

Statement of Limiting Conditions

Contingent And Limiting Conditions: The appraiser's certification that appears in the appraisal report is subject to the following conditions:

- The appraiser will not be responsible for matters of a legal nature that affect either the property being appraised or the title to it. The appraiser assumes that the title is good and marketable and, therefore, will not render any opinions about the title. The property is appraised on the basis of it being under responsible ownership.
- The appraiser has provided a sketch in the appraisal report to show approximate dimensions of the improvements and the sketch is included only to assist the reader of the report in visualizing the property and understanding the appraiser's determination of its size.
- The appraiser has examined the available flood maps that are provided by the Federal Emergency Management Agency (or other data sources) and has noted in the appraisal report whether the subject site is located in an identified Special Flood Hazard Area. The map can be found in the Site Analysis Chapter. **Because the appraiser is not a surveyor, he or she makes no guarantees, expressed or implied, regarding this determination.**
- The appraiser will not give testimony or appear in court because he made an appraisal of the property in question, unless specific arrangements to do so have been made beforehand.
- The appraiser has estimated the value of the land in the cost approach at its highest and best use and the improvements at their contributory value. These separate valuations of the land and improvements must not be used in conjunction with any other appraisal and are invalid if they are so used.
- The appraiser has noted in the appraisal report any adverse conditions (such as, needed repairs, depreciation, the presence of hazardous wastes, toxic substances, etc.) observed during the site visit of the subject property or that he or she became aware of during the normal research involved in performing the appraisal. Unless otherwise stated in the appraisal report, the appraiser has no knowledge of any hidden or unapparent conditions of the property or adverse environmental conditions (including the presence of hazardous wastes, toxic substances, etc.) that would make the property more or less valuable, and has assumed that there are no such conditions and makes no guarantees or warranties, expressed or implied, regarding the condition of the property. The appraiser will not be responsible for any such conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. **Because the appraiser is not an expert in the field of environmental hazards, the appraisal report must not be considered as an environmental assessment of the property. The appraisal is made under the assumption that there is no environmental contamination as of date of site visit.**
- The appraiser obtained the information, estimates, and opinions that were expressed in the appraisal report from sources that he considers to be reliable and believes them to be true and correct. The appraiser does not assume responsibility for the accuracy of such items that were furnished by other parties.

- The appraiser will not disclose the contents of the appraisal report except as provided for in the Uniform Standards of Professional Appraisal Practice.
- The appraiser has based his appraisal report and valuation conclusion for an appraisal that is subject to satisfactory completion, repairs, or alterations on the assumption that completion of the improvements will be performed in a workmanlike manner.
- The appraiser must provide his prior written consent before the lender/client specified in the appraisal report can distribute the appraisal report (including conclusions about the property value, the appraiser's identity and professional designations, and references to any professional appraisal organizations or the firm with which the appraiser is associated) to anyone other than the borrower; the mortgagee or its successors and assigns; the mortgage insurer; consultants; professional appraisal organizations; any state or federally approved financial institution; or any department, agency, or instrumentality of the United States or any state or the District of Columbia; except that the lender/client may distribute the property description section of the report only to data collection or reporting service(s) without having to obtain the appraiser's prior written consent. The appraiser's written consent and approval must also be obtained before the appraisal can be conveyed by anyone to the public through advertising, public relations, news, sales, or other media.

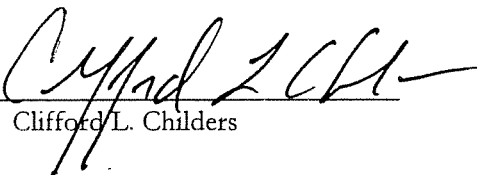
Appraiser's Certification

Appraiser's Certification: As required by Standards Rule 2-3
The Appraiser certifies and agrees that:

- I have taken into consideration the factors that have an impact on value in my development of the estimate of market value in the appraisal report. I have not knowingly withheld any significant information from the appraisal report and I believe, to the best of my knowledge, that all statements and information in the appraisal report are true and correct.
- I stated, in the appraisal report, only my own personal, impartial, unbiased, and professional analysis, opinions, and conclusions, which are subject only to the contingent and limiting conditions specified in this form.
- I have no present or prospective interest in the property that is the subject of this report, and I have no present or prospective personal interest or bias with respect to the participants in the transaction. I did not base, either partially or completely, my analysis and/or the estimate of market value in the appraisal report on the race, color, religion, sex, handicap, familial status, or national origin of either the prospective owners of the subject property or of the present owners or occupants of the properties in the vicinity of the Subject property.
- I have no present or contemplated future interest in the subject property, and neither my current or future employment nor my compensation for performing this appraisal is contingent on the appraised value of the property.
- I was not required to report a predetermined value or direction in value that favors the cause of the client or any related party, the amount of the value estimate, the attainment of a specific result, or the occurrence of a subsequent event in order to receive my compensation and/or employment for performing the appraisal. I did not base the appraisal report on a requested minimum valuation, a specific valuation, or the need to approve a specific mortgage loan.
- I performed this appraisal in conformity with the Uniform Standards of Professional Appraisal Practice that were adopted and promulgated by the Appraisal Standards Board of The Appraisal Foundation and that were in place as of the effective date of this appraisal, with the exception of the departure provision of those Standards, which does not apply. I acknowledge that an estimate of a reasonable time for exposure in the open market is a condition in the definition of market value and the estimate I developed is consistent with the marketing times of commercial properties in the Market Area.
- I have personally inspected the interior and exterior areas of the subject property and the exterior of all properties listed as comparable sales in the appraisal report. I further certify that I have noted any apparent or known adverse conditions in the subject improvements, on the subject site, or on any site within the immediate vicinity of the subject property of which I am aware and have made adjustments for these adverse conditions in my analysis of the property value to the extent that I had market evidence to support them. I have also commented about the effect of the adverse conditions on the marketability of the subject property.

- I personally prepared all conclusions and opinions about the real estate that were set forth in the appraisal report. If I relied on significant professional assistance from any individual or individuals in the performance of the appraisal or the preparation of the appraisal report, I have named such individuals and disclosed the specific tasks performed by them in the reconciliation section of this appraisal report. I certify that any individual so named is qualified to perform the tasks. I have not authorized anyone to make a change to any item in the report; therefore, if an unauthorized change is made to the appraisal report, I will take no responsibility for it.
- I have no bias with respect to the property that is subject of this report or to the parties involved with this assignment.

Appraiser:

Signature: 
Clifford L. Childers


Date Signed: 15 May 2003

State Certification #: 0615

State: KY

Expiration Date of License: 6/30/03

Persons providing significant professional services in the drafting and preparation of the report.



Mark H. Vaught
General Real Property
Appraiser # 2271

Identification Of Property

Owner: South Kentucky Rural Electric
Co-Operative Corporation

Property Postal Address: N Hwy 27
Whitley City, Ky. 42653

Person Contacted: Mr. Allen Anderson
CEO

Date Of Contact: 1 May 2003

**Sales Record
(Three Year Minimum)**

The appraised parcel is composed of three tracts conveyed to South Kentucky Rural Electric Co-Operative Corporation by and between William & Antha Alcorn..

Tract One being conveyed by Deed of Conveyance dated the 18th of March 1966 and of record in Deed Book 61 Page 066.

Tract One was corrected by Deed of Correction dated the 20th of September 1979 and of record in Deed Book 89 Page 612. The deed of correction was issued to correct a defect in the legal description.

Tract two being conveyed by Deed of Conveyance dated the 20th of September 1979 and of record in Deed Book 89 Page 615.

Tract three being conveyed by Deed of Conveyance dated the 21st of January 1987 and of record in Deed Book 109 Page 326.

South Kentucky Rural Electric Co-Operative Corporation conveyed to The Commonwealth of Kentucky, for the use and benefit of the Transportation Cabinet, Department of Highways, two tracts, a 0.009-acre tract and a 0.084-acre tract, in fee simple, and two temporary easements, one containing 0.133 acres and the other 0.051-acres, for the purpose of roadway construction, during the length of the project. The stated consideration was \$7,100.00 and is of record in Deed Book 154 Page 168.

All deeds referenced above are located in the McCreary County Court Clerks Office, Kentucky.

Assessed Value:

Not on Tax Roll

Zoning:

Not Zoned

Census Tract:

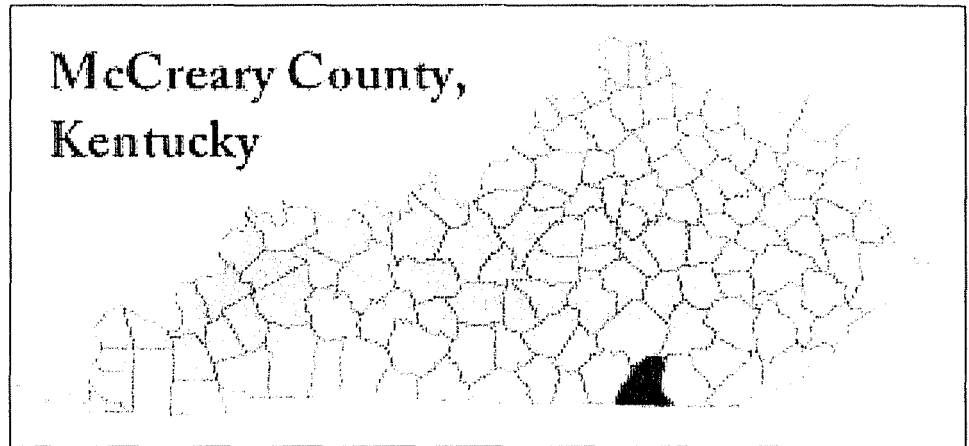
9603.00

Map Reference:

147-McCreary County

McCreary County

covers a land area of 427 square miles in the Eastern Coal Fields Region of Kentucky. The county is situated in the southern portion of the Daniel Boone



National Forest. According the federal forest service, 10 million board feet of lumber will be produced in McCreary County in 1990. McCreary County had an estimated population of 16,100 persons in 1988. Whitley City, the county seat, is located 92 miles northwest of Knoxville, Tennessee; 161 miles southeast of Louisville, Kentucky; 107 miles south of Lexington; and 186 miles south of Cincinnati, Ohio. Stearns is approximately three miles south of Whitley City, and Pine Knot is approximately five miles south of Whitley City.

