of any demand made by the original Borrower or Borrower's successors in interest. Any forbearance by Lender in exercising any right or remedy shall not be a waiver of or preclude the exercise of any right or remedy.

12. Successors and Assigns Bound; Joint and Several Liability; Co-signers. The covenants and agreements of this Security Instrument shall bind and benefit the successors and assigns of Lender and Borrower, subject to the provisions of paragraph 16. Borrower's covenants and agreements shall be joint and several. Any Borrower who co-signs this Security Instrument but does not execute the Note: (a) is co-signing this Security Instrument only to mortgage, grant and convey that Borrower's interest in the Property under the terms of this Security Instrument; (b) is not personally obligated to pay the sums secured by this Security Instrument; and (c) agrees that Lender and any other Borrower may agree to extend, modify, forbear or make any accommodations with regard to the terms of this Security Instrument or the Note without that Borrower's consent.

13. Notices. Any notice to Borrower provided for in this Security Instrument shall be given by delivering it or by mailing it by first class mail unless applicable law requires use of another method. The notice shall be directed to the Property Address or any other address Borrower designates by notice to Lender. Any notice to Lender shall be given by first class mail to Lender's address stated herein or any other address Lender designates by notice to Borrower. Any notice provided for in this Security Instrument shall be deemed to have been given to Borrower or Lender when given as provided in this paragraph.

14. Governing Law; Severability. This Security Instrument shall be governed by federal law. In the event that any provision or clause of this Security Instrument or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Security Instrument or the Note which can be given effect without the conflicting provision. To this end the provisions of this Security Instrument and the Note are declared to be severable. This instrument shall be subject to the present regulations of Lender, and to its future regulations not inconsistent with the express provisions hereof. All powers and agencies granted in this instrument are coupled with an interest and are irrevocable by death or otherwise; and the rights and remedies provided in this instrument are cumulative to remedies provided by law.

15. Borrower's Copy. Borrower acknowledges receipt of one conformed copy of the Note and of this Security Instrument.

16. Transfer of the Property or a Beneficial Interest in Borrower. If all or any part of the Property or any interest in it is leased for a term greater than three (3) years, leased with an option to purchase, sold, or transferred (or if a beneficial interest in Borrower is sold or transferred and Borrower is not a natural person) without Lender's prior written consent, Lender may, at its option, require immediate payment in full of all sums secured by this Security Instrument.

17. Nondiscrimination. If Borrower intends to sell or rent the Property or any part of it and has obtained Lender's consent to do so (a) neither Borrower nor anyone authorized to act for Borrower, will refuse to negotiate for the sale or rental of the Property or will otherwise make unavailable or deny the Property to anyone because of race, color, religion, sex, national origin, handicap, age, or familial status, and (b) Borrower recognizes as illegal and hereby disclaims and will not comply with or attempt to enforce any restrictive covenants on dwelling relating to race, color, religion, sex, national origin, handicap, age or familial status.

18. Sale of Note; Change of Loan Servicer. The Note or a partial interest in the Note (together with this Security Instrument) may be sold one or more times without prior notice to Borrower. A sale may result in a change in the entity (known as the "Loan Servicer") that collects monthly payments due under the Note and this Security

Instrument. There also may be one or more changes of the Loan Servicer unrelated to a sale of the Note. If there is a change of the Loan Servicer, Borrower will be given written notice of the change in accordance with paragraph 13 above and applicable law. The notice will state the name and address of the new Loan Servicer and the address to which payments should be made.

19. **Uniform Federal Non-Judicial Foreclosure.** If a uniform federal non-judicial foreclosure law applicable to foreclosure of this security instrument is enacted, Lender shall have the option to foreclose this instrument in accordance with such federal procedure.

20. **Hazardous Substances.** Borrower shall not cause or permit the presence, use, disposal, storage, or release of any hazardous substances on or in the Property. The preceding sentence shall not apply to the presence, use, or storage on the Property of small quantities of hazardous substances that are generally recognized to be appropriate to normal residential uses and to maintenance of the Property. Borrower shall not do, nor allow anyone else to do, anything affecting the Property that is in violation of any federal, state, or local environmental law or regulation.

Borrower shall promptly give Lender written notice of any investigation, claim, demand, lawsuit or other action by any governmental or regulatory agency or private party involving the Property and any hazardous substance or environmental law or regulation of which Borrower has actual knowledge. If Borrower learns, or is notified by any governmental or regulatory authority, that any removal or other remediation of any hazardous substance affecting the Property is necessary, Borrower shall promptly take all necessary remedial actions in accordance with applicable environmental law and regulations.

