

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SOUTHERN WATER AND )  
SEWER DISTRICT FOR AN ADJUSTMENT IN ) CASE NO.  
RATES PURSUANT TO THE ALTERNATIVE RATE ) 2012-00309  
FILING PROCEDURE FOR SMALL UTILITIES )

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of December 21, 2012, the attached report containing the factual findings of Commission Staff regarding the recurring debt payment of Southern Water and Sewer District to the Floyd County Fiscal Court has been filed in the record of the above-styled proceeding.



\_\_\_\_\_  
Jeff Derouen  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

Dated FEB 15 2013

Cc: Parties of Record

STAFF REPORT  
ON  
SOUTHERN WATER AND SEWER DISTRICT  
CASE NO. 2012-00309

On December 21, 2012, the Commission issued an Order wherein it approved interim rates for Southern Water and Sewer District (“Southern District”), pending review of a \$100,000 recurring annual payment Southern District has been making to Floyd County to assist the county in satisfying its bond obligations.<sup>1</sup> The Commission directed Staff to prepare a detailed report regarding the payment. This report details Staff’s findings. In the course of its review, Staff obtained numerous records pertaining to the matter and interviewed seven witnesses with knowledge of the underlying events giving rise to the payments. The list of exhibits is appended as Appendix A - 1 and A - 2. A witness list is appended as Appendix B. A chronology of events is found at Appendix C.

The payments rise out of a water improvements project involving the construction of approximately 27 miles of water main, six new water storage tanks, six pumping stations and a telemetry system.<sup>2</sup> Southern District originally proposed to finance the project, which had a total estimated cost of \$6,172,900, through a combination of loans and grants as follows:

Rural Development Loan:	\$ 2,515,000
Rural Development Grant:	\$ 450,000
Appalachian Regional Commission Grant:	\$ 433,900
Kentucky Surplus Grant:	\$ 300,000

---

<sup>1</sup> Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

<sup>2</sup> Case No. 2002-00166, *The Application of Southern Water and Sewer District of Floyd and Knott Counties, Kentucky, for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC received May 8, 2002).

Floyd County Fiscal Court contribution: \$ 2,474,000

On May 8, 2002 Southern District filed an application with the Commission for a Certificate of Public Convenience and Necessity ("CPCN"), approval of its financing plan and a rate adjustment. As the application was brought pursuant to KRS 278.023, the Commission was without any discretionary authority to modify or reject any portion of the agreement. On June 7, 2002, the Commission approved Southern District's application in its entirety.<sup>3</sup>

On September 10, 2005, Southern District submitted an application regarding an unrelated waterworks improvement project.<sup>4</sup> In an engineering report, authored in August of 2005, accompanying its application a reference was made to a request from Floyd County that Southern District pay \$100,000 annually towards preexisting debt.<sup>5</sup> In its application, Southern District neither made another reference to an annual payment nor did it request any action from the Commission regarding the payment.<sup>6</sup> Because the application was also brought pursuant to KRS 278.023, the Commission granted the requested relief.<sup>7</sup> The Order approving the application made no reference to the Floyd County Fiscal Court payment.<sup>8</sup>

---

<sup>3</sup> *Id.*

<sup>4</sup> Case No. 2005-00374, *The Application of Southern Water and Sewer District of Floyd and Knott Counties, Kentucky, for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC received Sept. 19, 2005).

<sup>5</sup> Ex. H at 3.

<sup>6</sup> *Id.*

<sup>7</sup> Case No. 2005-00374, *The Application of Southern Water and Sewer District of Floyd and Knott Counties, Kentucky, for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC received Sept. 19, 2005).

<sup>8</sup> Ex. G.

In preparation for the initial 2002 project, Southern District obtained several parcels of land upon which some of the proposed facilities were to be constructed.<sup>9</sup> It then conveyed the tracts, on April 29, 2002, to the Floyd County, Kentucky Public Properties Corporation (“Corporation”) for \$1.00.<sup>10</sup> Floyd County created the Corporation in 1993 as a nonstock and nonprofit entity to act as Floyd County’s agent “in the planning, development, acquisition and financing of public properties.”<sup>11</sup> Southern District retained the right to reacquire the property for a reciprocal \$1 sum upon the repayment of the debt issued by Floyd County to finance its contribution.<sup>12</sup> The Corporation also retained several project easements.<sup>13</sup>

To provide its initial contribution, on September 21, 2001, Floyd County Fiscal Court, through the Corporation as its agent, authorized the issuance of Bond Anticipation Notes (“2001 Notes”) in the amount of \$2,175,000.<sup>14</sup> The 2001 Notes were issued on October 1, 2001.<sup>15</sup> In 2003, Floyd County issued \$2,395,000 in Bond Anticipation Renewal Notes (“2003 Notes”).<sup>16</sup> The 2003 Notes were paid in 2004 with the issuance of \$2,455,000 in Bond Anticipation Renewal Notes (“2004 Notes”)

---

<sup>9</sup> Ex. O at 16-30.

<sup>10</sup> Ex. P.

<sup>11</sup> Ex. A at 1-2.

<sup>12</sup> Ex. P.

<sup>13</sup> Ex. O at 14.

<sup>14</sup> Ex. A, F.

<sup>15</sup> *Id.*

<sup>16</sup> Ex. B, F, Q.

(collectively “Notes”).<sup>17</sup> During the period in which Floyd County renewed the Notes and ultimately issued revenue bonds, Floyd County experienced deteriorating financial conditions resultant from a decreasing revenue stream from coal severance taxes as well as the non-receipt of a \$2,000,000 anticipated payment from the Federal Emergency Management Agency.<sup>18</sup> The Notes were to eventually be paid from the proceeds of a future issuance of revenue bonds.<sup>19</sup> Gary Blankenship, presently a Southern District Commissioner and a water district employee during the project time period, stated that at the project’s commencement Southern District did not have an expectation that there was any obligation to repay Floyd County’s contribution.<sup>20</sup>

On October 1, 2001, the Corporation issued the 2001 Notes.<sup>21</sup> On October 15, 2001, the Corporation and Floyd County executed a Lease Agreement whereby Floyd County leased the project real estate and easements upon which the facilities were to be constructed from the Corporation.<sup>22</sup> The agreement granted Floyd County sole possession of the property for the duration of the Lease and obligated Floyd County to submit rental payments in the same amount as the debt payments on the Notes.<sup>23</sup> The Lease Agreement provided that the Corporation was to execute a mortgage on the

---

<sup>17</sup> Ex. F, J, K.

<sup>18</sup> Ex. B; Telephone Interview with R.D. Marshall, Judge/Executive, Floyd County (Jan. 24, 2013); Telephone Interview with Brett Davis, former Judge/Executive, Floyd County Deputy (Feb. 6, 2013).

<sup>19</sup> Ex. B at 5.

<sup>20</sup> Telephone Interview with Gary Blankenship, Commissioner, Southern Water and Sewer District (Jan. 23, 2013).

<sup>21</sup> Ex. F.

<sup>22</sup> Ex. O. The lease agreement predates the actual property transfer from Southern District to the Corporation. *Compare* Ex. P *with* Ex. O.

<sup>23</sup> *Id.* at 10.

property and Floyd County pledged to pay rental payments in the mirror amount of the debt obligation.<sup>24</sup> All rights and interest arising under the Lease Agreement of the Corporation and Floyd County were assigned to Citizens National Bank (“Citizens”), as Trustee.<sup>25</sup> Floyd County was required to submit its payments directly to Citizens.<sup>26</sup> Floyd County retained the right to redeem the Notes and secure title to the property upon full payment and satisfaction of the Notes.<sup>27</sup> In the event of default, including Floyd County’s failure to pay, Citizens had the power to foreclose on the mortgage and sell the encumbered property.<sup>28</sup> The sole limitation was a restriction upon Citizens’ ability to procure a deficiency judgment against Floyd County or the Corporation.<sup>29</sup> Mirror agreements were executed upon each Note renewal.<sup>30</sup> There is no evidence that Southern District executed its right to repurchase the property that was sold to the Corporation in 2002. The ability to repurchase was triggered upon the full satisfaction of the 2001 Notes.<sup>31</sup>

On May 20, 2005, Floyd County authorized entry into a General Obligation Lease Agreement (“General Obligation Lease”) with the Kentucky Area Development District

---

<sup>24</sup> *Id.* at 5.

<sup>25</sup> *Id.*

<sup>26</sup> Ex. R at 6.

<sup>27</sup> Ex. O at 10; Ex. R at 23.

<sup>28</sup> Ex. O at 10; Ex. R at 16.

<sup>29</sup> Ex. O at 10-11.

<sup>30</sup> See Ex. Q.

<sup>31</sup> Ex P.

Financing Trust ("KADD") as lessor.<sup>32</sup> On or about May 16, 2005, Floyd County applied to the Governor's Office for Local Government to enter into a lease in the amount of \$2,600,000<sup>33</sup> with the object of satisfying the outstanding obligation on the Notes.<sup>34</sup> Floyd County was listed as the sole lessee.<sup>35</sup> Although Southern District was not a party to the Local Government application, Judge/Executive Paul Thompson, in a letter written to the State Local Debt Officer, stated that the "County expects the Water District to pay a portion of the debt service."<sup>36</sup>

Listed on the amortization schedule accompanying the documents submitted to Local Government are payment assumptions predicated upon an annual water district lease payment in the amount of \$100,000 and an average annual Floyd County payment of \$59,990.<sup>37</sup> There is no evidence that Southern District was provided with any of the letters or documents addressing Floyd County's payment expectations.<sup>38</sup> Southern District did not submit its own application, either in 2002 or 2005, to Local Government for authority to join with Floyd County as a co-obligor on its bonds or for authority to enter into a long term plan to repay Floyd County's contribution.<sup>39</sup>

---

<sup>32</sup> Ex. D at 17.

<sup>33</sup> The increase to \$2,600,000 takes into account accrued interest on the preexisting Notes, as well as miscellaneous fees related to the bond issuance. Ex. D. at 13.

<sup>34</sup> Ex. C.

<sup>35</sup> *Id.*

<sup>36</sup> Ex. D at 16.

<sup>37</sup> Ex. C.

<sup>38</sup> *See generally Id.*

<sup>39</sup> Ex. X.

On March 16, 2005, Terrell Ross of Ross, Sinclair & Associates, Floyd County's financial advisory firm, confirmed in a letter to Judge/Executive Thompson that it was the intention of Floyd County to issue the debt and that Southern District would "pay for all or a portion of the debt service of the permanent bond financing."<sup>40</sup> The letter did not refer to the existence of an actual agreement by Southern District and Floyd County for Southern District to pay the debt service. Instead, it discussed three different amortization schedules hinging upon how much Southern District was "willing to pay."<sup>41</sup>

On June 10, 2005, the State Local Debt Officer approved the Lease and adopted, in full, the recommendations of the Hearing Officer.<sup>42</sup> Funds were provided through Kentucky Area Development District's Financing Trust Small Issuer Loan Program.<sup>43</sup> The Local Government Recommended Order states that "[t]he annual debt service is estimated to average \$169,017.00 (Joint Water District and County payment)."<sup>44</sup> In incorporating the Hearing Officer, the State Local Debt Officer found that "[a]t the conclusion of the Lease, the Project property to which the Program [KADD] holds the title will be conveyed and transferred to the County and/or Water District."<sup>45</sup> He further found that the "County shall pay to the Trustee the amount required by the terms of the Lease."<sup>46</sup> Southern District was not a party to the proceedings and the

---

<sup>40</sup> Ex. N.

<sup>41</sup> *Id.*

<sup>42</sup> Ex. D at 1, 5.

<sup>43</sup> *Id.* at 5.

<sup>44</sup> *Id.* at 7.

<sup>45</sup> *Id.*

<sup>46</sup> *Id.* at 10.

State Debt Officer's Order contains no reference to any requirement that Southern District contribute to the debt payments, either directly or indirectly.

On June 25, 2005, Floyd County, having acquired the project real estate from the Corporation upon satisfaction of the Notes, entered the 2005 General Obligation Lease with the KADD Financing Trust as lessor for a total lease amount of \$2,520,000.<sup>47</sup> KADD disbursed the funds to Floyd County as part of a pooled bond program in which \$2,600,000 was allocated to Floyd County.<sup>48</sup> The General Obligation Lease largely mirrors the earlier agreements.<sup>49</sup> Unlike the earlier agreement, the General Obligation Lease is to a general obligation debt.<sup>50</sup> KADD assigned its interest in the agreement to The Bank of New York Trust Company, N.A, as Trustee ("Trustee").<sup>51</sup> In the event of default, the Trustee may proceed against the property by seeking the appointment of a receiver, liquidator or to otherwise sell the property.<sup>52</sup> It further states that all payments are to be paid by the lessee.<sup>53</sup> The agreement specifically notes that there is no third party beneficiary to the agreement.<sup>54</sup> Unlike the proposed debt service schedule provided to the Governor's Office for Local Government, the lease payment schedule

---

<sup>47</sup> Ex. M.

<sup>48</sup> Ex. L.

<sup>49</sup> Ex. M.

<sup>50</sup> *Id.* at 7-8.

<sup>51</sup> *Id.*

<sup>52</sup> *Id.* at 20, 26-27; Ex. M at 12.

<sup>53</sup> *Id.* at 7.

<sup>54</sup> Ex. M at 13.

accompanying the General Obligation Lease Agreement does not reference Southern District.<sup>55</sup>

Southern District's current manager and the chairman during the project's financing and construction, Hubert Halpert ("Halpert"), stated that the Fiscal Court first requested payment in the year 2005 or 2006.<sup>56</sup> Halpert believes a written agreement was executed at approximately the same time as Floyd County's initial request for payments.<sup>57</sup> Halpert stated that no additional consideration was provided when the alleged agreement was entered.<sup>58</sup>

Southern District did not make any payments to Floyd County until 2010, when it made a partial payment.<sup>59</sup> Thereafter, Southern District has paid varying amounts every year for total of \$250,415.02 through the use of an escrow account with the intention of contributing \$8,300 per month to the account.<sup>60</sup> The funds are disbursed from the escrow account upon request of Floyd County approximately twice per year.<sup>61</sup> Paula Johnson ("Johnson"), the current chairwoman and a commissioner during a previous appointment covering the project timeframe, stated that Southern District began making payments after the publication of numerous negative newspaper articles regarding the

---

<sup>55</sup> *Id.* at 16, Ex. D at 14, Ex. U.

<sup>56</sup> Telephone Interview with Hubert Halpert, general manager, Southern Water and Sewer District (Jan. 23, 2013).

<sup>57</sup> *Id.*

<sup>58</sup> *Id.*

<sup>59</sup> Telephone Interviews with Hubert Halpert, general manager, Southern Water and Sewer District (Jan. 23, Feb. 5, 2013); Ex. S

<sup>60</sup> Telephone Interview with Hubert Halpert, general manager, Southern Water and Sewer District (Feb. 5, 2013); Ex. S.

<sup>61</sup> *Id.*

water district's failure to pay its alleged debt.<sup>62</sup> Additionally, Johnson stated that Southern District felt pressured by Floyd County into paying.<sup>63</sup> The *Floyd County Times* reported that, as of May 2009, Floyd County Attorney Keith Bartley ("Bartley") had not yet seen the actual bond documentation, but believed Floyd County was essentially a "co-signor on the bond."<sup>64</sup> Bartley also stated that if Southern District failed to pay, it became the Floyd County's obligation to continue the debt payments.<sup>65</sup>

Only former Deputy Judge/Executive Brett Davis ("Davis") asserted that there had always been an expectation for Southern District to repay the contribution, regardless of Floyd County's financial condition.<sup>66</sup> No individual asserted that Southern District was requested to present any payment during the period in which the financing was conducted through the Bond Anticipation Notes. Davis stated that he believed Southern District would begin paying once it was financially able; however, no request was made for payment prior to 2005.<sup>67</sup>

---

<sup>62</sup> Telephone Interview with Hubert Halpert, general manager, Southern Water and Sewer District (Jan. 23 2013); Southern District's total yearly payments were as follows:

2010: \$66,647.67  
2011: \$50,179.05  
2012: \$133,588.30

See Ex. T.

<sup>63</sup> Telephone Interview with Paula Johnson, Chairwoman, Southern Water and Sewer District (Jan. 24, 2013).

<sup>64</sup> Ex. T at 1, 3, 7.

<sup>65</sup> Ex. T at 1.

<sup>66</sup> Telephone Interview with Brett Davis, former Deputy Judge/Executive, Floyd County (Feb. 6, 2013).

<sup>67</sup> *Id.*

Neither the Floyd County Fiscal Court minutes nor the bond documents reference any agreement between Floyd County and Southern District. The contingent letter of approval from United States Department of Agriculture Rural Development office ("Rural Development") for the loan to Southern District expressly labels the Floyd County funds as a contribution, as opposed to a loan.<sup>68</sup> When Floyd County Judge/Executive Paul Thompson informed Rural Development that the funds were available for dispersal, in 2002, no reference was made to repayment terms or obligations.<sup>69</sup>

No person interviewed has produced a signed agreement between Southern District and Floyd County. Halpert is the only individual who believed that a written contract may have been signed.<sup>70</sup> He asserted that the agreement was crafted in 2005 or 2006 after the funds were disbursed and the project completed.<sup>71</sup> Staff was unable to locate such a document or any specific information relating to it. No other interviewee attested to its existence. Floyd County Attorney Bartley asserted that he had no memory of a written agreement ever having been signed. He stated that a verbal "gentleman's agreement" that Southern District would make partial payments on the debt existed.<sup>72</sup> Bartley stated that he had very limited involvement in the underlying

---

<sup>68</sup> Ex. W.

<sup>69</sup> *Id.* at 10.

<sup>70</sup> Telephone Interview with Hubert Halpert, general manager, Southern Water and Sewer District (Jan 23, 2013).

<sup>71</sup> *Id.*

<sup>72</sup> Telephone Interview with Keith Bartley, County Attorney, Floyd County (Jan. 23, 2013).

waterworks project and related financing.<sup>73</sup> He stated that he had minimal knowledge regarding the factual circumstances surrounding the Lease Agreement and thought Brett Davis, the former Deputy Judge/Executive, was the party most involved directly in the process on the county's behalf.<sup>74</sup>

Former Deputy Judge/Executive Davis stated that Floyd County directly paid the project contractors and did not make any payments directly to Southern District.<sup>75</sup> He asserted that it was always Floyd County's intention for Southern District to make yearly payments when the water district was financially able.<sup>76</sup> To Davis's knowledge and recollection, no written contract between the parties was ever drafted or executed.<sup>77</sup> He stated that Floyd County adopted a resolution stating that Southern District would begin making \$100,000 payments as soon as it was able, but did not recall whether Southern District was expected to pay by any date certain.<sup>78</sup> He did not recall whether Southern District was informed of the expected payment before or after the bonds were issued.<sup>79</sup>

As to the ownership of the land and assets, Davis stated that it may have been a requirement of the county's bond holders that Floyd County retain an interest in the property and assets that it was contributing towards.<sup>80</sup> Regarding the ownership of the entire project, he believed that legal ownership may be intertwined, due to the diverse

---

<sup>73</sup> *Id.*

<sup>74</sup> *Id.*

<sup>75</sup> Telephone Interview with Brett Davis, former Deputy Judge/Executive, Floyd County (Feb. 6, 2013).

<sup>76</sup> *Id.*

<sup>77</sup> *Id.*

<sup>78</sup> *Id.*

<sup>79</sup> *Id.*

<sup>80</sup> *Id.*

financing arrangement and multiple contributing parties.<sup>81</sup> Finally, he stated that regardless of the Floyd County's financial situation and decreasing coal severance taxes, Southern District was still originally expected to pay the debt service with the intention of eventually entirely taking over the debt.<sup>82</sup>

Several documents and letters drafted prior to the execution of the General Obligation Lease reference Southern District's future payments; however none were signed by Southern District.<sup>83</sup> There is also no evidence that any of the documents were sent to Southern District. All available evidence indicates that no document exists to reconcile the competing opinions regarding the actual origin of Southern District's alleged liability on the debt. The evidence indicates that around 2005, four years after the financial arrangement began, a verbal agreement was entered into that Southern District would begin paying on Floyd County's debt.<sup>84</sup> Staff found no corroborating evidence establishing the terms of the agreement.



Prepared by: Jonathan D. Beyer  
Staff Attorney I, Small Utility Division  
Office of General Counsel

---

<sup>81</sup> *Id.*

<sup>82</sup> *Id.*

<sup>83</sup> See Ex. C at 2; D at 14; N.

<sup>84</sup> Telephone Interview with Hubert Halpert, general manager, Southern Water and Sewer District (Jan 23, 2013); Telephone Interview with Keith Bartley, County Attorney, Floyd County (Jan 23, 2013).

APPENDIX A - 1  
STAFF REPORT CASE NO. 2012-00309  
EXHIBIT LIST

Floyd County Fiscal Court Resolution, September 21, 2001	Ex. A
Floyd County Fiscal Court Meeting Minutes, September 4, 2003	Ex. B
Office of Local Government Decision Lease Summary Form	Ex. C
Office of Local Government Decision & Recommended Order	Ex. D
Letter from Floyd County Judge/Executive Robert Marshall	Ex. E
E-mail from Dwight Salsbury, Ross, Sinclair & Associates to Jonathan Beyer, Counsel, PSC	Ex. F
Case No. 2005-00375, Order dated Oct. 14, 2005	Ex. G
Case No. 2005-00375, Engineering Report	Ex. H
Case No. 2012-00309, Selected Excerpts	Ex. I
Floyd County Fiscal Court Resolution No. 1, September 24, 2004	Ex. J
Bond Anticipation Renewal Notes Series 2004B	Ex. K
KADD Lease 2005 Series K	Ex. L
General Obligation Lease Agreement, Series 2005K	Ex. M
Letter from Terrell Ross, Ross, Sinclair & Associates to Judge/Executive Paul Thompson, March 16, 2005	Ex. N
Floyd County Lease Agreement, October 15, 2001	Ex. O

Deed, April 2002	Ex. P
Floyd County Lease Agreement, September 26, 2003	Ex. Q
Mortgage Deed of Trust, September 26, 2003	Ex. R
Southern Water District Cancelled Checks	Ex. S
<i>Floyd County Times</i> Articles	Ex. T
KADD 2005 Final Lease Schedules	Ex. U
E-mail from Jonathan Beyer, Counsel, PSC to Robert Meyer, manager, Utility Management Group	Ex. V
Rural Development Documents	Ex. W
E-mail from Lisa Dale, Local Government Advisor, Department for Local Government to Jonathan Beyer, Counsel, PSC February 13, 2013	Ex. X

APPENDIX A - 2  
STAFF REPORT CASE NO. 2012-00309  
EXHIBITS

# Exhibit A

**IN RE: RESOLUTION: BOND ISSUE FOR WATER PROJECT:**

A RESOLUTION OF THE FISCAL COURT OF THE COUNTY OF FLOYD, KENTUCKY DIRECTING THAT FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION TO TAKE CERTAIN FORMAL ACTIONS AS THE AGENCY AND INSTRUMENTALITY AND AS THE CONSTITUTED AUTHORITY OF THE COUNTY OF FLOYD, KENTUCKY SPECIFICALLY DIRECTING, AUTHORIZING AND APPROVING THE PUBLIC SALE AND ISSUANCE OF \$2,175,000 FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION FIRST MORTGAGE REVENUE BOND ANTICIPATION NOTES (WATER PROJECT), SERIES 2001, (WHICH AMOUNT MAY BE INCREASED OR DECREASED BY THE AMOUNT NOT TO EXCEED TEN PERCENT (10%) AND \$2,175,000 FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION FIRST MORTGAGE REVENUE BONDS (WATER PROJECT), SERIES 2003 (WHICH AMOUNT MAY BE INCREASED OR DECREASED BY THE AMOUNT NOT TO EXCEED TEN PERCENT (10%) AND DIRECTING AND AUTHORIZING OTHER NECESSARY ACTIONS, AS THE AGENCY, INSTRUMENTALITY AND CONSTITUTED AUTHORITY, AND ON BEHALF OF THE COUNTY OF FLOYD, KENTUCKY, IN ORDER TO FINANCE THE CONSTRUCTION AND INSTALLATION OF WATERLINES WITHIN THE COUNTY; APPROVING AND ADOPTING A CERTAIN LEASE AGREEMENT BY AND AMONG THE CORPORATION, AS LESSOR, THE COUNTY OF FLOYD, KENTUCKY, AS LESSEE; APPROVING A MORTGAGE DEED OF TRUST SECURING THE NOTES AND THE BONDS (WHICH BONDS WILL BE ISSUED TO PAY OFF IN FULL THE NOTES); APPROVING OTHER CONTRACTS, DOCUMENTS AND ACTIONS, NECESSARY OR APPROPRIATE TO CARRY OUT THE FINANCING PLAN, INCLUDING AN OFFICIAL STATEMENT OF THE CORPORATION; AUTHORIZING APPROPRIATE OFFICIALS OF THE COUNTY OF FLOYD, KENTUCKY TO TAKE ANY AND ALL ACTIONS NECESSARY TO CARRY OUT THE FINANCING PLAN IN COOPERATION WITH THE CORPORATION.

WHEREAS, the Floyd County, Kentucky Public Properties Corporation, (the "Corporation") a nonprofit, nonstock corporation, has been duly organized and created pursuant to and exists under Kentucky law to serve as the agency, instrumentality and constituted authority of the County of Floyd,

Kentucky (the "County") in the planning, development, acquisition and financing of public projects in furtherance of the proper public purpose of the County, as provided by Section 58.180 of the Kentucky Revised Statutes, and

WHEREAS, the County deems it necessary that the Corporation act as its agency, instrumentality and constituted authority in connection with the issuance of (i) **Floyd County Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Notes (Water Project), Series 2001**, in the approximate amount of \$2,175,000 (which amount may be increased or decreased by the amount not to exceed ten percent (10%), (the "Notes") and (ii) **Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bonds (Water Project), Series 2003**, in approximate principal amount of \$2,175,000 (which amount may be increased or decreased by the amount not to exceed ten percent (10%), (the "Bonds), the proceeds from which to finance the cost of the construction and installation of waterlines within the County (the "Project"), which project is more particularly described in the Lease Agreement and Mortgage Deed of Trust hereinafter identified, and further deems it appropriate at this time that the Corporation formally authorize the issuance of its Notes and Bonds, to facilitate and carry out such financing;

NOW THEREFORE, BE IT RESOLVED BY THE FISCAL COURT OF THE COUNTY OF FLOYD, COMMONWEALTH OF KENTUCKY, AS FOLLOWS:

**Section 1.** The Corporation, as the agency and instrumentality and the constituted authority of the County, is hereby directed to forthwith adopt such resolutions and orders and to take such actions as may be necessary for the formal authorization by the Corporation of (i) \$2,175,000 **Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Notes (Water Project), Series 2001**, (which amount may be increased or decreased by the amount not to exceed ten percent (10%), to be dated October 15, 2001 or such other date as determined by the Financial Advisor, and (ii) \$2,175,000 **Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bonds (Water Project), Series 2003**, (which amount may be increased or decreased by the amount not to exceed ten percent (10%), to be dated such date as determined by the Financial Advisor. The maturity, security provisions, redemption provisions, form of Notes, form of Bonds, condition

---

of sale of the Notes and the Bonds and all of the terms and provisions incident to said Notes and Bonds shall be in accordance with the provisions which are set forth in the Lease Agreement and Mortgage Deed of Trust, hereinafter identified.

**Section 2.** It is acknowledged that the Notes are to be issued by the Corporation, acting as the agency, instrumentality and constituted authority of and on behalf of the County, in anticipation of the issuance of the Bonds, for the purpose of providing funds to pay for the cost of construction and installation of the Project, and related cost, all as described and provided for herein and in the Lease Agreement and Mortgage Deed of Trust hereinafter described.

**Section 3.** It is intended that the Notes and the Bonds shall be secured by the pledge of the Lease Agreement, and the revenues therefrom as provided in the Mortgage Deed of Trust; and the proceeds from the Bonds shall be used, in part, to pay in full, the outstanding principal balance, plus accrued interest, of the Notes, due at the time of the issuance and receipt of proceeds from the Bonds.

**Section 4.** The County hereby directs and approves the issuance, sale and delivery by the Corporation of the Notes and Bonds, and the application of the proceeds of the Notes and Bonds to the purposes set forth and described in the resolution of the Board of Directors of the Corporation of even date herewith, and in the Lease Agreement and the Mortgage Deed of Trust, hereinafter identified. The County hereby authorizes and approves the issuance of the Notes, dated October 15, 2001, or such other date as determined by the Financial Advisor, and issuance of the Bonds, dated as determined by the Financial Advisor, as specifically defined and described in the Mortgage Deed of Trust.

**Section 5.** It is acknowledged that the Notes and Bonds are to be issued by the Corporation, pursuant to a resolution of even date herewith, acting as the agency and instrumentality of the County, and as the constituted authority thereof, for the purpose of providing funds for (i) the construction of the Project with Project is more particularly described in the Lease Agreement and the Mortgage Deed of Trust hereinafter identified and (ii) the payment of costs and miscellaneous expenses incident to the issuance, sale and delivery of the Notes and Bonds. The Project has been and is being financed, acquired and constructed for public use.

**Section 6.** A certain instrument designated "Lease Agreement", intended for execution by and on behalf of the Corporation, as Lessor, and the County, as Lessee, as the beneficiary of said Lease Agreement, is hereby expressly approved and the same is hereby authorized to be executed in the name and on behalf of the County, as a beneficiary named therein, by the County Judge/Executive, with attestation by the Fiscal Court Clerk. The Lease Agreement as so executed on the behalf of the County, as a beneficiary thereof, shall be tendered to the Corporation in connection with the issuance of the Bonds only and upon execution thereof the Corporation and the County shall be duly recorded in the office of the Floyd County Clerk in Prestonsburg, Kentucky. Bonds shall be paid from the Rentals realized through the Lease Agreement.

**Section 7.** The County hereby expressly approves and directs the execution and delivery by the Corporation of a certain "Mortgage Deed of Trust", for the Notes and Bonds substantially in a form approved by the Corporation, to the Trustee to be hereinafter appointed by the Corporation, by resolution. Said Mortgage Deed of Trust for the Notes and Bonds shall assign to trust to said Trustee all income, revenues and rights of the Corporation income, revenues and rights arising from the Pledged Receipts, as defined in the Mortgage Deed of Trust together with all rights arising pursuant to the Lease Agreement, all to be done for the security of those who shall from time to time be and become the holders of the Notes and Bonds.

**Section 8.** The Fiscal Court, by adoption of this Resolution anticipates that the total principal amount of qualified tax-exempt obligations which it will issue during the calendar year ending December 31, 2001 will not exceed \$10,000,000 and therefor designates the Bonds as qualified tax-exempt obligations within the meaning of Section 265 (b) (3) of the Internal Revenue Code of 1986, as amended.

**Section 9.** The Fiscal Court, by adoption of this Resolution anticipates that the total principal amount of qualified tax-exempt obligations which it will issue during the calendar year ending December 31, 2002 will not exceed \$10,000,000 and therefor designates the Bonds as qualified tax-exempt obligations within the meaning of Section 265 (b) (3) of the Internal Revenue Code of 1986, as amended.

**Section 10.** In connection with the undertaking and implementation by the Corporation of the financing for the Notes and Bonds, herein described,

which is hereby expressly directed, the Corporation, its Board of Directors and its officers are hereby authorized and directed to continue to take and carry out any and all necessary, desirable or appropriate actions to effect such acquisition, construction, installation and financing, including the appointment of Gillard B. Johnson, III, of Cox, Bowling & Johnson, P.L.L.C., municipal bond Counsel, for purposes of providing the final approving legal opinion and Ross, Sinclair & Associates, Inc. as Financial Advisors.

**Section 11.** In connection with the Project, the Corporation shall or has secured fee simple title to the real estate which shall comprise the Project and shall be pledged as part security and collateral for the Notes and Bonds, respectively. The Deed and/or Lease Agreement shall provide that the County may, at any time, acquire title to the Project free and clear of the lien of the Mortgages which secure the Notes and Bonds, with the County giving to the Corporation and the Trustee notice in advance, in writing, of the County's intention to purchase the Project and by paying to the Trustee for the Noteholders or Bondholders, on or before the date set forth in such notice, a sum equal to the principle, interest and redemption premium, if any, which the Corporation will be obligated to pay if it calls all of the outstanding Notes and bonds for redemption on such date, together with a further sum equal to the expenses which the Corporation and Trustee may incur in calling all the outstanding Notes and bonds for payment on said date. Upon the happening of any such event and the issuance by the Trustee of an appropriate certificate evidencing defeasance of the Notes and Bonds, the Corporation shall immediately convey all of its right, title and interest in the Project to the County, free and clear of all liens and encumbrances created by and under the Mortgages. County specifically authorizes and approves the conveyance of any Real Estate, it owns and/or acquires, to the Corporation as is necessary for the Project.

**Section 12.** If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions.

**Section 13.** All ordinances, resolutions, orders, or parts thereof, if any, in conflict with the provisions of this Resolution are, to the extent of such conflict, hereby repealed.

**Section 14.** The County hereby expressly approves and directs the Corporation to enter into a written agreement with the Auditors for the County and/or Corporation for the benefit of the Bondholders whereunder the parties to said written agreement will agree to comply with the provisions of Regulation Section 240.15c2-12 of the Securities and Exchange Commission in providing annual financial information to designated municipal securities information repositories and, in certain special instances, to the Municipal Securities Rule Making Board.

**Section 15.** The County approves and directs the Corporation to receive bids for the purchase of the Notes and Bonds and further directs the Corporation to accept such bids for purchase of the Notes and Bonds determined by the County Judge/Executive and the Corporation, upon the advice of the County's and Corporation Financial Advisor, which is the most advantageous and with the most favorable net interest cost to the County and the Corporation for the Notes and Bonds, without further action by the County or the Corporation, or to reject any or all bids.

**Section 16.** This Resolution shall be in full force and effect from and after its adoption and approval as provided by law.

**Section 17.** The County hereby states its intention to issue Bonds, the proceeds of which will be used to retire and pay in full the Notes and other costs and expenses with respect to the Project. The County further states and affirms that it will not take any actions or adopt any Resolutions which would delay the issuance and sale of the Bonds by the Corporation; and, the County hereby specifically directs that the Corporation proceed to issue the Bonds, at the first opportunity as advised by the Financial Advisor of the Corporation.

This Resolution was introduced, seconded and adopted at a duly convened meeting of the Fiscal Court of the County of Floyd, Kentucky, held on the 21<sup>st</sup> day of September, 2001.

PAUL H. THOMPSON  
County Judge/Executive

ATTEST:  
CHRIS WAUGH  
Fiscal Court Clerk

---

# Exhibit B

Book 21 Page 247

PAUL H. THOMPSON  
Paul Hunt Thompson  
Floyd County Judge Executive

### DISSCUSSION ON LOAN

The County Judge Executive, Paul Hunt Thompson, explained to the Court the reason they needed to borrow this money. He explained that FEMA had not reimbursed the monies totaling over \$2,000,000 which was due to the County. He read the three quotes pertaining to the line of credit. 1.85% from Citizens, 2.1% from First Guaranty and 3.0% from First Commonwealth. Jackie Owens Magistrate District No. 2 made a statement the he was glad to see the County doing business locally. The court unanimously agreed that the borrowed money would be obtained from Citizens National Bank, which was the lowest and best bidder.

#### 1. Resolution: Bond Issue

**A RESOLUTION OF THE FISCAL COURT OF THE COUNTY OF FLOYD, KENTUCKY DIRECTING THE FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION TO TAKE CERTAIN FORMAL ACTIONS AS THE AGENCY AND INSTRUMENTALITY AND AS THE CONSTITUTED AUTHORITY OF THE COUNTY OF FLOYD, KENTUCKY SPECIFICALLY DIRECTING, AUTHORIZING AND APPROVING THE SALE AND ISSUANCE OF \$2,395,000 FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION FIRST MORTGAGE REVENUE BOND ANTICIPATION RENEWAL NOTES (WATER PROJECT), SERIES 2003, ("NOTES") WHICH AMOUNT MAY BE INCREASED OR DECREASED BY AN AMOUNT NOT TO EXCEED TEN PERCENT (10%); AND DIRECTING AND AUTHORIZING OTHER NECESSARY ACTIONS AS THE AGENCY, INSTRUMENTALITY AND CONSTITUTED AUTHORITY, AND ON BEHALF OF THE COUNTY OF FLOYD, KENTUCKY, IN ORDER TO REDEEM AND**

Book 21 Page 248

**REFINANCE THE FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION FIRST MORTGAGE REVENUE BOND ANTICIPATION NOTES (WATER PROJECT), SERIES 2001 ("PRIOR NOTES") THE PROCEEDS OF WHICH WERE USED TO FINANCE THE CONSTRUCTION AND INSTALLATION OF WATERLINES WITHIN THE COUNTY; APPROVING AND ADOPTING A CERTAIN LEASE AGREEMENT BY AND BETWEEN THE CORPORATION, AS LESSOR, AND THE COUNTY OF FLOYD, KENTUCKY, AS LESSEE; APPROVING A MORTGAGE DEED OF TRUST SECURING THE NOTES; APPROVING OTHER CONTRACTS, DOCUMENTS AND ACTIONS NECESSARY OR APPROPRIATE TO CARRY OUT THE FINANCING PLAN, INCLUDING AN OFFICIAL STATEMENT OF THE CORPORATION; AUTHORIZING APPROPRIATE OFFICIALS OF THE COUNTY OF FLOYD, KENTUCKY TO TAKE ANY AND ALL ACTIONS NECESSARY TO CARRY OUT THE FINANCING PLAN IN COOPERATION WITH THE CORPORATION.**

WHEREAS, the Floyd County, Kentucky Public Properties Corporation, (the "Corporation"), a nonprofit, non stock corporation, has been duly organized and created pursuant to and exists under Kentucky law to serve as the agency, instrumentality and constituted authority of the County of Floyd, Kentucky (the "County") in the planning, development, acquisition and financing of public projects in furtherance of the proper public purpose of the County, as provided by Section 58.180 of the Kentucky Revised Statutes; and

WHEREAS, the Resolution dated September 21, 2001 (Number 22), the County authorized the Prior Notes, which were issued by the Corporation by Resolution dated September 21, 2001;

WHEREAS, the County has determined that issuance of Revenue Bonds, at this time is not appropriate and has determined that issuance of renewal notes is proper and in the best interest of the County;

Book 21 Page 249

WHEREAS, the County has indicated that it will issue Revenue Bonds to redeem the Notes on or prior to the maturity date of the Notes;

WHEREAS, the County deems it necessary that the Corporation act as its agency, instrumentality and constituted authority in connection with the issuance of **Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Renewal Notes (Water Project), Series 2003 ("Notes")** in the approximate amount of \$2,395.00, (plus or minus 10%), to (i) redeem and retire the Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Notes (Water Project), Series 2001 in the principal amount of \$2,175,000, ("Prior Notes"), the proceeds from said Prior Notes used to finance the cost of construction and installation of waterlines within the County, and (ii) pay the cost of issuance with respect to the Notes;

NOW THEREFORE, BE IT RESOLVED BY THE FISCAL COURT OF THE COUNTY OF FLOYD, COMMONWEALTH OF KENTUCKY, AS FOLLOWS:

**Section 1.** The Corporation, as the agency and instrumentality and the constituted authority of the County, is hereby directed to forthwith adopt such resolutions and others and to take such actions as may be necessary for the formal authorization by the Corporation of \$2,395,000 **Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Renewal Notes (Water Project), Series 2003**, (which amount may be increased or decreased by the amount not to exceed ten percent (10%)), to be dated such date as determined by the Financial Advisors. The maturity, security provisions, redemption provisions, form of Notes, condition of sale of the Notes and all of the terms and provisions incident to said Notes

Book 21 Page 250

shall be in accordance with the provisions which are set forth in the Lease Agreement and Mortgage Deed of Trust, hereinafter identified.

**Section 2.** It is intended that the Notes shall be secured by the pledge of the Lease Agreement, and the revenues therefrom as provided in the Mortgage Deed of Trust; and that the proceeds from Revenue Bond shall be used, in part, to pay in full, the outstanding principal balance, plus accrued interest, of the Notes, due at the time of the issuance and receipt of proceeds from Revenue Bonds.

**Section 3.** The County hereby directs and approves the issuance, sale and delivery by the Corporation of the Notes, and the application of the proceeds of the Notes to the purposes set forth and described in the Resolution of the Board of Directors of the Corporation of even date herewith, and in the Lease Agreement and the Mortgage Deed of Trust, hereinafter identified. The County hereby authorizes and approves the issuance of Notes, dated such date as determined by the Financial Advisors.

**Section 4.** It is acknowledged that the Notes are to be issued by the Corporation, pursuant to a resolution, acting as the agency and instrumentality of the County, and as the constituted authority thereof, for the purpose of providing funds to (I) redeem and refinance the Prior Notes, the proceeds of which were used to finance the construction of the Project which Project is more particularly described in the Lease Agreement and the Mortgage Deed of Trust hereinafter identified and (ii) to pay of costs and miscellaneous expenses incident to the issuance, sale and delivery of the Notes. The Project has been and is being financed, acquired and constructed for public use.

**Section 5.** A certain instrument designated "Lease Agreement," intended for execution by and on behalf of the

Book 21 Page 251

Corporation, as Lessor, and the County, as Lessee, is hereby expressly approved and the same is hereby authorized to be executed in the name and on behalf of the County, by the County Judge/Executive, with attestation by the Fiscal Court Clerk. The Lease Agreement as so executed on the behalf of the County, shall be tendered to the Corporation in connection with the issuance of the Notes and upon execution thereof by the Corporation and the County shall be duly recorded in the office of the Floyd County Clerk in Prestonsburg, Kentucky. Notes shall be paid from the Rentals realized through the Lease Agreement.

**Section 6.** The County hereby expressly approves and directs the execution and delivery by the Corporation of a certain "Mortgage Deed of Trust," for the Notes substantially in a form approved by the Corporation, to the Trustee to be appointed by the Corporation, by Resolution. Said Mortgage Deed of Trust for the Notes shall assign in trust to said Trustee all income, revenues and rights of the Corporation arising under said Lease Agreement, the Mortgage Deed of Trust, and a Deed to the Corporation dated April 29, 2002, all to be done for the security of those who shall from time to time and become the holders of the Notes.

**Section 7.** The Fiscal Court, by adoption of this Resolution anticipates that the total principal amount of qualified tax – exempt obligations which it will issue during the calendar year ending December 31, 2003 will not exceed \$10,000,000 and therefor designates the Notes as qualified tax – exempt obligations within the meaning of Section 265 (b) (3) of the Internal Revenue Code of 1986, as amended.

**Section 8.** In connection with the undertaking and implementation by the Corporation of the financing for the Notes, herein described, which is hereby expressly directed, the Corporation, its Board of Directors and its officers are hereby authorized and directed to continue to take and carry out any and

Book 21 Page 252

all necessary, desirable or appropriate actions to effect such acquisition, construction, installation and financing, including the appointment of Gillard B. Johnson, III, of Cox, Bowling & Johnson, PLLC, municipal Bond Counsel, for purposes of providing the final approving legal opinion and Ross, Sinclair & Associates, Inc., as Financial Advisors.

**Section 9.** In connection with the Project, the Corporation has secured fee simple title to the real estate which shall comprise the Project and shall be pledged as part security and collateral for the Notes. The Deed and/or Lease Agreement shall provide that the County may, at any time, acquire title to the Project free and clear of the lien of the Mortgages which secure the Notes, with the County giving to the Corporation and the Trustee notice in advance, in writing, of the County's intention to purchase the Project and by paying to the Trustee for the Note holders on or before the date set forth in such notice, a sum equal to the principle, interest and redemption premium, if any, which the Corporation will be obligated to pay if it call of the outstanding Notes for redemption on such date, together with a further sum equal to the expenses which the Corporation and Trustee may incur in calling all of the outstanding Notes for payment on said date. Upon the happening of any such event and the issuance by the Trustee of an appropriate certificate evidencing defeasance of the Notes, the Corporation shall immediately convey all of its right, title and interest in the Project to the County, free and clear of all liens and encumbrances created by and under the Mortgage. The County specifically and approved the conveyance of any Real Estate, it owns and/or acquires, to the Corporation as is necessary for the Project.

**Section 10.** If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions.

Book 21 Page 253

**Section 11.** All ordinances, resolutions, orders, or parts thereof, if any, in conflict with the provisions of this Resolution are, to the extent of such conflict, hereby repealed.

**Section 12.** The County hereby expressly approves and directs the Corporation to enter into a written agreement with the County, its Auditors, if required, and Corporation for the benefit of the Note holders, where under the parties to said written agreement will agree to comply with the provisions of Regulation Section 240.15c2-12 of the Securities and Exchange Commission in providing annual financial information to designated municipal securities information repositories and, in certain special instances, to the Municipal Securities Rule Making Board.

**Section 13.** The County approves and directs the Corporation to receive bids for the purchase of the Notes and further directs the Corporation to accept such bids for purchase of the Notes determined by the County Judge/Executive and the Corporation, upon the advice of the County's and Corporation's Financial Advisors, which is the most advantageous and with the most favorable net interest cost to the County and the Corporation for the Notes, without further action by the County or the Corporation, or to reject or all bids.

**Section 14.** This Resolution shall be in full force and effect from and after its adoption and approval as provided by law.

**Section 15.** The County hereby states its intention to issue Bonds, the proceeds of which will be used to retire and pay in full the Notes and other costs and expenses with respect to the Project. The County further resolves that the Bonds authorized by Resolution number 22, adopted on September 21, 2001 is amended to vacate and rescind authorization to issue the Bonds referenced therein. Notwithstanding, the County states and affirms that it will

Book 21 Page 254

take all actions required to adopt any Resolutions for the issuance and sale of Revenue bonds by the Corporation.

**Section 16.** The recitals herein above stated are incorporated into the body of this Resolution as if set out here at.

This Resolution was introduced, seconded and adopted at a duly convened meeting of the Fiscal Court of the County of Floyd, Kentucky, held on the 4<sup>th</sup> day of September 2003.

Motion By: LARRY STUMBO

Seconded By: GERALD DEROSSETT

PAUL H. THOMPSON  
County Judge/Executive

ATTEST:

PEGGY COMPTON  
Fiscal Court Clerk

Certificate

I, the undersigned, do hereby certify that I am the duly qualified and acting Fiscal Court Clerk of the County of Floyd, Kentucky; that the foregoing is a true and complete copy of a certain Resolution duly adopted by the Fiscal Court of the County of Floyd, Kentucky, at a duly convened meeting property held on the 4<sup>th</sup> day of September 2003; that said Resolution (together with the Lease Agreement and the Mortgage Deed of Trust approved therein) appears as a matter of public record in the official records of the Fiscal Court; that said meeting was duly held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, and 61.820; that a quorum was present at said meeting; that said Resolution has not been amended, modified, revoked or repealed; and that same is now in full force and effect.

# Exhibit C

# 12743

## LOCAL DEBT NOTIFICATION – LEASE SUMMARY FORM

Floyd County – (2005 Water Line Extension Project)

**Name of Entity Entering Lease:** Floyd County

**Type of Lease:** General Obligation

**Purpose of Lease:** Funds are being used to payoff a note maturing June 30, 2005. The proceeds of the note were used to fund expansions of the County's water lines

**Is the County Obligated:** Yes

**Name of Lessor:** Floyd County, Kentucky *- Ky Area Development Districts Financing Trust*

**Date the Lease Was Issued:** June 2005 (Projected)

**Principal Amount:** \$2,600,000 *6-1-05*

**Type of Interest Rate:** Fixed *4.50%*

**Interest Rate:** See included projected schedules

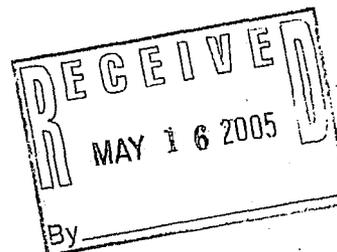
**Date of Initial Payment:** See included projected schedules

**Retirement method:** County General Funds and an allocation from the water department as necessary to meet debt payments.

**Trustee / Paying Agent:** The Bank of New York

**Bond Counsel:** Peck, Shaffer & Williams

**Financial Advisor:** Ross, Sinclair & Associates



County of Floyd, Kentucky - Series 2005A General Obligation KADD Lease  
Projected Debt Service Assuming Insured Rates

**Assumptions:**

Average Fixed Interest Rate:	4.50%
Term (years):	30
Annual Lease Payment of Water District:	\$100,000
Average Annual County Payment:	\$59,990

Payment Date	Coupon	Principal Payment	Interest Payment	Fees*	Total Payment	Less Lease Payment	Net Period Payment Due of County	FY Payment Due of County
01-Dec-05			55,555	900	\$56,455	\$50,000	\$6,455	
01-Jun-06	2.80%	50,000	55,555	888	\$106,443	\$50,000	\$56,443	\$62,898
01-Dec-06			54,855	888	\$55,743	\$50,000	\$5,743	
01-Jun-07	2.80%	50,000	54,855	875	\$105,730	\$50,000	\$55,730	\$61,473
01-Dec-07			54,130	875	\$55,005	\$50,000	\$5,005	
01-Jun-08	3.00%	50,000	54,130	883	\$104,993	\$50,000	\$54,993	\$59,998
01-Dec-08			53,380	883	\$54,243	\$60,000	\$4,243	
01-Jun-09	3.10%	50,000	53,380	850	\$104,230	\$50,000	\$54,230	\$58,473
01-Dec-09			52,605	850	\$53,455	\$50,000	\$3,455	
01-Jun-10	3.20%	55,000	52,605	836	\$108,441	\$50,000	\$58,441	\$61,888
01-Dec-10			51,725	836	\$52,561	\$50,000	\$2,561	
01-Jun-11	3.50%	65,000	51,725	823	\$107,548	\$50,000	\$57,548	\$80,109
01-Dec-11			50,763	823	\$51,585	\$50,000	\$1,585	
01-Jun-12	3.50%	60,000	50,763	808	\$111,570	\$50,000	\$61,570	\$83,155
01-Dec-12			49,713	808	\$50,520	\$50,000	\$520	
01-Jun-13	3.80%	60,000	49,713	793	\$110,505	\$50,000	\$60,505	\$61,025
01-Dec-13			48,573	793	\$49,365	\$50,000	(\$635)	
01-Jun-14	3.80%	60,000	48,573	778	\$109,350	\$50,000	\$59,350	\$58,715
01-Dec-14			47,433	778	\$48,210	\$50,000	(\$1,790)	
01-Jun-15	3.80%	65,000	47,433	761	\$113,194	\$50,000	\$63,194	\$61,404
01-Dec-15			46,198	761	\$46,959	\$50,000	(\$3,041)	
01-Jun-16	4.10%	65,000	46,198	745	\$111,943	\$50,000	\$61,943	\$58,901
01-Dec-16			44,885	745	\$45,610	\$50,000	(\$4,390)	
01-Jun-17	4.10%	70,000	44,885	728	\$115,593	\$50,000	\$65,593	\$61,203
01-Dec-17			43,430	728	\$44,168	\$50,000	(\$5,843)	
01-Jun-18	4.10%	70,000	43,430	710	\$114,140	\$50,000	\$64,140	\$58,298
01-Dec-18			41,995	710	\$42,705	\$50,000	(\$7,295)	
01-Jun-19	4.30%	75,000	41,995	691	\$117,688	\$50,000	\$67,688	\$60,391
01-Dec-19			40,383	691	\$41,074	\$50,000	(\$8,926)	
01-Jun-20	4.30%	80,000	40,383	671	\$121,054	\$50,000	\$71,054	\$62,128
01-Dec-20			38,863	671	\$39,334	\$50,000	(\$10,666)	
01-Jun-21	4.30%	80,000	38,863	651	\$119,314	\$50,000	\$69,314	\$58,648
01-Dec-21			36,943	651	\$37,594	\$50,000	(\$12,406)	
01-Jun-22	4.30%	85,000	36,943	630	\$122,573	\$50,000	\$72,573	\$60,165
01-Dec-22			35,115	630	\$35,745	\$50,000	(\$14,255)	
01-Jun-23	4.50%	90,000	35,115	608	\$125,723	\$50,000	\$75,723	\$61,488
01-Dec-23			33,090	608	\$33,698	\$50,000	(\$16,303)	
01-Jun-24	4.50%	95,000	33,090	584	\$128,674	\$50,000	\$78,674	\$62,371
01-Dec-24			30,953	584	\$31,536	\$50,000	(\$18,464)	
01-Jun-25	4.50%	95,000	30,953	560	\$128,513	\$50,000	\$78,513	\$58,049
01-Dec-25			28,815	560	\$29,375	\$50,000	(\$20,625)	
01-Jun-26	4.50%	100,000	28,815	535	\$129,350	\$50,000	\$79,350	\$58,725
01-Dec-26			26,565	535	\$27,100	\$50,000	(\$22,900)	
01-Jun-27	4.60%	105,000	26,565	509	\$132,074	\$50,000	\$82,074	\$59,174
01-Dec-27			24,150	509	\$24,659	\$50,000	(\$25,341)	
01-Jun-28	4.80%	110,000	24,150	481	\$134,631	\$50,000	\$84,631	\$59,290
01-Dec-28			21,620	481	\$22,101	\$50,000	(\$27,899)	
01-Jun-29	4.80%	115,000	21,620	453	\$137,073	\$50,000	\$87,073	\$59,174
01-Dec-29			18,975	453	\$19,428	\$50,000	(\$30,573)	
01-Jun-30	4.60%	120,000	18,975	423	\$139,398	\$50,000	\$89,398	\$58,825
01-Dec-30			16,215	423	\$16,638	\$50,000	(\$33,363)	
01-Jun-31	4.70%	125,000	16,215	391	\$141,606	\$50,000	\$91,606	\$58,244
01-Dec-31			13,278	391	\$13,669	\$50,000	(\$36,331)	
01-Jun-32	4.70%	130,000	13,278	359	\$143,636	\$50,000	\$93,636	\$57,305
01-Dec-32			10,223	359	\$10,581	\$50,000	(\$38,419)	
01-Jun-33	4.70%	140,000	10,223	324	\$150,546	\$50,000	\$100,546	\$61,128
01-Dec-33			6,933	324	\$7,256	\$50,000	(\$42,744)	
01-Jun-34	4.70%	145,000	6,933	288	\$152,220	\$50,000	\$102,220	\$59,476
01-Dec-34			3,525	288	\$3,813	\$50,000	(\$46,188)	
01-Jun-35	4.70%	150,000	3,525	250	\$153,775	\$50,000	\$103,775	\$57,588
Totals:		\$2,600,000	\$2,181,320	\$38,373	\$4,799,693	\$3,000,000	\$1,799,693	\$1,799,693

\* Fees are annual Trustee Fee paid to Bank of New York and KADD Administrative Fee

# Exhibit D

COMMONWEALTH OF KENTUCKY  
OFFICE OF THE GOVERNOR  
GOVERNOR'S OFFICE FOR LOCAL DEVELOPMENT  
05 SLDO 010

IN THE MATTER OF:

Floyd County, Kentucky

Kentucky Area Development Districts Financing Trust

(Water Line Extension Project)

---

**DECISION OF STATE LOCAL DEBT OFFICER**

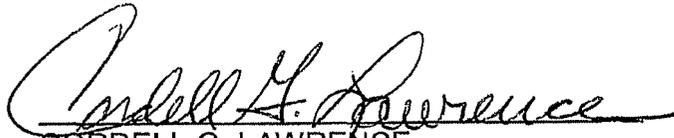
---

The State Local Debt Officer having considered the entire record in this matter, including the Findings of Fact, Conclusions of Law and the Recommended Order of the Administrative Hearing Officer dated May 25, 2005, and with no response thereto filed and being otherwise duly advised:

Recommended Order of the Hearing Officer be hereby approved, ratified and incorporated herein as part of IT IS HEREBY ORDERED THAT the Findings of Fact, Conclusions of Law and the this decision. The State Local Debt Officer approves and adopts the findings and recommendations of the Hearing Officer as his own.

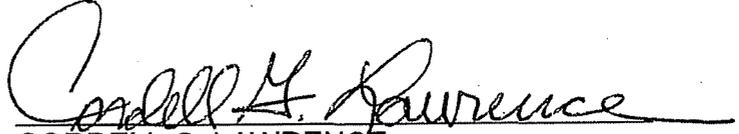
The Floyd County Fiscal Court's request to enter into the lease is approved.

Dated at Frankfort, Kentucky this the 10<sup>th</sup> day of June 2005.

  
CORDELL G. LAWRENCE  
State Local Debt Officer  
Commonwealth of Kentucky

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing decision has been served upon the following by mailing same, postage prepaid, this the 10<sup>th</sup> day of June 2005:

  
CORDELL G. LAWRENCE  
State Local Debt Officer

- (1) The Honorable Paul H. Thompson  
Floyd County Judge Executive  
Floyd County Courthouse  
149 S. Central Avenue  
Prestonsburg, Kentucky 41653-1960
- (2) Floyd County Fiscal Court Clerk  
Floyd County Courthouse  
149 S. Central Avenue  
Prestonsburg, Kentucky 41653-1960
- (3) Mr. Dwight Salsbury  
Ross, Sinclair & Associates, Inc.  
400 Democrat Drive  
Frankfort, Kentucky 40601
- (4) Delivered by Messenger Mail to:  
  
The Honorable Trey Grayson  
Secretary of State  
The Capitol, Suite 152  
Frankfort, KY 40601



GOVERNOR'S OFFICE FOR LOCAL DEVELOPMENT  
OFFICE OF THE GOVERNOR

Ernie Fletcher  
Governor

1024 Capital Center Drive, Suite 340  
Frankfort, Kentucky 40601-8204  
Phone (502) 573-2382  
Fax (502) 573-2939  
Toll Free (800) 346-5606  
www.gold.ky.gov

Ellen Williams  
Commissioner

June 10, 2005

Floyd County Fiscal Court Clerk  
Floyd County Courthouse  
149 S. Central Avenue  
Prestonsburg, Kentucky 41653-1960

**NOTICE OF DECISION OF STATE LOCAL DEBT OFFICER**

Pursuant to KRS 65.940 I am enclosing a copy of my decision approving the issuance of Floyd County, Kentucky, Kentucky Area Development Districts Financing Trust (Water Line Extension Project) in an amount not to exceed \$2,600,000.

The proceeds from the lease will be used to finance public water line extensions and improvements.

Record of this decision should be made in the minutes of the next meeting of the Floyd County Fiscal Court in accordance with KRS 65.940.

Sincerely,

A handwritten signature in black ink that reads "Cordell G. Lawrence".

CORDELL G. LAWRENCE  
State Local Debt Officer

Enclosure

cc: The Honorable Paul H. Thompson, Floyd County Judge Executive  
Mr. Dwight Salsbury, Ross, Sinclair & Associates, Inc.



GOVERNOR'S OFFICE FOR LOCAL DEVELOPMENT  
OFFICE OF THE GOVERNOR

**Ernie Fletcher**  
Governor

1024 Capital Center Drive, Suite 340  
Frankfort, Kentucky 40601-8204  
Phone (502) 573-2382  
Fax (502) 573-2939  
Toll Free (800) 346-5606  
www.gold.ky.gov

**Ellen Williams**  
Commissioner

June 10, 2005

The Honorable Trey Grayson  
Secretary of State  
The Capitol, Suite 152  
Frankfort, KY 40601

Dear Secretary Grayson:

For your records, I am enclosing a copy of my decision approving the issuance of Floyd County, Kentucky, Kentucky Area Development Districts Financing Trust (Water Line Extension Project) in an amount not to exceed \$2,600,000.

The proceeds from the lease will be used to finance public water line extensions and improvements.

Sincerely,

A handwritten signature in cursive script that reads "Cordell G. Lawrence".

CORDELL G. LAWRENCE  
State Local Debt Officer

/ld

Enclosure



**COMMONWEALTH OF KENTUCKY  
OFFICE OF THE GOVERNOR  
GOVERNOR'S OFFICE FOR LOCAL DEVELOPMENT  
05-SLDO-010**

**IN THE MATTER OF:**

**Floyd County, Kentucky  
Kentucky Area Development Districts Financing Trust  
(Water Line Extension Project)**

---

**RECOMMENDED ORDER**

---

The Fiscal Court of Floyd County, Kentucky (the "County") in a Resolution passed and adopted on May 20, 2005, authorized a plan to finance public water line extensions and improvements in Floyd County (the "Project") in an amount not to exceed of \$2,600,000 with funds provided to the County by the Kentucky Area Development Districts Financing Trust Small Issuer Loan Program (the "Program") through a certain Lease Agreement between the County and the Program (the "Lease").

Kentucky Revised Statutes 65.944(1) (b) stipulates that no county may enter into a lease agreement in excess of \$500,000 without first securing the written approval of the State Local Debt Officer. The County of Floyd, Kentucky, a duly organized and validly existing county and political subdivision of the Commonwealth of Kentucky, in its Notification of Intent to Lease submitted on April 22, 2005, (the "Notice of Intent")

requested the State Local Debt Officer to approve the Lease between the County and the Program and the plan for financing the Project.

A duly-advertised hearing was held in the County on May 20, 2005, at which there were no comments received from the public and no opposition filed with regard to the proposed Lease.

Upon receipt of the Notice of Intent and pursuant to notice published in accordance with Chapter 424 of the Kentucky Revised Statutes, a public hearing was set for May 16, 2005, at 10:00 a.m., (Prevailing Eastern Time) in the third floor conference room, Governor's Office for Local Development (GOLD), 1024 Capital Center Drive, Frankfort, Kentucky. At the time and place set for the hearing, there appeared the following: Dwight Salsbury, Financial Advisor representing Ross, Sinclair & Associates, Inc. and Floyd County; Tom Dobson, Local Government Advisor, Division of Financial Management and Administration, representing GOLD; Lance Emerson, observer-GOLD and Gene Kiser, Hearing Officer.

The Hearing Officer, having access to the records of the State Auditor's Office, having in his possession various documents furnished by the County and the Program, and having heard testimony presented at the hearing, finds as follows:

#### **FINDINGS OF FACT**

**1:** The financial condition and prospects of the County warrant a reasonable expectation that the principal and interest requirements of the proposed Lease can be met when due without seriously restricting other expenditures of the County.

It is proposed that the semi-annual interest requirements of the Lease be provided by payments to be made by the County to the Trustee Bank. The request of the County is that the Program provides funding in an amount not to exceed \$2,600,000 to mature on

June 1, 2035. The annual debt service is estimated to average \$169,017.00 (Joint Water District and County payment) per year bearing interest at a rate of 5.13%. The Lease may be prepaid in whole provided that the Program is given thirty (30) days written notice of such prepayment. At the conclusion of the Lease, the Project property to which the Program holds the title will be conveyed and transferred to the County and/or Water District.

Floyd County has traditionally operated within its income and it is therefore the opinion of the Hearing Officer that the County should be able to meet the terms of the proposed Lease without seriously restricting other expenditures of the County.

**2:** The proposed Lease and financial plan for the Project appear to serve the best interests of both the County and a majority of its creditors.

The County has determined that the project financed by funds obtained from the Program will serve the best interests of the taxpayers, citizens, and inhabitants of the County; that this Project and proposed Lease is for a proper public purpose and is necessary and essential in the interest of proper performance of governmental functions and duties by the County for the public benefit and well being.

The Hearing Officer concurs with the County that the proposed Lease and financial plan for the Project is a public project for a public purpose and appears to be in the best interest of the County.

**3:** The proposed Lease and financial plan for the Project appear to be valid.

The Kentucky Area Development Districts Financing Trust (the Program) was duly created and existing under the laws of the Commonwealth of Kentucky in accordance with Kentucky Revised Statutes, and a copy of the Declaration of Trust, By-Laws and Interlocal Cooperation Agreement have been filed with the Secretary of State and are a part of this record. Action of the U.S. Congress in Chapter 1312 of the Tax Reform Act of 1986, as

amended, has allowed and permitted the Kentucky Area Development Districts Financing Trust, a non-profit corporation, to collectively and jointly create and administer a pooled leasing program for the acquisition, construction, maintenance and improvement of necessary real and personal property and to provide an effective means of financing capital and equipment needs of public agencies in the Commonwealth of Kentucky.

It appears that the County's contracted indebtedness will not exceed available revenues for the fiscal year in which the obligation is incurred.

The County proposes to enter into a Lease Agreement with the Program to be dated on or about June 1, 2005, with an option to renew automatically from year to year. This use of an annually renewable lease to provide the source of payment for the financing of the County (or similar entity) has been approved on numerous occasions by the highest court in Kentucky. See, e.g., Sizemore v. Clay County, et al, 105 S.W. 2nd 841 (1937).

**4:** Section 158 of the Constitution of the Commonwealth of Kentucky states in part, "Cities, towns, counties, and taxing districts shall not incur indebtedness to an amount exceeding the following maximum percentages on the value to the taxable property therein, to be estimated by the last assessment previous to the incurring of the indebtedness; and counties and taxing districts, two percent (2%), unless in case of emergency, the public health or safety should so require."

Based on the assessment previous to the notice of intent to lease mentioned in this order, Floyd County's 2% debt capacity is listed at \$26,855,195. According to the county's proposed Fiscal Year – 2006 budget, Floyd County has stated its indebtedness at \$18,657,454. As the amount of indebtedness requested keeps the county under its 2% capacity, the approval of this lease meets the constitutional requirement.

It appears that the County's contracted indebtedness will not exceed available income and revenue for the fiscal year in which the obligation is incurred.

The Hearing Officer therefore finds that the proposed Lease and plan for financing the Project appear to be valid.

### **CONCLUSIONS OF LAW**

Upon review of the evidence presented at the time of and subsequent to the hearing, the Hearing Officer concludes that Floyd County Fiscal Court has met the three statutory requirements and the Kentucky Constitutional requirement that permits the county to enter into a lease.

**Recommended Order**

WHEREFORE, the Hearing Officer, on the basis of the foregoing findings, hereby recommends approval of the form of the proposed Lease and the plan for financing the Project with funds provided to the County by the Program. The County shall pay to the Trustee the amount required by the terms of the Lease; the first payment will be due on December 1, 2005, with payments through June 1, 2035, which is the maturity date of the Lease.

The Hearing Officer hereby notes the designation of the Bank of New York, as Trustee for the proposed Lease.

Various statements and tables contained within this decision were taken directly from documents related to this financing and provided to the State Local Debt Office.

Dated at Frankfort, Kentucky this the 25<sup>th</sup> day of May 2005.



---

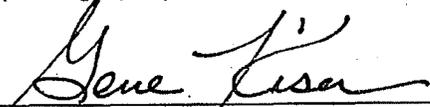
GENE KISER, CHO  
Hearing Officer  
Commonwealth of Kentucky

**EXCEPTIONS**

Written exceptions to this Order must be filed with Cordell Lawrence, State Local Debt Officer, 1024 Capital Center Drive, Suite 340, Frankfort, Kentucky 40601 by close of business June 9, 2005.