The Economic Framework - The total number of McCreary County residents employed in 1989 averaged 3,415. In 1988, manufacturing firms in the county reported 473 employees; wholesale and retail trade provided 319 jobs; 185 people were employed in service occupations; state and local government accounted for 564 employees; contract construction firms provided 46 jobs; and 63 people were employed by mining and quarrying operations.

Labor Supply - There is a current estimated labor supply of 32,464 persons available for industrial jobs in the labor market area. In addition, from 1990 through 1994, 12,288 young persons in the area will become 18 years of age and potentially available for industrial jobs.

Transportation - Whitley City and Pine Knot are directly served by US Highway 27. Stearns, which is served by KY Highway 92 and 1651, is located one mile from US 27. Interstate 75 can be

accessed 21 miles east of Pine Knot via KY 92. The Cumberland Parkway is located 31 miles north of Whitley City via US 27. Eleven common carrier trucking companies provide interstate and/or intrastate service to McCreary County. The Norfolk Southern Corporation provides rail service to McCreary County. Stearns is also served by the Kentucky and Tennessee Railway. The nearest scheduled commercial airline service is available at McGhee Tyson Airport in Knoxville, Tennessee, 102 miles southeast of Whitley City, and at Bluegrass Airport near Lexington, Kentucky, 110 miles north of Whitley City. The McCreary County Airport, located four miles northeast of Pine Knot, provides facilities for small aircraft.

Power and Fuel - Kentucky Utilities Company provides electricity to Whitley City, Stearns and Pine Knot, in addition to a small portion of McCreary County. A major portion of the county is served by South Kentucky Rural Electric Cooperative, whose source of power is East Kentucky Power Cooperative. The Cumberland Valley Rural Electric Cooperative Corporation also serves a small portion of southeastern McCreary County. Natural gas is not currently available in McCreary County.

Education - Primary and secondary education is provided by the McCreary County School System. Thirteen institutions of higher learning are located within 95 miles of Whitley City. Vocational training is available at the Somerset State Vocational-Technical School at Somerset, 31 miles north of Whitley City. The nearest Area Vocational Education Center is located in Monticello, 32 miles west of Whitley City. In addition, the Pine Knot Civilian Conservation Center, a unit of the Job Corps training program, is located in Pine Knot.

Highways - Whitley City and Pine Knot are served directly by US 27 a "AAA"-rated (80,000-pound gross load limit) trucking highway. Stearns, which is served by KY 92, a "AA"-rated (62,000-pound gross load limit) trucking highway is located one mile from US 27. Interstate 75 is accessible 21 miles east of Pine Knot via KY 92. The Cumberland Parkway, an east-west toll road, is located 31

miles north of Whitley City via US 27.

Truck Service - Eleven trucking companies provided interstate and/or intrastate trucking service to Whitley City. One trucking firm specializes in heavy equipment hauling.

Rail - Main line rail service is provided to Whitley City, Stearns, and Pine Knot by Norfolk Southern Corporation. Stearns is also served by Kentucky and Tennessee Railway. The nearest piggyback facilities area maintained by Norfolk Southern at Knoxville, 92 miles south of Whitley City.

Air - The McCreary County Airport Board recently received \$275,000 from the Kentucky Office of Aeronautics to pave the runway and taxi way and construct aprons for 11 tiedowns. Plans to construct an administration buildings have also been made. The nearest scheduled commercial airline service is located at McGhee Tyson Airport, 102 miles southeast of Whitley City, in Knoxville, Tennessee, and at Bluegrass Airport, 110 miles north of Whitley City, in Lexington, Kentucky.

Electricity - McCreary County electrical service is provided by Kentucky Utilities Company and South Kentucky Rural Electric Cooperative Corporation. There is also a small portion of southeastern McCreary County served by Cumberland Valley Rural Electric Cooperative Corporation.

Natural Gas - Natural Gas service is not available in McCreary County at the present time. However, negotiations to extend natural gas service to McCreary County area underway.

Water - The McCreary County Water District is currently implementing improvement projects at the filtration plant, which will increase McCreary County's water treatment capacity to 1.5 million gallons per day.

Sewerage - Septic tanks and several package treatment plants are used for sewerage disposal in Whitley City, Stearns, and Pine Knot. Plans to construct sewerage treatment facilities to serve the communities of Whitley City, Stearns, and Pine Knot are currently being formulated.

Local Government - The communities of Whitley City, Stearns, and Pine Knot are unincorporated urban areas. McCreary County is served by a county judge/executive and four magistrates, all of which are elected to four-year terms.

There is no planning and zoning commission in McCreary County at the present time.

State and Local Property Taxes - All property in Kentucky, except items exempted by the state constitution, is taxed by the state. Property, which also may be taxed by local jurisdictions, includes land and buildings, finished goods inventories, automobiles, trucks, office furniture and office equipment. Local taxing jurisdictions in Kentucky include counties, cities, and schools districts.

All property in Kentucky is assessed at 100 percent of cash value.

Education - There are thirteen (13) institutions of higher learning are located within 95 miles of Whitley City. Several college level courses, such as Business, English, Math, Computers and Economics, are held in McCreary County through an off campus program of the Somerset Community College. Approximately 500 McCreary County residents are enrolled in these classes, which are held at McCreary County Central High Schools and Whitley City Middle School.

McCreary County officials have begun an application process to the University of Kentucky Community College System to establish a satellite of the Somerset Community College in McCreary County.

Vocational training is available at both the state vocational-technical schools and the area vocational education centers. The state vocational-technical schools are post-secondary institutions. The area vocational education centers are designed to supplement the curriculum of high school students. Both the state vocational-technical schools and the area vocational education centers offer evening courses to enable working adults to upgrade current job skills.

Arrangements can be made to provide training in the specific production skills required by an industrial plant.

Instruction may be conducted either in the vocational school or in the industrial plant, depending upon the desired arrangement and the availability of special equipment.

The Bluegrass State Skills Corporation, an independent public corporation created and funded by the Kentucky General Assembly, provides programs of skills training to meet the needs of business and industry from the entry level to advanced training, and from upgrading present employees to retraining experienced workers.

The Bluegrass State Skills Corporation is the primary source for skills training assistance for a new or existing company. The Corporation works in partnership with other employment and job training resources and programs, as well as Kentucky's economic development activities, to package a program customized to meet the specific needs of a company.

Other Local Facilities - There are seven (7) physicians with practices located in McCreary County. There are also four (4) dentists. The nearest hospital facilities are Columbia Regional Hospital, located 31 miles north of Whitley City in Somerset, and Scott County Hospital, located 20 miles south of Whitley City, in Oneida, Tennessee. Other medical facilities and services include Winchester, Patton and Burgess Professional Service Corporation, McCreary Christian Care Center, McCreary County Health Center, McCreary County Ambulance Service, Cumberland Manor Rest Home, Inc., and McCreary County Health Care Facility.

Banking services are provided by the Bank of McCreary County and McCreary National Bank. The McCreary County Record is the local newspaper. Telephone service is furnished by Highland Telephone Cooperative, Inc.

Recreation - Recreational opportunities abound throughout McCreary County, ranging from indoor activities to rugged outdoor adventures. The McCreary County Park, just south of Whitley City, offers a swimming pool, three baseball/softball fields, two basketball courts, a picnic area, a shelter, a children's playground, hiking and fitness trails, and a community building.

The 4-H Camp, in eastern McCreary County, has an overnight lodge, a horse show ring and a picnic shelter.

The Stearns Golf Course is a semi-private, nine-hole golf course with a swimming pool and lighted tennis court on the premises. The Stearns Gold Course is rated among the best nine-hole golf courses in the southeastern United States by the Professional Golfers' Association of America. Limited food facilities are also available.

Recreational facilities at McCreary County schools include baseball fields, a football field, track and gymnasiums.

Supervised recreational programs include T-Ball, Babe Ruth League, church league, Little League basketball and adult league softball.

Privately owned recreational facilities for miniature golf, roller skating and archery are also located in the area.

McCreary County is located in the southern portion of the Daniel Boone National Forest, a rugged 640,000 acre timberland stretching throughout east central Kentucky.

Scenic and recreational sites within 20 miles of Whitley City include Natural Arch Picnic and Scenic Area with a limestone arch, trails and sheltered picnic facilities; Sawyer Campground, featuring picnic areas and a boat launching ramp of Lake Cumberland; Yahoo Falls Picnic Area, with a shelter house, trails and rugged scenic view of a 113-foot waterfall; Alum Ford, a camping and boat launching area; Great Meadow Camping Area; Hemlock Grove with a picnic area and trout stream; Bell Farm Hunter and Horse Camp Site; Apple Tree Rifle Range; Barren Fork Primitive Camping Area; and Sheltoewe Trace Natural Recreation Trail.

The Big South Fork National River and Recreation Area was developed by the US Army Corps of Engineers in cooperation with the National Park Service. The "National Area" is located

along the Big South Fork of the Cumberland River from Whitley City in Kentucky, south to Oneida in Tennessee. Recreational opportunities in this rugged scenic area include whitewater rafting, canoeing, kayaking, camping, hiking, horse back riding and picnicing.

The Blue Heron Recreation Area, a restored mining camp, has been completed by the Corps of Engineers and is operated by the National Park Service. The interpretive exhibits provide visitors with an opportunity to witness life as it would have been when the mining camp operated on the banks of the Big South Fork of the Cumberland River. A campground, scenic overlooks and hiking trails are also located in this area.

The Big South Fork Scenic Railway offers a chance to see part of the rugged Cumberland River area by rail. The train operates on a regular schedule between Stearns and the Blue Heron Recreation Area within the Big South Fork National River and Recreation area, a distance of about six miles in each direction.

Cumberland Falls State Resort Park is located 20 miles northeast of Whitley City near Corbin in the Daniel Boone National Forest. The park is famous for Cumberland Falls, which drops 68 feet over a rock precipice and shows one of only two known "moonbows" in the world at full moon. The park offers 73 lodge rooms, woodland suites, 25 cottages, a convention center, camping, fishing, swimming, hiking, horseback riding, picnicing, tennis, backpacking, a nature center, shuffleboard, planned, recreation, a playground, a gift shop, and an amphitheater.