As used in this paragraph "hazardous substances" are those substances defined as toxic or hazardous substances by environmental law and the following substances: gasoline, kerosene, other flammable or toxic petroleum products, toxic pesticides and herbicides, volatile solvents, materials containing asbestos or formaldehyde, and radioactive materials. As used in this paragraph, "environmental law" means federal laws and regulations and laws and regulations of the jurisdiction where the Property is located that relate to health, safety or environmental protection.

21. **Cross Collateralization.** Default hereunder shall constitute default under any other real estate security instrument held by Lender and executed or assumed by Borrower, and default under any other such security instrument shall constitute default hereunder.

NON-UNIFORM COVENANTS. Borrower and Lender further covenant and agree as follows:

22. **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, Lender, at its option, with or without notice, may: (a) declare the entire amount unpaid under the note and any indebtedness to Lender 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.

23. 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 Lender secured hereby, (d) inferior liens of record required by law or a competent court to be so paid, (e) at Lender's option, any other indebtedness of Borrower owing to Lender, and (f) any balance to Borrower. At foreclosure or other sale of all or any part of the Property, Lender and its agents may bid and purchase as a stranger and may pay Lender's share of the purchase price by crediting such amount on any debts of Borrower owing to Lender, in the order prescribed above.

24. Borrower agrees that Lender 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 Lender 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.

25. **Release.** Upon termination of this mortgage, after payment in full, the mortgagee, at Borrower'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

26. **Riders to this Security Instrument.** If one or more riders are executed by Borrower and recorded together with this Security Instrument, the covenants and agreements of each rider shall be incorporated into and

Attachment "A"

<u>Date of Instrument</u>	<u>Principal Amount</u>	<u>Maturity Date</u>
Aug. 18, 2004	\$544,000.00	Aug. 18, 2044
Nov. 22, 2000	\$284,780.00	Nov. 22, 2040
April 23, 1997	\$529,000.00	Apr. 23, 2037
Oct. 13, 1997	\$700,000.00	Oct. 13, 2034
Oct. 13, 1994	\$185,600.00	Oct. 13, 2034
July 14, 1992	\$504,000.00	July 14, 2032
Dec. 13, 1988	\$300,000.00	Dec. 13, 2028
July 26, 1985	\$105,000.00	July 26, 2025
Feb. 12, 1981	\$260,000.00	Feb. 12, 2021
Jan. 12, 1971	\$561,000.00	Jan. 12, 2011

SCHEDULE A

TRACT NO. I: All that certain tract of land lying and being in the County of Fleming, State of Kentucky, located on the Flemingsburg to Mt. Carmel Road (Kentucky S.R. 57) approximately 1.2 miles from Mt. Carmel and being more particularly described as follows:

BEGINNING at a point in the northeast property line of S.D. Glascock Estate, also being a point in the southwest property line of Wm. Turner Estate, said point being 175.0 feet northwest of a fence corner which is common to the S.D. Glascock Estate, Wm. Turner Estate and the Ky. State Route 57 right of way; thence S 37 deg. 45' W a distance of 100.0 feet; thence N 52 deg. 15' W a distance of 100.0 feet; thence N 37 deg. 45' E a distance of 100.0 feet; thence 52 deg. 15' E a distance of 100.0 feet to the point of beginning. Containing 0.23 acre, more or less.

Being the same property as described in the conveyance from J.R. Glascock, et als, dated January 11, 1971, and recorded in Deed Book 131, Page 480, in the Office of the County Court Clerk of Fleming County, Kentucky.

TRACT NO. II: A certain tract or parcel of land lying and being in Fleming County, Kentucky, on the Parkersburg Road, and more particularly described as follows:

BEGINNING at a sycamore tree on the north side of Parkersburg Road, the tree being a corner of Harley Vice, Albert L. Moore and Ben and Minnie Conley; thence S 80 deg. 27' E 117.97 feet along the Harley Vice north line to a stake; thence N 24 deg. 30' E 90.3 feet to a stake; thence N 18 deg. 54' E 176.6 feet to a stake; thence N 0 deg. 16' W 130 feet to a stake; thence S 89 deg. 44' W 90 feet to a stake; thence S 77 deg. 43' W 96.2 feet to a stake; thence S 4 deg. 27' 10" W 339.82 feet along the east line of Albert L. Moore to the beginning, containing 1.42 acres, more or less.