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing decision has been served upon the following by mailing same, postage prepaid, this the 25<sup>th</sup> day of May 2005:

  
\_\_\_\_\_  
GENE KISER, CHO  
Hearing Officer

- (1) The Honorable Paul H. Thompson  
Floyd County Judge Executive  
Floyd County Courthouse  
149 S. Central Avenue  
Prestonsburg, KY 41653-1960
  
- (2) Floyd County Fiscal Court Clerk  
Floyd County Courthouse  
149 S. Central Avenue  
Prestonsburg, KY 41653-1960
  
- (3) Dwight Salsbury  
Ross, Sinclair & Associates  
400 Democrat Drive  
Frankfort, Kentucky 40601

---

**COUNTY OF FLOYD, KENTUCKY**

**Proposed 2005 KADD Lease  
Water Line Extension Project**

---

Projected KADD Lease Using Insured Rates	
Projected Debt Service Schedules .....	1
Projected Sources and Uses.....	2
Projected KADD Lease Using Non-Insured Rates	
Projected Debt Service Schedules.....	3
Projected Sources and Uses.....	4

RECEIVED  
MAY 16 2005  
By \_\_\_\_\_

FLOYD COUNTY, KENTUCKY GENERAL OBLIGATION SUPPORTED REVENUE  
 BONDS, SERIES 2005A  
 PROJECTED FOR POS -- ASSUMING INSURED SCALE 5/3/05

=====  
 Sources and Uses of Funds  
 =====  
 Delivery Date: 6/1/5

Sources of Funds  
 =====

PAR AMOUNT OF BONDS.....	\$2,600,000.00
+PREMIUM / -DISCOUNT.....	\$0.00
BOND PROCEEDS.....	2,600,000.00
	-----
	\$2,600,000.00

Uses of Funds  
 =====

DEPOSIT TO 2004B BAN NOTE FUND.....	2,496,274.69
BOND COUNSEL FEES.....	6,000.00
TRUSTEE ORIGINATION FEE.....	1,000.00
BOND RATING FEE.....	5,000.00
Bond Insurance..... ( 0.800000%)	38,090.56
UNDERWRITERS DISCOUNT..... ( 2.000000%)	52,000.00
CONTINGENCY.....	1,634.75
	-----
	\$2,600,000.00

ROSS, SINCLAIRE & ASSOCIATES - DSALSBUKY

Date: 05-03-2005 @ 13:26:41      Filename: FLOYD      Key: 2005A1

County of Floyd, Kentucky - Series 2005A General Obligation KADL Lease  
Projected Debt Service Assuming Non-Rated Rates

**Assumptions:**

Average Fixed Interest Rate:	5.13%
Term (years):	30
Annual Lease Payment of Water District:	\$100,000
Average Annual County Payment:	\$69,017

Payment Data	Coupon	Principal Payment	Interest Payment	Fees*	Total Payment	Less Lease Payment	Net Period Payment Due of County	FY Payment Due of County
01-Dec-05			62,786	889	\$63,675	\$50,000	\$13,675	
01-Jun-06	3.25%	45,000	62,786	878	\$108,664	\$50,000	\$58,664	\$72,339
01-Dec-06			62,055	878	\$62,933	\$50,000	\$12,933	
01-Jun-07	3.40%	45,000	62,055	886	\$107,921	\$50,000	\$57,921	\$70,854
01-Dec-07			61,290	866	\$62,156	\$50,000	\$12,156	
01-Jun-08	3.50%	45,000	61,290	855	\$107,145	\$50,000	\$57,145	\$69,301
01-Dec-08			60,503	855	\$61,358	\$50,000	\$11,358	
01-Jun-09	3.75%	45,000	60,503	844	\$106,346	\$50,000	\$56,346	\$67,704
01-Dec-09			59,659	844	\$80,503	\$50,000	\$10,503	
01-Jun-10	4.00%	50,000	59,659	831	\$110,490	\$50,000	\$60,490	\$70,993
01-Dec-10			58,559	831	\$59,490	\$50,000	\$9,490	
01-Jun-11	4.00%	50,000	58,559	819	\$109,478	\$50,000	\$59,478	\$68,968
01-Dec-11			57,659	819	\$58,478	\$50,000	\$8,478	
01-Jun-12	4.00%	55,000	57,659	805	\$113,464	\$50,000	\$63,464	\$71,941
01-Dec-12			56,559	805	\$57,364	\$50,000	\$7,364	
01-Jun-13	4.40%	55,000	56,559	791	\$112,350	\$50,000	\$62,350	\$69,714
01-Dec-13			55,349	791	\$56,140	\$50,000	\$6,140	
01-Jun-14	4.40%	55,000	55,349	778	\$111,126	\$50,000	\$61,126	\$67,266
01-Dec-14			54,139	778	\$54,916	\$50,000	\$4,916	
01-Jun-15	4.40%	60,000	54,139	763	\$114,901	\$50,000	\$64,901	\$69,818
01-Dec-15			52,819	763	\$53,581	\$50,000	\$3,581	
01-Jun-16	4.75%	60,000	52,819	748	\$113,586	\$50,000	\$63,586	\$67,148
01-Dec-16			51,394	748	\$52,141	\$50,000	\$2,141	
01-Jun-17	4.75%	65,000	51,394	731	\$117,125	\$50,000	\$67,125	\$69,268
01-Dec-17			49,850	731	\$50,581	\$50,000	\$581	
01-Jun-18	4.75%	70,000	49,850	714	\$120,564	\$50,000	\$70,564	\$71,145
01-Dec-18			48,188	714	\$48,901	\$50,000	(\$1,099)	
01-Jun-19	5.00%	70,000	48,188	696	\$118,864	\$50,000	\$68,864	\$67,785
01-Dec-19			46,438	696	\$47,134	\$50,000	(\$2,866)	
01-Jun-20	5.00%	75,000	46,438	678	\$122,115	\$50,000	\$72,115	\$68,249
01-Dec-20			44,563	678	\$45,240	\$50,000	(\$4,760)	
01-Jun-21	5.00%	80,000	44,563	658	\$125,220	\$50,000	\$75,220	\$70,460
01-Dec-21			42,563	658	\$43,220	\$50,000	(\$6,780)	
01-Jun-22	5.10%	85,000	42,563	636	\$128,199	\$50,000	\$78,199	\$71,419
01-Dec-22			40,395	636	\$41,031	\$50,000	(\$8,969)	
01-Jun-23	5.10%	85,000	40,395	616	\$126,010	\$50,000	\$76,010	\$67,041
01-Dec-23			38,228	616	\$38,843	\$50,000	(\$11,158)	
01-Jun-24	5.10%	90,000	38,228	593	\$128,820	\$50,000	\$78,820	\$67,663
01-Dec-24			35,933	593	\$38,525	\$50,000	(\$13,475)	
01-Jun-25	5.10%	95,000	35,933	569	\$131,501	\$50,000	\$81,501	\$68,026
01-Dec-25			33,510	569	\$34,079	\$50,000	(\$15,921)	
01-Jun-26	5.20%	100,000	33,510	544	\$134,054	\$50,000	\$84,054	\$68,133
01-Dec-26			30,910	544	\$31,454	\$50,000	(\$16,546)	
01-Jun-27	5.20%	105,000	30,910	518	\$138,428	\$50,000	\$86,428	\$67,881
01-Dec-27			28,180	518	\$28,898	\$50,000	(\$21,303)	
01-Jun-28	5.20%	110,000	28,180	490	\$138,670	\$50,000	\$88,670	\$67,368
01-Dec-28			25,320	490	\$25,810	\$50,000	(\$24,190)	
01-Jun-29	5.20%	115,000	25,320	461	\$140,781	\$50,000	\$90,781	\$66,591
01-Dec-29			22,330	461	\$22,791	\$50,000	(\$27,209)	
01-Jun-30	5.20%	125,000	22,330	430	\$147,760	\$50,000	\$97,760	\$70,551
01-Dec-30			19,080	430	\$19,510	\$50,000	(\$30,490)	
01-Jun-31	5.30%	130,000	19,080	398	\$149,478	\$50,000	\$99,478	\$68,988
01-Dec-31			15,635	398	\$16,033	\$50,000	(\$33,968)	
01-Jun-32	5.30%	135,000	15,635	364	\$150,999	\$50,000	\$100,999	\$67,031
01-Dec-32			12,058	364	\$12,421	\$50,000	(\$37,579)	
01-Jun-33	5.30%	145,000	12,058	328	\$157,385	\$50,000	\$107,385	\$69,806
01-Dec-33			8,215	328	\$8,543	\$50,000	(\$41,458)	
01-Jun-34	5.30%	150,000	8,215	290	\$158,505	\$50,000	\$108,505	\$67,048
01-Dec-34			4,240	290	\$4,530	\$50,000	(\$45,470)	
01-Jun-35	5.30%	160,000	4,240	250	\$164,490	\$50,000	\$114,490	\$69,020
<b>Totals:</b>		<b>\$2,555,000</b>	<b>\$2,477,003</b>	<b>\$38,511</b>	<b>\$5,070,514</b>	<b>\$3,000,000</b>	<b>\$2,070,514</b>	<b>\$2,070,514</b>

\* Fees are annual Trustee Fee paid to Bank of New York and KADD Administrative Fee

FLOYD COUNTY, KENTUCKY GENERAL OBLIGATION SUPPORTED REVENUE  
 BONDS, SERIES 2005A  
 PROJECTED FOR POS. -- ASSUMING NON-RATED SCALE 5/3/05

=====  
 Sources and Uses of Funds  
 =====  
 Delivery Date: 6/ 1/ 5

Sources of Funds  
 =====

PAR AMOUNT OF BONDS.....	\$2,555,000.00
+PREMIUM / -DISCOUNT.....	\$0.00
BOND PROCEEDS.....	2,555,000.00
	-----
	\$2,555,000.00

Uses of Funds  
 =====

DEPOSIT TO 2004B BAN NOTE FUND.....	2,496,274.69
BOND COUNSEL FEES.....	6,000.00
TRUSTEE ORIGINATION FEE.....	1,000.00
UNDERWRITERS DISCOUNT..... ( 2.000000%)	51,100.00
CONTINGENCY.....	625.31
	-----
	\$2,555,000.00

ROSS, SINCLAIRE & ASSOCIATES - DSALSBURY

Date: 05-03-2005 @ 13:27:29      Filename: FLOYD      Key: 2005A2



**Paul Hunt Thompson**  
JUDGE/EXECUTIVE of FLOYD COUNTY  
COMMONWEALTH of KENTUCKY

Floyd County Fiscal Court  
149 South Central Avenue - Suite 9  
Prestonsburg, Kentucky 41653



Telephone (606) 886-9193  
TDD 810-648-6056

Fax (606) 886-1083  
e-mail: fleofc@yahoo.com

Mr. Cordell Lawrence, State Local Debt Officer  
Department for Local Government  
1024 Capital Center Drive  
Frankfort, Kentucky 40601

RE: Notice of Intent to Lease

Dear Mr. Lawrence:

In accordance with KRS 66.310, please find enclosed a Notice of Intent to Lease relating to a lease agreement between the County of Floyd (the "County") and the Kentucky Area Development District Financing Trust (KADD), in the approximate principal amount of \$2,600,000 (the "Project"). The proceeds of the Lease will be used to fund water line extensions and improvements in the County.

The County has reviewed its financial statements and has determined that the project is necessary and that debt service can be met without additional tax levies or a reduction in services. The County expects the Water District to pay a portion of the debt service.

Ross, Sinclair & Associates, Inc. will prepare the preliminary financing plans and other financial information that you may need. If you have any question of this request or of the project, please feel free to contact me or Dwight Salisbury with Ross, Sinclair & Associates, Inc.

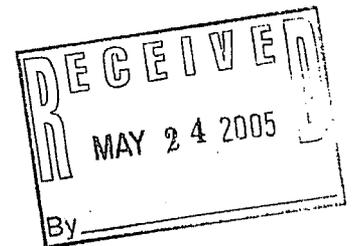
Yours truly,

*Paul H. Thompson*  
Floyd County Judge/Executive

Cc: Dwight Salisbury



Floyd County Fiscal Court is committed to providing safe, decent and affordable housing for low-income clients with special needs.



**SECOND READING: FLOYD COUNTY, KENTUCKY ORDINANCE #04-004**

**MOTION TO AMEND:** To make the following amendments to Ordinance #04-004

1. To delete the word "RESOLVED," from the 4<sup>th</sup> paragraph enacting Floyd County Ordinance #04-004 and replace it with the word "ORDAINED."
2. To add the following language "and revenues" to the 4<sup>th</sup> sentence of Section 2. "General Obligation Pledge." of Ordinance #04-004 and to delete the word "sewer" so that the sentence shall read as follows:

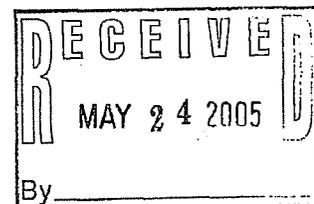
"Said tax shall be placed before and in preference to all other items and for the full amount thereof; provided, however, that in each year to the extent that other taxes and revenues of the Lessee or revenues of the Lessee's water system are available for the payment of the Lease Payments and are appropriated for such purpose, the amount of such direct tax upon all of the taxable property in the Lessee shall be reduced by the amount of such other taxes and revenues so available and appropriated." ~~also codes~~ ~~compliance~~

Motion to Amend this Ordinance was made by Abn and seconded by Sally and vote taken as follows:

For	Against
<u>[Signature]</u>	<u>[Signature]</u>
<u>[Signature]</u>	<u>[Signature]</u>
<u>[Signature]</u>	<u>[Signature]</u>

WHEREUPON, said Motion to Amend Ordinance #04-004 was declared passed and said amendment adopted this the 20<sup>th</sup> day of May, 2005.

[Signature]  
**PAUL H. THOMPSON,**  
 FLOYD COUNTY JUDGE/EXECUTIVE



ATTEST:  
CHRIS WAUGH, FLOYD COUNTY CLERK

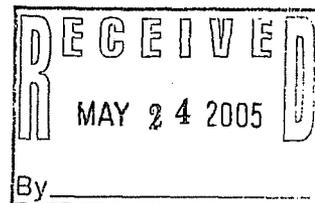
BY: Peggy Compton, D.C.

Following the vote on the amendment of Ordinance No. 04-004, the Floyd County Judge/Executive notified the members of the public assembled at the May 20, 2005 Regular Meeting of their right to comment on the contents of Ordinance No. 04-004, as amended, during public hearing at that time. No comments being received from the public at that time, the Floyd County Judge/Executive brought Ordinance 04-004, as amended, on for its Second Reading.

  
PAUL H. THOMPSON,  
FLOYD COUNTY JUDGE/EXECUTIVE

ATTEST:  
CHRIS WAUGH, FLOYD COUNTY CLERK

BY: Peggy Compton, D.C.



ORDINANCE NO. 04-004

AN ORDINANCE APPROVING A LEASE FOR THE FINANCING OF A PROJECT; PROVIDING FOR THE PAYMENT AND SECURITY OF THE LEASE; CREATING A SINKING FUND; AND AUTHORIZING THE EXECUTION OF VARIOUS DOCUMENTS RELATED TO SUCH LEASE.

WHEREAS, the governing body of the County of Floyd, Kentucky (the "Lessee") has the power, pursuant to Section 65.940 et seq. of the Kentucky Revised Statutes to enter into lease agreements with or without the option to purchase in order to provide for the use of property for public purposes;

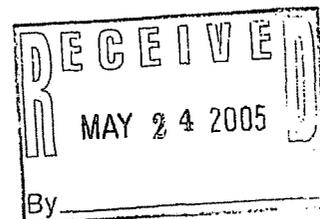
WHEREAS, the governing body of the Lessee (the "Governing Body") has previously determined, and hereby further determines, that the Lessee is in need of the Project, as defined in the Lease hereinafter described;

WHEREAS, the Governing Body has determined and hereby determines that it is in the best interests of the Lessee that the Lessee and the Kentucky Area Development Districts Financing Trust (the "Lessor") enter into a Lease Agreement (the "Lease") for the leasing by the Lessee from the Lessor of the Project;

NOW THEREFORE, BE IT RESOLVED BY THE FISCAL COURT OF THE COUNTY OF FLOYD, AS FOLLOWS:

Section 1. Recitals and Authorization. The Lessee hereby approves the Lease Agreement (the "Lease") and all Collateral Documents, as defined in the Lease, each in substantially the form presented to this Governing Body. It is hereby found and determined that the Project identified in the Lease is public property to be used for public purposes. It is further determined that it is necessary and desirable and in the best interests of the Lessee to enter into the Lease for the purposes therein specified, and the execution and delivery of the Lease and all representations, certifications and other matters contained in the Closing Memorandum with respect to the Lease, or as may be required by the Lessor prior to delivery of the Lease, are hereby approved, ratified and confirmed. The Judge/Executive and Fiscal Court Clerk of the Lessee are hereby authorized to execute the Lease, together with such other agreements or certifications which may be necessary to accomplish the transaction contemplated by the Lease.

Section 2. General Obligation Pledge. Pursuant to the Constitution of the Commonwealth and Chapter 66 of the Kentucky Revised Statutes, as amended (the "General Obligation Statutes"), the obligation of the Lessee created by the Lease shall be a full general obligation of the Lessee and, for the prompt payment of the Lease Payments, the full faith, credit and revenue of the Lessee are hereby pledged. During the period the Lease is outstanding, there shall be and there hereby is levied on all the taxable property in the Lessee, in addition to all other taxes, without limitation as to rate, a direct tax annually in an amount sufficient to pay the Lease Payments on the Lease when and as due, it being hereby found and determined that current tax rates are within all applicable limitations. Said tax shall be and is hereby ordered computed, certified, levied and extended upon the tax duplicate and collected by the same officers in the same manner and at the same time that taxes for general purposes for each of said



years are certified, extended and collected. Said tax shall be placed before and in preference to all other items and for the full amount thereof; provided, however, that in each year to the extent that the other taxes of the Lessee or revenues of the Lessee's sewer system are available for the payment of the Lease Payments and are appropriated for such purpose, the amount of such direct tax upon all of the taxable property in the Lessee shall be reduced by the amount of such other taxes and revenues so available and appropriated.

There is hereby established with the Lessee a sinking fund (the "Sinking Fund"). The funds derived from said tax levy hereby required or other available taxes and revenues shall be placed in the Sinking Fund and, together with interest collected on the same, are irrevocably pledged for the payment of all Certificates or obligations issued under the General Obligation Statutes and all Tax Supported Leases, as defined in General Obligation Statutes, including the Lease herein authorized, when and as the same fall due. Amounts shall be transferred from the Sinking Fund to the Lessor at the times and in the amounts required by the Lease.

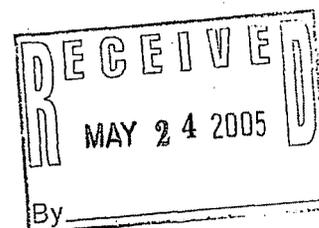
Section 3. Investment of Funds. Ross, Sinclair & Associates, Inc., as Program Administrator, is hereby authorized to direct the Trustee to invest funds on deposit under the Lease in such manner, subject to all legal limitations, as will, in the Program Administrator's judgment, produce the most favorable financial result for the Lessee.

Section 4. Severability. If any Section, paragraph or provision of this Ordinance shall be held to be invalid or unenforceable for any reason, the invalidity or unenforceability of such Section, paragraph or provision shall not affect any of the remaining provisions of this Ordinance.

Section 5. Sunshine Law. This Governing Body hereby finds and determines that all formal actions relative to the adoption of this Ordinance were taken in an open meeting of this Governing Body, and that all deliberations of this governing Body and of its committees, if any, which resulted in formal action, were in meetings open to the public, in full compliance with applicable legal requirements.

Section 6. Conflicts. All ordinances, resolutions, orders or parts thereof in conflict with the provisions of this Ordinance are, to the extent of such conflict, hereby repealed and the provisions of this Ordinance shall prevail and be given effect.

Section 7. Effective Date. This Ordinance shall take effect from and after its passage and publication of a summary thereof, as provided by law.



INTRODUCED, SECONDED AND ADOPTED, at a duly convened meeting of the Governing Body, held on May 2<sup>nd</sup>-05, 2005, after first reading held on May 11<sup>th</sup>-05 signed by the Judge/Executive of the Lessee, attested by the Fiscal Court Clerk, filed and indexed as provided by law.

By: *Paul H. Thompson*  
Judge/Executive

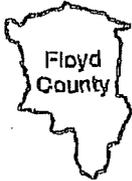
ATTEST:

By: *Peggy Compton*  
Fiscal Court Clerk

304601

RECEIVED  
MAY 24 2005  
By \_\_\_\_\_

# Exhibit E



**Robert D. Marshall**  
JUDGE/EXECUTIVE of FLOYD COUNTY  
COMMONWEALTH of KENTUCKY  
Floyd County Fiscal Court  
149 South Central Avenue - Suite 9  
Prestonsburg, Kentucky 41653



Telephone (606) 886-9193  
TDD 810-648-6056

Fax (606) 886-1083

## SOUTHERN WATER & SEWER DISTRICT

co Floyd County Fiscal Court

The Bank of New York Company, N.A.  
625 Vine St, Suite 900 Cincinnati, OH 45202

LOAN Number # KADD2005\_147K  
Closing Date: 06/28/2005

30 yrs @ an Avg. Interest rate of 4.55%

Total Principal	\$ 2,600,000.00	
Total Interest	<u>\$ 2,227,794.63</u>	
	\$ 4,824,794.63	Total Issue

Outstanding		
Principal	\$ 2,230,000.00	
Outstanding		
Interest	<u>\$ 1,390,821.96</u>	
	\$ 3,620,821.96	Total Outstanding

### Money Due (2012-13 Budget)

Next Payment - due Dec. 1, 2012 \$51,277.50 (Interest Only)

Following  
Payment - due June 1, 2013 \$111,277.50 (Principal & Interest)

\$ 162,555



Floyd County Fiscal Court is committed to providing safe, decent and affordable housing for low-income clients with special needs



# Exhibit F

## Beyer, Jonathan (PSC)

---

**From:** Dwight Salsbury <dsalsbury@rsamuni.com>  
**Sent:** Tuesday, January 29, 2013 9:22 AM  
**To:** Beyer, Jonathan (PSC)  
**Subject:** Floyd County  
**Attachments:** 20130128094210570.pdf  
  
**Categories:** Red Category

Jonathan --

Attached are the final schedules from the Floyd County KADD deal. The sequence of prior issues went like this:

1. The County issued \$2,175,000 in Bond Anticipation Notes (BANs) on October 1, 2001 to "construct and install water lines in southern portions of Floyd County". The BANs were due October 1, 2003.
2. In 2003, the County issued \$2,395,000 in renewal BANs dated 9/10/03 to roll over the above. The BANs were due 10/1/04.
3. In 2004 the County issued \$2,455,000 in renewal BANs dated 10/1/04 to roll over the above. Those BANs were due 6/30/05.
4. In 2005 the County issued the long term debt that paid off the above (through KADD).

I can send you information on any of the above. Just let m know what you are looking for.

Dwight Salsbury  
Ross, Sinclair & Associates  
325 West Main St.  
Suite 300  
Lexington, KY 40507  
Phone: 800-255-0795  
Fax: 859-381-1357

-----Original Message-----

**From:** Ricoh Suave@rsamuni.com [mailto:Ricoh\_Suave@rsamuni.com]  
**Sent:** Monday, January 28, 2013 9:42 AM  
**To:** Dwight Salsbury  
**Subject:**

This E-mail was sent from "RNPOA4E58" (Aficio MP 5001).

Scan Date: 01.28.2013 09:42:10 (-0500)  
Queries to: [Ricoh\\_Suave@rsamuni.com](mailto:Ricoh_Suave@rsamuni.com)

---

\*\*\*\*\*CONFIDENTIALITY NOTICE\*\*\*\*\*

This email transmission and any attachments to it are confidential and intended solely for the individual or entity to whom it is addressed. Any unauthorized review, use, disclosure or distribution is prohibited. If you have received this

# Exhibit G

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF SOUTHERN WATER	)	
AND SEWER DISTRICT OF FLOYD AND KNOTT	)	
COUNTIES, KENTUCKY, FOR A CERTIFICATE	)	CASE NO.
OF PUBLIC CONVENIENCE AND NECESSITY	)	2005-00374
TO CONSTRUCT, FINANCE AND INCREASE	)	
RATES PURSUANT TO KRS 278.023	)	

O R D E R

On September 19, 2005, Southern Water and Sewer District ("Southern Water") submitted an application for a Certificate of Public Convenience and Necessity to construct, finance, and increase rates for a \$225,000 waterworks improvement project. This project consists of the installation of a new booster pumping station, a master meter at the Allen Water Treatment Plant, replacement of eight 2-inch meters, and the replacement of a pressure reducing valve at Kentucky Highway 850 and related appurtenances. Project funding includes the issuance of \$225,000 of its Water System Revenue Bonds to the U.S. Department of Agriculture's Rural Development ("RD").

Southern Water's application was made pursuant to KRS 278.023, which requires the Commission to accept agreements between water utilities and the U.S. Department of Agriculture or the U.S. Department of Housing and Urban Development and to issue the necessary orders to implement the terms of such agreements within 30 days of satisfactory completion of the minimum filing requirements.

Given that minimum filing requirements were met in this case on September 19, 2005, KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of this agreement.

IT IS THEREFORE ORDERED that:

1. Southern Water is granted a Certificate of Public Convenience and Necessity for the proposed construction project.
2. Southern Water's proposed plan of financing with RD is accepted.
3. Southern Water is authorized to issue \$225,000 of Water System Revenue Bonds at an interest rate not to exceed 4.25 percent per annum for 40 years.
4. The proceeds from the loan agreement with RD shall be used only for the purposes specified in Southern Water's application.
5. Notwithstanding Ordering Paragraph 4, if surplus funds remain after the approved construction has been completed, Southern Water may use such surplus to construct additional plant facility if RD approves of the use, and the additional construction will not result in a change in Southern Water's rates for service. Southern Water shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 3.
6. Southern Water shall file a copy of the "as-built" drawings and a certified statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the substantial completion of the construction certified herein.
7. Southern Water shall monitor the adequacies of the expanded water distribution system after construction. If the level of service is inadequate or declining,

or the pressure to any customer is outside the requirements of 807 KAR 5:066, Section 5(1), Southern Water shall take immediate action to maintain the level of service in conformance with the regulations of the Commission.

8. Southern Water shall notify the Commission one week prior to the actual start of construction and at the 50 percent completion point.

9. The rates set out in Appendix A, which is attached hereto and incorporated herein, are the rates approved for service rendered on and after the date of this Order.

10. Within 30 days of the date of this Order, Southern Water shall file with the Commission its revised tariffs setting out the rates approved herein.

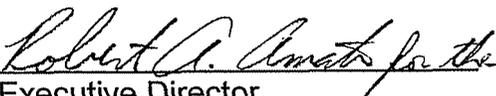
11. Three years from the effective date of this Order, Southern Water shall file an income statement, along with any pro forma adjustments, in sufficient detail to demonstrate that the rates approved herein are sufficient to meet its operating expenses and annual debt service requirements.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein accepted.

Done at Frankfort, Kentucky, this 14th day of October, 2005.

By the Commission

ATTEST:

  
Executive Director

Case No. 2005-00374

## APPENDIX A

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2005-00374 DATED OCTOBER 14, 2005

The following rates and charges are prescribed for the customers in the area served by Southern Water and Sewer District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

#### Monthly Water Rates

First 2,000 gallons	\$ 16.50 minimum bill
Over 2,000 gallons	5.60 per 1,000 gallons
Wholesale rate to city of Hindman	2.40 per 1,000 gallons

# Exhibit H

2703374

SEP 10 2005

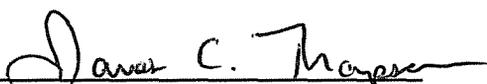
11:08 AM  
SEP 10 2005

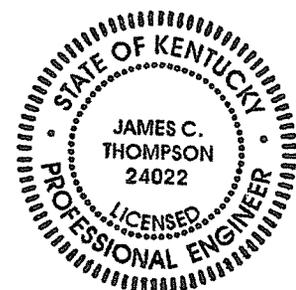
Case No. 2005-00374

**Southern Water and Sewer District  
Contract No. 27 – Morg Branch Pump Station  
System Maintenance, Repairs, and Upgrades  
Final Engineering Report  
August 2005**

**O'Brien & Gere Engineers, Inc.  
2333 Alexandria Drive  
Lexington, Kentucky 40504  
859.514.6055**

**Submitted By:**

  
**James C. Thompson, P.E.  
Project Engineer**



8-31-05

**SOUTHERN WATER AND SEWER DISTRICT  
FINAL ENGINEERING REPORT  
WATER SYSTEM IMPROVEMENTS**

**I. GENERAL**

The Southern Water & Sewer District was formed in March 2000 with the merger of the Mud Creek and Beaver Elkhorn Water Districts. The District employs Veolia Water North America to operate the water and sewer systems. The existing system consists of a 2 MGD surface water plant, over 269 miles of lines with 24 tanks and 26 pump stations serving 6,031 customers.

**II. PROJECT PLANNING AREA**

The Southern Water & Sewer District is located in Floyd County, Kentucky. The District serves the southern part of Floyd County from Route 80 south and Route 23 west. The District also serves a few customers in Knott County including selling water wholesale to the City of Hindman. The major land attributes are high mountains with narrow hollows prone to flooding.

**III. EXISTING FACILITIES**

***A. Location Map***

A map of the county showing the extent of the water system is located at the end of this report.

***B. History***

The Beaver Elkhorn and Mud Creek systems were originally built in the late 1960's and early 1970's with EDA funds. The Mud Creek system was constructed in the early 1970's with portions of the system renovated in 1987. The Beaver Elkhorn system has a water plant, which was expanded from 1 to 2 mgd in 1992. There were several tanks and pumps added to the system in 1992 along with a line extension from Hi Hat to Weeksbury. There was also an AML funded line extensions in Bill Hall Branch in 1999 and Arkansas Creek in 1997. The systems were merged in early 2000 to form the Southern Water & Sewer District. Since 2001 the District has undertaken several projects that have added over 1,100 customers, constructed over 74 miles of lines, nine storage tanks, and 14 pump stations.

***C. Condition of Facilities***

Present Condition – The District has been very aggressive in extending service and repairing existing assets. While funds are tight, the District works consistently to improve the facilities.

Suitability for Continued Use – The majority of the system is adequate for continued use.

Water Supply – The system gets water from two sources: the City of Pikeville and its own 2 MGD plant. The City of Pikeville can pump a maximum of 550,000 gallons per day. The current use averages between 233,000 to 300,000 gallons a day. The water plant has a capacity of 2 mgd and is currently pumping 1.6 mgd. The District has the ability to buy water from the Sandy Valley Water District through an eight-inch connection at Harold, the City of Prestonsburg from a six-inch connection on Prater Creek, an 8-inch connection close to the City of Martin and a six-inch connection on Route 7. Emergency purchases have been discussed with all utilities.

Treatment, Storage and Distribution Facilities – The distribution and storage is adequate at the current time

Compliance – The system is in compliance with both DOW and PSC regulations.

#### ***D. Financial Status***

The District has added many customers that have increased cash flow however, there have been additional expenses incurred by the District that have hindered the District's financial position.

In addition to increased debt as a result of a 2000 Rural Development project, the District has been asked by the Floyd County Fiscal Court to assume the debt payment on the funds the Court provided to the District for the 2000 Rural Development project. Initially, the Court was going to pick up the debt service on their contribution but the County has had financial difficulties and has requested that the District beginning paying the debt service of approximately \$100,000 per year.

The District retains Veolia Water North America for professional operation and management of the system. The District is behind on some payments to Veolia Water but hope that the rate increase will enable the District to pay its obligation to Veolia.

### **IV. NEED FOR THE PROJECT**

#### ***A. Health and Safety***

The project proposed by Southern Water is multi-faceted. A number of the proposed improvements: installation of new pump station at Morg Branch, repairs at the water treatment plant, and replacement of pressure reducing valves will improve the water quality by boosting pressures. The other activities in the project: replacement of large meters, and installation of a bypass meter at the Martin storage tank will improve the operations of the District and should improve the cash flow with more accurate meters.

***B. System O&M***

The Southern Water and Sewer District is operated and managed by Veolia Water North America. Veolia provides all personnel to the District and handles all the day to day operations of the District.

The proposed activities will improve operations of the District and replace old, worn out equipment.

***C. Growth***

The historical trends are based on census information. The trend shows a gradual decrease in the population for Floyd County.

	<u>1990</u>	<u>2000</u>	<u>2020</u>	<u>2030</u>
Population	43,586	42,441	41,570	40,257

The population decrease however does not reflect the needs of customers not served by water. The District has requests from approximately 350 families for line extensions. The District already serves Hindman with 50,000 gallons per day of water.

***V. ALTERNATIVES CONSIDERED***

The proposed project consists of the following activities:

1. Installation of new pump station at Morg Branch
2. Repairs at the Allen Water Treatment Plant – to be accomplished with Coal Severance grant
3. Replacement of large meters in the distribution system
4. Replacement of the pressure reducing valve at Route 850

These are very specific improvements to the District’s system. No substantial alternatives exist that would satisfy the District’s objectives in undertaking these improvements.

***B. Project Design***

The activities proposed required at a minimum development of specifications. The Morg Branch pump station is the only item that required the development of plans and specifications. The pump station was designed by the District’s engineers and approved by the Kentucky Division of Water.

The project was bid during the month of August 2005 with the bid opening August 29, 2005. There were two bidders on contract 27. The low bidder was Kenny, Inc. of Mt. Sterling, Kentucky, with a bid of \$214,717.00. The bid amount, when added to the project non-construction cost exceeds the project budget.

## **CONCLUSION AND RECOMMENDATIONS**

The recommendation to the Southern Water and Sewer District Board was to accept the low bid with the elimination of three items to bring the cost within the project budget.

The items included in the bid were:

1. New Morg Branch pump station
2. Removal of existing Morg Branch pump station
3. Telemetry at Morg Branch pump station
4. New master meter at water treatment plant
5. Replacement of eight 2 inch meters in the distribution system
6. Replacement of one 3 inch meter in distribution system
7. Replacement of PRV along KY 850.

The attached bid tabulation shows the bid price for all seven items. O'Brien & Gere recommended award to Kenny, Inc., with a change order executed at contract signing deleting the following three items. The District accepted the recommendation to eliminate these three items, which bring the total construction cost to \$168,067.00.

1. Removal of existing Morg Branch pump station
2. Telemetry at Morg Branch pump station
3. Replacement of one 3 inch meter in distribution system

## **ATTACHMENTS:**

Map of District  
Bid Tabulation  
Engineers Letter of Recommendation

# Exhibit I

Attachment  
H4

SOUTHERN WATER & SEWER DISTRICT  
MCDOWELL, KY 41647

MINUTES OF SPECIAL CALLED MEETING HELD Thurs., SEPTEMBER 2, 2004 @  
4:00PM

IN ATTENDANCE:

- HUBERT HALBERT, CHAIRMAN
- PAULA JOHNSON, SECRETARY
- BERT LAYNE, TREASURER
- EULA HALL, COMMISSIONER
- PALMER FRASURE, COMMISSIONER
- BOB MEYER, VEOLIA WATER
- TINA MOSLEY, VEOLIA WATER

A. Meeting was called to order @ 4.00 pm by Hubert Halbert.

B. PROPOSED WATER RATE INCREASE

Bob Meyer presented the board with a packet of data containing current & proposed rates and various supporting documentation. Supporting documentation included historical usage and billing data, a current and projected District budget, and the proposed new rate structure. Included with the budget was current debt service (KIA and RD loans) and \$100,000.00 additional debt service per year to assist Floyd County Fiscal Court with retirement of a bond issue by the fiscal court to assist with the District's expansion program.

Budget data reflected a significant increase in electric costs due to the number of new pump stations that have been installed over the last 4 years. It also reflected a proposed increase in the Veolia management fee and a justification for the increase in the fee. As well, it included amortization of past due management fees due to Veolia - this past due amount will be amortized over a five year period.

The proposed new Rate Structure is as follows:

Minimum Bill (2,000 gal):	\$16.30	(10% Increase)
Rate per 1,000 gal above 2,000	\$5.20	(20.9% Increase)
Wholesale Rate (per thousand)	\$2.40	(20% Increase)
Average overall increase: 15.1%		

A family with an average of 4,000 gallons would be billed for \$26.70. These rates will have to be submitted to and approved by the PSC before they are implemented.

Eula Hall expressed her concerns about raising rates and whether many of our elderly and low income customers could afford the higher rates. There was a lengthy discussion on the necessity of increasing the rates in order to keep the District in stable financial condition. Subsequent to this discussion, Hubert Halbert stated that he supported the rate

increase and the increase in the Veolia Management fee, but indicated that he felt the Veolia fee increase should not happen until the District's water rate increase has been approved.

- o MOTION TO APPROVE THE PROPOSED RATE INCREASE AND SUBMIT SAME TO THE KENTUCKY PUBLIC SERVICE COMMISSION; AND TO APPROVE THE INCREASE IN THE VEOLIA MANAGEMENT FEE AFTER THE DISTRICT'S WATER RATE INCREASE HAS BEEN FORMALLY APPROVED.

MOTION MADE BY: PALMER FRASURE

SECOND BY: BERT LAYNE

- o Motion approved by all commissioners with the exception of Eula Hall. She indicated that she had not had sufficient time to study the analysis and documentation supporting for the rate increase and felt that it would be a burden for many of our current customers.

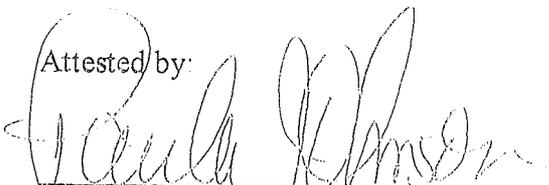
With no further business the meeting was adjourned at 5:05 pm. Passed by the commissioners of the Southern Water & Sewer District on this 30<sup>th</sup> day of Sept., 2004.

Approved by:



Hubert Halbert, Chairman

Attested by:



Paula Johnson, Secretary

## Attachment H

In Case No 2002-00166, the Commission approved Southern District's request to construct and finance a \$6,172,900 waterworks improvement project. A copy of the Commission's Order approving this request is included herewith as Attachment H-1. As stated in the Order, the financing included a contribution from the Floyd County Fiscal Court in the estimated amount of \$2,474,000.

To provide the contribution, the fiscal court issued 30 year bonds totaling \$2,600,000 that carry an average rate of interest of 4.55 percent. The bonds are held by The Bank of New York Company, N.A. Evidence of the bonds is included at Attachment H-2. As shown on Attachment H-2, the most recent annual principal and interest payments total \$162,555.

As memorialized in the letter dated December 8, 2004, as included herewith at Attachment H-3, the fiscal court provided the contribution to assist Southern District in the development and expansion of water facilities to those without potable water service in Floyd County. As stated in the letter, Southern District was able to provide service to an over 2,400 residents in southern Floyd County with this project. When the fiscal court committed to provide the contribution, Southern District had exhausted all other opportunities to complete the financing package for the project. Absent the fiscal court's contribution, it is likely these customers would remain without service today.

At the time it committed to the contribution, the fiscal court had no intention of seeking payment of the bonds from Southern District; however, in early 2004, the fiscal court began suffering great financial hardship and sought relief from Southern District for a portion of the bond payments. At a meeting held on August 23, 2004, Southern District's Board of Commissioners agreed to pay \$100,000 per year for the purpose of

retiring a portion of the fiscal court bonds. A copy of the minutes from this meeting is included herewith at Attachment H-4.

Southern District's current Board of Commissioners is of the opinion that the annual payment is reasonable and should be included in the calculation of Southern District's revenue requirement. In support of its position, Southern District notes that the amount of the payment represents only a portion of the total amount of the annual bond principal and interest payment and absent the bonds, over 2,400 residents of Floyd County would remain without potable water service.



December 8, 2004

Paul Hunt Thompson  
Floyd County Judge-Executive  
Floyd County Courthouse  
149 South Central Avenue  
Prestonsburg, KY 41653

RE: Floyd County Bond Issue

Judge Thompson:

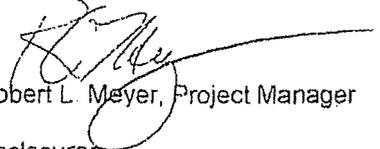
Subsequent to the merger of Beaver Elkhorn Water District and Mud Creek Water District in March of 2,000, the merged entity, Southern Water & Sewer District, began a major expansion of its water distribution system. The District was successful in securing a significant amount of grant funds for this expansion effort, but at the same time had to borrow additional loan funds.

In order to minimize the impact on customer rates, the Floyd County Fiscal Court elected to borrow approximately \$2,000,000.00 in bond funds to assist Southern Water & Sewer District with this expansion. With the Fiscal Court assuming responsibility for this debt, the water district's debt load would be decreased and customers would have to pay less for their monthly water bills. It was also understood that all assets purchased with these bond funds (ie: new water lines, tanks, pump stations, etc.) would be owned by Southern Water & Sewer District and not by the Fiscal Court.

As a result of the Fiscal Court's efforts and financial support, Southern Water has completed several major expansions and increased its customer base significantly (see attached). At your request, the District recently agreed to assist the Floyd County Fiscal Court in repaying the debt on the bond issue, in the amount of \$100,000.00 per year (see attached letter).

Without your and the Fiscal Courts' financial assistance, the District would not have been able to provide public water service to over 2,400 additional customers in southern Floyd County. Please let me know if you need any additional information or clarification related to this debt or its impact on Southern Water & Sewer District.

Sincerely,

  
Robert L. Meyer, Project Manager  
Enclosures

Cc: Hubert Halbert, Chairman, Southern Water & Sewer District

SOUTHERN WATER & SEWER DISTRICT CITY OF HINDSBURG  
1000 BROADWAY, SUITE 100  
HINDSBURG, KY 40343  
TEL: 502-752-1100 FAX: 502-752-1101  
WWW.SWSDISTRICT.COM



# Exhibit J

RESOLUTION NO. 1

A RESOLUTION OF THE FISCAL COURT OF THE COUNTY OF FLOYD, KENTUCKY DIRECTING THE FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION TO TAKE CERTAIN FORMAL ACTIONS AS THE AGENCY AND INSTRUMENTALITY AND AS THE CONSTITUTED AUTHORITY OF THE COUNTY OF FLOYD, KENTUCKY SPECIFICALLY DIRECTING, AUTHORIZING AND APPROVING THE SALE AND ISSUANCE OF \$2,450,000 FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION FIRST MORTGAGE REVENUE BOND ANTICIPATION RENEWAL NOTES (WATER PROJECT), SERIES 2004, ("NOTES") [WHICH AMOUNT MAY BE INCREASED OR DECREASED BY AN AMOUNT NOT TO EXCEED TEN PERCENT (10%)]; AND DIRECTING AND AUTHORIZING OTHER NECESSARY ACTIONS, AS THE AGENCY, INSTRUMENTALITY AND CONSTITUTED AUTHORITY, AND ON BEHALF OF THE COUNTY OF FLOYD, KENTUCKY, IN ORDER TO REDEEM AND REFINANCE THE FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION FIRST MORTGAGE REVENUE BOND ANTICIPATION NOTES (WATER PROJECT), SERIES 2003 ("PRIOR NOTES") THE PROCEEDS OF WHICH WERE USED TO REDEEM AND REFINANCE THE FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION FIRST MORTGAGE REVENUE BOND ANTICIPATION NOTES (WATER PROJECT), SERIES 2001 ("SERIES 2001 NOTES") THE PROCEEDS OF WHICH WERE USED TO FINANCE THE CONSTRUCTION AND INSTALLATION OF WATERLINES WITHIN THE COUNTY; APPROVING AND ADOPTING A CERTAIN LEASE AGREEMENT BY AND BETWEEN THE CORPORATION, AS LESSOR, AND THE COUNTY OF FLOYD, KENTUCKY, AS LESSEE; APPROVING A MORTGAGE DEED OF TRUST SECURING THE NOTES; AUTHORIZING THE PRIVATE SALE OF THE NOTES TO SOPHISTICATED INVESTORS ONLY; APPROVING OTHER CONTRACTS, DOCUMENTS AND ACTIONS NECESSARY OR APPROPRIATE TO CARRY OUT THE FINANCING PLAN, INCLUDING AN OFFICIAL STATEMENT OF THE CORPORATION; AUTHORIZING APPROPRIATE OFFICIALS OF THE COUNTY OF FLOYD, KENTUCKY TO TAKE ANY AND ALL ACTIONS NECESSARY TO CARRY OUT THE FINANCING PLAN IN COOPERATION WITH THE CORPORATION.

WHEREAS, the Floyd County, Kentucky Public Properties Corporation, (the "Corporation"), a nonprofit, nonstock corporation, has been duly organized and created pursuant to and exists under Kentucky law to serve as the agency, instrumentality and constituted authority of the County of Floyd, Kentucky (the "County") in the planning, development, acquisition and financing of public projects in furtherance of the proper public purpose of the County, as provided by Section 58.180 of the Kentucky Revised Statutes; and

WHEREAS, by Resolution dated September 4, 2003, the County authorized the "Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Renewal Notes (Water Project), Series 2003 ("Prior Notes"), which were issued by the Corporation by Resolution dated September 4, 2003;

WHEREAS, the County has determined that issuance of Revenue Bonds at this time is not appropriate and has determined that issuance of "Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Renewal Notes (Water Project), Series 2004 ("Notes") is proper and in the best interest of the County;

WHEREAS, the County has indicated that it will issue Revenue Bonds to redeem the Notes on or prior to the maturity date of the Notes;

WHEREAS, the County deems it necessary that the Corporation act as its agency, instrumentality and constituted authority in connection with the issuance of Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Renewal Notes (Water Project), Series 2004 ("Notes") in the approximate amount of \$2,450,000, (which amount may be increased or decreased by an amount not to exceed 10%), to (i) redeem and retire the "Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Notes (Water Project), Series 2003" in the principal amount of \$2,395,000, ("Prior Notes") the proceeds of which were used to redeem and retire the "Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Notes (Water Project), Series 2001" in the principal amount of \$2,175,000, ("Series 2001 Notes"), the proceeds from said Series 2001 Notes used to finance the cost of construction and installation of waterlines within the County, and (ii) pay the cost of issuance with respect to the Notes;

NOW THEREFORE, BE IT RESOLVED BY THE FISCAL COURT OF THE COUNTY OF FLOYD, COMMONWEALTH OF KENTUCKY, AS FOLLOWS:

Section 1. The Corporation, as the agency and instrumentality and the constituted authority of the County, is hereby directed to forthwith adopt such resolutions and orders and to take such actions as may be necessary for the formal authorization by the Corporation of \$2,450,000 Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Renewal Notes (Water Project), Series 2004, [which amount may be increased or decreased by the amount not to exceed ten percent (10%)], to be dated such date as determined by the Financial Advisors. The maturity, security provisions, redemption provisions, form of Notes, condition of sale of the Notes and all of the terms and provisions incident to said Notes shall be in accordance with the provisions which are set forth in the Lease Agreement and Mortgage Deed of Trust, hereinafter identified.

Section 2. It is intended that the Notes shall be secured by the pledge of the Lease Agreement, and the revenues therefrom as provided in the Mortgage Deed of Trust; and that the proceeds from Revenue Bonds shall be used, in part, to pay in full, the outstanding principal balance, plus accrued interest, of the Notes, due at the time of the issuance and receipt of proceeds from Revenue Bonds.

Section 3. The County hereby directs and approves the issuance, sale and delivery by the Corporation of the Notes, and the application of the proceeds of the Notes to the purposes set forth and described in the Resolution of the Board of Directors of the Corporation of even date herewith, and in the Lease Agreement and the Mortgage Deed of Trust, hereinafter identified. The County hereby authorizes and approves the issuance of Notes, dated such date as determined by the Financial Advisors.

Section 4. It is acknowledged that the Notes are to be issued by the Corporation, pursuant to a resolution, acting as the agency and instrumentality of the County, and as the constituted authority thereof, for the purpose of providing funds to (i) redeem and refinance the Prior Notes, the proceeds of which were used to redeem and refinance the Series 2001 Notes, the proceeds of which were used to finance the construction of the Project which Project is more particularly described in the Lease Agreement and the Mortgage Deed of Trust hereinafter identified and (ii) to pay of costs and miscellaneous expenses incident to the issuance, sale and delivery of the Notes. The Project has been and is being financed, acquired and constructed for public use.

Section 5. A certain instrument designated "Lease Agreement," intended for execution by and on behalf of the Corporation, as Lessor, and the County, as Lessee, is hereby expressly approved and the same is hereby authorized to be executed in the name and on behalf of the County, by the County Judge/Executive, with attestation by the Fiscal Court Clerk. The Lease Agreement as so executed on the behalf of the County, shall be tendered to the Corporation in connection with the issuance of the Notes and upon execution thereof by the Corporation and the County shall be duly recorded in the office of the Floyd County Clerk in Prestonsburg, Kentucky. Notes shall be paid from the Rentals realized through the Lease Agreement.

Section 6. The County hereby expressly approves and directs the execution and delivery by the Corporation of a certain "Mortgage Deed of Trust," for the Notes substantially in a form approved by the Corporation, to the Trustee to be appointed by the Corporation, by Resolution. Said Mortgage Deed of Trust for the Notes shall assign in trust to said Trustee all income, revenues and rights of the Corporation arising under said Lease Agreement, the Mortgage Deed of Trust, and a Deed to the Corporation dated April 29, 2002, all to be done for the security of those who shall from time to time be and become the holders of the Notes.

Section 7. The Fiscal Court, by adoption of this Resolution anticipates that the total principal amount of qualified tax-exempt obligations which it will issue during the calendar year ending December 31, 2004 will not exceed \$10,000,000 and therefor designates the Notes as qualified tax-exempt obligations within the meaning of Section 265 (b) (3) of the Internal Revenue Code of 1986, as amended.

Section 8. In connection with the undertaking and implementation by the Corporation of the financing for the Notes, herein described, which is hereby expressly directed, the Corporation, its Board of Directors and its officers are hereby authorized and directed to continue to take and carry out any and all necessary, desirable or appropriate actions to effect such acquisition, construction, installation and financing, including the appointment of Gillard B. Johnson, III, of Cox, Bowling & Johnson, PLLC, municipal Bond Counsel, for purposes of providing the final approving legal opinion and Ross, Sinclair & Associates, Inc., as Financial Advisors.

Section 9. In connection with the Project, the Corporation has secured fee simple title to the real estate which shall comprise the Project and shall be pledged as part security and collateral for the Notes. The Deed and/or Lease Agreement shall provide that the County may, at any time, acquire title to the Project free and clear of the lien of the Mortgage which secures the Notes, with the County giving to the Corporation and the Trustee notice in advance, in writing, of the County's intention to purchase the Project and by paying to the Trustee for the Noteholders on or before the date set forth in such notice, a sum equal to the principle, interest and redemption premium, if any, which the Corporation will be obligated to pay if it calls all of the outstanding Notes for redemption on such date, together with a further sum equal to the expenses which the Corporation and Trustee may incur in calling all of the outstanding Notes for payment on said date. Upon the happening of any such event or the issuance by the Trustee of an appropriate certificate evidencing defeasance of the Notes, the Corporation shall immediately convey all of its right, title and interest in the Project to the County, free and clear of all liens and encumbrances created by and under the Mortgage. The County specifically authorized and approved the conveyance of any Real Estate, it owns and/or acquires, to the Corporation as is necessary for the Project.

Section 10. If any section, paragraph, clause or provision of this Resolution shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions.

Section 11. All ordinances, resolutions, orders, or parts thereof, if any, in conflict with the provisions of this Resolution are, to the extent of such conflict, hereby repealed.

Section 12. The County hereby expressly approves and directs the Corporation to enter into a written agreement with the County, its Auditors, if required, and Corporation for the benefit of the Note Holders, where under the parties to said written agreement will agree to comply with the provisions of Regulation Section 240.15c2-12 of the Securities and Exchange Commission in providing annual financial information to designated municipal securities information repositories and, in certain special instances, to the Municipal Securities Rule Making Board.

Section 13. The County approves and directs the Corporation to solicit and accept bids from sophisticated investors only, on a private, negotiated basis, for the purchase of the Notes and further directs the Corporation to accept such bids for purchase of the Notes determined by the County Judge/Executive and the Corporation, upon the advice of the County's and Corporation's Financial

Advisors, which is the most advantageous and with the most favorable net interest cost to the County and the Corporation for the Notes, without further action by the County or the Corporation, or to reject any or all bids.

Section 14. This Resolution shall be in full force and effect from and after its adoption and approval as provided by law.

Section 15. The County hereby states its intention to issue Bonds, the proceeds of which will be used to retire and pay in full the Notes and other costs and expenses with respect to the Project. The County states and affirms that it will take all actions required to adopt any Resolutions for the issuance and sale of Revenue Bonds by the Corporation.

Section 16. The recitals herein above stated are incorporated into the body of this Resolution as if set out hereat.

*Motion made by Paul Thompson  
Seconded by Larry Stumbo*

This Resolution was introduced, seconded and adopted at a duly convened meeting of the Fiscal Court of the County of Floyd, Kentucky, held on the 24 day of Sept., 2004.

*Paul H. Thompson*  
County Judge/Executive

Attest:

*Chris Waugh*  
Fiscal Court Clerk

**CERTIFICATION**

I, the undersigned, do hereby certify that I am the duly qualified and acting Fiscal Court Clerk of the County of Floyd, Kentucky; that the foregoing is a true and complete copy of a certain Resolution duly adopted by the Fiscal Court of the County of Floyd, Kentucky, at a duly convened meeting properly held on September 24, 2004; that said Resolution appears as a matter of public record in the official records of the Fiscal Court; that said meeting was duly held in accordance with all applicable requirements of Kentucky law, including KRS 61.805 to 61.850; that a quorum was present at said meeting; that said Resolution has not been amended, modified, revoked or repealed; and that same is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature this September 24, 2004.

*Chris Waugh*  
Fiscal Court Clerk

*For  
Gerald D. Gossett  
Larry Stumbo  
Alan*

*Against*

# Exhibit K

FINAL OFFICIAL STATEMENT

DATED SEPTEMBER 24, 2004

NEW ISSUE  
BANK ELIGIBLE

NO RATING REQUESTED

*In the opinion of Bond Counsel, based upon present laws, regulations, rulings and decisions in effect on the date of delivery of the Notes, and assuming continuing compliance with certain covenants made by the Corporation and the County, interest on the Notes is excludable from gross income for federal income tax purposes upon the conditions and subject to the limitations set forth herein under "Tax Treatment." Interest on the Notes held by corporations is includable in the computation of such corporation's adjusted current earnings and modified alternative minimum taxable income. Receipt of interest on the Notes may result in other federal income tax consequences to certain holders of the Notes. The Notes and interest thereon are exempt from income taxation and ad valorem taxation by the Commonwealth of Kentucky and political subdivisions thereof (see "Tax Treatment" herein).*

**\$2,455,000**  
**FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION**  
**FIRST MORTGAGE REVENUE BOND ANTICIPATION RENEWAL NOTES**  
**SERIES 2004B**

**Dated: With Delivery**

**Due: June 30 as shown below**

Interest on the Notes is payable on June 30, 2005. The Notes will mature as to principal on June 30, 2005 as shown below. The Notes are being issued as book-entry only and will be available for purchase in principal amounts of \$25,000 and multiples of \$5,000 thereof.

<u>Maturing</u> <u>June 30</u> 2005	<u>Principal</u> <u>Amount*</u> \$2,455,000	<u>Interest</u> <u>Rate</u> 2.25%	<u>Price to</u> <u>Yield</u> 2.25%	<u>CUSIP</u> 34365T DJ 0
---	---	---	--	-----------------------------

Principal and interest on the Notes are payable at the principal office of Citizens National Bank, Paintsville, Kentucky, as Paying Agent and Registrar. The Notes are subject to redemption prior to maturity above as described herein.

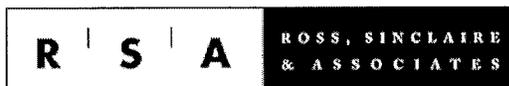
The Notes are being issued by the Floyd County, Kentucky Public Properties Corporation (the "Corporation") to: i) refund the Series 2003 Notes, the proceeds of this were used to construct and install waterlines in the southern portions of Floyd County; and, ii) pay the costs of issuance on the Notes.

The Notes are being issued in anticipation of the issuance of, and are secured by and payable from the proceeds of the Corporation's First Mortgage Revenue Bonds, Series 2005 (the "Series 2005 Bonds" or the "Bonds"). The Corporation has covenanted to issue and deliver the Bonds or renewal notes (the "Renewal Notes") in such a manner as to pay and retire the Notes when due. The Notes are further secured by a first mortgage on the Project (as hereinafter described) [see "The Mortgage Deed of Trust herein] and an annually renewable Lease Agreement between the Corporation and the County [see "The Lease" herein].

The Notes are special and limited obligations of the Corporation, a nonprofit, non-stock public corporation and agency of the County of Floyd, Kentucky (the "County"), issued at the request of the County, and do not constitute a debt, liability or general obligation of the Corporation or the County within the meaning of the Constitution and laws of the Commonwealth of Kentucky, or a pledge of the faith and credit or the taxing power of the County.

The Notes are offered when, as, and if issued subject of the approving legal opinion of Cox Bowling & Johnson PLLC, Lexington, Kentucky, Note Counsel.

The Corporation deems this Official Statement to be near final for purposes of the Securities and Exchange Commission Rule 15c2-12(b)(1).



**COUNTY OF FLOYD, KENTUCKY  
PUBLIC PROPERTIES CORPORATION**

Paul H. Thompson, Director  
Gerald DeRossett, Director  
James "Alan" Williams, Director  
Larry Foster Stumbo, Director  
Jackie Edford Owens, Director

**COUNTY OF FLOYD, KENTUCKY**

Paul H. Thompson, County Judge/Executive  
Gerald DeRossett, Magistrate  
James "Alan" Williams, Magistrate  
Larry Foster Stumbo, Magistrate  
Jackie Edford Owens, Magistrate

Keith Bartley, Esquire  
County Attorney

Chris Waugh  
County Clerk

**BOND COUNSEL**

Cox Bowling & Johnson PLLC  
Lexington, Kentucky

**PAYING AGENT AND REGISTRAR**

Citizens National Bank  
Paintsville, Kentucky

**FINANCIAL ADVISOR**

Ross, Sinclair & Associates, Inc.  
Frankfort, Kentucky  
Louisville, Kentucky  
Cincinnati, Ohio

## **REGARDING USE OF THIS OFFICIAL STATEMENT**

This Official Statement does not constitute an offering of any security other than the original offering of the Notes of the Floyd County, Kentucky Public Properties Corporation identified on the cover page hereof. No person has been authorized by the Corporation to give any information or to make any representation other than that contained in the Official Statement, and if given or made such other information or representation must not be relied upon as having been given or authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Notes by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or the Corporation since the date hereof.

Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency, except the Corporation and the County, will pass upon the accuracy or adequacy of this Official Statement or approve the Notes for sale.

This Official Statement includes the front cover page immediately preceding this page and all Appendices hereto.

## TABLE OF CONTENTS

	Page
Introduction . . . . .	1
The County . . . . .	1
The Corporation . . . . .	2
The Notes . . . . .	3
General . . . . .	3
Registration, Payment and Transfer . . . . .	3
Book-Entry Only System . . . . .	4
DTC Letter of Representations . . . . .	6
Revision of Book-Entry System; Replacement Notes . . . . .	6
Optional Redemption . . . . .	7
Defeasance . . . . .	7
Estimated Sources and Uses of Funds . . . . .	7
Estimated Net Debt Service Schedule . . . . .	8
Security and Sources of Payment . . . . .	8
Security . . . . .	8
Sources of Payment . . . . .	8
The Project . . . . .	9
Additional Bonds . . . . .	9
State Supervision . . . . .	9
Budget Process . . . . .	9
Bond Issue Approval . . . . .	10
The Mortgage . . . . .	10
Funds and Accounts . . . . .	10
Investment of Funds . . . . .	11
Additional Covenants . . . . .	11
Release of Land . . . . .	13
Amendments . . . . .	13
Events and Remedies of Default . . . . .	14
Continuing Disclosure . . . . .	15
Litigation . . . . .	16
Tax Treatment . . . . .	16
Financial Advisor . . . . .	17
Bond Rating . . . . .	17
Concluding Statement . . . . .	17
Demographic and Economic Data . . . . .	APPENDIX A
Financial Data . . . . .	APPENDIX B
Continuing Disclosure Agreement . . . . .	APPENDIX C
Form of Bond Counsel Opinion . . . . .	APPENDIX D

OFFICIAL STATEMENT  
Relating to the Issuance of

**\$2,455,000**

**FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION  
FIRST MORTGAGE REVENUE BOND ANTICIPATION RENEWAL NOTES  
SERIES 2004B**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover page and Appendices hereto, is to set forth certain information pertaining to the Floyd County, Kentucky Public Properties Corporation, First Mortgage Revenue Bond Anticipation Renewal Notes, Series 2004B (the "Series 2004B Notes" or the "Notes").

The County of Floyd plans to adopt a Resolution on September 17, 2004, which authorizes and directs the Floyd County, Kentucky Public Properties Corporation (the "Corporation") to issue Notes to (i) refund the Series 2003 Notes the proceeds of which we used to construct and install water lines in Floyd County (the "Project"); and, ii) pay the costs of issuance of the Notes. The Corporation was created by the County to act as the agency and instrumentality of the County in acquiring, developing and financing the Project and related public projects.

The Notes are to be issued pursuant the terms of a certain Mortgage Deed of Trust dated September 1, 2004 (the "Mortgage") by and between the Corporation and Citizens National Bank, Paintsville, Kentucky, as Trustee (the "Trustee, Paying Agent and Registrar") and are secured by a foreclosable first mortgage lien on the Project and by the assignment by the Corporation of all its right, title and interest to the Project.

This Official Statement should be considered in its entirety, and no one subject discussed should be considered more or less important than any other by reason of its location in the text. Reference should be made to laws, reports or other documents referred to in this Official Statement for more complete information regarding their contents. Prior to issuance and delivery of the Notes, copies of the Mortgage and Deed of Trust may be obtained at the office of Cox Bowling & Johnson PLLC, Lexington, Kentucky, Note Counsel.

**THE COUNTY**

The County of Floyd, Kentucky (the "County"), is a public body corporate and politic duly created and existing as a County and political subdivision of the Commonwealth of Kentucky (the "Commonwealth").

The County is governed by a Fiscal Court consisting of an elected County Judge/Executive and four (4) elected Magistrates. These five (5) members comprise the Fiscal Court and are elected to four (4) year terms. There is no limitation for succession by any member of the Fiscal Court.

Demographic and economic data regarding the County is included in Appendix A.

## THE CORPORATION

The Floyd County, Kentucky Public Properties Corporation is a nonprofit, no-stock public and governmental corporation organized and existing under the law of the Commonwealth, including particularly Section 58.180 and Sections 273.161 to 273.390, inclusive, of the Kentucky Revised Statutes ("KRS").

The Corporation's principal purpose is to act as an agency and instrumentality of the County in the planning, promotion, development, financing and acquisition by the Corporation for and on behalf of the County of public improvements and public projects for the County which may properly be undertaken by the County pursuant to the general statutory laws of the Commonwealth, including Chapter 58 of the KRS.

Any notes or other indebtedness issued or contracted by the Corporation for or on behalf of the County shall, prior to the issuance thereof or incurrence thereon, be specifically approved by the County, acting by and through its Fiscal Court as its duly authorized and empowered governing body.

The members of the Board of Directors of the Corporation are members of the Fiscal Court. Each member is appointed to staggered terms from two to five years.

## THE NOTES

### General

The Notes will be dated with delivery, and will accrue interest from that date as described herein. Interest on the Notes is payable on June 30, 2005. The Notes will mature on June 30, 2005 in the principal amount as set forth on the cover page of this Official Statement.

### Registration, Payment and Transfer

The Notes are to be issued in minimum denominations of \$25,000 and any multiples of \$5,000 thereof.

Interest on each Note shall be payable by check or draft mailed to the Registered Owner thereof as of the fifteenth date of the month immediately preceding that date for payment of such interest at the address shown on the registration books kept by the Trustee as Registrar. The principal of and premium, if any, on the Notes shall be payable, without exchange or collection charges, in lawful money of the United States of America upon their presentation and surrender as they respectively become due and payable, whether at maturity or by prior redemption, at the principal corporate trust office of the Paying Agent.

### Book-Entry Only System

The Notes initially will be issued solely in book-entry form to be held in the book-entry only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Notes and, except as otherwise provided herein with respect to Beneficial Owners of Beneficial Ownership Interests Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Notes under the Mortgage.

**The following information about the book-entry only system applicable to the Notes has been supplied by DTC. Neither the Corporation, the Trustee, or the Financial Advisor makes any representations, warranties or guarantees with respect to its accuracy or completeness.**

DTC will act as securities depository for the Notes. The Notes initially will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Note certificate will be issued, in the aggregate principal amount of the Notes, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking or organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. "Direct Participants" include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings; from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes ("Beneficial Ownership Interests") are to be accomplished by entries made on the book's of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their Beneficial Ownership Interests in Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Notes are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Notes to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Notes will be made to DTC. DTC's practice is to credit Direct Participants accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Corporation or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Beneficial Ownership Interests purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Beneficial Ownership Interests by causing the

Direct Participant to transfer the Participant's interest in the Beneficial Ownership Interests, on DTC's records, to the purchaser or the Trustee, as appropriate. The requirements for physical delivery of Notes in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Notes are transferred by Direct Participants on DTC's records. DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the Corporation or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Note certificates are required to be printed and delivered, as described below under "THE NOTES-Revision of Book-Entry System; Replacement Notes.

NEITHER THE CORPORATION, THE COUNTY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A HOLDER WITH RESPECT TO: (1) THE NOTES; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PURCHASE PRICE OF TENDERED NOTES OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE NOTES; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE MORTGAGE TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE NOTES; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the Notes, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption, elections to tender Notes or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

Beneficial Owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Notes.

The Corporation cannot and does not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Notes made to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

### **DTC Letter of Representations**

Certain duties of DTC and procedures to be followed by DTC, the Trustee and the Corporation will be set forth in a Letter of Representations (the "DTC Letter of Representations") among the Corporation, the Trustee, the Underwriter and DTC. In the event of any conflict between the provisions of the Mortgage and the provisions of the DTC Letter of Representations relating to delivery of Notes to the Trustee, the provisions of the DTC Letter of Representations shall control.

### **Revision of Book-Entry System; Replacement Notes**

The Mortgage provides for the issuance and delivery of fully registered Notes ( the "Replacement Notes") directly to owners other than DTC only in the event that DTC determines not to continue to act as securities depository for the Notes.

Upon occurrence of such event, the Corporation may attempt to establish a securities depository book entry relationship with another securities depository. If the Corporation does not do so, or is unable to do so, and after the Trustee has notified the owners of book-entry interests with respect to the Notes by appropriate notice to DTC, the Corporation will issue and the Trustee will authenticate and deliver Replacement Notes with a minimum denomination

of \$25,000 and multiples of \$5,000 thereafter to the assignees of DTC or its nominee. Such withdrawal, authentication and delivery (including printing and delivery costs) will be at the expense of the Corporation.

In the event that the book-entry only system is discontinued, the principal or redemption price of and interest on the Notes will be payable in the manner described above in the third paragraph under "THE NOTES - General, " and the following provisions would apply. The Notes may be transferred or exchanged for one or more Notes in different authorized denominations upon surrender thereof at the designated office of the Trustee as Registrar or at the designated office of any Authenticating Agent (initially, the Trustee) by the registered owners or their duly authorized attorneys or legal representatives. Upon surrender of any Notes to be transferred or exchanged, the Corporation will execute, and the Registrar will record the transfer or exchange in its registration books and the Registrar or Authenticating Agent shall authenticate and deliver new Notes appropriately registered and in appropriate authorized denominations. Neither the Corporation, the Registrar nor any Authenticating Agent shall be required to transfer or exchange any Note during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of the Notes and ending at the close of business on the day of such mailing, nor any Note all or part of which has been selected for redemption.

### **Optional Redemption**

The Notes are callable in whole or in part on any date beginning February 1, 2005 at par (100%) plus accrued interest to the call date. The Trustee must provide no less than 30 days notice to the holder of the Notes.

The Trustee shall, upon being indemnified to its satisfaction, and receiving funds necessary to redeem such Notes, cause notice of the call for the redemption identifying the Notes to be sent by United States mail, postage prepaid, at least thirty days prior to the date fixed for redemption to the Registered Owners of the Notes the address as set forth in the registration books maintained by the Registrar. Failure to give such notice by mailing or any defect therein in respect of any Note shall not affect the validity of any proceedings for the redemption of any Note.

### **Defeasance**

The Corporation reserves the right at all times during the term of the Project, to make provision for discharge of all Notes by depositing into the Sinking Fund moneys sufficient to pay all principal and interest requirements on the Notes to and on the first or next date of redemption, or to the date of maturity, together with sufficient additional moneys to redeem and discharge all outstanding Notes on such redemption date, or to deposit into the Sinking Fund such principal amount of permissible Investment Obligations as shall, with earnings thereon, produce the identical result.

## ESTIMATED SOURCES AND USES OF FUNDS

The following table shows the estimated sources and uses of proceeds of the Notes, other than any portions thereof representing accrued interest:

Sources:	
Note Proceeds	<u>\$2,455,000.00</u>
Total Sources	\$2,455,000.00
Uses:	
Deposit to 2003 Note Fund	\$2,411,475.00
Underwriter's Discount	24,550.00
Deposit to Cost of Issuance Fund	<u>\$18,975.00</u>
Total Uses	\$2,455,000.00

## ESTIMATED NET DEBT SERVICE SCHEDULE

The following table sets forth the projected annual net debt service of the Notes.

FY Ending June 30	Principal Payment	Interest Payment	Net Debt Service
2005	\$2,455,000	\$46,031	\$2,501,031
Totals:	\$2,455,000	\$46,031	\$2,501,031

Note: Projections are based on an average interest rate of 2.50%.

## SECURITY AND SOURCES OF PAYMENT

### Security

The Notes are secured by and payable from the proceeds of the issuance of the Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bonds, Series 2005 (the "Bonds") which are pledged for such purpose to the extent necessary.

Furthermore, the Notes will, upon their issuance, be secured by a foreclosable first mortgage lien on the Project. The Notes will also be secured by the assignment by the Corporation of its right, title, and interest in and to the Lease Agreement, dated as of September 1, 2004 with the Corporation providing for the lease of the Project and the Project Site to the County on an automatically renewable annual basis and rental payments adequate to meet the maturing principal and interest payments of the Notes to the due date of the Notes (for a further description of such payments see "The Lease" herein).

## **Sources of Payment**

The only source of payment for the Notes will be the issuance of the Bonds or Renewal Notes. The County has covenanted that it will take all necessary action sell the Bonds or Renewal Notes to meet the debt service requirements on the Notes.

## **THE PROJECT**

The County in conjunction with the Southern Water District, plans to run additional water lines in the southern portion of Floyd County. The current plan calls for 22 miles of lines to be installed which will bring water service to approximately 400 residences and the southern portion of Floyd County.

The Project has been bid in accordance with state laws and contractors have posed 100% completion bonds.

## **ADDITIONAL BONDS**

The Corporation reserves the right and authority, but only upon specific direction of the County, to issue additional notes or bonds which shall rank on a basis of parity and equality as to security and source of payment with the Notes now being issued or authorized by the Corporation, but only for the purpose of i) completing the project; ii) making necessary repairs; and, iii) reconstructing the project in the event that issuance proceeds are insufficient to make repairs or reconstruct portions of the Project which have been damaged. Prior to the issuance of such parity bonds: (a) there shall be procured and filed with the Secretary of the Corporation and with the Trustee, a certificate of an Authorized Official of the County explaining in detail the reason or reasons for the deficiency in the proceeds, and making detailed recommendations as to the issuance of the additional parity bonds, together with the amount thereof; and (b) the issuance thereof shall be approved by the State Local Debt Officer of Kentucky and the Board of Directors of the Corporation.

## **STATE SUPERVISION**

### **Budget Process**

The State Department for Local Government (DLG) is an independent agency of the Commonwealth of Kentucky attached to the Governor's office. A principal function of the DLG is to provide technical support, monitoring and evaluation of local units of government (cities, counties, and special districts).

The Division of County and Municipal Accounting of the DLG has established a uniform system of accounting that all counties in the state must use in reporting their revenues and expenditures. The counties are required to prepare and submit an annual budget for each fiscal year.

The county budget is required to have a fund known as the "sinking fund principal account" and a fund known as the "sinking fund interest account." There shall be allocated annually to the sinking fund principal account a sum equal to the proportional yearly amount necessary to retire each note issue of the county at maturity, and to the sinking fund interest account a sum equal to the interest on bonded indebtedness payable during the current budget year.

## **Bond Issue Approval**

Kentucky Revised Statutes 66.310 stipulates that no county may lease a public facility that is to be financed at the county's request through the issuance of bonds or notes by another public body or by a non-profit corporation serving as an agency and instrumentality of the county, if the indebtedness of the county, is in excess of one-half of one percent (.5%) of the value of taxable property therein, without first securing the written approval of the State Local Debt Officer. The County has notified the State Local Debt Officer of its intention to fund the Project to be financed by its Notes and has provided public notice thereof. The Notes do not extend past the current fiscal year. Therefore, no public hearing is required.

## **THE LEASE**

The following is a summary of certain of the terms and provisions of the Lease.

### **Lease Period and Amount**

The Lease provides that the County will lease from the Corporation, the Project and the Project Site, together with all of the improvements thereon for an initial period ending June 30, 2004 at an agreed and stipulated rental equal to (i) the aggregate of the interest on and principal of the Notes which will become due and payable during such period, together with (ii) the cost of operation and maintenance of such leased premises, and (iii) the cost of insuring the leased premises. Rent will be payable on the twentieth (20<sup>th</sup>) day of the month preceding any date on which a payment of interest or principal is due on the Notes.

Following the initial term of the Lease, nothing in the Lease will be construed as binding the County for the payment of annual rentals beyond the rental for the current term or year, but the County will in each year become indebted to the Corporation for the rentals stipulated for such year only upon the exercise of its option to renew.

### **Option to Renew**

The Lease may be renewed for another period of one year, provided that if the Lease is so renewed, the rentals for each fiscal year during which the Lease remains in effect shall be a sum equal to (i) the amount of the interest and principal payments due on the Notes during such year, (ii) the cost of operation and maintenance of such leased premises, and (iii) the cost of insuring the leased premises. The Lease renewal will automatically be considered to have been affirmatively exercised each year by the County, unless notice of its election not to exercise the option for the succeeding year is given by the County to the Corporation and the Trustee in writing at least 60 days prior to the renewal date.

### **Intent to Renew**

In the Lease the County expresses its present intention to renew the Lease in accordance with its terms, and in accordance with the options to renew as set forth therein, from year to year until all of the Notes to be issued by the Corporation at the direction of the County are fully paid, canceled and retired, whether at maturity or by call for redemption, but such expression of intention will not be construed as a present election on the part of the County to extend the Lease beyond the original term.

### **Operation, Maintenance and Repair**

The Lease, provides among other things, that the County agrees to maintain and repair in good order the leased premises at the expense of the County, to keep all of the said premises and improvements thereon in good repair, working order and first-class condition, and to return the same in as good condition as when received by the County, ordinary wear and tear, accident, damage by fire and the elements, and other unavoidable casualties excepted.

## **Insurance**

The Lease provides that the County will, during the original term of the Lease and during each extended term of one year, keep all insurable improvements presently existing, and all insurable improvements to be constructed and located upon the Project Site, insured to the full insurable value thereof against fire, flood and windstorm to the extent such insurance is obtainable (with standard comprehensive coverage endorsement) in good and solvent insurance companies, to be approved by the Trustee; and the County will make said policies payable to the County, the Corporation, and the Trustee as their respective interests may appear, or cause said policies to be endorsed in an appropriate manner so that in the event of loss the proceeds thereof will be payable to the County, the Corporation, and the Trustee, as their respective interests may appear.

## **Rights of the County Survive Events of Default**

Should the County fail to pay the stipulated rentals due under the Lease, or during any year for which it is renewed, all rights of the County and all future options granted to the County in respect of payments in whole of the Notes will in any event remain in full force and effect; provided that the Trustee under the Mortgage will, upon occurrence of an event of default, be entitled to take certain actions for the benefit of the holders of the Notes, including foreclosure of the mortgage lien on the Project and decretal sale thereof, but no such decretal sale will result or give rise to a deficiency judgement of any type or in any amount against the County or the Corporation, and until such sale the County may at any time by the discharge of the Notes and interest thereon receive an unencumbered fee simple title to the Project Site and the Project.