Lake Cumberland, accessible 23 miles north of Whitley City, is one of the nation's most productive fishing lakes with excellent bass, bluegill and crapping fishing. Covering of 50,000 acres, with over 1,200 miles of shoreline, the lake is well known for its scenic beauty amid the surrounding palisades and woodlands.

Community Improvements - The most significant activity in McCreary County involves the developments of the Blue Heron Recreation Area within the Big South Fork River and recreation area

and the opening of the Stearns Museum. The US Corps of Engineers recently completed the construction of the Blue Heron Recreation Area, which will be maintained by the National Park Service. The \$13.5 million project includes a reconstructed coal mining town with interpretive exhibits, related overlooks, trails, campground and roads. The McCreary County Heritage Foundation invested approximately \$120,000 in the Stearns Museum, which exhibits memorabilia from the Stearns Coal and Lumber Company and McCreary County. In addition, downtown Stearns was recently placed on the National Register of Historic Places.

The final section of US 27 to be constructed was completed in the spring of 1990. Kentucky Highway 2279, providing access from US 27 to Stearns, was completed in the fall of 1989 and is to be renumbered as Kentucky Highway 92.

A \$3.4 million middle school was completed in 1989.

A sixty-bed nursing home facility was opened in Pine Knot in 1990. The McCreary County Health Care Facility has 20 intermediate care beds and 40 skilled nursing beds.

The Highland Telephone Cooperative, Inc. has recently completed extensive improvements in the Stearns and Pine Knot areas. Telecommunication services were greatly enhanced by the project.

The McCreary County Airport Board recently received a \$275,000 grant from the Kentucky Office of Aeronautics to pave a 3,000 foot runway and taxiway and to construct an apron for 11 tiedowns. This project is expected to be completed in 1991. The Airport Board plans to apply for an additional matching funds grant to construct a hangar and an administration building. The \$100,000 grant would require the Airport Board to acquire \$50,000 in matching funds.

The McCreary County Water District is currently undergoing a line extension project, which will add approximately 130 residential customers. A 50,000 gallon elevated tank will also be

constructed. The \$1.9 million project is the first phase in a series of improvements to be implemented throughout the system. Phase II of the project will consist of the installation of a 10-inch line of the filtration plant. Proposed improvements to the water treatment plant include the addition of two new filters and a claricone, and additional improvements, which will increase the plant's treatment capacity to 1.5 million gallons per day.

McCreary County has extended sewer lines to serve Whitley City, Stearns, Marshes Siding, and Pine Knot. Natural Gas lines are also being extended to these communities.

A new county health department is currently planned for Whitley City. The county plans to invest approximately \$625,000 in the project.

is underway to extend a natural gas pipeline to McCreary County.

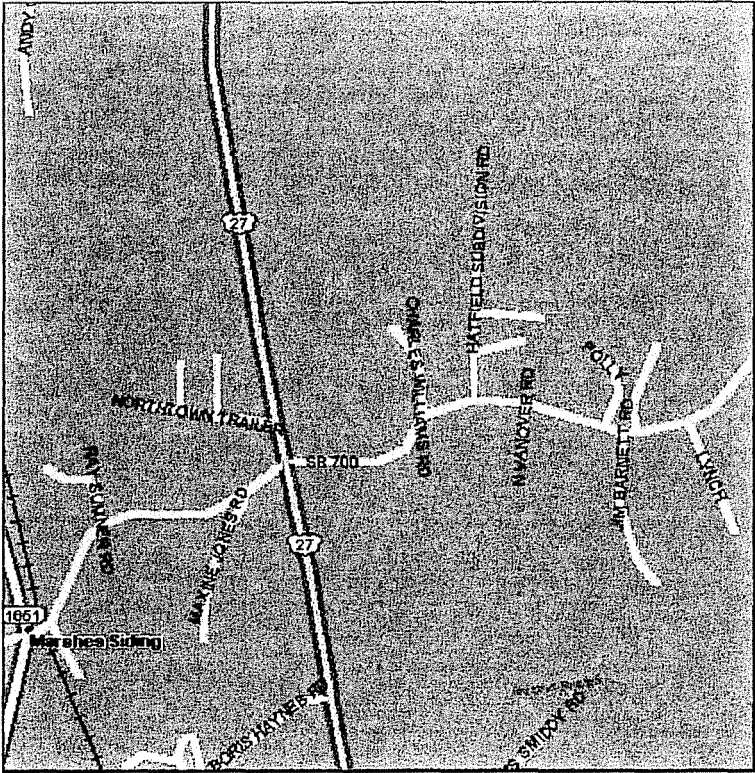
The US Corps of Engineers and The National Park Service plans to construct a lodge at the Big South Fork River and Recreation Area.

Neighborhood Analysis

The subject neighborhood is that area along US 27, from its intersection with George Jones Road north to its the intersection with Hwy 700 and ¼ mile beyond. The subject would be in the middle portion of the subject

neighborhood. The subject neighborhood is located in the middle section of McCreary County, in the community of Whitley City, Kentucky.

The area is highly commercial with some light residential influences along the fringes. Located in the Whitley City Community are the main branches of the county banks, Krogers U-Save Grocery, doctors' offices, several convenient style businesses, service stations, and several retail stores.



The neighborhood has public water, provided by the McCreary Water District and electrical power provided by South KY RECC. Phone service is provided by Highland Phone Service. Sanitary Sewage is provided by the McCreary County Water District. Natural Gas Service is provided by Citicorp.

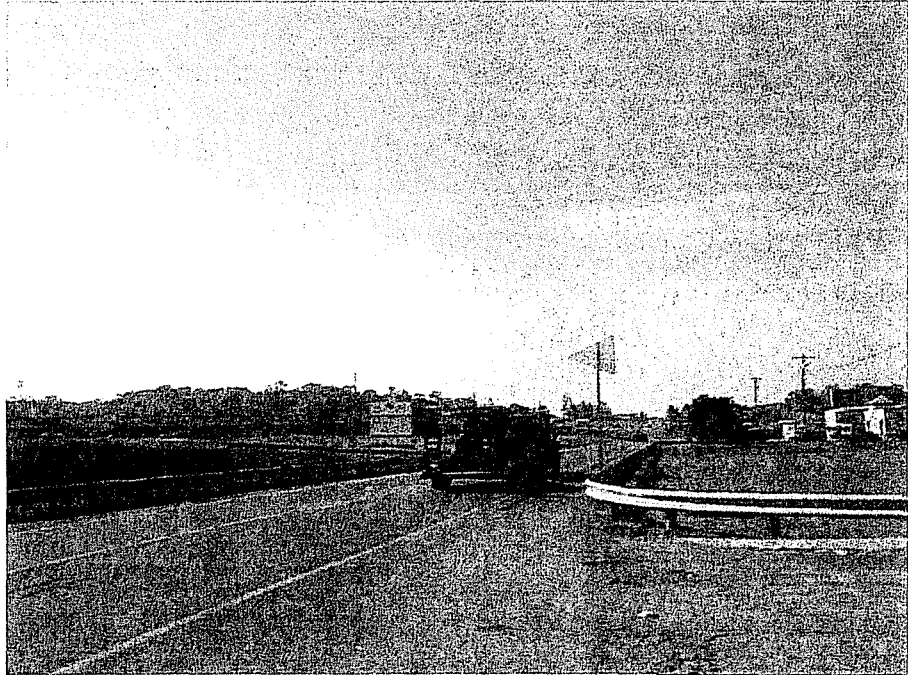
The diverse mix does not have an adverse affect upon the value of the subject, it is typical within the county since there is no Planning and Zoning Commission.

Site:

The tract is a 3.318-acre tract located on the east side of N Hwy 27, 0.37 mile north of its intersection with Strunk

Ridge Road. The tract has 343.65 feet of road frontage along US 27.

The site is at the road grade of US 27, with topography that would be classified as level-rolling. The topography is such that



Street Scene

approximately 1.25-acre was usable, (approximately 203 feet of road

frontage). The site has two entrances/exits onto Hwy 27. Visibility is good,

so ingress and egress are not problems. Hwy 27 is a two-lane asphalt road, with passing lane. It is

slated to be widened with a bid date in the next 6-12 months. The widening of the road will result in

the loss of two tracts, one a 0.009-acre tract next to the south property line, and a 0.084-acre tract

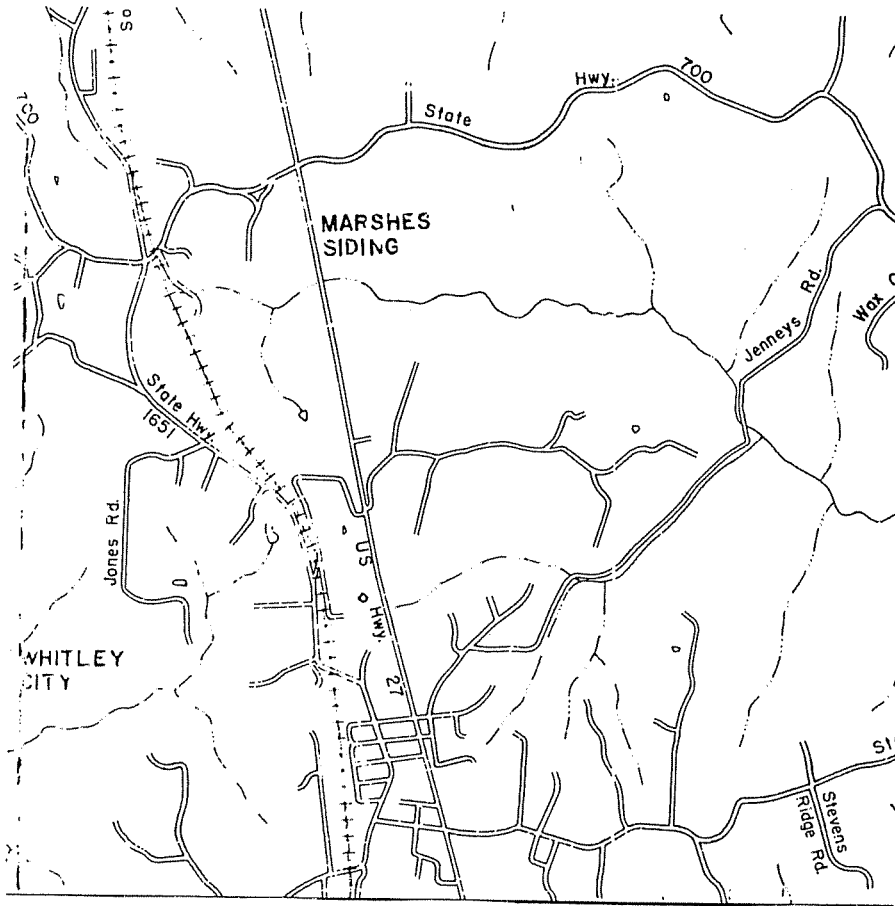
next to the north property line. The loss of the 0.009-acre tract has reduced the useable portion of the property to 1.16 acres.