Being the same property conveyed to Mortgagor by Ben Conley and Minnie Conley, his wife, by deed dated August 8, 1986, and recorded in D.B. 162, Page 279, in the Office of the County Court Clerk of Fleming County, Kentucky.

TRACT NO. III: A certain small parcel of land to be used as a control valve vault and more particularly described as follows:

BEGINNING at a corner post in the north right of way line of Ky. 158 between the property of Mrs. Ona B. Sorrell and Claude Sorrell; thence N 88 deg. 15' E 30 feet along the north right of way line of Ky. 158 to a stake; thence N 11 deg. 28' W 20 feet to a stake; thence S 88 deg. 15' W 30 feet to a stake in the west line of Claude Sorrell and the east line of Mrs. Ona B. Sorrell; thence along their common line S 11 deg. 28' E 20 feet to the point of beginning. Containing 0.014 acres, more or less.

Second party to build and maintain the fence between the parties hereto.

Being the same property conveyed to Mortgagor herein by Claude Sorrell and Opal Sorrell, his wife, by deed dated August 10, 1986, and recorded in D.B. 162, Page 380, all of record in the Office of the County Court Clerk of Fleming County, Kentucky.

TRACT NO. IV: A tract of land located near the Morehead Road in Fleming County, Kentucky, and more particularly described as follows:

BEGINNING 20 feet from a GTE utility pole and adjacent to the water line of second party and running in a Southeasterly direction 30 feet to a stake; thence leaving the water line in a Southwesterly direction 20 feet to a stake; thence at a right angle in a Northwesterly direction 30 feet to a stake; thence another right angle Northeasterly 20 feet to the point of beginning and containing what it may.

Being the same property conveyed to Mortgagor herein by Norman Story, Jr., and Barbara Jane Story, his wife, by deed dated June 1, 1987, and recorded in D.B. 163, Page 724, all of record in the Office of the County Court Clerk of Fleming County, Kentucky.

TRACT NO. V: BEGINNING at a point in the right of way of Ky. 32 at Station 182+20; thence with the Farmers-Deposit Bank line S 44 deg. 44' W for 182.02 feet to an iron rod; thence S 43 deg. 53' E for 602.83 feet; thence S 55 deg. 34' E for 324.74 feet to an iron rod; thence N 75 deg. 23' E for 67.02 feet; thence N 02 deg. 59' E for 286.48 feet to a point in the right of way of Ky. 32; thence with said right of way N 62 deg. 11' W for 70.00 feet; thence N 49 deg. 48' W for 396.83 feet; thence N 59 deg. 34' W for 316.11 feet to the beginning. This parcel contains 5.4112 Acres.

It is agreed and understood between the parties that the following easements and covenants shall be considered covenants running with the land and shall inure to and be binding upon the successors and assigns of each of the parties.

1. The parties shall jointly build a legal fence along the southern boundary of the property described above and the property retained by the Party of the First Part; said boundary is 994.59 feet as shown on the attached plat. Each party shall be responsible for one-half (1/2) the expense for the construction and maintenance of the new fence as well as the existing fences located on the east and west boundaries of the property.
2. Within a reasonable time after this conveyance, the Party of the Second Part shall clean and straighten, to the satisfaction of the Party of the First Part, the stream that runs along the southern boundary of the property conveyed this date.
3. The Party of the First Part reserves and retains for its nonexclusive use, an easement of ingress and egress along the northern boundary of the property herein conveyed adjoining Ky. Highway 32; said easement shall be 25 feet in width and begin at Station 182+20 and continue in an eastern direction a distance of 782.94 feet along the northern boundary of the property. Said easement is referred to as the frontage road on the attached plat. There shall be no building on

the frontage road and it shall be kept free from obstruction at all times and may be used for any purpose by the Party of the First Part or their successors and assigns.

4. The Party of the First Part reserves and retains a utility easement along the southern boundary of the property herein conveyed; said easement shall be 16 feet in width and begin 182.02 feet S 44 deg. 44' W of Station 182+20 and continue in an eastern direction a distance of 994.59 feet along the southern boundary of the property. Said easement is referred to as the utility easement on the attached plat.

