

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003 was as follows:

Governmental Activities	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
Capital Assets Not Being Depreciated				
Land	\$ 5,245,529	\$ 2,774,126	\$ -	\$ 8,019,655
Roads	130,154,432	-	-	130,154,432
Total Capital Assets Not Being Depreciated	<u>135,399,961</u>	<u>2,774,126</u>	<u>-</u>	<u>138,174,087</u>
Depreciable Capital Assets				
Land Improvements	2,046,220	256,178	-	2,302,398
Buildings and Building Improvements	14,534,710	13,423,644	-	27,958,354
Equipment	1,390,822	23,193	-	1,414,015
Furniture and Office Equipment	4,520,975	539,013	-	5,059,988
Vehicles	5,695,951	1,349,748	-	7,045,699
Roads	174,235	-	-	174,235
Total Depreciable Capital Assets	<u>28,362,913</u>	<u>15,591,776</u>	<u>-</u>	<u>43,954,689</u>
Construction in Progress	<u>9,615,131</u>	<u>12,328,564</u>	<u>9,596,586</u>	<u>12,347,109</u>
Total Capital Assets at Historical Cost	<u>173,378,005</u>	<u>30,694,466</u>	<u>9,596,586</u>	<u>194,475,885</u>
Less Accumulated Depreciation				
Land Improvements	571,088	82,017	-	653,105
Buildings and Building Improvements	5,571,969	296,662	-	5,868,631
Equipment	766,853	73,869	-	840,722
Furniture and Office Equipments	1,875,881	762,321	-	2,638,202
Vehicles	3,508,227	800,599	-	4,308,826
Roads	45,105	6,982	-	52,087
Total Accumulated Depreciation	<u>12,339,123</u>	<u>2,022,450</u>	<u>-</u>	<u>14,361,573</u>
Depreciable Capital Assets, Net	<u>16,023,790</u>	<u>13,569,326</u>	<u>-</u>	<u>29,593,116</u>
Governmental Activities Capital Assets - Net	<u>\$ 161,038,882</u>	<u>\$ 28,672,016</u>	<u>\$ 9,596,586</u>	<u>\$ 180,114,312</u>

NOTE 5 – CAPITAL ASSETS (Continued)

Capital asset activity for the fiscal year ended June 30, 2003 was as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 2,396,478	\$ -	\$ -	\$ 2,396,478
Depreciable Capital Assets				
Land Improvements	5,523,656	-	-	5,523,656
Buildings and Building Improvements	2,249,488	-	-	2,249,488
Furniture and Office Equipment	39,631	18,143	(10,528)	47,246
Vehicles, Machinery and Equipment	1,129,497	-	-	1,129,497
Totals at Historical Cost	<u>8,942,272</u>	<u>18,143</u>	<u>(10,528)</u>	<u>8,949,887</u>
Total Capital Assets at Historical Value	<u>11,338,750</u>	<u>18,143</u>	<u>(10,528)</u>	<u>11,346,365</u>
Less Accumulated Depreciation				
Land Improvements	2,434,717	293,025	-	2,727,742
Buildings and Building Improvements	918,691	75,050	-	993,741
Furniture and Office Equipment	26,791	9,111	(9,648)	26,254
Vehicles, Machinery and Equipment	889,512	66,394	-	955,906
Total Accumulated Depreciation	<u>4,269,711</u>	<u>443,580</u>	<u>(9,648)</u>	<u>4,703,643</u>
Depreciable Capital Assets, Net	<u>4,672,561</u>	<u>(425,437)</u>	<u>(880)</u>	<u>4,246,244</u>
Business - Type Activities				
Capital Assets - Net	\$ <u>7,069,039</u>	\$ <u>(425,437)</u>	\$ <u>(880)</u>	\$ <u>6,642,722</u>

The Business-Type Activities include the Golf Course whose year end is December 31, 2002 and the Assisted Housing which has a June 30, 2003 year end.

<u>Component Unit</u>	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2003</u>
Depreciable Capital Assets				
Furniture and Office Equipment	4,307,736	532,749	-	4,840,485
Less Accumulated Depreciation				
Furniture and Office Equipment	1,780,676	738,473	-	2,519,149
Depreciable Capital Assets, Net	<u>2,527,060</u>	<u>809</u>	<u>-</u>	<u>2,527,869</u>
Component Unit				
Capital Assets - Net	\$ <u>2,527,060</u>	\$ <u>(205,724)</u>	\$ <u>-</u>	\$ <u>2,321,336</u>

NOTE 5 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions of the primary government as follows:

	<u>June 30, 2003</u>
Governmental Activities	
General Government	\$ 272,307
Protection to Persons and Property	632,710
General Health and Sanitation	21,271
Social Services	25,204
Recreation and Culture	147,529
Roads, Including Depreciation of General Infrastructure Assets	<u>194,574</u>
 Total Depreciation Expense – Governmental Activities	 <u>\$ 1,293,595</u>
Business-Type Activities	
Golf Course	\$ 430,475
Assisted Housing	<u>13,105</u>
 Total Depreciation Expense – Business-Type Activities	 <u>\$ 443,580</u>

The County has active construction projects as of June 30, 2003. Total accumulated commitments for ongoing capital projects is \$25,786,513.

NOTE 6 – LONG-TERM DEBT

Series 1999-General Fund

The County issued General Obligation Public Project Bonds for the purpose of acquiring and financing certain improvements and to retire outstanding Bond Anticipation Notes. These bonds were dated April 1, 1999. These bonds were issued at interest rates ranging from 3.25% to 4.85%, and will be retired by November 1, 2019. Principal payment requirements and scheduled interest for the retirement of the bonds are as follows:

<u>Year Ended June 30,</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 144,101	\$ 565,000
2005	122,539	585,000
2006	100,133	610,000
2007	76,095	630,000
2008	50,395	655,000
2009-2013	57,663	755,000
2014-2018	20,699	115,000
2019-2023	<u>606</u>	<u>25,000</u>
 Totals	 <u>\$ 572,231</u>	 <u>\$ 3,940,000</u>

NOTE 6 – LONG-TERM DEBT (Continued)

Series 2001-General Fund

The County issued General Obligation Bonds for the purpose of discharging the outstanding amount of the Boone County Public Properties Corporation Multiple Projects Revenue Bonds, Series 1992. The series 2001 dated June 1, 2001, were issued at various interest rates ranging from 4.0% to 4.375%, and will be retired by December 1, 2012. Interest payments are due by June 1 and December 1, with principal payments due December 1 of each year. Principal payment requirements and scheduled interest for the retirement of the bonds are as follows:

<u>Year Ended June 30,</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 157,012	\$ 350,000
2005	142,812	360,000
2006	128,012	380,000
2007	113,012	370,000
2008	97,912	385,000
2009-2013	<u>236,367</u>	<u>2,170,000</u>
Totals	<u>\$ 875,127</u>	<u>\$ 4,015,000</u>

Series 2002-General Fund

The County issued General Obligation Bonds for the purpose of building a Public Safety Complex. The series 2002 dated April 18, 2002, were issued at various interest rates ranging from 3.0% to 5.0% and will be retired by April 1, 2022. Interest payments are due April 1 and October 1, with principal payments due April 1 of each year. Principal payment requirements and scheduled interest for the retirement of the bonds are as follows:

<u>Year Ended June 30,</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 836,086	\$ 705,000
2005	814,936	725,000
2006	792,280	750,000
2007	766,968	775,000
2008	737,904	800,000
2009-2013	3,178,394	4,520,000
2014-2018	2,123,202	5,580,000
2019-2023	<u>695,576</u>	<u>5,460,000</u>
Totals	<u>\$ 9,945,346</u>	<u>\$19,315,000</u>

NOTE 6 – LONG-TERM DEBT (Continued)

Series 2002-General Fund

The County issued General Obligation Bonds for the purpose of installing a water system. The series 2002 dated October 2, 2002, were issued at various interest rates ranging from 3.5% to 4.5% and will be retired by August 1, 2027. Interest payments are due February 1 and August 1, with principal payments due August 1 of each year. Principal payment requirements and scheduled interest for the retirement of the bonds are as follows:

<u>Year Ended June 30,</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 240,763	\$ -
2005	238,225	145,000
2006	232,975	155,000
2007	227,463	160,000
2008	221,775	165,000
2009-2013	1,012,925	910,000
2014-2018	812,881	1,110,000
2019-2023	548,750	1,380,000
2024-2028	<u>200,813</u>	<u>1,725,000</u>
Totals	<u>\$ 3,736,570</u>	<u>\$ 5,750,000</u>

Special Revenue Bonds – Public Properties

The County has issued bonds where the County pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at June 30, 2003, are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Sewer System	4.50 - 5.15%	\$10,895,000
Justice Center	4.00 - 5.125%	<u>14,860,000</u>
		<u>\$25,755,000</u>

The minimum obligations at June 30, 2003 for debt service of these bonds are as follows:

<u>Year Ended June 30,</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 1,230,305	\$ 1,085,000
2005	1,179,705	1,135,000
2006	1,126,805	1,185,000
2007	1,071,130	1,240,000
2008	1,012,463	1,285,000
2009-2013	4,053,688	7,480,000
2014-2018	2,066,428	7,240,000
2019-2023	<u>677,820</u>	<u>5,105,000</u>
Totals	<u>\$12,418,344</u>	<u>\$25,755,000</u>

NOTE 6 – LONG-TERM DEBT (Continued)

Revenue Refunding Bonds – Golf Course

In June, 1998, the Golf Course sold \$8,060,000 of its Revenue Refunding Bonds for the purpose of refunding, in advance of maturity, the Golf Course's outstanding Certificates of Participation dated April 1, 1992, in the principal amount of \$8,100,000. The Series 1998, dated June 1, 1998, were issued at various interest rates ranging from 4.30% to 4.80% and will be retired by June, 2012. The Series 1998 Bonds are scheduled to mature as follows:

<u>Year Ended December 31,</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 270,717	\$ 490,000
2004	249,647	515,000
2005	227,245	535,000
2006	203,705	560,000
2007	179,065	585,000
2008-2012	<u>473,435</u>	<u>3,280,000</u>
Totals	<u>\$ 1,603,814</u>	<u>\$ 5,965,000</u>

NOTE 7 – CAPITAL LEASE PURCHASE AGREEMENTS

General Fund

The County entered into a lease-purchase agreement for the Point Pleasant Fire Department. The lease term for this agreement is 20 years with the balance to be paid in full January 20, 2011. The total balance of the agreement is \$462,000 as of June 30, 2003.

The following is a schedule of future minimum lease payments as of June 30, 2003:

<u>Year</u>	<u>Point Pleasant Fire Department</u>
2004	\$ 71,741
2005	71,236
2006	70,633
2007	70,910
2008	70,060
2009-2013	<u>205,071</u>
Total Minimum Lease Payment	559,651
Less Interest	<u>97,651</u>
Present Value of Minimum Lease Payments	<u>\$ 462,000</u>

NOTE 7 – CAPITAL LEASE PURCHASE AGREEMENTS (Continued)

Public Safety Fund

1. The County entered into a lease-purchase agreement for \$500,000 to lease-purchase a computer aided dispatch system. The lease term is for 60 months with balance to be paid in full September 1, 2003. The balance of the agreement is \$27,934 as of June 30, 2003.
2. The County entered into a lease-purchase agreement for \$500,000 to lease-purchase a 911 communications system. The lease term is for 60 months with balance to be paid in full November 15, 2004. The balance of the agreement is \$163,247 as of June 30, 2003.
3. The County entered into a general obligation lease-purchase agreement for \$2,750,000 to lease-purchase a Mobile Data Terminal Project. The lease term is for 7 years with balance to be paid in full November 15, 2007. The balance of the agreement is \$1,881,974 as of June 30, 2003.

The following is a schedule of future minimum lease payments as of June 30, 2003:

Public Safety

<u>Year</u>	<u>Computer Aided Dispatch System</u>	<u>911 Communications System</u>	<u>Mobile Data Terminal Project</u>	<u>Total</u>
2004	\$ 28,269	\$ 114,353	\$ 476,008	\$ 618,630
2005	-	57,176	476,008	533,184
2006	-	-	476,008	476,008
2007	-	-	476,008	476,008
2008	-	-	238,005	238,005
2009-2013	-	-	-	-
Total Minimum Lease Payment	\$ 28,269	\$ 171,529	\$2,142,037	\$2,341,835
Less Interest	<u>(335)</u>	<u>(8,282)</u>	<u>(260,063)</u>	<u>(268,680)</u>
Present Value of Minimum Lease Payments	<u>\$ 27,934</u>	<u>\$ 163,247</u>	<u>\$1,881,974</u>	<u>\$2,073,155</u>

NOTE 8 – INSURANCE

For the fiscal year ended June 30, 2003, Boone County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

NOTE 9 – FLEXIBLE SPENDING ACCOUNT

Boone County maintains a flexible spending account to provide tax-sheltered deductions for dependent childcare and medical expenses. The balance in the flexible benefits account as of June 30, 2003 was \$8,977.

NOTE 10 – YEAR-END DIFFERENCES

The Boone County Golf Course year end is December 31, 2002. Differences reported in the financial statements are as follows:

Transfers in and out from general, public properties and golf course funds differences	\$555,382
Payable on Golf Course Fund not on General Fund because repayment made after Golf Course year end	\$465,000

NOTE 11 – CHANGES IN ACCOUNTING PRINCIPLES

The County has elected to implement Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

BOONE COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Taxes	\$ 22,612,500	\$ 22,612,500	\$ 23,055,443	\$ 442,943
In Lieu Tax Payments	48,000	48,000	50,179	2,179
Excess Fees	759,424	759,424	685,936	(73,488)
Licenses and Permits	1,234,000	1,234,000	1,255,401	21,401
Intergovernmental	1,921,688	1,921,688	2,870,067	948,379
Charges for Services	271,551	271,551	339,102	67,551
Miscellaneous	586,251	586,251	654,802	68,551
Interest	650,500	650,500	277,127	(373,373)
Total Revenues	28,083,914	28,083,914	29,188,057	1,104,143
Expenditures				
General Government	3,850,277	4,068,927	3,692,450	376,477
Protection to Persons and Property	7,928,208	7,939,458	6,742,671	1,196,787
General Health and Sanitation	469,075	470,075	412,420	57,655
Social Services	1,235,219	1,248,219	1,060,103	188,116
Recreation and Culture	1,350,821	1,423,321	1,195,080	228,241
Debt Service	1,782,269	6,115,269	1,336,382	4,778,887
Administration	14,667,347	14,350,947	10,352,034	3,998,913
Total Expenditures	31,283,216	35,616,216	24,791,140	10,825,076
Excess (Deficit) of Revenues Over Expenditures	(3,199,302)	(7,532,302)	4,396,917	11,929,219
Other Financing Sources (Uses)				
Miscellaneous	-	-	-	-
Bond Principal Payments	(1,565,000)	(1,565,000)	(1,565,000)	-
Capital Lease Principal Payments	(48,000)	(48,000)	(48,000)	-
Bond Proceeds	-	-	127,046	127,046
Operating Transfers In	-	-	370,012	370,012
Operating Transfers Out	(15,187,698)	(15,187,698)	(35,088,825)	(19,901,127)
Transfers In/(Out) for Debt Service	-	-	-	-
Total Other Financing Sources (Uses)	(16,800,698)	(16,800,698)	(36,204,767)	(19,404,069)
(Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(20,000,000)	(24,333,000)	(31,807,850)	(7,474,850)
Fund Balance July 1, 2002	38,723,710	38,723,710	39,185,710	462,000
Fund Balance June 30, 2003	\$ 18,723,710	\$ 14,390,710	\$ 7,377,860	\$ (7,012,850)