Kentucky Utilities provides the site with electrical service. The McCreary County Water District provides water and sanitary sewage service. Citipower, LLC provides natural gas to the site. Highland Telephone Co-operative provides telephone service to the site.

The legal description for the tracts are in the addenda.

FEMA Flood Insurance Rate Map

The subject site is located in Zone C of the Federal Emergency Management Agency Flood Insurance Rate Map for Community 210343 Panel Number 0004 A dated 11-25-77. Zone C is a zone of no flooding or minimal flooding.




FLOOD HAZARD BOUNDARY MAP

MC. CREARY COUNTY
KENTUCKY
UNINC. AREAS
PAGE 4 OF 7
(SEE MAP INDEX FOR PAGES NOT PRINTED)

EFFECTIVE DATE:
NOVEMBER 26, 1977

COMMUNITY-PANEL NUMBER
210343 0004 A



U.S. DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT
FEDERAL INSURANCE ADMINISTRATION

Improvements:

The subject property is improved with two buildings. Building No. One is a pre-engineered steel building containing 3,226 square feet. It has a perimeter of 242 feet 4 inches. Building No. Two is a frame steel building containing 2,000 square feet. It has a perimeter of 180 feet.

Building No. One has a concrete footer systems, with concrete slab floor. The building has a partial stone façade on the front, with metal sheeting on the sides and rear. The roof is metal as well. The building is divided into reception/waiting area, general office, manager's office, break room, two offices, and large office for the work crews. The building is served by a men's and women's restroom located off the waiting room.

The building has vinyl tile floor covering. It has metal panel walls. The ceiling is suspended tile, with integrated florescent tile. Entry is via aluminum framed glass doors. Windows are fixed pane, insulated windows. The building is heated with ETS units, and cooled with central air conditioning units.

The construction and condition are classified as average.

Building No. Two has a concrete footer systems, with concrete slab floor. The building is a garage with two bays. There are two bays, each with an overhead door.

The construction and condition are classified as average.

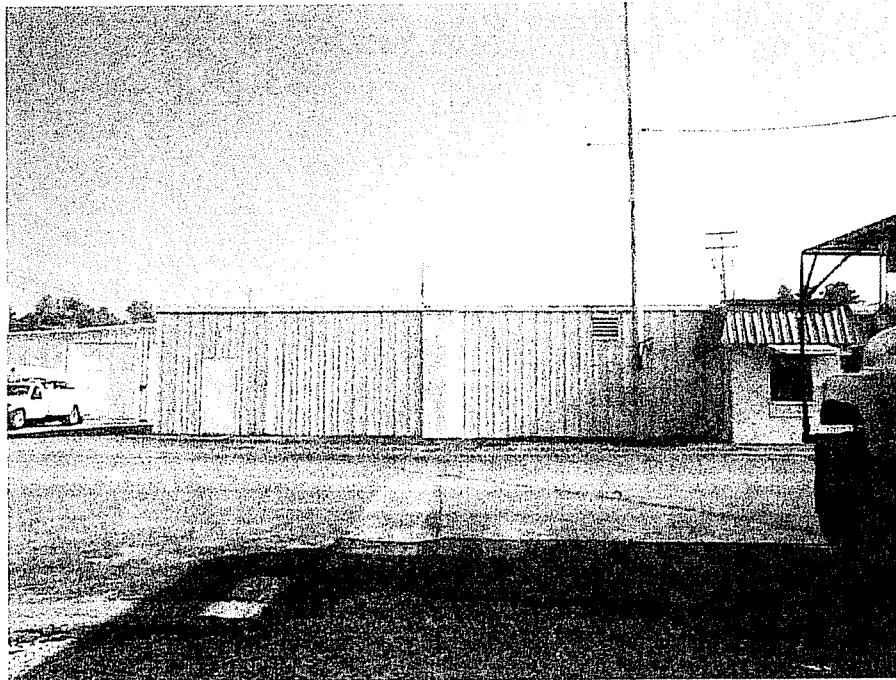
The buildings are appraised in an "as is" condition, as of the date of the site visit, the 1st of May 2003.