5. The Party of the First Part grants unto the Party of the Second Part, a non-exclusive easement of ingress and egress along the Western boundary of the property herein conveyed. Said easement shall begin at Station 182+20 and be 50 feet wide and 50 feet deep. Said easement is referred to as the Easement of Ingress and Egress on the attached plat. This easement was part of the property conveyed the Party of the First Part by B.F. Smith, single, by deed dated January 16, 1988, recorded in D.B. 164, Page 783, Fleming County Clerk's Office.

6. The Party of the First Part agrees to execute and deliver unto the Party of the Second Part an underground utility easement to run a water, sewer and/or gas line across the land of the Party of the first Part from Meadow Lane, or Kentucky Highway #11, to the property herein conveyed. Said easement shall be 10 feet wide and located and staked by the Party of the Second Part within 90 days of the execution of this Deed. The First Party reserves the right to approve or disapprove the location of said easement so that it does not interfere with the use of the balance of the First Party's other land and said easements shall only leave Meadow Lane along the boundary at the two designated areas of ingress and egress to the First Party's other property. The Party of the First Part shall have the right to unlimited use and hook-ons to the water, sewer and/or gas lines which are installed.

Being the same land conveyed to Mortgagor by the Farmers-Deposit Bank by deed dated March 16, 1988, and recorded in Deed Book 165, Page 261, Fleming County Clerk's Office.

There is **EXCEPTED** from Tract No. V above, the following described real estate conveyed to Wayne Craft and Delores Craft, his wife, by deed dated June 20, 1990, and recorded in Deed Book 169, Page 641, Fleming County Clerks Office, and described as follows:

Beginning at a point in the right of way of Ky. 32 and a corner of Fleming County Water Association property; thence with said right of way S 49° 48' for 311.44 feet; thence S 62° 11' E for 70.0 feet; thence turning with the Perkins line S 02° 59' W for 286.48 feet to an iron rod; thence S 75° 23' W for 67.02 feet to an iron rod; thence N 55° 34' W for 324.74 feet to iron rod; thence N 43° 53' W for 138.15 feet to an iron rod; thence with the Fleming County Water Association property N 30° 40' E for 290.68 feet to the beginning and contains 3.0227 Acres.

<r/Mortgages/M-FlemingCoWaterAssn(11-00)>

SCHEDULE A - Tract V-A

BEGINNING at a forked elm tree in the boundary line of Belt and Landreth, said point being 737 feet from the Turner Road; thence northeast 75 feet to a stake; thence northwest 75 feet to a stake; thence southwest 75 feet to a stake; thence southeast 75 feet to the point of beginning and containing what it may.

Being the same property conveyed the Fleming County Water Association, Inc., from Lester Landreth and Jenny w. Landreth, his wife, by deed dated the 1st day of June, 1990 and recorded in D.B. 172, Page 42, Fleming County Clerk's Office.

SCHEDULE A - Tract V-B

A small tract of land located on Highway #170, near Elizaville, in Fleming County, Kentucky and more particularly described as follows:

Beginning at a point which is 92 feet from the line of Raymond McIntyre and 30 feet from the center of said highway; thence east 20 feet to a stake; thence south 30 feet; thence west 20 feet to the edge of the highway right of way; thence along the highway right of way, north a distance of 30 feet to the point of beginning and containing what it may.

Being the same land conveyed to mortgagor by Donald E. Brewer and Patricia C. Brewer, his wife, by deed dated August 4, 1990 and recorded in Deed Book 162, Page 380, Fleming County Clerk's Office.

SCHEDULE A- Tract VI:

A small tract of land on the gravel road off Highway No. 559 to be used for a water tank site and more particularly described as follows:

BEGINNING at a point which is 85 feet from the center line of Ky. Highway No. 559, and 48 feet from the center of the Pea Ridge Road (gravel road) which is marked with an iron stake; thence North 75 feet to a stake; thence West 75 feet to a stake; thence South 75 feet to a stake which is 55 feet from the center of the Pea Ridge Road; thence 75 feet to the point of beginning. This lot is just south of a pond and has a forked poplar tree growing thereon.

Being the same land conveyed to Fleming County Water Association by Arvil B. Cox and Mary M. Cox, his wife, by deed dated December 1, 1992 and recorded in Deed Book 175, Page 514, Fleming County Clerk's Office.

SCHEDULE A- Tract VII:

A small tract of land to be used for the site of a water pump station on the Wallingford Road-Park Lake Hill in Fleming County Kentucky and more particularly described as follows:

BEGINNING sixty (60) feet from the center of Ky. Highway No. 559 and lying approximately in the center of the culverts under the road; thence in a fifty (50) foot square which is marked by steel rods in the corners with concrete markers over them.