## **Conveyance of the Project**

If the County renews the Lease from year to year and pays the rentals for each year as provided, then the Corporation covenants and agrees that it will immediately procure the release, on the records of the clerk of the County, of the Mortgage securing the Notes, and the Corporation further covenants and agrees that it will thereupon convey the Project and the Project Site to the County free and clear of all liens and encumbrances created by and under the Mortgage, such steps to be taken at the expense of the County.

## **Assignment of Rights to Trustee**

The Corporation has assigned (i) the Lease, (ii) the lease rentals and all other rights, title and interests of the Corporation arising under the terms of the Lease, as additional security for the Notes. The County has agreed to make its rental payments in the amounts stipulated, directly to the Trustee, for application in strict accordance with the terms and provisions of the Mortgage.

## **THE MORTGAGE DEED OF TRUST**

The following is a summary of certain of the terms and provisions of the Mortgage Deed of Trust entered into by the Corporation as Trustor and the Trustee in order to secure the payment of principal and interest on the Notes. Terms not otherwise defined herein will have the meanings given in the Mortgage Deed of Trust. See "Introduction" as to availability of copies of the Mortgage Deed of Trust.

## **Funds and Accounts**

Upon the delivery of the Notes to the purchaser or purchasers thereof and receipt of the purchase price, the same will forthwith in each case be deposited with the Trustee, as trust funds, and the Trustee will hold, treat and disburse the same, as follows:

- (1) **Cost of Issuance Fund**. There will be deposited in the Cost of Issuance Fund the amount of moneys

necessary to pay the Cost of Issuance of the Notes from the proceeds of the Notes as specified and determined in the resolution of the Corporation authorizing the issuance of the Notes or in written instructions of an Authorized Officer of the Corporation delivered to the Trustee.

(2) **2004 Note Fund.** A special fund created by the Mortgage Deed of Trust and designated the “Note Fund” will be held and maintained by the Trustee as the primary source of payment of the interest requirements on the Notes. All moneys from any source at any time deposited in the Note Fund shall constitute Pledged Receipts for the benefit of the Registered Owners of the Notes.

Sums from time to time in the Note Fund shall be continuously invested by the Trustee in Investment Obligations as defined in the definition of Investment Obligations hereinafter described. The Trustee will sell or present for redemption any Investment Obligations purchased by it as an investment whenever it shall be necessary in order to provide moneys to effectuate the purposes of the Note Fund.

All Pledged Receipts have been assigned by the Corporation to the Trustee and upon receipt thereof the same will immediately be deposited in the Note Fund so long as the Notes are Outstanding and the same will be treated by the Trustee as Pledged Receipts, and will be used and applied to the payment of the Notes, including accrued interest, principal and redemption premium, if any.

The Trustee shall set aside into the Note Fund, all sums received from the purchaser of the Notes as representing accrued interest from the date of the Notes to the date of delivery and payment plus an additional amount from Note proceeds so that the total deposit will equal interest on the Notes through April 1, 2004.

In the event of the issuance of the Bonds and the subsequent retirement of the Notes, any remaining balance in the Note Fund shall be transferred to the Sinking Fund and the Note Fund shall be closed. In the event of the issuance of Renewal Notes said Note Fund shall be maintained until the retirement thereof.

### **Investment of Funds**

Moneys held in any of the aforementioned funds may be invested until required for the purposes intended in one or more of the following “Investment Obligations:”

- (a) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America;
- (b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):
  - (i) Farmers Home Administration (FmHA) Certificates of beneficial Ownership
  - (ii) Federal Housing Administration Debentures (FHA)
  - (iii) General Services Administration Participation certificates
  - (iv) Government National Mortgage Association (ONMA or “Ginnie Mae”), GNMA guaranteed mortgage-backed bonds, GNMA- guaranteed pass-through obligation (participation certificates)
  - (v) U.S. Maritime Administration Guaranteed Title XI financing
  - (vi) U.S. Department of Housing and Urban Development (HUD);
- (c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-federal U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

- (i) Federal Home Loan Bank System Senior debt obligation (Consolidated debt
  - (ii) +obligations)
  - (iii) Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mae”) Participation Certificates (Mortgage-backed securities) senior debt obligations
  - (iv) Federal National Mortgage Association (FMA or “Fannie Mae”) Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal)
  - (v) Student Loan Marketing Association (SLMA or “Sallie Mae”) Senior debt obligations
  - (vi) Resolution Funding Corp. (REFCORP) [Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable]
  - (vii) Farm Credit System Consolidated systemwide bonds and notes;
- (d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAA-m-G; AAA-m; or AA-m and if rated by Moody’s, rated Aa1 or Aa2;
- (e) Certificates of deposit secured at all times by collateral described in (a) an/or (b) above CD’s must have a one year or less maturity. Such certificates must be issued by commercial banks, savings and loan associates or mutual savings banks whose short term obligations are rated “A-1+” or better by S&P and “Prime-1” by Moody’s;
- (f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF;
- (g) Investment Agreements, including GIC’, acceptable to MBIA;
- (h) Commercial paper rated “Prime-1” by Moody’s and “A-1+” or better by S&P;
- (i) Bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in one of the two highest long-term rating categories assigned by such agencies;
- (j) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime-1 ” or “A3 ” or better by Moody’s and “A-1+” by S&P.
- (k) Repurchase agreements that provide for the transfer of securities from dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date. Repurchase Agreements must satisfy the following criteria:
- (i) Must be between the municipal entity and a dealer bank or securities firm meeting one of the following criteria: (1) primary dealers on the Federal Reserve reporting dealer list which fall under the jurisdiction of the SIPC and which are rated A or better by Standard & Poor’s Ratings Group and Moody’s; or (2) Banks rated “A” or above by Standard & Poor’s Ratings Group and Moody’s Investor Services.
  - (ii) The written contract must include the following: (1) Securities which are acceptable for transfers are: (a) Direct U.S. governments, (b) Federal agencies backed by the full faith and credit of the U.S. Government (and FNMA & FHLMC), (2) the term of the repurchase agreement may be up to 30 days; (3) the collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting

as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities); (4) the trustee has a perfected first priority security interest in the collateral; (5) collateral is free and clear of third-party liens and in the case of SIPC broker was not acquired pursuant to a repurchase agreement or a reverse repurchase agreement; (6) the trustee has the right to liquidate collateral in case of failure to maintain the requisite collateral percentage after a two-day restoration period; and (7) valuation standards for collateral: (a) the securities must be valued weekly, market-to-market at current market price plus accrued interest; (b) the value of collateral must be equal to 104% of the amount of cash transferred by the trustee to the dealer bank or security firm under the repurchase agreement plus accrued interest; (c) if the value of securities held as collateral falls below 104% of the value of the cash transferred by the trustee, additional cash and/or acceptable securities must be transferred; and if the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

- (iii) A legal opinion which must be delivered to the trustee to the effect that the repurchase agreement meets guidelines under state law for legal investment of public funds.
- (l) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

#### **Additional Covenants**

In the Mortgage Deed of Trust, the Corporation, among other covenants, has covenanted, as follows:

(1) **Payments.** To punctually pay the principal of and interest on the Notes when due, and at the place and in the manner prescribed in the Mortgage Deed of Trust from the funds pledged. The Notes and the interest thereon are payable from the "Pledged Receipts" defined under the Mortgage Deed of Trust.

- (i) shall mean all payments paid to or upon the order of the Corporation, including both timely and delinquent payments with late charges, if any;
- (ii) shall mean and include any and all appropriations made to the Corporation by the County or any unit of government to the extent not otherwise required to be applied, nor otherwise committed and budgeted by the Corporation during any fiscal period of the Corporation;
- (iii) shall include all interest earned and gains realized on Investment Obligations unless the terms hereof specifically require such interest earned and gains realized to remain in or to be transferred to the Rebate Fund;
- (iv) shall mean and include all amounts in all funds and accounts created hereunder, including capitalized interest; provided that amounts in the Rebate Fund shall not constitute Pledged Receipts; and
- (v) shall mean and include any amounts realized from the foreclosure and decretal sale of the Project.

(2) **Assessments and Maintenance.** To cause the County to pay any and all improvement assessments against the Project and to properly maintain the Project.

(3) **Tax Covenant.** The Corporation covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Notes under Section 103(a) of the Code. The Corporation will not directly or indirectly use or permit the use of any

proceeds of the Notes or any other funds of the Corporation, or take or omit to take any action that would cause the Notes to be “arbitrage notes” within the meaning of Sections 103(b)(2) and 148 of the Code. To that end, the Corporation will comply with all requirements of Sections 103(b)(2) and 148 of the Code to the extent applicable to the Notes. In the event that at any time the Corporation is of the opinion that for purposes of the Mortgage Deed of Trust it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Mortgage Deed of Trust the Corporation will so instruct the Trustee in writing, and the Trustee will take such action as may be necessary in accordance with such instructions.

(4) **Insurance of Project.** The Corporation further covenants and agrees that it will, at all times hereafter until the Notes will be fully paid, require the County (to the extent such insurance is obtainable) to keep all insurable real properties and improvements thereon to be insured against loss or damage by fire and windstorm to their full insurable value, with standard comprehensive coverage endorsement, and the Corporation will cause all such insurance policies to be made payable in case of loss to the Trustee.

(5) **Accounts and Reports.** The Corporation will keep, or cause to be kept, proper books of record and account in which complete and accurate entries will be made of all its transactions relating to the Project, and all Funds established by the Mortgage Deed of Trust, which will at all reasonable times be subject to the inspection of the Trustee and the Owners of an aggregate of not less than five percent (5%) in a principal amount of Notes then Outstanding or their representatives duly authorized in writing.

(6) **Enforcement of Contracts.** To enforce all contracts and agreements in respect of the Project to which the Corporation is or will be a party, to the fullest extent provided and permitted by law.

#### **Release of Land**

The parties have reserved the right, by mutual written consent at any time and from time to time, to amend the Mortgage Deed of Trust for the purpose of effectuating the release of one or more parcels of or interest in land constituting a part of the Project Site and the removal from the lien of the Mortgage Deed of Trust of such parcel or parcels of or interest in land subject to the following conditions:

- (i) the parcel or parcels of or interest in land thus released or removed shall be used to construct public improvements, or for the granting of an easement, or other interest or title to a public utility, public or private carrier or public body for providing or improving utility services or transportation facilities, or for the acquisition or construction of any “public project” within the meaning of §58.010 of the Kentucky Revised Statutes; and
- (ii) there shall be filed with the Trustee a copy of the instrument providing for such release together with a certificate of an Authorized Officer of the Corporation describing the improvements or other facilities which will be constructed thereon or the utility or other facilities and services which will be provided or improved thereby and that, in the opinion of such Authorized Officer (i) such parcel or parcels of land are not otherwise needed for the operation of the Project and that (ii) the release will not materially impair the efficiency or utilitarian value of the Project or the Project Site and will not impede the means or egress of any material extent and (iii) evidence satisfactory to the trustee that the value of the project following such release shall not be less than the principal amount of notes then outstanding;
- (iii) the Corporation at the written direction of the County shall sell a portion of said Project Site not needed for public purposes as provided by law so long as the rentals are not diminished by reason of such sale and release of a portion of the lien created by the Mortgage Deed of Trust and provided that the Corporation shall have furnished the Trustee with evidence satisfactory to the Trustee that the value of the Project following such release shall be not less than the principal amount of Notes then outstanding. In determining the value of the Project, the Trustee shall be entitled to require, at the sole cost and expense of the Corporation, and shall be entitled to reply upon an appraisal by an appraiser licensed in the Commonwealth of Kentucky.

## Amendments

Notwithstanding any other provisions of the Mortgage Deed of Trust, the parties may at any time and from time to time supplement or make any amendment or change in the Mortgage Deed of Trust:

- (i) to cure any formal defect or ambiguity if, in the opinion of the Trustee, such amendment or change is not adverse to the interest of the Owners of the Notes
- (ii) to grant to or confer upon the Trustee for the benefit of the Owners of the Notes any additional rights, remedies, powers, authority or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with the Mortgage Deed of Trust
- (iii) to make necessary or advisable amendments in connection with the issuance of additional bonds in accordance with the terms of the Mortgage Deed of Trust
- (iv) to permit the Trustee to comply with any obligations imposed on it by law
- (v) to achieve compliance with any federal tax law; or
- (vi) to provide for the release of land pursuant to and subject to the conditions specified in the Mortgage Deed of Trust.

Any other amendment or change will be subject to the written consent of the Owners of at least two-thirds (2/3) in principal amount of the Notes outstanding at the time such consent is given, or in case less than all of the Notes then outstanding are affected by the modification or amendment, of the Owners of at least two-thirds (2/3) of the principal amount of the Notes so affected.

Nothing will permit, however, or be construed as permitting without consent of the Owners of each Note so affected, (i) an extension of the maturity of the principal of or the interest on any Note, (ii) a reduction in the principal amount of any Note or the rate of interest or premium thereon, or (iii) a reduction in the aggregate principal amount of the Notes required for consent to amendments.

An amended or supplemental Mortgage Deed of Trust for the purposes described in the Mortgage Deed of Trust will be effective upon the execution thereof by the Corporation and the Trustee and delivery thereof to the Trustee, together with any necessary consent of Owners of the Notes.

## Events and Remedies of Default

*Events of Default.* Each of the following events is hereby declared an "Event of Default:"

(a) the Corporation will default in the payment of the principal of any Notes when and as the same will become due, whether at maturity or upon call for redemption or otherwise or the County will default on the payment of the Notes;

(b) payment of any installment of interest on any of the Notes will not be made when and as the same will become due or the County will default on the payment of the Notes; or

(c) the Corporation or the County will fail or refuse to comply with the provisions of the Act, or will default in the performance or observance of any other of the covenants, agreements or conditions on their part contained in the Mortgage Deed of Trust, any authorizing resolution of the Corporation or the County, or the Notes, and such failure, refusal or default will continue for a period of forty-five (45) days after written notice thereof by the Trustee or by Owners of not less than twenty-five percent (25%) in a principal amount of the Outstanding Notes to the Corporation or the County, as applicable.

*Remedies.* Upon the happening and continuance of any Event of Default to protect and enforce its rights and the rights of the Owners of the Notes by such of the following remedies, as the Trustee, being advised by counsel, will deem most effectual to protect and enforce such rights:

(a) by enforcement of the foreclosable mortgage lien on the Project Site and improvements granted by the Mortgage Deed of Trust, and in such events the Trustee will take over possession, custody and control of the Project Site and will operate or carry out decretal sale of same with due regard to State and Federal law for the benefit of the Owners of the Notes. Provided, however, that no such foreclosure sale will result in a deficiency judgement of any type or in any amount against the County or the Corporation, and until such sale the County may at any time by the discharge of the Notes and interest thereon receive an unencumbered fee simple title to the mortgaged facilities; provided that in the event of any such enforcement of said lien by the Trustee, there will first be paid all expenses incident to said document, and thereafter the Notes then outstanding will be paid and retired;

(b) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Owners of the Notes, including the right to require the Corporation to charge, collect and fully account for the Pledged Receipts, and to require the Corporation to carry out any and all other covenants or agreements with the Noteholders and to perform its duties under the Act;

(c) by bringing suit upon the Notes;

(d) by action or suit in equity, require the Corporation to account as if it were the trustee of an express trust for the Owners of the Notes;

(e) by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Notes;

(f) by declaring all Notes due and payable, and if all defaults will be made good, then, with the written consent of the Owners of not less than fifty percent (50%) in a principal amount of the Outstanding Notes, by annulling such declaration and its consequences; and

(g) in the event that all Notes are declared due and payable, by selling Investment Obligations of the Corporation (to the extent not theretofore set aside for redemption of the Notes for which call has been made), and enforcing all choices in action of the Corporation to the fullest legal extent in the name of the Corporation for the use and benefit of the Owners of the Notes.

## **CONTINUING DISCLOSURE**

As a result of the County and issuing agencies acting on behalf of the County having outstanding, at the time the Notes referred to herein are offered for public sale, municipal securities in the aggregate of more than \$10,000,000, the County and the Corporation will enter into a written agreement for the benefit of all parties who may become Registered Owners of the Notes, whereunder said Corporation and County will agree to comply with the provisions of the Municipal Securities Disclosure Rules set forth in Securities and Exchange Corporation Rule 15c2-12, in making annual financial information available upon request and will notify those agencies specified in the Rule in the event of occurrence of any of the following "material events."

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults
- (c) unscheduled draws on debt service reserves reflecting financial difficulties
- (d) unscheduled draws on credit enhancements reflecting financing difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (g) modifications to right of the Noteholders
- (h) bond calls;
- (i) defeasance;

- (j) release, substitution or sale of property securing repayment of the Notes; and/or
- (k) rating change.

The Corporation may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgement of the Corporation, such other event is material with respect to the Notes, but the Corporation does not undertake to commit to provide any such notice of material event except those events listed above.

Financial information regarding the County may be obtained from the office of the Treasurer, Floyd County Courthouse, Prestonsburg, Kentucky (606)886-9193.

The County has never failed under previous written agreements to comply in all material respects with any previous undertaking with regard to compliance with the Rule.

### **LITIGATION**

No litigation or administrative action or proceeding is pending or, to the best of the knowledge of the County or the Corporation, threatened, restraining or enjoining, or seeking to restrain or enjoin, the issuance and delivery of the Notes, the collection of revenues or the use of revenues to pay debt service on the Notes, or contesting or questioning the proceedings and authority under which the Notes have been authorized and are to be issued or delivered, or the validity of the Notes, or to prevent or restrict the operations of the Corporation.

### **TAX TREATMENT**

In the opinion of Note Counsel, based upon certain covenants, representations, and certifications of the Corporation, which Note Counsel has not independently verified, and assuming continuing compliance therewith, as set forth below, interest on the Notes is excludable from gross income for federal income tax purposes under existing laws, regulations, rulings and decisions in effect on the date of delivery of the Notes.

The County and the Corporation are required by the Internal Revenue Code of 1986, as amended (the "Code"), to comply on an ongoing basis with certain obligations in order for the interest on the Notes to be and remain excludable from gross income for federal income tax purposes. Failure to meet those obligations could result in the interest on the Notes becoming subject to federal income taxation, retroactive to the date of the Notes. The County and the Corporation have covenanted to comply with all such obligations. Provisions of the Code applicable to corporations (as defined for federal income tax purposes), would impose an alternative minimum tax on a portion of the excess of "adjusted current earnings" over "alternative minimum taxable income" for taxable years beginning after 1989, and could therefore subject all or a portion of the interest on the Notes received by corporations to alternative minimum taxation.

Note Counsel has not opined on any other federal income tax consequences arising for Owners of the Notes. However, it should be noted that certain other provisions of the Code applicable to corporations would impose an environmental tax equal to the excess of "modified alternative minimum taxable income" over \$2,000,000. The environmental tax is not an alternative tax. Interest on the Notes will be included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States. In addition, the Code disallows certain federal income tax deductions of certain financial institutions and property and casualty insurance companies which acquire the Notes.

The Corporation has designated the Notes as "qualified tax-exempt obligations" under Section 265 (b) (3) of the Code.

In the opinion of Note Counsel, the Notes are exempt from ad valorem taxation and interest thereon is exempt from income taxation by the Commonwealth of Kentucky and any political subdivisions thereof.

Prior to any purchase of the Bonds prospective purchasers of the Notes are advised to consult their own tax advisors as to the impact of the Code, upon their acquisition, holding or disposition of the Notes.

### **FINANCIAL ADVISOR**

Prospective bidders are advised that Ross, Sinclair and Associates, Inc. ("Ross Sinclair") has been employed as Financial Advisor in connection with the issuance of the Notes. Ross Sinclair's fee for services rendered with respect to the sale of the Notes is contingent upon the issuance and delivery thereof. Bidders, including Ross Sinclair, may submit a bid for the purchase of the Notes at the time of the advertised public sale, either individually or as a member of a syndicate organized to submit a bid for the purchase of the Notes.

### **CONCLUDING STATEMENT**

The Corporation has approved and caused this Official Statement to be executed and delivered by its President. In making this Official Statement the Corporation relied upon information furnished to it by the County and the Corporation, and does not assume any responsibility as to the accuracy or completeness of any of the information in this Official Statement except as to copies of documents denominated "Notice of Note Sale," "Official Bid Form," and "Official Terms and Conditions of Note Sale." The financial information supplied by the County of Floyd and the Administrative Office of the Courts and reproduced herein, is represented by the County to be correct.

No dealer, broker, salesman, or other person has been authorized by the Corporation, the County, or the Financial Advisor to give any information or representations, other than those contained in this Official Statement, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Except when otherwise indicated, the information set forth herein has been obtained from the County and believed to be reliable, however, such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Financial Advisor or by Note Counsel. The delivery of this Official Statement at any time does not imply that information herein is correct as of any time subsequent to the date hereof.

**By: /s/ Paul Hunt Thompson**  
**President**

**APPENDIX A**

**FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION  
FIRST MORTGAGE REVENUE BOND ANTICIPATION RENEWAL  
NOTES, SERIES 2004B**

---

**Demographic and Economic Data**

## **FLOYD COUNTY, KENTUCKY**

Prestonsburg, the county seat of Floyd County, is located in the Eastern Kentucky Coal Field Region on the Levisa Fork of the Big Sandy River. Prestonsburg is located 120 miles southeast of Lexington, Kentucky; 190 miles southeast of Louisville, Kentucky; 163 miles southeast of Cincinnati, Ohio; and 188 miles northeast of Knoxville, Tennessee. Prestonsburg had an estimated population of 3,612 in 2000.

Floyd County covers a total land area of 394.29 square miles. The elevation ranges from 580 to 2320 feet above sea level. Floyd County had an estimated 2003 population of 42,272.

### **The Economic Framework**

Floyd County firms employed 13,195 people in 2003. Manufacturing firms in the county reported 260 employees; 3,945 people were employed in service occupations; construction firms provided 775 jobs; 2,585 people were employed by trade, transportation, and utilities; financial activities accounted for 989 employees; the information sector employed 329 people; public administration firms reported 498 employees.

### **Labor Supply**

In 2001, there was an estimated labor supply of 25,142 persons available for industrial jobs in the labor market area. In addition, from 2002 through 2007, 15,289 young persons in the area will become 18 years of age and potentially available for industrial jobs.

### **Transportation**

Prestonsburg is served by U.S. 23/460 and Kentucky 114. The Mountain Parkway, twenty-two miles northwest, provides easy access to Interstate 64, ninety-eight miles northwest. Kentucky 80, four miles south of Prestonsburg provides access to the Daniel Boone Parkway, forty-six miles southwest. Ten trucking companies provide Prestonsburg with interstate and/or intrastate service. Rail service is provided to Prestonsburg by CSX Transportation. The Combs Airport, eight miles north of Prestonsburg, has a 3,200-foot paved runway. The Big Sandy Regional Airport, nineteen miles northeast of Prestonsburg, has a 5,000-foot paved runway. The nearest scheduled commercial airline service is available at the Tri-State Airport near Huntington, West Virginia, seventy-three miles northeast of Prestonsburg.

### **Power and Fuel**

Electric power is provided to Prestonsburg and portions of Floyd County by American Electric Power, Big Sandy RECC, and the East Kentucky Power Cooperative. Natural gas service is provided by Columbia Gas of Kentucky, Inc., East Kentucky Utilities, and Prestonsburg City Utilities Commission.

### **Education**

Primary and secondary education is provided to Prestonsburg and Floyd County by the Floyd County School System. There are three nonpublic schools that serve Floyd County. Prestonsburg Community College, a unit of the University of Kentucky Community College System, offers associate degree programs and curricula for the first two years of a baccalaureate program and is located in Prestonsburg. In addition, 12 other institutions of higher learning are located within 60 miles of Prestonsburg. There are 18 technical schools located within 60 miles of Prestonsburg.

## LOCAL GOVERNMENT

### Structure

The City of Prestonsburg is governed by a mayor and eight (8) council members. The mayor is elected to a four-year term while the council members each serve two-year terms. Floyd County is served by a county judge/executive and three (3) commissioners. Each county official serves a four year term.

### Planning and Zoning

City agency - Prestonsburg Planning and Zoning Commission  
 Zoning enforced - Within city limits  
 Subdivision regulations enforced - Within city limits  
 Local codes enforced - Building and Housing  
 Mandatory state codes enforced - Kentucky Plumbing Code, National Electric code, Kentucky Boiler Regulations and Standards, Kentucky Building Code (modeled after BOCA code)

### Local Fees and Licenses

The city of Prestonsburg levies an occupational license fee of 1.5% of wages, salaries, and commissions of individuals and 1.5% of net profits of business. A restaurant and motel tax of 3% of gross receipts is assessed with proceeds going directly to promote tourism and upgrade the city's parks. An annual business license fee is also assessed by the city. The fees are assessed according to type of business and range from \$10 to \$1,200.

### Sales and Use Tax

A state sales and use tax is levied at the rate of 6.0% on the purchase or lease price of taxable goods and on utility services. Local sales taxes are not levied in Kentucky.

### State and Local Property Taxes

The Kentucky Constitution requires the state to tax all classes of taxable property, and state statutes allow local jurisdictions to tax only a few classes. All locally taxed property is subject to county taxes and school district taxes (either a county school district or an independent school district). Property located inside the city limits may also be subject to city property taxes. Property assessments in Kentucky are at 100% fair cash value. Accounts receivable are taxed at 85% of face value. Special local taxing jurisdictions (fire protection districts, watershed districts and sanitation districts) levy taxes within their operating areas (usually a small portion of a community or county).

The table below lists the assessed property valuation of the county as reported by the Department of Revenue, Frankfort, Kentucky:

Description	-----Tax Year Assessment - January 1-----				
	1999	2000	2001	2002	2003
Real Estate	\$776,286,587	\$743,685,618	\$824,447,135	\$871,406,119	\$884,365,843
Tangible Property	198,768,381	210,626,463	215,131,602	221,617,413	203,807,909
Motor Vehicle	172,113,479	189,582,138	191,800,425	191,311,667	198,471,198
Watercraft	4,722,175	4,908,206	5,310,736	5,380,349	5,401,206
Totals:	<u>\$1,151,890,622</u>	<u>\$1,148,802,425</u>	<u>\$1,236,689,898</u>	<u>\$1,289,715,548</u>	<u>\$1,292,046,156</u>
% Increase (Decrease)	----	-0.27%	7.65%	4.29%	0.01%

## Ten Largest Taxpayers

The following table lists the ten largest real property taxpayers of the County as reported by the Floyd County Property Valuation Administrator for fiscal year 2004:

Rank	Tax Payer	-----Assessment - January 1-----			
		Real Property	Tangible Property	Total R.E & Tangible	% of Assessments
1	Columbia Natural Resources		\$9,851,759	\$9,851,759	0.76%
2	USSC Inc.	\$9,540,000		9,540,000	0.74%
3	Glimcher	6,624,000		6,624,000	0.51%
4	Big Sandy Wholesale	3,900,000	1,968,486	5,868,486	0.46%
5	R&S / Godwin	5,500,000		5,500,000	0.43%
6	Whayne Supply		5,346,898	5,346,898	0.41%
7	Knott Floyd	319,700	2,318,713	2,638,413	0.20%
8	NRS Ventures	4,092,000		4,092,000	0.32%
9	Worldwide Equipment	1,483,000	1,061,473	2,544,473	0.20%
10	Walmart		4,009,639	4,009,639	0.31%

## LABOR MARKET STATISTICS

The Prestonsburg Labor Market Area includes Floyd County and the adjoining Kentucky counties of Johnson, Knott, Lawrence, Letcher, Magoffin, Martin, and Pike.

### Population

Description	-----Estimate Year-----				
	1999	2000	2001	2002	2003
Labor Market Area	224,528	219,027	217,916	217,719	217,621
Floyd County	43,266	42,441	42,350	42,226	42,272
Prestonsburg	3,758	3,612	3,602	3,588	3,677

Source: U.S. Department of Commerce, Bureau of the Census.

### Population Projections

Description	-----Estimate Year-----			
	2005	2010	2015	2020
Labor Market Area	217,035	213,497	208,538	202,382
Floyd County	41,893	41,052	39,881	38,419

Source: Kentucky State Data Center, University of Louisville and Kentucky Cabinet for Economic Development.

## Unemployment Statistics

Description	-----Year Ending December 31-----				
	1999	2000	2001	2002	2003
<b>County of Floyd</b>					
Civilian Labor Force	13,814	13,305	13,195	13,695	14,020
Employment	12,746	12,310	12,353	12,813	12,896
Unemployment	1,068	995	842	882	1,124
Unemployment Rate	7.73%	7.48%	6.38%	6.44%	8.0%
<b>State of Kentucky:</b>					
Civilian Labor Force	1,966,574	1,981,868	1,967,572	1,984,983	1,965,011
Employment	1,878,686	1,900,116	1,859,668	1,888,451	1,835,477
Unemployment	87,888	81,752	107,904	96,532	129,534
Unemployment Rate	4.47%	4.12%	5.48%	5.60%	6.2%
<b>US Comparable Rate:</b>					
Unemployment Rate	4.20%	4.00%	4.80%	5.70%	6.00%

Source: The Kentucky Department for Employment Services

## EDUCATION

### Public Schools

	2002-2003	Floyd County
Total Enrollment		6,971
Pupil-Teacher Ratio		15.8
Expenditures per Pupil		\$7,838

Source: Kentucky Department of Education, Office of Curriculum, Assessment and Accountability.

### Vocational Training

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 arrangements and the availability of special equipment.

### Bluegrass State Skills Corporation

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 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.

<b>Vocational</b>	<b>Location</b>	<b>Cumulative Enrollment</b>
Mayo Technical College	Paintsville	359
Martin County ATC	Inez	254
Knott County ATC	Hindman	474
Pike County ATC	Millard	145
Belfry ATC	Belfry	194
Morgan County ATC	West Liberty	337
Breathitt County ATC	Jackson	318
Phelps ATC	Phelps	98
Hazard Technical College	Hazard	634
Letcher County ATC	Whitesburg	327
Leslie County ATC	Hyden	490
Carter County Vocational School	Olive Hill	116
Rowan Technical College	Morehead	468
Lee County ATC	Beatyville	289
Ashland Technical College	Ashland	659
Boyd Co. High School Vocational School	Ashland	481
Russell ATC	Russell	111
Floyd County ATC (GARTH)	Martin	263

Source: Kentucky Cabinet for Workforce Development; KY Community and Technical College System; KY Department of Education.

### Colleges and Universities

<b>Institution</b>	<b>Location</b>	<b>Enrollment Fall 2001</b>
Prestonsburg Community College	Prestonsburg	2,360
Pikeville College	Pikeville	1,194
Alice Lloyd College	Pippa Passes	565
Hazard Community College, Lees College Campus	Jackson	N/A
Hazard Community College	Hazard	2,485
Southeast Community College, Whitesburg Campus	Whitesburg	N/A
Kentucky Christian College	Grayson	594
Southeast Community College	Cumberland	2,491
Clinch Valley College of the University of Virginia	Wise, WV	1,551
Morehead State University	Morehead	9,027
Marshall University	Huntington, WV	13,164
Ashland Community College	Ashland	2,626
Ohio University Southern	Ironton, OH	2,368

Source: Kentucky Cabinet for Economic Development.

## FINANCIAL INSTITUTIONS

<b>Institution</b>	<b>Total Assets</b>	<b>Total Deposits</b>
First Commonwealth Bank	\$166,946,000	\$123,524,000
First Prestonsburg Bancshares, Inc.	\$173,451,000	\$126,116,000

*Source: McFadden American Financial Directory, July - December 2004 Edition 2004 Edition.*

## EXISTING INDUSTRY

<b><u>Firm</u></b>	<b><u>Product</u></b>	<b><u>Total Employed</u></b>
<b>Allen</b>		
May Block & Concrete Products Co	Concrete blocks & products	10
<b>Ivel</b>		
R&S Goodwin	Steel & aluminum fabricating: dump truck bodies & trailers	119
Unisign Corp	Metal, painted, plastic, electrical & wooden signs	10
<b>Martin</b>		
Frasure Manufacturing & Electrical Services	Electrical coal mining equipment, battery chargers & beltline starters	5
Shirt Gallery	Fabric screen printing, embroidery	12
<b>Prestonsburg</b>		
Faith Signs & Awnings Co/Action Outdoor	Vinyl, plastic, painted, metal & magnetic signs; fabric awnings	21
Floyd County Newspapers Inc	Newspaper & shopping guide publishing & offset printing	48
Jim C Hamer Co	Sawmill	27
Logan Corp	Metals service center: steel cutting, slitting, shearing & drain pipes	26
Republic Diesel	Automotive & truck driveshafts	7

*Source: Kentucky Cabinet for Economic Development.*

*[The remainder of this page is intentionally left blank.]*

**PROPERTY TAX RATES**

	-----Tax Year 1999-----			-----Tax Year 2000-----			-----Tax Year 2001-----			-----Tax Year 2002-----			-----Tax Year 2003-----		
	Real Estate	Tangible	Motor Vehicle												
<b>County-</b>															
Extension Services	\$0.0120	\$0.0134	\$0.0110	\$0.0120	\$0.0128	\$0.0110	\$0.0124	\$0.0149	\$0.0110	\$0.0124	\$0.0149	\$0.0110	\$0.0134	\$0.0158	\$0.0110
General	\$0.1470	\$0.1968	\$0.1970	\$0.1470	\$0.1875	\$0.1970	\$0.1520	\$0.1520	\$0.1970	\$0.1440	\$0.1440	\$0.1970	\$0.1450	\$0.1525	\$0.1970
Health	\$0.0400	\$0.0400	\$0.0400	\$0.0400	\$0.0400	\$0.0400	\$0.0400	\$0.0400	\$0.0400	\$0.0400	\$0.0400	\$0.0400	\$0.0400	\$0.0400	\$0.0400
Library	\$0.0280	\$0.0430	\$0.0223	\$0.0280	\$0.0369	\$0.0223	\$0.0300	\$0.0445	\$0.0223	\$0.0310	\$0.0448	\$0.0223	\$0.0340	\$0.0516	\$0.0223
Soil Conservation	\$0.0100	\$0.0000	\$0.0000	\$0.0100	\$0.0000	\$0.0000	\$0.0100	\$0.0000	\$0.0000	\$0.0100	\$0.0000	\$0.0000	\$0.0100	\$0.0000	\$0.0000
Totals:	\$0.2370	\$0.2932	\$0.2703	\$0.2370	\$0.2772	\$0.2703	\$0.2444	\$0.2514	\$0.2703	\$0.2374	\$0.2437	\$0.2703	\$0.2425	\$0.2599	\$0.2703
<b>School-</b>															
Floyd County	\$0.5890	\$0.5920	\$0.5540	\$0.5930	\$0.5930	\$0.5540	\$0.6060	\$0.6060	\$0.5540	\$0.6000	\$0.6000	\$0.5540	\$0.6070	\$0.6070	\$0.5540
<b>City-</b>															
Allen										\$0.2300	\$0.2300	\$0.0000	\$0.2300	\$0.2300	\$0.0000
Martin	\$0.2200	\$0.2200	\$0.2200	\$0.2200	\$0.2200	\$0.2200	\$0.2200	\$0.2200	\$0.2200	\$0.2200	\$0.2200	\$0.2200	\$0.2200	\$0.2200	\$0.2200
Prestonsburg	\$0.2170	\$0.2620	\$0.2780	\$0.2170	\$0.2620	\$0.2780	\$0.2120	\$0.2810	\$0.2780	\$0.2170	\$0.3080	\$0.2780	\$0.2169	\$0.3331	\$0.2780
Wayland										\$0.4900	\$0.4900	\$0.0000	\$0.4900	\$0.4900	\$0.0000
Wheelwright	\$0.3500	\$0.3500	\$0.3500	\$0.3500	\$0.3500	\$0.3500	\$0.3500	\$0.3500	\$0.3500	\$0.3500	\$0.3500	\$0.3500	\$0.3500	\$0.3500	\$0.3500
<b>Special-</b>															
Allen Fire District	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000
Auxier Fire	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000
Betsy Lane Fire District	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000
Cow Creek Fire District	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000
David Fire District	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000
Garrett Fire District	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000
Left Beaver Fire District	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000
Martin Fire District	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000
Maytown Fire District	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000
Middle Creek Fire District	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000
Mudcreek Fire District	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000
North Floyd Fire	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000
Toler Creek Fire District	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000
Wayland Fire District	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000	\$0.1000

**APPENDIX B**

**FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION  
FIRST MORTGAGE REVENUE BOND ANTICIPATION RENEWAL  
NOTES, SERIES 2004B**

---

**Financial Data**

**APPENDIX C**

**FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION  
FIRST MORTGAGE REVENUE BOND ANTICIPATION RENEWAL  
NOTES, SERIES 2004B**

---

**Continuing Disclosure Agreement**

## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Agreement") is made, entered into and effective as of the 1<sup>st</sup> day of September, 2004, between the County of Floyd, Kentucky, a political subdivision of the Commonwealth of Kentucky (the "County") and the Floyd County, Kentucky Public Properties Corporation, a nonprofit, nonstock corporation acting as the agency, instrumentality and constituted authority for the County, and the Registered and Beneficial Owners of the Notes, hereinafter identified (the "Corporation"). For purposes of this Agreement, "Beneficial Owner" means the person or entity treated as the owner of the notes for federal income tax purposes and "Registered Owner" means the person or entity named on the Registration Books of the Bond Registrar.

### WITNESSETH

**WHEREAS**, the Corporation has acted as the issuing agency for the County, pursuant to the provisions of Section 58.180 and 273.390 of Kentucky Revised Statutes ("KRS") and has executed, delivered and entered into a Mortgage Deed of Trust between the Corporation and Citizens National Bank ("Trustee") in connection with the authorization, sale and delivery of \$2,455,000 of the Corporation's First Mortgage Revenue Bond Anticipation Renewal Notes, Series 2004B, dated September 1, 2004 ("Notes") which Notes were offered for sale under the terms and conditions of a Final Offering Statement ("FOS") prepared by Ross, Sinclair & Associates, Inc., Lexington, Kentucky ("Financial Advisors") and approved by the authorized representatives of the County and Corporation;

**WHEREAS**, the Securities and Exchange Commission ("SEC"), pursuant to the Securities and Exchange Act of 1934, has amended the provision of SEC Rule 15c2-12 relating to financial disclosures by the issuers of municipal securities under certain circumstances ("Rule"); and

**WHEREAS**, it is intended by the parties to this Agreement that all terms utilized herein shall have the same meanings as defined by the Rule; and

**WHEREAS**, the Corporation and the County are "obligated persons" as defined by the Rule and subject to the provisions of said Rule; and

**WHEREAS**, the Corporation and the County wish to provide for the disclosure of certain information concerning the Notes, the Project and other matters on an on-going basis as set forth herein for the benefit of the Holders of the Notes or Beneficial Owners thereof ("Noteholders") in accordance with the provisions of the Rule.

**NOW THEREFORE**, in order to comply with the provisions of the Rule and in consideration of the purchase of the Notes by the Registered and Beneficial Owners, the parties hereto agree as follows:

### 1. THE UNDERTAKING

1.1 This Agreement shall constitute a written undertaking for the benefit of the Registered and Beneficial Owners of the Notes, and is being executed and delivered solely to assist the purchasers of the Notes in complying with subsection (b)(5) of the Rule.

1.2 (a) the County and the Corporation shall provide annual financial information with respect to each fiscal year of the County or Corporation, commencing with Fiscal Year 2002, by no later than nine (9) months after the end of the respective fiscal year, and within fifteen (15) business days, if possible, after the final publication date of such Audited Financial Statements, to each NRMSIR and the SID.

(b) the County and the Corporation, as the case may be, shall provide, in a timely manner, notice of any failure of the County or Corporation to provide the Annual Financial Information by the date specified in subsection (a) and (b) above to either the Municipal Securities Rulemaking Board ("MSRB"), or NRMSIR, and the SID.

(c) for purposes of the Rule, “Annual Financial Information” means financial information or operating data provided annually, of the type included in the FOS with respect to the County or the Corporation and shall include annual audited financial statements for the County in order that the recipients will be provided with ongoing information regarding revenues and operating expenses of the County or the Corporation, as the case may be.

(d) the Annual Financial Information shall be prepared in accordance with generally accepted accounting principles, generally accepted auditing standards or in accordance with the appropriate sections of KRS or Kentucky Administrative Regulations.

(e) for purposes of this Agreement, “NRMSIR” shall mean National Recognized Municipal Securities Information Repositories, as specified by SEC Regulations and “SID” shall mean and refer to State Information Depositories, if any.

## **2. MATERIAL EVENTS NOTICES.**

Under the Rule, Section 15c2-12(b)(5)(i)(C), the following eleven (11) events must be disclosed to the NRMSIRS or to the SID, if any, and the Municipal Securities Rule Making Board (“MSRB”), if material:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) Modifications to rights of Bondholders;
- (8) Note calls;
- (9) Defeasances;
- (10) Release, substitution or sale of property securing the repayment of the Notes; and
- (11) Rating changes.

Notice of said material events shall be given to the entities identified in this Section by the County or the Corporation on a timely basis in light of the date of occurrence of the material events. Notwithstanding the foregoing, the provisions of the documents under which the Notes are authorized and issued do not provide for a debt service reserve, credit enhancements or credit or liquidity providers.

In accordance with Rule Section 15c2-12(b)(5)(i)(D), the County and the Corporation agree that in the event of a failure to provide the Annual Financial Information required under Section 1 of this Agreement, it will notify each NRMSIR or MSRB and SID of such failure in a timely manner.

### **3. SPECIAL REQUESTS FOR INFORMATION.**

Upon the request of any Registered or Beneficial Owner of the Notes or the original purchaser of the Notes or any subsequent broker-dealer buying or selling said Notes on the secondary market (“Underwriters”), the County and/or the Corporation shall cause financial information or operating data regarding the conduct of the affairs of the County or the Corporation to be made available on a timely basis following such request.

### **4. DISCLAIMER OF LIABILITY.**

The County and the Corporation hereby disclaim any liability for monetary damages for any breach of the commitments set forth in this Agreement and remedies for any breach of the County’s or the Corporation’s continuing disclosure undertaking shall be limited to an action for specific performance or mandamus in a court of competent jurisdiction in Kentucky following notice and an opportunity to cure such a breach.

### **5. FINAL OFFERING STATEMENT.**

That the Final Offering Statement prepared by the Financial Advisor and approved by the authorized representatives of the County and the Corporation is hereby incorporated in this Agreement as fully as if copied herein and the “annual financial information” required under Section 1 hereof shall in summary form update the specific information set forth in said Statement.

### **6. DURATION OF THE AGREEMENT.**

This Agreement shall be in effect so long as any of the Notes remain outstanding and unpaid; provided, however, that the right is reserved by the County and/or the Corporation to delegate its responsibilities under the Agreement to a competent agent or trustee, or to adjust the format of the presentation of annual financial information so long as the intent and purpose of the Rule to present adequate and accurate financial information regarding the County or the Corporation is served.

### **7. AMENDMENT; WAIVER.**

Notwithstanding any other provision of this Agreement, the County and the Corporation may amend this Agreement, and any provision of this Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 1, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Notes, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Notes, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the holders of the Notes in the same manner as provided in the Mortgage Deed of Trust for amendments to the Mortgage Deed of Trust with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Registered Owners or Beneficial Owners of the Notes.

In the event of any amendment or waiver of a provision of this Agreement, the County and/or the Corporation shall describe such amendment or waiver in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the County or the Corporation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event under Section 15c2-12(b)(5)(i)(C) of the Rule, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**8. DEFAULT.**

In the event of a failure of the County or the Corporation to comply with any provision of this Agreement, the County or the Corporation may and, at the request of any Underwriter or any Registered or Beneficial Owner of Notes, shall, or any Registered or Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County or the Corporation to comply with its obligations under this Agreement. A default under this Agreement shall not be deemed an event of default under the Mortgage Deed of Trust, and the sole remedy under this Agreement in the event of any failure of the County or the Corporation to comply with this Agreement shall be an action to compel performance.

In witness whereof the parties hereto have executed this Agreement as of the date first above written.

**COUNTY OF FLOYD, KENTUCKY**

\_\_\_\_\_  
County Judge/Executive

ATTEST:

\_\_\_\_\_  
Fiscal Court Clerk

**FLOYD COUNTY, KENTUCKY PUBLIC  
PROPERTIES CORPORATION**

\_\_\_\_\_  
Chairman/President

ATTEST:

\_\_\_\_\_  
Secretary

**APPENDIX D**

**FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION  
FIRST MORTGAGE REVENUE BOND ANTICIPATION RENEWAL  
NOTES, SERIES 2004B**

---

**Form of Bond Counsel Opinion**

September 30, 2004

Floyd County, Kentucky Public Properties Corporation  
Floyd County Courthouse  
Prestonsburg, Kentucky

Re: \$2,455,000 Floyd County, Kentucky Public Properties Corporation Revenue Bond Anticipation  
Renewal Note, Series 2004B

Ladies and Gentlemen:

We have acted as bond counsel in connection with the authorization, sale, and issuance today of the above-referenced note (the "Notes").

The Note has been issued by the Floyd County, Kentucky Public Properties Corporation (the "Corporation"), a Kentucky nonprofit corporation and an agency and instrumentality of the County of Floyd, Kentucky (the "County"), pursuant to Sections 58.150 and 56.513 of the Kentucky Revised Statutes, an Resolution adopted by the Fiscal Court of the County on September 17, 2004 (the "Authorizing Resolution"), and a resolution adopted by the Board of Directors of the Corporation on September 17, 2004 (the "Note Resolution"), for the purpose of providing interim financing for the acquisition, construction, and development of water lines to be located within the County (the "Project", as more particularly described in the Note Resolution). The Note is payable solely from (i) the proceeds of revenue bonds (the "Bonds") which the Corporation has determined in the Note Resolution that it will issue for the purpose of financing the Project (if and to the extent other amounts are not available and applied to such purpose), such Bonds to be payable from a special fund to which some or all of the revenues of the Project (the "Revenues") will be paid, if and when the Bonds are issued and the proceeds thereof have been received and are available, or (ii) from the Revenues available prior to and at the maturity of the Note.

For purposes of rendering this opinion, we have examined the Authorizing Resolution, the Note Resolution, the Note, and the other documents included in the transcript of proceedings of even date herewith relating to the authorization, sale, and issuance of the Note, and we have relied upon the opinion of even date herewith included in such transcript of Keith Bartley, Esq., Prestonsburg, Kentucky, counsel to the County and the Corporation, as to the matters stated therein.

Based upon such examination, we are of the opinion that:

- (i) The Note Resolution has been duly adopted by the Corporation and is the valid and binding obligation of the Corporation enforceable in accordance with its terms.
- (ii) The issuance and sale of the Note have been duly authorized by the Corporation. The Note has been duly sold, executed, issued, and delivered and is the valid and binding obligation of the Corporation enforceable in accordance with its terms.
- (iii) No approval of any governmental authority is required which has not been obtained for the valid authorization, execution, sale, and issuance of the Note by the Corporation.
- (iv) Under existing law and as of the date hereof, interest on the Note is excluded from gross income for Federal income tax purposes.
- (v) The Note is a "qualified tax-exempt obligation" within the meaning of Section 265(b)(3) of the Internal Revenue Code (the "Code").

- (vi) Under the laws of the Commonwealth of Kentucky (the "Commonwealth") as presently enacted and construed, the Note is exempt from ad valorem taxation, and the interest thereon is exempt from income taxation, by the Commonwealth and all its political subdivisions and taxing authorities.

For the purpose of rendering our opinion set forth in Paragraph 5 above, we have assumed compliance by the Corporation with the requirements of the Code that must be met subsequent to the issuance of the Note in order that the interest thereon be and remain excluded from gross income for Federal income tax purposes. Failure to comply with such requirements could cause the interest on the Note to be included in gross income for Federal income tax purposes retroactive to the date of issuance of the Note. The Corporation has covenanted in the Note Resolution to comply with such requirements.

Our opinion set forth above is subject to the qualification that the enforceability of the Note Resolution and the Note may be limited by bankruptcy, reorganization, moratorium, insolvency, or other laws relating or affecting the enforcement of creditors' rights and by the exercise of judicial discretion in accordance with general equitable principles.

We call your attention to the fact that the Note does not constitute an indebtedness of the Corporation within the meaning of the Constitution and laws of the Commonwealth and is payable solely from the sources described in the Note. The Note does not pledge the general credit of the Corporation or the general credit or taxing power of the Commonwealth, the County, or any other political subdivision of the Commonwealth. The Corporation has no taxing power.

This opinion is solely for the benefit of the addressees hereof and no other person may rely upon this opinion without our prior written consent.

Yours truly,

COX BOWLING & JOHNSON PLLC.

# Exhibit L



## OFFERING CIRCULAR DATED JUNE 23, 2005

**New Issue**  
**Bank Interest Deduction Eligible**

**Moody's: "Aaa"**  
**(XLCA)**

*In the opinion of Special Counsel, under existing laws, regulations, rulings, and judicial decisions, interest on the Leases received by the Registered Owners of the Certificates is not includible in gross income of a Registered Owner thereof for federal income tax purposes under the Internal Revenue Code of 1986, as amended, and is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations. Furthermore, Special Counsel is of the opinion that the interest payable with respect to the Certificates is exempt from income taxation and the Certificates are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. See "TAX TREATMENT" herein.*

**\$2,600,000**

**Kentucky Area Development Districts Financing Trust**  
**Lease Acquisition Program Certificates of Participation, 2005 Series K**  
**Evidencing the Proportionate Interests of the Owners Thereof in a Lease of:**  
**County of Floyd, Kentucky, Lessee**

**Dated:** Date of Delivery

**Due:** June 1, as shown below

The Certificates will be initially issued as a single registered Certificate for each maturity in the name of CEDE & Co., as registered owner and nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Certificates. Individual purchases may be made in book-entry-only form in denominations of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Certificates purchased. Principal and interest evidenced and represented by the Certificates will be payable by wire transfer to DTC which in turn will remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Certificates, as more fully described herein.

The Certificates will be executed and delivered pursuant to a Master Trust Indenture dated as of August 1, 2001 (the "Indenture") between the Kentucky Area Development Districts Financing Trust (the "Financing Trust") and Bank of New York Trust Company, as trustee (the "Trustee"). The Certificates evidence a proportionate interest in certain financing leases (the "Leases") between the Financing Trust and the lessees identified above (the "Lessees"). The Lease of each Lessee are payable from the sources identified in the Lease for each Lessee and described in APPENDIX A hereto. The Certificates are payable solely from payments made under the Leases and from moneys in various funds and accounts established under the Indenture pursuant to which the Certificates are being executed and delivered, all as further described herein. The obligation of the Lessees to registered owners of the Certificates is a several and not a joint obligation.

Interest on the Certificates is payable on each December 1 and June 1, beginning December 1, 2005. The Certificates mature on the date, in the principal amounts, bear interest at the rate per annum and have the prices or yields as follows:

\$155,000 3.00% Term Certificates due June 1, 2008, Priced at Par – CUSIP 49119FQQ7  
\$105,000 3.30% Term Certificates due June 1, 2010, Priced at Par – CUSIP 49119FQR5  
\$110,000 3.50% Term Certificates due June 1, 2012, Priced at Par – CUSIP 49119FQS3  
\$185,000 3.80% Term Certificates due June 1, 2015, Priced at Par – CUSIP 49119FQT1  
\$280,000 4.25% Term Certificates due June 1, 2019, Priced at Par – CUSIP 49119FQU8  
\$330,000 4.50% Term Certificates due June 1, 2023, Priced at Par – CUSIP 49119FQV6  
\$285,000 4.60% Term Certificates due June 1, 2026, Priced at Par – CUSIP 49119FWQ4  
\$1,150,000 4.70% Term Certificates due June 1, 2035, Priced at Par – CUSIP 49119FQX2

Payment of the principal and interest on the Certificates when due is insured by a financial guaranty insurance policy to be issued by XL Capital Assurance, Inc. simultaneously with the delivery of the Obligations

**XL CAPITAL ASSURANCE**

The Certificates are subject to optional redemption prior to their stated maturity as described herein.

The Certificates are offered upon the approval of legality by Cox, Bowling & Johnson PLLC, Lexington, Kentucky. The Financing Trust deems this Offering Circular to be final for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1). Delivery of the Certificates will be made against payment therefor in the offices of DTC in New York, New York, on or about June 28, 2005.



No broker, dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Offering Circular in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Lessees or the Underwriter. Neither the delivery of this Offering Circular nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of any Lessee since the date hereof. This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Certificates in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information contained in this Offering Circular has been obtained from the Lessees and other sources believed by the Underwriter to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE LESSEES, AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION .....	1
THE FINANCING TRUST .....	1
DESCRIPTION OF THE CERTIFICATES .....	2
THE LESSEES AND PROJECTS .....	5
SOURCES AND USES OF FUNDS .....	5
SECURITY AND SOURCE OF PAYMENT .....	5
SUMMARY OF PRINCIPAL DOCUMENTS .....	6
TAX TREATMENT .....	25
UNDERWRITING .....	25
CERTAIN LEGAL MATTERS .....	25
LITIGATION .....	26
CONTINUING DISCLOSURE .....	26
DESCRIPTION OF THE INSURER .....	26
MISCELLANEOUS .....	29
APPENDIX A -- Description of Lessees and Security for Leases .....	A-1
APPENDIX B - Form of Special Counsel Opinion .....	B-1
APPENDIX C - Financial Data .....	C-1
APPENDIX D - Specimen Municipal Bond Insurance Policy .....	D-1

**\$2,600,000**  
**Kentucky Area Development Districts Financing Trust**  
**Lease Acquisition Program Certificates of Participation, 2005 Series K**  
**Evidencing the Proportionate Interests of the Owners Thereof in a Lease of:**  
**County of Floyd, Kentucky, Lessee**

**INTRODUCTION**

The purpose of this Offering Circular is to provide certain information with respect to matters pertaining to the offering of Kentucky Area Development Districts Financing Trust Lease Acquisition Program Certificates of Participation, 2005 Series K (the "Certificates") that are being issued under a Master Trust Indenture dated as of August 1, 2001 (the "Indenture") between Bank of New York Trust Company, as Trustee (the "Trustee") and the Kentucky Area Development Districts Financing Trust (the "Financing Trust"). A summary of the Indenture is set forth in Appendix A. In addition to the words and terms elsewhere defined in this Offering Circular, certain words and terms are defined under "SUMMARY OF PRINCIPAL DOCUMENTS – Definitions."

The Certificates are secured by an assignment by the Financing Trust, as Lessor, to the Trustee, of its right, title and interest in and to leases (the "Leases") with the County of Floyd as lessee (the "Lessee"). The Lease is a General Obligation Lease as described under the heading "SUMMARY OF PRINCIPAL DOCUMENTS – The Leases." The source of payment under each form of Lease is described under such heading. The form of Lease applicable to each Lessee is identified in APPENDIX A in the description contained in APPENDIX A relating to that Lessee. The obligation of each Lessee to holders of Certificates is a several and not a joint obligation and is strictly limited to such Lessee's obligations under its Lease and the allocable share thereof represented by the Certificates.

Each prospective investor in the Certificates should carefully review the information contained in this Offering Circular prior to any such investment. The information contained herein has been obtained from the Financing Trust, the Lessees and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financing Trust or Ross, Sinclair & Associates, Inc., Cincinnati, Ohio.

**THE FINANCING TRUST**

The Interlocal Cooperation Act sets forth the procedure by which any two or more governmental agencies may enter into agreements with one another and with third parties for joint or cooperative actions. In order to establish a program to provide financing, certain governmental agencies of the Commonwealth of Kentucky entered into an Interlocal Cooperation Compact, dated as of April 1, 1996 (the "Compact"), pursuant to KRS 65.210 et seq., which authorized the creation of the Financing Trust to act as a legal entity under the Act, and the delivery of the proceeds of such bonds to the Financing Trust to be held in trust and applied by the Financing Trust for the purposes of the Program.

The Financing Trust is not empowered to issue its own revenue bonds, but acts solely as the administrator and trustee of the proceeds of revenue bonds issued by qualified public agencies as defined in KRS 65.230 on behalf of the Financing Trust and participating public agencies pursuant to KRS 65.270. The Compact which establishes the Financing Trust has received the written approval of the State Attorney General as to the form and legality of said Agreement.

The Financing Trust has no capital stock and is not formed for profit, but to provide economical financing of public projects throughout Kentucky for public agencies participating in the Program. The assets and earnings of the Financing Trust are to be used exclusively for the purposes set forth in the Compact, and no part of the net earnings may inure to the benefit of any member or individual. The life of the Financing Trust is deemed perpetual, unless sooner dissolved by a majority vote of its members; provided however, the Financing Trust cannot be dissolved so long as any indebtedness is outstanding and unpaid.

The affairs and business of the Financing Trust are conducted by its members who constitute the governing body of the Financing Trust to be known as its Board of Directors (the "Board"). The Board consists of fifteen persons, one

member being appointed by each of the fifteen area development districts in the State. The officers of the Financing Trust consist of a President, Secretary, Treasurer, and such Vice Presidents as the Board may elect. Officers, except the office of President, do not have to be members of the Board.

## DESCRIPTION OF THE CERTIFICATES

### General

The Certificates will be dated the same date as they are delivered. Interest on the Certificates is payable on December 1 and June 1 each year, beginning December 1, 2005 at the rate set forth on the cover page to this Offering Circular. The Certificates will mature on June 1 of each year, beginning June 1, 2006 in the principal amount as set forth on the cover page of this Offering Circular. The Certificates are to be issued in denominations of \$5,000 and integral multiples thereof.

### Book Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of § 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.

Purchases of the Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other nominee. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Certificates. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and distributions on the Certificates will be made to CEDE & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Financing Trust, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and distributions to CEDE & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Financing Trust or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Certificates purchased or tendered through its Participant, the Trustee, and shall effect delivery of such Certificates by causing the Direct participant to transfer the Participant's interest in the Certificates, on DTC's records, to the Trustee. The requirement for physical delivery of the Certificates in connection with a mandatory purchase will be deemed satisfied when the ownership rights in the Certificates are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Certificates to the Trustee's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the Financing Trust or the Trustee. The Financing Trust may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Under such circumstances, in the event that a successor securities depository is not obtained, Certificate are required to be printed and delivered.

Neither the Financing Trust nor the Trustee will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person not shown on the registration books of the Trustee as being a holder with respect to: (1) the Certificates; (2) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (3) the payment by DTC or any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the purchase price of tendered Certificates or the principal or interest on the Certificates; (4) the delivery by any Direct Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Indenture to be given to holders; or (5) any consent given or other action taken by DTC as holder.

Beneficial Owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Certificates.

The Financing Trust cannot and does not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Certificates made to DTC or its nominee as the registered owner, or any other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

The Financing Trust may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Certificate will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Financing Trust believes to be reliable, but the Financing Trust takes no responsibility for the accuracy thereof.

**Optional Redemption**

The Certificates maturing on or after June 1, 2016 are subject to optional redemption in whole or in part, on any dated beginning June 1, 2015, at a redemption price equal to the principal amount to be redeemed, plus interest accrued to the date of redemption, without premium.

**Mandatory Sinking Fund Redemption**

The Certificates maturing on the dates set forth below are subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on the dates, in the years and in the principal amounts as follows:

Maturing June 1, 2008		Maturing June 1, 2010		Maturing June 1, 2012	
Date	Amount	Date	Amount	Date	Amount
June 1, 2006	\$55,000	June 1, 2009	\$50,000	June 1, 2011	\$55,000
June 1, 2007	\$50,000	June 1, 2010*	\$55,000	June 1, 2012*	\$55,000
June 1, 2008*	\$50,000				
Maturing June 1, 2015		Maturing June 1, 2019		Maturing June 1, 2023	
Date	Amount	Date	Amount	Date	Amount
June 1, 2013	\$60,000	June 1, 2016	\$65,000	June 1, 2020	\$75,000
June 1, 2014	\$60,000	June 1, 2017	\$70,000	June 1, 2021	\$80,000
June 1, 2015*	\$65,000	June 1, 2018	\$70,000	June 1, 2022	\$85,000
		June 1, 2019*	\$75,000	June 1, 2023*	\$90,000
Maturing June 1, 2026		Maturing June 1, 2035			
Date	Amount	Date	Amount	Date	Amount
June 1, 2024	\$90,000	June 1, 2027	\$105,000	June 1, 2032	\$135,000
June 1, 2025	\$95,000	June 1, 2028	\$110,000	June 1, 2033	\$140,000
June 1, 2026*	\$100,000	June 1, 2029	\$115,000	June 1, 2034	\$145,000
		June 1, 2030	\$120,000	June 1, 2035*	\$155,000
		June 1, 2031	\$125,000		

## THE LESSEES AND PROJECTS

The Lessee and their Project is described in Appendix A hereto.

## SOURCES & USES OF FUNDS

### Sources:

Par Amount of Certificates	<u>\$2,600,000.00</u>
Total Sources of Funds:	\$2,600,000.00

### Uses:

Deposits to Lessee's Acquisition Fund	\$2,451,885.45
Deposit to COI Account	\$13,800.00
Bond Insurance Premium	\$82,314.55
Underwriter's Discount	<u>\$52,000.00</u>
Total Uses of Funds:	\$2,600,000.00

## SECURITY AND SOURCES OF PAYMENT

### The Leases

The Lease is a General Obligation Lease as described under the heading "SUMMARY OF PRINCIPAL DOCUMENTS – The Leases." The source of payment under each form of Lease is described under such heading. The form of Lease applicable to each Lessee is identified in APPENDIX A in the description contained in APPENDIX A relating to that Lessee.

The County of Floyd, Kentucky plans to use the proceeds of the Series 2005 K Certificates for the purpose of paying off the Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Renewal Notes, Series 2004,, maturing on June 30, 2005. The purpose of the prior BANS was to fund water line expansions in the Southern part of the County.

### The Certificates

The Certificates are being issued pursuant to the Indenture and represent the proportionate interests of the holders in the right to receive principal components and interest components of Lease Rental Payments under the Leases without distinction as to the relationship of any particular Lease to any particular Certificate. Under the Indenture, a Series Trust Estate is created upon the issuance of each series of certificates and the interest of each holder of certificates is limited to the Leases which are a part of that Series Trust Estate. A Series Trust Estate consists of all right, title and interest of the Financing Trust in and to (i) the Leases identified in the Certificate of Issuance as being a part of such Series Trust Estate, (ii) the Lease Rental Payments due under such Leases, (iii) the Collateral Documents related thereto, if any, (iv) all moneys and securities, including earnings thereon, held in the Funds and Accounts created hereunder for such Series Trust Estate other than in any Rebate Fund and (v) all property, rights and assets of any kind and

nature that are pledged, assigned or transferred as and for security under a Series Trust Estate by the Financing Trust or by anyone on its behalf or with its written consent.

Neither the Leases or any of the Certificates are secured by any credit facility. The obligation of each Lessee to holders of Certificates is a several and not a joint obligation and is strictly limited to such Lessee's obligations under its Lease and the allocable share thereof represented by the Certificates. Payment by a Lessee of its obligation under its Lease fully discharges the obligations of such Lessee to the owners of the Certificates.

## **SUMMARY OF PRINCIPAL DOCUMENTS**

The following is a brief summary of certain provisions of the Indenture and the Lease. The description of the Indenture and the Lease contained in this Official Statement does not purport to be comprehensive or definitive. All references herein to the Indenture and the Lease are qualified in their entirety by reference to such documents, copies of which are available for review prior to the issuance and delivery of the Bonds at the offices of the Financing Trust and thereafter at the offices of the Trustee.

### **Definitions**

"Act" means KRS 65.210 through 65.300 and KRS 65.940 through 65.956.

"Additional Rentals" means the payments defined as such in the Lease.

"Bond Counsel" means any firm of nationally recognized bond counsel familiar with the transactions contemplated under the Indenture, appointed by the Financing Trust and acceptable to the Trustee.

"Certificate of Issuance" means the Certificate of Issuance, substantially in the form of set forth in the Indenture to be delivered at or prior to the Closing for each Series of Certificates.

"Certificate Payment Date" means the date on which payment of principal and/or interest on any Certificate is due.

"Business Day" means any day other than (i) a day on which banking institutions in New York, New York or the cities in which the Trustee or the Paying Agent have their respective principal offices are authorized to close or (ii) a day on which the New York Stock Exchange is closed.

"Closing" means a closing at which a Lease and any Collateral Documents relating thereto are executed and delivered by a Lessee and the Correlative Certificates are delivered.

"Code" means the Internal Revenue Code of 1986, as amended. Each reference to a section of the Code herein will be deemed to include the United States Treasury Regulations proposed or in effect with respect thereto and applicable to the Certificates or the use of the proceeds thereof.

"Collateral Document" means any letter of credit, mortgage, escrow agreement, guaranty, security agreement, pledge agreement, title insurance policy or other document (other than the Indenture or a Lease) securing a Lease or granting a lien on or a security interest in a Project or executed in connection with a Lease.

"Correlative Certificates" means Certificates which are secured by the same Series Trust Estate created upon the Closing of Correlative Leases.

"Correlative Leases" means Leases which are related to a Series Trust Estate created upon the Closing of such Leases and delivery of Correlative Certificates.

"Costs" means proceeds used with respect to a Project to pay all or any part of the cost of construction, installation and acquisition of all land, buildings, structures, machinery and equipment; finance charges; extensions, enlargements, additions, replacements, renovations and improvements; engineering, financial and legal services; plans, specifications, studies, surveys, estimates of cost of revenue, administrative expenses, expenses necessary or incidental to determining the feasibility or practicability of constructing a Project; and such other expenses as the Financing Trust determines may be necessary or incidental to the construction, installation and acquisition of a Project, the financing of such construction, installation and acquisition, interest during construction, installation or acquisition and the placing of the Project in service.

"DTC" means The Depository Trust Company, New York, New York, whose nominee is Cede & Co., and its successors and assigns.

"Debt Service Fund" means the trust fund by that name established pursuant to the Indenture.

"Event of Default" means in reference to the Indenture, any occurrence or event specified as such in Section 9.01 of the Indenture and in reference to a Lease, an occurrence or event described as such in the Lease.

"Expense Fund" means the trust fund by that name established pursuant to the Indenture.

"Fiduciary Fees" means the contractual fees and expenses (including reasonable attorney's fees) of (i) the Trustee and the Paying Agent including any amounts due to the Trustee or the Paying Agent (ii) the Registrar and (iii) the Program Administrator.

"Financing Trust" means the Kentucky Area Development Districts Financing Trust, a trust created and existing under the laws of the State, and its successors and assigns (it being understood that upon the appointment of a successor Program Administrator, such successor Program Administrator will perform the duties and obligations of the Financing Trust under the Indenture and the Leases).

"Fiscal Year" means the period from and including July 1 through and including the following June 30.

"Fitch" means Fitch IBCA, Inc.

"Funds" and "Accounts" means the funds and accounts created pursuant to the Indenture.

"Government Obligations" means direct obligations of, or obligations the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America.

"Indenture" means the Trust Indenture dated as of August 1, 2001 between the Trustee and the Financing Trust, as amended or supplemented from time to time in accordance with the provisions thereof.

"Interest Payment Date" means the Interest Payment Dates identified in the Certificate of Issuance

for each Series of Certificates. In any case, if any such Interest Payment Date shall not occur on a Business Day, the Interest Payment Date shall be the next succeeding day which is a Business Day. The final Interest Payment Date shall be the maturity date or earlier date of redemption or acceleration of the Certificates.

"Interest Rate" means the rate of interest borne by the Certificate or Certificates identified in the reference thereto, as of the time referred to, which shall be set forth in the Certificate of Issuance for each Series of Certificates.

"Investment Securities" means:

(a) obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian and may be accomplished through repurchase agreements reached with sources including, but not limited to, national or state banks chartered in the Commonwealth of Kentucky that have a rating from S&P at the time of purchase that is at least equal to the rating on the Certificates;

(b) obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including but not limited to:

- (i) United States Treasury;
- (ii) Export-Import Bank of the United States;
- (iii) Farmers Home Administration;
- (iv) Government National Mortgage Corporation; and
- (v) Merchant Marine bonds;

(c) obligations of any corporation of the United States government, including but not limited to:

- (i) Federal Home Loan Mortgage Corporation;
- (ii) Federal Farm Credit Banks;
- (iii) Bank for Cooperatives;
- (iv) Federal Intermediate Credit Banks;
- (v) Federal Land Banks;
- (vi) Federal Home Loan Banks;
- (vii) Federal National Mortgage Association; and
- (viii) Tennessee Valley Authority;

(d) certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution, which are insured by the Federal Deposit Insurance Corporation or similar entity or that have a rating from a Rating Service at the time of purchase that is at least equal to the rating on the Certificates and which are collateralized, to the extent uninsured, by the following:

(i) bonds, notes, or other obligations of or guaranteed by the United States, or those for which the credit of the United States is pledged for the payment of the principal and interest thereof, and any bonds, notes, debentures or any other obligations or securities issued or guaranteed by any federal governmental agency, presently or in the future established by an Act of Congress, as amended or supplemented from time to time;

(ii) obligations of the Commonwealth of Kentucky including revenue bonds issued by

its statutory authorities, commissions or agencies which have a rating by a Rating Service of equal to or better as the Rating on the Certificates at the time of purchase.

(iii) revenue bonds issued by educational institutions of the Commonwealth of Kentucky as authorized by KRS 162.340 to 162.380 which have a rating by a Rating Service of equal to or better as the Rating on the Certificates at the time of purchase.

(iv) obligations of any city of the first, second, and third classes of the Commonwealth of Kentucky, or any county for the payment of principal and interest on which the full faith and credit of the issuing body is pledged which have a rating by a Rating Service of equal to or better as the Rating on the Certificates at the time of purchase.

(v) school improvement bonds issued in accordance with the authority granted under KRS 162.080 to 162.100 which have a rating by a Rating Service of equal to or better as the Rating on the Certificates at the time of purchase;

(vi) school building revenue bonds issued in accordance with the authority granted under KRS 162.120 to 162.300, provided that the issuance of such bonds is approved by the state board for elementary and secondary education which have a rating by a Rating Service of equal to or better as the Certificates at the time of purchase; or

(vii) surety bonds issued by sureties rated in one of the three highest categories by a nationally recognized agency;

(c) shares of money market mutual funds, which are rated at least "A" at the time of purchase by Moody's, "A" by Fitch, or "Am" by S&P, and of which will have the following characteristics:

(i) the mutual fund must be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;

(ii) the management company of the investment company must have been in operation for at least five (5) years; and

(iii) all of the securities in the mutual fund must be investments described in (a) - (d) above; and

(f) the Kentucky Cooperative Liquid Assets Securities System Investment Program.

"Lease" means a lease agreement between the Financing Trust and any Lessee, under which the Lessee becomes a Participant in the Program and a Project is leased to a Lessee, which must be substantially in the form set forth in the Indenture.

"Lease Rental Payments" means payments to be made by a Lessee as set forth on Exhibit B to each Lease, as said Exhibit B may be amended from time to time as provided the Lease.

"Lease Term" means the term of the Lease as provided in sections 5 and 6 of the Lease.

"Lessee" means a "public agency", as defined in the Act, which becomes a Participant in the Program by entering into a Lease with the Financing Trust.

"Lessee Acquisition Accounts" means the accounts by that name created for each Lessee within the Project Fund created pursuant to the Indenture.

"Lessor" means Kentucky Area Development Districts Funding Trust, acting as lessor under the Lease, or any successor thereto acting as lessor under the Lease.

"Mail" means mail by first-class postage.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation for any reason no longer performs the functions of a securities rating agency, "Moody's" will be deemed to refer to any other nationally recognized rating agency designated by the Financing Trust.