Photographs of Subject

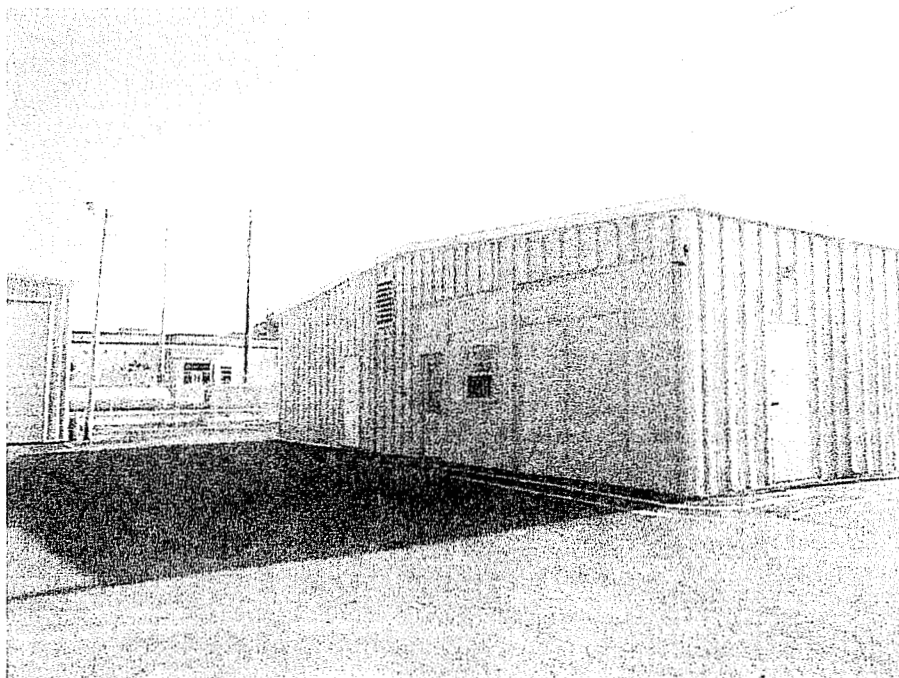
Building No One-Front Elevation



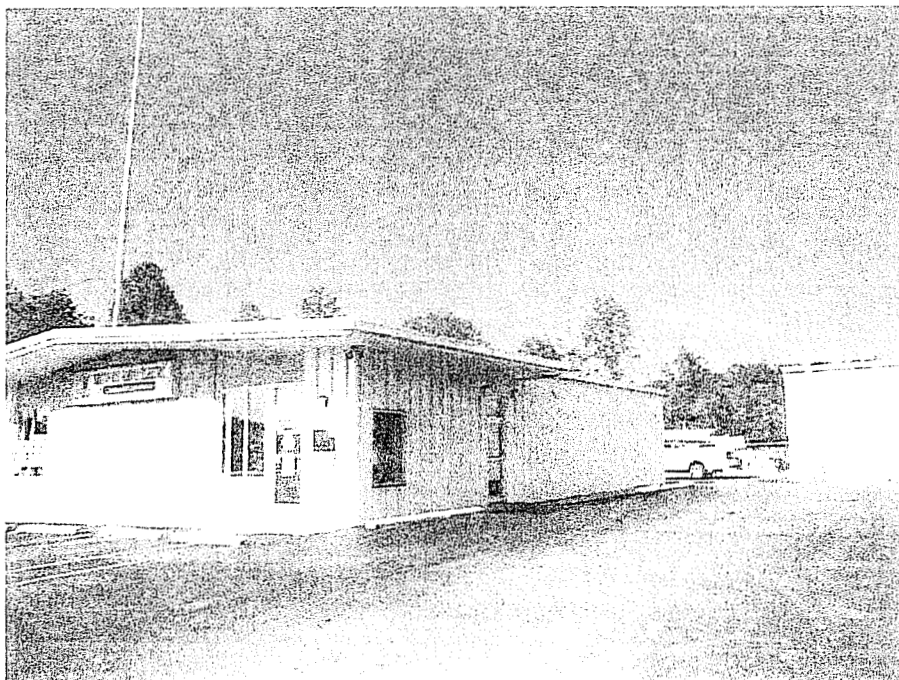
Building No One-Side Elevation-North



Building No One-Rear Elevation



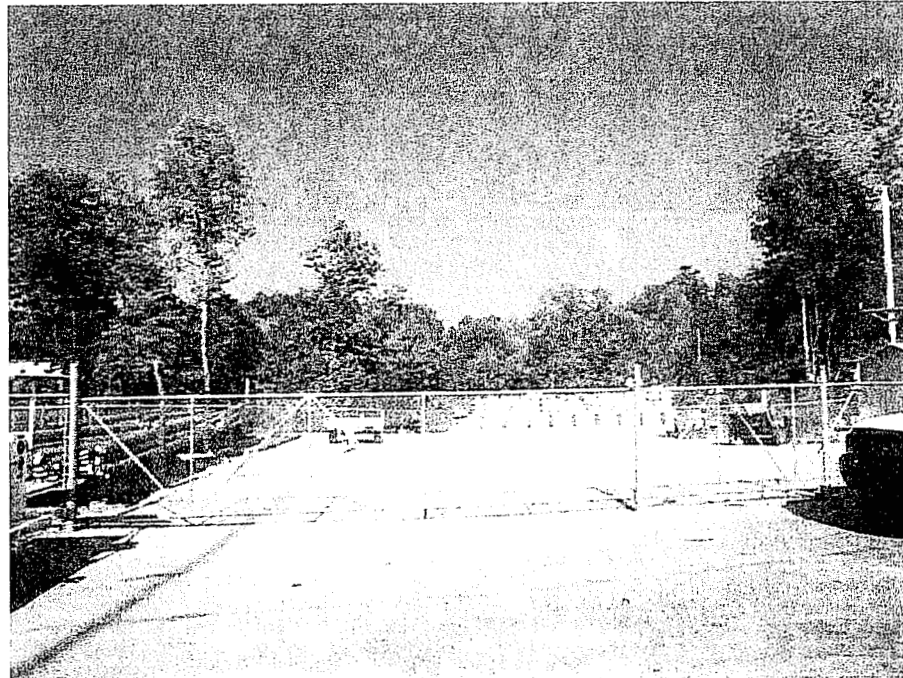
Building No One-Side Elevation-South



Building No Two-Garage



Yard Area



Highest And Best Use

One of the major objectives of property analysis is to develop a conclusion about the highest and best, or most probable, use of the site and of the improved property. The information gathered and analyzed is all oriented toward that objective. Highest and best use is "that reasonable and probable use that supports the highest present value, as defined, as of the effective date of the appraisal". The highest and best use in the context of market value is the most probable use. Both the site and the improved property have a highest and best use at any given point in time. The highest and best use of the improved property may or may not be the same as the highest and best use of the site.

These definitions imply that ".....the determination of highest and best use results from the appraiser's judgment and analytical skill, i.e. that the use determined from analysis represents an opinion, not a fact to be found."

Highest and best use must be reasonable, probable, and proximate (likely to occur soon, if not immediately). It is not speculative or conjectural. It may or may not be the present use of either the site or the improved property.

Highest and best use can change over time as external market forces change. These forces include effective demand and all its components, public tastes and standards, land use regulations (especially zoning), and competition. In addition, the character of the subject property itself may change, thereby changing its highest and best use. This is why highest and best use is always estimated as of the valuation date. In some instances, highest and best use may anticipate the market, provided the conclusion is reasonable, probable, and proximate.

A property must have utility, reflected through market demand, to have a market function. Function, in turn, determines use, and use is a major determinant of value in the context of existing current market forces. Since market value is always the highest price that an informed and

prudent purchaser would pay, the use in terms of which market value is estimated is highest and best use.

In estimating highest and best use following property analysis, the appraiser goes through four considerations, which have been referred to:

1. POSSIBLE use (physical): What uses are physically possible on the subject site or in the subject improvements, given the physical characteristics revealed by property analysis?
2. PERMISSIBLE use (Legal): What uses are permitted under existing zoning and other land use regulations and controls, and under existing deed restrictions, for the subject property?
3. FEASIBLE use (Appropriate use): Among legally permitted and physically possible uses for the subject property, which are appropriate, given the characteristics revealed by market, neighborhood, and property analysis? Which uses produce any net return to the owner, or a positive net present value?
4. HIGHEST AND BEST use: Among appropriate or feasible uses for the subject property, which will produce the highest present value.

Present use of the property may differ from highest and best use of the site: "The existing use will continue, however, unless and until land value in its highest and best use exceeds the total value of the property in its existing use.

The highest and best use of the subject site is an office/retail store due to site size, topography location and utility availability.

Value Estimation As A Forecast

Because value is the present worth of anticipated future benefits or income, the appraiser's task is to forecast the benefits and amenities that will be produced by the realty being appraised over its remaining economic life. Then the appraiser must forecast the manner in which the typical, informed purchaser will react to these anticipated future benefits. Real estate appraisal is always forward-looking from the date on which the value estimate is made, whenever that may be.

Forecasting involves making an estimate of future happenings or conditions. It consists of estimating what will most probably happen in the future, based in part on trends in the recent past, but tempered with analytical judgment. The appraiser making an estimate of value is, in fact, making a forecast of what will probably occur under stipulated market conditions. Prediction involves foretelling the future with an applied degree of accuracy or precision that is beyond the capacity of the appraiser. An estimate of value is simply that----an estimate. The appraiser has no mystic or occult powers to foresee the future with certainty.

Projection is a mechanical process of extrapolation or extending the experience of the past into the future via a mechanical formula. This may be simple straight-line projection or it may be based on a more complex formula. In either event, it is based on the presumption that the market will support the projections or forecasts.

Methods Of Appraisal

There are generally three accepted approaches to market value. The cost approach or summation approach, which includes the valuation of raw land by comparison with recent sales of similar tracts being vacant plus the depreciated replacement cost of all improvements. The market data or comparison approach, which is the process of comparing recent sales of similar properties to that of the subject, making adjustment for measurable differences. The income approach, which is based upon the premise that the income stream that a property is able to produce, when capitalized, will give a direct indication of a properties value.

In this report, the market data approach, cost approach, and income approach to value are all utilized for the estimation of current market value of the subject property. The market has been analyzed to provide an adjusted comparison of sales of this type of property. The market data approach is relied upon to give a fair indication of the subject. The market is utilized to realize an estimated fair market value of the subject. The income approach to value is used base upon the market rent of similar properties with market typical deductions to reach a hypothetical Net Operating Income, which is then used with market extracted cap rates to estimate values. The cost approach has been estimated then added to the market value of similar vacant land to estimate the subject utilizing the cost approach.

Depreciation

Depreciation is a loss in value due to any cause. It is the difference between the value of a building and its reproduction or replacement cost new as of the date of valuation. There are three generally accepted causes of depreciation: **Physical Depreciation**, **Functional Obsolescence**, and **External Obsolescence**.

- **Physical Depreciation** is a loss in value due to physical deterioration and is divided into two types, which are included in the depreciation schedules.
- **Curable Physical Depreciation** is generally associated with short-lived items such as paint, floor covers, roof covers, and hot water heaters.
- **Incurable Physical Depreciation** is generally associated with long-lived items such as floor structure, roof structures, mechanical systems, and foundations. Such items are not normally replaced in typical maintenance programs and are usually incurable except through major reconstruction.

Condition is a measure of the degree at which items subject to physical depreciation have been maintained. The observed condition of each component subject to wear is estimated relative to new condition. Many portions of a structure wear out slowly, if at all, such as excavations, foundations, and concrete exterior walls. Such long-lived portions could represent a major portion of the total reproduction cost and if still functional will contribute toward an extended life expectancy. Physical depreciation cannot be considered a straight line deduction from reproduction cost, since necessary and normal maintenance can offset, retard, and even eliminate deterioration.

- **Functional Obsolescence** is the loss in value due to lack of utility or desirability of all or part of the property. It is inherent to the improvement, and included in the depreciation tables, and may be curable or incurable. A new structure may suffer from functional obsolescence.
- **Curable Functional Obsolescence** is the lack of utility or desirability due to such factors as outdated or inadequate lighting and plumbing fixtures or heating units, which could be corrected or

replaced without major rebuilding.

- **Incurable Functional Obsolescence** is the lack of utility or desirability due to such factors as poorly designed floor plans that interfere with proper space utilization or antiquated mechanical systems that may be completely incurable except by major reconstruction or renovation and usually are not economically feasible to correct.
- **External Obsolescence** is loss in value due to causes outside of the property and therefore, is not considered in a particular table, but must take into consideration the surrounding neighborhood.

Explanation of Depreciation

The depreciation concept is based on an extended life theory, which encompasses a remaining life and effective age approach.

- **Extended Life Expectancy** is the increased life expectancy due to seasoning and proven ability to exist. Just as a person will have a total normal life expectancy at birth, which increases as he grows older, so it is with structures and equipment.

- **Remaining Life** is the normal remaining life expectation. It is the length of time the structure may be expected to continue to perform its function economically. Determination of effective age on older structures may best be calculated by establishing a remaining life, which subtracted from a typical life expectancy will result in an appropriate effective age with which to work.

- **Effective Age** is the age of a structure as compared to other structures performing like functions. It is the chronological age less any age, which has been taken off due to face-lifting, remodeling, structural reconstruction, correction of functional inadequacies, modernization of equipment, etc. It is an age, which reflects a true remaining life for the property, taking into account the typical life expectancy of buildings or equipment of its type and usage. It is a matter of judgment, taking all factors into consideration. The depreciation tables were developed from actual case studies of sales and market value appraisals. From confirmed sales prices, the land value was deducted to obtain a building residual and the replacement cost of the building was computed. The difference between the replacement cost new of the building and the residual sales price of the building was divided by the replacement cost new, to give the market depreciation in percentage. A similar procedure was followed with the market value appraisals always excluding those cases having excessive economic obsolescence. The data was then collated by type of construction and usage, plotted with similar typical total life expectancies, with curves computed for the groupings for which sufficient data was available for statistical reliability. From these curves, a matching family of

mathematical curves was found from which the depreciation for any initial life expectancy could be computed.

The life expectancy of the type structures in this appraisal report is between 35-40 years. Building No. One was built around 1980. The effective age of the building is fifteen (15) years. Based this effective age,

Effective Age / Economic Age = Physical Depreciation

or

$$15 \text{ Years} / 35 \text{ Years} = 42.9\%$$

there is physical depreciation (42.9%) is noted on the appraisal. There is functional depreciation, but the amount cannot be determined from available sales data. There is no economic depreciation noted on the report.

Land Valuation

In order to estimate the market value of the subject's 1.16-acre site, a comparison has been made of recent sales of vacant land within the market area. Recent and similar sales were found and verified. The analysis of the site data has included consideration of various dissimilar features that influence value; such as size, location, physical utility and development potential of the sales presented. The following comparable sales are considered based on their comparative attributes of the subject. No time adjustments for data of sales are made as no appreciation can be abstracted from the marketplace.

Adjustments for cash equivalency are not required on any of the land sales. Purchasers typically have cash for the land or incorporate the land cost in their construction loans. Owner financing is not typical for these type of properties.