Being the same land conveyed to FLEMING COUNTY WATER ASSOCIATION by Milford Brown and Barbara Brown, his wife, by deed dated the 28th day of March, 1994, recorded in Deed Book 179, Page 294, Fleming County Clerk's Office.

SCHEDULE A - Tract No. VIII

A small tract of land to be used for a pump station situated in the Village of Petersville, in Lewis County, Kentucky, and more particularly described as follows:

BEGINNING at right of way of Highway #344, corner to Sparks: thence along the R/W of highway, N. 44 deg. 30 min E. 30.0 feet to a stake; thence N .42 deg 36 min W. 208.5 feet to a stake; thence S. 43 deg W. 30 feet to a stake; thence S. 42 deg 36 min E 208.5 feet to R/W of Highway #344, the beginning, and containing what it may.

Being the same land conveyed to Fleming County Water Association, Inc. By James F. Curtis and Irene Curtis, his wife, by deed dated April 22, 1996 and recorded in Deed Book 173, Page 369, Lewis County Clerk's Office.

SCHEDULE A - TRACT No. IX

A tank site situated between the Helena Road and the Maysville Road in Fleming County, Kentucky, near Flemingsburg and described as follows:

BEGINNING at an iron pin (set this survey) located South 86 degrees 15 minutes 56 seconds East, 240.14 feet from grantor and Mary Emmons corner post; thence with grantor and a new dividing line the following three calls: South 4 degrees 31 minutes 39 seconds East, 75.00 feet to an iron pin (set this survey); thence North 85 degrees 43 minutes 31 seconds West, 74.92 feet to an iron pin (set this survey); thence North 4 degrees 36 minutes 01 seconds West, 74.98 feet to an iron pin (et this survey) in said Mary Emmons property line; thence with said Emmons property line South 85 degrees 45 minutes 00 seconds East, 75.01 feet to the point of beginning.

The above described parcel contains .128 acres as surveyed by Roy A. Wright, L.S. #2808, February 1996. All iron pins set this survey are 1/2" re-bar with an orange plastic cap stamped "PROPERTY CORNER, R. A. WRIGHT, L.S. #2808". Said plat is attached hereto.

There is also conveyed with this tract a permanent easement for the purpose of maintaining water line as shown on attached plat.

Being the same land conveyed Mortgagor by William A. Graham, Jr., single, by deed Dated June 26, 1996 and recorded in Deed Book 186, Page 159, Fleming County Clerk's Office.

SCHEDULE A - Tract X

A small tract of land lying at the rear of second parties office lot on the KY 32 Bypass near Flemingsburg, Fleming County, Ky. and more particularly described as follows:

BEGINNING at a set iron pin in the Southwest corner of lot of Fleming County Water Association and first parties; thence S 43 deg 53' E 484.68 to the line of Wayne Craft: thence S 30 deg 40' W 32 feet to a stake in Perkins' land; thence N 40 deg. 18' 18" W 494.17 feet to the point of beginning and containing 0.172 acres.

Being a part of the same land conveyed to Fleming County Water Association, Inc., by deed from Ferman Perkins and Jennie Perkins, his wife, dated December 22, 1997, and recorded in Deed Book 192, Page 37, Fleming County Clerk's Office.

Schedule A - Tract XI

A certain parcel of land lying or situated approx. 0.14 mile westerly of County Road No. 1049, the Turner Road, in Fleming County, Kentucky and more specifically described as follows:

BEGINNING at a ½ inch rebar and cap (set) in the existing line of Lester Landreth, et ux (D.B. 107, P. 632) and Virginia T. Belt (D.B. 183, P. 690), said point located South 54 Deg. 30 min. 00 sec. East, 106.50 ft. from the Northwest corner of said Landreths; thence with a new line of the parent tract North 35 deg. 30 min. 00 sec. East, 75.00 ft. to a ½ inch rebar and cap (set); thence continuing with Landreths South 54 deg. 30 min. 00 sec. East, passing the existing corner of Fleming County Water Association, Inc. (D.B. 172, P. 42) @ 20.00 ft., for a total distance of 95.00 ft. to a ½ inch rebar and cap (set), said point being the existing Northeast corner of Fleming County Water Association, Inc.; thence continuing with the existing line of same South 35 deg. 30 min. 00 sec. West, 75.00 ft. to a ½ inch rebar and cap (set) in the line of aforesaid Belt, said point being the existing corner of aforesaid Fleming County water Association, Inc.; thence with the line of said Belt North 54 deg. 30 min. 00 sec. West, passing the Southwest corner of Fleming County Water Association, Inc. @ 75.00 ft., for a total distance of 95.00 ft. to the point of beginning; containing 0.164 acre.