"Optional Prepayment Price" means the amount determined by the Program Administrator and provided to the Trustee, which a Lessee may, in its discretion, pay under its Lease in order to prepay in full its Lease Rental Payments, which amount shall be equal to the unpaid principal component of Lease Rental Payments increased by the sum of (a) the amount of any due or past due Lease Rental Payments together with interest on such past due Lease Rental Payments to the date of such prepayment in full; (b) the unpaid accrued interest on the outstanding principal component of the Lease Rental Payments to the next date on which the Correlative Certificates can be redeemed; (c) an amount of cash or non-callable Government Obligations which, together with the interest income thereon (as certified by the Program Administrator, Bond Counsel or other entity satisfactory to the Trustee, will be sufficient to pay Lease Rental Payments, which would have been due on the Lease, if the Lease had not been prepaid, between the date of the prepayment and the date the prepayment will be used to redeem Certificates; plus (d) an amount equal to the premium, if any, payable on any Certificates to be redeemed on account of the payment of such Optional Prepayment Price.

"Outstanding" means, as of any given date, with respect to a Series of Certificates and the related Series Trust Estate, all of the Certificates of that Series which have been authenticated and delivered by the Registrar under the Indenture, except:

- (a) Certificates canceled at or prior to such date or delivered to or acquired by the Registrar on or prior to such date for cancellation;
- (b) Certificates deemed to be paid in accordance with the Indenture; and
- (c) Certificates in lieu of which other Certificates have been authenticated under the Indenture.

"Owner" or "Owners" means the person or persons in whose name any Certificate is registered on the books of the Financing Trust maintained by the Registrar.

"Participant" means any Lessee under the Program.

"Paying Agent" means Bank of New York Trust Company, Cincinnati, Ohio, or any successor paying agent appointed pursuant to the Indenture.

"Prepayment Fund" means the Fund by that name created pursuant to the Indenture.

"Program" means the program created by the Indenture pursuant to which Projects of the Lessees will be financed or refinanced from the proceeds of the Certificates and will be leased to Lessees pursuant

to Leases.

"Program Administration Agreement" means the Program Administration Agreement of even date herewith between the Financing Trust and the Program Administrator identified therein.

"Program Administrator" means Ross, Sinclaire & Associates, Inc. or any entity as may be appointed by the Financing Trust or a successor Program Administrator appointed in accordance with the Indenture, that is administering the Program and performing the duties and obligations of Program Administrator under the Indenture.

"Project" means property the Costs of which are financed or refinanced, or the Costs of which are reimbursed, as a result of a Lease and which is described in Exhibit A to such Lease.

"Project Fund" means the Fund by that name created pursuant to the Indenture.

"Rating Services" means Fitch, Moody's or S&P.

"Rebate Fund" shall mean the fund by that name established pursuant to the Indenture.

"Redemption Date" means the date upon which Certificates are to be called for redemption pursuant to the Indenture.

"Redemption Fund" means the fund by that name established pursuant to the Indenture.

"Redemption Price" means, with respect to any Certificate, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof.

"Registrar" means the Paying Agent or any additional entity appointed by the Financing Trust to act as registrar for the Certificates.

"S&P" means Standard & Poor's Rating Group, a division of the McGraw Hill Companies, its successors and their assigns, and, if such corporation for any reason no longer performs the function of a securities rating agency, "S&P" will be deemed to refer to any other nationally recognized securities rating agency designated by the Financing Trust.

"Securities Depository" means, initially, DTC, and thereafter any other securities depository designated by the Financing Trust with the consent of the Financing Trust to maintain a book-entry-only system with respect to the Certificates.

"Series" means a series of Certificates which are secured by a Series Trust Estate created pursuant to the Indenture.

"Series Trust Estate" means, all right, title and interest of the Financing Trust in and to (i) the Leases identified in the Certificate of Issuance as being a part of such Series Trust Estate, (ii) the Lease Rental Payments due under such Leases, (iii) the Collateral Documents related thereto, if any, (iv) all moneys and securities, including earnings thereon, held in the Funds and Accounts created hereunder for such Series Trust Estate other than in any Rebate Fund and (v) all property, rights and assets of any kind and nature that are now or hereafter from time to time pledged, assigned or transferred as and for security under a Series Trust Estate by the Financing Trust or by anyone on its behalf or with its written consent.

"State" means the Commonwealth of Kentucky.

## **The Indenture**

### General Covenants.

Performance of Covenants by Financing Trust; Authority; Due Execution. The Financing Trust covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Indenture, in any and every Certificate executed, authenticated and delivered by it under the Indenture and in all of the proceedings pertaining to the Indenture. The Financing Trust covenants that it is duly authorized under the constitution and laws of the State, including particularly the Act, to issue the Certificates and to execute the Indenture and to pledge the property pledged by the Indenture in the manner and to the extent set forth in the Indenture. The Financing Trust further covenants that all action on its part for the issuance of the Certificates and the execution and delivery of the Indenture has been duly and effectively taken, and that its Certificates in the hands of the Owners thereof are and will be its valid and enforceable obligations according to the terms thereof and of the Indenture. (Section 4.02)

*Arbitrage and Tax Covenants.* Neither the Financing Trust nor the Financing Trust will take or permit, or omit to take or cause to be taken, any action that, if taken, permitted, omitted, or caused, respectively, would adversely affect the exclusion from federal income taxation of the interest on the Certificates and, if it should take or permit, or omit to take or cause to be taken, any such action, the Financing Trust and the Financing Trust will take or cause to be taken all lawful actions within their power necessary to rescind or correct such actions or omissions promptly upon having knowledge thereof. The Financing Trust and the Financing Trust acknowledge that the continued exclusion of interest on the Certificates from gross income for federal income tax purposes depends, in part, upon compliance with the arbitrage limitations imposed by Section 148 of the Code. The Financing Trust and the Financing Trust covenant that they will comply with all the requirements of the Code which are a condition to such exclusion, and that they will not permit at any time any of the proceeds of the Certificates or other funds under their control to be used, directly or indirectly, to acquire an asset or obligation, the acquisition of which would cause the Certificates to be "arbitrage bonds" for purposes of Section 148 of the Code. (Section 5.07)

Creation of Funds. Under the Indenture the Financing Trust creates and establishes, upon issuance of each Series of Certificates and creation of the related Series Trust Estate, the following Funds to be held by the Trustee as a part of such Series Trust Estate: (a) a Project Fund and within such Project Fund, Lessee Acquisition Accounts for each Correlative Lease; (b) a Debt Service Fund; (c) an Expense Fund and within the Expense Fund a (i) Cost of Issuance Account and (ii) Fees Account; (d) a Prepayment Fund and within the Prepayment Fund an account for each Lessee paying the Optional Prepayment Price; and (e) the Rebate Fund. The Trustee may also create any additional funds, accounts or subaccounts hereunder which it deems useful or necessary in the administration of the Indenture, and the Trustee will create the separate trust fund for the deposit of amounts described under Section 14 of the Leases and disburse funds therefrom in accordance with the provisions of such Section. The Trustee may satisfy the requirements in the Indenture to establish a Fund or Account by the maintenance of records indicating the amounts to be allocated to that Fund or Account without the necessity of establishing a separate physical account

The proceeds of the Series K Certificates will, upon receipt by the Trustee, be deposited as follows:

(a) In the Cost of Issuance Account of the Expense Fund, an amount designated by the Financing Trust as costs of issuance; and

(b) In the Lessee Acquisition Accounts of the Project Fund, the amounts applicable to each Correlative Lease as designated in the Certificate of Issuance. (Section 5.01)

Project Fund. Use of Moneys in Certificate Proceeds Account of Project Fund. In connection with each Closing, the Trustee will create in the Project Fund a Lessee Acquisition Account for each Correlative Lease and, upon the submission by such Lessee of the documents required by and upon the terms and conditions specified in the Indenture, the Trustee will deposit in such Lessee Acquisition Account an amount equal to the proceeds of the Certificates allocable to such Lease. In addition, the Trustee will deposit the amounts required by such Lessee's Lease to be deposited in such Lessee Acquisition Account.

Use of Moneys in Lessee Acquisition Accounts of Project Fund. Moneys in each Lessee Acquisition Account will be disbursed for the purposes set forth in the Lessee's Lease to (1) provide funds with which the Financing Trust may acquire, install, construct or finance Projects to be leased to the Lessee or (2) refund, refinance and reimburse the Lessee for outstanding indebtedness incurred or advancements made for the Costs of Projects, subject to the limitations set forth in the Indenture regarding refunding, refinancing and reimbursement. So long as the Trustee is not in receipt of notice from the Program Administrator that an event of default or an event of non-appropriation has occurred under a Lease or that the right of the Lessee to control acquisition, construction, installation and equipping of a Project has not otherwise been terminated pursuant to a Lease, moneys in the related Lessee Acquisition Account will be disbursed by the Trustee to provide funds to the Lessee under such Lease for the purposes set forth in such Lease. If the Trustee is in receipt of notice from the Program Administrator that an event of default or an event of non-appropriation has occurred under a Lease, moneys in the related Lessee Acquisition Account will be disbursed by the Trustee only upon the direction of the Program Administrator. Before the Trustee makes a disbursement for moneys held for Lessee in a Lessee Acquisition Account, the Lessee must provide to the Trustee a request for disbursement approved by the Financing Trust and the Financing Trust must receive certain documentation specified in the Indenture. (Section 5.02)

Debt Service Fund. The Trustee will deposit in the applicable account of the Debt Service Fund the amounts due under Leases from excess project funds, investment earnings and Lease Rental Payments and prepayments. Moneys deposited in a Debt Service Fund will be applied by the Trustee to the payment of interest and principal or Redemption Price due under the Correlative Certificates. Amounts transferred to a Debt Service Fund from the Cost of Issuance Account shall be a credit against Lease Rental Payments under Correlative Leases on a pro-rata basis (based on outstanding principal components). (Section 5.03)

Expense Fund. Moneys in the Cost of Issuance Account of the Expense Fund will be applied to pay the costs of issuing the Certificates, upon the submission of requisitions by the Program Administrator stating the amount to be paid, to whom it is to be paid and the reason for such payment. Any funds remaining the Cost of Issuance Account of the Expense Fund on the first day of the month that is six months from the Closing for the Correlative Certificates (including the month in which such Certificates were issued) shall be transferred to the related Debt Service Fund. Moneys in the Fees Account of the Expense Fund will be applied first to pay Fiduciary Fees in accordance with the schedule provided to the Trustee by the Program Administrator. To the extent amounts on deposit in the Fees Account exceed the amount required to pay Fiduciary Fees, as determined by the Program Administrator, such amounts shall be transferred to the related Debt Service Fund. (Section 5.04)

Prepayment Fund. On each date on which a Lessee deposits with the Trustee the Optional Prepayment Price for a related Lease, the Trustee will create an account in the Prepayment Fund designated with the name of the Lessee making such deposit. The Trustee will deposit in such account all payments of the Optional Prepayment Price made by the Lessee under the related Lease.

The principal component and interest component of the Optional Prepayment Price for a Lease will be transferred to the Debt Service Fund established for that Lease as needed to pay principal of and interest on the Correlative Certificates to and including their Redemption Date. Other moneys in the Lessee Prepayment Accounts of the Prepayment Fund will be transferred by the Trustee to the Expense Fund as payment of other components of Lease Rental Payments under the related Leases as required on and prior to the Redemption Date for the Correlative Certificates at such times and in such amounts as would otherwise have been deposited in the Expense Fund had no such prepayment occurred. (Section 5.05)

Rebate Fund. If required with respect to a Lease, the Trustee shall create a fund separate from any other fund established and maintained hereunder or under any laws governing the creation and use of funds by the Financing Trust designated as the "Rebate Fund," which fund shall be held by the Trustee as a trust fund related to that Lease. There shall be deposited in the Rebate Fund, such amounts as are required to be deposited therein pursuant to the Tax Compliance Agreement entered into with respect to such Lease (a "Tax Agreement"). Subject to the transfer provisions provided in the Indenture, all money at any time deposited in a Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Tax Agreement), for payment to the federal government of the United States of America, and neither the Financing Trust, nor the owner of any Certificates shall have any rights in or claim to such money. All amounts deposited into or on deposit in a Rebate Fund shall be governed by Article V and by the related Tax Agreement. The Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the Program Administrator including supplying all necessary information in the manner provided in the Tax Agreement, and shall have no liability or responsibility to enforce compliance by the Program Administrator with the terms of the Tax Agreement.

Notwithstanding any other provision of the Indenture, the obligation to remit the Rebate Amounts to the United States and to comply with all other requirements of the Indenture and the Tax Agreement shall survive the defeasance or payment in full of the applicable Correlative Certificates. (Section 5.12)

Leases. The Trustee will provide funds to the Financing Trust from the applicable Certificate Proceeds Accounts to finance or refinance or reimburse the Costs of Projects on the terms and conditions set forth in the Indenture.

Each Lease will provide for Lease Rental Payments over such term and on such schedule (e.g., level payments of principal) as may be agreed upon by the Lessee and the Program Administrator. Interest components of Correlative Leases will be no less than the interest payable under the Correlative Certificates. Principal Components will be equal to the principal payable under the Correlative Certificates. The amount of each Lease Rental Payment and the portion of each Lease Rental Payment constituting principal and interest, respectively, will be calculated as though each Lease Rental Payment is due on the first day of the month following the date on which such Lease Rental Payment is payable, except that at the Closing the Lessee will prepay the initial Lease Rental Payment.

Each Lease will be funded in an amount established by the Program Administrator (it being expressly acknowledged and agreed that such amount may represent a discount of the aggregate of the unpaid principal components of Lease Rental Payments under such Lease).

Each Lease Rental Payment will be applied first to the interest and principal components of Lease Rental Payments then due and payable, then to the components of Lease Rental Payments then due and payable other than the interest and principal components. (Section 5.07)

### Program Administration.

*Appointment of Program Administrator.* The Financing Trust covenants that it will cause the Financing Trust to at all times act as or retain a Program Administrator to administer the Program and perform the duties and obligations of the Program Administrator set forth in the Indenture and in the Program Administration Agreement. The Program Administrator may perform such duties and obligations through, and/or with the assistance of, one or more independent entities selected from time to time by the Program Administrator, identified to the Financing Trust and the Trustee. The Program Administrator will signify its acceptance of the duties of Program Administrator by execution of the Program Administration Agreement, which Program Administration Agreement shall be enforceable by the Trustee and inure to the benefit of the Trustee and the Owners.

*General Duties and Obligations of Program Administrator.* The Program Administrator shall perform all duties and obligations of the "Lessor" under each Lease and each Collateral Document and all duties and obligations of "the Financing Trust" under the Indenture (and the Financing Trust has appointed the Program Administrator as its agent and attorney-in-fact for all such purposes) and such other duties and obligations relating to the Program as are customarily performed or otherwise required in connection with lease programs similar to the Program.

*Successor Program Administrator.* If the Program Administrator shall resign or shall be removed in accordance with the terms of the Indenture, the Trustee, after consultation with the Lessees to solicit names of a suitable successor, shall appoint another entity to act as successor Program Administrator or may itself assume the duties of Program Administrator. Any successor Program Administrator shall signify its acceptance of the duties and obligations of Program Administrator by a written instrument of acceptance pursuant to which such successor Program Administrator shall agree to perform and observe all of the duties and obligations of Program Administrator under the Indenture (such agreement to be enforceable by the Trustee and to inure to the benefit of the Trustee and the Owners), shall acknowledge receipt of copies of the Indenture, the Leases and the Collateral Documents and shall specify its address for notices pursuant to the Indenture, the Leases and the Collateral Documents.

*Payment of Costs of Issuance and Fiduciary Fees.* Upon issuance and sale of each Series of Certificates and delivery of the proceeds of such Certificates in accordance with the Indenture, the Program Administrator will authorize the Trustee to pay the costs of issuance of such Certificates from the funds on deposit in Expense Fund. In addition, to the extent required or permitted under the Indenture, the Program Administrator will requisition funds on deposit in the Expense Fund at such times and in such amounts as are necessary to cause the Trustee to pay, when due, amounts payable as Fiduciary Fees.

*Release of Leases.* Upon payment of all sums due and to become due under a Lease by the Lessee under such Lease or upon the prepayment of a Lease by the Lessee under such Lease by payment in full of the Optional Prepayment Price with respect to such Lease, the Program Administrator will cancel and release such Lease and any related Collateral Documents, convey the Project under such Lease to the Lessee under such Lease and take any other actions required by the terms of such Lease. Upon receipt by the Program Administrator of a certificate of the Trustee certifying that the related Series Trust Estate has ceased, terminated and become void in accordance with the Indenture, the Program Administrator may, in its discretion, forgive the remaining Lease Rental Payments not yet due under all of the Leases and take the actions described in the next preceding sentence in order to release all of the Correlative Leases. (Section 5.08)

Certificates Not Presented for Payment. If any Certificates are not presented for payment when the principal thereof becomes due, either at maturity or at the Redemption Date or upon acceleration, if moneys

sufficient to pay such Certificates are held by the Paying Agent, the Paying Agent will segregate and hold such moneys in trust, without liability for interest thereon, for the benefit of the Owners of such Certificates who will, except as provided in the following paragraph, thereafter be restricted exclusively to such fund or funds for the satisfaction of any claim of whatever nature on their part under the Indenture or relating to said Certificates. (Section 5.09)

Investment of Funds. Except for moneys held in Lessee Acquisition Accounts, the Trustee will invest moneys held in the Funds and Accounts at the written direction of the Program Administrator, and in the absence of any written direction the Trustee shall invest all funds in sweep accounts, money-market funds and similar short-term investments, provided that all such investments shall constitute Investment Securities. The Trustee may trade with itself in the purchase and sale of securities for such investment and may charge its ordinary and customary fees for such trades, including cash sweep account fees. At or prior to the respective times when any amounts invested by the Trustee in any Fund or Account may be needed for disbursement, the Trustee will cause a sufficient amount of the Investment Securities held in such Fund or Account to be sold or otherwise converted into cash at the best price reasonably obtainable to the credit of such Fund or Account.

Moneys held in Lessee Acquisition Accounts, upon a written election of the applicable Lessee or the Program Administrator, will be promptly invested and reinvested in Investment Securities which shall mature, or be subject to redemption at the option of the holder thereof, not later than the respective dates when the moneys in such Lessee Acquisition Account are expected to be required for the purposes intended, but, in no event may such Investment Securities for a Lessee Acquisition Account mature, or be subject to redemption by the holder thereof, on a date later than the date of completion specified in the Lease with respect to which such Lessee Acquisition Account was established (and not later than the date set forth in the applicable Tax Agreement). In the absence of any written direction from the respective Lessee, the Trustee shall invest all funds in sweep accounts, money-market funds and similar short-term investments, provided that all such investments shall constitute Investment Securities. The Trustee may trade with itself in the purchase and sale of securities for such investment and may charge its ordinary and customary fees for such trades, including cash sweep account fees.

Earnings from the investment of moneys will be credited to the Funds and Accounts pursuant to which such investment was made.

The Trustee will not be liable to the Owners for any loss arising from, or any depreciation in the value of, any Investment Securities in which moneys in the Funds and Accounts are invested in accordance with the provisions of the Indenture. (Section 6.01).

Defeasance of Certificates. If the Financing Trust pays or causes to be paid to the Owner of any Certificate the principal of, premium, if any, and interest due and payable, and thereafter to become due and payable on such Certificate, or any portion of such Certificate in any integral multiple of the Authorized Denomination thereof, such Certificate or portion thereof will cease to be entitled to any lien, benefit or security under the Indenture. If the Financing Trust pays or causes to be paid the principal of, premium, if any, and interest due and payable on all Outstanding Certificates of a Series, pays or causes to be paid all other sums payable by the Financing Trust, including all fees, expenses and other amounts payable to the Trustee, the Paying Agent, the Registrar, the Financing Trust and the Program Administrator, then, and in that case, the right, title and interest of the Trustee in and to the related Series Trust Estate will thereupon cease, terminate and become void; provided that the right, title and interest of the Trustee and the Lessees in and to the Lessee Acquisition Accounts and the provisions of the Indenture with respect thereto will continue in full force and effect until moneys therein are applied as provided in the Indenture.

Any Certificate will be deemed to be paid within the meaning of this Article and for all purposes of the Indenture when (a) payment of the principal of such Certificate plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided in the Indenture) either (i) has been made or caused to be made in accordance with the terms thereof, or (ii) has been provided for by irrevocably depositing with the Trustee in trust and irrevocably set aside exclusively for such payment, (1) moneys, sufficient to make such payment and/or (2) non-callable Governmental Obligations maturing as to principal and interest in such amount and at such time as will insure the availability of sufficient moneys to make such payment and (b) all necessary and proper fees, compensation and expenses of the Trustee, including reasonable attorneys' fees, the Paying Agent, the Registrar, the Financing Trust and the Program Administrator pertaining to the Certificates with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Trustee. At such times as a Certificate is deemed to be paid hereunder, as aforesaid, such Certificate will no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such moneys or Governmental Obligations.

Notwithstanding the foregoing paragraph, no deposit under (a)(ii) above will be deemed a payment of such Certificates as aforesaid until (a) proper notice of redemption of such Certificates has been previously given, or if said Certificates are not to be redeemed within the next succeeding sixty (60) days, until the Financing Trust has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions to notify, as soon as practicable, the Owners of the Certificates, that the deposit required by (a)(ii) above has been made with the Trustee and that said Certificates are deemed to have been paid in accordance with the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of said Certificates plus interest thereon to the due date thereof, or (b) the maturity of such Certificates. (Section 7.01).

Events of Default. Each of the following events will constitute and is referred to in the Indenture as an "Event of Default," but only as to the Series of Certificates to which the Event of Default relates:

(a) A failure to pay the principal of any Correlative Certificates of a Series when the same becomes due and payable at maturity or upon redemption;

(b) a failure to pay the interest on any Correlative Certificates of a Series after such interest becomes due and payable;

(c) a failure by the Financing Trust to observe and perform any covenant, condition, agreement or provision (other than as described in (a) or (b) above) contained in Correlative Certificates of a Series or in the Indenture on the part of the Financing Trust to be observed or performed, or a failure by a Lessee to observe or perform any covenant, condition, agreement or provision contained in a Correlative Lease for that Series of Certificates (other than as described in (a) or (b) above), which failure continues for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, has been given to the applicable Lessee by the Financing Trust, the Trustee or the Program Administrator. The Trustee may agree to an extension of such period prior to its expiration.

In no event shall an Event of Default as to one Series of Certificates constitute an Event of Default in relation to any other Series of Certificates. (Section 8.01).

Remedies. Upon the occurrence and continuance of any Event of Default, then and in every such case the Trustee may, or will, upon the written request of the Owners of not less than 25% of the applicable Correlative Certificates, and, in each case, upon receipt of indemnity to its satisfaction of all costs and expenses of such action, including attorneys' fees and expenses, in its own name and as the Trustee of an

express trust:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners (whether with respect to the applicable Series Trust Estate or otherwise) and require the Financing Trust to carry out any agreements with or for the benefit of the Owners of the applicable Correlative Certificates and to perform its duties under the Indenture; or

(b) bring suit upon the applicable Correlative Certificates; or

(c) bring an action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the applicable Correlative Certificates; or

(d) institute an action, suit or proceeding in equity or at law for the specific performance of any covenant, condition or agreement contained in the Indenture or, to the extent permissible, in the Correlative Leases or the Collateral Documents; or

(e) apply for the appointment of a trustee, receiver, liquidator or conservator of the applicable Series Trust Estate; or

(f) pursue such other remedies as the Trustee (on behalf of the Owners) may have at law or in equity.

Upon the occurrence of an Event of Default described in Section 8.01(c), the Trustee shall take any of the foregoing actions as may be appropriate with respect to the applicable Lease.

In the enforcement of any remedy under the Indenture, the Trustee shall be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due for the payment of the principal or Redemption Price of or interest on, any Certificates or otherwise under any of the provisions of the Indenture or such Certificates, with interest on overdue payments at the rate or rates of interest specified in the applicable Certificates, together with any and all costs and expenses of collection and of all proceedings hereunder and under the applicable Certificates, without prejudice to any other right or remedy of the Trustee or the Owners and to recover and enforce any judgment or decree, but solely as provided in the Indenture and in the applicable Certificates and from the sources and moneys provided in the Indenture and in the applicable Certificates, for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law the moneys adjudged or decreed to be payable. (Section 9.02).

No Impairment of Right To Enforce Payment. Notwithstanding any other provision in the Indenture, the right of any Owner to receive payment of the principal of, premium, if any, and interest payable under its Certificate, on or after the respective due dates expressed therein, or to institute suit for the enforcement of any such payment on or after such respective date, will not be impaired or affected without the consent of such Owner. (Section 8.06).

Application of Moneys. Any moneys and securities on deposit in or to the credit of any Funds or Accounts created for a Series of Certificates (other than any Lessee Acquisition Account created for a non-defaulting Lessee) and any moneys received by the Trustee or the Paying Agent, by any receiver or by any Owner pursuant to any right given or action taken under the provisions of this Article, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses including reasonable attorneys' fees, liabilities and advances incurred or made by the Trustee and the Paying Agent will be deposited in the related Debt Service Fund and all moneys so deposited in such Debt Service

Fund during the continuance of an Event of Default (other than moneys for the payment of the principal of or interest on Correlative Certificates of the applicable Series which had matured or otherwise become payable prior to such Event of Default) will be applied (i) first, to the payment to the persons entitled thereto of all installments of interest then due on the applicable Correlative Certificates, with interest on overdue installments, in the order of maturity of the installments of such interest and, if the amount available is not sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, and (ii) second, to the payment to the persons entitled thereto of the unpaid principal of the applicable Correlative Certificates which have become due (other than Certificates called for redemption for the payment of which money is held pursuant to the provisions of the Indenture) and, if the amount available is not sufficient to pay in full unpaid principal of all the applicable Correlative Certificates due on any particular date, then to the payment ratably, according to the amount of principal due on such date.

Whenever moneys are to be applied pursuant to the provisions of this Section, such moneys will be applied at such times as the Trustee determines, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee or the Paying Agent applies such funds, it will fix the date upon which such application is to be made and upon such date interest on the amounts of principal and interest to be paid on such date will cease to accrue. The Trustee will give notice of the deposit with it of any such moneys and of the fixing of any such date by Mail to all Owners of applicable Correlative Certificates and will not be required to make payment to any such Owner until its Certificate is presented to the Trustee for appropriate endorsement or for cancellation if fully paid. (Section 8.10).

#### Trustee; Paying Agent.

*Limitations on Liability.* The Trustee and the Paying Agent may execute any of the trusts or powers of the Indenture and perform the duties required of them under the Indenture by or through attorneys, agents, receivers or employees, and are entitled to advice of counsel concerning all matters of trust and their duties under the Indenture, and the Trustee and the Paying Agent will not be answerable for the default or misconduct of any such attorney, agent or employee selected by them with reasonable care. Without limitation, the Trustee is entitled to the benefit of the foregoing sentence with respect to the delegation to the Paying Agent of any or all of the Trustee's duties under the Indenture, including its duties with respect to payment of principal of, or interest on, or redemption of, the Certificates, the authentication and delivery thereof, and the exchange and transfer thereof. The Trustee will not be answerable for the exercise of any discretion or power under the Indenture or for anything whatsoever in connection with the trust created under the Indenture, except only for its own gross negligence or willful misconduct. (Section 9.03).

*Compensation, Expenses and Advances.* The Trustee and the Paying Agent are entitled to reasonable compensation for their services rendered hereunder (not limited by any provision of law in regard to the compensation of the trustee of an express trust) and to reimbursement for their actual out-of-pocket expenses (including reasonable counsel fees and expenses) reasonably incurred in connection therewith except as a result of their gross negligence or willful misconduct. Each Series Trust Estate shall be subject to a lien in favor of the Trustee for payment of the foregoing fees and expenses, including reasonable attorneys' fees. The Trustee shall have the right to file a proof of claim in bankruptcy for all such fees and expenses, including reasonable attorneys' fees, and the parties hereto agree and acknowledge that such fees and expenses are intended to be administrative expenses in the bankruptcy context. The Financing Trust may contest in good faith the reasonableness of any such fees and expenses. (Section 9.04).

*Good Faith Reliance.* The Trustee and the Paying Agent are protected and will incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram, telex or facsimile transmission,

request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which they in good faith believe to be genuine and to have been passed or signed by the proper board, body or person or to have been prepared and furnished pursuant to any of the provisions of the Indenture or the Leases, or upon the written opinion of any attorney, engineer, accountant or other expert believed by the Trustee or the Paying Agent, as the case may be, to be qualified in relation to the subject matter, and the Trustee and the Paying Agent are under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. (Section 9.06).

*Dealings in Certificates.* The Trustee and the Paying Agent, each in its individual capacity, may in good faith buy, sell, own, hold and deal in any of the Certificates, and may join in any action which any Owner may be entitled to take with like effect as if it did not act in any capacity under the Indenture. The Trustee or the Paying Agent, each in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Financing Trust, and may act as depository, trustee or agent for any committee or body of Owners secured under the Indenture or other obligations of the Financing Trust as freely as if it did not act in any capacity under the Indenture. (Section 9.07).

*Construction of Indenture.* The Trustee may construe any of the provisions of the Indenture insofar as the same may appear to be ambiguous or inconsistent with any other provision of the Indenture, and any construction of any such provisions of the Indenture by the Trustee in good faith will be binding upon the Owners. (Section 9.08).

*Resignation of Trustee.* The Trustee may resign and be discharged of the trust created by the Indenture by a written notice of resignation specifying the date when such resignation will take effect, and filing the same with the Financing Trust and the Paying Agent not less than forty-five (45) days before the date specified in such instrument when such resignation takes effect, and by giving notice of such resignation by Mail, not less than three weeks prior to such resignation date, to all Owner of Certificates. Such resignation will take effect on later of the day specified in such notice or the day a successor Trustee accepts its duties hereunder, unless previously a successor Trustee has been appointed, in which event such resignation will take effect immediately upon the appointment of such successor Trustee. (Section 9.09).

*Removal of Trustee.* The Trustee may be removed at any time by filing with the Trustee so removed, and with the Financing Trust and the Paying Agent, an instrument or instruments in writing, appointing a successor, or an instrument or instruments in writing, consenting to the appointment by the Financing Trust of a successor and accompanied by an instrument of appointment by the Financing Trust of such successor and executed by the Owners of not less than a majority in principal amount of the Certificates Outstanding. The Trustee shall not be removed until a successor Trustee has been appointed and accepted its duties hereunder. (Section 9.10).

*Appointment of Successor Trustee.* In case at any time the Trustee is removed, or is dissolved, or if its property or affairs are taken under the control of any state or federal court or administrative body because of insolvency or bankruptcy, or for any other reason, then a vacancy will forthwith and ipso facto exist in the office of Trustee and a successor may be appointed, and if the Trustee resigns, then a successor may be appointed, in each case subject to the prior written approval of the Financing Trust or by the Owners of not less than a majority in principal amount of Certificates Outstanding by an instrument in writing executed by such Owners and delivered to the Financing Trust and the Paying Agent.

After any appointment by the Financing Trust, it will cause notice of such appointment to be given to the Paying Agent and, by Mail, to all Owners. Any new Trustee so appointed by the Financing Trust will immediately and without further act be superseded by a Trustee appointed by the Owners in the manner

above provided. (Section 9.11).

*Standard of Care.* The Trustee will, during the existence of an Event of Default of which the Trustee has notice as provided, exercise such of the rights and powers vested in it by the Indenture and use the same degree of skill and care in their exercise as a prudent person would use and exercise under the circumstances in the conduct of his own affairs.

The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, will undertake to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied duties, covenants or obligations will be read into the Indenture against the Trustee. (Section 9.16).

*Intervention in Litigation of the Financing Trust.* The Trustee may intervene on behalf of the Owners in any judicial proceeding to which the Financing Trust is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of the Owners, and will do so, upon receipt of indemnity satisfactory to it, at the request of the Owners of not less than a majority in principal amount of the applicable Correlative Certificates Outstanding. (Section 9.17).

*Qualifications of Paying Agent; Resignation; Removal.* Each Paying Agent (a) must be a commercial bank or trust company duly organized under the laws of the United States of America or any state or territory thereof authorized by law to perform all the duties imposed upon it by the Indenture, and (b) must have a combined capital stock surplus and undivided profits of at least \$50,000,000 as set forth in its most recent published annual report of condition or (ii) be controlled directly or indirectly through one or more subsidiaries by a bank holding company that has a combined capital and surplus of at least \$50,000,000 as set forth in its most recent published annual report of condition, have at least \$50,000,000 of trust assets under management and have a combined capital and surplus of at least \$2,000,000 as set forth in its most recent published report of condition. The Paying Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least 60 days' notice to the Financing Trust and the Trustee. Notwithstanding the foregoing, the Paying Agent may not resign or be removed until a successor Paying Agent has been appointed.

If the Paying Agent resigns or is removed, or is dissolved, or if the property or affairs of the Paying Agent are taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, and the Financing Trust has not appointed a successor Paying Agent, the Trustee will ipso facto be deemed to be the Paying Agent for all purposes of the Indenture until the appointment of a Paying Agent. (Section 9.19).

#### Supplemental Indentures.

*Supplemental Indentures Without Owner Consent.* The Financing Trust, the Financing Trust and the Trustee may, from time to time and at any time, without the consent of or notice to the Owners, but subject to terms within the Indenture, enter into Supplemental Indentures as follows:

- (a) to cure any formal defect, omission, inconsistency or ambiguity in the Indenture;
- (b) to grant to or confer or impose upon the Trustee or the Paying Agent for the benefit of the Owners any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed and which are not contrary to or inconsistent with the Indenture as theretofore in effect, provided that no such additional liabilities or duties will be imposed upon the Trustee or the Paying Agent without its prior written consent;

(c) to add to the covenants and agreements of, and limitations and restrictions upon the Financing Trust in the Indenture other covenants, agreements, limitations and restrictions to be observed by the Financing Trust which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(d) to confirm, as further assurance, any pledge under, and the subjection to any claim, lien or pledge created or to be created by, the Indenture;

(e) to authorize a different denomination or denominations of the Certificates and to make correlative amendments and modifications to the Indenture regarding exchangeability of Certificates of different denominations, redemptions of portions of Certificates of particular denominations and similar amendments and modifications of a technical nature;

(f) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended;

(g) to secure or maintain a rating on any Certificates with a Rating Service;

(h) in any manner necessary, in the opinion of Bond Counsel, to preserve the exclusion of interest payable under the Certificates from the gross income of a recipient thereof for federal income tax purposes;

(i) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Certificates for deposit with The Depository Trust Company or any similar depository, provided that any such modification, amendment or supplement is not, in the judgment of the Trustee, materially adverse to the Owners;

(j) to modify, alter, amend or supplement the Indenture in any respect which relates to the administration of the Program and the origination and servicing of Leases and the pledge of rights and remedies thereunder; and

(k) to modify, alter, amend or supplement the Indenture in any other respect which in the judgment of the Trustee is not materially adverse to the Owners.

Before any Supplemental Indentures are entered into pursuant to this Section, there must be delivered to the Trustee an opinion of Bond Counsel stating that such Supplemental Indenture is authorized or permitted by the Indenture and the Act, complies with their respective terms and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Certificates. (Section 11.02)

*Supplemental Indentures Requiring Owner Consent.* Except for any Supplemental Indenture entered into in the manner provided above, subject to the terms and provisions contained in the Indenture and not otherwise, Owners of not less than a majority in aggregate principal amount of the Certificates Outstanding that are affected by such Supplemental Indenture will have the right from time to time to consent to and approve the execution and delivery by the Financing Trust and the Trustee of any Supplemental Indenture deemed necessary or desirable by the Financing Trust for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that, unless approved in writing by the Owners of all the Certificates of a Series Outstanding, nothing in the Indenture contained will permit, or be construed as permitting, (i) a change in the times, amounts or currency of payment of the principal of, premium, if any, or interest on any Outstanding Certificate of that Series, or a reduction in the principal amount or Redemption Price of any such Certificate, or (ii) the creation of a claim or lien upon, or a pledge of, the related Series Trust Estate ranking

prior to or on a parity with the claim, lien or pledge created by the Indenture, or (iii) a preference or priority of any Certificate or Certificates of that Series over any other Certificate or Certificates of that Series, or (iv) a reduction in the aggregate principal amount of Certificates the consent of the Owners of which is required for any such Supplemental Indenture. (Section 11.03).

*Effect of Supplemental Indenture.* Upon the execution and delivery of any Supplemental Indenture, the Indenture will be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Financing Trust, the Trustee, the Paying Agent, the Financing Trust and all Owners will thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modifications and amendments. (Section 11.04).

*Consent of Lessees.* No Supplemental Indenture which affects any rights, powers, agreements or obligations of any Lessee under a Lease, or requires a revision of a Lease, will become effective unless and until the Lessee affected thereby consents to such Supplemental Indenture. (Section 11.05).

## The Leases

General. The term of each Lease corresponds to the maturity dates of the Certificates and Lease Rental Payments, both as to the interest component and principal component, correspond to principal and interest payments on the Certificates. Additional Rentals are due under the Leases to pay fiduciary fees relating to the Program. The Lessee has the option to terminate its Lease by paying Optional Prepayment Price. Lease Rental Payments and any Optional Prepayment Price are paid directly to the Trustee.

Each Lease provides that title to the Project will remain with the Lessee. The Lessee is obligated to complete construction of the Project and amounts will be disbursed from the Lessee's Lessee Acquisition Account as Costs of the Project become due and payable. The Lessee assumes all risk of loss or damage to the Project and is required to continue payments under the Lease regardless of any loss or damage. The Lessee is required to carry public liability and property damage insurance with respect to the Project, with property damage insurance being in an amount at least equal to the aggregate principal components of Lease Rental Payments. The Lessee may not create any lien against the Project.

Each Lease is assigned to the Trustee and the Lessee acknowledges that the Lease is a part of the Program and that Lease Rental Payments will be applied to payments on the Certificates and payments of costs and expenses of the Program.

General Obligation Lease. Under a General Obligation Lease, the obligation of the Lessee is a full general obligation for the payment of the Lease Rental Payments and the full faith, credit and revenue of the Lessee is pledged for the prompt payment thereof. During the period of the Lease, there is levied on all taxable property of the Lessee in addition to all other taxes, without limitation as to rate, a direct tax annually in an amount sufficient to pay the Lease Rental Payments when and as due; provided, however, that in each year to the extent that other taxes of the Lessee are available for the payment of the Lease Rental Payments and are appropriated for such purpose, the amount of such direct tax upon all of the taxable property of the Lessee shall be reduced by the amount of such other taxes so available and appropriated. Funds derived from said tax levy are required to be placed in the Sinking Fund of the Lessee and are irrevocably pledged for the payment of all bonds issued under KRS Chapter 66 and all tax supported leases.

Upon an Event of Default the Lessor may (i) by appropriate court action, enforce the pledge described above so that during the remaining Lease Term there is levied on all taxable property of the Lessee,

in addition to all other taxes, without limitation as to rate or amount, a direct tax annually in an amount sufficient to pay the Lease Rental Payments when and as due; (ii) sell or release the project or any portion thereof; or (ii) take whatever action at law or in equity may appear necessary or desirable to enforce its rights and into the Project under the Lease and any Collateral Documents.

## TAX TREATMENT

In the opinion of Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Certificates received by owners of the Certificates is excludible from gross income for Federal income tax purposes. Special Counsel is also of the opinion that interest on the Certificates received by owners of the Certificates is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Special Counsel is of the opinion that interest on the Certificates received by owners of the Certificates is exempt from taxation, including personal income taxation, by the Commonwealth of Kentucky and its political subdivisions.

A draft of the opinion of Special Counsel is set forth in Appendix B, attached hereto.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Certificates. The Lessees have covenanted to comply with certain restrictions designed to ensure that interest on the Certificates will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Certificates being includable in income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Certificates. The opinion of Special Counsel assumes compliance with these covenants. However, Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Certificates may adversely affect the tax status of the interest on the Certificates received by owners of the Certificates.

Certain requirements and procedures contained or referred to in the Certificate and Certificate documents and other relevant documents may be changed and certain actions (including, without limitation, *defeasance of the Certificates*) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Special Counsel expresses no opinion as to any Certificates or Certificates or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Cox, Bowling & Johnson PLLC.

Although Special Counsel is of the opinion that interest on the Certificate received by owners of the Certificates will be excludible from gross income for Federal and Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Certificates received by holders of the Certificates may otherwise affect a holder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the holder or the holder's other items of income or deduction. Special Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each holder or potential holder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Certificates on the tax liabilities of the individual or entity.

For example, although Special Counsel is of the opinion that interest on the Certificates received by owners of the Certificates will not be a specific item of tax preference for the alternative minimum tax, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under

Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed. Receipt of tax-exempt interest, ownership or disposition of the Certificates may result in other collateral Federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of Social Security or Railroad Retirement benefits under Section 86 of the Code and limiting the use of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any Certificates may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of Certificates in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Certificates received by owners of the Certificates.

The Lessees have designated the Certificates as "qualified tax-exempt obligations" within the meaning of Section 265 of the Code.

#### **UNDERWRITING**

The Certificates are to be purchased by Ross, Sinclair & Associates, Inc., Cincinnati, Ohio (the "Underwriter") at an aggregate price of \$2,466,150.30 (representing the principal amount of the Certificates, less underwriter's discount of \$53,849.70). The Underwriter has entered into an agreement with the Financing Trust which provides that the Underwriter will purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such agreement, including the approval of certain legal matters by counsel.

The Underwriter may offer and sell the Certificates to certain dealers and others at a price lower than the offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

#### **CERTAIN LEGAL MATTERS**

At the time of the delivery of the Leases and the Certificates, Cox, Bowling & Johnson PLLC, Lexington, Kentucky, Special Counsel, will deliver its final approving opinion in the form set forth in Appendix B. A copy of such approving opinion will be printed on each Certificate.

Certain legal matters will be passed upon for the Lessees by their respective counsel and for the Underwriter by its counsel, Cox, Bowling & Johnson PLLC, Lexington, Kentucky.

## LITIGATION

Each Lessee has certified that there is no litigation pending or, to the knowledge of such Lessee, threatened to restrain or enjoin the authorization, sale or delivery of its Lease or which would adversely affect the source of payments under its Lease.

## CONTINUING DISCLOSURE

Each Lessee will enter into a written agreement for the benefit of all parties who may become holders of the Certificates, whereunder each Lessee will agree to comply with the provisions of the Municipal Securities Disclosure Rules set forth in Securities and Exchange Corporation Rule 15c2-12, in making annual financial information available upon request and will notify those agencies specified in the Rule in the event of occurrence of any of the following "material events".

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults
- (c) unscheduled draws on debt service reserves reflecting financial difficulties
- (d) unscheduled draws on credit enhancements reflecting financing difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (g) modifications to right of the Bondholders
- (h) bond calls;
- (i) defeasance;
- (j) release, substitution or sale of property securing repayment of the Certificates; and/or
- (k) rating change.

A Lessee may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgement of such Lessee, such other event is material with respect to the Certificates, but the Lessees do not undertake to commit to provide any such notice of material event except those events listed above.

## DESCRIPTION OF THE INSURER

The following information has been supplied by the Insurer for inclusion in this Official Statement. No representation is made by Issuer/Underwriter as to the accuracy or completeness of the information.

The Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer and its affiliates set forth under this heading. In addition, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

## General

XL Capital Assurance Inc. (the "Insurer" or "XLCA") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore.

The Insurer is an indirect wholly owned subsidiary of XL Capital Ltd, a Cayman Islands corporation ("XL Capital Ltd"). Through its subsidiaries, XL Capital Ltd is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd is publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). **XL Capital Ltd is not obligated to pay the debts of or claims against the Insurer.**

The Insurer was formerly known as The London Assurance of America Inc. ("London"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

## Reinsurance

The Insurer has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd ("XLFA"), an insurance company organized under the laws of Bermuda, and an affiliate of the Insurer. Pursuant to this reinsurance agreement, the Insurer expects to cede up to 90% of its business to XLFA. The Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the Policy.

Based on the audited financials of XLFA, as of December 31, 2004, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of \$1,173,450,000, \$558,655,000, \$39,000,000 and \$575,795,000, respectively, determined in accordance with generally accepted accounting principles in the United States ("US GAAP"). XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The obligations of XLFA to the Insurer under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd ("XLI"), a Bermuda company and one of the world's leading excess commercial insurers. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to A.M. Best's rating of "A+" (Negative Outlook), XLI's insurance financial strength rating is "Aa2" (Outlook Negative) by Moody's, "AA-" by Standard & Poor's and "AA" (Ratings Watch Negative)

by Fitch. The ratings of XLFA and XLI are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to the Insurer described in this section, the Bondholders will have direct recourse against the Insurer only, and neither XLFA nor XLI will be directly liable to the Bondholders.

### **Financial Strength and Financial Enhancement Ratings of XLCA**

The Insurer's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch, Inc. ("Fitch"). In addition, XLCA has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of the Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

### **Capitalization of the Insurer**

Based on the audited financials of XLCA, as of December 31, 2004, XLCA had total assets, liabilities, and shareholder's equity of \$827,815,000, \$593,849,000, and \$233,966,000, respectively, determined in accordance with U.S. GAAP.

Based on the audited statutory financial statements for XLCA as of December 31, 2004 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$341,937,000, total liabilities of \$143,494,000 and total capital and surplus of \$198,443,000 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP").

### **Incorporation by Reference of Financials**

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by XL Capital Ltd and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in XL Capital Ltd's reports filed with the Commission is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

## **Regulation of the Insurer**

The Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

**THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE INSURER, INCLUDING THE INSURANCE POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.**

The principal executive offices of the Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

## **MISCELLANEOUS**

The information contained in this Offering Circular has been compiled from official and other sources believed to be reliable, and while not guaranteed as to completeness or accuracy, its believed to be correct as of its date.

The references, excerpts and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents, and reference is directed to all such documents for full and complete statements of all matters of fact relating to the Leases, the Certificates, the security for all payment of the Leases and Certificates and the rights and obligations of the holders of the Certificates. Any statements made in this Offering Circular involving matters of opinion or of estimates, whether or not expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

This Offering Circular is not to be construed as a contract with the purchasers of the Certificates.

## APPENDIX A

### DESCRIPTION OF LESSEES AND SECURITY FOR LEASES

#### County of Floyd, Kentucky

The County of Floyd, Kentucky has entered into a General Obligation Lease having aggregate principal components of Lease Rental Payments of \$2,520,000. See "SUMMARY OF PRINCIPAL DOCUMENTS – The Lease – General Obligation Lease." Proceeds of the lease will be used, along with additional contributed funds, to payoff certain Floyd County BANS maturing June 30, 2005. The proceeds of the BANS were used to fund water line expansions in the Southern part of the County.

## APPENDIX B

### FORM OF SPECIAL COUNSEL OPINION

June 1, 2005

Kentucky Area Development Districts  
Financing Trust  
Frankfort, Kentucky

Bank of New York Trust Company  
Cincinnati, Ohio

Re: \$2,520,000 Kentucky Area Development Districts Financing Trust Lease Acquisition  
Program Certificates of Participation, 2005 Series K

Ladies and Gentlemen:

We have examined the transcript of proceedings (the "Transcript") relating to the preparation, execution and delivery by Kentucky Area Development Districts Financing Trust, a trust created under the laws of the Commonwealth of Kentucky ("Financing Trust") of Kentucky Area Development Districts Financing Trust Lease Acquisition Program Certificates of Participation, 2005 Series K (the "Certificates") evidencing proportionate interests of the owners thereof in principal and interest to be paid by certain local governmental agencies in the Commonwealth of Kentucky as lessees (the "Lessees") identified in such Certificates with respect to leases entered into by, the Lessees (the "Leases"). The Certificates are being prepared, executed and delivered pursuant to a Master Trust Indenture between the Financing Trust and Bank of New York Trust Company, Cincinnati, Ohio, as trustee (the "Trustee") dated as of August 1, 2001 (the "Indenture"). The documents in the Transcript examined include an executed counterpart of the Leases and attachments thereto and the Indenture. We have also examined applicable laws, regulations, rulings and judicial decisions, a specimen Certificate, and such other documents and materials as we deem necessary to render this opinion.

Based on the foregoing, we are of the opinion, as of the date hereof, as follows:

1. The Certificates and the Indenture constitute valid and legally binding obligations of the Financing Trust, enforceable in accordance with their respective terms. Payments of principal and interest on the Leases are designed to be sufficient, in both time and amount, to pay when due the principal and interest with respect to the Certificates.

2. The Certificates constitute valid and legally binding obligations of the Financing Trust to distribute payments on the Leases made by the Lessees pursuant to the Leases to the owners of the Certificates in accordance with the terms thereof and of the Indenture. The Certificates are

secured by and are payable solely from the payments on the Leases and moneys held by the Trustee in the various funds and accounts established by the Indenture for such Lease, which together constitute a Series Trust Estate, as defined in the Indenture.

3. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, the interest portion of the Lease payments made by the Lessees pursuant to the Leases and received by the owners of the Certificates, the same being the interest with respect to the Certificates received by the owners of the Certificates, is excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Leases, the same being the interest with respect to the Certificates received by the owners of the Certificates, will not be treated as a specific item of tax preference, under § 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, we have assumed continuing compliance by the Financing Trust and the Lessees with certain covenants designed to meet the requirements of § 103 of the Code. We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Leases or the Certificates.

4. The Leases related to the Certificates have been designated as "qualified tax-exempt obligations" pursuant to § 265 of the Code.

5. The interest payable with respect to the Certificates is exempt from income taxation and the Certificates are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

Our opinion set forth above is subject to the qualification that the enforceability of the Indenture and the Certificates and agreements relating thereto may be limited by bankruptcy, reorganization, moratorium, insolvency, or other similar laws relating to or affecting the enforcement of creditors' rights, and to the exercise of judicial discretion in accordance with general equitable principles.

In rendering this opinion, we have relied upon certifications and representations of fact contained in the Transcript, which we have not independently verified. We have also relied upon the opinions of counsel to each Lessee, as to the due authorization, execution and delivery by, and the binding effect upon and enforceability against the Lessees of the Leases.

Very truly yours,

COX BOWLING & JOHNSON PLLC

**APPENDIX C**  
**FINANCIAL DATA**

**REPORT OF THE AUDIT OF THE  
FLOYD COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2003**

<u>CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FLOYD COUNTY OFFICIALS	3
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY ARISING FROM CASH TRANSACTIONS	4
STATEMENT OF CASH RECEIPTS CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES	6
NOTES TO FINANCIAL STATEMENTS	8
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE	26
SCHEDULE OF OPERATING REVENUE	27
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES	28
SCHEDULE OF COMPONENT UNIT EXPENDITURES	29
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	30
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	33
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	35
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	40
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	41
CERTIFICATION OF COMPLIANCE – LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	42

*Morgan-Franklin, LLC*

*Certified Public Accountants*

P.O. Box 428  
513 Main Street  
West Liberty, Kentucky 41472

Brenda K. Morgan, CPA

Jody B. Franklin, CPA

Phone (606)743-1884

FAX: (606)743-1895

www.morganfranklin.com

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Paul H. Thompson, Floyd County Judge/Executive  
Members of the Floyd County Fiscal Court

Independent Auditors' Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Floyd County, Kentucky, as of June 30, 2003, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Floyd County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Floyd County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions of Floyd County, Kentucky, as of June 30, 2003, and the revenues received and expenditures paid for the year then ended in conformity with the modified cash basis of accounting.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Paul H. Thompson, Floyd County Judge/Executive  
Members of the Floyd County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated February 2, 2004 on our consideration of Floyd County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Floyd County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Treasurer Should Maintain Records For The Public Properties Corporation
- The County Should Require Component Units To Submit Monthly Financial Reports And Annual Financial Statements
- All Bank Accounts Held In The County's Name Or Held In A Component Units' Name Should Be Reconciled

Respectfully submitted,

*Morgan-Franklin, LLC*

Morgan-Franklin, LLC

Audit fieldwork completed -  
February 2, 2004

FLOYD COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

**Fiscal Court Members:**

Paul H. Thompson	County Judge/Executive
Gerald DeRossett	Magistrate
Jackie Owens	Magistrate
Larry Stumbo	Magistrate
James A. Williams	Magistrate

**Other Elected Officials:**

Keith Bartley	County Attorney
Roger Webb	Jailer
Chris Waugh	County Clerk
Douglas Ray Hall	Circuit Court Clerk
John K. Blackburn	Sheriff
Connie Hancock	Property Valuation Administrator
Roger Nelson	Coroner

**Appointed Personnel:**

David Layne	County Treasurer
Brett Davis	Deputy Judge/Executive
Donna Thompson	Finance Officer

FLOYD COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	Governmental Fund Types				Proprietary Fund Type	Totals (Memorandum Only) Government	Component Unit	Totals (Memorandum Only) Reporting Entity
	General	Special Revenue	Capital Projects	Debt Service				
<b>Assets and Other Resources</b>								
<b>Assets</b>								
Cash and Cash Equivalents	\$ 1,060,126	\$ 124,788	\$ 2,342	\$ 366,032	\$ 77,749	\$ 1,631,037	\$ 123	\$ 1,631,160
Investments								
1999 Refunding Bond - Gas, Solid Waste, Detention Center Justice Center Series A				6,702,679		6,702,679		6,702,679
Justice Center Series B				3		3		3
Fairgrounds and Convention Center Bond Anticipation Note Series 2001				3,310		3,310		3,310
2002 Refunding Bond				2,470		2,470		2,470
Restricted Cash- Payroll Revolving Account	10,232			9,505,148		9,505,148		9,505,148
Retirement Account	11,483					11,483		11,483
Withholding and FICA Account	1,034					1,034		1,034
<b>Total Assets</b>	\$ 1,082,875	\$ 124,788	\$ 2,342	\$ 16,579,645	\$ 77,749	\$ 17,867,399	\$ 123	\$ 17,867,522
<b>Other Resources</b>								
Amounts to be Provided In Future Years for:								
Capital Lease (Note 5)				\$ 992,161		\$ 992,161		\$ 992,161
Bond Payments:								
1999 Refunding Bonds (Note 6 B)				7,077,598		7,077,598		7,077,598
Justice Center Series A Bonds (Note 6 C)								
Justice Center Series B Bonds (Note 6 D)								
Fairgrounds and Convention Center Bonds (Note 6 E)				2,486,691		2,486,691		2,486,691
Bond Anticipation Notes Series 2001 (Note 6 F)				2,172,530		2,172,530		2,172,530
2002 Refunding Bond				9,161,579		9,161,579		9,161,579
<b>Total Other Resources</b>	\$ 0	\$ 0	\$ 0	\$ 21,890,559	\$ 0	\$ 21,890,559	\$ 0	\$ 21,890,559
<b>Total Assets and Other Resources</b>	\$ 1,082,875	\$ 124,788	\$ 2,342	\$ 38,470,204	\$ 77,749	\$ 39,757,958	\$ 123	\$ 39,758,081

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

FLOYD COUNTY  
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY  
ARISING FROM CASH TRANSACTIONS  
June 30, 2003  
(Continued)

	Governmental Fund Types				Proprietary Fund Type	Totals (Memorandum Only)		Component Unit	Totals (Memorandum Only) Reporting Entity
	General	Special Revenue	Capital Projects	Debt Service		Primary Government	Floyd County Solid Waste Incorporated		
<u>Liabilities and Equity</u>									
<u>Liabilities</u>									
Capital Lease (Note 5)	\$	\$	\$	\$	\$	\$	\$	\$	\$ 992,161
Bonds:									
Refinanced Bonds:									
Solid Waste Refunding Bonds (Note 6 A2)				1,810,000			1,810,000		1,810,000
Detention Center Bonds (Note 6 A3)				4,040,000			4,040,000		4,040,000
Justice Center Series A Bonds (Note 6 C1)				2,975,000			2,975,000		2,975,000
Justice Center Series B Bonds (Note 6 C2)				6,100,000			6,100,000		6,100,000
1999 Refunding Bonds (Note 6 B)				7,875,000			7,875,000		7,875,000
Fairgrounds and Convention Center Bonds (Note 6 E)				2,490,000			2,490,000		2,490,000
2002 Refunding Bond (Note 6 D)				9,165,000			9,165,000		9,165,000
Bond Anticipation Notes Series 2001 (Note 6 F)				2,175,000			2,175,000		2,175,000
Total Liabilities	\$ 0	\$ 0	\$ 0	\$ 37,622,161	\$ 0	\$ 0	\$ 37,622,161	\$ 0	\$ 37,622,161
<u>Equity Balance</u>									
Fund Balances:									
Reserved	\$ 490,355	\$ 124,788	\$ 2,342	\$ 848,043	\$ 77,749	\$	\$ 1,543,277	\$	\$ 1,543,277
Unreserved	592,520					123	592,520		592,643
Total Equity	\$ 1,082,875	\$ 124,788	\$ 2,342	\$ 848,043	\$ 77,749	\$	\$ 2,135,797	\$ 123	\$ 2,135,920
Total Liabilities and Equity	\$ 1,082,875	\$ 124,788	\$ 2,342	\$ 38,470,204	\$ 77,749	\$	\$ 39,757,958	\$ 123	\$ 39,758,081

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

**FLOYD COUNTY**  
**STATEMENT OF CASH RECEIPTS,**  
**CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES**

For The Fiscal Year Ended June 30, 2003

Cash Receipts	General Fund Type				Special Revenue Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund	State Grants Fund	Federal Grants Fund	E-911 Fund
Schedule of Operating Revenue	\$ 11,475,863	\$ 3,604,343	\$ 1,160,614	\$ 733,771	\$ 3,506,586	\$ 11,590	\$ 1,009,884	\$ 213,199
Other Financing Sources:								
Receipts - Jail Canteen	113,108							
Receipts - Solid Waste	1,562,864							
Transfers In	4,377,120	1,890,308	307,698	1,036,909	355,140			
Proceeds From Refinanced Bonds	8,893,235							
Good Faith Deposit	91,650							
Capitalized Interest	0							
Lease-Purchase Proceeds	0							
Dividends	13							
Kentucky Advanced Revenue Program	1,000,000	900,000	100,000					
<b>Total Cash Receipts</b>	<b>\$ 27,513,853</b>	<b>\$ 6,394,651</b>	<b>\$ 1,568,312</b>	<b>\$ 1,770,680</b>	<b>\$ 3,861,726</b>	<b>\$ 11,590</b>	<b>\$ 1,009,884</b>	<b>\$ 213,199</b>
<b>Cash Disbursements</b>								
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 12,087,848	\$ 4,068,314	\$ 1,280,614	\$ 1,225,003	\$ 3,127,171	\$ 11,563	\$ 1,014,608	\$ 199,854
Other Financing Uses:								
Expenditures - Jail Canteen	103,141	0	0	0	0	0	0	0
Expenditures - Component Unit	0							
Expenditures - Floyd County (Martin) Community Center	205,179							
Transfers Out	4,377,120	2,086,812	99,132	0	0	0	0	0
Capital Lease Payments	111,419	59,469	0	0	600,000	0	0	0
Lease Payments	1,014							
Fund Service Fees	2							
Bonds:								
Principal Paid	925,000							
Interest Paid	1,746,050							
Fees:								
Trustee	15,855							
Legal	28,107							
Advisory	63,960							
Verification	5,000							
Investor Service Rating	10,900							
Escrow Bidder	16,600							
Kentucky Advanced Revenue Program- Repayments	1,000,000	900,000	100,000					
<b>Total Cash Disbursements</b>	<b>\$ 20,697,195</b>	<b>\$ 7,114,595</b>	<b>\$ 1,479,746</b>	<b>\$ 1,225,003</b>	<b>\$ 3,779,121</b>	<b>\$ 11,583</b>	<b>\$ 1,014,608</b>	<b>\$ 199,854</b>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 6,816,758	\$ (719,944)	\$ 88,566	\$ 545,677	\$ 82,605	\$ 7	\$ (4,724)	\$ 13,345
Cash Balance - July 1, 2002	10,895,412	810,542	309	10,989	241,382	136	21,589	70,121
Prior Period Adjustment	132,603							
<b>Cash Balance - June 30, 2003</b>	<b>\$ 17,844,773</b>	<b>\$ 90,598</b>	<b>\$ 88,875</b>	<b>\$ 556,666</b>	<b>\$ 323,987</b>	<b>\$ 143</b>	<b>\$ 16,865</b>	<b>\$ 83,466</b>

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

FLOYD COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
For The Fiscal Year Ended June 30, 2003  
(Continued)

	Special Revenue Fund Type (Continued)		Capital Projects Fund Type		Debt Service Fund Type		Enterprise Fund Type		Component Unit
	Revolving Loan Fund	Floyd County (Martin) Community Center	Bond Anticipation Note Fund	Public Properties Corporation Fund	KACO Leasing Trust Acquisition Account	Jail Canteen Account	Floyd County Solid Waste Incorporated		
Cash Receipts									
Schedule of Operating Revenue	\$ 128	\$ 1,395	\$ 5,515	\$ 1,228,938	\$ 0	\$ 0	\$ 0	\$ 0	0
Other Financing Sources:									
Receipts - Jail Canteen									
Receipts - Solid Waste									
Transfers In									
Proceeds From Refinanced Bonds		46,218		740,847		113,108			1,562,964
Good Faith Deposit				8,093,235					
Capitalized Interest				91,650					
Lease-Purchase Proceeds									
Dividends									
Kentucky Advanced Revenue Program									
Total Cash Receipts	\$ 128	\$ 47,613	\$ 5,515	\$ 10,954,570	\$ 13	\$ 113,108	\$ 1,562,964		
Cash Disbursements									
Comparative Schedule of Final Budget and Budgeted Expenditures									
Other Financing Uses:									
Expenditures - Jail Canteen	\$ 0	\$ 0	\$ 1,160,701	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0
Expenditures - Component Unit									
Expenditures - Floyd County (Martin) Community Center		205,179				103,141			
Transfers Out									
Capital Lease Payments									
Lease Payments									
Fund Service Fees									
Bonds:									
Principal Paid									
Interest Paid									
Fees:									
Trustee					1,014				1,562,941
Legal									
Advisory									
Verification									
Investor Service Rating									
Escrow Bidder									
Kentucky Advanced Revenue Program- Repayments									
Total Cash Disbursements	\$ 0	\$ 205,179	\$ 1,160,701	\$ 2,839,707	\$ 1,016	\$ 103,141	\$ 1,562,941		
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 128	\$ (157,566)	\$ (1,155,186)	\$ 8,114,863	\$ (1,003)	\$ 9,967	\$ 23		
Cash Balance - July 1, 2002	13,045	167,807	1,157,528	8,332,137	1,145	67,782	0		
Prior Period Adjustment	0	0	0	132,503	0	0	0		
*Cash Balance - June 30, 2003	\$ 13,973	\$ 10,341	\$ 2,342	\$ 16,579,503	\$ 142	\$ 77,749	\$ 123		

\* Cash balance includes cash and investments.

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

FLOYD COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Floyd County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Floyd County Solid Waste Incorporated, the Floyd County (Martin) Community Center, Incorporated, and the Public Properties Corporation Fund as part of the reporting entity.

Floyd County Solid Waste Incorporated (the Corporation) is a legally separate entity established to monitor garbage disposal services in Floyd County. The Fiscal Court appoints all of the Corporation's board members and is financially accountable for the Corporation. This financial accountability requires management to include the Corporation as a component unit. The Corporation is not included in any other organization's reporting entity and provides services exclusively to the Fiscal Court; therefore, the financial activity of the corporation is discretely presented in the financial statements.

The Floyd County (Martin) Community Center, Incorporated (the Center) is a legally separate entity created to oversee the operations of the Floyd County Community Center located in Martin, Kentucky. The Fiscal Court appoints all of the Center's board members and is able to impose its will on the Center, therefore the financial activities of the Center is blended with that of the Fiscal Court. During the fiscal year ended June 30, 2003, the board was dissolved and the building was leased to the town of Martin.

The Public Properties Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is discretely presented.

Additional - Floyd County Constitutional Elected Officials

Circuit Court Clerk  
County Attorney  
County Clerk  
County Sheriff  
Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Floyd County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education.

See Accompanying Auditors' Report

FLOYD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Floyd County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Floyd County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund (LGEA).

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Floyd County Special Revenue Fund Type includes the following county funds: State Grants Fund, Federal Grants Fund, E-911 Fund, Revolving Loan Fund, Construction Fund, the Local Government Economic Development Fund, and the Floyd County (Martin) Community Center.

3) Debt Service Fund Type

Debt-Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes KACO Leasing Trust Acquisition Account and the Public Properties Corporation Fund. The KACO Leasing Trust Acquisition Account includes operating lease proceeds from the Kentucky Association of Counties Leasing Trust Program for the construction of additional office space at the Big Sandy ADD building. The Public Properties Corporation Fund debt service is provided rough annual transfers from the General Fund Type in the amount of the debt service requirements for the year. Receipts include annual lease payments from the AOC for rental of the Floyd County Justice Center. Receipts also include bond principal and interest payments from the East Kentucky Utilities Gas System for a portion of the 1999 Revenue Refunding Bonds and the Floyd County Racing Commission and Appalachian Racing, Inc. for a portion of the principal and interest payments made on the Fairgrounds and Convention Center Bonds.

See Accompanying Auditors' Report

FLOYD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

4) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Bond Anticipation Note Fund of the Fiscal Court is reported as a Capital Projects Fund Type.

5) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Floyd County Enterprise Fund Type includes the jail canteen and jail inmate accounts, which are maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures appeared to be for the benefit and/or recreation of the inmates.

During the fiscal year ended June 30, 2003, the Floyd County Jail Canteen received \$113,108 and expended \$103,141 resulting in net income of \$9,967.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, and expenditures when paid. Long-term receivables, deferred revenue, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any such cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

See Accompanying Auditors' Report

FLOYD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance – Budget

The Floyd County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Debt Service Fund Type because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund type to be budgeted.

E. Cash and Investments

Cash and cash equivalents include amounts in bank accounts, and investments that have a maturity date within ninety days of the fiscal year end. Investments are stated at cost and include investments with a maturity date greater than ninety days from the fiscal year end. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Floyd County Fiscal Court: Floyd County Housing Authority, Southern Water and Sewer District, Sandy Valley Water District Commission, Floyd County Flood Plain Appeals, Floyd County Cooperative Extension Board, and the Floyd Service Project, Inc.

See Accompanying Auditors' Report

FLOYD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met by the county, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bonds which named the county as beneficiary/obligee on the bonds. Deposits held at First Guaranty Bank were collateralized and insured in an amount equal to or exceeding such deposits. However, as of May 30, 2003, the date of highest balance at Citizens National Bank, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$73,681 of public funds uninsured and unsecured.

FLOYD COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2003  
 (Continued)

Note 3. Deposits (Continued)

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of May 30, 2003.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Uncollateralized and uninsured	<u>73,681</u>
Total	<u>\$ 173,681</u>

Note 4. Capital Lease Agreements

A. On July 22, 1999, Floyd County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for the construction of an office building for use by the Big Sandy Area Development District. The principal amount of the lease was \$60,000. Under a sublease agreement, the Big Sandy Area Development District will pay to the County sufficient funds to meet lease rental requirements. The agreement requires variable monthly payments for 7 years to be paid in full August 20, 2006. The principal balance of the agreement was \$29,512 as of June 30, 2003. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 1,421	\$ 8,866
2005	917	9,277
2006	388	9,708
2007	<u>12</u>	<u>1,661</u>
	<u>\$ 2,738</u>	<u>\$ 29,512</u>

See Accompanying Auditors' Report

FLOYD COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2003  
 (Continued)

Note 4. Capital Lease Agreements (Continued)

B. On October 16, 1992, Floyd County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for the construction of an office building for use by the Big Sandy Area Development District. The principal amount of the lease was \$850,000. Under a sublease agreement, the Big Sandy Area Development District will pay to the County sufficient funds to meet lease rental requirements. The agreement requires variable monthly payments for 25 years to be paid in full January 20, 2018. The principal balance of the agreement was \$631,000 as of June 30, 2003. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 33,341	\$ 29,000
2005	31,756	30,000
2006	30,095	32,000
2007	28,326	34,000
2008	26,472	35,000
2009-2013	101,252	205,000
2014-2018	<u>38,526</u>	<u>266,000</u>
	<u>\$ 289,768</u>	<u>\$ 631,000</u>

C. On May 8, 1994, Floyd County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for voting machines. The principal amount of the lease was \$206,000. The agreement requires variable monthly payments for 120 months to be paid in full March 20, 2004. The principal balance of the agreement was \$24,000 as of June 30, 2003. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	<u>\$ 803</u>	<u>\$ 24,000</u>
	<u>\$ 803</u>	<u>\$ 24,000</u>

See Accompanying Auditors' Report

FLOYD COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2003  
 (Continued)

Note 4. Capital Lease Agreements (Continued)

D. In March 2002, Floyd County entered into a lease agreement with Caterpillar Financial Services Corporation for a 120H Model Caterpillar Motor Grader. The principal amount of the lease was \$135,072. The agreement requires fixed monthly payments for 48 months with a \$1 bargain purchase price due in March 2006. The principal balance of the agreement was \$92,649 as of June 30, 2003. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 3,699	\$ 33,345
2005	2,031	35,004
2006	<u>389</u>	<u>24,300</u>
	<u>\$ 6,119</u>	<u>\$ 92,649</u>

E. In May 2001, Floyd County entered into a lease agreement with Kentucky Area Development District for a building addition for the Prestonsburg Field House. The principal amount of the lease was \$249,000. The agreement requires semi-annual interest payments and annual principal payments beginning in December 2001. The principal balance of the agreement was \$215,000 as of June 30, 2003. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 10,234	\$ 25,000
2005	9,044	25,000
2006	7,854	25,000
2007	6,664	25,000
2008	5,474	25,000
2009-2011	<u>8,568</u>	<u>90,000</u>
	<u>\$ 47,838</u>	<u>\$ 215,000</u>

See Accompanying Auditors' Report

FLOYD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 5. Operating Lease Agreements

- A. In September 2002, Floyd County entered into an operating lease agreement with C & M Leasing Company, Inc. for a 2000 Chevrolet Tahoe. The agreement requires monthly rental expenditures of \$699 for twelve months. For the year ended June 30, 2003, Floyd County made total payments in the amount of \$8,389.
- B. In September 2002, Floyd County entered into an operating lease agreement with C & M Leasing Company, Inc. for a 1999 Chevrolet Tahoe. The agreement requires monthly rental expenditures of \$574 for twelve months. For the year ended June 30, 2003, Floyd County made total payments in the amount of \$6,888.
- C. In March 2003, Floyd County entered into an operating lease agreement with C & M Leasing Company, Inc. for a 1998 Toyota 4-Runner. The agreement requires monthly rental expenditures of \$448 for twelve months. For the year ended June 30, 2003, Floyd County made total payments in the amount of \$5,376.

Note 6. Long-Term Debt

A. Refinanced Bonds

The Following three bond issuances were refinanced from the proceeds of the 1999 Revenue Refunding bonds detailed at Note 6 B.

- 1) In March 1991, the Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$620,000 in First Mortgage Revenue Bonds for the East Kentucky Utilities Gas System. These bonds were originally scheduled to mature in September 2012. The Fiscal Court refinanced these bonds as a cost savings measure in March 1999. As part of the refunding, the East Kentucky Utilities Gas System bond payment schedule was revised to reflect a maturity date of September 2001. The bond principal and interest payments were paid from the proceeds of the Floyd County Refunding Bonds Series 1999. These bonds were paid in full September 1, 2001.

FLOYD COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2003  
 (Continued)

Note 6. Long-Term Debt (Continued)

2) In March 1994, the Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$2,500,000 in Solid Waste Refunding and Improvement Revenue bonds. These bonds were originally scheduled to mature in March 2014. The Fiscal Court refinanced these bonds as a cost savings measure in March 1999. As part of the refunding, the Solid Waste bond payment schedule was revised to reflect a maturity date of March 2004. The bond principal and interest payments will be paid from the proceeds of the Floyd County Refunding Bonds Series 1999. As of June 30, 2003, the principal balance outstanding on the 1994 Solid Waste bonds was \$1,810,000. The debt service requirements to be paid from the proceeds of the Floyd County 1999 Refunding Bonds are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 163,440	\$1,810,000

3) In March 1994, the Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$5930,000 in First Mortgage Revenue Bonds for the Floyd County Detention Facility Project. These bonds were originally scheduled to mature in March 2019. The Fiscal court refinanced these bonds as a cost savings measure in March 1999. As part of the refunding, the Detention Center bond payment schedule was revised to reflect a maturity date of March 2004. The bond principal and interest payments will be paid from the proceeds of the Floyd county Refunding Bonds Series 1999. As of June 30, 2003, the principal balance outstanding on 1994 Detention Center Bonds was \$4,040,000. The debt service requirements to be paid from the proceeds of the Floyd County 1999 Refunding Bonds are as follows.