Sales Comparison Approach (Land)-Sale # 2

Grantor: Marcus Corder

Grantee: Kirby & Kimberly Cordell

Date of Sale: 8/31/00

Sales Price: \$70,000

Size of Tract: 1.0 Acres

\$/Acre: \$70,000/acre

Location: Off US 27
adjacent south

Improvements: The site was improved with underground and aboveground tanks, since removed.

Data Source: Deed Book 154 Page 526, appraisal files,
& site visit



Sales Comparison Approach (Land)-Sale # 3

Grantor: Evan Tindle &
Bonnie Tindle, his wife

Grantee: Kirby Cordell &
Kimberly Cordell, his wife

Date of Sale: 7/7/98

Sales Price: \$155,000

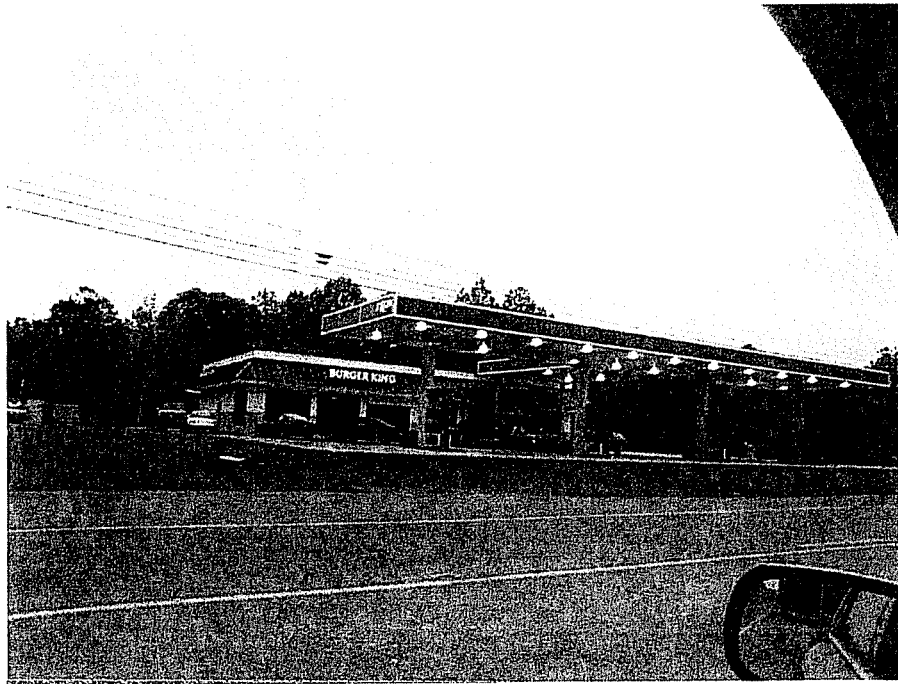
Size of Tract: 2.0 Acres

\$/Acre: \$77,500 /acre

Location: S US 27
400 feet south

Improvements: Vacant

Data Source: Deed Book 146 Page 538, PVA
& site visit



Sales Comparison Approach (Land)-Sale # 4

Grantor: Richard Young and
Rita Young, his wife

Grantee: Roy Bruce

Date Of Sale: 6/25/99

Sales Price: \$65,000

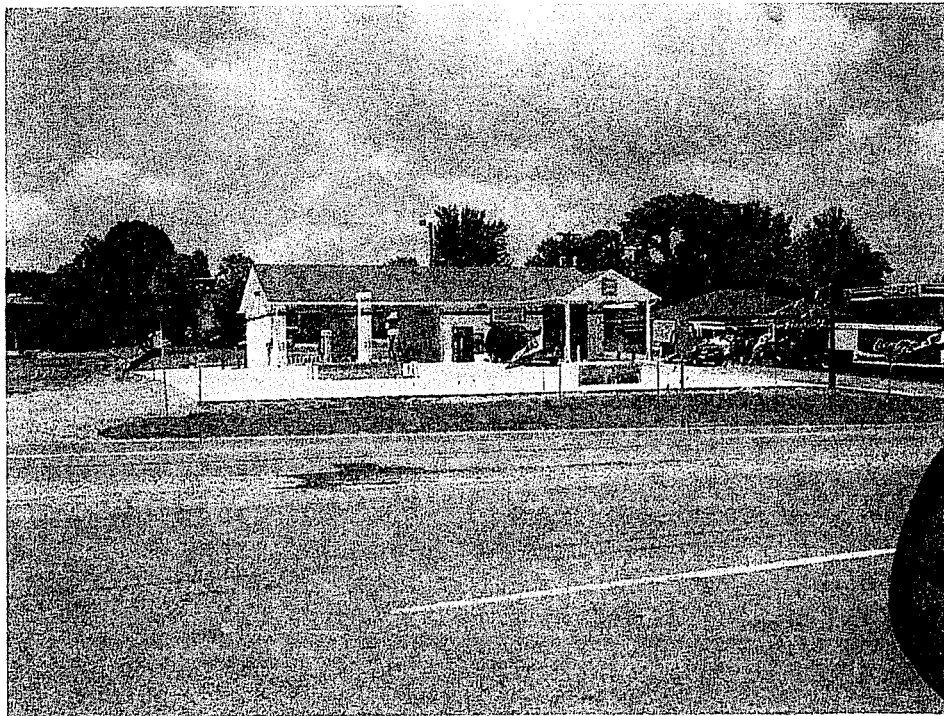
Size Of Tract: 0.28 Acre

\$ Per Acre: \$232,143/acre

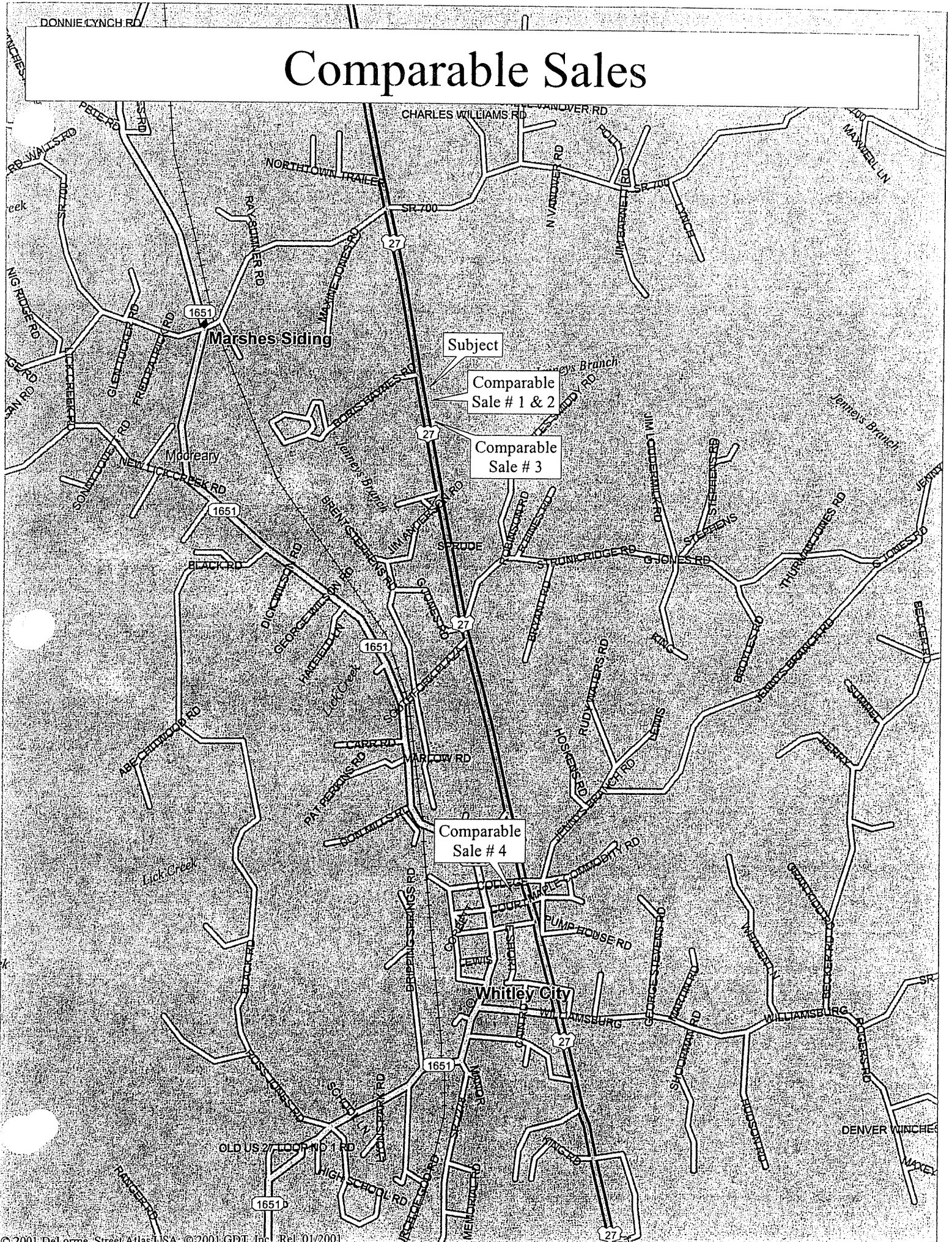
Location: US 27
1-2 miles south

Improvements: Older House (Razed)

Data Source: Deed Book 150 Page 084, owner
& site visit.



Comparable Sales



Correlation Grid

The correlation grid recites sales of properties most similar and proximate to subject that have been considered in the market analysis.