BOONE COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
ROAD AND BRIDGE FUND
Year Ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
In Lieu Tax Payments	-	-	-	-
Licenses and Permits	150,000	150,000	89,431	(60,569)
Intergovernmental	1,792,657	1,792,657	1,699,477	(93,180)
Charges for Services	150,000	150,000	110,782	(39,218)
Miscellaneous	366,000	366,000	505,295	139,295
Interest	15,000	15,000	19,984	4,984
Total Revenues	<u>2,473,657</u>	<u>2,473,657</u>	<u>2,424,969</u>	<u>(48,688)</u>
Expenditures				
General Government	-	-	-	-
Protection to Persons and Property	-	-	-	-
General Health and Sanitation	-	-	-	-
Social Services	-	-	-	-
Recreation and Culture	-	-	-	-
Roads	7,823,657	7,823,657	6,516,090	1,307,567
Administration	-	-	-	-
Total Expenditures	<u>7,823,657</u>	<u>7,823,657</u>	<u>6,516,090</u>	<u>1,307,567</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(5,350,000)</u>	<u>(5,350,000)</u>	<u>(4,091,121)</u>	<u>1,258,879</u>
Other Financing Sources (Uses)				
Miscellaneous	-	-	-	-
Proceeds from Sale of Fixed Assets	-	-	-	-
Bond Fees Paid to Fiscal Agent	-	-	-	-
Bond Proceeds	-	-	-	-
Operating Transfers In	4,000,000	4,000,000	4,000,000	-
Operating Transfers Out	-	-	-	-
Transfers In/(Out) for Debt Service	-	-	-	-
Total Other Financing Sources (Uses)	<u>4,000,000</u>	<u>4,000,000</u>	<u>4,000,000</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(1,350,000)</u>	<u>(1,350,000)</u>	<u>(91,121)</u>	<u>1,258,879</u>
Fund Balance July 1, 2002	<u>1,210,532</u>	<u>1,210,532</u>	<u>1,210,532</u>	<u>-</u>
Fund Balance June 30, 2003	<u>\$ (139,468)</u>	<u>\$ (139,468)</u>	<u>\$ 1,119,411</u>	<u>\$ 1,258,879</u>

BOONE COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
JAIL FUND
Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ -	\$ -
In Lieu Tax Payments	-	-	-	-
Licenses and Permits	-	-	-	-
Intergovernmental	1,195,000	1,195,000	1,658,557	463,557
Charges for Services	235,500	235,500	235,884	384
Miscellaneous	68,300	68,300	49,024	(19,276)
Interest	4,000	4,000	2,109	(1,891)
Total Revenues	1,502,800	1,502,800	1,945,574	442,774
Expenditures				
General Government	-	-	-	-
Protection to Persons and Property	1,845,498	1,845,498	1,704,087	141,411
General Health and Sanitation	-	-	-	-
Social Services	-	-	-	-
Recreation and Culture	-	-	-	-
Capital Projects	-	-	-	-
Administration	445,000	445,000	453,652	(8,652)
Total Expenditures	2,290,498	2,290,498	2,157,739	132,759
Excess (Deficit) of Revenues Over Expenditures	(787,698)	(787,698)	(212,165)	575,533
Other Financing Sources (Uses)				
Miscellaneous	-	-	-	-
Proceeds from Sale of Fixed Assets	-	-	-	-
Bond Fees Paid to Fiscal Agent	-	-	-	-
Bond Proceeds	-	-	-	-
Operating Transfers In	687,698	687,698	300,000	(387,698)
Operating Transfers Out	-	-	-	-
Transfers In/(Out) for Debt Service	-	-	-	-
Total Other Financing Sources (Uses)	687,698	687,698	300,000	(387,698)
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(100,000)	(100,000)	87,835	187,835
Fund Balance July 1, 2002	79,148	79,148	79,148	-
Fund Balance June 30, 2003	\$ (20,852)	\$ (20,852)	\$ 166,983	\$ 187,835

BOONE COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
SCHOOL BOARD TAX FUND
Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Taxes	\$ 4,850,000	\$ 4,850,000	\$ 4,808,492	\$ (41,508)
In Lieu Tax Payments	-	-	-	-
Licenses and Permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for Services	-	-	-	-
Miscellaneous	-	-	-	-
Interest	8,400	8,400	10,625	2,225
Total Revenues	<u>4,858,400</u>	<u>4,858,400</u>	<u>4,819,117</u>	<u>(39,283)</u>
Expenditures				
General Government	-	-	-	-
Protection to Persons and Property	-	-	-	-
General Health and Sanitation	-	-	-	-
Social Services	-	-	-	-
Recreation and Culture	-	-	-	-
Debt Service	-	-	-	-
Administration	4,958,400	4,958,400	4,324,877	633,523
Total Expenditures	<u>4,958,400</u>	<u>4,958,400</u>	<u>4,324,877</u>	<u>633,523</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(100,000)</u>	<u>(100,000)</u>	<u>494,240</u>	<u>594,240</u>
Other Financing Sources (Uses)				
Miscellaneous	-	-	-	-
Proceeds from Sale of Fixed Assets	-	-	-	-
Bond Fees Paid to Fiscal Agent	-	-	-	-
Bond Proceeds	-	-	-	-
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
Transfers In/(Out) for Debt Service	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(100,000)</u>	<u>(100,000)</u>	<u>494,240</u>	<u>594,240</u>
Fund Balance July 1, 2002	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance June 30, 2003	<u>\$ (100,000)</u>	<u>\$ (100,000)</u>	<u>\$ 494,240</u>	<u>\$ 594,240</u>