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 367,415	\$ 4,040,000

See Accompanying Auditors' Report

FLOYD COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2003  
 (Continued)

Note 6. Long-Term Debt (Continued)

B. In April 1999, the Floyd county Public Properties corporation, a component unit of the Floyd county Fiscal Court, issued \$9,445,000 in General Obligation Refunding Bonds, Series 1999. The proceeds from these refunding bonds will be used to refinance the 1999 East Kentucky Utilities Gas Systems Bonds, the 1994 Solid Waste Refunding and Improvement Revenue Bonds, and the 1994 Detention Facility First Mortgage Revenue Bonds. These bonds are scheduled to mature in 2019 and carry an interest rate of 4.35% to 4.4%. Semiannual interest payments are required in September and March. As of June 30, 2003, the principal balance outstanding on these bonds was \$7,875,000. Debt service requirements for fiscal years ending June 30, 2004 and thereafter are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 345,204	\$ 425,000
2005	326,716	445,000
2006	307,359	465,000
2007	287,131	485,000
2008	266,034	510,000
2009-2013	978,429	2,875,000
2014-2018	378,400	2,220,000
2019	19,800	<u>450,000</u>
	<u>\$2,909,073</u>	<u>\$7,875,000</u>

C. The following two bonds were refunded from the proceeds of the 2002 Refunding Bonds discussed in Note 6 (D):

1) In December 1995, the Floyd County Public Properties Corporation, a component unit of the Floyd county Fiscal Court, issued \$3,310,000 in First Mortgage Revenue Bonds Series A for phase 1 of the Court Facility Project. Semiannual principal and interest payments are required in September and March.

See Accompanying Auditors' Report

FLOYD COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2003  
 (Continued)

Note 6. Long-Term Debt (Continued)

The Floyd county Public Properties is acting as an agent for the Administrative office of the Courts in order to manage and maintain the Justice Center. The Floyd County Public Properties Corporation Expects annual rentals for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, The Administrative Office of the courts has agreed to pay directly to the paying agent bank, the use allowances payment as provided in the lease. The lease agreement is renewable each year. The Floyd County Public Properties Corporation is in reliance upon the use of allowance payment in order to meet the debt serviced for the bonds.

The Administrative Office of the Courts with the execution of the lease has expressed its intention to continue to pay the full allowance payment in each successive biennial budget period until September 2023, but the lease does not legally obligate the administrative Office of the Courts to do so.

As of June 30, 2003, the principal balance on these bonds was \$2,975,000. Debt service requirements for fiscal years ending June 30, 2004 and thereafter are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 162,193	\$ 75,000
2005	157,930	80,000
2006	153,392	85,000
2007	148,580	90,000
2008	143,493	95,000
2009-2013	631,387	555,000
2014-2018	455,388	735,000
2019-2023	215,757	1,015,000
2024	<u>6,799</u>	<u>245,000</u>
	<u>\$2,074,919</u>	<u>\$2,975,000</u>

See Accompanying Auditors' Report

FLOYD COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2003  
 (Continued)

Note 6. Long-Term Debt (Continued)

2) In June 1996, the Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$ 6,525,000 in First Mortgage Revenue Bonds Series B for phase 2 of the court Facility Project. As stated in Note 6C (1), the Administrative Office of the Courts makes lease rental payments directly to the paying agent bank in the amount of annual bond principal and interest payments. As of June 30, 2003, the principal balance on these bonds was \$6,100,000. Debt service requirements for fiscal years ending June 30, 2004 and thereafter are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 367,680	\$ 100,000
2005	362,043	105,000
2006	356,130	110,000
2007	349,805	120,000
2008	343,067	125,000
2009-2013	1,595,340	750,000
2014-2018	1,332,638	1,010,000
2019-2023	976,879	1,325,000
2024-2026	<u>315,735</u>	<u>2,455,000</u>
	<u>\$5,999,317</u>	<u>\$6,100,000</u>

D. In September 2002, the Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$9,165,000 in First Mortgage Revenue Refunding Bonds, Series 2002 (Floyd County Justice Center Project). The proceeds from these refunding bonds will be used to refinance the 1995 First Mortgage Revenue Bonds, Series A and 1996 First Mortgage Revenue Bonds, Series B. These bonds are scheduled to mature in 2022 and carry an interest rate of 3.0% to 4.75%. Semiannual interest payments are required in March 1 and September 1 of each year commencing March 1, 2003.

See Accompanying Auditors' Report

FLOYD COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2003  
 (Continued)

Note 6. Long-Term Debt (Continued)

As of June 30, 2003 the principal balance outstanding on these bonds was \$9,165,000. Debt service requirements for fiscal years ending June 30, 2004 and thereafter are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 376,768	\$ 240,000
2005	369,418	250,000
2006	361,843	255,000
2007	353,711	265,000
2008	344,936	275,000
2009-2013	1,577,406	1,510,000
2014-2018	1,264,871	1,835,000
2019-2023	811,086	2,280,000
2024-2027	<u>220,519</u>	<u>2,255,000</u>
	<u>\$5,680,558</u>	<u>\$9,165,000</u>

E. In May 1999, the Floyd county Public Properties Corporation, a component unit of the Floyd County Fiscal court, issued \$2,700,000 in General Obligation Public Project Bonds to refinance the 1993 bond Anticipation Notes for the Thunder Ridge Fairground and Convention Center. The bonds carry an interest rate of 4.85% and are scheduled to mature in July 2019. Semiannual interest payments are required in July and January. The facility has been leased to Appalachian Racing for an amount equal to the annual debt service requirements. As of June 30, 2003, the principal balance outstanding on these bonds was \$2,490,000. Debt service requirements for fiscal years ending June 30, 2004 and thereafter are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 119,431	\$ 65,000
2005	115,673	80,000
2006	111,429	95,000
2007	106,700	100,000
2008	101,608	110,000
2009-2013	411,522	710,000
2014-2018	217,159	905,000
2019-2020	<u>20,976</u>	<u>425,000</u>
	<u>\$1,204,498</u>	<u>\$2,490,000</u>

See Accompanying Auditors' Report.

FLOYD COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2003  
 (Continued)

Note 6. Long-Term Debt (Continued)

F. In October 2001, the Floyd County Public Properties corporation, a component unit of the Floyd County Fiscal Court, issued \$2,175,000 in First Mortgage Revenue Bond Anticipation Notes, Series 2001. The proceeds from these notes will be used for a waterline construction project. These notes are scheduled to mature in October 2003 and carry an interest rate of 4.25%. Semiannual interest payments are required in April and October and the principal amount is due in October 2003. As of June 30, 2003, the principal balance outstanding on these bond anticipation notes was \$2,175,000. Debt service requirements for fiscal years ending June 30, 2004 and thereafter are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 46,219	\$2,175,000

Note 7. Related Party Transactions

During the fiscal year ending June 30, 2003, the county spent \$766 for parts and services at Layne Brother's Ford-Lincoln-Mercury-Honda and Ford Trucks. The County Treasurer's father is co-owner of the dealership.

The Deputy Judge/Executive's father-in-law is a co-owner and on the board of directors of the depository institution where several of the county's cash accounts are held.

Terrell Ross, shareholder of Ross, Sinclair & Associates, is the Financial Advisor of the bond issuances for Floyd County. Terrell Ross leases the Thunder Ridge Racetrack from Floyd County. During the fiscal year ended June 30, 2003, the county received lease income of \$211,250 from Appalachian Racing, LLC (formerly Mountain Racing), of which Terrell Ross is an owner.

Note 8. Insurance

For the fiscal year ended June 30, 2003, Floyd 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 member, the members are responsible for payment of the excess losses.

FLOYD COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2003  
 (Continued)

Note 9. Contingency

a. Garth Landfill

The Natural Resources and Environmental Protection Cabinet (the Cabinet) filed an Administrative Complaint against Floyd County Fiscal Court on May 29, 2001, for failure to comply with regulations related to landfill operations. The Cabinet and Floyd County are currently engaged in settlement discussions related to the Administrative Complaint. It is likely that the Administrative Complaint will result in a liability for Floyd County. At this time the amount of the liability cannot reasonably be determined.

During the fiscal year ended June 30, 2003 the county incurred \$10,162 for monitoring of the Garth Landfill and \$151,665 for supplies and equipment used at the Garth Landfill.

b. Non-Federal Sponsor of the Town of Martin

Floyd County is the non-federal sponsor of the town of Martin's Non-structural Flood Control Project. Martin is required to provide a 5% match of estimated project expenditures of federal monies. As Martin's non-federal sponsor, Floyd County has agreed to contribute 1% of Martin's 5% matching requirement. During the fiscal year ended June 30, 2003, the fiscal court contributed \$5,000 toward this project.

Note 10. Kentucky Advanced Revenue Program (KARP)

The Kentucky Association of Counties Advance Revenue Program (KARP) has established a program for the purchase of tax and revenue anticipation notes issued by government agencies in order to provide an efficient system of cash flow borrowing for Governmental Agencies in Kentucky. The County obtains KARP loans at a fixed rate of interest then invests the monies to yield a higher rate of return. Under the terms of the KARP agreements, borrowings are short-term, necessitating the repayment of principal plus interest by the end of each fiscal year.

During 2003, the Floyd County Fiscal Court participated in the program as follows:

General Fund

KARP funds borrowed and invested July 1, 2002 to July 10, 2002	\$ 4,041,800
*KARP funds withdrawn on July 11, 2002	<u>\$(1,000,000)</u>
KARP funds borrowed and invested July 11, 2002 to January 2, 2003	\$ 3,041,800
Principal Repaid	\$ 4,041,800
Balance, Ending	<u>\$ 0</u>
Interest earned at 2.44%	\$ 38,200
Interest paid at 1.68%	<u>\$ 34,328</u>
Net Interest Received	<u>\$ 3,872</u>

\* These funds were borrowed from KARP to be used to finance flood related expenditures in anticipation of Federal Emergency Management Agency Grant Funds.

See Accompanying Auditors' Report.

FLOYD COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2003  
 (Continued)

Note 10. Kentucky Advanced Revenue Program (KARP) (Continued)

Road Fund

KARP funds borrowed and invested	\$ 106,200
Principal Repaid	<u>(106,200)</u>
Balance, Ending	<u>\$ 0</u>
Interest earned at 2.44%	\$ 1,310
Interest paid at 1.68%	<u>(902)</u>
Net Interest Received	<u>\$ 408</u>

When there are funds in excess of the cost of administering this program, the excess funds are distributed to the participants. During the 2003 fiscal year, there was an additional premium disbursed to those participating in the program. The Floyd County Fiscal Court Received \$8,179 of this premium, which is included as KARP interest.

Note 11. Jail Inmate Account

The Jail Inmate Account is used to hold inmate money while incarcerated at the jail. Individual account balances are maintained by the Jailer's administrative assistant. Inmate receipts included payments from the state for certain labor performed and inmate deposits from other sources totaling \$153,415. Payments from this account included commissary purchases, inmate labor payments, return of inmate monies upon release, medical payments and miscellaneous purchases totaling \$148,705. Monies held for prisoners as of June 30, 2003 equaled \$4,793.

Note 12. Prior Period Adjustments

The Floyd County Solid Waste, Inc. Fund beginning fund balance was increased by \$100. The Public Properties Corporation Fund beginning fund balance was increased by \$132,503.

Note 13. Reserved Cash Balances

The Statement Of Cash Receipts, Cash Disbursements, And Changes In Cash Balances shows that the cash balance as of June 30, 2003, was \$17,787,795. Of this amount, \$331,981 is reserved for LGEA expenditures, \$2,343 is reserved for capital lease expenditures, \$983,668 is reserved for the reduction of long-term bonds, and \$77,749 is reserved for expenditures that are for the benefit and/or recreation of the inmates.

FLOYD COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 14. New Reporting Standard

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement #34 "Basic Financial Statements and management's Discussion and Analysis for State and Local Governments." This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The County has not yet determined the full impact that adoption of GASB statement #34 will have on the financial statements.

FLOYD COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

Budgeted Funds	Budgeted Operating Revenue	Actual Operating Revenue	Over (Under) Budget
<u>General Fund Type</u>			
General Fund	\$ 7,045,309	\$ 3,604,343	\$ (3,440,966)
Road and Bridge Fund	1,159,080	1,160,614	1,534
Jail Fund	930,000	733,771	(196,229)
Local Government Economic Assistance Fund	5,603,687	3,506,586	(2,097,101)
 <u>Special Revenue Fund Type</u>			
State Grants Fund	15,000	11,590	(3,410)
Federal Grants Fund	2,350,778	1,009,884	(1,340,894)
E-911 Fund	203,622	213,199	9,577
Revolving Loan Fund	500	128	(372)
Construction Fund	-		-
Local Government Economic Development Fund	-		-
Floyd County (Martin) Community Center	-	1,395	1,395
 <u>Capital Projects Fund Type</u>			
Bond Anticipation Note Fund	25,000	5,515	(19,485)
 Totals	 \$ 17,332,976	 \$ 10,247,025	 \$ (7,085,951)
 <u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 17,332,976
Add: Budgeted Prior Year Surplus			2,766,292
Add: Other Financing Sources			1,000,000
Less: Other Financing Uses			(2,175,830)
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			\$ 18,923,438

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

FLOYD COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

Revenue Categories	<u>GOVERNMENTAL FUND TYPES</u>				
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Capital Projects Fund Type	Debt Service Fund Type
Taxes	\$ 2,411,084	\$ 2,199,488	\$ 211,596		
In Lieu Tax Payments	25,505	25,505			
Excess Fees	75,116	75,116			
Licenses and Permits	18,992	18,992			
Intergovernmental Revenues	6,534,208	5,513,126	1,021,082		
Charges for Services	117,773	117,773			
Miscellaneous Revenues	1,610,969	1,002,650	1,690		606,629
Interest Earned	682,216	52,664	1,828	5,515	622,209
<b>Total Operating Revenue</b>	<b>\$ 11,475,863</b>	<b>\$ 9,005,314</b>	<b>\$ 1,236,196</b>	<b>\$ 5,515</b>	<b>\$ 1,228,838</b>

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



FLOYD COUNTY  
SCHEDULE OF FLOYD COUNTY (MARTIN) COMMUNITY CENTER EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Items	Floyd County (Martin) Community Center	
Operating Expenses-		
Supplies	\$ 4,610	
Consulting Fees	5,132	
Utilities	3,703	
Rent	853	
Taxes - Payroll	5,975	
Subscriptions	759	
Travel Expenses	891	
Phone Services	6,663	
Postage	78	
Miscellaneous	1,111	\$ 29,775
Personnel Services-		
Payroll	\$ 87,911	
Insurance	20,849	108,760
Capital Outlay-		
Construction	\$ 54,231	
Bleachers	11,218	65,449
Totals		\$ 203,984

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

*Morgan-Franklin, LLC*  
*Certified Public Accountants*  
P.O. Box 428  
513 Main Street  
West Liberty, Kentucky 41472

Brenda K. Morgan, CPA  
Jody B. Franklin, CPA

Phone: (606)743-1884  
FAX: (606)743-1895  
www.morganfranklin.com

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Paul Hunt Thompson, Floyd County Judge/Executive  
Members of the Floyd County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Floyd County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated February 2, 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 Floyd 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 instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

Reference 2003-1: The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Floyd 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 the following matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. These material weaknesses are described in the accompanying schedule of findings and questioned costs.

Reference 2003-2: The Treasurer Should Maintain Records For The Public Properties Corporation

Reference 2003-3: The County Should Require Component Units To Submit Monthly Financial Reports And Annual Financial Statements

Reference 2003-4: All Bank Accounts Held In The County's Name Or Held In A Component Units' Name Should Be Reconciled

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and the federal awarding agencies and pass through entities, and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

Audit fieldwork completed -  
February 2, 2004

*Morgan-Franklin, LLC*  
*Certified Public Accountants*

P.O. Box 428  
513 Main Street  
West Liberty, Kentucky 41472

Brenda K. Morgan, CPA  
Jody B. Franklin, CPA

Phone: (606)743-1884  
FAX: (606)743-1895  
www.morganfranklin.com

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Paul Hunt Thompson, Floyd County Judge/Executive  
Members of the Floyd County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Floyd County, Kentucky, 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. Floyd County's major federal programs are identified in the summary of auditor's 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 Floyd County's management. Our responsibility is to express an opinion on Floyd County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 Floyd 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 Floyd County's compliance with those requirements.

In our opinion, Floyd 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.

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance

The management of Floyd 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 Floyd County's internal control over compliance with 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.

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 one matter involving the internal control over compliance and its operation that we consider to be a material weakness.

Reference: 2003-5: The Fiscal Court Should Have Monitored The John's Branch And Spurlock Creek Waterline Projects' Contractors' Compliance With The Davis-Bacon Act

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Morgan-Franklin, LLC

Audit fieldwork completed -  
February 2, 2004

FLOYD COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Floyd County.
2. Three reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditor's Report. All of which are reported as material weaknesses.
3. One instance of noncompliance material to the financial statements of Floyd County were disclosed during the audit.
4. One reportable condition disclosed during the audit of the major federal awards programs is reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Floyd County expresses an unqualified opinion.
6. Audit findings relative to the major federal awards programs for Floyd County are reported in Part C of this schedule.
7. The programs tested as major programs were: Abandoned Mine Land Reclamation Program – Johns Branch and Spurlock Creek Waterline Projects CFDA # 15.252
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Floyd County was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONCOMPLIANCES

**Reference 2003-1**

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

FLOYD COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Fiscal Year Ended June 30, 2003  
(Continued)

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES (Continued)

These requirements were met by the county, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bonds which named the county as beneficiary/obligee on the bonds. Deposits held at First Guaranty Bank were collateralized and insured in an amount equal to or exceeding such deposits. However, as of May 30, 2003, the date of highest balance at Citizens National Bank, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$73,681 of public funds uninsured and unsecured.

*County Judge/Executive's Response:*

*The Treasurer will be receiving cashiers' checks on a weekly basis for moneys received from fees for solid waste collection. This procedure will allow closer monitoring of these moneys and should prevent any future instances of under-collateralization in this account.*

REPORTABLE CONDITIONS

**Reference 2003-2**

The Treasurer Should Maintain Records For The Public Properties Corporation

- a. The County Treasurer does not maintain ledgers for cash and investments held in reserve for current bond issuances. These cash and investments are required to be maintained as part of the debt service reserve until the last bond principal and interest payments are made. There is no monitoring of this fund by the county Treasurer or any other county personnel to ensure compliance with the debt service reserve requirements. Without recording and reconciling this information to the appropriate third party documentation, the risk of material misstatement caused by error or fraud may occur and not be detected in a timely manner. We recommend the County Treasurer maintain cash and investment statements and monitor balances to ensure compliance with debt service reserve requirements.
  
- b. The County Treasurer does not record lease income associated with bonds or the related payments of bond principal and interest for all bonds. Without recording and reconciling this information to the appropriate third party documentation, the risk of material misstatement caused by error or fraud may occur and not be detected in a timely manner. Without full disclosure in the financial statements of the expenditures and their source of payment, the financial statements do not accurately reflect the financial position of the county. We recommend the County Treasurer maintain records that include activity in all debt service accounts and record such activity in the general ledger on a monthly basis.

FLOYD COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Fiscal Year Ended June 30, 2003  
(Continued)

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

REPORTABLE CONDITIONS (Continued)

*County Judge/Executive's Response:*

*The Fiscal Court will develop a procedure for recording and reconciling activity in the debt service fund, specifically for activity involving bonds held in the name of the Floyd County, Kentucky Public Properties Corporation. The Treasurer will receive additional training that will enable him to track all activity regarding the Fiscal Court's debt service fund accounts.*

**Reference 2003-3**

The County Should Require Component Units To Submit Monthly Financial Reports And Annual Financial Statements

The Floyd County (Martin) Community Center and Floyd County Solid Waste, Inc., component units of the Floyd County Fiscal Court, did not prepare monthly financial reports or present an annual financial statement to the fiscal court during fiscal year 2002-2003. Because the fiscal court provides these component units with funding, monthly monitoring should have been established in order to oversee the component units' financial activities. As the component units' oversight agency, the fiscal court should have required the component units to present monthly financial reports and an annual financial statement. Without the appropriate level of oversight of the County's component units, the risk of material misstatement caused by error or fraud may occur and not be detected in a timely manner. We recommend that the County monitor these component units more closely. During the fiscal year ended June 30, 2003, the County dissolved the Floyd County (Martin) Community Center's board and leased the Center to the town of Martin.

*County Judge/Executive's Response:*

*Since approximately August, 2001, the Floyd County Fiscal Court has been directly administering all moneys generated from fees for solid waste collection, in addition to administering all payments of associated debt service. Although the original service contract for solid waste collection was made between Rumpke of Kentucky and Floyd County Solid Waste, Inc., it is the position of the Floyd County Fiscal Court that Floyd County Solid Waste, Inc. presently serves in an advisory capacity to the Fiscal Court in these matters and not in an administrative capacity. All employees of the Floyd County Community Center ceased work on December 31, 2002 and the Floyd County Community Center Board has been dissolved.*

FLOYD COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Fiscal Year Ended June 30, 2003  
(Continued)

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

REPORTABLE CONDITIONS (Continued)

**Reference 2003-4**

All Bank Accounts Held In The County's Name Or Held In A Component Units' Name Should Be Reconciled

An important control for the safeguarding of cash and accuracy of reporting is the reconciling of bank accounts on a monthly basis. These monthly reconciliations provide assurance that all transactions are being recorded, and that the transactions are correct as to amount, payee and date. Although the Treasurer did prepare bank reconciliations for the majority of accounts, there were several bank accounts which bank reconciliations were not prepared. We recommend that procedures be developed for the preparation of monthly bank reconciliations and the review of the reconciliations of all bank accounts by a person of the appropriate level and knowledge to assume responsibility for their correctness.

*County Judge/Executive's Response:*

*The specific bank accounts involved are for deposits of funds generated by solid waste collection, home incarceration, and alcoholic beverage control regulatory license fees and for deposits of funds generated by fees, admissions and sales at the Allen Park, Allen Swimming Pool, and Wheelwright Swimming Pool. These accounts were created to enable the responsible employees to deposit these funds, as collected, and then issue a cashier's check on a weekly basis for the Treasurer's deposit into the General Fund account. The Treasurer will begin performing standard bank reconciliations for the solid waste and alcoholic beverage control regulatory license fee accounts. Because the accounts for home incarceration, Allen Park, Allen Swimming Pool, and Wheelwright Swimming Pool are "in-and-out" accounts, reconciliations will be performed by comparing the "check-out" sheets with the account statements at month's end.*

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

"The Fiscal Court Should Have Required The Floyd County (Martin) Community Center To Submit Monthly Financial Statements And An Annual Financial Statement," was not corrected and is discussed above.

"The Floyd County (Martin) Community Center Should Not Have Paid Bonuses," appears to have been corrected.

FLOYD COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Fiscal Year Ended June 30, 2003  
(Continued)

REPORTABLE CONDITIONS (Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM  
AUDIT

**Reference: 2003-5**

The Fiscal Court Should Have Monitored The John's Branch And Spurlock Creek Waterline  
Projects' Contractors' Compliance With The Davis-Bacon Act

The Davis-Bacon Act requires that certified payrolls be submitted to the non-federal entity. Certified payrolls were not submitted to the Floyd County Fiscal Court, Southern Water and Sewer District or the County's Engineers. Although there was no monitoring of compliance with this act, the contractors appear to have paid, at a minimum, the federal wage rates as required by the Davis-Bacon Act.

*County Judge/Executive's Response:*

*It is the position of the Floyd County Fiscal Court that monitoring for compliance with the Davis-Bacon Act is ultimately the responsibility of the U.S. Department of Labor. However, with regard to all future projects involving Abandoned Mine Lands funds, the Fiscal Court will ensure that there is either language in its contract, regarding administrative duties, requiring the engineering firm responsible for the project to review all such compliance issues or the Fiscal Court will enter into a contract with its local Area Development District (similar to its contracts involving Community Development Block Grant funds) to ensure such compliance with the Davis-Bacon Act.*

FLOYD COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

<u>Federal Grantor</u> <u>Program Title</u> <u>Grant Name (CFDA #)</u>	<u>Pass-Through</u> <u>Grantor's Number</u>	<u>Expenditures</u>
<u>Cash Programs:</u>		
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Department for Local Government:		
Auxler Sewage Collection System Project (CFDA #14.228)		\$ 132,358
Wheelwright Emergency Shelter Grant Program (CFDA #14.231)	Not Available	1,450
Passed-Through Kentucky Housing Corporation:		
Kentucky Housing and Kentucky Tech (CFDA #14.239)	Not Available	42,020
<u>U.S. Appalachian Regional Commission</u>		
Passed-Through State Department for Local Government:		
Appalachian Regional Commission Grants-		
Aquaponics (CFDA #23.002)	00-AI203	15,677
<u>U.S. Department of the Interior</u>		
Passed-Through State Department of Natural Resources:		
Abandoned Mine Land Reclamation Programs - (CFDA #15.252)	GR107210	576,077
<u>U.S. Department of Commerce</u>		
Passed-Through National Oceanic and Atmospheric Administration:		
Pride Community Grant (CFDA #11.469)	CF99-08 through CF99-14	228,654
<u>U.S. Department of Defense</u>		
Passed-Through U.S. Army Corps of Engineers:		
Law Enforcement Contract (CFDA # Not Available)	Not Available	18,321
<u>U.S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants May 2002 Flood Relief (CFDA # 83.503)	FEMA-1414-DR-KY	219,483
Total Cash Expenditures of Federal Awards		<u>\$ 1,234,040</u>

FLOYD COUNTY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

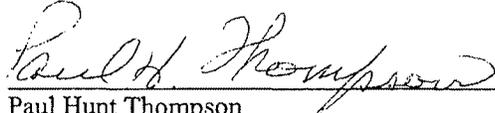
For The Fiscal Year Ended June 30, 2003

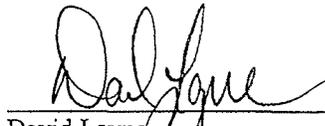
Note 1 – Basis of Presentation

This schedule is presented on a modified cash basis.

CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS  
FLOYD COUNTY FISCAL COURT  
For The Fiscal Year Ended June 30, 2003

The Floyd County Fiscal Court hereby certifies that assistance received from the local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
Paul Hunt Thompson  
County Judge/Executuve

  
David Layne  
County Treasurer

**APPENDIX D**  
**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

# **XL** CAPITAL ASSURANCE

1221 Avenue of the Americas  
New York, New York 10020  
Telephone: (212) 478-3400

## **MUNICIPAL BOND INSURANCE POLICY**

**ISSUER:**

**Policy No:**

**BONDS:**

**Effective Date:**

**XL Capital Assurance Inc. (XLCA)**, a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or teletyped notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XLCA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

NOTICE IS HEREBY GIVEN THAT A PREMIUM SURCHARGE REQUIRED BY KRS 136.392 IS BEING CHARGED IN RESPECT OF THIS POLICY.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

**SPECIMEN**

Name:  
Title:

**SPECIMEN**

Name:  
Title:

# Exhibit M



GENERAL OBLIGATION LEASE AGREEMENT

LEASE AGREEMENT

KENTUCKY AREA DEVELOPMENT DISTRICTS FINANCING TRUST

LESSEE: Floyd County, Kentucky  
LESSEE'S ADDRESS: 149 South Central Avenue  
Prestonsburg, Kentucky 41653  
DATE OF LEASE: June 28, 2005  
TERMINATION DATE: June 28, 2005  
CERTIFICATE SERIES: Series 2005K

This Lease Agreement constitutes a Security Agreement and all right, title and interest of the Lessor herein has been assigned to The Bank of New York Trust Company, N.A., as trustee under a Master Trust Indenture dated as of August 1, 2001 between it and the Lessor.

## LEASE AGREEMENT

THIS LEASE AGREEMENT, dated the date shown on the cover page hereof (together with any amendments hereto made in accordance herewith, this "Lease"), is entered into by and between the Kentucky Area Development Districts Financing Trust (the "Lessor"), as the lessor hereunder, a trust duly created and existing under the laws of the Commonwealth of Kentucky (the "State"), and the Lessee shown on the cover page hereof (the "Lessee"), as lessee hereunder, a body politic and corporate validly existing under the constitution, statutes and laws of the State.

### WITNESSETH:

WHEREAS, the governing body of the Lessee (the "Governing Body") has the power, pursuant to Section 65.940 et. seq. of the Kentucky Revised Statutes, to enter into lease agreements with or without the option to purchase in order to provide for the use of property for public purposes;

WHEREAS, the Governing Body has previously determined, and hereby further determines, that the Lessee is in need of the Project, as defined herein;

WHEREAS, the Governing Body has determined and hereby determines that it is in the best interests of the Lessee that the Lessee and the Lessor enter into this Lease for the leasing by the Lessee from the Lessor of the Project and to become a Participant in the Program, as defined in the Indenture;

WHEREAS, the execution, delivery and performance of this Lease, have been authorized, approved and directed by the Governing Body by an Ordinance finally passed and adopted by the Governing Body; and

WHEREAS, the Lessor desires to lease the Project to the Lessee, and the Lessee desires to lease the Project from the Lessor, pursuant to the terms and conditions and for the purposes set forth herein;

NOW, THEREFORE, for and in consideration of the mutual promises and covenants herein contained, the parties hereto agree as follows:

Section 1. Definitions. All words and phrases will have the meanings specified below unless the context clearly requires otherwise. Terms not defined herein will have the meanings assigned to them in the Indenture. References to Sections mean Sections of this Lease unless otherwise indicated.

"Additional Rentals" means the aggregate of (i) any expenses (including attorneys' fees and expenses) of the Lessor and the Trustee in defending an action or proceeding in connection with this Lease and/or any Collateral Documents relating to this Lease or in enforcing the provisions of this Lease and/or any Collateral Documents relating to this Lease; (ii) any taxes or any other expenses, including, but not limited to, licenses, permits, state and local sales and use or ownership taxes or property taxes and recording fees and/or other fees which the Lessor is expressly required to pay as a result of or in connection with this Lease and/or any Collateral Documents relating to

this Lease; and (iii) the Lessee's Proportionate Share of any Administrative Expenses and Fiduciary Fees to the extent the same are not included in and paid as Base Rentals.

“Administrative Expenses” means the fees and expenses of the Lessor in administering the Program.

“Base Rentals” means the payments payable by the Lessee which constitute the principal component and interest component of Lease Rental Payments hereunder and other amounts set forth in Exhibit “A”.

“Certificates” means the Kentucky Area Development Districts Financing Trust Lease Acquisition Program Certificates of Participation related to this Lease.

“Code” means the Internal Revenue Code of 1986, as amended. Each reference to a section of the Code herein will be deemed to include the United States Treasury Regulations proposed or in effect with respect thereto and applicable to the Certificates or the use of the proceeds thereof.

“Collateral Document” means any letter of credit, mortgage, escrow agreement, guaranty, security agreement, pledge agreement, title insurance policy or other document (other than this Lease) securing a Lease or granting a lien on or a security interest in a Project or executed in connection with this Lease.

“Costs” means, with respect to the Project, all or any part of the cost of construction, installation and acquisition of all land, buildings, structures, machinery and equipment; finance charges; extensions, enlargements, additions, replacements, renovations and improvements; engineering, financial and legal services; plans, specifications, studies, surveys, estimates of cost of revenue, administrative expenses, expenses necessary or incidental to determining the feasibility or practicability of constructing a Project; and such other expenses as the Lessor determines may be necessary or incidental to the construction, installation and acquisition of the Project, the financing of such construction, installation and acquisition, interest during construction, installation or acquisition and the placing of the Project in service.

“Fiduciary Fees” means the contractual fees and expenses (including reasonable attorney’s fees) of (i) the Trustee and the Paying Agent, (ii) the Registrar, (Hi) the Program Administrator in connection with enforcing any Lease, and (iv) any independent certified public accountants or independent financial consultants employed under the requirements of the Indenture.

“Indenture” means the Master Trust Indenture, dated as of August 1, 2001 relating to the Certificates.

“Lease” means this Lease Agreement and any amendments or supplements hereto entered into in accordance with the provisions hereof, including the Exhibits attached hereto.

“Lessee Acquisition Account” means the account by that name established for the Lessee by the Trustee under the Indenture.

“Lease Rental Payments” means Base Rentals and Additional Rentals, which constitute the payments payable by the Lessee for and in consideration of the right to use and the option to

purchase the Project.

“Lease Term” means the term of this Lease as determined pursuant to Sections 5 and 6 hereof.

“Lessee” means the Lessee identified on the cover page hereto.

“Lessor” means Kentucky Area Development Districts Financing Trust, acting as lessor under this Lease, or any successor thereto acting as lessor under this Lease.

“Optional Prepayment Price” means the amount determined by the Lessor and provided to the Trustee, which a Lessee may, in its discretion, pay under its Lease in order to prepay in full its Lease Rental Payments, which amount shall be equal to the unpaid principal component of Lease Rental Payments increased by the sum of (a) the amount of any due or past due Lease Rental Payments together with interest on such past due Lease Rental Payments to the date of such prepayment in full; (b) the unpaid accrued interest on the outstanding principal component of the Lease Rental Payments to the next date on which the related Certificates can be redeemed; (c) an amount of cash or noncallable Government Obligations which, together with the interest income thereon (as certified by the Program Administrator, Bond Counselor or other entity satisfactory to the Trustee), will be sufficient to pay Lease Rental Payments, which would have been due on the Lease, if the Lease had not been prepaid, between the date of the prepayment and the date the prepayment will be used to redeem Certificates; and (d) an amount equal to the premium, if any, payable on any Certificates to be redeemed on account of the payment of such Optional Prepayment Price.

“Program Administrator” means the Lessor or such other entity or unincorporated association as may be appointed in accordance with the Indenture to administer the Program and perform the duties and obligations of Program Administrator under the Indenture.

“Project” means property the Costs of which are financed or refinanced, or the Costs of which are reimbursed hereunder, as more particularly described in Exhibit “B” hereto.

“Proportionate Share” means, as of a date of calculation, a fraction, the numerator of which is the unpaid principal components of Base Rentals hereunder, and the denominator of which is the sum of the unpaid principal components of Base Rentals under all Leases.

“State” means the Commonwealth of Kentucky.

“Trustee” means The Bank of New York Trust Company, N.A., a banking corporation, as trustee under the Indenture, and any successor trustee at the time serving as such under the Indenture.

Section 2. Representations, Covenants and Warranties of the Lessee. The Lessee represents, covenants and warrants that (a) it is a body politic and corporate of the State; (b) it has full power and authority to enter into and to perform its obligations under, this Lease and all related documents; (c) it has duly authorized this Lease and all related documents; (d) this Lease and all related documents are valid, legal and binding obligations of the Lessee, enforceable against the Lessee in accordance with its terms; (e) the execution and delivery of this Lease and all related documents does not conflict with or result in a breach of the terms of any agreement or instrument

by which the Lessee is bound, or conflicts with or results in a violation of any provision of law or regulation applicable to the Lessee; (f) there is no action, suit, proceeding or investigation before or by any court or public body wherein an unfavorable decision would materially and adversely affect the transactions contemplated by this Lease; (g) it will not take or permit, or omit to take or cause to be taken, any action that would adversely affect the exclusion from gross income for federal income tax purposes of the designated interest component of Lease Rental Payments; (h) the Project furthers the Lessee's governmental purposes, serves a public purpose and is in the best interests of the Lessee and at the time of execution and delivery of the Lease, the Lessee intends to annually appropriate the Lease Rental Payments due hereunder; and (i) during the Lease Term, the Project will at all times be used only for the purpose of performing one or more lawful governmental functions of the Lessee.

The Lessee acknowledges that the Certificates are being issued with respect to this Lease and that the interest thereunder and hereunder is excludable from gross income under the Internal Revenue Code of 1986, as amended (the "Code"). The Lessee covenants and agrees that it will not take or omit to take any actions that would adversely affect the tax-exempt status of the Certificates.

Section 3. Representations, Covenants and Warranties of Lessor. The Lessor represents, covenants and warrants that (a) it is a trust duly created and validly existing under the laws of the State, has all necessary power and authority to perform its obligations under, this Lease, and has duly authorized the execution and delivery of this Lease; (b) the execution and delivery of this Lease does not conflict with or result in a breach of the terms of any agreement or instrument by which the Lessor is bound, or conflicts with or results in a violation of any provision of law or regulation applicable to the Lessor; (c) there is no litigation or proceeding pending or threatened against the Lessor or any other person affecting the right of the Lessor to execute or deliver this Lease or to comply with its obligations under this Lease.

Section 4. Demising Clause; Title; Security Interest. The Lessor leases the Project to the Lessee, and the Lessee leases the Project from the Lessor, in accordance with the provisions of this Lease, to have and to hold for the Lease Term. The Lessee will take possession of the Project upon delivery thereof. Legal title to the Project and all fixtures, appurtenances and other permanent accessories thereto and all interests therein will be held by the Lessee, subject to Lessor's rights under this Lease.

The Lessor's interest shall terminate upon (a) the Lessee's exercise of the purchase option granted in Section 25 hereof, or (b) the complete payment and performance by the Lessee of all of its obligations hereunder. It is hereby acknowledged by the Lessor and the Lessee that the Lessee intends to purchase the Project on the terms set forth in this Lease.

Section 5. Duration of Lease Term. The Lease Term will commence and terminate on the dates shown on the cover page hereof unless earlier terminated as provided in Section 6.

Section 6. Termination of Lease Term. The Lease Term will terminate upon termination of Lessor's interest in the Project pursuant to Section 25.

Section 7. Enjoyment. The Lessor hereby covenants that the Lessee will during the Lease Term peaceably and quietly have and hold and enjoy the Project without suit, trouble or hindrance from the Lessor, except as expressly required or permitted by this Lease. The Lessor will, at the

request of the Lessee and at the cost of the Lessee, join and cooperate fully in any legal action regarding the Project and the Lessee may, at its own expense, join in any legal action affecting the Project.

Section 8. Lease Rental Payments. The Lessee shall pay Base Rentals in the amounts and at the times set forth in Exhibit "A", as said Exhibit "A" is in effect on the first day of each fiscal year during the Lease Term. The Lessee agrees and acknowledges that Exhibit "A" may be amended at any time to reflect an increase in Administrative Fees or Fiduciary Fees. If the Lessor determines that an amendment to Exhibit "A" is appropriate, the Lessor will mail to the Lessee a revised Exhibit "A" (identified by date or other means), by first class mail, postage prepaid. Said amendment will become effective and will for all purposes become a part of this Lease and will reflect Base Rentals to be paid by the Lessee for subsequent periods (unless Exhibit "A" is further amended as provided in this Section) upon the earlier of the acknowledgment thereof by the Lessee or automatically on the next payment date set forth in the revised Exhibit "A".

The Lessee will pay Additional Rentals within fifteen (15) days after a written request therefore is mailed to the Lessee by or on behalf of the Lessor.

Each Lease Rental Payment will be applied first to the principal component of Base Rentals then due and payable, then as Additional Rentals then due and payable, then to the components of Base Rentals then due and payable other than the interest component and principal component, and finally to the interest component of Base Rentals then due and payable.

This Lease will be deemed and construed to be a "net lease", and the Lessee will pay absolutely net during the Lease Term, the Lease Rental Payments and all other payments required hereunder, free of any deductions, and without abatement, deduction or set-off (other than credits against Lease Rental Payments expressly provided for in this Lease).

Section 9. Manner of Payment. All Lease Rental Payments will be paid by check made payable and delivered to the Trustee. The obligation of the Lessee to pay the Lease Rental Payments and to perform and observe the covenants and conditions contained herein during the Lease Term will be absolute and unconditional except as otherwise expressly provided in this Lease, and payment of the Lease Rental Payments may not be abated through accident or unforeseen circumstances or damage to, destruction of, or failure to complete, the Project. Lessee will not assert any right of set-off or counterclaim against its obligation to make such payments required hereunder. No action or inaction on the part of the Lessor (or any of its assigns) will affect the Lessee's obligation to pay all Lease Rental Payment during the Lease Term.

Section 10. Expression of Lessee's Need for the Project; Determination as to Useful Life. The Lessee hereby declares its current need for the Project and further determines and declares its expectations that the Project will (so long as it is subject to the terms hereof) adequately serve the needs for which it is being acquired throughout the Lease Term. The Lessee hereby determines and declares that, to the best of its knowledge, the period during which the Lessee has an option to purchase the Project (i.e. the maximum term of this Lease) does not exceed the useful life of the Project.

Section 11. General Obligation of Lessee. The obligation of the Lessee created by this Lease shall be a full general obligation of the Lessee and, for the payment of the Lease Rental Payments,

the full faith, credit and revenue of the Lessee are hereby pledged for the prompt payment thereof. During the period of the Lease is outstanding, there shall be levied on all taxable property in the Lessee, in addition to all other taxes, without limitation as to rate, a direct tax annually in an amount sufficient to pay the Lease Rental Payments when and as due; provided, however, that in each year to the extent that the other taxes of the Lease are available for the payment of the Lease Rental Payments and are appropriated for such purpose, the amount of such direct tax upon all of the taxable property in the Lessee shall be reduced by the amount of such other taxes so available and appropriated. As provided in the Ordinance, the funds derived from said tax levy hereby required or other available taxes shall be placed in the Sinking Fund of the Lessee and, together with interest collected on the same, are irrevocably pledged for the payment of all Certificates issued under KRS Chapter 66 and Tax Supported Leases, as defined in KRS Chapter 66, including the Lease Rental Payments, when and as the same fall due.

Section 12. Agreement to Acquire, Construct and Install the Project and Lease to the Lessee. The Lessee will provide for completion of the acquisition, construction, installation and equipping of the Project by the Lessee as the agent of the Lessor. The Lessee agrees that it will do all things which may be necessary or proper for the construction, acquisition, installation, and equipping of the Project, on behalf of the Lessor. So long as this Lease is in full force and effect, the Lessee will have full power to carry out the acts and agreements provided in this Section, and such power is granted and conferred under this Lease to the Lessee, and is accepted by the Lessee, and will not be terminated or restricted by act of the Lessor or the Trustee, except as provided in this Section. All contracts relating to the Project are hereby assigned to the Lessor.

Section 13. Disbursements from the Lessee's Lessee Acquisition Account. As long as no Event of Default has occurred, and the Lessee's right to control acquisition, construction, installation and equipping of the Project has not otherwise been terminated, disbursements from the Lessee's Lessee Acquisition Account may be made to payor reimburse the Lessee for Costs of the Project. The Lessee must provide to the Lessor for approval, and thereafter to the Trustee, a request for disbursement substantially in the form set forth in Exhibit "C" hereto. Pending disbursement, unless otherwise directed in writing by the Lessee, amounts in the Lessee Acquisition Account will be invested by the Trustee in accordance with instructions provided by the Program Administrator.

If an Event of Default occurs prior to the completion of the Project or if the right of the Lessee to control the acquisition, construction, installation and equipping of the Project has been otherwise terminated, amounts on deposit in the Lessee's Lessee Acquisition Account may be utilized by the Lessor to complete the Project.

Section 14. Risk of Loss; Damage; Destruction. Lessee assumes all risk of loss or damage to the Project from any cause whatsoever. No loss of or damage to, or appropriation by governmental authorities of, or defect in or unfitness or obsolescence of, the Project will relieve Lessee of the obligation under this Lease. Lessee will promptly repair or replace any portions of Project lost, destroyed, damaged or appropriated which are necessary to maintain the Project in sound operating condition so that at all times during the Lease Term the Project will be able to carry out its intended functions.

The net proceeds of any insurance policies, performance Certificates, condemnation awards or net proceeds received as a consequence of default or breach of warranty under a construction contract or other contract relating to the Project will be deposited in the Lessee's Lessee Acquisition

Account, if received before the completion of the Project, or, if received thereafter, to be deposited in a separate trust fund held by the Trustee and will be applied in the same manner described in Section 13. The balance remaining after repair, restoration, modification, improvement or replacement of the Project has been completed will be applied to satisfy payment of Lease Rental Payments.

Section 15. Disclaimer of Warranties. THE LESSOR, THE TRUSTEE AND THE OWNERS OF THE CERTIFICATES MAKE NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR FITNESS FOR USE OF THE PROJECT OR ANY PORTION THEREOF OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROJECT OR ANY PORTION THEREOF.

Section 16. Financial Reports; Notice. The Lessee shall provide the Program Administrator with a copy of its unaudited year-end financial report by September 1 of each year and its audited financial statement as soon as it is available for release. The Lessee shall furnish to the Program Administrator such other information respecting the condition or operations, financial or otherwise, as the Program Administrator may from time to time reasonably request, including, but not limited to, all information needed by the Lessor in order to comply with the continuing disclosure requirements of Securities and Exchange Commission Rule 15c2.12. The Lessee will immediately notify the Lessor and the Trustee of any Event of Default hereunder.

Section 17. Inspection and Lessee Reports. The Lessor, the Trustee and their respective authorized representatives shall at any time during normal business hours have the right to enter the premises where the Project may be located for the purpose of inspecting and examining the Project and its condition, use, and operation and the books and records of the Lessee relating thereto.

Section 18. Maintenance of the Project by the Lessee. The Lessee agrees that, at all times during the Lease Term, the Lessee will maintain, preserve and keep the Project or cause the Project to be maintained, preserved and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, ordinary wear and tear excepted, and that the Lessee will from time to time promptly make or cause to be made all necessary and proper repairs, except as otherwise provided in Section 14. The Lessor, the Trustee and the owners of the Certificates will not have any responsibility in any of these matters or for the making of any additions, modifications, improvements or replacements to the Project.

Section 19. Modification of the Project; Installation of Equipment and Machinery of the Lessee. Following acquisition of the Project, Lessee will not make any alterations, additions, substitutions or replacements to the Project which would have an adverse effect on either the nature of the Project or the functionality or value of the Project, unless such alterations, additions, substitutions, replacements or improvements may be readily removed without damage to the Project. Any alterations, additions or improvements to the Project which may not be readily removed without damage to the Project, and any substitutions or replacements, shall be and be considered to constitute a part of the Project.

The Lessee may also install machinery, equipment and other tangible property in or on the Project; provided that such machinery, equipment and other tangible property which becomes

permanently affixed to the Project will be subject to this Lease if the Lessor reasonably determines that the Project would be damaged or impaired by the removal of such machinery, equipment or other tangible property.

Section 20. Provisions Regarding Casualty, Public Liability and Property Damage Insurance. The Lessee, at its expense, will cause casualty and property damage insurance with a company or self-insurance fund acceptable to the Lessor to be carried and maintained with respect to the Project in an amount equal to the aggregate principal components of Lease Rental Payments payable during the maximum term of this Lease or the replacement cost (excluding foundations) of the Project, if less than such principal components. Any casualty and property damage insurance policy required by this Section will name the Lessor and the Trustee as additional named insureds and will be so written or endorsed as to make losses, if any, payable to the Trustee (for application as provided in Section 14).

The Lessee will cause public liability insurance to be carried and maintained with a company or self-insurance fund acceptable to the Lessor with respect to the Project in such amount as is approved by the Lessor. Any public liability insurance policy required by this Section will name the Lessor and the Trustee as additional named insureds.

Section 21. No Encumbrance, Mortgage or Pledge of Project. The Lessee will not directly or indirectly create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Project, unless specifically consented to in writing by the Program Administrator.

Section 22. Letter of Credit. If required by the Program Administrator, the Lessee, prior to or simultaneously with the execution and delivery of this Lease, shall cause a letter of credit, satisfactory in form and substance to the Program Administrator, to be issued by a bank satisfactory to the Program Administrator (an "Approved Bank") in favor of the Trustee as security for the obligations of the Lessee under this Lease.

Section 23. Assignment by Lessor. As the source of payment of the Certificates, the Lessor has assigned to the Trustee, under and pursuant to the Indenture, all of the Lessor's right, title and interest in, to and under this Lease and any Collateral Documents, including but not limited to the right to receive the Lease Rental Payments and other amounts due hereunder. The Lessee acknowledges and agrees that this assignment will entitle the Trustee to enforce any obligation of the Lessee hereunder and to exercise any remedy or right of the Lessor hereunder. The Lessee further acknowledges and agrees that, as provided in the Indenture, the function of the "Lessor" under this Lease may be performed by the Program Administrator (which may be a person or entity other than the Lessor) and its agents and representatives.

Section 24. Assignment and Subleasing by the Lessee. This Lease may not be assigned by the Lessee for any reason. The Project may be subleased by the Lessee, as a whole or in part, but only with the prior written consent of the Lessor and the Program Administrator.

Section 25. Purchase Option; Prepayment. The Lessee may, in its discretion, prepay in full its Lease Rental Payments under the Lease by paying to the Lessor the Optional Prepayment Price with respect to the Lease. The Optional Prepayment Price shall be used as provided in the Indenture. Upon payment of the Optional Prepayment Price, the Lessor's interest in the Project will

terminate pursuant to Section 4 hereof. The Lessee may prepay principal components of Lease Rental Payments in *minimum* amounts of \$50,000 or in such lesser amounts as may be approved by the Program Administrator.

Section 26. Release and Indemnification Covenants. To the extent permitted by law, the Lessee will and hereby agrees to indemnify and save the Lessor and the Trustee (each, an "Indemnitee") harmless against and from any or all claims, by or on behalf of any person, firm, corporation or other legal entity, and all liabilities, obligations, losses and damages whatsoever, regardless of the cause thereof and the expenses, penalties and fees in connection therewith (including counsel fees and expenses), arising from or as a result of the operation, ordering, ownership, acquisition, construction, use, condition, delivery, rejection, storage, return or management of the Project during the Lease Term, or the entering into of the Lease or any other document or instrument relating thereto (collectively, "Indemnified Claims"), including, but not limited to: (i) any condition of the Project; (ii) any act of negligence of the Lessee or of any of the agents, contractors or employees or any violation of law by the Lessee or breach of any covenant or warranty by the Lessee hereunder; (iii) any accident in connection therewith resulting in damage to property or injury or death to any person; and (iv) the incurring of any cost or expense in connection with the acquisition of the Project in excess of the moneys available therefore in the Lessee's Lessee Acquisition Account. To the extent permitted by law, the Lessee will indemnify and save each Indemnitee harmless from any such Indemnified Claim, or in connection with any action or proceeding brought thereon and, upon notice from such Indemnitee, will defend or pay the cost of defending such Indemnitee, in any such action or proceeding.

The indemnification arising under this Section will continue in full force and effect notwithstanding the full payment of all obligations under this Lease or the termination of this Lease for any reason.

Section 27. Events of Default Defined. The following will be "Events of Default" under this Lease, and the term "Event of Default" or "Default" will mean, whenever it is used in this Lease, anyone or more of the following events:

- (a) Failure by the Lessee to pay any Lease Rental Payments at the time specified herein;
- or
- (b) failure by the Lessee to observe or perform any covenant, condition or agreement on its part to be observed or performed, other than referred to in subsection (a) or (b) of this Section, for a period of 30 days after written notice specifying such failure and requesting that it be remedied will have been given to the Lessee by the Lessor unless the Lessor agrees in writing to an extension of such time prior to its expiration.

Section 28. Remedies on Default. Whenever any Event of Default has occurred and is continuing, the Lessor may, without any further demand or notice, take one or any combination of the following remedial steps:

- (a) By appropriate court action, enforce the pledge set forth in Section 2 of the Ordinance and Section 11 of this Lease so that during the remaining Lease Term there is levied on all the taxable property in the Lessee, in addition to all other taxes, without limitation as to the rate or amount, a direct tax annually in an amount sufficient to pay the Lease Rental Payments when and as due;

(b) sell or re-lease the Project or any portion thereof; or

(c) take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the Project under this Lease and any Collateral Documents (including, without limitation, the right to possession of the Project and the right to sell or re-lease or otherwise dispose of the Project in accordance with applicable law), and/or take whatever action at law or in equity may appear necessary or desirable to enforce performance by the Lessee of the applicable covenants and agreements of the Lessee under this Lease (subject, however, to the limitations thereon contained in this Lease) and to recover damages for the breach thereof.

No remedy herein conferred upon or reserved to the Lessor is intended to be exclusive, and every such remedy will be cumulative and will be in addition to every other remedy given hereunder and every remedy now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power and any such right and power may be exercised from time to time and as often as may be deemed expedient. If any agreement contained herein should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach hereunder.

The Lessee will remain liable for all covenants and obligations under this Lease, and for all legal fees and other costs and expenses, including court costs awarded by a court of competent jurisdiction, incurred by the Lessor with respect to the enforcement of any of the remedies under this Lease, when a court of competent jurisdiction has finally adjudicated that an Event of Default has occurred.

Section 29. Notices. All notices, certificates, requests or other communications hereunder will be in writing and mailed (postage prepaid, and certified or registered with return receipt requested) or delivered (including delivery by courier service) as follows:

If to the Lessor:            Kentucky Area Development Districts Financing Trust  
   c/o Ross, Sinclair & Associates, Inc.  
   Frankfort, Kentucky 40601  
   Attention: Terrell Ross, Administrator

If to Trustee:                The Bank of New York Trust Company, N.A.  
   525 Vine Street, Suite 900  
   Cincinnati, Ohio 45202  
   Attention: Corporate Trust Department

If to the Lessee:            Address shown on the cover page hereof

Any of the foregoing may, by notice given hereunder to each of the others, designate any further or different addresses to which subsequent notices, certificates, requests or other communications will be sent hereunder. All notices, certificates, requests and other communications pursuant to this Lease will be effective when received (if given by mail) or when delivered (if given by delivery).

Section 30. Amendments; Changes and Modifications. Except as provided in Section 8 with respect to Exhibit “B”, this Lease may not be amended, changed, modified or altered, or any provision hereof waived, without the written consent of the Lessor and the Lessee.

Section 31. Third Party Beneficiary. Except for the Trustee and the Program Administrator, no person other than a party hereto, will have any right, remedy or claim under or by reason of this Lease or otherwise be a third party beneficiary of any rights, remedies, claims or agreements hereunder.

Section 32. Lessee Acknowledgment of the Certificates. The Lessee acknowledges (i) that this Lease and the financing by the Lessor of the Project is a part of the Program; and (ii) that the Lease Rental Payments under this Lease, together with lease rental payments under other leases entered into by Lessors under the Program, are and will be applied to (A) pay the principal and premium, if any, and interest on the Certificates and (B) pay all other costs and expenses of the Program. The Lessee acknowledges and consents to the assignment by the Lessor, pursuant to the Indenture and Section 23 hereof, to the Trustee, for the equal and ratable benefit of the Owners of the related Certificates, of all right, title and interest of the Lessor in, to and under this Lease.

Section 33. Miscellaneous. This Lease will inure to the benefit of and will be binding upon the Lessor and the Lessee and their respective successors and assigns (including, without limitation, security assigns). This Lease may be simultaneously executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument. This Lease will be governed by and construed in accordance with the laws of the State. The captions or headings herein are for convenience only and in no way define, limit or describe the scope or intent of any provisions or Sections of this Lease. If any provision of this Lease, other than the requirement of the Lessee to pay Lease Rental Payments and the requirement of the Lessor to provide quiet enjoyment of the Project and to convey the Project to the Lessee under the conditions set forth herein, is held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

*[Signatures on the following pages]*

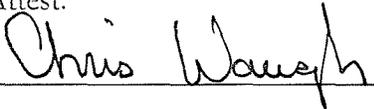
IN WITNESS WHEREOF, the Lessor has executed this Lease in its name; and the Lessee has caused this Lease to be executed in its name and attested by duly authorized officers thereof. All of the above are effective as of the date first above written.

KENTUCKY AREA DEVELOPMENT  
DISTRICTS FINANCING TRUST, as Lessor

By: Ross, Sinclair & Associates, Inc.,  
as Program Administrator

By:   
Title: Administrator

COUNTY OF FLOYD, KENTUCKY,  
As Lessee

Attest:  


By:   
Title: Judge / Executive

Title: Fiscal Court Clerk

**EXHIBIT "A"**  
**LEASE RENTAL PAYMENTS**

**See Attached Debt Service Schedules**

## FINAL LESSEE PAYMENT SCHEDULE

Lease Closing Date: 06/28/05  
 Lease Amount: \$2,600,000  
 Loan Number: KADD2005\_147K  
 Borrower: Floyd County, Kentucky  
 First Installment: 12/01/05  
 Final Installment: 06/01/35

Due Date	Interest Rate	Principal Payment	Bond Rate	Program Fees	Total Net Lease Payment	Net FY Payment	Date Paid
01-Dec-05		\$0	\$47,984.63	\$900.00	\$48,884.63		
01-Jun-06	3.00%	\$55,000	\$56,452.50	\$900.00	\$112,352.50	\$161,237.13	
01-Dec-06		\$0	\$55,627.50	\$886.25	\$56,513.75		
01-Jun-07	3.00%	\$50,000	\$55,627.50	\$886.25	\$106,513.75	\$163,027.50	
01-Dec-07		\$0	\$54,877.50	\$873.75	\$55,751.25		
01-Jun-08	3.00%	\$50,000	\$54,877.50	\$873.75	\$105,751.25	\$161,502.50	
01-Dec-08		\$0	\$54,127.50	\$861.25	\$54,988.75		
01-Jun-09	3.30%	\$50,000	\$54,127.50	\$861.25	\$104,988.75	\$159,977.50	
01-Dec-09		\$0	\$53,302.50	\$848.75	\$54,151.25		
01-Jun-10	3.30%	\$55,000	\$53,302.50	\$848.75	\$109,151.25	\$163,302.50	
01-Dec-10		\$0	\$52,395.00	\$835.00	\$53,230.00		
01-Jun-11	3.50%	\$55,000	\$52,395.00	\$835.00	\$108,230.00	\$161,460.00	
01-Dec-11		\$0	\$51,432.50	\$821.25	\$52,253.75		
01-Jun-12	3.50%	\$55,000	\$51,432.50	\$821.25	\$107,253.75	\$159,507.50	
01-Dec-12		\$0	\$50,470.00	\$807.50	\$51,277.50		
01-Jun-13	3.80%	\$60,000	\$50,470.00	\$807.50	\$111,277.50	\$162,555.00	
01-Dec-13		\$0	\$49,330.00	\$792.50	\$50,122.50		
01-Jun-14	3.80%	\$60,000	\$49,330.00	\$792.50	\$110,122.50	\$160,245.00	
01-Dec-14		\$0	\$48,190.00	\$777.50	\$48,967.50		
01-Jun-15	3.80%	\$65,000	\$48,190.00	\$777.50	\$113,967.50	\$162,935.00	
01-Dec-15		\$0	\$46,955.00	\$761.25	\$47,716.25		
01-Jun-16	4.25%	\$65,000	\$46,955.00	\$761.25	\$112,716.25	\$160,432.50	
01-Dec-16		\$0	\$45,573.75	\$745.00	\$46,318.75		
01-Jun-17	4.25%	\$70,000	\$45,573.75	\$745.00	\$116,318.75	\$162,637.50	
01-Dec-17		\$0	\$44,086.25	\$727.50	\$44,813.75		
01-Jun-18	4.25%	\$70,000	\$44,086.25	\$727.50	\$114,813.75	\$159,627.50	
01-Dec-18		\$0	\$42,598.75	\$710.00	\$43,308.75		
01-Jun-19	4.25%	\$75,000	\$42,598.75	\$710.00	\$118,308.75	\$161,617.50	
01-Dec-19		\$0	\$41,005.00	\$691.25	\$41,696.25		
01-Jun-20	4.50%	\$75,000	\$41,005.00	\$691.25	\$116,696.25	\$158,392.50	
01-Dec-20		\$0	\$39,317.50	\$672.50	\$39,990.00		
01-Jun-21	4.50%	\$60,000	\$39,317.50	\$672.50	\$119,990.00	\$159,980.00	
01-Dec-21		\$0	\$37,517.50	\$652.50	\$38,170.00		
01-Jun-22	4.50%	\$85,000	\$37,517.50	\$652.50	\$123,170.00	\$161,340.00	
01-Dec-22		\$0	\$35,605.00	\$631.25	\$36,236.25		
01-Jun-23	4.50%	\$90,000	\$35,605.00	\$631.25	\$126,236.25	\$162,472.50	
01-Dec-23		\$0	\$33,580.00	\$608.75	\$34,188.75		
01-Jun-24	4.60%	\$90,000	\$33,580.00	\$608.75	\$124,188.75	\$158,377.50	
01-Dec-24		\$0	\$31,510.00	\$586.25	\$32,096.25		
01-Jun-25	4.60%	\$95,000	\$31,510.00	\$586.25	\$127,096.25	\$159,192.50	
01-Dec-25		\$0	\$29,325.00	\$562.50	\$29,887.50		
01-Jun-26	4.60%	\$100,000	\$29,325.00	\$562.50	\$129,887.50	\$159,775.00	
01-Dec-26		\$0	\$27,025.00	\$537.50	\$27,562.50		
01-Jun-27	4.70%	\$105,000	\$27,025.00	\$537.50	\$132,562.50	\$160,125.00	
01-Dec-27		\$0	\$24,557.50	\$511.25	\$25,068.75		
01-Jun-28	4.70%	\$110,000	\$24,557.50	\$511.25	\$135,068.75	\$160,137.50	
01-Dec-28		\$0	\$21,972.50	\$483.75	\$22,456.25		
01-Jun-29	4.70%	\$115,000	\$21,972.50	\$483.75	\$137,456.25	\$159,912.50	
01-Dec-29		\$0	\$19,270.00	\$455.00	\$19,725.00		
01-Jun-30	4.70%	\$120,000	\$19,270.00	\$455.00	\$139,725.00	\$159,450.00	
01-Dec-30		\$0	\$16,450.00	\$425.00	\$16,875.00		
01-Jun-31	4.70%	\$125,000	\$16,450.00	\$425.00	\$141,875.00	\$158,750.00	
01-Dec-31		\$0	\$13,512.50	\$393.75	\$13,906.25		
01-Jun-32	4.70%	\$135,000	\$13,512.50	\$393.75	\$148,906.25	\$162,812.50	
01-Dec-32		\$0	\$10,340.00	\$360.00	\$10,700.00		
01-Jun-33	4.70%	\$140,000	\$10,340.00	\$360.00	\$150,700.00	\$161,400.00	
01-Dec-33		\$0	\$7,050.00	\$325.00	\$7,375.00		
01-Jun-34	4.70%	\$145,000	\$7,050.00	\$325.00	\$152,375.00	\$159,750.00	
01-Dec-34		\$0	\$3,642.50	\$288.75	\$3,931.25		
01-Jun-35	4.70%	\$155,000	\$3,642.50	\$288.75	\$158,931.25	\$162,862.50	
		\$2,600,000	\$2,185,729.63	\$39,065.00	\$4,824,794.63	\$4,824,794.63	

**Your Loan reference is:**

Loan Number:	KADD2005_147K
Lessee:	Floyd County, Kentucky
Average Interest rate:	4.56%

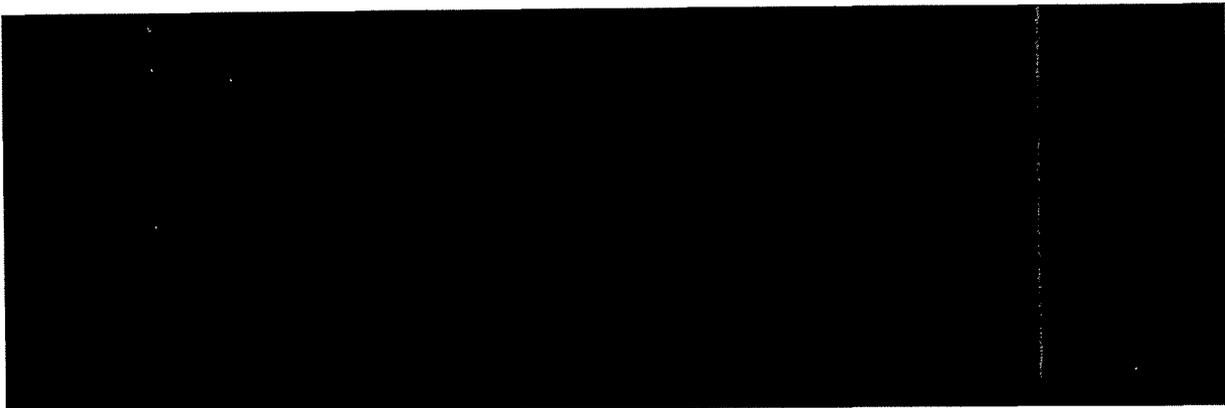
**Remit payments to:**

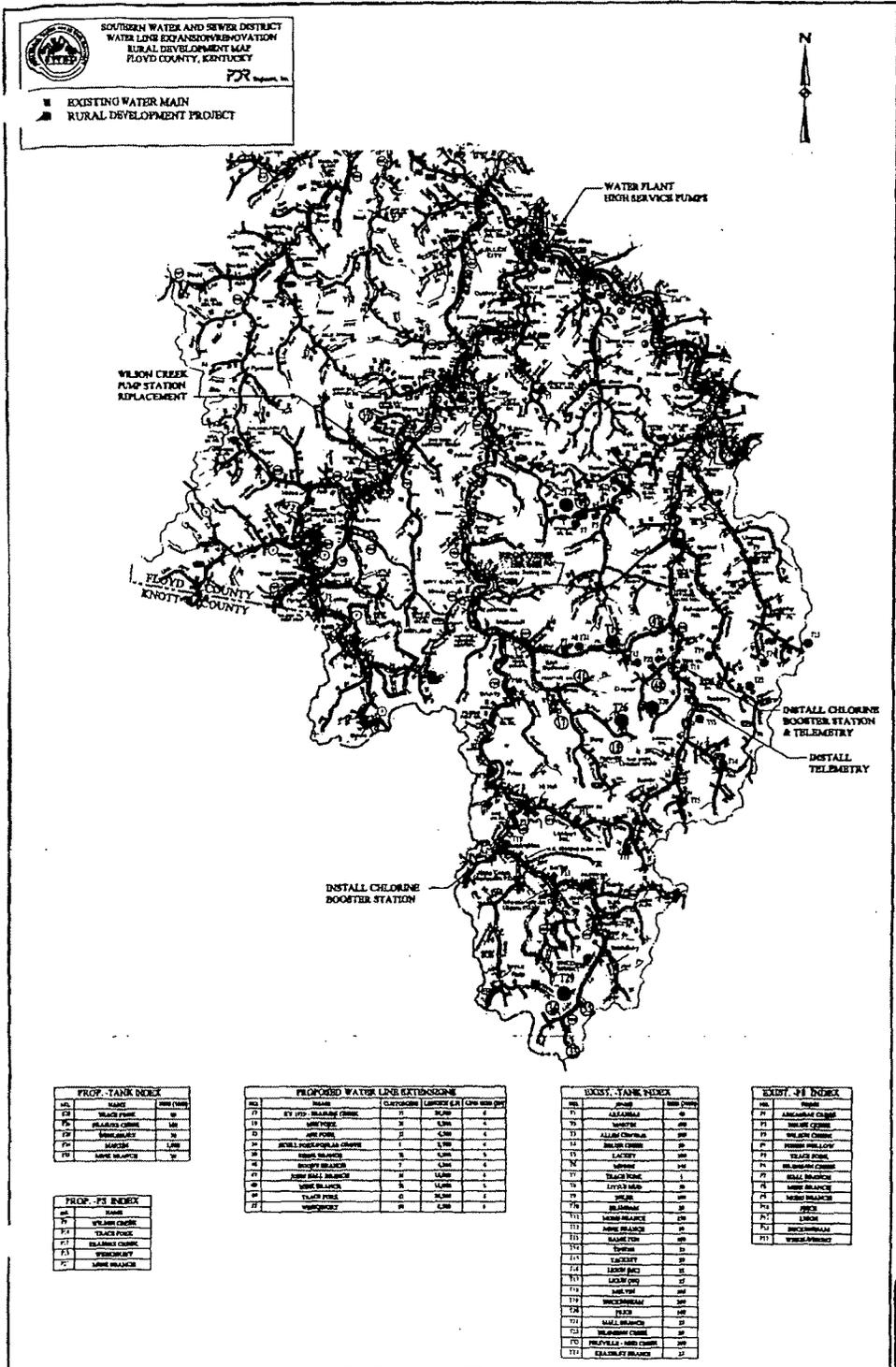
The Bank of New York Trust Company, N.A.	
Attn:	David Graf
525 Vine Street, Suite 900	
Cincinnati, Ohio 45202	

EXHIBIT "A"

LEGAL DESCRIPTION OF PROJECT SITE

1. Floyd County, Kentucky Public Properties Corporation's (the "Corporation") right and interest in the easements and/or right of ways to locate and construct thereupon a water line expansion as shown on the attached map, Exhibit "1" hereto, including all improvements owned and constructed by the Corporation, all as described in the attached map.
2. Corporation's right and interest in and to the Ground Lease Agreement, attached as Exhibit "2" hereto, and recorded in Deed Book 467, beginning at 514, of the Floyd County Court Clerk's Office.
3. Corporation's fee simple interest in the real estate described and set forth in Exhibit "3" attached hereto, which was acquired by the Corporation pursuant to a Deed of Conveyance from Southern Water & Sewer District, as Grantor, to Floyd County, Kentucky Public Properties Corporation, as Grantee, dated April 29, 2002, and recorded in Deed Book 472, Page 166, Floyd County Court Clerk's Office.