Tract "As Is"

Item	Subject	Comp 1	Comp 2	1 & 2	Comp 3	Comp 4
Address	N Hwy 27 Whitley City	US 27 Whitley City	Off US 27 Whitley City		US 27 Whitley City	US 27 Whitley City
Proximity		Adjacent South	Adjacent South		400 Feet South	½ - 1 Mile South
Sales Price		\$150,000.00	\$70,000.00	\$220,000.00	\$155,000.00	\$65,000.00
Adjustment	Tank Removal		\$15,000.00	\$15,000.00		
Adjusted Sales Price			\$85,000.00	\$235,000.00		
Lot Size (Acres)	3.318	0.650	1.000	1.650	2.000	0.280
\$/Acre		\$230,769.23	\$85,000.00	\$133,333.33	\$77,500.00	\$232,142.86
Data Source		DB 154 Pg 519	DB 154 Pg 526		DB 146 Pg 538	DB 150 Pg 084
Verified		Owner/Site Visit	Owner/Site Visit		PVA/Site Visit	Owner/Site Visit
Date of Sale		08/31/00	08/31/00		07/07/98	06/25/99
Location	Average	Good	Average		Good	Good
Topography	Level	Level	Level-Rolling		Level-Rolling	Level
Indicated Price		\$765,692.31	\$282,030.00	\$442,400.00	\$257,145.00	\$770,250.00

Tract's 1.16 acre usable land valued

Item	Subject	Comp 1	Comp 2	1 & 2	Comp 3	Comp 4
Address	N Hwy 27	US 27	Off US 27		US 27	US 27
Sales Price		\$150,000.00	\$70,000.00	\$220,000.00	\$155,000.00	\$65,000.00
Adjustment	Tank Removal		\$15,000.00	\$15,000.00		
Adjusted Sales Price			\$85,000.00	\$235,000.00		
Lot Size (Acres)	1.160	0.650	1.000	1.650	2.000	0.280
\$/Acre		\$230,769.23	\$85,000.00	\$133,333.33	\$77,500.00	\$232,142.86
Data Source		DB 154 Pg 519	DB 154 Pg 526		DB 146 Pg 538	DB 150 Pg 084
Verified		Owner/Site Visit	Owner/Site Visit		PVA/Site Visit	Owner/Site Visit
Date of Sale		08/31/00	08/31/00		07/07/98	06/25/99
Location	Average	Good	Average		Good	Good
Topography	Level	Level	Level-Rolling		Level-Rolling	Level
Indicated Price		\$267,692.31	\$98,600.00	\$154,666.67	\$89,900.00	\$269,285.71

Comments on the Sales Comparison Approach

The Sales Comparison Approach utilizes similar tracts from the most similar areas and supports the value well. The distance from the subject, site size, topography, utility, and desirability have been considered in the valuation.

Comparable Sale # 1 sold for \$150,000 for 0.65-acre or \$230,769.23 per acre. The site was improved with a convenience store, gas pumps and canopy that were razed. The tract is the front portion of the new Long John Silvers/Pizza Inn.

Comparable Sale # 2 sold for \$70,000 for 1.0-acre or \$70,000 per acre. The site was improved with underground and aboveground tanks that were removed at a cost of \$15,000. The tract is the rear portion of the new Long John Silvers/Pizza Inn.

Comparable Sale # 3 sold for \$155,000 for 2.0-acres or \$77,500 per acre. This site is adjacent to Comparable Sales # 1 and # 2 and is improved with a co-branded c-store/restaurant. Portions of the site were unusable due to topography.

Comparable Sale # 4 sold for \$65,000 for 0.28-acres or \$232,143 per acre. This site required fill to bring to the road level. It has been improved with a self serve car wash

Summary: The comparable sales range from \$70,000 per acre to \$232,143 per acre. Comparable Sale # 3 is the most similar to the situation as is, with the excess land, and indicates a price of \$257,145.00. The usable land analysis indicates a price in the \$267,000-\$270,000 range base on the most similar comparables; 1 and 4. Taking all comparable sales into consideration and giving both valuations weight, a market value for the subject site as though vacant would be \$77,500 per acre for the tract as a whole, or \$230,000 per acre for the usable portion. The land value can now be determined.

$$3.318\text{-acres} \times \$77,500/\text{acre} = \$257,145.00$$

Say \$260,000.00

And/or

$$1.160\text{-acres} \times \$230,000/\text{acre} = \$266,800.00$$

Say \$2265,000.00

**The Sales Comparison Approach Indicates a Value of \$265,000
for the tract as though vacant and ready for development.**

Sales Comparison Approach (Improvement)-Sale # 1

Grantor: Larry R. Strunk
Grantee: Ross Land Co., LLC
Date of Sale: 1/29/99
Sales Price: \$120,000.00
Size of Tract: 0.236 Acres
Location: N Hwy. 27
Whitley City, KY
Improvements: 4,000 SF Steel Building
Data Source: Deed Book 148 Page 489, PVA &
Site visit



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Sales Comparison Approach (Improvement)-Sale # 2

Grantor: Phillip & Helen Gaskin and
Robert & Glenna Bertram

Grantee: Freeman & Karen Robertson

Date of Sale: 3/7/01

Sales Price: \$250,000

Size of Tract: 1.2558 Acres

Location: Andrew Drive
Russell Springs

Improvements: 3,600 SF Metal Building

Data Source: Deed Book 192 Page 422, PVA & Site Visit



Sales Comparison Approach (Improvement)-Sale # 3

Grantor: David & Debbie Smith and
Hubert & Louise Smith

Grantee: Ron Wood

Date of Sale: 3/27/03

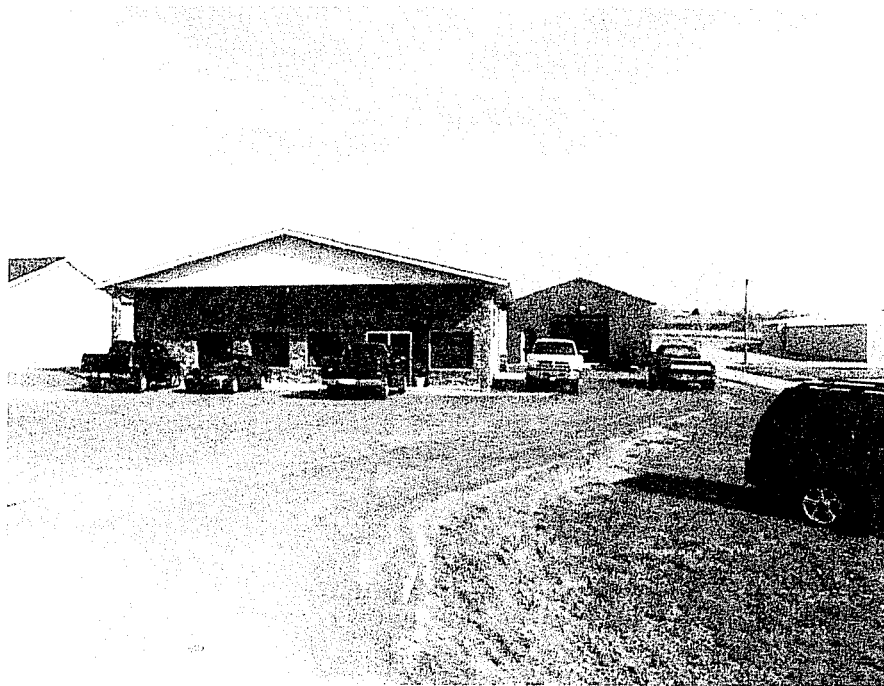
Sales Price: \$118,000

Size of Tract: 0.46 acres

Location: 2216 Hwy. 90
Bronston, KY

Improvements: 3,000 SF Block Bldg &
1,500 SF Pole Frame Bldg.

Data Source: Deed Book 713 Page 514, Appraisal Records



Correlation Grid

The correlation grid recites sales of similar properties. The description includes a dollar adjustment reflecting market reaction to those items of significant variation between the subject and comparable properties. If a significant item in the comparable property is superior to or more favorable than the subject property, a minus (-) adjustment is made thus reducing the indicated value of the subject; if a significant item in the comparable is inferior to or less favorable than the subject property, a plus (+) adjustment is made thus increasing the indicated value of the subject.

Item	Subject	Comp 1	Comp 2	Comp 3
Address	N Hwy 27 Whitley City	N Hwy. 27 Whitley City	Andrew Dr Russell Springs	2029 Hwy 90 Bronston
Proximity		Adjacent South	40 Miles NW	15-20 Miles N
Sales Price		\$120,000.00	\$250,000.00	\$118,000.00
Data Source		Site Visit/PVA	Site Visit/PVA	Site Visit/PVA
Verified		DB 148 PG 489	DB 192 Pg 422	DB 713 Pg 514
Lot Size (Acres)	3.318	0.236	1.2558	0.46
Land Cost		\$40,000.00	\$165,000.00	\$20,000.00
Improvement Distribution		\$80,000.00	\$85,000.00	\$98,000.00
Gross Building Area	3,226	4,000	3,600	3,000
\$/SF		\$20.00	\$23.61	\$32.67
Age	20 Yrs +/-	5-8 Yrs	10-14 Yrs	12-15 Yrs
Adjustment		0.60	0.75	0.75
Adjusted \$/SF		\$12.00	\$17.71	\$24.50
Date of Sale		Jan-99	Mar-01	Mar-03
Quality	Metal/Metal	Metal/Metal	Metal/Metal	Block -\$2.50
Design	Offices	Offices/Ware \$5.00	Offices/Garage \$5.00	Retail/Storage \$3.00
Condition	Average	Average	Average	Average
Sales or Financing	None	None	None	None
Concession				
Net Adj \$/SF		\$17.00	\$22.71	\$25.00
Ind. Value of the Improve.		\$54,842.00	\$73,257.08	\$80,650.00
Garage	2000 SF	0 SF	0 SF	1500 SF
Adjustment		\$10,000.00	\$10,000.00	\$2,500.00
Land Value		\$265,000.00	\$265,000.00	\$265,000.00
Indicated Value of Whole		\$329,842.00	\$348,257.08	\$347,150.00
Say		\$330,000.00	\$350,000.00	\$350,000.00

Comments on Sales Comparison Approach-Improvement

The Sales Comparison Approach utilizes similar properties from Somerset and South Central Kentucky and supports the value well. The distance from the subject, site size, topography, utility, and desirability have been considered in the valuation.

Comparable Sale # 1: This Comparable is a 4,000 SF steel building, next to the KFC in Whitely City of N US 27. It has a 2nd floor over 1/2 the building footprint. It is set up for offices/warehouse space.

Comparable Sale # 2: This comparable is a 3,600 SF steel building in Russell Springs, on Andrew Drive off Hwy 127, opposite the Northridge Shopping Center.

Comparable # 3: This comparable is a block building that was a floor covering store, and is now an used car lot. It is on Highway 90 in the Bronston Community of Pulaski County.