BOONE COUNTY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PUBLIC SAFETY FUND
Year Ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 984,507	\$ 984,507	\$ 961,976	\$ (22,531)
In Lieu Tax Payments	-	-	-	-
Licenses and Permits	-	-	-	-
Intergovernmental	130,000	130,000	178,579	48,579
Charges for Services	-	-	-	-
Miscellaneous	44,000	44,000	27,330	(16,670)
Interest	-	-	-	-
Total Revenues	<u>1,158,507</u>	<u>1,158,507</u>	<u>1,167,885</u>	<u>9,378</u>
Expenditures				
General Government	-	-	-	-
Protection to Persons and Property	-	-	-	-
General Health and Sanitation	-	-	-	-
Social Services	-	-	-	-
Recreation and Culture	-	-	-	-
Capital Projects	-	-	-	-
Administration	2,362,484	2,362,484	1,196,980	1,165,504
Total Expenditures	<u>2,362,484</u>	<u>2,362,484</u>	<u>1,196,980</u>	<u>1,165,504</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(1,203,977)</u>	<u>(1,203,977)</u>	<u>(29,095)</u>	<u>1,174,882</u>
Other Financing Sources (Uses)				
Miscellaneous	-	-	-	-
Proceeds from Sale of Fixed Assets	-	-	-	-
Bond Fees Paid to Fiscal Agent	-	-	-	-
Bond Proceeds	-	-	-	-
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
Transfers In/(Out) for Debt Service	(703,438)	(703,438)	(703,437)	1
Total Other Financing Sources (Uses)	<u>(703,438)</u>	<u>(703,438)</u>	<u>(703,437)</u>	<u>1</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(1,907,415)</u>	<u>(1,907,415)</u>	<u>(732,532)</u>	<u>1,174,883</u>
Fund Balance July 1, 2002	<u>1,898,407</u>	<u>1,898,407</u>	<u>1,898,407</u>	<u>-</u>
Fund Balance June 30, 2003	<u>\$ (9,008)</u>	<u>\$ (9,008)</u>	<u>\$ 1,165,875</u>	<u>\$ 1,174,883</u>

**BOONE COUNTY
CONDITION RATING OF THE COUNTY'S STREET SYSTEM**

Percentage of Lane-Miles in Good or Better Condition		
2003	2002	2001
98%	97%	95%

Percentage of Lane-Miles in Substandard Condition		
2003	2002	2001
2%	3%	5%

Comparison of Needed-to-Actual Maintenance/Preservation			
	2003	2002	2001
Bridge			
Needed	\$ 100,000	\$ 125,000	\$ -
Actual	-	7,116	-
Roads			
Needed	631,550	455,135	424,490
Actual	573,267	415,139	417,411
Subdivision			
Needed	2,150,607	1,549,865	1,445,510
Actual	1,952,139	1,413,665	1,421,406

Note: The condition of road pavement is measured using the Stantec pavement management system, which is based on the deterioration potential of the pavement of each road. The Super MS pavement system uses a measurement scale that is based on a pavement quality index (PQI) ranging from 2.0 for a failed pavement in perfect condition. The County has established a minimum PQI ranging from 2.0 for a failed pavement in perfect condition. The County has established a minimum PQI of 6.0 for local roads and 7.0 for collector roads. When a road is scheduled to fall below minimum PQI in a given fiscal year, the road will be scheduled to be rehabilitated in that year.

SUPPLEMENTAL INFORMATION

BOONE COUNTY
 COMBINING BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 June 30, 2003

	Local Government Economic Assistance Fund	Federal Grants Fund	Parks and Recreation Fund	Economic Assistance Fund	Local Law Enforcement Fund	Mental Health Fund	Revolving Loan Fund	Motor Vehicle Rental Tax Fund	Scattered Sewer Assessment Fund	Earl Parker Robinson Fund	Public Properties Fund	Total Governmental Funds
Assets												
Cash and Cash Equivalents	\$ 96,899	\$ -	\$ -	\$ -	\$ -	\$ 1,418,802	\$ 82,907	\$ 143	\$ 631,950	\$ 271,901	\$ 50,989	\$ 2,553,591
Investments	-	-	-	-	-	-	-	-	-	-	5,975,874	5,975,874
Notes Receivable	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	-	-	-	-	-	-	142,489	142,489
Due from Boone County Golf Course	-	-	-	-	-	-	-	-	-	-	150,000	150,000
Restricted Cash	-	-	-	-	-	-	-	-	-	-	-	-
Total Assets	\$ 96,899	\$ -	\$ -	\$ -	\$ -	\$ 1,418,802	\$ 82,907	\$ 143	\$ 631,950	\$ 271,901	\$ 6,319,352	\$ 8,821,954
Liabilities and Fund Balances												
Liabilities												
Restricted Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,560	\$ 3,560
Fund Balances												
Reserved for:												
Encumbrances	4,379	-	-	-	-	730	-	-	-	-	-	5,109
Road Projects	-	-	-	-	-	-	82,907	-	631,950	-	-	714,857
Special Projects	-	-	-	-	-	1,418,072	-	143	-	-	-	1,418,215
Contractual Tax Agreements	-	-	-	-	-	-	-	-	-	-	6,115,825	6,115,825
Debt Service	-	-	-	-	-	-	-	-	-	271,901	199,967	564,388
Unreserved	92,520	-	-	-	-	-	-	-	-	-	-	-
Total Fund Balances	96,899	-	-	-	-	1,418,802	82,907	143	631,950	271,901	6,315,792	8,818,394
Total Liabilities and Fund Balances	\$ 96,899	\$ -	\$ -	\$ -	\$ -	\$ 1,418,802	\$ 82,907	\$ 143	\$ 631,950	\$ 271,901	\$ 6,319,352	\$ 8,821,954

See accompanying notes.

BOONE COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 Year Ended June 30, 2003

	Local Government Economic Assistance Fund	Federal Grants Fund	Parks and Recreation Fund	Economic Assistance Fund	Local Law Enforcement Fund	Mental Health Fund	Revolving Loan Fund	Motor Vehicle Rental Tax Fund	Scattered Sewer Assessment Fund	Earl Parker Robinson Fund	Public Properties Fund	Total Governmental Funds
Revenues												
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,691,483	\$ -	\$ 1,541,002	\$ -	\$ -	\$ -	\$ 3,232,485
In Lieu Tax Payments	-	-	-	-	-	-	-	-	-	-	-	-
Excess Fees	-	-	-	-	-	-	-	-	-	-	-	-
Licenses and Permits	-	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental	96,805	778,425	-	-	19,573	-	-	-	1,000	-	-	895,803
Charges for Services	-	-	-	-	-	-	-	-	-	-	2,029,370	2,029,370
Miscellaneous	-	-	3,859	-	-	7,046	-	-	-	-	-	10,905
Interest	2,507	-	38	917	38	28,089	1,582	2,816	18,505	5,188	165,734	225,414
Total Revenues	99,312	778,425	3,897	917	19,611	1,726,618	1,582	1,543,818	19,505	5,188	2,195,104	6,393,977
Expenditures												
General Government	-	-	-	-	-	-	-	-	-	-	7,380	7,380
Protection to Persons and Property	-	-	-	-	23,764	-	-	-	-	-	-	23,764
General Health and Sanitation	146,471	778,425	-	-	-	1,280,603	-	-	-	-	-	2,205,499
Social Services	-	-	-	-	-	569,727	-	-	-	-	-	569,727
Recreation and Culture	-	-	1,325	-	-	-	-	-	-	-	-	1,325
Roads	-	-	-	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-	-	1,023,673	1,023,673
Capital Projects	-	-	-	100,362	-	-	-	-	355,555	-	3,726,696	4,182,613
Administration	-	-	-	-	-	67,292	-	1,543,741	-	-	-	1,611,033
Total Expenditures	146,471	778,425	1,325	100,362	23,764	1,917,622	-	1,543,741	355,555	-	4,757,749	9,625,014
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	(47,159)	-	2,572	(99,445)	(4,153)	(191,004)	1,582	77	(336,050)	5,188	(2,562,645)	(3,231,037)
Other Financing Sources (Uses):												
Capital Lease Principal Payments	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to Other Funds	-	-	(4,827)	(84,597)	-	-	-	-	-	-	(125,089)	(214,513)
Transfers from Other Funds	-	-	-	-	-	-	-	-	-	-	4,880	4,880
Bond Principal Payments	-	-	-	-	-	-	-	-	-	-	(575,000)	(575,000)
Bond Proceeds	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	(4,827)	(84,597)	-	-	-	-	-	-	(695,209)	(784,633)
Net Change in Fund Balances	(47,159)	-	(2,255)	(184,042)	(4,153)	(191,004)	1,582	77	(336,050)	5,188	(3,257,854)	(4,015,670)
Fund Balances - Beginning	144,058	-	2,255	184,042	4,153	1,609,806	81,325	66	968,000	266,713	9,573,646	12,834,064
Fund Balances - Ending	\$ 96,899	\$ -	\$ -	\$ -	\$ -	\$ 1,418,802	\$ 82,907	\$ 143	\$ 631,950	\$ 271,901	\$ 6,315,792	\$ 8,818,394

See accompanying notes.