**SOUTHERN WATER AND SEWER DISTRICT**  
**WATER LINE EXPANSION/RENOVATION**  
**RURAL DEVELOPMENT MAP**  
**FLOYD COUNTY, KENTUCKY**  
 PDR

■ EXISTING WATER MAIN  
 ■ RURAL DEVELOPMENT PROJECT



**PROP. TANK DECK**

NO.	NAME	MIN. CAP.
10	WILSON CREEK	50
11	WILSON CREEK	50
12	WILSON CREEK	50
13	WILSON CREEK	50
14	WILSON CREEK	50
15	WILSON CREEK	50

**PROP. PI INDEX**

NO.	NAME
10	WILSON CREEK
11	WILSON CREEK
12	WILSON CREEK
13	WILSON CREEK
14	WILSON CREEK
15	WILSON CREEK

**PROPOSED WATER LINE EXTENSION**

NO.	NAME	CATEGORIES	LENGTH (L)	LINE SIZE (D)
10	WILSON CREEK	15	0.50	4
11	WILSON CREEK	15	0.50	4
12	WILSON CREEK	15	0.50	4
13	WILSON CREEK	15	0.50	4
14	WILSON CREEK	15	0.50	4
15	WILSON CREEK	15	0.50	4
16	WILSON CREEK	15	0.50	4
17	WILSON CREEK	15	0.50	4
18	WILSON CREEK	15	0.50	4
19	WILSON CREEK	15	0.50	4
20	WILSON CREEK	15	0.50	4

**EXIST. TANK INDEX**

NO.	NAME	MIN. CAP.
10	WILSON CREEK	50
11	WILSON CREEK	50
12	WILSON CREEK	50
13	WILSON CREEK	50
14	WILSON CREEK	50
15	WILSON CREEK	50
16	WILSON CREEK	50
17	WILSON CREEK	50
18	WILSON CREEK	50
19	WILSON CREEK	50
20	WILSON CREEK	50
21	WILSON CREEK	50
22	WILSON CREEK	50
23	WILSON CREEK	50
24	WILSON CREEK	50
25	WILSON CREEK	50
26	WILSON CREEK	50
27	WILSON CREEK	50
28	WILSON CREEK	50
29	WILSON CREEK	50
30	WILSON CREEK	50
31	WILSON CREEK	50
32	WILSON CREEK	50
33	WILSON CREEK	50
34	WILSON CREEK	50
35	WILSON CREEK	50
36	WILSON CREEK	50
37	WILSON CREEK	50
38	WILSON CREEK	50
39	WILSON CREEK	50
40	WILSON CREEK	50
41	WILSON CREEK	50
42	WILSON CREEK	50
43	WILSON CREEK	50
44	WILSON CREEK	50
45	WILSON CREEK	50
46	WILSON CREEK	50
47	WILSON CREEK	50
48	WILSON CREEK	50
49	WILSON CREEK	50
50	WILSON CREEK	50
51	WILSON CREEK	50
52	WILSON CREEK	50
53	WILSON CREEK	50
54	WILSON CREEK	50
55	WILSON CREEK	50
56	WILSON CREEK	50
57	WILSON CREEK	50
58	WILSON CREEK	50
59	WILSON CREEK	50
60	WILSON CREEK	50
61	WILSON CREEK	50
62	WILSON CREEK	50
63	WILSON CREEK	50
64	WILSON CREEK	50
65	WILSON CREEK	50
66	WILSON CREEK	50
67	WILSON CREEK	50
68	WILSON CREEK	50
69	WILSON CREEK	50
70	WILSON CREEK	50
71	WILSON CREEK	50
72	WILSON CREEK	50
73	WILSON CREEK	50
74	WILSON CREEK	50
75	WILSON CREEK	50
76	WILSON CREEK	50
77	WILSON CREEK	50
78	WILSON CREEK	50
79	WILSON CREEK	50
80	WILSON CREEK	50
81	WILSON CREEK	50
82	WILSON CREEK	50
83	WILSON CREEK	50
84	WILSON CREEK	50
85	WILSON CREEK	50
86	WILSON CREEK	50
87	WILSON CREEK	50
88	WILSON CREEK	50
89	WILSON CREEK	50
90	WILSON CREEK	50
91	WILSON CREEK	50
92	WILSON CREEK	50
93	WILSON CREEK	50
94	WILSON CREEK	50
95	WILSON CREEK	50
96	WILSON CREEK	50
97	WILSON CREEK	50
98	WILSON CREEK	50
99	WILSON CREEK	50
100	WILSON CREEK	50

**EXIST. PI INDEX**

NO.	NAME
10	WILSON CREEK
11	WILSON CREEK
12	WILSON CREEK
13	WILSON CREEK
14	WILSON CREEK
15	WILSON CREEK
16	WILSON CREEK
17	WILSON CREEK
18	WILSON CREEK
19	WILSON CREEK
20	WILSON CREEK
21	WILSON CREEK
22	WILSON CREEK
23	WILSON CREEK
24	WILSON CREEK
25	WILSON CREEK
26	WILSON CREEK
27	WILSON CREEK
28	WILSON CREEK
29	WILSON CREEK
30	WILSON CREEK
31	WILSON CREEK
32	WILSON CREEK
33	WILSON CREEK
34	WILSON CREEK
35	WILSON CREEK
36	WILSON CREEK
37	WILSON CREEK
38	WILSON CREEK
39	WILSON CREEK
40	WILSON CREEK
41	WILSON CREEK
42	WILSON CREEK
43	WILSON CREEK
44	WILSON CREEK
45	WILSON CREEK
46	WILSON CREEK
47	WILSON CREEK
48	WILSON CREEK
49	WILSON CREEK
50	WILSON CREEK
51	WILSON CREEK
52	WILSON CREEK
53	WILSON CREEK
54	WILSON CREEK
55	WILSON CREEK
56	WILSON CREEK
57	WILSON CREEK
58	WILSON CREEK
59	WILSON CREEK
60	WILSON CREEK
61	WILSON CREEK
62	WILSON CREEK
63	WILSON CREEK
64	WILSON CREEK
65	WILSON CREEK
66	WILSON CREEK
67	WILSON CREEK
68	WILSON CREEK
69	WILSON CREEK
70	WILSON CREEK
71	WILSON CREEK
72	WILSON CREEK
73	WILSON CREEK
74	WILSON CREEK
75	WILSON CREEK
76	WILSON CREEK
77	WILSON CREEK
78	WILSON CREEK
79	WILSON CREEK
80	WILSON CREEK
81	WILSON CREEK
82	WILSON CREEK
83	WILSON CREEK
84	WILSON CREEK
85	WILSON CREEK
86	WILSON CREEK
87	WILSON CREEK
88	WILSON CREEK
89	WILSON CREEK
90	WILSON CREEK
91	WILSON CREEK
92	WILSON CREEK
93	WILSON CREEK
94	WILSON CREEK
95	WILSON CREEK
96	WILSON CREEK
97	WILSON CREEK
98	WILSON CREEK
99	WILSON CREEK
100	WILSON CREEK

6:\GROUP\CA\0103\Cartoon-07\re-red-project.dwg March 22 2002 2:27pm 0yds

**GROUND LEASE AGREEMENT**

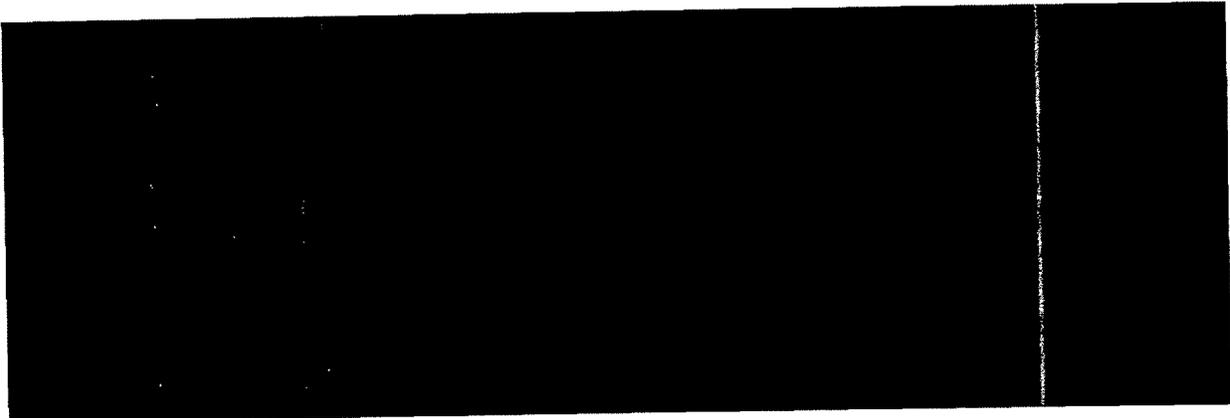
THIS LEASE AGREEMENT, dated as of the 22<sup>ND</sup> day of December, 2001, is entered into by and between DINNA MULLINS, single, 1424 FRASURE CREEK, McDOWELL, Ky 41647 ("Lessor") and SOUTHERN WATER & SEWER DISTRICT, P.O. Box 610, McDowell, Kentucky, 41647, ("Lessee").

Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the premises located at Frasure Creek, Floyd County, Kentucky, being more particularly described on Exhibit A attached hereto and incorporated herein, along with ingress and egress to the premises along the private access road (collectively the "Premises").

1. This Lease shall be for a term of Fifty (50) years, commencing on December 22<sup>ND</sup>, 2001, and terminating on December 21<sup>ST</sup>, 2051, (the "Term"). Notwithstanding the foregoing, Lessee shall have the right to occupy the Premises upon the full execution of this Lease, subject to all terms and conditions contained herein. Lessee shall have the option to renew the term of the lease for additional periods upon notification to Lessor and upon negotiation and acceptance by Lessor or the new terms of the extension of lease.

2. Lessee agrees to pay to Lessor the sum of \$3,000.00, upon execution of this Lease Agreement as rent for the full 50 year term of the lease.

3. The granting of this lease shall include the right of the Lessee to install and maintain upon the premises a water pump station, together with rights of ingress and egress to the premises for installation, use, maintenance, repairs, replacement, and removal of the pump station and the ancillary equipment associated with the pump station.



4. That at no time during the term of this Lease Agreement shall the pump station or the ancillary equipment become a fixture on the Premises, but shall at all times remain the personal property of Lessee. Title to the pump station and ancillary equipment shall remain with Lessee, and Lessor acknowledges and hereby specifically waives any and all rights to a landlords lien, whether by statute, common law, or otherwise in the pump station ancillary equipment, and other personal property of Lessee.

5. This Ground Lease Agreement, including the Exhibit, constitutes the entire agreement between the parties and will supersede all previous negotiations and commitments whether written or oral. No waivers, alterations, or modifications of this Lease or any agreements in connection with it shall be valid unless in writing and duly executed by both Lessor and Lessee.

6. All covenants, promises, conditions, representations and agreements herein contained shall be binding upon, apply and insure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors and assign.

IN WITNESS WHEREOF, the parties have caused this Lease to be executed by their duly authorized representatives.

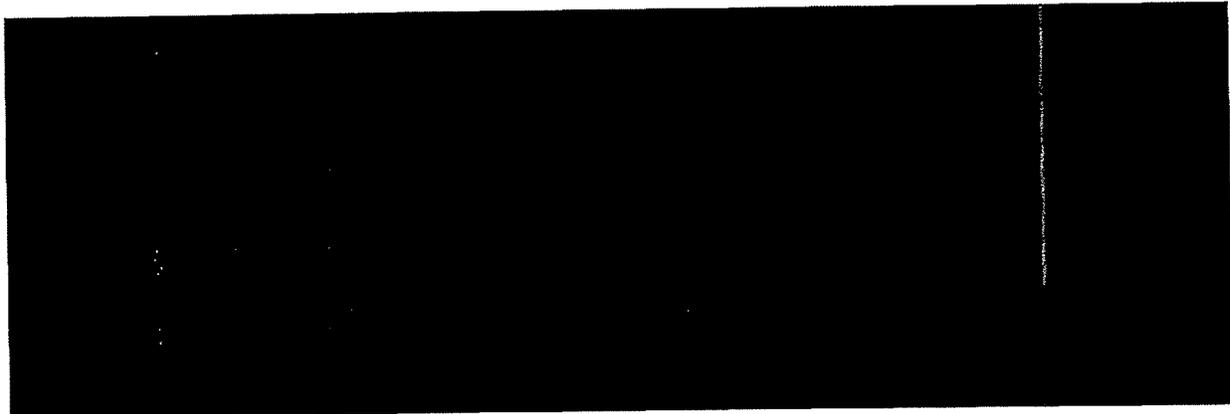
"LESSOR"

Dinna Mullins  
DINNA MULLINS

SOUTHERN WATER & SEWER  
DISTRICT, Grantee

BY: Robert Hall

ITS: CHAIRMAN



COMMONWEALTH OF KENTUCKY

COUNTY OF FLOYD

SUBSCRIBED and SWORN to before me this 2nd day of Dec., 2001, by DINNA MULLINS, single, to be her free act and deed.

My Commission Expires: 5/10/03

Margaret A. Wickert  
NOTARY PUBLIC

COMMONWEALTH OF KENTUCKY

COUNTY OF FLOYD

SUBSCRIBED and SWORN to before me this 3rd day of Jan. 2002, by SOUTHERN WATER & SEWER DISTRICT by Hubert Halbert, its Chairman, Grantee.

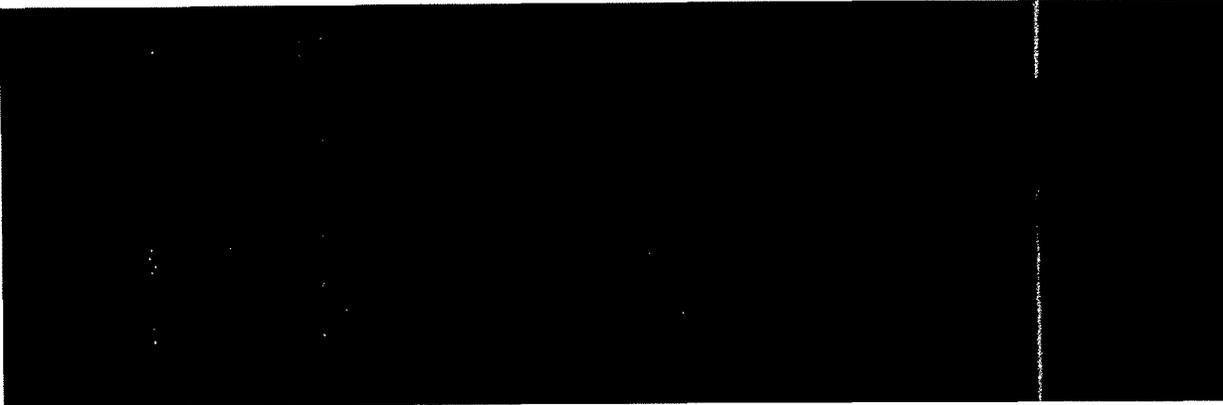
My Commission Expires: 5/10/03

Margaret A. Wickert  
NOTARY PUBLIC

THIS INSTRUMENT WAS PREPARED BY:

RALPH H. STEVENS, P.S.C.  
ATTORNEY AT LAW  
P.O. DRAWER 466  
142 WEST BRANHAM STREET  
PRESTONSBURG, KY 41653  
(606) 886-1000

BY: Ralph H. Stevens  
RALPH H. STEVENS  
ATTORNEY AT LAW



**EXHIBIT A (The Premises)**

Being a part of the same property conveyed to Geneva Mullins and Dinna Mullins, from Mitchell Short and Bertha Short, his wife, by deed dated September 22, 1973, of record in Deed Book 215, Page 32, and being a part of the same property conveyed to Dinna Mullins, from Geneva Mullins, single, by deed dated January 18, 1988, of record in Deed Book 316, Page 278, both in the office of the Floyd County Clerk, and being a certain tract or parcel of land lying in Floyd County, Kentucky, on the waters of Frasures Creek, which is more particularly described as follows:

**Frasure Creek Pump Station**

Description of a certain tract or parcel of land lying and being on Frasure Creek near the town of McDowell, Floyd County, Kentucky, approximately 312' feet northwest from the intersection of Gearheart Branch and Frasure Creek, subject property lies on the north side of KY RT. 1929 and entirely within a boundary of land now owned by Dinna Mullins as recorded in the Office of the Floyd County Clerk in Deed Book 215, Page 32, and Deed Book 316, Page 278, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set near the northern line of the KY RT. 1929 right-of-way said point also being a common corner to the new boundary for the Dinna and Geneva Mullins property as recorded in Deed Book 215, Page 32 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,055,511.68, and East 2,520,894.58; thence severing the Dinna and Geneva Mullins property for three (3) calls as follows:

N 13° 23' 41" W a distance of 30.03' feet to a capped pin set  
N 76° 35' 08" E a distance of 30.01' feet to a capped pin set  
S 13° 20' 30" E a distance of 30.03' feet to a capped pin set near the northern line of  
KY RT. 1929 right-of-way; thence leaving the new boundary line of Dinna and Geneva Mullins and following a line near the right-of-way of and parallel to KY RT. 1929 for one call as follows:

S 76° 35' 00" W a distance of 29.98' feet to the beginning, containing 0.021 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-21-01.

I, the undersigned, do hereby certify that the foregoing was on the 20th day of January, 2002, at 10 o'clock a.m. lodged for record whereupon the same with the foregoing and this certificate have been duly recorded in my office.  
4/16 Day of January 2001  
Donna Bunk D.C.



**TRACT NO. 1**

Description of a certain tract or parcel of land lying and being on Mink Branch of Mud Creek, Floyd County, Kentucky, approximately 8,177' feet southwest from the intersection of Mink Branch and Mud Creek. Subject property is at approximately 1246' feet elevation above Mean Sea Level and lies entirely within a boundary of land now owned by Roy and Mary Hall as recorded in the office of the Floyd County Clerk in Deed Book 354, Page 225 and being more particularly described as follows:

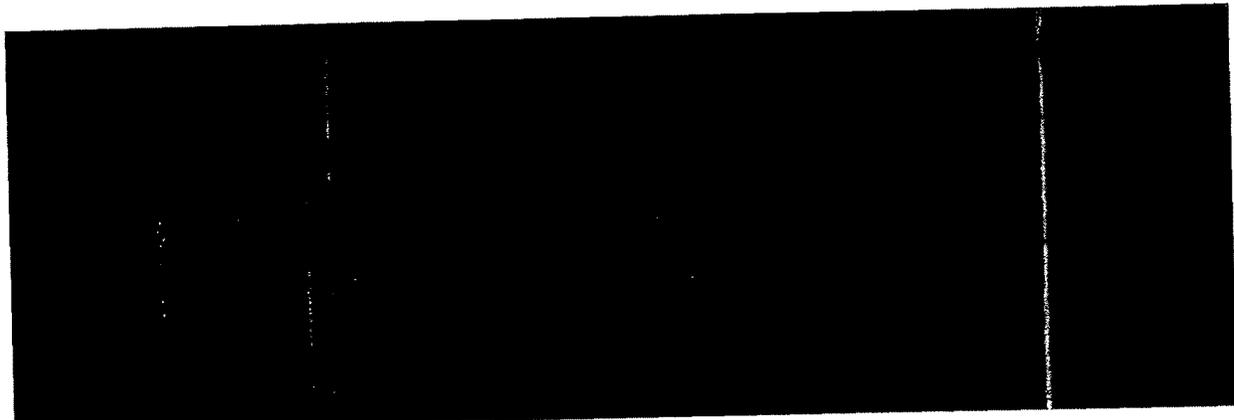
Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set, said capped pin also being a common corner to the new boundary for the Roy and Mary Hall property as recorded in Deed Book 354, Page 225 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,053,353.6854 and East 2,533,513.4123; thence severing the Roy and Mary Hall property for four (4) calls as follows:

- S 38° 52' 40" W a distance of 50.00' feet to a capped pin set
- N 51° 06' 47" W a distance of 49.99' feet to a capped pin set
- N 38° 49' 48" E a distance of 50.00' feet to a capped pin set
- S 51° 06' 49" E a distance of 50.03' feet to the beginning containing 0.057 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 12-10-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of Roy and Mary Hall beginning at Mink Branch Road and continuing across said Hall property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from Ray Hall and Mary Hall, his wife, by deed dated December 22, 2001, of record in Deed Book 467, Page 510, in the office of the Floyd County Clerk.



TRACT NO. 2

Description of a certain tract or parcel of land lying and being on the Right Fork of Beaver Creek near the City of Martin, Floyd County, Kentucky, approximately 660' feet southeast from the intersection of KY RT. 80 and KY RT. 122. Subject property is at approximately 850' feet elevation above Mean Sea Level and lies entirely within a boundary of land now owned by Susan Elaine Compton as recorded in the Office of The Floyd County Court Clerk in Deed Book 237, Page 74, and being more particularly described as follows:

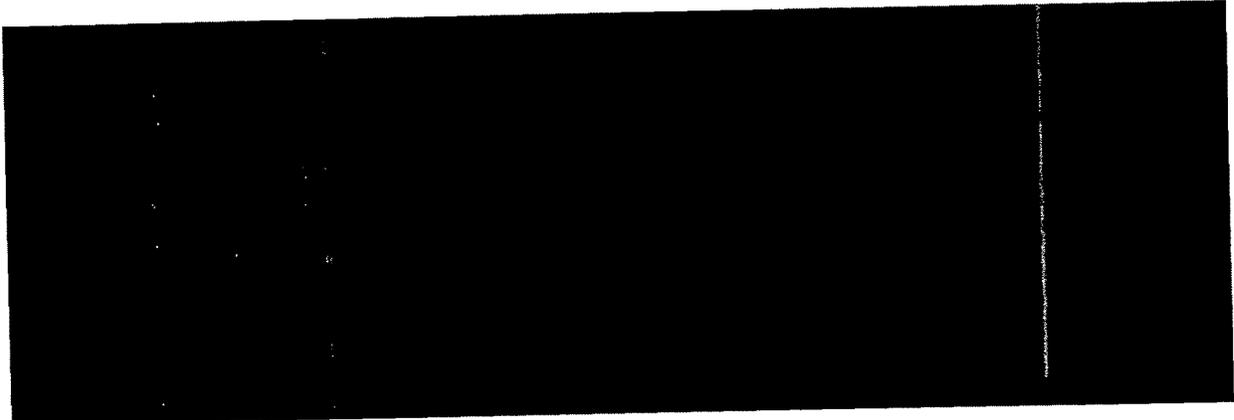
Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set, said pin also being a common corner to the new boundary for the Susan Elaine Compton property as recorded in Deed Book 237, Page 74 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North-2,100,730.74 and East 2,506,037.68; thence severing the Susan Elaine Compton property for four calls as follows:

S 61° 54' 35" E a distance of 149.98' feet to a capped pin set  
S 28° 04' 42" W a distance of 149.99' feet to a capped pin set  
N 61° 54' 37" W a distance of 150.00' feet to a capped pin set  
N 28° 05' 08" E a distance of 149.99' feet to the beginning, containing 0.516 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-21-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of Susan Elaine Compton beginning at an existing graveled road and continuing across said Compton property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from T. J. Compton and Juanita Compton, his wife, and Susan Elaine Compton, single, by deed dated January 30, 2002, of record in Deed Book 468, Page 474, in the office of the Floyd County Clerk.



4n49 Page 245

**Hamilton Branch Pump Station**

**TRACT NO. 3**

Deed description for a certain tract or parcel of land lying and being on Hamilton Branch of Mud Creek, in Floyd County, Kentucky, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set in the southeast right-of-way line of KY RT. 680 having an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,065,587.8620 and East 2,537,867.1100, said capped pin being 35' feet right of Centerline Station 235+00, and also being a common corner to land now owned by the Floyd County Fiscal court and recorded in Deed Book 410, Page 356, records of the Floyd County Court Clerk's Office; thence leaving the right-of-way of KY RT 680 and severing the remaining land of the Floyd County Fiscal Court for four (4) calls as follows:

N 29° 04' 01" E a distance of 5.68' feet to a capped pin set

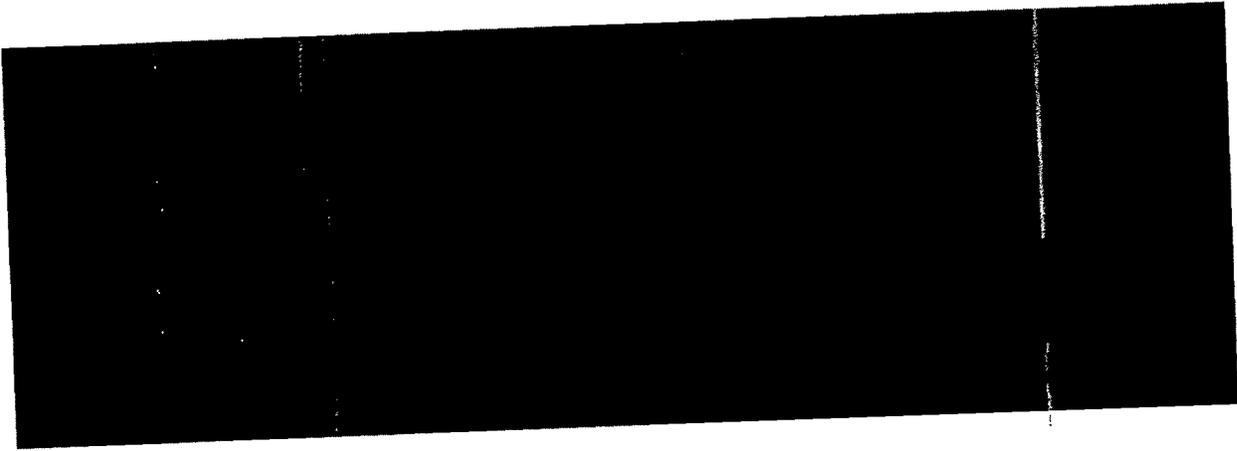
S 60° 56' 48" E a distance of 25.01' feet to a capped pin set

S 29° 04' 03" W a distance of 25.03' feet to a capped pin set

N 60° 54' 35" W a distance of 25.01' feet to a capped pin set in the southeast right-of-way line of KY RT 680, said point being 35' feet right of Centerline Station 234+80.71; thence leaving the land owned by the Floyd County Fiscal Court and following the southeast right-of-way line of KY RT. 680 for one call as follows:

N 29° 04' 01" E a distance of 19.34' feet to the beginning, containing 0.014 acres more or less as per a survey by R. M. Johnson Engineering, Inc., completed on 11-20-01.

Being a part of the same property conveyed to the Grantor, from Floyd County Fiscal Court, by deed dated January 25, 2002, of record in Deed Book 468, Page 479, in the office of the Floyd County Clerk.



TRACT NO. 4

Description for a certain tract or parcel of land lying and being on Left Beaver Creek, in the town of Weeksbury, Floyd County, Kentucky, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set within the boundary of a tract of land now owned by Tommy and Barbara Roop, this tract of land is designated as Lot #5 in the town of Weeksbury as shown on Map #142 and recorded in the Floyd County Court Clerk's Office in Deed Book 360, Page 628. Said capped pin has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,017,179.07 and East 2,529,765.82 and bears N 59° 04' 17" W approximately 47.16' feet from the intersection of KY RT 466 and Caleb Fork Road; thence severing the remaining land owned by Tommy and Barbara Roop with four (4) calls as follows:

S 52° 42' 00" W a distance of 30.01' feet to a capped pin set

N 37° 18' 31" W a distance of 30.02' feet to a capped pin set

N 52° 39' 41" E a distance of 30.01' feet to a capped pin set

S 37° 18' 39" E a distance of 30.04' feet to the beginning, containing 0.021 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-26-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining land of Tommy and Barbara Roop beginning at KY RT 466 and continuing across said Roop property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from Tommy Roop and Barbara Roop, his wife, by deed dated January 25, 2002, of record in Deed Book 468, Page 483, in the office of the Floyd County Clerk.



TRACT NO. 5

Description for a certain tract or parcel of land lying and being on Johns Branch near the town of Langley, Floyd County, Kentucky, approximately 4,647' feet northwest from the intersection of Johns Branch and the Right Fork of Beaver Creek. Subject property lies on the north side of Johns Branch Road and entirely within a boundary of land owned by The Floyd County Fish and Game Club as recorded in the Office of the Floyd County Court Clerk in Deed Book 185, Page 460, and being more particularly described as follows:

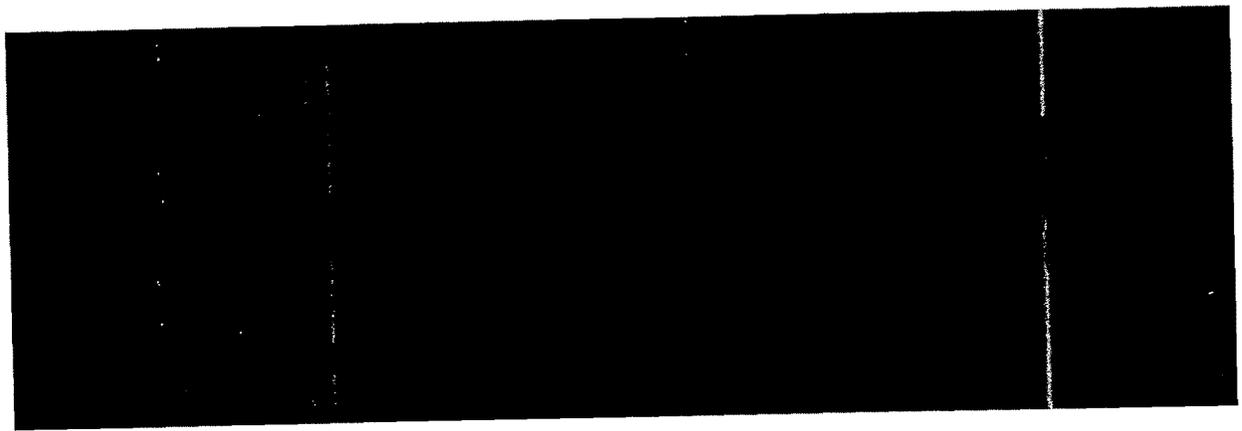
Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set approximately 15.69' feet north of the northern edge of pavement of Johns Branch Road, said capped pin also being a common point in the new boundary line of land owned by The Floyd County Fish and Game Club as recorded in the Office of the Floyd County Court Clerk in Deed Book 185, Page 460, and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,095,555.65 and East 2,497,547.86; thence severing The Floyd County Fish and Game Club property for four (4) calls as follows:

- S 86° 00' 12" W a distance of 30.00' feet to a capped pin set
- N 03° 58' 57" W a distance of 29.99' feet to a capped pin set
- N 85° 58' 43" E a distance of 30.00' feet to a capped pin set
- S 03° 59' 41" E a distance of 30.00' feet to the beginning, containing 0.021 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 01-09-02.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of The Floyd County Fish and Game Club beginning at Johns Branch Road and continuing across said Floyd County Fish and Game Club property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from Floyd County Fish and Game Club, Inc., by deed dated January 28, 2002, of record in Deed Book 468, Page 487, in the office of the Floyd County Clerk.



TRACT NO. 6

Description of a certain tract or parcel of land lying and being in Spurlock Creek, Floyd County, Kentucky, approximately 330' feet north of KY RT 2030 and approximately 1,093' feet northwest from the Road Gap on KY Rt 2030 between Trace Fork and Spurlock Creek. Subject property is at approximately 1,110' feet elevation above Mean Sea Level and lies entirely within a boundary of land now owned by Ivan and Ethel Carroll as recorded in the Office of the Floyd County Court Clerk in Deed Book 286, Page 102 and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set, said pin also being a common corner to the new boundary for the Ivan and Ethel Carroll property as recorded in the Office of the Floyd County Court Clerk in Deed Book 286, Page 102 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,081,502.3203 East 2,522,255.2038; thence severing the Ivan and Ethel Carroll property for four calls as follows:

N 55° 24' 01" W a distance of 50.00' feet to a capped pin set

N 34° 35' 47" E a distance of 49.99' feet to a capped pin set

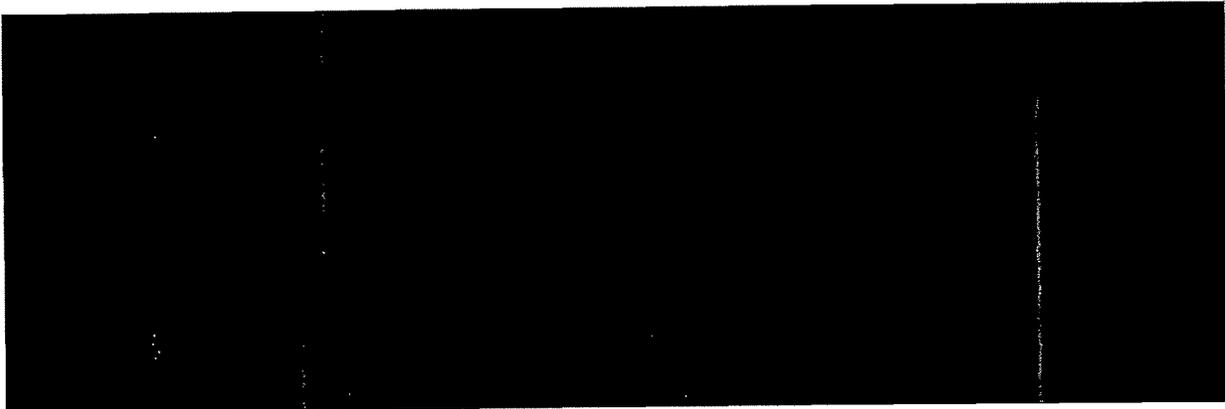
S 55° 4' 24" E a distance of 50.02' feet to a capped pin set

S 34° 37' 30" W a distance of 49.99' feet to the beginning containing 0.057 acres more or less as per survey by R.M. Johnson Engineering, Inc., completed on 12-10-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of Ivan and Ethel Carroll beginning at KY RT 2030 and continuing across said Carroll property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from Ethel Carroll, single, by deed dated January 28, 2002, of record in Deed Book 468, Page 492, in the office of the Floyd County Clerk.

2/18 218



**Mink Branch Pump Station**

**TRACT NO. 7**

A description for a certain tract or parcel of land lying and being on Mink Branch of Mud Creek, Floyd County, Kentucky, on the west bank of Mud Creek at the mouth of Mink Branch. Subject property lies on the south side of Mink Branch and Mink Branch Road and entirely within a boundary of land now owned by Eula Hall as recorded in the Office of the Floyd County Court Clerk in Deed Book 221, Page 233, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineer 3521.

Beginning at a capped pin set 4.41' feet south of the southern edge of Mink Branch Road, and being S 54° 40' 10" W 14.67' feet from the southwest corner of the bridge crossing Mud Creek. Said point also being a common corner in the new boundary line of property now owned by Eula Hall as recorded in the Floyd County Clerks Office in Deed Book 221, Page 233 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,059,714.6700 and East 2,538,636.5440; thence severing the Eula Hall property with three (3) calls as follows;

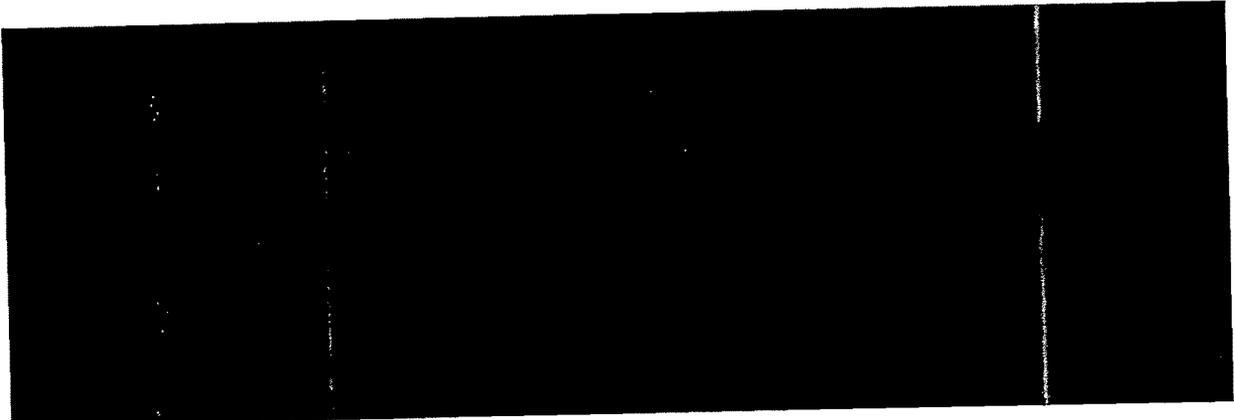
S 14° 06' 15" W a distance of 29.92' feet to a capped pin set

S 73° 09' 46" W a distance of 29.90' feet to a capped pin set

N 13° 49' 35" E a distance of 30.05' feet to a capped pin set 3.72' feet south of the southern edge of Mink Branch Road; thence following a line near the southern edge of Mink Branch Road for one call as follows:

N 73° 31' 00" E a distance of 29.96' feet to the beginning, containing 0.018 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-21-01.

Being a part of the same property conveyed to the Grantor, from Eula Hall, single, by deed dated January 31, 2002, of record in Deed Book 469, Page 13, in the office of the Floyd County Clerk.



TRACT NO. 8

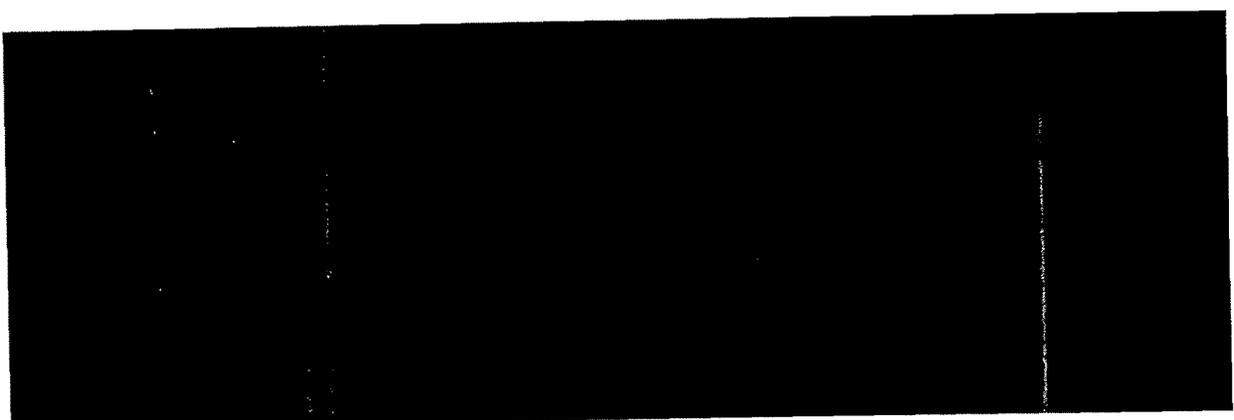
Description of a certain tract or parcel of land lying and being on the John Hall Branch of Frasure Creek in Floyd County, Kentucky, at the head of John Hall Branch, approximately 780' feet north of KY RT. 680 and approximate elevation of 1406' feet above Mean Sea Level and lies entirely within a boundary of land now owned by Vernon Cornett as recorded in the Office of the Floyd County Clerk in Deed Book 336, Page 708 and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

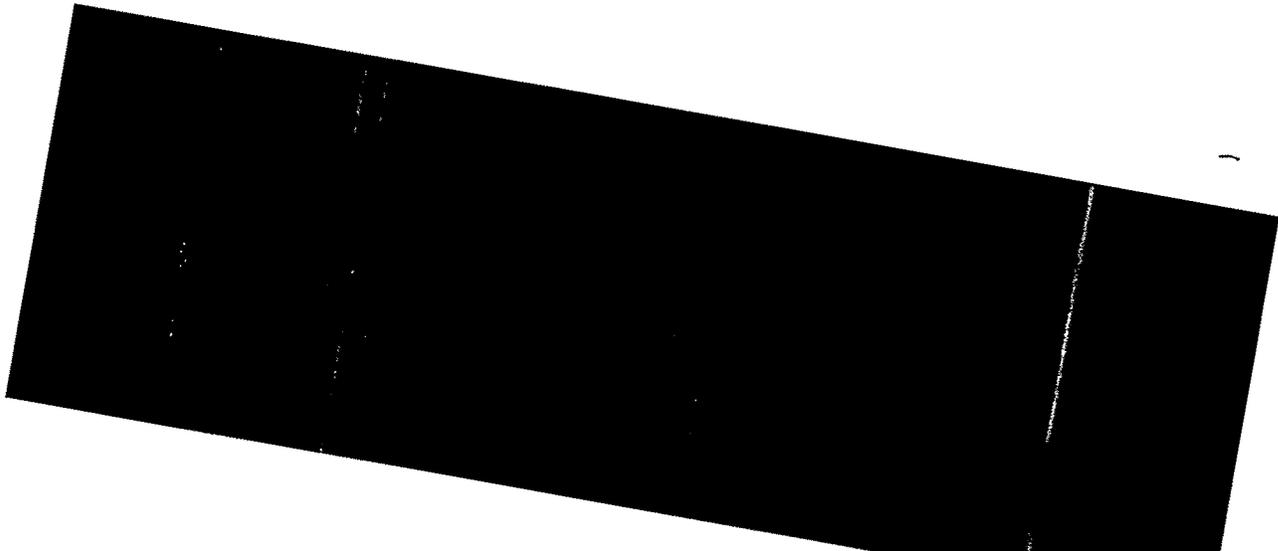
Beginning at a capped pin set, said capped pin being a common corner to the new boundary for the Vernon Cornett property as recorded in the Office of the Floyd County Court Clerk in Deed Book 336, Page 708 and has approximate NAD 83 Kentucky South Zone State Plane coordinate value North 2,061,847.8941 and East 2,529,052.0629; thence severing the Vernon Cornett property for the four (4) calls as follows:

- N 18 degrees 01' 16" W a distance of 49.96' feet to a capped pin set
- N 71 degrees 59' 03" E a distance of 50.00' feet to a capped pin set
- S 17 degrees 59' 59" E a distance of 49.97' feet to a capped pin set
- S 71 degrees 59' 28" W a distance of 49.98' feet to the point of beginning, containing 0.057 acres more or less as per survey by R.M. Johnson Engineering, Inc., completed on 11-26-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of Vernon Cornett as recorded in the Office of the Floyd County Court Clerk in Deed Book 336, Page 708, beginning at KY Rt. 680 and continuing across said Cornett property to the boundary of the aforementioned tract to be conveyed and there ending.



Book 419 Page 251  
**Being a part of the same property conveyed to the Grantor, from Vernon Cornett,  
single, by deed dated January 31, 2002, of record in Deed Book 469, Page 131, in the office  
of the Floyd County Clerk.**



TRACT NO. 9

A description of a certain tract or parcel of land lying and being on the Left Fork of Beaver Creek in Floyd County, Kentucky, approximately 6,327' feet southwest from the intersection of KY RT 466 and Caleb Fork Road, said road intersection is in the town of Weeksbury, Kentucky. Subject property is at approximately 1680' feet elevation above Mean Sea Level and lies entirely within a boundary of land now owned by John J. and Patsy J. Sword as recorded in the office of the Floyd County Court Clerk in Deed Book 396, Page 164, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

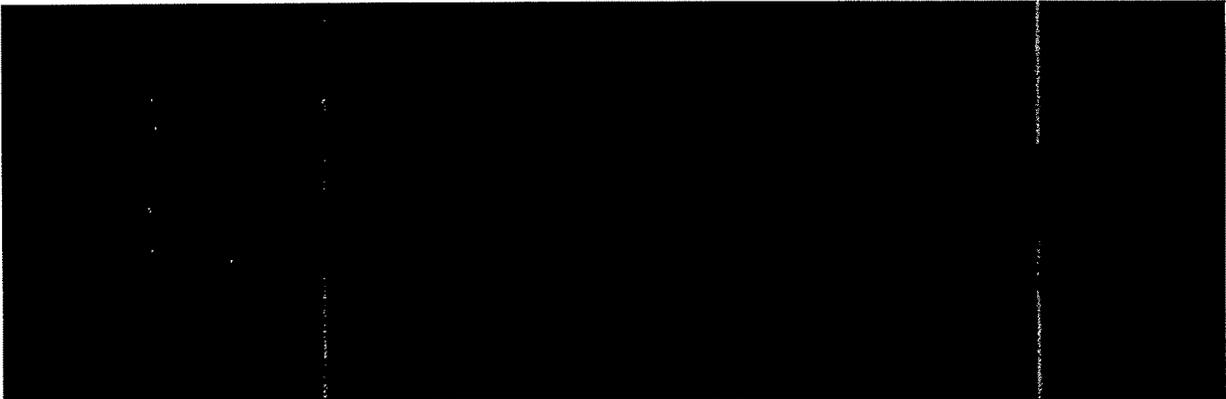
Beginning at a capped pin set in the dividing line between property now owned by John J. and Patsy J. Sword and recorded in Deed Book 396, Page 264, records of the Floyd County Court Clerk's Office and property now owned by Collins and Mayo, and recorded in Office of the Floyd County Court Clerk in Deed Book \_\_\_\_\_, Page \_\_\_\_\_. Said capped pin has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,011,167.4396 and East 2,527,759.8617; thence following the dividing line between the property of Collins and Mayo and John J. and Patsy J. Sword down the point for one call as follows:

N 40° 52' 20" W a distance of 50.01' feet to a capped pin set; thence leaving the lines of land owned by Collins and Mayo and severing the property owned by John J. and Patsy J. Sword for three (3) calls as follows:

N 49° 07' 53" E a distance of 49.98' feet to a capped pin set

S 40° 52' 58" E a distance of 50.01' feet to a capped pin set

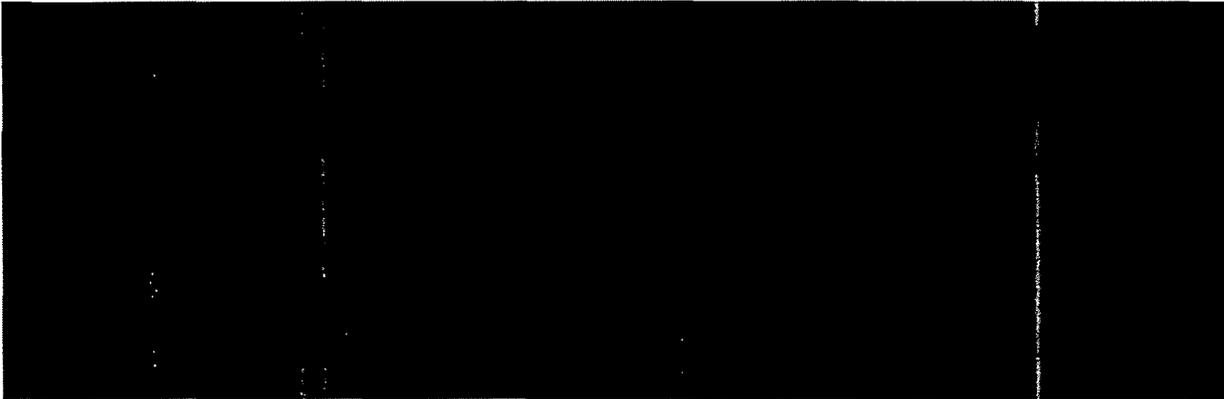
S 49° 08' 07" W a distance of 49.99' feet to the beginning, containing 0.057 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-27-01.



49 Form 253

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of John J. and Patsy J. Sword beginning at KY RT. 466 and continuing across said Sword property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from John J. Sword and Patsy Sword, his wife, by deed dated January 31, 2002, of record in Deed Book 469, Page 252, in the office of the Floyd County Clerk.



**EXHIBIT "B"**  
**DESCRIPTION OF PROJECT (including site description)**

ESTIMATED COST OF THE PROJECT: 2,496,274.69

ESTIMATED DATE OF COMPLETION OF THE PROJECT: June 2010

EXPECTED ECONOMIC LIFE OF THE PROJECT: 30 Years

DESCRIPTION: Please see attached.

**EXHIBIT "C"**  
**REQUEST FOR DISBURSEMENT**

Re: Lease Agreement between Kentucky Area Development Districts Financing Trust,  
as lessor, and Floyd County, Kentucky, as lessee

Requisition Certificate No.       1      

The Lessee hereby requests a disbursement from its Lessee Acquisition Account in the amount of \$ 2,372,556.69 and hereby certifies, as follows (except that with respect to a disbursement to pay an interest component of Lease Rental Payments during construction of a Project, only the document described in (a) below will be required):

(a) Attached is a statement of the amount and nature of each item of the Costs of the Project to be paid and the name and address of the payee, with the payee's statement and, if reimbursement to the Lessee of amounts previously paid is requested, evidence of such payment;

(b) each item for which payment or reimbursement is requested is or was necessary in connection with the Costs of the Project and none of such items formed the basis for any previous payment from the Lessee's Lessee Acquisition Account;

(c) each contractor, subcontractor and materialman has filed with the Lessee receipts or waivers of liens for all amounts previously certified for payment, or any amount previously certified for reimbursement to the Lessee, or there is on file with the Lessee a cancelled check endorsed by the contractor, subcontractor or materialman evidencing such payment;

(d) all of the warranties and representations of the Lessee contained in the Lease are true and correct as of the date of such disbursement, as though such warranties and representations were made on such date, no Event of Default has occurred under the Lease, the right of the Lessee to control the acquisition, construction and installation of the Project has not otherwise been terminated pursuant to the Lease, and that amounts on deposit in the Lessee's Lessee Acquisition Account will be sufficient to complete the Project in accordance with the approved plans and specifications;

Executed this 28th day of June, 2005.

FLOYD COUNTY, KENTUCKY

By:

  
Authorized Lessee Representative

APPROVED:

By: \_\_\_\_\_  
[Architect] [Construction Manager]

By: \_\_\_\_\_  
Program Administrator

**EXHIBIT D**  
**OPINION OF LESSEE'S COUNSEL**

[Date]

6/28/05

The Bank of New York Trust Company, N.A., trustee  
Cincinnati, Ohio

Kentucky Area Development Districts Financing Trust  
Frankfort, Kentucky

Peck, Shaffer & Williams LLP  
Covington, Kentucky

Re: Lease Agreement between Kentucky Area Development Districts Financing Trust, as lessor, and  
County of Floyd, Kentucky, as lessee

Ladies and Gentlemen:

We have acted as counsel to the lessee identified above (the "Lessee") in connection with the authorization, execution, and delivery by the Lessee of the Lease Agreement identified above, (the "Lease"), between the Lessee and Kentucky Area Development Districts Financing Trust (the "Lessor"). We have reviewed (i) the Constitution and laws of the Commonwealth of Kentucky (the "Commonwealth"), (ii) certain proceedings taken by the Governing Body of the Lessee, (iii) an executed copy of the Lease and any Collateral Documents, as defined in the Lease, and (iv) such other information and documents as we have deemed necessary or appropriate in order to render this opinion.

Based on the foregoing, we are of the opinion that:

1. The Lessee is a body politic and corporate, validly organized and existing in good standing under the laws of the Commonwealth and has full power and authority to enter into and to perform its obligations under the Lease.

2. The Lease and any Collateral Documents have been duly authorized, executed and delivered by the Lessee and (assuming the due authorization, execution and delivery thereof by the other parties thereto) constitute legal, valid and binding obligations of the Lessee, enforceable against the Lessee in accordance with their terms (including, without limitation, the right of the Lessee to terminate the Lease at the end of each fiscal year of the Lessee by reason of an Event of Nonappropriation, as defined in the Lease), except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity.

3. All consents, approvals or authorizations of any governmental entity and all filings and notices required on the part of the Lessee in connection with the authorization, execution and delivery of the Lease and the consummation of the transactions contemplated thereby have been obtained and are in full force and effect.

4. Neither the execution and delivery of the Lease nor the consummation of the transactions contemplated thereby, nor the fulfillment of or compliance with the terms and conditions of the Lease conflict with or constitute a violation of any provision of any law or regulation applicable to the Lessee or, to the best of our knowledge after reasonable investigation, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Lessee is now a party or by which the Lessee is bound.

5. To the best of our knowledge, after reasonable investigation, there is no action, suit, proceeding or governmental investigation at law or in equity before or by any court, public board or body, pending of which the Lessee has been served with a summons, summons and complaint or other notice of commencement, or threatened against or affecting the Lessee, challenging the validity of the Lease or contesting the power and authority of the Lessee to execute and deliver the Lease or to consummate the transactions contemplated by the Lease.

Respectfully submitted,

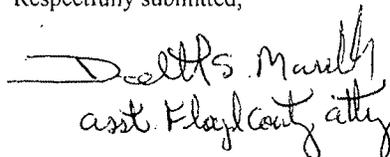
  
asst. Floyd County atty.

EXHIBIT E

CERTIFICATE OF OFFICIALS OF LESSEE

Re: Lease Agreement between Kentucky Area Development Districts Financing Trust, as lessor, and the County of Floyd, Kentucky, as lessee dated June 28, 2005.

The undersigned officials of the lessee identified above (the "Lessee") under the Lease Agreement identified above (the "Lease") between the Lessee and the Kentucky Area Development Districts Financing Trust (the "Lessor"), DO HEREBY CERTIFY AS FOLLOWS:

1. That they are the duly elected or appointed, qualified and acting incumbents of their respective offices of the Lessee, as set forth after their signatures hereto, and as such are familiar with the books, records and affairs of the Lessee.

2. That the Lessee is a body politic and corporate, validly organized, existing and in good standing under and by virtue of the laws of the Commonwealth of Kentucky with all requisite power and authority to lease property as lessee and to carry on its business as now being conducted.

3. That included in the transcript of which this Certificate forms a part is a true, correct and complete copy of the resolution duly adopted by the Governing Body of the Lessee on May 20, 2005 (the "Official Action"), authorizing the appropriate officials of the Lessee to execute the Lease. The Official Action was duly adopted in accordance with all applicable laws.

4. The representations and warranties of the Lessee made in the Lease are true and correct in all material respects on and as of the date hereof as if made on and as of the date hereof; the Official Action has not been amended or supplemented and is in full force and effect; and the Lease has been entered into and is in full force and effect.

5. That the below-named persons were on the date or dates of the execution of the Lease and are on the date of this certificate the duly elected or appointed and qualified incumbents of the respective offices of the Lessee set forth opposite their names and that the signatures set forth opposite their names are their genuine signatures :

<u>Name</u>	<u>Title</u>	<u>Signature</u>
<u>PAUL H. THOMPSON</u>	<u>Floyd Co. Judge/Sec.</u>	<u>Paul H. Thompson</u>
<u>CHRIS WAUGH</u>	<u>Floyd Co. Clerk</u>	<u>Chris Waugh</u>

6. The Lease and any Collateral Documents, as defined in the Lease, have been duly authorized, executed and delivered by the Lessee and constitute legal, valid and binding obligations of the Lessee, enforceable against the Lessee in accordance with their terms (including, without limitation, the right of the Lessee to terminate the Lease at the end of each fiscal year of the Lessee by reason of an Event of Nonappropriation, as defined in the Lease).

7. The Lessee is not in default under or in violation of (i) any provisions of applicable law, (ii) the Lease, or (iii) any indenture, mortgage, lien, agreement, contract, deed, lease, loan agreement, note, order, judgment, decree or other instrument or restriction of any kind or character to which it is a party or by which it or its properties are or may be bound, or to which it or any of its assets is subject, which default would have a material adverse effect on the condition, financial or otherwise, of the Lessee or on the ability of the Lessee to perform its obligations under the Lease. Neither the execution and delivery of the Lease nor compliance by the Lessee with the terms, conditions and provisions of the Lease will conflict with or result in a breach of, or constitute a default under, any of the foregoing.

8. Since the date of the financial information provided to the Lessor, there have not been any material adverse changes in the business, properties, condition (financial or otherwise) or results of operations of the Lessee, whether or not arising from transactions in the ordinary course of business, and since such date, except in the ordinary course of

business, the Lessee has not entered into any transaction or incurred any liability material to the financial position of the Lessee.

9. There is no claim, action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, or public board or body, pending or, to the best of our knowledge, threatened against or affecting the Lessee wherein an unfavorable decision, ruling or finding would materially adversely affect the business, properties, condition (financial or otherwise) or the results of operations of the Lessee or the ability of the Lessee to perform its obligations under the Lease and any Collateral Documents.

10. All authorizations, consents and approvals of, notices to, registrations or filings with, or other actions in respect of or by, any governmental body, agency or other instrumentality or court required in connection with the execution, delivery and performance by the Lessee of the Lease and any Collateral Documents have been duly obtained, given or taken (and copies thereof have been provided to the Lessor).

11. This certificate is delivered to enable the Financial Advisor to comply with Securities and Exchange Commission Rule 15c2-12 Certificate (the "Rule") in connection with the offering and sale of the Bonds. An Offering Circular setting forth information concerning the Lessee has been prepared in connection with the offering and sale of the Certificates, as defined in the Lease (the "Offering Circular"). The information included in Offering Circular regarding the Lessee is deemed final within the meaning of the Rule.

12. Any certificate signed by any official of the Lessee and delivered to the Lessor will be deemed to be a representation by the Lessee to the Lessor as to the statements made therein.

WITNESS our hands this 27<sup>th</sup> day of June, 2005.

By Paul H. Thompson

Title: Judge / Executive

Attest:

By Chris Waugh

Title: Fiscal Court Clerk

**EXHIBIT F**  
**FORM OF NO-ARBITRAGE CERTIFICATE**

**CERTIFICATE UNDER SECTIONS 103(b)(2) and 148**  
**OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED**

LESSEE: County of Floyd, Kentucky

LEASE AMOUNT: \$2,520,000

The Lessee hereby certifies with respect to the Lease from the Kentucky Area Development Districts Financing Trust (the "Lessor"), which is entered into for the purpose of acquiring and financing certain improvements (the "Project") and made as of the date hereof (the "Closing Date"), which is the date of delivery of, and payment for, the Lease, that the following facts, estimates and circumstances regarding the amount and use of all of the Proceeds, as defined in Treas. Reg. § 1.148-1(b), issued under the Internal Revenue Code of 1986, as amended (the "Code"), of the Lease are, as of the Closing Date and according to the Lessee's best knowledge, information and belief, reasonably expected to exist or to occur:

A. Proceeds. The Proceeds of the Lease consist, and will consist, of the Sale Proceeds and Investment Proceeds, each as defined in Treas. Reg. § 1.148-1(b), issued under the Code.

B. Purpose of Issue. The Proceeds of the Lease, together with certain other funds, will be used to finance the Project, which constitutes a valid governmental purpose (the "Governmental Purpose").

The total amount of Proceeds received by the Lessee will not exceed the amount necessary to finance the Governmental Purpose. The Lease is being entered into at this time in such amount because the Lessee is obligated or will soon be obligated to make certain payments with respect to the Project and because it would be costly and inefficient to issue additional debt in the future to finance additional payments with respect to the remainder of the costs of the Project that are expected to become due.

C. Yield on the Lease. (1) The price at which the Lease was sold to the Lessor is equal to the Lease Amount. (2) The Yield on the Lease, as defined in Treas. Reg. § 1.148-4, issued under the Code, is 4.80 %.

D. Application of Proceeds. All of the Sale Proceeds and Investment Proceeds will be used to pay the cost of the Project, including issuance expenses and interest during construction and amounts allocated to reimburse the Lessee for capital expenditures, as that term is defined in Treas. Reg. § 1.150-2, issued under the Code, for the Project paid by the Lessee prior to the Closing Date, pursuant to the Lessee's Official Expression of Intent (as hereinafter defined). No amount received as Proceeds of the Lease will be used for a purpose not set forth in this Section.

E. Expenditure of Proceeds for the Project. The acquisition of the Project will commence promptly following the Closing Date, and the Lessee has incurred, or will incur, within six (6) months after the Closing Date, a substantial binding commitment to expend at least five percent (5%) of the Net Sales Proceeds (defined in Treas. Reg. § 1.148-1(b) as Sales Proceeds less an amount that is the lesser of five percent (5%) of the Sales Proceeds or \$100,000) on the Project. The Lessee will expend at least eighty-five percent (85%) of the Net Sales Proceeds by no later than three (3) years from the Closing Date. The acquisition of the Project will proceed with due diligence to completion and the Proceeds will be spent on the Project with due diligence no later than three (3) years after the Closing Date.

F. Investment of Proceeds. (1) The Lessee has agreed in the Tax Compliance Agreement attached hereto that it will not invest any of the Proceeds of the Lease without the express consent of the Lessor, and any such investments will be done so that such investment will not cause interest on the Lease to be includable in the holder's gross income for purposes of federal income taxation or the debt to be treated as "arbitrage bonds" under Sections 103(b)(2) and 148 of the Code and the Treasury Regulations thereunder.

(2) Not more than fifty percent (50%) of the Proceeds of the Lease will be invested in investments that both do not carry out the Governmental Purpose of the Lease and have a substantially guaranteed yield for at least four (4) years.

(3) No account or fund has been or will be established to pay principal of, premium, if any, or interest on the Lease. There are no moneys, sources of funds, securities or obligations that have been, or will be, pledged as collateral for the payment of principal of, premium, if any, or interest on the Lease, and there are no moneys, sources of funds, securities or obligations with respect to which the Lessor has given or will give any reasonable assurance to any holder of the Lease that such funds will be available to pay principal of, premium, if any, or interest on the Lease.

(4) Any unexpended portion of the Proceeds of the Lease, including any amounts in any reasonably required reserve or replacement fund, will be invested as permitted by the Trust Indenture for the Certificates and other than any funds described herein invested during a temporary period permitted under Treas. Regs. §§ 1.148-1 through -11, issued under the Code, if any, or any amounts in any reasonably required reserve or replacement fund, as described in Treas. Reg. § 1.148-2(f), no Proceeds of the Lease, or any moneys that may become Replacement Proceeds, as defined in Treas. Reg. § 1.148-1(c), of the Lease, in excess of the lesser of (i) five percent (5%) of such Proceeds or (ii) \$100,000, have been invested in "higher yielding investments," as defined in the Code and the Treasury Regulations thereunder.

G. General. (1) Neither the Project, nor any part thereof, will be sold or otherwise disposed of by the Lessee prior to the final principal maturity date of the Lease.

(2) The Lessee will allocate Proceeds of the Lease to reimburse itself only for capital expenditures paid not earlier than sixty (60) days prior to the Closing Date or not earlier than sixty (60) days prior to the date it adopted an official expression of intent to reimburse (the "Official Expression of Intent"), within the meaning of Treas. Reg. § 1.150-2, issued under the Code, if earlier, or as otherwise permitted pursuant to Treas. Reg. § 1.150-2.

(3) There are no amounts, other than the Gross Proceeds of the Lease, that are available for the Governmental Purpose. There are no sinking funds or pledged funds and the term of the Lease is not longer than reasonably necessary for the Governmental Purpose.

(4) Any Arbitrage Compliance Payments (defined in the Tax Compliance Agreement), owed pursuant to Section 148(f) of the Code, will be remitted to the United States Treasury as directed by the Lessor, pursuant to the Tax Regulatory Agreement entered into with respect to the Certificates.

(5) The Lessee has not employed in connection with the Lease a transaction or series of transactions that attempts to circumvent the provisions of Sections 103(b)(2) and 148 of the Code and the Treasury Regulations thereunder, enabling the Lessee to exploit the difference between tax-exempt and taxable interest rates to gain a material financial advantage and/or increasing the burden on the market for tax-exempt obligations through actions such as issuing more obligations, issuing obligations sooner or allowing them to remain outstanding longer than would otherwise be necessary for the Governmental Purpose.

(6) The Lessor has never been advised of any listing or contemplated listing by the Internal Revenue Service to the effect that the Lessee's certification with respect to its obligations may not be relied upon and no notice to that effect has been published in the Internal Revenue Bulletin.

(7) Certain of the facts, estimates and circumstances contained herein are based upon representations made by the Lessor in the attached certificate, or in other letters and reports that accompany the sundry closing documents related to the sale and delivery of the Lease. The Lessee is not aware of any facts, estimates or circumstances that would cause it to question the accuracy of such representations. To the best of the knowledge, information and belief of the undersigned, who is authorized by the Lessee to sign this certificate on behalf of the Lessee, the above expectations of the Lessee as stated herein are reasonable and there are no other facts, estimates or circumstances that would materially change the foregoing conclusion.

**CHECK IF APPLICABLE**

- (8) During this calendar year, the Lessee, which has general taxing powers, has not issued and does not expect to issue any tax-exempt obligations, including any tax-exempt Certificates and any obligations issued by any subordinate entities, but excluding "private activity bonds," as defined in the Section 141 of the Code, and any current refunding bonds, as defined in Section 148(f)(4)(D)(iii) of the Code, exceeding \$5,000,000 in aggregate face amount.
- (9) Pursuant to § 265(b)(3)(B)(ii) of the Code, the Lessee hereby specifically designates the Lease as a "qualified tax-exempt obligation" for purposes of § 265(b)(3) of the Code. In compliance with § 265(b)(3)(D) of the Code, the Lessee hereby represents that the Lessee (including all "subordinate entities" of the Lessee within the meaning of § 265(b)(3)(E) of the Code) reasonably anticipates that it will not issue in calendar year 2001, "qualified tax-exempt obligations" in an amount greater than \$10,000,000.

This certificate is being executed and delivered pursuant to Treas. Regs. §§ 1.148-1 through -11 issued under the Code, of which the undersigned, with the advice of counsel, is generally familiar. On the basis of the foregoing, it is not expected that the proceeds of the Lease will be used in a manner that would cause the Lease or the Certificates to be "arbitrage Certificates" under Sections 103(b)(2) and 148 of the Code or the Treasury Regulations thereunder.

**LESSEE**

By: *Karl H. Thompson*

Title: Judge / Executive

Dated: 6/27/05

**Attachment to No-Arbitrage Certificate**

**TAX COMPLIANCE AGREEMENT**

**KENTUCKY AREA DEVELOPMENT DISTRICTS FINANCING TRUST**

LESSEE: County of Floyd, Kentucky

DATE OF AGREEMENT: June 22, 2005

LEASE AMOUNT: \$2,520,000

---

This Tax Compliance Agreement relates to a Lease Agreement between the Lessee and the Kentucky Area Development Districts Financing Trust dated the date of this Tax Compliance Agreement.

## TAX COMPLIANCE AGREEMENT

THIS TAX COMPLIANCE AGREEMENT (the "Tax Compliance Agreement") is made and entered into as of the date shown on the cover page hereto between the KENTUCKY AREA DEVELOPMENT DISTRICTS FINANCING TRUST (the "Lessor") and the LESSEE shown on the cover page hereto (the "Lessee"):

### WITNESSETH:

WHEREAS, the Lessee has agreed, in a lease agreement dated the date hereof (the "Lease") to borrow the Lease Amount shown on the cover page hereto pursuant to a Program administered by the Lessor to finance the project identified in the Lease (the "Project"); and

WHEREAS, it is necessary for the parties hereto to enter into this Tax Compliance Agreement to ensure that interest paid on the Lease shall be and shall all remain excludible from gross income for Federal income purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code") and is not and will not become a specific item of tax preference under Section 57(a)(5)(C) of the Code for the federal alternative minimum tax.

NOW, THEREFORE, the parties hereto agree and bind themselves as follows:

### ARTICLE I

#### DEFINITIONS

SECTION 1.01. Definitions. In addition to words and terms defined elsewhere in this Tax Compliance Agreement, the Code and Regulations (each as herein defined), the No-Arbitrage Certificate (as hereinafter defined), the Indenture and the Lease, the following capitalized words and terms used in this Tax Compliance Agreement shall have the following meanings, unless some other meaning is plainly intended:

"Arbitrage Bond" means any obligation of a Governmental Entity that is treated as an arbitrage bond under Sections 103(b)(2) and 148 of the Code.

"Arbitrage Compliance Payment" means any Rebate Payment and any Yield Reduction Payment.

"Capital Expenditure" means any expense that is properly depreciable or amortizable or is otherwise treated as a capital expenditure under the Code, and for the purposes of determining eligible Reimbursement Allocations, Costs of Issuance.

"Closing Date" means the date of this Tax Compliance Agreement.

"Cost of Issuance" means any expenditure incurred in connection with the issuance of the Lease or the Lessee's share of such expenditures relating to the Certificates, including such costs as underwriters' spread, rating agency fees, appraisal costs, attorneys' and accounts' fees and printing costs, but excluding Qualified Guarantee Fees or expenditures incurred in connection with the acquisition of the Project.

"Disposition Proceeds" means the amounts, including property, received from the sale, exchange or other disposition of the Project.

"Federally-Guaranteed" means having the payment of either the principal of or interest on any portion of the Lease or any loan made with the Proceeds of any portion of the Lease guaranteed, in whole or in part, directly or indirectly, by the United States, or acquiring any Investment Property that is, directly or indirectly federally-insured, except as otherwise permitted by Section 149(b) of the Code.

"Governmental Entity" means any State and any political subdivision and agency of any State.

"Gross Proceeds" means Sale Proceeds and Replacement Proceeds, determined pursuant to Treas. Regs. §§ 1.148-1(b) and -1(c), all until spent.

"Investment Proceeds" means any amounts actually or constructively earned or received from investing the Proceeds in Investment Property.

"Investment Property" means any security (as defined in Section 165(g)(2)(A) or (B) of the Code), obligation (including any Tax-Exempt Bond), annuity contract or other investment-type property.

"No-Arbitrage Certificate" means the "Certificate under Sections 103(b)(2) and 148 of the Internal Revenue Code of 1986, as Amended" given by the Lessee with respect to the Lease.

"Non-Governmental Entity" means any person or entity, other than a Governmental Entity.

"Pledged Fund" means any amount pledged, directly or indirectly, to pay principal of or interest on the Lease and which provides reasonable assurance of such amounts being paid even if the Lessee experiences financial difficulties, including amounts subject to a negative pledge.

"Pre-TRA Bond" means any Governmental Obligation the interest on which was excludable from gross income from federal income tax purposes pursuant to Sections 103 or 103A of the Internal Revenue Code of 1954, as amended to the date obligations were issued.

"Private Loan" means any loan, directly or indirectly, of any of the Proceeds of an obligation of a Governmental Entity to any Non-Governmental Entity.

"Private Use" means the use of any Proceeds of the Lease or any facilities financed with such Proceeds by Private Users.

"Private User" means any Non-Governmental Entity, other than a natural person not engaged in a trade or business.

"Rebate Amount" means the amount determined by the Lessor pursuant to this Tax Regulatory Agreement.

"Rebate Payment" means any payment of the Rebate Amount made or owed to the United States Treasury.

"Redemption Date" means the date on which the last of the principal of and interest on the Lease has been paid, whether upon maturity, redemption or acceleration thereof.

"Reimbursement Allocation" means a written allocation of the Proceeds of the Lease intended to reimburse the Lessee for Capital Expenditures for the Project that were paid prior to the Closing Date, provided that any such allocation is made no later than eighteen (18) months after the later of the date the Capital Expenditure was paid or the date the Project was placed in service, but in no event later than three (3) years after the payment date. Any written allocation made within thirty (30) days after the Closing Date shall be treated as if made on the Closing Date.

"Reimbursement Resolution" means a declaration of intent by the Lessee to finance, by issuing debt, Capital Expenditures. For this purpose, the issuance of debt to finance specific facilities shall constitute a Reimbursement Resolution, the date of adoption of which shall be no later than the Closing Date of such debt.

"Replacement Proceeds" means amounts replaced by Proceeds of the Lease, including any sinking fund, Pledged Fund, restricted gifts (not including qualified endowment funds, pursuant to Treas. Reg. § 1.148-6(d)(3)(iii)(C)) or reserve or replacement fund, or other funds that would be available, directly or indirectly, to pay debt service on any of the Lease, within the meaning of Treas. Reg. § 1.148-1(c).

"Research Agreement" means an agreement between the Lessee and a Private User under which the Lessee or the Private User uses any portion of the Project to carry on research.

"Sale Proceeds" means the Lease Amount shown on the cover page hereto.

"Service Contract" means a contract between the Lessee and a Service Provider under which the Service Provider provides services, including management services, involving any portion or function of a Governmental Facility financed with Governmental Certificates.

"Service Provider" means any Private User that provides management or other services.

"SLGS" means any security that is part of the United States Treasury Obligation - State and Local Government Series.

"State" means any state and possession of the United States and the District of Columbia.

"Tax-Exempt Bond" means (i) any Governmental Obligation the interest on which is excludable from gross income for federal income tax purposes, pursuant to Sections 103 and 150(a)(6) of the Code, (ii) any Pre-TRA Bond, (iii) certain tax-exempt mutual funds, as provided in Treas. Reg. § 1.150-1(b), and (iv) any SLGS.

"Treasury Regulation" and "Treas. Reg." means any Regulation, Proposed Regulation or Temporary Regulation, as may be applicable, issued by the United States Treasury Department pursuant to the Code or the 1954 Code, as appropriate.

"Yield" means, pursuant to Treas. Regs. §§ 1.148-4 and -5, that discount rate which, when computing the present value of all payments of principal and interest to be paid on an obligation, produces an amount equal to, in the case of the Lease, the Issue Price and in the case of any Investment Property, the fair market value, as provided in Treas. Reg. § 1.148-5(d).

"Yield Reduction Amount" means the amount determined by the Lessor pursuant to the Tax Regulatory Agreement.

"Yield Reduction Payment" means any payment of the Yield Reduction Amount made to the United States Treasury.

SECTION 1.02. Interpretative Rules. For all purposes of this Tax Compliance Agreement, except as otherwise expressly provided or unless the context otherwise requires (a) "Tax Compliance Agreement" means this instrument, as originally executed and as it may from time to time be supplemented or amended pursuant to the applicable provisions hereof; (b) all references in this instrument to designated "Articles," "Sections" and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed; (c) the words "herein," "hereof," "hereunder" and "herewith" and other words of similar import refer to this Tax Compliance Agreement as a whole and not to any particular Article, Section or other subdivision; (d) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular; (e) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles; (f) the terms defined elsewhere in this Tax Compliance Agreement shall have the meanings therein prescribed for them; (g) words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders; (h) the headings used in this Tax Compliance Agreement are for convenience of reference only and shall not define or limit the provisions hereof.