Marketing Time/Exposure Time

This property has not sold since construction. Marketing/exposure time at the estimated sales comparable value would be nine months to two years, based upon sales of similar properties in the county.

- **Summary**

The Adjusted Market Values range from \$330,000 to \$350,000. Taking all comparable sales into consideration and giving equal weight to all, a market value of \$350,000 is indicated.

The Sales Comparison Approach Indicates a Value of \$350,000.

Income Approach

The income approach utilizes the income that a property generates, taking into consideration the vacancy rate, times the local gross rent multiplier, to indicate the market value of a subject property. Another way of establishing the value of a subject is by assessing the net income a property will generate and determine a capitalization rate. Net Operating Income is the gross income less loss from vacancy, minus typical market expenses (taxes, insurance, maintenance, legal/professional fees, management fees, etc)

The formula for establishing a capitalization rate is:

Capitalization Rate = Net Operating Income (NOI) divided by (Value or Sales Price)

Multiplying both sides by the value gives one this:

Capitalization Rate x Value = NOI

And to get the value, one divides by the capitalization rate to get:

Value = NOI divided by Capitalization Rate

By determining the NOI, and taking the various capitalization rates from the marketplace, one can establish a range of values, from which one can estimate the subject's value based upon the income stream. A sampling of sales prices, NOI's and resulting capitalization rates from the market place can be found on the next page.

Type Business	Sales Price	NOI	Cap Rate
Boat Storage	\$45,000.00	\$4,500.00	0.1000
Boat Storage	\$75,000.00	\$11,000.00	0.1467
Retail/Warehouse	\$90,000.00	\$11,264.70	0.1252
Office	\$100,000.00	\$13,205.00	0.1321
Apartments	\$109,000.00	\$14,000.00	0.1284
Retail Space	\$116,400.00	\$13,514.00	0.1161
Retail/Warehouse	\$120,000.00	\$10,836.00	0.0903
Apartments	\$127,500.00	\$9,550.00	0.0749
Apartments	\$128,250.00	\$15,500.00	0.1209
Apartments	\$140,000.00	\$12,520.00	0.0894
Self Storage	\$180,000.00	\$19,060.00	0.1059
Apartments	\$185,000.00	\$24,196.00	0.1308
Office	\$190,000.00	\$16,230.00	0.0854
Office	\$200,000.00	\$21,012.00	0.1051
Retail Space	\$200,000.00	\$19,900.00	0.0995
Office	\$200,000.00	\$17,940.00	0.0897
Office	\$246,500.00	\$27,406.33	0.1112
Apartments	\$247,500.00	\$28,670.00	0.1158
Retail Space	\$250,000.00	\$26,000.00	0.1040
Apartments	\$268,500.00	\$27,020.00	0.1006
Retail Space	\$275,000.00	\$30,000.00	0.1091
Apartments	\$300,000.00	\$27,000.00	0.0900
Apartments	\$357,000.00	\$43,400.00	0.1216
Office	\$381,250.00	\$45,599.00	0.1196
Office	\$383,000.00	\$39,080.00	0.1020
Self Storage	\$390,000.00	\$30,025.00	0.0770
Bank	\$482,500.00	\$42,480.00	0.0880
Self Storage	\$520,000.00	\$60,300.00	0.1160
Specialty Retail	\$616,000.00	\$64,000.00	0.1039
Specialty Retail	\$630,000.00	\$70,000.00	0.1111
Self Storage	\$710,000.00	\$61,400.00	0.0865
Self Storage	\$712,499.00	\$98,600.00	0.1384
Self Storage	\$1,058,789.00	\$83,255.00	0.0786
Strip Center	\$1,170,000.00	\$104,575.00	0.0894
Strip Center	\$1,250,000.00	\$176,060.00	0.1408
Strip Center	\$1,250,000.00	\$130,000.00	0.1040
Retail	\$1,180,974.00	\$120,500.00	0.1020

The range in the sample is from 0.0749 to 0.1467. The mean is 0.1064.

The building is currently owner occupied.

Rents in McCreary County range from \$2.62 to ^{9.65} \$7.20 for similar retail spaces. The potential income would be:

	Square Footage	\$/SF	Annual Rent	Monthly Rent
N US 27	3,226	\$3.19	\$10,290.94	\$857.58
		\$9.65	\$31,130.90	\$2,594.24

Garages rent from \$1.34 to \$3.75 in South Central Kentucky. Potential incomes would be:

	Square Footage	\$/SF	Annual Rent	Monthly Rent
N US 27	2,000	\$1.34	\$2,680.00	\$223.33
		\$3.75	\$7,500.00	\$625.00

Due to size and location, a rental rate of \$7.00 to \$8.00 per square foot will be used in the valuation process for the offices, and \$2.00 per square foot for the garage. The potential income streams would be:

	Annual Rental Income			
	Rate		Income	
	3,226	\$7.00	\$22,582.00	
		\$8.00	\$25,808.00	
Garage	2,000	\$2.00	\$4,000.00	\$4,000.00
Potential Gross Rent			\$26,582.00	\$29,808.00
Vacancy		5%	(\$1,329.10)	(\$1,490.40)
Effective Income			\$25,252.90	\$28,317.60

	Value	\$/1,000 Coverage		
Insurance-Estimated	\$100,000	\$4.00	(\$400.00)	(\$400.00)
		Tax Rate/\$1,000		
Taxes-Based on SCA	\$300,000	\$8.71	(\$2,613.00)	(\$2,613.00)
Professional Fees			(\$350.00)	(\$350.00)
Maintenance Reserve			(\$500.00)	(\$500.00)
Expenses			(\$3,863.00)	(\$3,863.00)
Net Operating Income			\$21,389.90	\$24,454.60

Using the NOI from above, with the cap rates from the sampling, the indicated values are:

Net Operating Income	@\$7.00	\$21,389.90	@\$8.00	\$24,454.60
		Gross		Gross
	Cap Rate	Indicated Value	Cap Rate	Indicated Value
Low End of Sampling	0.0749	\$285,579.44	0.0749	\$326,496.66
Mean	0.1064	\$201,032.89	0.1064	\$229,836.47
High end of Sampling	0.1467	\$145,807.09	0.1467	\$166,698.02

The values range from \$145,807.09 to \$285,579.44 @ \$7.00 per square foot, and from \$166,698.02 to \$326,496.66 @ \$8.00 per square foot. The mean cap rate produced a value of \$201,032.89 @ \$7.00 per square foot and a value of \$229,836.47 @ \$8.00 per square foot. Taking the various cap rates into consideration, a value of \$225,000 is indicated.

The Income Approach has indicated a Value of \$225,000.

The wide variance between the sales comparison approach and income approach indicate that the highest and best use of the land is not being utilized. The building is not big enough to justify the land cost, much less the improvements upon the site.

Cost Approach

After estimating the value of the subject site, the replacement costs of the improvements were estimated. Building costs were based on known construction costs in the South Central Kentucky market, builder's and developers cost breakdown, and the Marshall and Swift Valuation Guide.

The calculator cost form is shown at the end of the discussion. The calculator method contains an average square foot cost for various classes, occupancy types and quality of buildings, together with modifications for common deviations from the descriptions of the typical buildings listed.

The costs estimates reflect soft costs in addition to hard costs. The soft costs include architects and engineer's fees, plans, permits, surveys, sales taxes, insurance, contractor's profit and overhead, and financing costs. The local additional impact fees have been added. The calculator cost form shows the base square foot costs, refinements, time adjustments and local multiplier to reflect the final square foot cost. Lump sum adjustments for paving, landscaping, and other specialty items are shown as separate costs on the cost summary.

The next to last item considered in the cost approach is the entrepreneur's or developer's profit for acquiring the site, coordinating and meeting with the architect and builders, over seeing the project during the construction, and managing the project to the point of occupancy. Past experience and analysis have indicated entrepreneurs' profits and profit targets ranging from less than 10% to 15% in the South Central Kentucky market, for this type property.

The last item considered in the cost approach is the amount of accrued depreciation.

The life expectancy of the type structures in this appraisal report is between 35-40 years. Building No One was built around 1980. The effective age of the building is fifteen (15) years. Based this effective age,

$$\text{Effective Age} / \text{Economic Age} = \text{Physical Depreciation}$$

or

$$15 \text{ Years} / 35 \text{ Years} = 42.9\%$$

there is physical depreciation (42.9%) is noted on the appraisal. There is functional depreciation, but the amount cannot be determined from available sales data. There is no economic depreciation noted on the report.

The cost approach is used in many appraisals as a ceiling on what a person should pay for a property. The theory of substitution states that the most a person should pay for a property is land cost of a similar tract plus the replacement cost of a building-less any depreciation.

Calculator Cost Form---Square Foot Cost

1 Subscriber Making Survey:	Clifford L. Childers
2 Name of Building:	South Kentucky RECC
3 Located At:	N Hwy 27 Whitley City
4 Date of Survey:	5/1/2003
5 Owner:	South Kentucky RECC
6 Tenants	South Kentucky RECC
7 Building Class:	S
And Quality:	Average
8 Exterior Wall:	Steel
9 Number of Stories:	1
And Height Per Story:	12
10 Average Floor Area:	3,226
11 Average Perimeter (Combined):	242 Feet 4 Inches
12 Age:	20 Yrs +/-
And Condition:	Average
13 Region:	Eastern
14 Climate:	Mild
15 Base Square Foot Cost:	\$32.65
Square Foot Refinement	
16 Heating, Cooling, Ventilation:	\$2.56
17 Elevator Deduction	\$0.00
18 Total Lines 15 Thru 17:	\$35.21
Height & Size Refinements	
19 Number of Stories-Multiplier:	1
20 Height Per Story:	1
21 Area-Perimeter Multiplier:	1
22 Combined Height And Size: Multiplier (Lines 19-21):	1.00
Final Calculations	
23 Refined Square Foot Cost (Line 17-22):	\$35.21
24 Quality Multiplier (Average (+)):	1
25 Local Multiplier:	1
26 Final Square Foot Cost:	\$35.21
27 Area (Square Feet):	3,226
28 Line 27 x Line 28:	\$113,587.46
29 Replacement Cost:	\$113,587.46