BOONE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

<u>Federal Grants/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development			
Direct Program:			
Section Eight Housing Rental Assistance Program	14.871	KY135-CE-0012	\$ 4,169,563
Passed-Through State Department for Local Government:			
Emergency Shelter Grants Program	14.231	S01-DC21-0001	10,000
Community Development Block Grant	14.228	B-98-DC-21-0001	<u>778,425</u>
Total U.S. Department of Housing and Urban Development			\$ <u>4,957,988</u>
U.S. Department of the Interior			
Passed-Through the Kentucky Heritage Council:			
Historic Preservation Fund Grant Federal Survey and Planning Grant	15.904	01-00-CLG-211	<u>\$ 5,600</u>
U.S. Department of Justice			
Passed-Through State Justice Cabinet:			
Local Law Enforcement Block Grant Criminal Investigation Equipment	16.597	00-LB-VX-2253	\$ 4,172
Police Equipment	16.597	01-LB-VX-7436	17,616
Bulletproof Vest Partnership Program	16.607	99002720	<u>11,888</u>
Total U.S. Department of Justice			\$ <u>33,676</u>
U.S. Federal Emergency Management Agency			
Passed-Through State Department of Military Affairs:			
Disaster and Emergency Assistance Grants - Coordinator Salary	83.503	B0111-44-01	<u>\$ 13,531</u>
Total Cash Expenditures of Federal Awards			\$ <u><u>5,010,795</u></u>

BOONE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Boone County and is presented on the basis of accounting described in Note 1 of the financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 – SECTION EIGHT HOUSING RENTAL ASSISTANCE PROGRAM

As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary, Finance and Administration Cabinet
Honorable Gary W. Moore, Boone County Judge/Executive
Members of the Boone County Fiscal Court

We have audited the financial statements of Boone County as of and for the year ended June 30, 2003, and have issued our report thereon dated January 8, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Boone County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Boone County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, and others within the Organization and county commissioners and is not intended to be, and should not be, used by anyone other than these specified parties.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
January 8, 2004



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary, Finance and Administration Cabinet
Honorable Gary W. Moore, Boone County Judge/Executive
Members of the Boone County Fiscal Court

Compliance

We have audited the compliance of Boone County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Boone County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Boone County's management. Our responsibility is to express an opinion on Boone County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Boone County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Boone County's compliance with those requirements.

In our opinion, Boone County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Boone County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Boone County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary, Finance and Administration Cabinet
Honorable Gary W. Moore, Boone County Judge/Executive
Members of the Boone County Fiscal Court
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the Organization, county commissioners and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
January 8, 2004

BOONE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2003

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of Financial Statement Opinion	Unqualified
Were there any material control weakness conditions reported at the financial statements level (GAGAS)?	No
Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	None Reported
Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
FEDERAL AWARDS	
Were there any material internal control weakness conditions reported for major federal programs?	No
Were there any other reportable conditions identified, not considered to be material weaknesses reported for major programs?	None Reported
Type of Major Programs Compliance Opinion	Unqualified
Are there any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510?	No
Major Programs (list):	Section 8 Housing Choice Vouchers [CFDA 14.871] Community Development Block Grant [CFDA 14.228]
Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: > all others
Low Risk Auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters to be reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters to be reported.

BOONE COUNTY
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2003

PRIOR YEAR – FINANCIAL STATEMENT FINDINGS

No matters were reported.

PRIOR YEAR – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

EXHIBIT H

OPERATION AND MAINTENANCE AGREEMENT BETWEEN BOONE COUNTY
AND BCWD

OPERATION AND MAINTENANCE AGREEMENT

THIS OPERATION AND MAINTENANCE AGREEMENT (the "Agreement"), dated for reference purposes as of June 1, 2005, to be effective June 21, 2005, by and between the COUNTY OF BOONE, KENTUCKY, (hereinafter called the "County") and the BOONE COUNTY WATER DISTRICT, a water district created pursuant to Chapter 74 of the Kentucky Revised Statutes (hereinafter called the "District");

WITNESSETH

WHEREAS, the County has determined to issue its General Obligation Public Project Bonds, Series 2005 (Subdistrict B Water Line Project) (the "Bonds") in the principal amount of \$2,750,000, and to use the proceeds thereof to construct and install certain water lines and appurtenant facilities as more fully described in Exhibit A attached hereto (the "Project"); and

WHEREAS, in order to provide for the continued operation and maintenance of the Project and to provide for the payment of a portion of the debt service on the Bonds from a source other than the County's general fund, the District has determined to operate and maintain the Project and to make certain annual payments to the County as set forth herein.

NOW, THEREFORE, IT IS AGREED BETWEEN THE PARTIES HERETO AS FOLLOWS:


Section 1. The County agrees to issue its general obligation bonds in a principal amount of \$2,750,000 and to use the proceeds thereof to construct and install the Project, to be used only for public purposes. Such bonds shall mature no later than 30 years, as determined by the County, from the date of issuance

Section 2. ~~The District agrees to operate and maintain the Project, to be used only for public purposes, for the period commencing June 1, 2005 and ending June 30, 2006 or such earlier date as hereinafter provided. Unless and until terminated as provided herein, this Agreement shall continue in effect from fiscal year to fiscal year. The obligations of the County and the District under this Agreement shall be subject to either party's annual right to terminate and no obligation hereunder shall constitute an obligation in any future year. If either party determines, for any reason, to exercise its annual right to terminate this Agreement, effective on any June 30, such party must give written notice thereof to the other party not later than the preceding May 31. In addition, either party hereto may terminate this Agreement at any time by providing written notice thereof to the other party at least ninety days prior to the termination date set forth in such notice. Upon termination of this Agreement, any amounts required to be paid hereunder shall accrue until the date of termination, at which time all such obligations shall cease to accrue.~~

The County agrees to set and the District agrees to collect rates and charges (collectively, the "Project Revenues") for customers using the Project, as follows:

(a) The District's water service rates applicable to other customers of the District that are not users of the Project (the "Service Charges"); plus

(b) such dollar amount as may be established from time to time by the County and communicated to the District in writing (the "Surcharge");

(c) The District shall charge and collect its Tap Fee. 

The Project Revenues shall be allocated as follows:

- (a) The District shall deduct from the District Charges its cost of treated water and its cost of operation and maintenance* ("O&M") of the District and the Project (cost of operation and maintenance of the Project to be computed by multiplying the total gallons used by customers of the Project times the O&M cost per 1,000 gallons) (the "Adjusted Gross District Charges"); and
- (b) The District shall remit the Adjusted Gross District Charges to the County which shall be used by the County as follows:
 - (i) to pay interest on the Bonds as scheduled;
 - (ii) to pay principal on the Bonds as scheduled;
 - (iii) to reimburse the County for its accrued County Subsidy Payments (as hereinafter defined);
 - (iv) to redeem Bonds earlier than their scheduled maturity as is permitted by the ordinance authorizing the Bonds.