ARTICLE II  
COVENANTS AND REPRESENTATIONS OF  
THE LESSOR AND THE LESSEE ACKNOWLEDGEMENTS  
BY, DIRECTIONS TO AND FROM THE LESSOR AND THE LESSEE

SECTION 2.01. Authority and Organization. (a) The Lessee represents for the benefit of the Lessor that it is a political subdivision of the Commonwealth of Kentucky with the power, among others, to enter into the Lease in furtherance of its corporate purposes, including financing the cost of the Project; and

(b) The Lessor represents for the benefit of the Lessee that (i) the Lessor is a trust duly organized and validly existing under the laws of the Commonwealth of Kentucky; and (ii) the Lessor has full power and authority granted to it by the Commonwealth of Kentucky to establish a program to enter into fixed rate leases with counties, political subdivisions and public agencies of the Commonwealth of Kentucky.

SECTION 2.02. Use of Proceeds. The Lessee represents that:

(a) No Private Use of Proceeds. No Proceeds of the Lease will be used to make Private Loans and no use of the Project will be Private Use without the prior written consent of the Lessor. The Lessee expects to use the Project for the entire stated term of the Lease.

(b) Expectations. The Lessee expects to incur, no later than six months after the Closing Date, a substantial binding commitment to expend at least five percent (5%) of the Sale Proceeds of the Lease and to commence acquisition of the Project within a reasonable period of time after the Closing Date. The Lessee expects that (i) it will expend at least eighty-five percent (85%) of the Sale Proceeds of the Lease by June 20, 2003, (ii) the acquisition of the Project will proceed with due diligence to completion and (iii) the Sale Proceeds of the Lease will be spent with due diligence. For this purpose, a Reimbursement Allocation may be treated as an expenditure. The total amount of Sale Proceeds of the Lease, together with Investment Proceeds, will not exceed the amount necessary for the Project being financed with the Lease, including, to the extent permitted, issuance expenses and interest during construction.

(c) Use of the Project. The Lessee will own or lease and operate the Project during the entire term of the Lease.

(d) Reimbursement Allocations. The Lessee will not make any Reimbursement Allocation with the Proceeds of the Lease for Capital Expenditures that were paid prior to sixty (60) days before the date on which the Lessee adopted a Reimbursement Resolution authorizing the issuance of debt to finance the Project, except that expenditures for Costs of Issuance paid before the Closing Date, certain preliminary Capital Expenditures not in excess of twenty percent (20%) of the Lease Amount, and an amount of Capital Expenditures not in excess of the lesser of five percent (5%) of the Lease Amount or \$100,000 may receive a Reimbursement Allocation even if the expenditure was paid more than sixty (60) days prior to the date of adoption of the Reimbursement Resolution described herein and even if the allocation would not otherwise qualify as a Reimbursement Allocation.

(e) Investment Limitations. (i) The Lessee will invest the Gross Proceeds of the Lease and any Disposition Proceeds of the Lease as provided in the Indenture.

(ii) If at any time, either the Lessee determines or is informed that the Yield on the investment of moneys held by itself or any other person must be restricted or limited in order to prevent the Lease from becoming Arbitrage Bonds, the Lessee shall and shall so instruct any holder of the Sale Proceeds or Investment Proceeds of the Lease to take such action or actions as may be necessary to restrict or limit the yield on such investments as set forth in, and in accordance with, such instruction.

(f) Federal Guarantees. The Gross Proceeds will not be invested in any Investment Property that is Federally-Guaranteed.

SECTION 2.03. Service Contracts. The Lessee represents that it will not enter into any Service Contracts with respect to the Project without the prior written consent of the Lessor.

SECTION 2.04. Research Agreements. The Lessee represents that it will not enter into any Research Agreements with respect to the Project without the prior written consent of the Lessor.

SECTION 2.05. Changes in Use or User of Project. The Lessee represents that (a) no part of the Project will be sold, otherwise disposed of or leased without the prior written consent of the Lessor; (b) it will not to permit any use of its Project by any person or entity other than itself without the prior written consent of the Lessor; and (c) any portion of a Project consisting of personal property may be sold in the ordinary course of an established governmental program if (i) the weighted average maturity of the portion of the Lease financing the personal property was not greater than one hundred twenty percent (120%) of the reasonably expected actual use of such personal property by the Lessee, (ii) the Lessee expected at the date of the Lease that the fair market value of the personal property at the time of disposition would not be greater than twenty-five percent (25%) of its cost and (iii), at the time of disposition, the personal property is no longer suitable for the governmental purpose for which it was acquired.

SECTION 2.06. Investments. The Lessee will invest the Gross Proceeds of the Lease and any Disposition Proceeds of the Lease only as instructed by the Program Administrator, which instructions will be in accordance with instructions regarding compliance with the Code provided to the Program Administrator.

SECTION 2.07. Records. The Lessee represents that proper records and accounts, containing complete and correct entries of all transactions relating to the Lease, the use of the Gross Proceeds of the Lease and the expenditures made in connection with the acquisition of the Project, will be maintained. The information described in this Section will be retained for at least six (6) years after the Redemption Date.

SECTION 2.08. Payment of Arbitrage Compliance Amounts. The Lessee represents that all actions necessary to comply with the Yield limitations applicable to investments of the Sale Proceeds and Investment Proceeds of the Lease and the rebate requirements contained in Section 148(f) of the Code and the Treasury Regulations thereunder will be taken. Immediately upon the request of the Lessor, the Lessee will assemble copies of records concerning investments of Gross Proceeds of the Lease, including any amounts held by any provider of a letter of credit or guarantor under a reimbursement or other similar agreement. In particular, the Lessee will provide the Lessor with information that will enable the Lessor to determine if any Rebate Amount is payable. The Lessee will pay any Arbitrage Compliance Payment owed with respect to the Gross Proceeds of the Lease, as determined by the Lessor. The information described in this Section will be retained for at least six (6) years after the Redemption Date.

SECTION 2.09. Information Reporting Requirements. The Lessee represents that it will timely execute and file any information reports required under Section 149(e) of the Code (Form 8038-G) or as required by the Lessor.

SECTION 2.10. Compliance with Tax Compliance Agreement. (a) The Lessee may, at any time, employ Bond Counsel, independent certified public accountants, or other qualified experts acceptable to the Lessor to perform any of the requirements imposed upon the Lessee by this Tax Compliance Agreement.

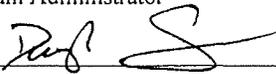
(b) The Lessor and the Lessee agree, to the extent reasonably possible, to comply with any amendments to the Code or any applicable Regulations, effective retroactively, and the Lessor and the Lessee shall take all actions necessary to amend this Tax Compliance Agreement to comply therewith.

(c) Whenever any action or direction is required of the Lessee hereunder, such action or direction may, or in the absence of any such action or direction shall, be made by the Lessor.

IN WITNESS WHEREOF, the Lessor and the Lessee have each caused this Tax Compliance Agreement to be executed in its own name and on its behalf by its duly authorized officers, all as of the date set forth on the cover page hereto.

**KENTUCKY AREA DEVELOPMENT DISTRICTS  
FINANCING TRUST, as Lessor**

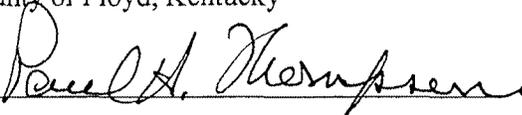
By: Ross, Sinclaire & Associates, Inc.,  
as Program Administrator

By: 

Title: Administrator

**LESSEE**

County of Floyd, Kentucky

By: 

Title: Judge / Executive

**EXHIBIT G**

**CONTINUING DISCLOSURE AGREEMENT**

**KENTUCKY AREA DEVELOPMENT DISTRICTS FINANCING TRUST**

LESSEE: County of Floyd, Kentucky

DATE OF AGREEMENT: June 22, 2005

LEASE AMOUNT: \$2,520,000

---

This Continuing Disclosure Agreement relates to a Lease Agreement between the Lessee and the Kentucky Area Development Districts Financing Trust dated the date of this Continuing Disclosure Agreement.

## CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (the "Agreement") is made and entered into as of the date shown on the cover page hereto between the LESSEE shown on the cover page hereto (the "Lessee") and Ross, Sinclair & Associates, Inc., as disclosure agent (the "Disclosure Agent"):

### RECITALS

WHEREAS, the Lessee has entered into a Lease (the "Lease") dated the date hereof with respect to which certificates of participation will be issued under the Indenture, as defined in the Lease, and offered and sold pursuant to an offering memorandum containing information regarding the Lessee (the "Offering Document"); and

WHEREAS, the Disclosure Agent and the Lessee, wish to provide for the disclosure of certain information concerning the Lease and the Certificates and other matters on an ongoing basis as set forth herein for the benefit of Holders of Certificates in accordance with the provisions of Securities and Exchange Commission Rule 15c2-12, as amended from time to time (the "Rule");

NOW, THEREFORE, in consideration of the mutual promises and agreements made herein and in the Lease, the receipt and sufficiency of which consideration is hereby mutually acknowledged, the parties hereto agree as follows:

#### Section 1. Definitions; Scope of this Agreement.

(A) All terms capitalized but not otherwise defined herein shall have the meanings assigned to those terms in the Lease, as amended and supplemented from time to time. Any such successor disclosure agent shall automatically succeed to the rights and duties of the Disclosure Agent hereunder, without any amendment hereto. The following capitalized terms shall have the following meanings:

"Annual Financial Information" shall mean a copy of the annual audited financial information prepared for the Lessee which shall include, if prepared, a balance sheet, a statement of revenue and expenditure and a statement of changes in fund balances. All such financial information shall be prepared using generally accepted accounting principles, provided, however, that the Lessee may change the accounting principles used for preparation of such financial information so long as the Lessee includes as information provided to the public, a statement to the effect that different accounting principles are being used, stating the reason for such change and how to compare the financial information provided by the differing financial accounting principles.

"Beneficial Owner" shall mean any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries).

"Holders of Certificates" shall mean any holder of the Certificates and any Beneficial Owner thereof.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Material Event" shall, to the extent the Lessee obtains knowledge and determines that it would constitute material information for Holders of Certificates, (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the security; (vii) modifications to rights of security holders; (viii) certificate calls, except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event; (ix) defeasances; (x) release, substitution or sale of property securing repayment of the securities; (xi) rating changes; (xii) the cure, in the manner provided under the Lease, of any payment or nonpayment related default under the Lease; and (xiii) the issuance of any additional Certificates or other indebtedness on a parity with the Certificates; provided, that the occurrence of an event described in clauses (i), (iii), (iv), (v), (viii), (ix) and (xi) shall always be deemed to be material. The SEC requires the listing of (i) through (xi) although some of such events may not be applicable to the Certificates.

"NRMSIR" shall mean any nationally recognized municipal securities information repository, as such term is used in the Release.

"Operating Data" shall mean an update of the Operating Data contained in the Offering Document.

"Participating Underwriter" shall mean any of the original underwriters of the Certificates required to comply with the Rule in connection with the offering of the Certificates.

"Release" shall mean Securities and Exchange Commission Release No. 34-34961.

"SEC" shall mean the Securities and Exchange Commission.

"SID" shall mean the state information depository ("SID"), as such term is used in the Release, if and when a SID is created for the State.

"State" shall mean the Commonwealth of Kentucky.

"Turn Around Period" shall mean (i) five (5) business days, with respect to Annual Financial Information and Operating Data delivered by the Lessee to the Disclosure Agent; (ii) two (2) business days with respect to Material Event occurrences disclosed by the Lessee to the Disclosure Agent; or (iii) two (2) business days with respect to the failure, on the part of the Lessee, to deliver Annual Financial Information and Operating Data to the Disclosure Agent which period commences upon notification by the Lessee of such failure, or upon the Disclosure Agent's actual knowledge of such failure.

(B) This Agreement applies to the Certificates and the Lease.

(C) The Disclosure Agent shall have no obligation to make disclosure about the Certificates or the Lease except as expressly provided herein; provided that nothing herein shall limit the duties or obligations of the Disclosure Agent, as Program Administrator, under the Indenture. The fact that the Disclosure Agent or any affiliate thereof may have any fiduciary or banking relationship with the Lessee, apart from the relationship created hereby, shall not be construed to mean that the Disclosure Agent has actual knowledge of any event or condition except in its capacity as Program Administrator under the Indenture or except as may be provided by written notice from the Lessee.

## Section 2. Disclosure of Information.

(A) General Provisions. This Agreement governs the Lessee's direction to the Disclosure Agent, with respect to information to be made public. In its actions under this Agreement, the Disclosure Agent is acting not as Program Administrator but as the Lessee's agent; provided that the Disclosure Agent shall be entitled to the same protection in so acting under this Agreement as it has in acting as Program Administrator under the Indenture.

(B) Information Provided to the Public. Except to the extent this Agreement is modified or otherwise altered in accordance with Section 3 hereof, the Lessee shall make or cause to be made public the information set forth in subsections (1), (2) and (3) below:

(1) Annual Financial Information and Operating Data. Annual Financial Information and Operating Data at least annually not later than 300 days after the in of Lessees current fiscal year and continuing with each fiscal year thereafter, for which the information is provided, taking into account the Turn Around Period, and, in addition, all information with respect to the Certificates required to be disseminated by the Trustee pursuant to the Indenture.

(2) Material Events Notices. Notice of the occurrence of a Material Event.

(3) Failure to Provide Annual Financial Information. Notice of the failure of Lessee to provide the Annual Financial Information and Operating Data by the date required herein.

(C) Information Provided by Disclosure Agent to Public.

(1) The Lessee directs the Disclosure Agent on its behalf to make public in accordance with subsection (D) of this Section 2 and within the time frame set forth in clause (3) below, and the Disclosure Agent agrees to act as the Lessee's agent in so making public, the following:

- (a) the Annual Financial Information and Operating Data;
- (b) Material Event occurrences;
- (c) the notices of failure to provide information which the Lessee has agreed to make public pursuant to subsection (B)(3) of this Section 2;
- (d) such other information as the Lessee shall determine to make public through the Disclosure Agent and shall provide to the Disclosure Agent in the form required by subsection (C)(2) of this Section 2. If the Lessee chooses to include any information in any Annual Financial Information report or in any notice of occurrence of a Material Event, in addition to that which is specifically required by this Agreement, the Lessee shall have no obligation under this Agreement to update such information or include it in any future Annual Financial Information report or notice of occurrence of a Material Event; and

(2) The information which the Lessee has agreed to make public shall be in the following form:

- (a) as to all notices, reports and financial statements to be provided to the Disclosure Agent as Program Administrator by the Lessee, in the form required by the Lease or other applicable document or agreement; and
- (b) as to all other notices or reports, in such form as the Disclosure Agent shall deem suitable for the purpose of which such notice or report is given.

(3) The Disclosure Agent shall make public the Annual Financial Information, the Operating Data, the Material Event occurrences and the failure to provide the Annual Financial Information and Operating Data within the applicable Turn Around Period. Notwithstanding the foregoing, Annual Financial Information, Operating Data and Material Events shall be made public on the same day as notice thereof is given to the Holders of Certificates of outstanding Certificates, if required in the Indenture, and shall not be made public before the date of such notice. If on any such date, information required to be provided by the Lessee to the Disclosure Agent has not been provided on a timely basis, the Disclosure Agent shall make such information public as soon thereafter as it is provided to the Disclosure Agent.

(D) Means of Making Information Public.

(1) Information shall be deemed to be made public by the Lessee or the Disclosure Agent under this Agreement if it is transmitted as provided in subsection (D)(2) of this Section 2 by the following means:

- (a) to the Holders of Certificates of outstanding Certificates, by the method prescribed by the Indenture;
- (b) to each NRMSIR, by (i) electronic facsimile transmissions confirmed by first class mail, postage prepaid, or (ii) first class mail, postage prepaid; provided that the Lessee or the Disclosure Agent is authorized to transmit information to a NRMSIR by whatever means are mutually acceptable to the Disclosure Agent or the Lessee, as applicable, and the NRMSIR;
- (c) to the SID (if a SID is established for the State), by (i) electronic facsimile transmissions confirmed by first class mail, postage prepaid, or (ii) first class mail, postage prepaid; provided that

the Lessee or the Disclosure Agent is authorized to transmit information to a SID by whatever means are mutually acceptable to the Disclosure Agent or the Lessee, as applicable, and the SID;

(d) to the MSRB, by (i) electronic facsimile transmissions confirmed by first class mail, postage prepaid, or (ii) first class mail, postage prepaid; provided that the Lessee or the Disclosure Agent is authorized to transmit information to a MSRB by whatever means are mutually acceptable to the Disclosure Agent or the Lessee, as applicable, and the MSRB; and/or

(e) to the SEC, by (i) electronic facsimile transmissions confirmed by first class mail, postage prepaid, or (ii) first class mail, postage prepaid; provided that the Lessee or the Disclosure Agent is authorized to transmit information to a SEC by whatever means are mutually acceptable to the Disclosure Agent or the Lessee, as applicable, and the SEC.

(2) Information shall be transmitted to the following:

(a) all Annual Financial Information and Operating Data shall be made available to each NRMSIR and to the SID (if a SID is established for the State);

(b) notice of all Material Event occurrences and all notices of the failure to provide Annual Financial Information or Operating Data within the time specified in Section 2(B)(1) hereof shall be made available to each NRMSIR or the MSRB and to the SID (if a SID is established for the State); and

(c) all information described in clauses (a) and (b) shall be made available to any Certificateholder upon request, but need not be transmitted to the Holders of Certificates who do not so request.

(d) to the extent any Annual Financial Information or Operating Data is included in a document filed with each NRMSIR and SID (if a SID is established for the State) or the SEC, the Lessee shall have been deemed to have provided that information if a statement specifically referencing the filed document is filed with each NRMSIR and SID (if a SID is established for the State) as part of the Lessee's obligation to file Annual Financial Information and Operating Data pursuant to this Agreement. Additionally, if the referenced document is a final official statement (as that term is defined in Rule 15c2-12(f)(3)), it must be available from the MSRB.

With respect to requests for periodic or occurrence information from Holders of Certificates, the Disclosure Agent may require payment by requesting of holders a reasonable charge for duplication and transmission of the information and for the Disclosure Agent's administrative expenses incurred in providing the information.

Nothing in this Agreement shall be construed to require the Disclosure Agent to interpret or provide an opinion concerning the information made public. If the Disclosure Agent receives a request for an interpretation or opinion, the Disclosure Agent may refer such request to the Lessee for response.

(E) Disclosure Agent Compensation. The Lessee shall pay or reimburse the Disclosure Agent for its fees and expenses for the Disclosure Agent's services rendered in accordance with this Agreement as provided in the Lease.

(F) Indemnification of Disclosure Agent. The Lessee shall indemnify and hold harmless the Disclosure Agent and its respective officers, directors, employees and agents from and against any and all claims, damages, losses, liabilities, reasonable costs and expenses whatsoever (including attorney fees) which such indemnified party may incur by reason of or in connection with the Disclosure Agent's performance under this Agreement; provided that the Lessee shall not be required to indemnify the Disclosure Agent for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by the willful misconduct or gross negligence of the

Disclosure Agent in such disclosure of information hereunder. The obligations of the Lessee under this Section shall survive resignation or removal of the Disclosure Agent and payment of the Certificates.

Section 3. Amendment or Waiver.

Notwithstanding any other provision of this Agreement, the Lessee and the Disclosure Agent may amend this Agreement (and the Disclosure Agent shall agree to any reasonable amendment requested by the Lessee) and any provision of this Agreement may be waived, if such amendment or waiver is supported by an opinion of nationally recognized bond counsel or counsel expert in federal securities laws acceptable to both the Lessee and the Disclosure Agent to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule as well as any change in circumstance.

Section 4. Miscellaneous.

(A) Representations. Each of the parties hereto represents and warrants to each other party that it has (i) duly authorized the execution and delivery of this Agreement by the officer of such party whose signature appears on the execution pages hereto, (ii) that it has all requisite power and authority to execute, deliver and perform this Agreement under its organizational documents and any corporate resolutions now in effect, (iii) that the execution and delivery of this Agreement, and performance of the terms hereof, does not and will not violate any law, regulation, ruling, decision, order, indenture, decree, agreement or instrument by which such party is bound, and (iv) such party is not aware of any litigation or proceeding pending, or, to the best of such party's knowledge, threatened, contesting or questioning its existence, or its power and authority to enter into this Agreement, or its due authorization, execution and delivery of this Agreement, or otherwise contesting or questioning the issuance of the Certificates.

(B) Governing Law. This Agreement shall be governed by and interpreted in accordance with the laws of the State; provided that, to the extent that the SEC, the MSRB or any other federal or state agency or regulatory body with jurisdiction over the Certificates shall have promulgated any rule or regulation governing the subject matter hereof, this Agreement shall be interpreted and construed in a manner consistent therewith.

(C) Severability. If any provision hereof shall be held invalid or unenforceable by a court of competent jurisdiction, the remaining provisions hereof shall survive and continue in full force and effect.

(D) Counterparts. This Agreement may be executed in one or more counterparts, each and all of which shall constitute one and the same instrument.

(E) Termination. This Agreement may be terminated by any party to this Agreement upon thirty days' written notice of termination delivered to the other party or parties to this Agreement; provided the termination of this Agreement is not effective until (i) the Lessee, or its successor, enters into a new continuing disclosure agreement with a disclosure agent who agrees to continue to provide, to each NRMSIR, SID and/or MSRB and the Holders of Certificates of the Certificates, all information required to be communicated pursuant to the rules promulgated by the SEC or the MSRB, (ii) nationally recognized bond counsel or counsel expert in federal securities laws provides an opinion that the new continuing disclosure agreement is in compliance with all State and Federal Securities laws and (iii) notice of the termination of this Agreement is provided to each NRMSIR, the appropriate SID, if any, and/or MSRB.

This Agreement shall terminate when all of the Certificates are or are deemed to be no longer outstanding by reason of redemption or legal defeasance or at maturity.

(F) Defaults: Remedies. A party shall be in default of its obligations hereunder if it fails to carry out or perform its obligations hereunder.

If an event of default occurs and continues beyond a period of thirty (30) days following notice of default given in writing to such defaulting party by any other party hereto or by a beneficiary hereof as identified in Section 4(G), the non-defaulting party or any such beneficiary may (and, at the request of the Participating Underwriter or the

holders of at least 25% aggregate principal amount of Outstanding Certificates, the non-defaulting party shall), enforce the obligations of the defaulting party under this Agreement; provided, however, the sole remedy available in any proceeding to enforce this Agreement shall be an action in mandamus, for specific performance or similar remedy to compel performance.

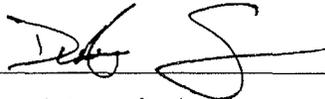
(G) Beneficiaries. This Agreement is entered into by the parties hereof and shall inure solely to the benefit of the Lessee, the Trustee, the Disclosure Agent, the Participating Underwriter and Holders of Certificates, and shall create no rights in any other person or entity.

Section 5. Additional Disclosure Obligations. The Lessee acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933, the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, may apply to the Lessee, and that under some circumstances compliance with this Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Lessee under such laws.

Section 6. Notices. Notices shall be provided in the manner set forth in the Lease.

IN WITNESS WHEREOF, the Disclosure Agent and the Lessee have each caused their duly authorized officers to execute this Agreement, as of the day and year first above written.

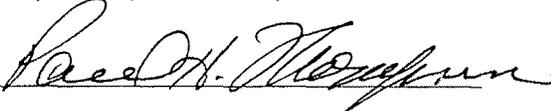
**ROSS, SINCLAIRE & ASSOCIATES, INC.,**  
as Disclosure Agent

By:  \_\_\_\_\_

Title: Administrator

**LESSEE**

County of Floyd, Kentucky

By:  \_\_\_\_\_

Title: Judge / Executive

**Information Return for Tax-Exempt Governmental Obligations**

(Rev. November 2000)

Under Internal Revenue Code section 149(e)

See separate instructions.

OMB No. 1545-0720

Department of the Treasury  
Internal Revenue Service

Caution: If the issue price is under \$100,000, use Form 8038-GC.

**Part I Reporting Authority** If Amended Return, check here

1 Issuer's name <b>County of Floyd, Kentucky</b>		2 Issuer's employer identification number <b>61 : 6000937</b>	
3 Number and street (or P.O. box if mail is not delivered to street address) <b>149 S. Central Street</b>		Room/suite	4 Report number <b>3 2005-</b>
5 City, town, or post office, state, and ZIP code <b>Prestonsburg, Kentucky 41653</b>		6 Date of issue <b>6/28/05</b>	
7 Name of issue <b>KY Area Development District Financing Trust COPS, Series 2005H</b>		8 CUSIP number <b>49119F</b>	
9 Name and title of officer or legal representative whom the IRS may call for more information <b>Honorable Paul Hunt Thompson, Judge / Executive</b>		10 Telephone number of officer or legal representative <b>( 606 ) 886-9193</b>	

**Part II Type of Issue (check applicable box(es) and enter the issue price)** See instructions and attach schedule

11 <input type="checkbox"/> Education	11	
12 <input type="checkbox"/> Health and hospital	12	
13 <input type="checkbox"/> Transportation	13	
14 <input type="checkbox"/> Public safety	14	
15 <input type="checkbox"/> Environment (including sewage bonds)	15	
16 <input type="checkbox"/> Housing	16	
17 <input checked="" type="checkbox"/> Utilities	17	<b>2,455,000</b>
18 <input type="checkbox"/> Other. Describe ▶	18	
19 If obligations are TANs or RANs, check box <input type="checkbox"/> If obligations are BANs, check box <input type="checkbox"/>		
20 If obligations are in the form of a lease or installment sale, check box <input checked="" type="checkbox"/>		

**Part III Description of Obligations. Complete for the entire issue for which this form is being filed.**

	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	<b>06/01/2035</b>	<b>\$ 2,525,000</b>	<b>\$ 2,520,000</b>	<b>18.44</b> years	<b>4.80 %</b>

**Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)**

22 Proceeds used for accrued interest	22	
23 Issue price of entire issue (enter amount from line 21, column (b))	23	<b>2,520,000</b>
24 Proceeds used for bond issuance costs (including underwriters' discount)	24	<b>67,649.70</b>
25 Proceeds used for credit enhancement	25	<b>79,793.61</b>
26 Proceeds allocated to reasonably required reserve or replacement fund	26	
27 Proceeds used to currently refund prior issues	27	
28 Proceeds used to advance refund prior issues	28	
29 Total (add lines 24 through 28)	29	<b>147,443.31</b>
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30	<b>2,372,556.69</b>

**Part V Description of Refunded Bonds (Complete this part only for refunding bonds.)**

31 Enter the remaining weighted average maturity of the bonds to be currently refunded ▶ \_\_\_\_\_ years

32 Enter the remaining weighted average maturity of the bonds to be advance refunded ▶ \_\_\_\_\_ years

33 Enter the last date on which the refunded bonds will be called ▶ \_\_\_\_\_

34 Enter the date(s) the refunded bonds were issued ▶ \_\_\_\_\_

**Part VI Miscellaneous**

35 Enter the amount of the state volume cap allocated to the issue under section 141(b)(5) ▶ \_\_\_\_\_

36a Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (see instructions) ▶ \_\_\_\_\_

b Enter the final maturity date of the guaranteed investment contract ▶ \_\_\_\_\_

37 Pooled financings: a Proceeds of this issue that are to be used to make loans to other governmental units

b If this issue is a loan made from the proceeds of another tax-exempt issue, check box  and enter the name of the issuer ▶ \_\_\_\_\_ and the date of the issue ▶ \_\_\_\_\_

38 If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box

39 If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box

40 If the issuer has identified a hedge, check box

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Sign Here

*Paul H. Thompson*  
Signature of issuer's authorized representative

**6/27/05**  
Date

**PAUL H. THOMPSON,**  
*Floyd County Judge/Executive*  
Type or print name and title



# Exhibit N



March 16, 2005

P.O. Box 398  
Frankfort, KY  
40602

502/695-7353  
fax: 502/695-2897  
www.rsamuni.com

VIA USPS  
Honorable Paul Hunt Thompson  
Floyd County Courthouse  
149 South Central Avenue  
Prestonsburg, Kentucky 41653

INVESTMENT  
BANKING

RE: County of Floyd, Kentucky Series 2005A General Obligation Bonds

FINANCIAL  
ADVISORY

Dear Judge Thompson:

PUBLIC  
FINANCE

In October 2004, our firm handled for your County the issuance of \$2,455,000 of Bond Anticipation Renewal Notes ("Renewal Notes") which mature on June 30, 2005. It is my understanding that the intention of the County was to ultimately loan this money to a water district in your County and that the water district, in turn, would pay for all or a portion of the debt service of the permanent bond financing. At our last meeting in Prestonsburg, it was my understanding that you expected the water district should be able to pay approximately \$120,000 of the bond payments. I am enclosing herewith the following:

BROKERAGE  
SERVICES

- A schedule that shows the projected bond payments if the water district is willing to pay \$120,000 each year.
- A schedule that shows the projected bond payments if the water district is willing to pay \$130,000 each year
- A schedule that shows the projected bond payments if the water district is willing to pay \$140,000 each year.

700 Walnut Street  
Suite 600  
Cincinnati, OH  
45202

Again, make note that these are projections using current interest rates which are subject to change. As you can see, on the first page of the schedules where the water district agrees to pay \$120,000 a year, the County would have to supplement that payment by approximately \$41,560 each year in order to fully amortize the bonds over a 30 year period. If they agree to a payment of \$130,000 a year, the County payment is expected to be \$31,560 and if the water district agrees to \$140,000 a year, the County payment is expected to be \$21,560 per year.

513/381-3939  
fax: 513/381-0124

When the Renewal Notes mature on June 30 of this year, there will be a total of \$2,496,274.69 that is owed to redeem those Renewal Notes. Also included in the Bond sizing is the cost of issuing the bonds as shown on the sources and uses schedule I have enclosed.

1219 Assembly Street  
Suite 202  
Columbia, SC  
29201

The structure that we have proposed is that the County will issue the bonds as General Obligation Bonds meaning that the Bonds have the full faith and credit of the County behind them, which will give you a better interest rate. You will then have an agreement between the water district and the County, whereby the water district will participate in the debt service according to the debt payment level you agree to with them.

803/765-1004  
fax: 803/765-1088

Finally, in order for us to refund the Renewal Notes by June 30, 2005, it is necessary we have a hearing before the State Local Debt Officer and obtain his approval. I am enclosing herewith two copies of a Petition that has to be filed with his office. **Within three business days, please sign both copies of the Petition, return one copy to my office in the pre-addressed stamped envelope and retain the other copy for your files.** Upon receipt, I will file the Petition with the State along with all other necessary legal documentation and schedules. It is not necessary that your Court approve this Petition, but it will be necessary for your Court, at a later date, to approve the issuance of the Bonds by adoption of an ordinance.

1900 Envoy Circle  
Suite 1920  
Louisville, KY  
40299

If you have any questions of the above or the enclosures, please feel free to call me.

502/491-3939  
fax: 502/491-9979

Yours truly,  
*Terrell Ross*  
Terrell Ross

5217 Maryland Way  
Suite 302  
Brentwood, TN  
37027

TRVklr  
Enclosures  
cc: Dwight Salisbury  
Gil Johnson, Esquire

615/370-6262  
fax: 615/370-9669

ROSS, SINCCLAIRE & ASSOCIATES, INC.



County of Floyd, Kentucky - Series 2005A General Obligation Bonds

Assumptions:

Average Fixed Interest Rate:	4.82%
Term (years):	30
Annual Lease Payment of Water District:	\$120,000
Average Annual County Payment:	\$41,560

Payment Date	Coupon	Principal Payment	Interest Payment	Total Payment	Less Lease Payment	Net Period Payment Due of County	FY Payment Due of County
01-Dec-05			\$59,407	\$59,407	\$60,000	(\$593)	
01-Jun-06	2.62%	\$40,000	\$59,407	\$99,407	\$60,000	\$39,407	\$38,814
01-Dec-06			\$58,883	\$58,883	\$60,000	(\$1,117)	
01-Jun-07	2.94%	\$45,000	\$58,883	\$103,883	\$60,000	\$43,883	\$42,766
01-Dec-07			\$58,222	\$58,222	\$60,000	(\$1,779)	
01-Jun-08	3.13%	\$45,000	\$58,222	\$103,222	\$60,000	\$43,222	\$41,443
01-Dec-08			\$57,517	\$57,517	\$60,000	(\$2,483)	
01-Jun-09	3.34%	\$45,000	\$57,517	\$102,517	\$60,000	\$42,517	\$40,035
01-Dec-09			\$56,766	\$56,766	\$60,000	(\$3,234)	
01-Jun-10	3.54%	\$50,000	\$56,766	\$106,766	\$60,000	\$46,766	\$43,532
01-Dec-10			\$55,881	\$55,881	\$60,000	(\$4,119)	
01-Jun-11	3.72%	\$50,000	\$55,881	\$105,881	\$60,000	\$45,881	\$41,762
01-Dec-11			\$54,951	\$54,951	\$60,000	(\$5,049)	
01-Jun-12	3.87%	\$50,000	\$54,951	\$104,951	\$60,000	\$44,951	\$39,902
01-Dec-12			\$53,983	\$53,983	\$60,000	(\$6,017)	
01-Jun-13	4.03%	\$55,000	\$53,983	\$108,983	\$60,000	\$48,983	\$42,967
01-Dec-13			\$52,875	\$52,875	\$60,000	(\$7,125)	
01-Jun-14	4.16%	\$55,000	\$52,875	\$107,875	\$60,000	\$47,875	\$40,750
01-Dec-14			\$51,731	\$51,731	\$60,000	(\$8,269)	
01-Jun-15	4.27%	\$60,000	\$51,731	\$111,731	\$60,000	\$51,731	\$43,462
01-Dec-15			\$50,450	\$50,450	\$60,000	(\$9,550)	
01-Jun-16	4.35%	\$60,000	\$50,450	\$110,450	\$60,000	\$50,450	\$40,900
01-Dec-16			\$49,145	\$49,145	\$60,000	(\$10,855)	
01-Jun-17	4.41%	\$65,000	\$49,145	\$114,145	\$60,000	\$54,145	\$43,290
01-Dec-17			\$47,712	\$47,712	\$60,000	(\$12,288)	
01-Jun-18	4.45%	\$65,000	\$47,712	\$112,712	\$60,000	\$52,712	\$40,424
01-Dec-18			\$46,266	\$46,266	\$60,000	(\$13,735)	
01-Jun-19	4.51%	\$70,000	\$46,266	\$116,266	\$60,000	\$56,266	\$42,531
01-Dec-19			\$44,687	\$44,687	\$60,000	(\$15,313)	
01-Jun-20	4.57%	\$70,000	\$44,687	\$114,687	\$60,000	\$54,687	\$39,374
01-Dec-20			\$43,088	\$43,088	\$60,000	(\$16,913)	
01-Jun-21	4.75%	\$75,000	\$43,088	\$118,088	\$60,000	\$58,088	\$41,175
01-Dec-21			\$41,306	\$41,306	\$60,000	(\$18,694)	
01-Jun-22	4.75%	\$80,000	\$41,306	\$121,306	\$60,000	\$61,306	\$42,613
01-Dec-22			\$39,406	\$39,406	\$60,000	(\$20,594)	
01-Jun-23	4.75%	\$85,000	\$39,406	\$124,406	\$60,000	\$64,406	\$43,813
01-Dec-23			\$37,388	\$37,388	\$60,000	(\$22,613)	
01-Jun-24	4.75%	\$85,000	\$37,388	\$122,388	\$60,000	\$62,388	\$39,775
01-Dec-24			\$35,369	\$35,369	\$60,000	(\$24,631)	
01-Jun-25	4.75%	\$90,000	\$35,369	\$125,369	\$60,000	\$65,369	\$40,738
01-Dec-25			\$33,231	\$33,231	\$60,000	(\$26,769)	
01-Jun-26	4.85%	\$95,000	\$33,231	\$128,231	\$60,000	\$68,231	\$41,463
01-Dec-26			\$30,928	\$30,928	\$60,000	(\$29,073)	
01-Jun-27	4.85%	\$100,000	\$30,928	\$130,928	\$60,000	\$70,928	\$41,855
01-Dec-27			\$28,503	\$28,503	\$60,000	(\$31,498)	
01-Jun-28	4.85%	\$105,000	\$28,503	\$133,503	\$60,000	\$73,503	\$42,005
01-Dec-28			\$25,956	\$25,956	\$60,000	(\$34,044)	
01-Jun-29	4.85%	\$110,000	\$25,956	\$135,956	\$60,000	\$75,956	\$41,913
01-Dec-29			\$23,289	\$23,289	\$60,000	(\$36,711)	
01-Jun-30	4.85%	\$115,000	\$23,289	\$138,289	\$60,000	\$78,289	\$41,578
01-Dec-30			\$20,500	\$20,500	\$60,000	(\$39,500)	
01-Jun-31	5.00%	\$120,000	\$20,500	\$140,500	\$60,000	\$80,500	\$41,000
01-Dec-31			\$17,500	\$17,500	\$60,000	(\$42,500)	
01-Jun-32	5.00%	\$125,000	\$17,500	\$142,500	\$60,000	\$82,500	\$40,000
01-Dec-32			\$14,375	\$14,375	\$60,000	(\$45,625)	
01-Jun-33	5.00%	\$135,000	\$14,375	\$149,375	\$60,000	\$89,375	\$43,750
01-Dec-33			\$11,000	\$11,000	\$60,000	(\$49,000)	
01-Jun-34	5.00%	\$140,000	\$11,000	\$151,000	\$60,000	\$91,000	\$42,000
01-Dec-34			\$7,500	\$7,500	\$60,000	(\$52,500)	
01-Jun-35	5.00%	\$145,000	\$7,500	\$152,500	\$60,000	\$92,500	\$40,000
01-Dec-35			\$3,875	\$3,875	\$60,000	(\$56,125)	
01-Jun-36	5.00%	\$155,000	\$3,875	\$158,875	\$60,000	\$98,875	\$42,750
Totals:		\$2,585,000	\$2,423,374	\$5,008,374	\$3,720,000	\$1,288,374	\$1,288,374

County of Floyd, Kentucky - Series 2005A General Obligation Bonds

Assumptions:

Average Fixed Interest Rate:	4.82%
Term (years):	30
Annual Lease Payment of Water District:	\$130,000
Average Annual County Payment:	\$31,560

Payment Date	Coupon	Principal Payment	Interest Payment	Total Payment	Less Lease Payment	Net Period Payment Due of County	FY Payment Due of County
01-Dec-05			\$59,407	\$59,407	\$65,000	(\$5,593)	
01-Jun-06	2.62%	\$40,000	\$59,407	\$99,407	\$65,000	\$34,407	\$28,814
01-Dec-06			\$58,883	\$58,883	\$65,000	(\$6,117)	
01-Jun-07	2.94%	\$45,000	\$58,883	\$103,883	\$65,000	\$38,883	\$32,766
01-Dec-07			\$58,222	\$58,222	\$65,000	(\$6,779)	
01-Jun-08	3.13%	\$45,000	\$58,222	\$103,222	\$65,000	\$38,222	\$31,443
01-Dec-08			\$57,517	\$57,517	\$65,000	(\$7,483)	
01-Jun-09	3.34%	\$45,000	\$57,517	\$102,517	\$65,000	\$37,517	\$30,035
01-Dec-09			\$56,766	\$56,766	\$65,000	(\$8,234)	
01-Jun-10	3.54%	\$50,000	\$56,766	\$106,766	\$65,000	\$41,766	\$33,532
01-Dec-10			\$55,881	\$55,881	\$65,000	(\$9,119)	
01-Jun-11	3.72%	\$50,000	\$55,881	\$105,881	\$65,000	\$40,881	\$31,762
01-Dec-11			\$54,951	\$54,951	\$65,000	(\$10,049)	
01-Jun-12	3.87%	\$50,000	\$54,951	\$104,951	\$65,000	\$39,951	\$29,902
01-Dec-12			\$53,983	\$53,983	\$65,000	(\$11,017)	
01-Jun-13	4.03%	\$55,000	\$53,983	\$108,983	\$65,000	\$43,983	\$32,967
01-Dec-13			\$52,875	\$52,875	\$65,000	(\$12,125)	
01-Jun-14	4.16%	\$55,000	\$52,875	\$107,875	\$65,000	\$42,875	\$30,750
01-Dec-14			\$51,731	\$51,731	\$65,000	(\$13,269)	
01-Jun-15	4.27%	\$60,000	\$51,731	\$111,731	\$65,000	\$46,731	\$33,462
01-Dec-15			\$50,450	\$50,450	\$65,000	(\$14,550)	
01-Jun-16	4.35%	\$60,000	\$50,450	\$110,450	\$65,000	\$45,450	\$30,900
01-Dec-16			\$49,145	\$49,145	\$65,000	(\$15,855)	
01-Jun-17	4.41%	\$65,000	\$49,145	\$114,145	\$65,000	\$49,145	\$33,290
01-Dec-17			\$47,712	\$47,712	\$65,000	(\$17,288)	
01-Jun-18	4.45%	\$65,000	\$47,712	\$112,712	\$65,000	\$47,712	\$30,424
01-Dec-18			\$46,266	\$46,266	\$65,000	(\$18,735)	
01-Jun-19	4.51%	\$70,000	\$46,266	\$116,266	\$65,000	\$51,266	\$32,531
01-Dec-19			\$44,687	\$44,687	\$65,000	(\$20,313)	
01-Jun-20	4.57%	\$70,000	\$44,687	\$114,687	\$65,000	\$49,687	\$29,374
01-Dec-20			\$43,088	\$43,088	\$65,000	(\$21,913)	
01-Jun-21	4.75%	\$75,000	\$43,088	\$118,088	\$65,000	\$53,088	\$31,175
01-Dec-21			\$41,306	\$41,306	\$65,000	(\$23,694)	
01-Jun-22	4.75%	\$80,000	\$41,306	\$121,306	\$65,000	\$56,306	\$32,613
01-Dec-22			\$39,406	\$39,406	\$65,000	(\$25,594)	
01-Jun-23	4.75%	\$85,000	\$39,406	\$124,406	\$65,000	\$59,406	\$33,813
01-Dec-23			\$37,388	\$37,388	\$65,000	(\$27,613)	
01-Jun-24	4.75%	\$85,000	\$37,388	\$122,388	\$65,000	\$57,388	\$29,775
01-Dec-24			\$35,369	\$35,369	\$65,000	(\$29,631)	
01-Jun-25	4.75%	\$90,000	\$35,369	\$125,369	\$65,000	\$60,369	\$30,738
01-Dec-25			\$33,231	\$33,231	\$65,000	(\$31,769)	
01-Jun-26	4.85%	\$95,000	\$33,231	\$128,231	\$65,000	\$63,231	\$31,463
01-Dec-26			\$30,928	\$30,928	\$65,000	(\$34,073)	
01-Jun-27	4.85%	\$100,000	\$30,928	\$130,928	\$65,000	\$65,928	\$31,855
01-Dec-27			\$28,503	\$28,503	\$65,000	(\$36,498)	
01-Jun-28	4.85%	\$105,000	\$28,503	\$133,503	\$65,000	\$68,503	\$32,005
01-Dec-28			\$25,956	\$25,956	\$65,000	(\$39,044)	
01-Jun-29	4.85%	\$110,000	\$25,956	\$135,956	\$65,000	\$70,956	\$31,913
01-Dec-29			\$23,289	\$23,289	\$65,000	(\$41,711)	
01-Jun-30	4.85%	\$115,000	\$23,289	\$138,289	\$65,000	\$73,289	\$31,578
01-Dec-30			\$20,500	\$20,500	\$65,000	(\$44,500)	
01-Jun-31	5.00%	\$120,000	\$20,500	\$140,500	\$65,000	\$75,500	\$31,000
01-Dec-31			\$17,500	\$17,500	\$65,000	(\$47,500)	
01-Jun-32	5.00%	\$125,000	\$17,500	\$142,500	\$65,000	\$77,500	\$30,000
01-Dec-32			\$14,375	\$14,375	\$65,000	(\$50,625)	
01-Jun-33	5.00%	\$135,000	\$14,375	\$149,375	\$65,000	\$84,375	\$33,750
01-Dec-33			\$11,000	\$11,000	\$65,000	(\$54,000)	
01-Jun-34	5.00%	\$140,000	\$11,000	\$151,000	\$65,000	\$86,000	\$32,000
01-Dec-34			\$7,500	\$7,500	\$65,000	(\$57,500)	
01-Jun-35	5.00%	\$145,000	\$7,500	\$152,500	\$65,000	\$87,500	\$30,000
01-Dec-35			\$3,875	\$3,875	\$65,000	(\$61,125)	
01-Jun-36	5.00%	\$155,000	\$3,875	\$158,875	\$65,000	\$93,875	\$32,750
Totals:		\$2,585,000	\$2,423,374	\$5,008,374	\$4,030,000	\$978,374	\$978,374

County of Floyd, Kentucky - Series 2005A General Obligation Bonds

Assumptions:

Average Fixed Interest Rate:	4.82%
Term (years):	30
Annual Lease Payment of Water District:	\$140,000
Average Annual County Payment:	\$21,560

Payment Date	Coupon	Principal Payment	Interest Payment	Total Payment	Less Lease Payment	Net Period Payment Due of County	FY Payment Due of County
01-Dec-05			\$59,407	\$59,407	\$70,000	(\$10,593)	
01-Jun-06	2.62%	\$40,000	\$59,407	\$99,407	\$70,000	\$29,407	\$18,814
01-Dec-06			\$58,883	\$58,883	\$70,000	(\$11,117)	
01-Jun-07	2.94%	\$45,000	\$58,883	\$103,883	\$70,000	\$33,883	\$22,766
01-Dec-07			\$58,222	\$58,222	\$70,000	(\$11,779)	
01-Jun-08	3.13%	\$45,000	\$58,222	\$103,222	\$70,000	\$33,222	\$21,443
01-Dec-08			\$57,517	\$57,517	\$70,000	(\$12,483)	
01-Jun-09	3.34%	\$45,000	\$57,517	\$102,517	\$70,000	\$32,517	\$20,035
01-Dec-09			\$56,766	\$56,766	\$70,000	(\$13,234)	
01-Jun-10	3.54%	\$50,000	\$56,766	\$106,766	\$70,000	\$36,766	\$23,532
01-Dec-10			\$55,881	\$55,881	\$70,000	(\$14,119)	
01-Jun-11	3.72%	\$50,000	\$55,881	\$105,881	\$70,000	\$35,881	\$21,762
01-Dec-11			\$54,951	\$54,951	\$70,000	(\$15,049)	
01-Jun-12	3.87%	\$50,000	\$54,951	\$104,951	\$70,000	\$34,951	\$19,902
01-Dec-12			\$53,983	\$53,983	\$70,000	(\$16,017)	
01-Jun-13	4.03%	\$55,000	\$53,983	\$108,983	\$70,000	\$38,983	\$22,967
01-Dec-13			\$52,875	\$52,875	\$70,000	(\$17,125)	
01-Jun-14	4.16%	\$55,000	\$52,875	\$107,875	\$70,000	\$37,875	\$20,750
01-Dec-14			\$51,731	\$51,731	\$70,000	(\$18,269)	
01-Jun-15	4.27%	\$60,000	\$51,731	\$111,731	\$70,000	\$41,731	\$23,462
01-Dec-15			\$50,450	\$50,450	\$70,000	(\$19,550)	
01-Jun-16	4.35%	\$60,000	\$50,450	\$110,450	\$70,000	\$40,450	\$20,900
01-Dec-16			\$49,145	\$49,145	\$70,000	(\$20,855)	
01-Jun-17	4.41%	\$65,000	\$49,145	\$114,145	\$70,000	\$44,145	\$23,290
01-Dec-17			\$47,712	\$47,712	\$70,000	(\$22,288)	
01-Jun-18	4.45%	\$65,000	\$47,712	\$112,712	\$70,000	\$42,712	\$20,424
01-Dec-18			\$46,266	\$46,266	\$70,000	(\$23,735)	
01-Jun-19	4.51%	\$70,000	\$46,266	\$116,266	\$70,000	\$46,266	\$22,531
01-Dec-19			\$44,687	\$44,687	\$70,000	(\$25,313)	
01-Jun-20	4.57%	\$70,000	\$44,687	\$114,687	\$70,000	\$44,687	\$19,374
01-Dec-20			\$43,088	\$43,088	\$70,000	(\$26,913)	
01-Jun-21	4.75%	\$75,000	\$43,088	\$118,088	\$70,000	\$48,088	\$21,175
01-Dec-21			\$41,306	\$41,306	\$70,000	(\$28,694)	
01-Jun-22	4.75%	\$80,000	\$41,306	\$121,306	\$70,000	\$51,306	\$22,613
01-Dec-22			\$39,406	\$39,406	\$70,000	(\$30,594)	
01-Jun-23	4.75%	\$85,000	\$39,406	\$124,406	\$70,000	\$54,406	\$23,813
01-Dec-23			\$37,388	\$37,388	\$70,000	(\$32,613)	
01-Jun-24	4.75%	\$85,000	\$37,388	\$122,388	\$70,000	\$52,388	\$19,775
01-Dec-24			\$35,369	\$35,369	\$70,000	(\$34,631)	
01-Jun-25	4.75%	\$90,000	\$35,369	\$125,369	\$70,000	\$55,369	\$20,738
01-Dec-25			\$33,231	\$33,231	\$70,000	(\$36,769)	
01-Jun-26	4.85%	\$95,000	\$33,231	\$128,231	\$70,000	\$58,231	\$21,463
01-Dec-26			\$30,928	\$30,928	\$70,000	(\$39,073)	
01-Jun-27	4.85%	\$100,000	\$30,928	\$130,928	\$70,000	\$60,928	\$21,855
01-Dec-27			\$28,503	\$28,503	\$70,000	(\$41,498)	
01-Jun-28	4.85%	\$105,000	\$28,503	\$133,503	\$70,000	\$63,503	\$22,005
01-Dec-28			\$25,956	\$25,956	\$70,000	(\$44,044)	
01-Jun-29	4.85%	\$110,000	\$25,956	\$135,956	\$70,000	\$65,956	\$21,913
01-Dec-29			\$23,289	\$23,289	\$70,000	(\$46,711)	
01-Jun-30	4.85%	\$115,000	\$23,289	\$138,289	\$70,000	\$68,289	\$21,578
01-Dec-30			\$20,500	\$20,500	\$70,000	(\$49,500)	
01-Jun-31	5.00%	\$120,000	\$20,500	\$140,500	\$70,000	\$70,500	\$21,000
01-Dec-31			\$17,500	\$17,500	\$70,000	(\$52,500)	
01-Jun-32	5.00%	\$125,000	\$17,500	\$142,500	\$70,000	\$72,500	\$20,000
01-Dec-32			\$14,375	\$14,375	\$70,000	(\$55,625)	
01-Jun-33	5.00%	\$135,000	\$14,375	\$149,375	\$70,000	\$79,375	\$23,750
01-Dec-33			\$11,000	\$11,000	\$70,000	(\$59,000)	
01-Jun-34	5.00%	\$140,000	\$11,000	\$151,000	\$70,000	\$81,000	\$22,000
01-Dec-34			\$7,500	\$7,500	\$70,000	(\$62,500)	
01-Jun-35	5.00%	\$145,000	\$7,500	\$152,500	\$70,000	\$82,500	\$20,000
01-Dec-35			\$3,875	\$3,875	\$70,000	(\$66,125)	
01-Jun-36	5.00%	\$155,000	\$3,875	\$158,875	\$70,000	\$88,875	\$22,750
Totals:		\$2,585,000	\$2,423,374	\$5,008,374	\$4,340,000	\$668,374	\$668,374

Floyd County, Kentucky General Obligation Supported Revenue  
 Bonds, Series 2005A  
 Projected for POS

=====  
 Sources and Uses of Funds  
 =====  
 Delivery Date: 6/ 1/ 5

Sources of Funds  
 =====

Par Amount of Bonds.....	\$2,585,000.00
+Premium /-Discount.....	\$0.00
Bond Proceeds.....	2,585,000.00
	-----
	\$2,585,000.00

Uses of Funds  
 =====

Deposit to 2004B BAN Note Fund.....	2,496,274.69
Bond Counsel Fees.....	6,000.00
Cost of Issuance.....	25,850.00
Bond Rating Fee.....	( 1.000000%)
Underwriters Discount.....	5,000.00
Contingency.....	51,700.00
	175.31
	-----
	\$2,585,000.00

Ross Sinclair - T. Ross

Date: 03-16-2005 @ 10:17:42      Filename: FLOYD      Key: 2005A

BEFORE THE STATE LOCAL DEBT OFFICER OF KENTUCKY

CASE NO. \_\_\_\_\_

In the Matter of

PETITION FOR APPROVAL OF STATE LOCAL DEBT OFFICER PURSUANT TO KRS 66.310 WITH RESPECT TO ISSUANCE OF \$2,585,000 (WHICH AMOUNT MAY BE INCREASED OR DECREASED BY AN AMOUNT NOT TO EXCEED TEN PERCENT) OF ITS COUNTY OF FLOYD, KENTUCKY GENERAL OBLIGATION SUPPORTED REVENUE BONDS, SERIES 2005A.

The Petitioners, COUNTY OF FLOYD, KENTUCKY, a political subdivision of the Commonwealth of Kentucky, acting by and through its Fiscal Court, as its governing body (the "County"), respectfully tenders to the State Local Debt Officer of Kentucky this Petition for the approval of:

---

**Approximately \$2,585,000 (which amount may BE INCREASED OR DECREASED BY AN AMOUNT not TO exceed 10%) of its county of Floyd, kentucky general obligation SUPPORTED REVENUE bonds, series 2005A [the "2005A bonds" or the "bonds"]**

---

Now comes the Petitioner, the County of Floyd, Kentucky (the "County") and states:

1. That it is a county in the Commonwealth of Kentucky and as such is a body corporate, with power to contract and be contracted with, to sue and be sued.
2. That the County has determined that it is in the public interest and for the public benefit that it is necessary and desirable to assist in the financing of public water line extensions and improvements in the County (the "Project").
3. The Fiscal Court of the County has determined that the County Judge/Executive should seek the approval of said State Local Debt Officer for the participation by the County in the financing plan where the aforesaid County will issue its General Obligation Supported Revenue Bonds, Series 2005A in a principal amount of approximately \$2,585,000, (which amount may be increased or decreased by an amount not to exceed 10%). A copy of the Ordinance by which the Fiscal Court proposes to approve the plan of financing and General Obligation Bonds will be provided on or before the hearing.
4. Under the provisions of KRS 66.310, the County of Floyd, Kentucky cannot enter into such obligations without first obtaining the approval of the State Local Finance Officer.

WHEREFORE, the Petitioner, the County of Floyd, Kentucky, prays on behalf of itself and its Fiscal Court, that the State Local Debt Officer approves the County of Floyd, Kentucky entering into such obligations and approves the issuance by County of Floyd, Kentucky of such General Obligation Bonds, Series 2005A, in an approximate amount of \$2,585,000 in accordance with the provisions of the County Debt Act as provided by law, and for such other relief as it may appear to be entitled.

\*\*\*\*\*

I, Paul Hunt Thompson, certify that I am the duly qualified and acting County Judge/Executive of the County of Floyd, Kentucky, and that I have read the foregoing Petition and that the facts stated therein are true to the best of my knowledge and information and belief.

IN TESTIMONY WHEREOF, witness my signature this \_\_\_ day of \_\_\_\_\_, 2005.

\_\_\_\_\_  
County Judge/Executive  
County of Floyd, Kentucky

# Exhibit O

**LEASE AGREEMENT**

By and Among

**FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES  
CORPORATION**

and

**COUNTY OF FLOYD, KENTUCKY**

\*\*\*\*\*

Dated as of:

October 15, 2001

---

---

**NOTICE:**

The interest of the Floyd County, Kentucky Public Properties Corporation in and to this Lease has been assigned to Citizens National Bank, as Trustee of the trust created by a certain Mortgage Deed of Trust by and between the Trustee and the Floyd County, Kentucky Public Properties Corporation, dated as of October 15, 2001.

---

**LEASE AGREEMENT**

This **LEASE AGREEMENT** (the "Lease") is made, entered into and effective as of the 15<sup>th</sup> day of October, 2001, by and among the **FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION**, a public nonprofit, nonstock corporation organized and existing under the laws of the Commonwealth of Kentucky for the purpose of serving as an agency and instrumentality of the County in the financing of public, governmental projects in and for the County (the "Corporation"); and the **COUNTY OF FLOYD, KENTUCKY** (the "County"), a *de jure* body politic and political subdivision of the Commonwealth of Kentucky acting by and through its Fiscal Court.

**WITNESSETH**

**WHEREAS**, the Corporation is a nonprofit, nonstock public and governmental corporation duly organized under and existing by virtue of the laws of the Commonwealth of Kentucky for the purpose of serving as the agency and instrumentality and the constituted authority of the County in financing the construction and installation of necessary public governmental projects for use by the County in furtherance of the proper public purposes of the County; and

**WHEREAS**, the Corporation has, at the direction of the County, heretofore authorized its **Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Notes Project, Series 2001**, in a principal amount of approximately Two Million, One Hundred Seventy-five Thousand Dollars (\$2,175,000) (the "Notes"), and its **Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bonds (Water Project), Series 2003**, (or such other series as may hereafter be determined by the Corporation) in the principal amount of \$2,175,000 (the "Bonds") out of which the Notes will be paid; said Notes or Bonds are being issued in order to finance all or a portion of the construction and installation of waterlines in the County (the "Project"); and

**WHEREAS**, the borrowing by the Corporation of the amount represented by the Notes or Bonds, the application of the proceeds of the Notes or Bonds to the purposes aforesaid, and the execution and delivery by its officers on its behalf of the Notes or Bonds as hereinafter set forth, evidencing the indebtedness of the Corporation, and the execution, acknowledgment and delivery by its officers on its behalf of the Mortgage or Second Mortgage, hereinafter identified, for securing the payment thereof, has been authorized and directed by Resolutions of the Board of Directors of the Corporation at meetings duly called and held for the purposes of authorizing the Notes or Bonds at which times the Board of Directors of the Corporation voted, ordered and directed the issuance thereof, voted for the adoption of said Resolutions as set forth in the records of the Corporation and authorized and approved the execution of Mortgages, this Lease and the issuance of the Notes or Bonds; and be paid off with Bonds proceeds upon issuance of the Bonds; and

**WHEREAS**, the Notes are to be issued for the purpose of allowing the County to construct and install waterlines within the County, said Notes to be issued in anticipation of the issuance of the Bonds; and

**WHEREAS**, the Notes are to be issued pursuant to the authority of a Mortgage Deed of Trust, dated October 15, 2001, relating solely to the Notes, but secured, in part, by the assignment of the Rentals and Pledged Receipts identified in this Lease; and

**WHEREAS**, the Bonds are to be issued pursuant to the authority of a Second Mortgage Deed of Trust, which will be executed and entered into at the time of the issuance of the Bonds, a portion of the proceeds from which Bonds will be used to retire the principal, and accrued interest on the Notes; and

WHEREAS, the Corporation and the County have entered into this Lease pursuant to which the Corporation has, at the direction of the County, agreed to authorize and issue the Notes or Bonds to pay the costs of the Project; and

WHEREAS, it is appropriate at this time, pursuant to the direction of the County, that this Lease be consummated by and among the parties so that the Project may be financed and completed forthwith;

NOW, THEREFORE, IN CONSIDERATION OF THESE PREMISES AND IN FURTHER CONSIDERATION OF THE ISSUANCE BY THE CORPORATION OF FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION FIRST MORTGAGE REVENUE BOND ANTICIPATION NOTES (WATER PROJECT), SERIES 2001 IN A PRINCIPAL AMOUNT OF APPROXIMATELY TWO MILLION, ONE HUNDRED SEVENTY-FIVE THOUSAND DOLLARS (\$2,175,000) (THE "NOTES"), AND ITS FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION FIRST MORTGAGE REVENUE BONDS (WATER PROJECT), SERIES 2003, IN THE PRINCIPAL AMOUNT OF \$2,175,000 (THE "BONDS"), FROM WHICH THE NOTES WILL BE PAID, THE CORPORATION AND THE COUNTY MUTUALLY COVENANT AND AGREE AS FOLLOWS:

**SECTION 1. Definitions.** Unless the context clearly indicates some other meaning, the following words and terms shall, for all purposes of this Lease, have the following meanings:

"ACT" shall mean Section 58.180 and Sections 273.161 to 273.390, inclusive, and §§67.080 and 67.083 and §§58.010 to 58.140 of the Kentucky Revised Statutes, as the same may from time to time be amended.

"ADDITIONAL BONDS" shall mean and refer to any bonds issued after the date hereof which shall be on a parity as to security and source of payment with the Bonds and which are issued in order to complete, amend, alter or modify the Project and/or to refund a portion of the Bonds then outstanding.

"AUTHORIZED OFFICER" shall mean, with respect to the Corporation, the Chairman, President, Secretary and/or Treasurer, and any other of its members, officers, agents or employees duly authorized by resolution of the Corporation to perform the act or sign the document in question, and, with respect to the County, the Judge/Executive and any officer, agent or employees duly authorized by ordinance or resolution of the County to perform the act or sign the document in question.

"BOND COUNSEL" shall mean Cox, Bowling & Johnson, P.L.L.C., Lexington, Kentucky.

"BOND REGISTRAR" shall mean the registrar for the Bonds so designated in the Mortgage.

"BONDHOLDER", "NOTEHOLDER" and "HOLDER" or "OWNER" shall mean the person in whose name a Bond or Note is registered or the Beneficial Owner thereof.

"BONDS" shall mean any of the \$2,175,000 principal amount (plus or minus 10%) of Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bonds (Water Project), Series 2003, and any Additional Bonds.

"CERTIFICATE" shall mean a document signed by an Authorized Officer of the Corporation or the County attesting to or acknowledging the circumstances or other matters therein stated.

"**CODE**" shall mean the Internal Revenue Code of 1986, as amended, and applicable Regulations promulgated thereunder.

"**COMMON SPACE**" means that portion of the Project and Project Site utilized by the County.

"**CONSTRUCTION FUND**" shall mean the Construction Fund created pursuant to the Mortgage Deed of Trust.

"**CORPORATION**" shall mean Floyd County, Kentucky Public Properties Corporation, a nonprofit, nonstock public corporation organized and existing under the Act and Kentucky law, including particularly Section 58.180 and Sections 273.161 to 273.390, inclusive, of the Kentucky Revised Statutes for the purpose of acting on behalf of the County in financing the Project.

"**COSTS OF ISSUANCE**" shall mean the costs of issuing the Bonds.

"**COST OF ISSUANCE FUND**" shall mean the account so designated which is established and created pursuant to the Mortgage or Second Mortgage.

"**COUNTY**" shall mean the County of Floyd, Kentucky, a political subdivision of the Commonwealth of Kentucky, acting by and through its Fiscal Court.

"**DEPOSITORY**" shall mean any bank or trust company in which moneys in any Fund may be deposited pending the application of such moneys for the Project or the payments on the Bonds.

"**ELECTRONIC DEPOSIT FORM**" means the "AUTHORIZATION FOR ELECTRONIC DEPOSIT OF VENDOR PAYMENT" attached to the Lease which shall be executed by the County to effect the wire transfer of Rentals due from the County hereunder directly to the Trustee under the Mortgage or Second Mortgage.

"**FIDUCIARY**" or "**FIDUCIARIES**" shall mean the Trustee, any Depository or Depositories, or all of them, as may be appropriate.

"**FUNDS**" shall mean, collectively, all funds and accounts established pursuant to the Mortgage or Second Mortgage.

"**INVESTMENT OBLIGATIONS**" shall mean the obligations and investments identified in the Mortgage or Second Mortgage.

"**LEASE**" shall mean this Lease Agreement entered into by and between the County and the Corporation, dated October 15, 2001.

"**MORTGAGE**" shall mean the Mortgage Deed of Trust dated as of October 15, 2001, by and between the Corporation and the Trustee whereby there is assigned to the Trustee for the benefit of the Owners of the Notes, all of the rights of the Corporation arising in and by virtue of this Lease, and including without limitation all of the Pledged Receipts.

"**NOTE PAYMENT FUND**" shall mean the account so designated which is established and created pursuant to the Mortgage.

"NOTES" shall mean the \$2,175,000 (plus or minus 10%) Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Notes (Water Project), Series 2001.

"OUTSTANDING" when used with reference to the Notes or Bonds, or any Additional Bonds, shall mean, as of any date, all Notes or Bonds theretofore or then being authenticated and delivered under this Mortgage, except:

- (i) Notes or Bonds canceled by the Trustee at or prior to such date;
- (ii) Notes or Bonds (or portions thereof) for the payment or redemption of which there shall be held in trust under the Mortgage (whether at or prior to maturity or redemption date) (a) cash, equal to the principal amount or redemption price thereof, as the case may be, with interest to the date of maturity or redemption date, or (b) Investment Obligations as defined in clause (i) of the definition of Investment Obligations, in such principal amounts, having such maturities and bearing such interest, which, together with cash, if any, shall be sufficient to pay when due, the principal amount or redemption price, as the case may be, with interest to the date of maturity or redemption date; provided that if such Notes or Bonds are to be redeemed, notice of such redemption shall have been given as in the Mortgage provided, or provision satisfactory to the Trustee shall have been made for the giving of such notice;
- (iii) Notes or Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to this Mortgage; and
- (iv) Notes or Bonds deemed to have been paid as provided in the Mortgage.

"PAYING AGENT" shall mean Citizens National Bank, and any bank or trust company hereafter designated, and its successor or successors hereafter appointed, as paying agent for the Bonds.

"PERSON" shall mean or words importing persons shall mean firms, associations, partnerships, joint ventures, societies, estates, trusts corporations, public or governmental bodies, other legal entities and natural persons.

**"PLEGGED RECEIPTS"**

- (i) shall mean all lease Rentals paid to or upon the order of the Corporation pursuant to the Lease, including both timely and delinquent payments with late charges, if any;
- (ii) shall mean and include any and all appropriations and payments made to the Corporation by the County or any other unit of government to the extent not otherwise required to be applied, nor otherwise committed and budgeted by the Corporation during any fiscal period of the Corporation;
- (iii) shall mean all interest earned and gains realized on Investment Obligations unless the Mortgage Deed of Trust specifically requires such interest earned and gains realized to remain in a particular fund or to be transferred to a particular fund;
- (iv) shall mean and include all rights arising under any construction agreement for the water pipeline and the Lease, including, but not by way of limitation, the duty of the County to continuously operate, maintain, insure, replace and renew the Project during the term of the

Lease and during any renewal terms thereof,

- (v) shall mean and include all amounts in all funds and accounts created hereunder, including capitalized interest; provided that the amount in the Rebate Fund shall not constitute Pledged Receipts; and,
- (vi) shall mean and include any amounts realized from the foreclosure and decretal sale of the Project.

"PROJECT" shall mean the construction and installation of waterlines within the County and the operation of a water distribution system in Floyd County, Kentucky.

"PROJECT SITE" shall mean the real estate or easement upon which the waterlines or pipelines are located as described in an Exhibit to the Mortgage or Second Mortgage.

"REBATE FUND" shall mean the fund so designated, which is established and created by the Mortgage or Second Mortgage.

"REFUNDING BONDS" shall mean and refer to any bonds issued by the Corporation, the County or successor corporation, the interest of which is exempt from taxation and the proceeds of which are used to refund or refinance the Bonds.

"RENTAL PAYMENT DATES" means the dates specified in the Lease.

"RENTALS" or "RENTAL PAYMENTS" means the payments due from the County under this Lease in the annual amount of principal and interest payments, including any premiums plus costs.

"RESOLUTION" shall mean the Resolution duly adopted by the Corporation authorizing the issuance of the Bonds and the execution and delivery of the Mortgage Deed of Trust and the Lease, and stating the intent of the Corporation to issue the Bonds.

"SECOND MORTGAGE" shall mean the Mortgage Deed of Trust to be dated as of the date of the Bonds, by and between the Corporation and the Trustee whereby there is assigned to the Trustee for the benefit of the Owners of the Bonds, all of the rights of the Corporation arising in and by virtue of this Lease, and including without limitation all of the Pledged Receipts.

"SINKING FUND" shall mean the fund so designated for payment of principal of and interest on, and premium in respect of, the Bonds, which is established and created pursuant to the Mortgage or Second Mortgage.

"TRUSTEE" shall mean Citizens National Bank, its successor or successors, and any other banking corporation which may at any time be substituted in its place pursuant to this Mortgage.

**SECTION 2. Corporation Acting as Constituted Authority of and on behalf of County in Connection with Project.** The Corporation, having been directed to issue the Notes or Bonds for the financing of the Project for and on behalf of the County, hereby acknowledges that it is acting pursuant to the Act for and on behalf of the County, and as the agency and instrumentality and constituted authority of the County in carrying out such actions pursuant to the laws of the Commonwealth.

In order to provide interim financing for the Project and specifically to provide financing for the construction of pipelines and the acquisition of real estate or easements necessary for the development and construction of the Project, the Corporation has authorized its Notes in the principal amount of \$2,175,000 (plus or minus 10%) all in accordance with the terms and provision of a Mortgage Deed of Trust, dated as of October 15, 2001. Further, in order to provide funds for the permanent financing of the Project, the Corporation has authorized the issuance of its Bonds in the principal amount of \$2,175,000 (plus or minus 10%) all in accordance with the terms and provisions of a Second Mortgage Deed of Trust, to be dated after the date hereof, the proceeds from which Bonds will be used, in part, to pay the principal and interest on the Notes and thereafter the remaining costs and expenses of the development and construction of the Project.

**SECTION 3. County to Act as Agent.** In connection with the issuance of the Notes or Bonds, the Corporation hereby designates the County as its agent for all purposes of the Project including, but not limited to:

- (i) acquiring real estate or easements for the Project;
- (ii) causing the planning and design of the Project and approval thereof by all applicable regulatory agencies;
- (iii) causing construction bids to be secured in respect of the Project with due regard to the provisions of Kentucky law;
- (iv) entering into construction agreements with respect thereto; and,
- (v) operation and maintenance of the water system and Project including, but not limited to, providing water service, billing and overall management of the Project and water distribution system in Floyd County, Kentucky.
- (vi) for the performance of all other duties customarily incident to the foregoing provisions of subparagraph (i), (ii), (iii), (iv) and (v).

Actions taken by the County in such respects are expressly affirmed and ratified by the Corporation. The County covenants and agrees that the Project shall at all times be occupied and used by it during the term of this Lease solely for public, governmental purposes.

**SECTION 4. Mortgage Authorized; Lease Assigned.** In order to secure the payment of principal of, interest on, and premium, if any, on the Notes, the County directs that the Corporation execute the Mortgage to the Trustee for the security, benefit and protection of the Owners of the Notes, as a first priority mortgage lien upon the Project Site, together with all improvements constructed and installed thereon constituting the Project (said site being identified in Exhibit "A" attached to this Lease) and that pursuant to said Mortgage all rights, title and interest of the Corporation in and to this Lease, the proceeds of the Notes, the Project Site, the Project, the Pledged Receipts and all payments to be made by the County pursuant to this Lease shall be assigned by the Corporation to the Trustee.

Upon the execution and recordation of the Second Mortgage, as provided herein, and the full and final payment of all principal and interest on the Notes that has been paid from Bonds proceeds, the lien created by the first Mortgage Deed of Trust shall be released and the lien created by the Second Mortgage shall establish a first priority mortgage lien upon the Project Site, together with all improvements constructed and installed thereon constituting the Project.

The County hereby consents to such assignments, accepts notice of said assignments and the County covenants and agrees to make their Rental Payments in the amounts herein stipulated, directly to said Trustee, so that the same may be received by said Trustee for the Owners for application in strict accordance with the terms and provisions of the Mortgage. This Lease may be assigned by the Corporation to the Trustee of any Notes or Bonds issued to refund or defease the Bonds or Second Mortgage as the case may be, issued after the date hereof; and further provided that neither the term of this Lease nor the term of the Notes or Bonds shall be extended.