Also conveyed with this property is a right of way easement for ingress and egress along the present existing roadway from the Turner road to the existing tank; said roadway is approximately twelve feet wide and the Fleming County Water Association, Inc. agrees to maintain said roadway.

Being all of the same property conveyed to Fleming County Water Association, Inc. by deed from Lester Landreth and Jenny W. Landreth, husband and wife, dated June 1, 1991 and recorded in Deed Book 172, Page 42, Fleming County Clerk's Office. Also, being a part of the same property conveyed to Lester Landreth and Jenny W. Landreth, husband and wife, by deed from Eldie Miller and Minnie Miller, husband and wife, dated May 2, 1950 and recorded in Deed Book 107, Page 632, Fleming County Clerk's Office.

This description was prepared in conjunction with a Class "B" survey field completed by William T. (Tommy) Carpenter, PLS 2380, on March 7, 2000. A plat depicting that survey (Drawing No. 000-014) is attached hereto and is intended to be a part of this description. The ½ inch rebars set this survey are twenty-four (24) inches long and bear a one (1) inch diameter yellow plastic I.D. cap stamped W.T.C., P.L.S. 2380.

The bearing stated in this description are referenced to the magnetic meridian as noted on said plat.

Being the same land conveyed to FLEMING COUNTY WATER ASSOCIATION, INC.
by Lester Landreth and Jenny Wheeler Landreth, husband and wife, by deed dated May 5, 2000
and recorded in Deed Book 202, Page 619, Fleming County Clerk's Office.

This mortgage is subject to previous mortgages given by the Mortgagor to the Mortgagee dated January 12, 1971 and recorded in M.B. 62, Page 132; and one dated February 12, 1981 and recorded in M.B. 77, Page 797; and one dated July 26, 1985 and recorded in M.B. 88, Page 223; and one dated December 13, 1988 and recorded in M.B. 97, Page 156; and one dated July 14, 1992, and recorded in M.B. 108, Page 254; and one dated October 13, 1994, and recorded in M.B. 119, Page 76; and one dated April 23, 1997 and recorded in M.B. 133, Page 132; and one dated November 22, 2000 and recorded in M.B. 166, Page 463, all of record in the Office of the County Clerk of Fleming County, Kentucky.

shall amend and supplement the covenants and agreements of this Security Instrument as if the rider(s) were a part of this Security Instrument. [Check applicable box]

Condominium Rider Planned Unit Development Rider Other(s) [specify]

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in pages 1 through 6 of this Security Instrument and in any rider executed by Borrower and recorded with this Security Instrument

J. E. Smith, Jr. [SEAL]
J. E. SMITH, JR., Borrower President
Wayne Craft [SEAL]
WAYNE CRAFT, Borrower Secretary

STATE OF KENTUCKY }
COUNTY OF FLEMING }

ATTEST: }
SS: ACKNOWLEDGMENT

Before me, Wilhemina P. Whisman, a Notary Public in and for the County of Fleming, personally appeared J. E. Smith, Jr., President, and Wayne Craft, Secretary, who acknowledged that they executed the foregoing instrument on the 18th day of August, 2004 as their free act and deed.

WITNESS my hand and official seal this 18th day of August, 2004
[SEAL] *Wilhemina P. Whisman* Notary Public
My commission expires 4-28-06

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:

MARVIN W. SUIT *Marvin W. Suit*
(Name) (Signature)
207 COURT SQUARE, FLEMINGSBURG, KY 41041
(Address)

RECORDER'S CERTIFICATE

STATE OF KENTUCKY }
COUNTY OF FLEMING }

SS:

I, Marilyn Spencer, Clerk of the County Court for the County aforesaid, do certify that the foregoing mortgage was on the _____ day of August, 2004, 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 _____ day of August, 2004.

DOCUMENT# 15048
DATE: 8-18-04 TIME: 11:38
DEED TAX _____
MARILYN SPENCER, FLEMING CO CLERK
BY R Hamm DC
BOOK m217 PAGE 274

Clerk of Fleming County Court
By _____, D.C.