*The O&M cost shall be adjusted each calendar year base on the then most recent audited O&M cost for the prior calendar year as reported to the Kentucky Public Service Commission (the "PSC") by the District in its annual report to the PSC.

Amounts payable by the District to the County shall be paid within thirty (30) days of receipt thereof by the District

Notwithstanding that this Agreement is between the District and the County, all payments due hereunder shall, if so requested by the County in writing, be made directly to the paying agent bank for the Bonds (the "Paying Agent") for deposit in the Bond Payment Fund established in the Ordinance authorizing the Bonds.

The County agrees that, if during any fiscal year (ending June 30) the Adjusted Gross District Charges are not sufficient to meet the scheduled principal and interest payments on the

Bonds, the County will cover the deficiency with funds of the County (the "County Subsidy Payment").

Section 3. The Project referred to in this Agreement is located in Boone County, Kentucky, and is more particularly described in Exhibit A attached hereto.

Section 4. The District represents and warrants that:

(a) It is a water district duly organized, validly existing, and in good standing under the laws of the Commonwealth of Kentucky.

(b) It has the power and has been duly authorized to enter into this Agreement and perform all of its obligations hereunder.

(c) The District is not subject to any contractual or other limitation or provision of any nature whatsoever which in any way limits, restricts or prevents the District from entering into this Agreement, or performing any of its obligations hereunder or thereunder; and the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby, and the fulfillment of or compliance with the terms and conditions of this Agreement will not conflict with or result in a breach of the terms, conditions or provisions of any restriction, agreement or instrument to which the District is a party or by which it is bound, or constitute a default under any of the foregoing, and will not violate any provision of law or regulation applicable to the District or any court or administrative order or decree.

Section 5. The County represents and covenants that it has full power to execute and perform this Agreement and the covenants and promises contained herein.

Section 6. The District hereby accepts the Project, as is, and the County makes no warranty or representation, either express or implied, as to the value, design, condition, fitness for particular purpose or fitness for use of any of the Project.

Section 7. The District will operate and maintain the Project in a manner substantially consistent with the laws of the Commonwealth of Kentucky regarding water distribution Projects and in a manner which will substantially effectuate the public purposes of Chapters 74 and 96 of the Kentucky Revised Statutes.

Section 8. The District covenants and agrees with the County that the District shall during the term of this Agreement keep and maintain the Project and all parts thereof in good condition and repair, ordinary wear and tear excepted, including, but not limited to, the furnishing of all parts, mechanisms and devices required to keep the Project in good mechanical and working order. The District shall keep the Project in substantial compliance with all applicable governmental regulations and requirements, and in each case the District shall make all replacements and repairs necessary in connection therewith.

Section 9. The District shall have and is hereby given the right, at its sole cost and expense, to make such additions, improvements, changes and alterations in and to any part of the Project as the District from time to time may deem necessary or advisable; provided, however, that the District shall not make any addition, change or alteration which would change the character of the Project as a water distribution Project. All additions, changes and alterations made by the District pursuant to the authority of this Section shall (a) be made in a workmanlike manner and in substantial compliance with all laws and ordinances or resolutions applicable thereto, (b) when commenced, be prosecuted to completion with due diligence without delay or abatement in the District's payments due hereunder, and (c) when completed, be deemed a part of the District's Water System (the "System").

Section 10. The District shall neither do nor permit others under its control to do any work in or about the Project or related to any repair, rebuilding, restoration, replacement, alteration of or addition to the Project, or any part thereof, unless District shall have first procured and paid for all requisite municipal and other governmental permits and authorizations. All such work shall be done in a good and workmanlike manner and in substantial compliance with all applicable building, zoning, and other laws, ordinances, governmental regulations and requirements and in accordance with the requirements, rules and regulations of all insurers under the policies required to be carried under Section 13 hereof.

Section 11. Except as provided in Section 2 hereof, the District shall be responsible for establishing fees and charges (including any surcharge to customers of the District using the Project) for the use by the public of the System (including the Project), subject to any limitations provided by law.

Section 12. Notwithstanding anything herein to the contrary, the District, for the benefit of the County and each holder of the Bonds, hereby represents that it has not taken, or permitted to be taken on its behalf, and agrees that it will not take or permit to be taken on its behalf, any action which would adversely affect the excludability from gross income of the interest on the Bonds for federal income tax purposes, and that it will make and take, or require to be made and taken, such acts and filings as may from time to time be required under the Internal Revenue Code of 1986, as amended, to maintain such excludability from gross income.

Section 13. The County shall have reasonable access and the right to inspect, examine and make copies of the books, records, accounts, tax returns and other such financial information of the District.

Section 14. The District shall obtain insurance with respect to the Project issued by an insurer or insurers and on policy forms in such amounts which are customary with the District for facilities which are similar to the Project, against loss or damage from theft, fire, vandalism and other events covered by uniform standard extended coverage endorsements approved by the insurance regulatory authority in the Commonwealth of Kentucky. The District may alternatively

insure such property under a blanket insurance policy or policies which cover not only such property but other properties.

Each insurance policy provided for in the preceding and following paragraphs shall contain a provision to the effect that the insurance company shall not cancel the same without first giving written notice thereof to the County at least thirty (30) days in advance of such cancellation.

The District shall also carry public liability insurance with reference to the Project with one or more reputable insurance companies duly qualified to do business in Kentucky, for death or bodily injury and property damage in amounts which are customarily carried for water districts which are similar to the District. The County shall be made an additional insured under such policies. Such public liability insurance may be by blanket insurance policy or policies.

The parties hereto recognize that continued inflation, the emergence of new risks, and various other factors foreseeable or unforeseeable may at some future time cause the insurance coverages required by this Agreement to become inadequate in face amount or the type of risks insured against. The District hereby covenants with the County that throughout the life of this Agreement the District shall keep the Project continuously insured against such risks as are customarily insured against by the District, and in such amounts as would be customarily maintained, by businesses of like size and type.

Section 15. If the Project is destroyed (in whole or in part) or is damaged by fire or other casualty, the District shall promptly replace, repair, rebuild or restore the property damaged or destroyed to substantially the same condition as existed prior to the event causing such damage or destruction, with such changes, alterations and modifications including the substitution and addition of other property as may be desired by the District and as will not impair the operation of the Project or change its character and the District will apply for such purpose so much as may be necessary of any net proceeds of insurance resulting from claims for losses, under the insurance policies required to be carried herein, resulting from such damage.

Section 16. The County and its duly authorized representatives and agents, reserve the right to enter the Project at all reasonable times during the term of this Agreement for the purpose of (a) examining and inspecting the same, including the construction, installation and equipping thereof and (b) performing such work in and about the Project made necessary by reason of the District's default under any of the provisions of this Agreement. The County shall also have the right at all reasonable times to examine the books and records of the District.

Section 17. This Agreement is made on condition that if (each of the following events being deemed an "Event of Default" under the provisions of this Agreement):

- (a) the District fails to punctually make any payment required hereunder as the same becomes due; or

(b) the District fails to observe, keep or perform any other covenant or obligation herein contained on the District's part to be observed, kept or performed, and the District fails to remedy the same within thirty (30) days after the County has given the District written notice specifying such failure and requesting that it be remedied; or

(c) the District vacates or abandons the Project; or

(d) any representation or warranty by the District contained in this Agreement or in any certificate or instrument delivered by the District pursuant to this Agreement is false or misleading in any material respect;

then the County may at its election then or at any time thereafter, and while such default shall continue, give the District written notice of intention to terminate this Agreement on a date specified therein, which date shall not be earlier than ten (10) days after such notice is given, and, if all defaults have not then been cured, on the date so specified, the District's rights to operation of the Project shall cease and this Agreement shall thereupon be terminated, and the County may re-enter and take possession of the Project.

Section 18. If the District shall fail to keep or perform any of its obligations as provided in this Agreement in respect of (a) maintenance of insurance, (b) payments required hereunder, (c) repairs and maintenance of the Project, (d) substantial compliance with legal or insurance requirements hereunder, (e) keeping the Project lien free, or in the making of any other payment or performance of any other obligation so to do) upon the continuance of such failure on the District's part for thirty (30) days after written notice of such failure is given to the District by the County and without waiving or releasing the District from any obligation hereunder, as an additional but not exclusive remedy, the County may make any such payment or perform any such obligation, and all sums so paid by the County and all necessary incidental costs and expenses incurred by the County in performing such obligation shall be deemed additional amounts due and payable by the District and shall be paid to the County, and if not so paid by the District, the County shall have the same rights and remedies as provided for in the case of default by the District in the payment of amounts due under Section 2 hereof.

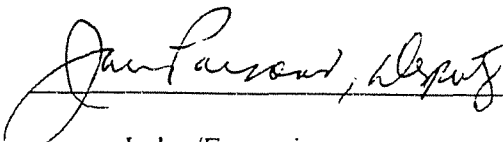
Section 19. The District shall indemnify and hold the County, its officers, directors, agents and employees harmless against and from all claims by or on behalf of any person, firm or corporation arising from the conduct or management of, or from any work or thing done on the Project during the term of this Agreement, and against and from all claims arising during the term of this Agreement from (a) any condition of the Project caused by the District, (b) any breach or default on the part of the District in the performance of any of its obligations under this Agreement, (c) any act of negligence of the District or of any of its agents, contractors, servants, employees or licensees, and (d) any act of negligence of any agents, contractors, servants, employees or licensees of the District in connection with the construction, installation, furnishing, equipping, management or operation of the Project during the term of this Agreement. Any indemnified party seeking to enforce the above indemnity shall give the District written notice of and the opportunity to defend

any claims with respect to which indemnity is sought to be enforced hereunder, in which event the District shall either (i) employ counsel reasonably acceptable to such party to defend such claims and pay all costs and expenses in connection with such defense, or (ii) permit such party to defend such claims itself through counsel of its own choosing in which event the District shall indemnify and hold such party harmless from and against all reasonable costs and expenses incurred in or in connection with any action or proceeding brought with respect to such claims. Upon notice from such party in any such action or proceeding, if the District fails or refuses to proceed under option (i) above, the District shall be deemed to have agreed that such party may proceed under option (ii) above.

Section 20. Upon payment in full of the Bonds, the County, so long as no event of default by the District hereunder has occurred and is continuing, will immediately transfer all of its right, title and interest in and to the Project to the District.

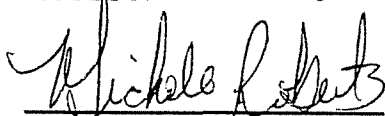
IN TESTIMONY WHEREOF, the District has caused this instrument to be executed for and on its behalf by its Chairman and attested by its Secretary and the County has caused this instrument to be executed for an on its behalf by its Judge/Executive and attested by its Fiscal Court Clerk, as of the date first above written.

COUNTY OF BOONE, KENTUCKY



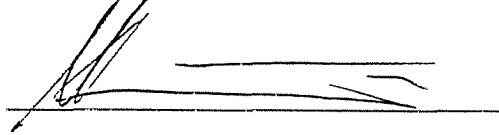
Judge/Executive

ATTEST:




Fiscal Court Clerk

BOONE COUNTY WATER DISTRICT



Chairman

ATTEST:



Secretary

EXHIBIT I

COPIES OF THE DEPARTMENT OF WATER PERMITS



ERNE FLETCHER
GOVERNOR

ENVIRONMENTAL AND PUBLIC PROTECTION CABINET

DEPARTMENT FOR ENVIRONMENTAL PROTECTION

DIVISION OF WATER

14 REILLY ROAD

FRANKFORT, KENTUCKY 40601-1190

www.kentucky.gov

June 20, 2005

LAJUANA S. WILCHER
SECRETARY

*PMJ
06/22/05*

Mr. Keith Feldhaus, Project Coordinator
Boone Co Water District
2475 Burlington Pike
Burlington, KY 41005-0018

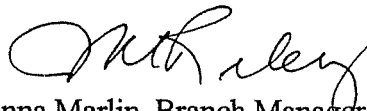
RE: Boone Co Water District, PWS--33787
DW #0080034-05-012
Fiscal Court Phase II 2A-D WLE
Activity ID # APE20050012
Boone County, KY

Dear Mr. Feldhaus:

We have reviewed the plans and specifications for the above referenced project. The plans include the construction of approximately 48,933 feet of 8-inch and 21,500 feet of 12-inch DI water line. This is to advise that plans and specifications for the above referenced project are APPROVED with respect to sanitary features of design, as of this date with the requirements contained in the enclosed waterline extension construction permit.

If you have any questions regarding this decision, please contact Sarah Tucker at 502/564-2225, extension 482.

Sincerely,

for 
Donna Marlin, Branch Manager
Drinking Water Branch
Division of Water

DSM: SAT

C: Tetra Tech, Inc. ✓
Boone County H.D.
Public Service Commission
Division of Plumbing



Distribution-Major Construction

Boone Co Water District

Subject Item Inventory

Activity ID No.: APE20050012

Subject Item Inventory:

ID	Designation	Description
AIOO33787		
PORT46	Water Line	21,500 feet of 12-inch & 48,933 feet of 8-inch DI

Subject Item Groups:

ID	Description	Components
GA CT44	21,500 feet of 12-inch & 48,933 feet of 8-inch DI	PORT46 21,500 feet of 12-inch & 48,933 feet of 8-inch DI

KEY

ACTV = Activity

AREA = Area

EQPT = Equipment

PERS = Personnel

STOR = Storage

TRMT = Treatment

AIOO = Agency Interest

COMB = Combustion

MNPT = Monitoring Point

PORT = Transport

STRC = Structure

Distribution-Major Construction

Boone Co Water District

Facility Requirements

Activity ID No.: APE20050012

Page 1 of 6

GACT44 (Fiscal Court-PhII 2A-D) 21,500 feet of 12-inch & 48,933 feet of 8-inch DI:

Monitoring Requirements:

Condition No.	Parameter	Condition
M-1	Coliform	The presence or absence of total Coliform monitored by sampling and analysis as needed shall be determined for the new or relocated water line(s). Take samples at connection points to existing lines, at 1 mile intervals, and at dead ends without omitting any branch of the new or relocated water line. Sample bottles shall be clearly identified as "special" construction tests. [401 KAR 8:100 Section 1(7), 401 KAR 8:150 Section 4, Recommended Standards for Water Works 8.5.6] This requirement is applicable during the following months: All Year. Statistical basis: Instantaneous determination.

Submittal/Action Requirements:

Coliform:

Condition No.	Condition
S-1	Coliform For new construction projects, the distribution system, using the most expedient method, shall submit Coliform test results to the Cabinet: Due immediately following disinfection and flushing. [401 KAR 8:150 Section 4(2)]

Condition No.	Condition
S-2	For proposed changes to the approved plan, submit information: Due prior to any modification to the Cabinet for approval. Changes to the approved plan shall not be implemented without the prior written approval of the Cabinet. [401 KAR 8:100 Section 1(8)]
S-3	The person who presented the plans shall submit the professional engineer's certification: Due when construction is complete to the Division of Water. The certification shall be signed by a registered professional engineer and state that the water project has been constructed and tested in accordance with the approved plans, specifications, and requirements. [401 KAR 8:100 Section 1(8)]

Distribution-Major Construction

Boone Co Water District
Facility Requirements

Activity ID No.: APE20050012

Page 2 of 6

Narrative Requirements:

Additional Limitations:

Condition No.	Condition
T-1	Additional Limitations: Chlorinated water resulting from disinfection of project components shall be disposed in a manner which will not violate 401 KAR 5:031. [401 KAR 8:020 Section 2(20)]
T-2	This project has been permitted under the provisions of KRS Chapter 224 and regulations promulgated pursuant thereto. Issuance of this permit does not relieve the applicant from the responsibility of obtaining any other approvals, permits or licenses required by this Cabinet and other state, federal and local agencies. Further, this permit does not address the authority of the permittee to provide service to the area to be served. [401 KAR 8:100 Section 1(7)]
T-3	Unless construction of this project is begun within 1 year from the issuance date of this permit, the permit shall expire. If requested prior to the permit expiration, an official extension from the Division of Water may be granted. If this permit expires, the original plans and specifications may be resubmitted for a new comprehensive review. If you have any questions concerning this project, please contact the Drinking Water Branch at 502/564-3410. [401 KAR 8:100 Section 1(9)]
T-4	During construction, a set of approved plans and specification shall be available at the job site at all times. All work shall be performed in accordance with the approved plans and specifications. [401 KAR 8:100 Section 1(7)(a)]

Distribution-Major Construction

Boone Co Water District
Facility Requirements

Activity ID No.: APE20050012

Page 3 of 6

PORT46 (Water Line) 21,500 feet of 12-inch & 48,933 feet of 8-inch DI:

Limitation Requirements:

Condition No.	Parameter	Condition
L-1	Depth	A continuous and uniform bedding shall be provided in the trench for all buried pipe. Backfill material shall be tamped in layers around the pipe and to a sufficient height above the pipe to adequately support and protect the pipe. Stones found in the trench shall be removed for a Depth ≥ 6 in below the bottom of the pipe. [Recommended Standards for Water Works 8.5.2] This requirement is applicable during the following months: All Year. Statistical basis: Not applicable.
L-2	Depth	All water lines shall be covered to a Depth ≥ 30 in to prevent freezing. [Recommended Standards for Water Works 8.5.3, 401 KAR 8:100 Section 1(7)] This requirement is applicable during the following months: All Year. Statistical basis: Minimum.
L-3	Diameter	All new and existing water lines serving fire hydrants or where fire protection is provided shall have Diameter ≥ 6 in. [Recommended Standards for Water Works 8.1.2] This requirement is applicable during the following months: All Year. Statistical basis: Minimum.
L-4	Distance	Water lines shall have a sufficient quantity of valves so that inconvenience and sanitary hazards will be minimized during repairs. A valve spacing Distance ≤ 1.0 mi should be utilized. [Recommended Standards for Water Works 8.2] This requirement is applicable during the following months: All Year. Statistical basis: Not applicable.
L-5	Distance	Hydrant drains shall not be connected to sanitary sewers or storm drains and shall be located a Distance > 10 ft from sanitary sewers and storm drains. [Recommended Standards for Water Works 8.3.4] This requirement is applicable during the following months: All Year. Statistical basis: Not applicable.
L-6	Distance	Except when not practical, water lines shall be laid a horizontal Distance ≥ 10 ft from any existing or proposed sewer. The distance shall be measured edge to edge. In cases where it is not practical to maintain a 10 foot separation, water lines may be installed closer to a sewer provided that the water lines shall be laid in a separate trench or on an undisturbed shelf located on one side of the sewer at such an elevation that the bottom of the water line is at least 18 inches above the top of the sewer. [Recommended Standards for Water Works 8.6.2] This requirement is applicable during the following months: All Year. Statistical basis: Not applicable.

Distribution-Major Construction

Boone Co Water District

Facility Requirements

Activity ID No.: APE20050012

Page 4 of 6

Limitation Requirements:

Condition No.	Parameter	Condition
L-7	Distance	<p>When water lines and sewers cross,</p> <ol style="list-style-type: none">1) water lines shall be laid such that either<ol style="list-style-type: none">a) the the top of the water line is a vertical Distance ≥ 18 in below the bottom of the sewer line orb) the bottom of the water line is a vertical Distance ≥ 18 in above the top of the sewer line,2) 1 full length of the water pipe shall be located so that both joints of the water pipe will be as far from the sewer as possible, and3) special structural support for the water and sewer pipes may be required. [Recommended Standards for Water Works 8.6.3] This requirement is applicable during the following months: All Year. Statistical basis: Not applicable.
L-8	Distance	<p>The open end of an air relief pipe from automatic valves shall be extended a Distance ≥ 1.0 ft above grade and provided with a screened, downward-facing elbow. The pipe from a manually operated valve shall be extended to the top of the pit. Use of manual air relief valves is recommended wherever possible. [Recommended Standards for Water Works 8.4.2] This requirement is applicable during the following months: All Year. Statistical basis: Not applicable.</p>
L-9	Pressure	<p>Pipes shall not be installed unless all points of the distribution system remain designed for ground level Pressure ≥ 20 psi under all conditions of flow. [Recommended Standards for Water Works 8.1.1] This requirement is applicable during the following months: All Year. Statistical basis: Minimum.</p>
L-10	Pressure	<p>Pressure ≥ 30 psi must be available on the discharge side of all meters. [401 KAR 8:100 Section 4(2)] This requirement is applicable during the following months: All Year. Statistical basis: Instantaneous determination.</p>
L-11	Residual Disinfection	<p>New or relocated water lines shall be thoroughly disinfected (in accordance with AWWA Standard C651) upon completion of construction and before being placed into service. To disinfect the new or relocated lines use chlorine or chlorine compounds in such amounts as to produce an initial disinfectant concentration of at least 50 ppm and a Residual Disinfection ≥ 25 ppm at the end of 24 hours. Follow the line disinfection with thorough flushing and place the lines into service if, and only if, Coliform monitoring applicable to the line does not show the presence of Coliform.</p> <p>If Coliform is detected, repeat flushing of the line and Coliform monitoring. If Coliform is still detected, repeat disinfection and flushing as if the line has never been disinfected. Continue the described process until monitoring does not show the presence of Coliform. [401 KAR 8:150 Section 4(1), Recommended Standards for Water Works 8.5.6] This requirement is applicable during the following months: All Year. Statistical basis: Minimum.</p>
L-12	Velocity	<p>Each blow-off or fire hydrant shall be sized so that Velocity ≥ 2.5 ft/sec can be achieved in the water main served by the blow-off or hydrant during flushing. [Recommended Standards for Water Works 8.1.6.b, 401 KAR 8:100 Section 1(7)] This requirement is applicable during the following months: All Year. Statistical basis: Minimum.</p>