The County hereby agrees that as to the Trustee, their obligations to make payments hereunder shall be absolute and unconditional (subject to the rights to renew, as herein set forth), and shall not be subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach by the Corporation of any obligation to the County, whether hereunder or otherwise, or out of any indebtedness or liability at any time owing to the County by the Corporation. The Corporation hereby directs the County and the County hereby agrees to pay directly to Trustee all of said Rental Payments payable by them pursuant to this Lease.

**SECTION 5. Lease of Project by the County.** County hereby leases from the Corporation and the Corporation hereby leases to the County, the Project Site, described in Exhibit "A", and the Project, for an initial period from the date of this Lease until June 30, 2002, or such earlier date in the event the Bonds are issued and the proceeds thereof are used to retire the principal and interest on the Notes. The County shall have the right to renew this Lease, so long as the Notes are outstanding in accordance with the terms and provisions otherwise set forth in this Lease.

It is the stated intention of the parties hereto that the proceeds from the issuance of the Bonds shall be used, in part, to pay the principal and interest on the Notes, the Parties agreeing that the acquisition of the real estate is intended for and constitutes a part of the Project.

As consideration for the lease of the Project and Project Site, the County agrees to pay Rentals in an amount equal to the annual principal and interest (including any premium) due on the Notes or Bonds as set forth in Exhibit "B", which is an amortization schedule for the payment of principal and interest on the Notes. Rentals shall be paid at least one (1) business day before the due date of any payment of interest, principal, or premium, if any. Rentals may be adjusted to reflect any cost or expenses which the Corporation may incur which shall be an obligation of the County.

The Rentals shall be payable directly to the Trustee.

**SECTION 6. Insurance on Leased Project.** In addition to the Rentals, County agrees to pay for property insurance on the Project. The County provides that all insurable improvements presently existing, and all insurable improvements to be constructed and located upon the Project Site, are insured to the full insurable value thereof against all casualties, in good and solvent insurance companies (with standard comprehensive coverage endorsement including rental interruption insurance, if any, in an amount sufficient to pay the maximum principal of and interest coming due on the Bonds during any lease period in the event of damage or destruction to the Project rendering the Project unuseable by County for its intended purposes during a maximum reconstruction or repair period); and the County will make said policies payable to the Corporation and the Trustee as their respective interests may appear, or cause said policies to be endorsed in an appropriate manner so that in the event of loss the proceeds thereof will be payable to the County, the Corporation, and the Trustee, as their interests may appear.

**SECTION 7. Operation, Maintenance and Repair of Project.** The County agrees to manage the Project and operate the water distribution system and all equipment and pipelines, to maintain and repair the

same at the expense of the County, to keep all equipment and improvements thereon in good repair, working order and first-class condition, and to return the same in as good condition as when received, ordinary wear and tear, accidental damage by the elements, and other unavoidable casualties excepted. The County further agrees to pay any and all improvement assessments of any kind whatever against said properties hereby leased. The County has and does hereby covenant for the benefit of the Owners from time to time of the Notes or Bonds, that it will:

- (i) cause the Project to comply with state, local and federal regulations applicable thereto;
- (ii) operate, manage, maintain and repair the Project;
- (iii) adequately insure the Project against casualty loss, with any insurance policies to name the County, the Corporation and the Trustee as beneficiaries, as their interest may appear.

**SECTION 8. Damage or Destruction to Project.** In the event destruction, total or partial shall ensue, there shall first be applied all proceeds of insurance as shall be necessary to fully restore and repair the Project to make the Project suitable for its intended use within twenty-four months of the date of such damage or destruction. So long as the County is continuing with the repair and restoration of the Project and the Project can continue to be used for its intended purposes, the County agrees that they will be bound by the terms of this Lease and will continue to pay the Rentals herein stipulated to the Corporation. In the event the Project cannot be repaired or restored to make the Project suitable for its intended use within twenty-four months of the date of damage or destruction, all proceeds of insurance coverage will be applied to the discharge of the Notes or Bonds, subject to the provisions of the Mortgage.

**SECTION 9. Relinquishment of Project at End of Lease Term.** Subject to the provisions of Section 10 hereof, County agrees to relinquish the Project without any demand and without any notice at the expiration of the initial terms ending June 30, 2002, and the County agrees to keep the Project in good repair and avoid any damage to the same (other than ordinary wear and tear) during the occupancy thereof by the County.

**SECTION 10. County May Renew Lease.**

- (i) On July 1 of each year, this Lease may be renewed by the County for another period of one year, provided that if the Lease is so renewed, the Rentals for each such period during which this Lease remains in effect, as regards the County, shall be a sum equal to the amounts set forth in Exhibit B. This Lease renewal shall automatically be considered to have been affirmatively exercised each year by the County, unless notice of its election not to exercise the option for the period be given by the County to the Corporation and the Trustee in writing at least 60 days prior to the renewal date hereof.
- (ii) Actions taken by the County pursuant to this Lease in respect of operating, managing, maintaining and insuring the Project shall be carried out in a manner consistent with actions taken in respect of similar facilities of the County, and evidence thereof shall be furnished annually by the County to the Trustee. All Rentals payable in each year (if this Lease is renewed for such annual periods as herein provided) shall be payable to the Corporation by the County in a sum equal to the amount of the semiannual interest payments due during each year and the principal amount of the Notes or Bonds maturing during each year in immediately available funds at least one (1) business day prior to the date for which a payment of interest or principal is due on the Bonds directly to the Trustee. It is now anticipated that the Rental payment shall be effected by wire transfer.

**SECTION 11. Only Annual Periods Deemed Obligations.** Following the initial lease period for the County Date until June 30, 2002, nothing herein contained shall be construed as blinding the County for the payment of the Rentals as set forth above beyond the Rentals for the current annual period, but said County shall in each annual renewal period become indebted to the Corporation for such period only upon the exercise of its option to renew as provided herein.

**SECTION 12. County to Have Exclusive Possession of Project.** During the initial term of this Lease and during each term for which it may be renewed, the County shall have full possession, control and operation of the Project and the Project Site, and the County agrees that it will, at its own expense, and operate the same or cause the same to be operated according to acceptable public standards and in such manner as to promote and preserve the public safety, health, convenience, protection and general welfare of the inhabitants of the County.

**SECTION 13. Option to Acquire Project.** It is further specifically agreed that the County may, at any time, acquire title to the Project free and clear of the lien of any Mortgage which secures the Notes or Bonds of the Corporation, by giving the Corporation and the Trustee at least 60 days notice in advance, in writing, of its intention to purchase the Project and by paying to the Trustee for the Bondholders or Noteholders, on or before the date set forth in such notice, a sum equal to the principal, interest and redemption premium which the Corporation will be obligated to pay if it calls all of the outstanding Notes or Bonds for redemption on such date, together with a further sum equal to the expenses which the Corporation and the Trustee may incur in calling all of the Outstanding Notes or Bonds for payment on said date. Upon the happening of any such event and the issuance by the Trustee of an appropriate certificate evidencing the payment and retirement or defeasance of all Notes or Bonds, the Corporation shall immediately convey all its right, title and interest in the Project to the County, free and clear of all liens and encumbrances created by and under any Mortgage.

Notwithstanding anything herein to the contrary, the County reserves the right at all times during the term of this Lease, to obtain unencumbered title to the Project by depositing into the Sinking Fund or Note Payment Fund, moneys sufficient to pay all principal, premium, if any, and interest on the Outstanding Notes or Bonds to a permitted date of redemption, together with sufficient additional moneys to redeem and discharge all Outstanding Notes or Bonds on such redemption date or to deposit into the Sinking Fund, such principal amount of Investment Obligations as shall, with earnings thereon, produce such identical result.

**SECTION 14. Release of Land.** Notwithstanding any other provisions of this Lease, the Corporation may cancel this Lease with respect to certain portions of the Project Site under the circumstances and subject to the conditions set forth in the Mortgage or Second Mortgage.

**SECTION 15. Amendments.** Notwithstanding any other provision of this Lease, the parties hereto may any time and from time to time supplement or make any amendment or change herein to:

- (i) cure any formal defect or ambiguity as permitted by the Mortgage;
- (ii) conform the provisions of this Lease to any amended provisions of the Mortgage;
- (iii) make necessary or advisable amendments in connection with the issuance of renewal notes or additional bonds in accordance with the terms of the Mortgage;
- (iv) achieve compliance with any federal tax law;
- (v) maintain or improve any rating on the Bonds;

- (vi) provide for the release of land pursuant to and subject to the conditions specified in the Mortgage;
- (vii) achieve compliance with any applicable statutory change case law or Supreme Court Mandate;

**SECTION 16. Rights of County Survive Events of Default.** Should the County fail to pay the stipulated Rentals due under this Lease, or during any year for which it is renewed, and the County fails to cure such default within 30 days, at the times herein stipulated, all rights of the County and all future options herein granted to the County in respect of payments in whole of the Notes or Bonds shall in any event remain in full force and effect; provided that the Trustee under the Mortgage shall, upon the occurrence of an event of default, be entitled to take certain actions for the benefit of the Owners of the Notes or Bonds, including foreclosure of the mortgage lien on the Project and sale thereof, but no such sale shall result or give rise to a deficiency judgment of any type or in any amount against the County or the Corporation, and until such sale the County may at any time discharge the Bonds or Notes and the interest thereon, in which event the County shall receive unencumbered fee simple title to the Project Site and the Project.

**SECTION 17. Rights of the County Survive Defaults by Others.** If the County shall renew this Lease from year to year, in the manner herein provided, and shall promptly pay in each year the Rentals stipulated for each year, and shall well and truly keep and perform each and every covenant and condition herein stipulated for performance by them, or cause same to be well and truly kept and performed, then it is specifically agreed that this Lease and all rights of the County under the terms hereof shall continue in full force and effect the County shall have the right to the possession and use of the Project herein described, and the County shall have the right to continue renewing this Lease as herein provided, notwithstanding any failure on the part of the Corporation to apply the Rentals so paid to it by the County to the retirement of the principal and interest of the Notes or Bonds, and notwithstanding any default in the payment of the Notes or Bonds or interest resulting from such failure on the part of the Corporation, even though the rights securing the Notes or Bonds may be enforced by the Trustee for the benefit of the Owners of the Notes or Bonds; and such enforcement, either voluntary or involuntary, shall not be cause for cancellation or avoidance of this Lease by the County or the Corporation.

**SECTION 18. Default by Corporation or County.** If the Corporation or County shall fail to keep or perform any of their obligations as provided in this Lease in respect to:

- (i) maintenance of insurance;
- (ii) operation, management, repairs and maintenance of the Project; and/or
- (iii) compliance with legal or insurance requirements under the Lease.

The Trustee without waiving or releasing the Corporation or County from any obligation under the Mortgage or this Lease, 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 a credit against amounts payable by it under this Lease in an amount equal to such advances, notwithstanding other provisions of this Lease.

**SECTION 19. County Intends to Renew Lease Until Notes or Bonds Are Discharged.** The County hereby expresses its present intention to renew this Lease in accordance with its terms, and in accordance with the options to renew as herein set forth, from year to year, until all of the Notes or Bonds to be issued by the Corporation at the direction of the County are fully paid, canceled and retired, whether

at maturity or by call for redemption, but such expression of intention shall not be construed as a present election on the part of the County to extend this Lease beyond the original term thereof, since the County is without legal power to incur at this time any indebtedness or obligations for Rentals beyond the Rentals stipulated for the first year of said Lease.

**SECTION 20. Conveyance of Project to County When Notes or Bonds Discharged.** If the County renews this Lease from year to year and pays the Rentals for each year as herein provided and when from such Rentals the Corporation shall have fully paid and retired all of the Notes or Bonds, then the Corporation covenants and agrees that it will immediately procure the release, on the records of the Clerk of the County, of the Mortgage securing the Notes or Bonds, and the Corporation further covenants and agrees that it will thereupon convey the Project Site and the Project to the County free and clear of all liens and encumbrances created by and under the Mortgage such steps to be taken at the expense of the County; all subject to the rights of the Owners of any Additional Notes or Bonds.

**SECTION 21. Procedure in Event of Default.** In the event the County shall elect not to renew this Lease at any time, or fail to pay the stipulated Rentals or the County shall fail to cause the Project to be managed, maintained, operated, renewed, replaced and insured as herein agreed, then and in that event and upon any ensuing default in the payment of the principal of or interest on the Notes or Bonds, the Mortgage shall be enforced, which enforcement may, under the terms of the Mortgage, include foreclosure of the liens created by the Mortgage and sale of the Project. No such sale or foreclosure, however, shall give rise to any right to a deficiency judgment against the County or the Corporation in any sum, and until such sale the County may at any time, by payment of all costs of action and charges of Trustee, and by discharge of principal of and interest on the Notes or Bonds, receive unencumbered fee simple title to the Project. In the event of any such enforcement by the Trustee (whether occasioned by the default of the County or by the failure of the Corporation to apply the Rentals to the payment of the Notes or Bonds and interest) from the proceeds of any operation of the Project or foreclosure and sale of the Project by the Trustee there shall first be paid all expenses incident to said enforcement, as provided in the Mortgage, and thereafter the Notes or Bonds and interest then outstanding shall be paid and retired, and if there shall remain any excess after paying such expenses and the claims of Owners, the entire amount of such excess shall be paid over in cash to the County.

Notwithstanding the foregoing, as an alternative remedy, the Trustee is entitled to enter upon the premises, evict the County and relet the Project under such terms and conditions as it deems prudent; the proceeds of such reletting to be applied to the payment of the principal and interest requirements on the Bonds.

**SECTION 22. County's Covenant to Seek Appropriations.** The County covenants and agrees that in each year that this Lease remains in effect it will, through its Fiscal Court, adopt a budget for said ensuing year, which budget will reflect an allocation of sufficient funds to provide for the Rentals and the estimated income and expenses of operating, insuring and maintaining the Project.

**SECTION 23. Inspection.** 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 Lease for the purpose of:

- (i) examining and inspecting the same, including the construction, installation, furnishing and equipping thereof; and
- (ii) performing such work in and about the Project made necessary by reason of County's default under any of the provisions of this Lease.

The County shall also have the right at all reasonable times to examine the books and records of the Corporation, and the Corporation agrees to keep such books and records.

**SECTION 24. Severability.** If any section, paragraph or clause of this Agreement shall be held invalid by any court of competent jurisdiction, the invalidity of said section, paragraph or clause shall not affect any of the remaining provisions hereof.

**IN TESTIMONY WHEREOF**, the Floyd County, Kentucky Public Properties Corporation, acting by and through its Board of Directors, has caused this instrument to be executed by its Chairman/President and attested by its Secretary, and the County of Floyd, Kentucky, acting by and through its Fiscal Court, has caused this instrument to be executed in its name and on its behalf by its County Judge/Executive, attested by its Fiscal Court Clerk, effective as of the day and year first above written.

**FLOYD COUNTY, KENTUCKY PUBLIC  
PROPERTIES CORPORATION**

BY: Paul D. Thompson  
Chairman/President

ATTEST:

Chris Waugb  
Secretary

**COUNTY OF FLOYD, KENTUCKY**

BY: Paul D. Thompson  
County Judge/Executive

ATTEST:

Chris Waugb  
Fiscal Court Clerk

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF FLOYD )

I, a Notary Public in and for the State and County aforesaid, do hereby certify that on this the 11 day of October, 2001, the foregoing Lease Agreement was produced to me in my office by Paul H. Thompson, Chairman/President, and Chris Waugh, Secretary, of the Floyd County, Kentucky Public Properties Corporation, and they thereupon respectively acknowledged before me the execution and attestation thereof as the official act and deed of such Corporation by them as its duly authorized officers pursuant to a duly adopted Resolution.

My commission expires: 8/24/03

[Signature]  
Notary Public, State at Large

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF FLOYD )

I, a Notary Public in and for the State and County aforesaid, do hereby certify that on this the 10 day of October, 2001, the foregoing Lease Agreement was produced to me in my office by Paul H. Thompson, County Judge/Executive and Chris Waugh, Fiscal Court Clerk of the County of Floyd, Kentucky, and they thereupon respectively acknowledged before me the execution and attestation thereof as the official act and deed of such County by them as its duly authorized officers pursuant to a duly adopted Ordinance.

My commission expires: 8/24/03

[Signature]  
Notary Public, State at Large

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF FLOYD )

I, \_\_\_\_\_, Clerk in and for the County and State aforesaid, hereby certify that on this the \_\_\_\_\_ day of \_\_\_\_\_, 2001, the foregoing Lease Agreement was filed in my office to be and has been together with the foregoing certificates attached thereto, recorded in Book \_\_\_\_\_ at Page \_\_\_\_\_.

DB  
\_\_\_\_\_  
Clerk

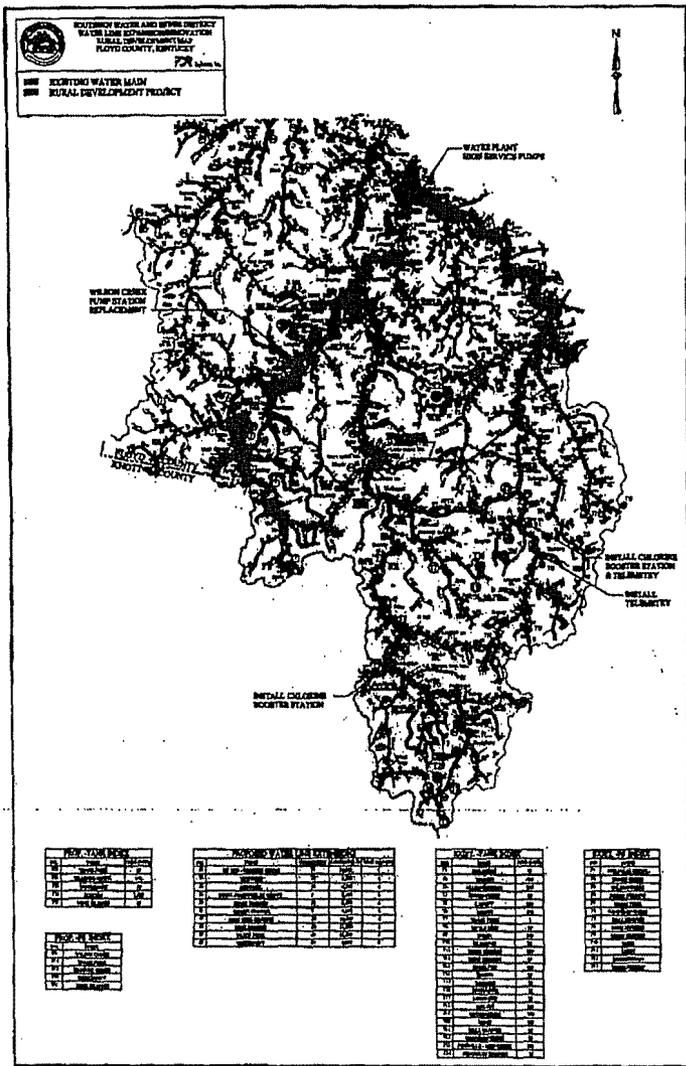
The foregoing instrument was prepared by:

[Signature]  
Gillard B. Johnson III  
Cox, Bowling & Johnson, P.L.L.C.  
Suite 610, PNC Plaza  
220 West Vine Street  
Lexington, Kentucky 40507

**EXHIBIT "A"**

**LEGAL DESCRIPTION OF PROJECT SITE**

1. Floyd County, Kentucky Public Properties Corporation's (the "Corporation") right and interest in the easements and/or right of ways to locate and construct thereupon a water line expansion as shown on the attached map, Exhibit "1" hereto, including all improvements owned and constructed by the Corporation, all as described in the attached map.
2. Corporation's right and interest in and to the Ground Lease Agreement, attached as Exhibit "2" hereto, and recorded in Deed Book 467, beginning at 514, of the Floyd County Court Clerk's Office.
3. Corporation's fee simple interest in the real estate described and set forth in Exhibit "3" attached hereto, which was acquired by the Corporation pursuant to a Deed of Conveyance from Southern Water & Sewer District, as Grantor, to Floyd County, Kentucky Public Properties Corporation, as Grantee, dated April 29, 2002, and recorded in Deed Book 472, Page 166, Floyd County Court Clerk's Office.



NO.	NAME	TYPE
1	...	...
2	...	...
3	...	...
4	...	...
5	...	...
6	...	...
7	...	...
8	...	...
9	...	...
10	...	...

NO.	NAME	TYPE	...
1	...	...	...
2	...	...	...
3	...	...	...
4	...	...	...
5	...	...	...
6	...	...	...
7	...	...	...
8	...	...	...
9	...	...	...
10	...	...	...

NO.	NAME	TYPE	...
1	...	...	...
2	...	...	...
3	...	...	...
4	...	...	...
5	...	...	...
6	...	...	...
7	...	...	...
8	...	...	...
9	...	...	...
10	...	...	...

NO.	NAME	TYPE
1	...	...
2	...	...
3	...	...
4	...	...
5	...	...
6	...	...
7	...	...
8	...	...
9	...	...
10	...	...

Small text at the bottom left of the map frame, likely a scale or projection note.

**GROUND LEASE AGREEMENT**

THIS LEASE AGREEMENT, dated as of the 22<sup>nd</sup> day of December, 2001, is entered into by and between DINNA MULLINS, single, 1424 FRASURE CREEK, McDOWELL, KY 41647 ("Lessor") and SOUTHERN WATER & SEWER DISTRICT, P.O. Box 610, McDowell, Kentucky, 41647, ("Lessee").

Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the premises located at Frasure Creek, Floyd County, Kentucky, being more particularly described on Exhibit A attached hereto and incorporated herein, along with ingress and egress to the premises along the private access road (collectively the "Premises").

1. This Lease shall be for a term of Fifty (50) years, commencing on December 22<sup>nd</sup>, 2001, and terminating on December 21<sup>st</sup>, 2051, (the "Term"). Notwithstanding the foregoing, Lessee shall have the right to occupy the Premises upon the full execution of this Lease, subject to all terms and conditions contained herein. Lessee shall have the option to renew the term of the lease for additional periods upon notification to Lessor and upon negotiation and acceptance by Lessor or the new terms of the extension of lease.

2. Lessee agrees to pay to Lessor the sum of \$3,000.00, upon execution of this Lease Agreement as rent for the full 50 year term of the lease.

3. The granting of this lease shall include the right of the Lessee to install and maintain upon the premises a water pump station, together with rights of ingress and egress to the premises for installation, use, maintenance, repairs, replacement, and removal of the pump station and the ancillary equipment associated with the pump station.



Book D472 Page 196

BOOK D472 PAGE 513

4. That at no time during the term of this Lease Agreement shall the pump station or the ancillary equipment become a fixture on the Premises, but shall at all times remain the personal property of Lessee. Title to the pump station and ancillary equipment shall remain with Lessee, and Lessor acknowledges and hereby specifically waives any and all rights to a landlords lien, whether by statute, common law, or otherwise in the pump station ancillary equipment, and other personal property of Lessee.

5. This Ground Lease Agreement, including the Exhibit, constitutes the entire agreement between the parties and will supersede all previous negotiations and commitments whether written or oral. No waivers, alterations, or modifications of this Lease or any agreements in connection with it shall be valid unless in writing and duly executed by both Lessor and Lessee.

6. All covenants, promises, conditions, representations and agreements herein contained shall be binding upon, apply and insure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors and assign.

IN WITNESS WHEREOF, the parties have caused this Lease to be executed by their duly authorized representatives.

"LESSOR"

*Dinna Mullins*  
DINNA MULLINS

SOUTHERN WATER & SEWER  
DISTRICT, Grantee

BY: *Robert H. Hildner*  
ITS: CHAIRMAN

Book D472 Page 197

BOOK D407 PAGE 516

COMMONWEALTH OF KENTUCKY

COUNTY OF FLOYD

SUBSCRIBED and SWORN to before me this 20<sup>th</sup> day of Dec., 2001, by DINNA MULLINS, single, to be her free act and deed.

My Commission Expires: 5/10/03

Margaret G. Wickham  
NOTARY PUBLIC

COMMONWEALTH OF KENTUCKY

COUNTY OF FLOYD

SUBSCRIBED and SWORN to before me this 3<sup>rd</sup> day of Jan., 2002, by SOUTHERN WATER & SEWER DISTRICT by Hubert Halbert, its Chairman, Grantee.

My Commission Expires: 5/10/03

Margaret G. Wickham  
NOTARY PUBLIC

THIS INSTRUMENT WAS PREPARED BY:

RALPH H. STEVENS, P.S.C.  
ATTORNEY AT LAW  
P.O. DRAWER 466  
142 WEST BRANHAM STREET  
PRESTONSBURG, KY 41653  
(606) 886-1000

BY: Ralph H. Stevens  
RALPH H. STEVENS  
ATTORNEY AT LAW

**EXHIBIT A (The Premises)**

Being a part of the same property conveyed to Geneva Mullins and Dinna Mullins, from Mitchell Short and Bertha Short, his wife, by deed dated September 22, 1973, of record in Deed Book 215, Page 32, and being a part of the same property conveyed to Dinna Mullins, from Geneva Mullins, single, by deed dated January 18, 1988, of record in Deed Book 316, Page 278, both in the office of the Floyd County Clerk, and being a certain tract or parcel of land lying in Floyd County, Kentucky, on the waters of Frasures Creek, which is more particularly described as follows:

**Frasure Creek Pump Station**

Description of a certain tract or parcel of land lying and being on Frasure Creek near the town of McDowell, Floyd County, Kentucky, approximately 312' feet northwest from the intersection of Gearheart Branch and Frasure Creek, subject property lies on the north side of KY RT. 1929 and entirely within a boundary of land now owned by Dinna Mullins as recorded in the Office of the Floyd County Clerk in Deed Book 215, Page 32, and Deed Book 316, Page 278, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set near the northern line of the KY RT. 1929 right-of-way said point also being a common corner to the new boundary for the Dinna and Geneva Mullins property as recorded in Deed Book 215, Page 32 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,055,511.68, and East 2,520,894.58; thence severing the Dinna and Geneva Mullins property for three (3) calls as follows:

N 13° 23' 41" W a distance of 30.03' feet to a capped pin set  
N 76° 35' 08" E a distance of 30.01' feet to a capped pin set  
S 13° 20' 30" E a distance of 30.03' feet to a capped pin set near the northern line of KY RT. 1929 right-of-way; thence leaving the new boundary line of Dinna and Geneva Mullins and following a line near the right-of-way of and parallel to KY RT. 1929 for one call as follows:

S 76° 35' 00" W a distance of 29.98' feet to the beginning, containing 0.021 acres more or less as per a survey by R.M. Johnson Engineering, Inc. completed on 11-21-01.

*[Handwritten signature and stamp]*  
I hereby certify that the above described premises were surveyed and the plat thereon was completed on the 11th day of November, 2001, at 10:00 o'clock A.M. and the same were filed for record in the office of the Clerk of the County of Floyd, Kentucky, and this certificate has been duly recorded in my office.  
R.M. Johnson, Inc. Surveyors  
Floyd County, Kentucky  
R.M. Johnson, D.C.

**TRACT NO. 1**

Description of a certain tract or parcel of land lying and being on Mink Branch of Mud Creek, Floyd County, Kentucky, approximately 8,177 feet southwest from the intersection of Mink Branch and Mud Creek. Subject property is at approximately 1246 feet elevation above Mean Sea Level and lies entirely within a boundary of land now owned by Roy and Mary Hall as recorded in the office of the Floyd County Clerk in Deed Book 354, Page 225 and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8 inch diameter rebar steel, 18 inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set, said capped pin also being a common corner to the new boundary for the Roy and Mary Hall property as recorded in Deed Book 354, Page 225 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,053,353.6854 and East 2,533,513.4123; thence severing the Roy and Mary Hall property for four (4) calls as follows:

- S 38° 52' 40" W a distance of 50.00' feet to a capped pin set
- N 51° 06' 47" W a distance of 49.99' feet to a capped pin set
- N 38° 49' 48" E a distance of 50.00' feet to a capped pin set
- S 51° 06' 49" E a distance of 50.03' feet to the beginning containing 0.057 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 12-10-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of Roy and Mary Hall beginning at Mink Branch Road and continuing across said Hall property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from Ray Hall and Mary Hall, his wife, by deed dated December 22, 2001, of record in Deed Book 467, Page 510, in the office of the Floyd County Clerk.



TRACT NO. 2

Description of a certain tract or parcel of land lying and being on the Right Fork of Beaver Creek near the City of Martin, Floyd County, Kentucky, approximately 660' feet southeast from the intersection of KY RT. 80 and KY RT. 122. Subject property is at approximately 850' feet elevation above Mean Sea Level and lies entirely within a boundary of land now owned by Susan Elaine Compton as recorded in the Office of The Floyd County Court Clerk in Deed Book 237, Page 74, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set, said pin also being a common corner to the new boundary for the Susan Elaine Compton property as recorded in Deed Book 237, Page 74 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North-2,100,730.74 and East 2,506,037.68; thence severing the Susan Elaine Compton property for four calls as follows:

- S 61° 54' 35" E a distance of 149.98' feet to a capped pin set
- S 28° 04' 42" W a distance of 149.99' feet to a capped pin set
- N 61° 54' 37" W a distance of 150.00' feet to a capped pin set
- N 28° 05' 08" E a distance of 149.99' feet to the beginning, containing 0.516 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-21-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of Susan Elaine Compton beginning at an existing graveled road and continuing across said Compton property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from T. J. Compton and Juanita Compton, his wife, and Susan Elaine Compton, single, by deed dated January 30, 2002, of record in Deed Book 468, Page 474, in the office of the Floyd County Clerk.

Hamilton Branch Pump Station Book 472 Page 201

TRACT NO. 3

Deed description for a certain tract or parcel of land lying and being on Hamilton Branch of Mud Creek, in Floyd County, Kentucky, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set in the southeast right-of-way line of KY RT. 680 having an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,065,587.8620 and East 2,537,867.1100, said capped pin being 35' feet right of Centerline Station 235+00, and also being a common corner to land now owned by the Floyd County Fiscal court and recorded in Deed Book 410, Page 356, records of the Floyd County Court Clerk's Office; thence leaving the right-of-way of KY RT 680 and severing the remaining land of the Floyd County Fiscal Court for four (4) calls as follows:

N 29° 04' 01" E a distance of 5.68' feet to a capped pin set

S 60° 56' 48" E a distance of 25.01' feet to a capped pin set

S 29° 04' 03" W a distance of 25.03' feet to a capped pin set

N 60° 54' 35" W a distance of 25.01' feet to a capped pin set in the southeast right-of-way line of KY RT 680, said point being 35' feet right of Centerline Station 234+80.71; thence leaving the land owned by the Floyd County Fiscal Court and following the southeast right-of-way line of KY RT. 680 for one call as follows:

N 29° 04' 01" E a distance of 19.34' feet to the beginning, containing 0.014 acres more or less as per a survey by R. M. Johnson Engineering, Inc., completed on 11-20-01.

Being a part of the same property conveyed to the Grantor, from Floyd County Fiscal Court, by deed dated January 25, 2002, of record in Deed Book 468, Page 479, in the office of the Floyd County Clerk.

Weeksbury Pump Station Book 472 Page 202

**TRACT NO. 4**

Description for a certain tract or parcel of land lying and being on Left Beaver Creek, in the town of Weeksbury, Floyd County, Kentucky, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set within the boundary of a tract of land now owned by Tommy and Barbara Roop, this tract of land is designated as Lot #5 in the town of Weeksbury as shown on Map #142 and recorded in the Floyd County Court Clerk's Office in Deed Book 360, Page 628. Said capped pin has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,017,179.07 and East 2,529,765.82 and bears N 59° 04' 17" W approximately 47.16' feet from the intersection of KY RT 466 and Caleb Fork Road; thence severing the remaining land owned by Tommy and Barbara Roop with four (4) calls as follows:

- S 52° 42' 00" W a distance of 30.01' feet to a capped pin set
- N 37° 18' 31" W a distance of 30.02' feet to a capped pin set
- N 52° 39' 41" E a distance of 30.01' feet to a capped pin set
- S 37° 18' 39" E a distance of 30.04' feet to the beginning, containing 0.021 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-26-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining land of Tommy and Barbara Roop beginning at KY RT 466 and continuing across said Roop property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from Tommy Roop and Barbara Roop, his wife, by deed dated January 25, 2002, of record in Deed Book 468, Page 483, in the office of the Floyd County Clerk.

TRACT NO. 5

Description for a certain tract or parcel of land lying and being on Johns Branch near the town of Langley, Floyd County, Kentucky, approximately 4,647' feet northwest from the intersection of Johns Branch and the Right Fork of Beaver Creek. Subject property lies on the north side of Johns Branch Road and entirely within a boundary of land owned by The Floyd County Fish and Game Club as recorded in the Office of the Floyd County Court Clerk in Deed Book 185, Page 460, and being more particularly described as follows: Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set approximately 15.69' feet north of the northern edge of pavement of Johns Branch Road, said capped pin also being a common point in the new boundary line of land owned by The Floyd County Fish and Game Club as recorded in the Office of the Floyd County Court Clerk in Deed Book 185, Page 460, and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,095,535.65 and East 2,497,547.86; thence severing The Floyd County Fish and Game Club property for four (4) calls as follows:

S 86° 00' 12" W a distance of 30.00' feet to a capped pin set  
 N 03° 58' 57" W a distance of 29.99' feet to a capped pin set  
 N 85° 58' 43" E a distance of 30.00' feet to a capped pin set  
 S 03° 59' 41" E a distance of 30.00' feet to the beginning, containing 0.021 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 01-09-02.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of The Floyd County Fish and Game Club beginning at Johns Branch Road and continuing across said Floyd County Fish and Game Club property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from Floyd County Fish and Game Club, Inc., by deed dated January 28, 2002, of record in Deed Book 468, Page 487, in the office of the Floyd County Clerk.

TRACT NO. 6

Description of a certain tract or parcel of land lying and being in Spurlock Creek, Floyd County, Kentucky, approximately 330' feet north of KY RT 2030 and approximately 1,093' feet northwest from the Road Gap on KY Rt 2030 between Trace Fork and Spurlock Creek. Subject property is at approximately 1,110' feet elevation above Mean Sea Level and lies entirely within a boundary of land now owned by Ivan and Ethel Carroll as recorded in the Office of the Floyd County Court Clerk in Deed Book 286, Page 102 and being more particularly described as follows:

Book 472 Page 204

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set, said pin also being a common corner to the new boundary for the Ivan and Ethel Carroll property as recorded in the Office of the Floyd County Court Clerk in Deed Book 286, Page 102 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,081,502.3203 East 2,522,255.2038; thence severing the Ivan and Ethel Carroll property for four calls as follows:

- N 55° 24' 01" W a distance of 50.00' feet to a capped pin set
- N 34° 35' 47" E a distance of 49.99' feet to a capped pin set
- S 55° 4' 24" E a distance of 50.02' feet to a capped pin set
- S 34° 37' 30" W a distance of 49.99' feet to the beginning containing 0.057 acres more or less as per survey by R.M. Johnson Engineering, Inc., completed on 12-10-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of Ivan and Ethel Carroll beginning at KY RT 2030 and continuing across said Carroll property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from Ethel Carroll, single, by deed dated January 28, 2002, of record in Deed Book 468, Page 492, in the office of the Floyd County Clerk.

3

Mink Branch Pump Station

TRACT NO. 7

Book 472 Page 205

A description for a certain tract or parcel of land lying and being on Mink Branch of Mud Creek, Floyd County, Kentucky, on the west bank of Mud Creek at the mouth of Mink Branch. Subject property lies on the south side of Mink Branch and Mink Branch Road and entirely within a boundary of land now owned by Bula Hall as recorded in the Office of the Floyd County Court Clerk in Deed Book 221, Page 233, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineer 3521.

Beginning at a capped pin set 4.41' feet south of the southern edge of Mink Branch Road, and being S 54° 40' 10" W 14.67' feet from the southwest corner of the bridge crossing Mud Creek. Said point also being a common corner in the new boundary line of property now owned by Bula Hall as recorded in the Floyd County Clerks Office in Deed Book 221, Page 233 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,059,714.6700 and East 2,538,636.5440; thence severing the Bula Hall property with three (3) calls as follows;

S 14° 06' 15" W a distance of 29.92' feet to a capped pin set

S 73° 09' 46" W a distance of 29.90' feet to a capped pin set

N 13° 49' 35" E a distance of 30.05' feet to a capped pin set 3.72' feet south of the southern edge of Mink Branch Road; thence following a line near the southern edge of Mink Branch Road for one call as follows:

N 73° 31' 00" E a distance of 29.96' feet to the beginning, containing 0.018 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-21-01.

Being a part of the same property conveyed to the Grantor, from Bula Hall, single, by deed dated January 31, 2002, of record in Deed Book 469, Page 13, in the office of the Floyd County Clerk.

John Hall Branch Tank Site

TRACT NO. 8

Description of a certain tract or parcel of land lying and being on the John Hall Branch of Frasure Creek in Floyd County, Kentucky, at the head of John Hall Branch, approximately 780' feet north of KY RT. 680 and approximate elevation of 1406' feet above Mean Sea Level and lies entirely within a boundary of land now owned by Vernon Cornett as recorded in the Office of the Floyd County Clerk in Deed Book 336, Page 708 and being more particularly described as follows:

Book 472 Page 206

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set, said capped pin being a common corner to the new boundary for the Vernon Cornett property as recorded in the Office of the Floyd County Court Clerk in Deed Book 336, Page 708 and has approximate NAD 83 Kentucky South Zone State Plane coordinates value North 2,061,847.8941 and East 2,529,052.0629; thence severing the Vernon Cornett property for the four (4) calls as follows:

- N 18 degrees 01' 16" W a distance of 49.96' feet to a capped pin set
- N 71 degrees 59' 03" E a distance of 50.00' feet to a capped pin set
- S 17 degrees 59' 59" E a distance of 49.97' feet to a capped pin set
- S 71 degrees 59' 28" W a distance of 49.98' feet to the point of beginning, containing 0.057 acres more or less as per survey by R.M. Johnson Engineering, Inc., completed on 11-26-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of Vernon Cornett as recorded in the Office of the Floyd County Court Clerk in Deed Book 336, Page 708, beginning at KY Rt. 680 and continuing across said Cornett property to the boundary of the aforementioned tract to be conveyed and there ending.

---

Book 472 Page 207

Being a part of the same property conveyed to the Grantor, from Vernon Comett, single, by deed dated January 31, 2002, of record in Deed Book 469, Page 131, in the office of the Floyd County Clerk.

## TRACT NO. 9

A description of a certain tract or parcel of land lying and being on the Left Fork of Beaver Creek in Floyd County, Kentucky, approximately 6,327 feet southwest from the intersection of KY RT 466 and Caleb Fork Road, said road intersection is in the town of Weeksbury, Kentucky. Subject property is at approximately 1680' feet elevation above Mean Sea Level and lies entirely within a boundary of land now owned by John J. and Patsy J. Sword as recorded in the office of the Floyd County Court Clerk in Deed Book 396, Page 164, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set in the dividing line between property now owned by John J. and Patsy J. Sword and recorded in Deed Book 396, Page 264, records of the Floyd County Court Clerk's Office and property now owned by Collins and Mayo, and recorded in Office of the Floyd County Court Clerk in Deed Book \_\_\_\_\_, Page \_\_\_\_\_. Said capped pin has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,011,167.4396 and East 2,527,759.8617; thence following the dividing line between the property of Collins and Mayo and John J. and Patsy J. Sword down the point for one call as follows:

N 40° 52' 20" W a distance of 50.01' feet to a capped pin set; thence leaving the lines of land owned by Collins and Mayo and severing the property owned by John J. and Patsy J. Sword for three (3) calls as follows:

N 49° 07' 53" E a distance of 49.98' feet to a capped pin set

S 40° 52' 58" E a distance of 50.01' feet to a capped pin set

S 49° 08' 07" W a distance of 49.99' feet to the beginning, containing 0.057 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-27-01.

Book 472 Page 209

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of John J. and Patay J. Sword beginning at KY RT. 466 and continuing across said Sword property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from John J. Sword and Patay Sword, his wife, by deed dated January 31, 2002, of record in Deed Book 469, Page 232, in the office of the Floyd County Clerk.

LEASE AGREEMENT  
EXHIBIT B

Book D472 Page 210

**RENTAL PAYMENT SCHEDULE**

ii

FLORIDA COUNTY PUBLIC UTILITIES CORPORATION  
 FIRST MORTGAGE REVENUE BOND MATURITIES SCHEDULE, SERIES 2001  
 The Maturity  
 Debt Service Schedule

Date	Principal	Coupon	Interest	Period Total	Fiscal Total
4/1/2			42,633.96	42,633.96	42,633.96
10/1/2			46,218.75	46,218.75	92,637.50
4/1/3	2,175,000.00	4.250000	46,218.75	2,221,218.75	2,221,218.75
10/1/3			161,280.21	2,358,280.21	
4/1/4			181,280.21	2,358,280.21	
ACUMULATED	2,175,000.00				

Dated 10/15/1 with delivery of 10/15/1

Bond Years 4,255.417  
 Average Coupon 4.250000  
 M T C % Using 99.500000  
 T I C % From Delivery Date  
 Arbitrage Yield 4.250000 %  
 Basis, Structure & Assumptions - JP

Dates: 10-01-2001 & 17-20-02 Filings: FLOM exp: 2002

FLOYD COUNTY PUBLIC PROPERTIES CORPORATION  
 FIRST NOTICE REVENUE BOND ANTICIPATION NOTES, SERIES 2001  
 FINAL SCHEDULE

Net Debt Service Requirements  
 Delivery Date: 10/15/11

Period Ending	Principal	Coupon	Interest	Total Debt Service	Cont'r. Fund	Debt Svc. Res.	Net Debt Service	Surplus Funds
4/1/2	42,423.96	42,423.96	42,423.96	136,475.05			93,051.09	
10/1/2	46,218.75	46,218.75	46,218.75	1,577.36			49,029.70	
4/1/3	2,175,000.00	4,250,000	46,218.75	2,221,218.75	750.01	52.72	2,217,455.07	3,540.96
10/1/3	2,175,000.00						136,455.14	
							2,217,455.07	

Dated 10/15/11 with delivery of 10/15/11  
 Bond Years: 4, 2005-2017  
 Average Maturity: 7.481111  
 M I C %: 4.500525 % Urate 99.5000000  
 T I C %: 4.520175 %  
 Addverage Yield: 4.250846 %  
 Issued, Structured & Associated - JP  
 Dates: 10-04-2001 @ 17:20:44 Placement FUND: KYF: BABS

STATE OF KENTUCKY, COUNTY OF FLOYD, S.B.  
 I, CHRIS WAUGH, Clerk of Floyd County certify that the foregoing was on the 15th day of October, 2012 at 11:35 o'clock a.m. lodged for record whereupon the same with the foregoing and this certificate have been duly recorded in my office.  
 Witness my hand, this 15th day of October, 2012  
 CHRIS WAUGH, CLERK By: Deontia Duke, D.C.

# Exhibit P

Book D472 Page 166

DEED

THIS DEED, by and between SOUTHERN WATER & SEWER DISTRICT, P.O. Box 610, McDowell, Kentucky 41647, Party of the First Part and Grantor, and FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION, 149 South Central Avenue, Prestonsburg, Kentucky 41653, Party of the Second Part and Grantee;

WITNESSETH: That said Party of the First Part for and in consideration of the sum of One Dollar (\$1.00), the receipt of which is hereby acknowledged, does hereby bargain, sell, grant and convey to the Party of the Second Part, its successors and assigns, the following described property in Floyd County, Kentucky to wit:

SEE ATTACHED EXHIBIT "A" FOR LEGAL DESCRIPTION

To have and to hold the same, together with all the appurtenances thereunto belonging unto the Party of the Second Party, its successors or assigns forever, with covenant of general warranty.

Grantee, to have and to hold, the above described property, together with any and all interests, rights, privileges and appurtenances thereto belonging. The Grantor shall have the right to reacquire the property, for and in consideration of One (\$1.00) Dollar, at such time as all of the principal and interest on the Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Note, in the original principal amount of \$2,175,000 shall have been paid in full, said anticipated maturity date being October 1, 2003.

Pursuant to KRS Chapter 382, the Grantor and Grantee swear and certify that the property herein conveyed is transferred for nominal consideration. They further certify that the full estimated fair cash value of the property herein conveyed is \$21,500, which is the total consideration paid by Grantor, or fair cash value, for each of the tracts identified in Exhibit "A".

IN TESTIMONY WHEREOF, witness my signatures this \_\_\_\_ day of April, 2002.

GRANTOR

SOUTHERN WATER & SEWER DISTRICT

By: *Robert G. Helms*  
Its: *Chairman*

GRANTEE

FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION

By: *Paul H. Thompson*  
Its: *President*

STATE OF KENTUCKY )  
COUNTY OF Floyd )

The foregoing Deed and Consideration Certificate were acknowledged and sworn to before me this 29 April, 2002, by Robert G. Helms, serving as Chairman of SOUTHERN WATER & SEWER DISTRICT.

My commission expires: 08-24-03

*David P. Melter*  
NOTARY PUBLIC

STATE OF KENTUCKY )  
COUNTY OF FLOYD )

The foregoing Deed and Consideration Certificate were acknowledged and sworn to before me this 29 April, 2002, by Paul H. Thompson, serving as President, of FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION.

My commission expires: 9-17-05

*Paul H. Thompson*  
NOTARY PUBLIC

THIS INSTRUMENT PREPARED BY:

*Gillard B. Johnson, III*

Gillard B. Johnson, III  
COX, BOWLING & JOHNSON, PLC  
200 West Vine Street, Suite 610  
Lexington, Kentucky 40507  
Telephone: (859) 255-9060  
Facsimile: (859) 255-6903

**EXHIBIT "A"**  
**TRACT NO. 1**

Description of a certain tract or parcel of land lying and being on Mink Branch of Mud Creek, Floyd County, Kentucky, approximately 8,177' feet southwest from the intersection of Mink Branch and Mud Creek. Subject property is at approximately 1246' feet elevation above Mean Sea Level and lies entirely within a boundary of land now owned by Roy and Mary Hall as recorded in the office of the Floyd County Clerk in Deed Book 354, Page 225 and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set, said capped pin also being a common corner to the new boundary for the Roy and Mary Hall property as recorded in Deed Book 354, Page 225 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,053,353.6854 and East 2,533,513.4123; thence severing the Roy and Mary Hall property for four (4) calls as follows:

- S 38° 52' 40" W a distance of 50.00' feet to a capped pin set
- N 51° 06' 47" W a distance of 49.99' feet to a capped pin set
- N 38° 49' 48" E a distance of 50.00' feet to a capped pin set
- S 51° 06' 49" E a distance of 50.03' feet to the beginning containing 0.057 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 12-10-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of Roy and Mary Hall beginning at Mink Branch Road and continuing across said Hall property to the boundary of the aforementioned tract to be conveyed and there ending.

**Being a part of the same property conveyed to the Grantor, from Ray Hall and Mary Hall, his wife, by deed dated December 22, 2001, of record in Deed Book 467, Page 510, in the office of the Floyd County Clerk.**

TRACT NO. 2

Description of a certain tract or parcel of land lying and being on the Right Fork of Beaver Creek near the City of Martin, Floyd County, Kentucky, approximately 660' feet southeast from the intersection of KY RT. 80 and KY RT. 122. Subject property is at approximately 850' feet elevation above Mean Sea Level and lies entirely within a boundary of land now owned by Susan Elaine Compton as recorded in the Office of The Floyd County Court Clerk in Deed Book 237, Page 74, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set, said pin also being a common corner to the new boundary for the Susan Elaine Compton property as recorded in Deed Book 237, Page 74 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North-2,100,730.74 and East 2,506,037.68; thence severing the Susan Elaine Compton property for four calls as follows:

- S 61° 54' 35" E a distance of 149.98' feet to a capped pin set
- S 28° 04' 42" W a distance of 149.99' feet to a capped pin set
- N 61° 54' 37" W a distance of 150.00' feet to a capped pin set
- N 28° 05' 08" E a distance of 149.99' feet to the beginning, containing 0.516 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-21-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of Susan Elaine Compton beginning at an existing graveled road and continuing across said Compton property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from T. J. Compton and Juanita Compton, his wife, and Susan Elaine Compton, single, by deed dated January 30, 2002, of record in Deed Book 468, Page 474, in the office of the Floyd County Clerk.

**Hamilton Branch Pump Station****TRACT NO. 3**

Deed description for a certain tract or parcel of land lying and being on Hamilton Branch of Mud Creek, in Floyd County, Kentucky, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set in the southeast right-of-way line of KY RT. 680 having an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,065,587.8620 and East 2,537,867.1100, said capped pin being 35' feet right of Centerline Station 235+00, and also being a common corner to land now owned by the Floyd County Fiscal Court and recorded in Deed Book 410, Page 356, records of the Floyd County Court Clerk's Office; thence leaving the right-of-way of KY RT 680 and severing the remaining land of the Floyd County Fiscal Court for four (4) calls as follows:

N 29° 04' 01" E a distance of 5.68' feet to a capped pin set

S 60° 56' 48" E a distance of 25.01' feet to a capped pin set

S 29° 04' 03" W a distance of 25.03' feet to a capped pin set

N 60° 54' 35" W a distance of 25.01' feet to a capped pin set in the southeast right-of-way line of KY RT 680, said point being 35' feet right of Centerline Station 234+80.71; thence leaving the land owned by the Floyd County Fiscal Court and following the southeast right-of-way line of KY RT. 680 for one call as follows:

N 29° 04' 01" E a distance of 19.34' feet to the beginning, containing 0.014 acres more or less as per a survey by R. M. Johnson Engineering, Inc., completed on 11-20-01.

Being a part of the same property conveyed to the Grantor, from Floyd County Fiscal Court, by deed dated January 25, 2002, of record in Deed Book 468, Page 479, in the office of the Floyd County Clerk.

Weeksbury Pump Station

Book D472 Page 171

TRACT NO. 4

Description for a certain tract or parcel of land lying and being on Left Beaver Creek, in the town of Weeksbury, Floyd County, Kentucky, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set within the boundary of a tract of land now owned by Tommy and Barbara Roop, this tract of land is designated as Lot #5 in the town of Weeksbury as shown on Map #142 and recorded in the Floyd County Court Clerk's Office in Deed Book 360, Page 628. Said capped pin has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,017,179.07 and East 2,529,765.82 and bears N 59° 04' 17" W approximately 47.16' feet from the intersection of KY RT 466 and Caleb Fork Road; thence severing the remaining land owned by Tommy and Barbara Roop with four (4) calls as follows:

- S 52° 42' 00" W a distance of 30.01' feet to a capped pin set
- N 37° 18' 31" W a distance of 30.02' feet to a capped pin set
- N 52° 39' 41" E a distance of 30.01' feet to a capped pin set
- S 37° 18' 39" E a distance of 30.04' feet to the beginning, containing 0.021 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-26-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining land of Tommy and Barbara Roop beginning at KY RT 466 and continuing across said Roop property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from Tommy Roop and Barbara Roop, his wife, by deed dated January 25, 2002, of record in Deed Book 468, Page 483, in the office of the Floyd County Clerk.

TRACT NO. 5

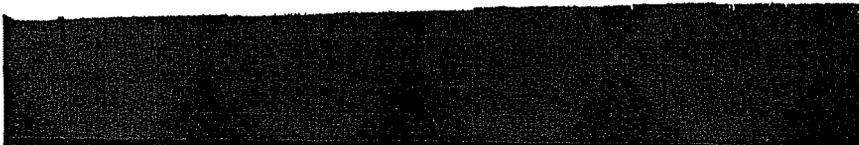
Description for a certain tract or parcel of land lying and being on Johns Branch near the town of Langley, Floyd County, Kentucky, approximately 4,647' feet northwest from the intersection of Johns Branch and the Right Fork of Beaver Creek. Subject property lies on the north side of Johns Branch Road and entirely within a boundary of land owned by The Floyd County Fish and Game Club as recorded in the Office of the Floyd County Court Clerk in Deed Book 185, Page 460, and being more particularly described as follows:  
 Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set approximately 15.69' feet north of the northern edge of pavement of Johns Branch Road, said capped pin also being a common point in the new boundary line of land owned by The Floyd County Fish and Game Club as recorded in the Office of the Floyd County Court Clerk in Deed Book 185, Page 460, and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,095,555.65 and East 2,497,547.86; thence severing The Floyd County Fish and Game Club property for four (4) calls as follows:

- S 86° 00' 12" W a distance of 30.00' feet to a capped pin set
- N 03° 58' 57" W a distance of 29.99' feet to a capped pin set
- N 85° 58' 43" E a distance of 30.00' feet to a capped pin set
- S 03° 59' 41" E a distance of 30.00' feet to the beginning, containing 0.021 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 01-09-02.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of The Floyd County Fish and Game Club beginning at Johns Branch Road and continuing across said Floyd County Fish and Game Club property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from Floyd County Fish and Game Club, Inc., by deed dated January 28, 2002, of record in Deed Book 468, Page 487, in the office of the Floyd County Clerk.



TRACT NO. 6

Description of a certain tract or parcel of land ~~being~~ and being in Spurlock Creek, Floyd County, Kentucky, approximately 330' feet north of KY RT 2030 and approximately 1,093' feet northwest from the Road Gap on KY Rt 2030 between Trace Fork and Spurlock Creek. Subject property is at approximately 1,110' feet elevation above Mean Sea Level and lies entirely within a boundary of land now owned by Ivan and Ethel Carroll as recorded in the Office of the Floyd County Court Clerk in Deed Book 286, Page 102 and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set, said pin also being a common corner to the new boundary for the Ivan and Ethel Carroll property as recorded in the Office of the Floyd County Court Clerk in Deed Book 286, Page 102 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,081,502.3203 East 2,522,255.2038; thence severing the Ivan and Ethel Carrol property for four calls as follows:

- N 55° 24' 01" W a distance of 50.00' feet to a capped pin set
- N 34° 35' 47" E a distance of 49.99' feet to a capped pin set
- S 55° 4' 24" E a distance of 50.02' feet to a capped pin set
- S 34° 37' 30" W a distance of 49.99' feet to the beginning containing 0.057 acres more or less as per survey by R.M. Johnson Engineering, Inc., completed on 12-10-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of Ivan and Ethel Carroll beginning at KY RT 2030 and continuing across said Carroll property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from Ethel Carroll, single, by deed dated January 28, 2002, of record in Deed Book 468, Page 492, in the office of the Floyd County Clerk.



## Mink Branch Pump Station

Book ~~D472~~ Page ~~174~~

## TRACT NO. 7

A description for a certain tract or parcel of land lying and being on Mink Branch of Mud Creek, Floyd County, Kentucky, on the west bank of Mud Creek at the mouth of Mink Branch. Subject property lies on the south side of Mink Branch and Mink Branch Road and entirely within a boundary of land now owned by Eula Hall as recorded in the Office of the Floyd County Court Clerk in Deed Book 221, Page 233, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineer 3521.

Beginning at a capped pin set 4.41' feet south of the southern edge of Mink Branch Road, and being S 54° 40' 10" W 14.67' feet from the southwest corner of the bridge crossing Mud Creek. Said point also being a common corner in the new boundary line of property now owned by Eula Hall as recorded in the Floyd County Clerks Office in Deed Book 221, Page 233 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,059,714.6700 and East 2,538,636.5440; thence severing the Eula Hall property with three (3) calls as follows;

S 14° 06' 15" W a distance of 29.92' feet to a capped pin set

S 73° 09' 46" W a distance of 29.90' feet to a capped pin set

N 13° 49' 35" E a distance of 30.05' feet to a capped pin set 3.72' feet south of the southern edge of Mink Branch Road; thence following a line near the southern edge of Mink Branch Road for one call as follows:

N 73° 31' 00" E a distance of 29.96' feet to the beginning, containing 0.018 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-21-01.

Being a part of the same property conveyed to the Grantor, from Eula Hall, single, by deed dated January 31, 2002, of record in Deed Book 469, Page 13, in the office of the Floyd County Clerk.

TRACT NO. 8

Description of a certain tract or parcel of land lying and being on the John Hall Branch of Frasure Creek in Floyd County, Kentucky, at the head of John Hall Branch, approximately 780' feet north of KY RT. 680 and approximate elevation of 1406' feet above Mean Sea Level and lies entirely within a boundary of land now owned by Vernon Cornett as recorded in the Office of the Floyd County Clerk in Deed Book 336, Page 708 and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set, said capped pin being a common corner to the new boundary for the Vernon Cornett property as recorded in the Office of the Floyd County Court Clerk in Deed Book 336, Page 708 and has approximate NAD 83 Kentucky South Zone State Plane coordinate value North 2,061,847.8941 and East 2,529,052.0629; thence severing the Vernon Cornett property for the four (4) calls as follows:

- N 18 degrees 01' 16" W a distance of 49.96' feet to a capped pin set
- N 71 degrees 59' 03" E a distance of 50.00' feet to a capped pin set
- S 17 degrees 59' 59" E a distance of 49.97' feet to a capped pin set
- S 71 degrees 59' 28" W a distance of 49.98' feet to the point of beginning, containing 0.057 acres more or less as per survey by R.M. Johnson Engineering, Inc., completed on 11-26-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of Vernon Cornett as recorded in the Office of the Floyd County Court Clerk in Deed Book 336, Page 708, beginning at KY Rt. 680 and continuing across said Cornett property to the boundary of the aforementioned tract to be conveyed and there ending.

Book ~~472~~ Page ~~176~~

Being a part of the same property conveyed to the Grantor, from Vernon Cornett, single, by deed dated January 31, 2002, of record in Deed Book 469, Page 131, in the office of the Floyd County Clerk.

## TRACT NO. 9

A description of a certain tract or parcel of land lying and being on the Left Fork of Beaver Creek in Floyd County, Kentucky, approximately 6,327' feet southwest from the intersection of KY RT 466 and Caleb Fork Road, said road intersection is in the town of Weeksbury, Kentucky. Subject property is at approximately 1680' feet elevation above Mean Sea Level and lies entirely within a boundary of land now owned by John J. and Patsy J. Sword as recorded in the office of the Floyd County Court Clerk in Deed Book 396, Page 164, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set in the dividing line between property now owned by John J. and Patsy J. Sword and recorded in Deed Book 396, Page 264, records of the Floyd County Court Clerk's Office and property now owned by Collins and Mayo, and recorded in Office of the Floyd County Court Clerk in Deed Book \_\_\_\_\_, Page \_\_\_\_\_. Said capped pin has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,011,167.4396 and East 2,527,759.8617; thence following the dividing line between the property of Collins and Mayo and John J. and Patsy J. Sword down the point for one call as follows:

N 40° 52' 20" W a distance of 50.01' feet to a capped pin set; thence leaving the lines of land owned by Collins and Mayo and severing the property owned by John J. and Patsy J. Sword for three (3) calls as follows:

N 49° 07' 53" E a distance of 49.98' feet to a capped pin set  
S 40° 52' 58" E a distance of 50.01' feet to a capped pin set  
S 49° 08' 07" W a distance of 49.99' feet to the beginning, containing 0.057 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-27-01.

Book 0472 Page 178

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of John J. and Patsy J. Sword beginning at KY RT. 466 and continuing across said Sword property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from John J. Sword and Patsy Sword, his wife, by deed dated January 31, 2002, of record in Deed Book 469, Page 252, in the office of the Floyd County Clerk.

*no tax paid*  
STATE OF KENTUCKY, COUNTY OF FLOYD, S.S.  
I, CHRIS WAUGH, Clerk of Floyd County certify that the foregoing  deed  was on the  21  day of  April  2002 at  10  o'clock  AM  lodged for record whereupon the same with the foregoing and this certificate have been duly recorded in my office.  
Witness my hand, this  21  day of  April  2002  
CHRIS WAUGH, CLERK By:  [Signature] DC

# Exhibit Q

**ADDENDUM TO LEASE AGREEMENT**

This **ADDENDUM TO LEASE AGREEMENT** (the "Lease Addendum") is made, entered into and effective as of September 26, 2003, by and among the **FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION**, a public nonprofit, nonstock corporation organized and existing under the laws of the Commonwealth of Kentucky for the purpose of serving as an agency and instrumentality of the County in the financing of public, governmental projects in and for the County (the "Corporation") and the **COUNTY OF FLOYD, KENTUCKY** (the "County"), a *de jure* body politic and political subdivision of the Commonwealth of Kentucky acting by and through its Fiscal Court.

**WITNESSETH**

**WHEREAS**, the Corporation has, at the direction of the County, heretofore authorized its "Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Renewal Notes (Water Project), Series 2003", in the principal amount of Two Million, Three Hundred Ninety-five Thousand Dollars (\$2,395,000) (the "Renewal Notes"), said Renewal Notes are being issued in order pay the principal and interest on the "Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Notes (Water Project), Series 2001" (the "Prior Notes"), dated October 15, 2001, which Prior Notes were issued to finance all or a portion of certain facilities which all or a portion thereof will be leased to the County (the "Project"); and

**WHEREAS**, pursuant to an Resolution adopted on September 4, 2003, the Corporation issued the Renewal Notes, the proceeds of which will be used to pay the principal and interest on the Prior Notes, the proceeds of which were used for the Project, as described and set forth in the Contract, Lease & Option, dated as of October 15, 2001 (the "Contract"), a true and accurate copy of which is recorded in Deed Book 472, Page 179, Office of the Floyd County Court Clerk, Prestonsburg, Kentucky;

**WHEREAS**, the Contract provides, in Section 5 thereof, that the County agreed to lease from, and the Corporation agreed to lease to the County, the Project Site and the Project, together with all improvements thereon and to be constructed thereon from an initial Occupancy Date, as defined in the Contract;

**WHEREAS**, the Corporation and the County desire to execute and enter into this Addendum providing for the issuance of the Renewal Notes, and to otherwise reaffirm and ratify the terms and provisions of the Contract, dated as of October 15, 2001, a true and accurate copy of which is recorded in Deed Book 472, Page 179, Office of the Floyd County Court Clerk, Prestonsburg, Kentucky;

**NOW, THEREFORE**, in consideration of these premises and in further consideration of the issuance by the Corporation of the "Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Renewal Notes (Water Project), Series 2003", in the principal amount of \$2,395,000 (the "Renewal Notes"), the Corporation and the County mutually covenant and agree to execute and enter into this Addendum, and amended the Contract, as follows:

**Section 1. Lease of Project of the County and Corporation; Rentals.** The County hereby leases from the Corporation, and the Corporation hereby leases to the County, the Project and Project Site described and set forth in the Contract, for an initial period from the date of this Addendum until June 30, 2004. As consideration for this Addendum and the lease of the Project and Project Site, the County agrees to pay Rentals in an amount equal to the annual principal and interest (including any premium) due on the Renewal Notes as set forth in Exhibit "A", which is an amortization schedule for the payment of principal and interest on the Renewal Notes. Rentals shall be paid at least one (1) business day before the due date of any payment of interest, principal, or premium, if any. Rentals may be adjusted to reflect any cost or expenses which the Corporation may incur which shall be an obligation of the County.

The County and the Corporation hereby affirm and ratify the remaining terms and provisions of the Contract, dated as of October 15, 2001 (except as amended hereby), a true and accurate copy of which is recorded in Deed Book 472 Page 179, Office of the Floyd County Court Clerk, Prestonsburg, Kentucky, the legal description for which Contract is attached hereto as Exhibit "B";

**Section 2.** The Corporation and the County, with the execution of this Addendum, hereby reaffirm and ratify all the terms and provisions of the Contract, dated as of October 15, 2001 (except as amended hereby), a true and accurate copy of which is recorded in Deed Book 472, Page 179, Office of the Floyd County Court Clerk, Prestonsburg, Kentucky, which is incorporated in this Addendum, and agree to be bound by the terms and provisions thereof and hereof.

**Section 3.** The Corporation agrees that a portion of the proceeds from the sale of the Bonds will be used to pay the principal and accrued interest on the Renewal Notes, as agreed to by the parties in the Contract, dated as of October 15, 2001, a true and accurate copy of which is recorded in Deed Book 472, Page 179, Office of the Floyd County Court Clerk, Prestonsburg, Kentucky;

(Signatures on the following pages)

IN TESTIMONY WHEREOF, the Floyd County, Kentucky Public Properties Corporation, acting by and through its Board of Directors, has caused this instrument to be executed by its Chairman/President and attested by its Secretary and the County of Floyd, Kentucky, acting by and through its Fiscal Court, has caused this instrument to be executed in its name and on its behalf by its County Judge/Executive, attested by its Fiscal Court Clerk, effective as of the day and year first above written.

FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION

ATTEST:

Chris Waugh  
Secretary

BY: Paul H. Thompson  
Chairman/President

ATTEST

By: Chris Waugh  
Fiscal Court Clerk

COUNTY OF FLOYD, KENTUCKY

BY: Paul H. Thompson  
County Judge/Executive

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF FLOYD )

19th I, a Notary Public in and for the State and County aforesaid, do hereby certify that on this September 19th, 2003, the foregoing Addendum was produced to me in my office by Paul H. Thompson Chairman/President, and Chris Waugh Secretary, of the Floyd County, Kentucky Public Properties Corporation, and they thereupon respectively acknowledged before me the execution and attestation thereof as the official act and deed of such Corporation.

My commission expires: 9-19-05

Brendy Wees  
Notary Public, State at Large

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF FLOYD )

19th I, a Notary Public in and for the State and County aforesaid, do hereby certify that on this September 19th, 2003, the foregoing Addendum was produced to me in my office by Paul H. Thompson County Judge/Executive and Chris Waugh Fiscal Court Clerk of the County of Floyd, Kentucky, and they thereupon respectively acknowledged before me the execution and attestation thereof as the official act and deed of such County.

My commission expires: 9-19-05

Brendy Wees  
Notary Public, State at Large



EXHIBIT "A"

FLOYD COUNTY PUBLIC PROPERTIES CORPORATION  
 FIRST MORTGAGE REVENUE BOND ANTICIPATION NOTES, SERIES 2001  
 FINAL SCHEDULES  
 Debt Service Schedule

Date	Principal	Coupon	Interest	Period Total	Fiscal Total
4/1/4	2,395,000.00	1.375000	16,923.00	16,923.00	16,923.00
10/1/4			16,465.63	2,411,465.63	
4/1/5			33,388.63	2,428,388.63	2,411,465.63
ACCRUED	2,395,000.00		33,388.63	2,428,388.63	

Dated 9/26/3 with delivery of 9/26/3  
 Bond Years 2,428,264  
 Average Coupon 1.375000  
 Average Life 1.013889  
 N I C X Using 99.5000000  
 T I C X From Delivery Date  
 Arbitrage Yield 1.374933 X

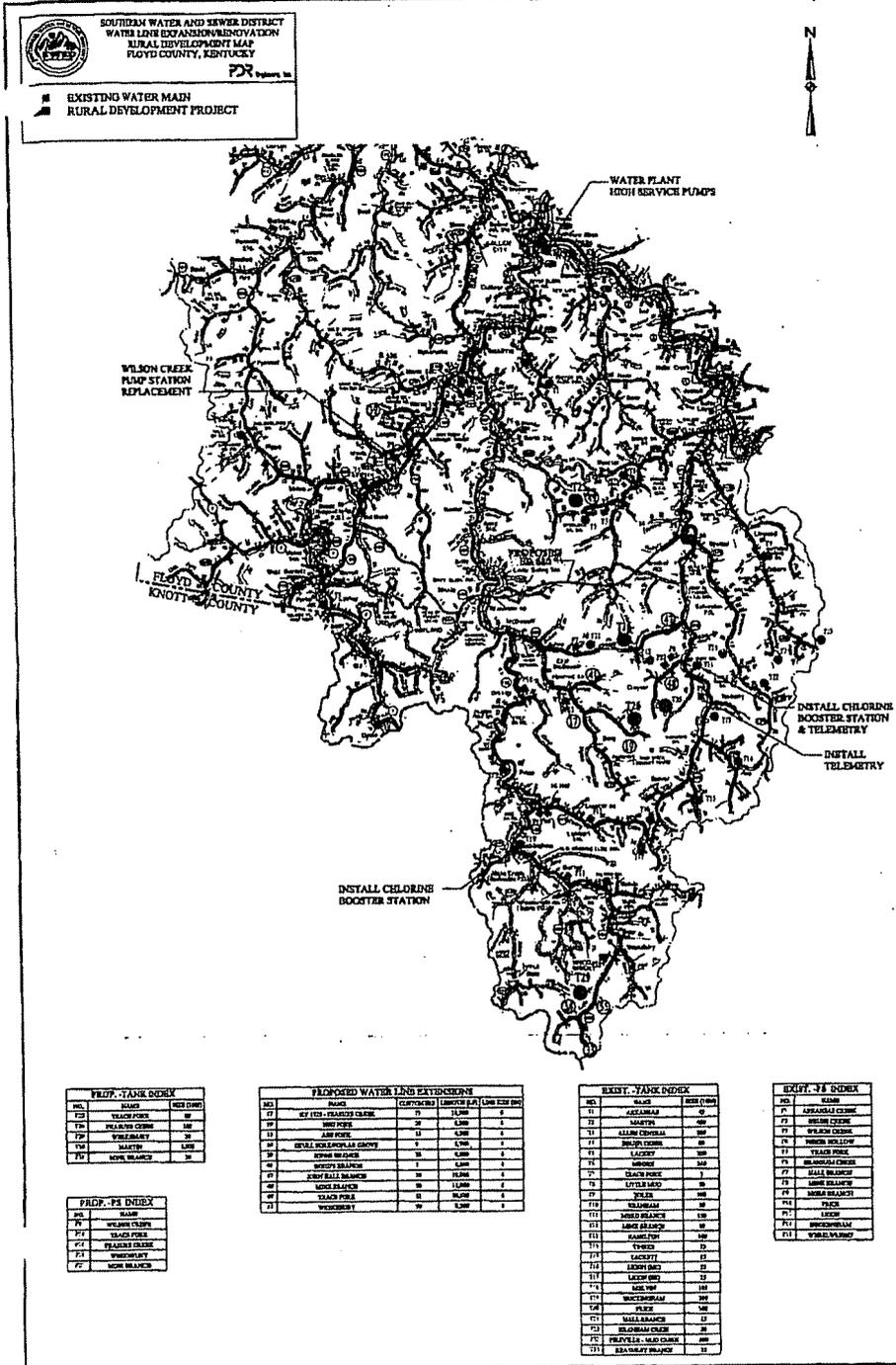
ROSS, SINCLAIRE & ASSOCIATES - JETERSEN

Filename: FLOYD Key: OSBANS

EXHIBIT "B"

LEGAL DESCRIPTION OF PROJECT SITE

1. Floyd County, Kentucky Public Properties Corporation's (the "Corporation") right and interest in the easements and/or right of ways to locate and construct thereupon a water line expansion as shown on the attached map, Exhibit "1" hereto, including all improvements owned and constructed by the Corporation, all as described in the attached map.
2. Corporation's right and interest in and to the Ground Lease Agreement, attached as Exhibit "2" hereto, and recorded in Deed Book 467, beginning at 514, of the Floyd County Court Clerk's Office.
3. Corporation's fee simple interest in the real estate described and set forth in Exhibit "3" attached hereto, which was acquired by the Corporation pursuant to a Deed of Conveyance from Southern Water & Sewer District, as Grantor, to Floyd County, Kentucky Public Properties Corporation, as Grantee, dated April 29, 2002, and recorded in Deed Book 472, Page 166, Floyd County Court Clerk's Office.



c:\cnp\p\cra\01039\Contract-07\1-rd-project.dwg March 22 2002 1:29pm Dyle

**GROUND LEASE AGREEMENT**

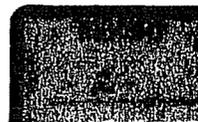
THIS LEASE AGREEMENT, dated as of the 22<sup>ND</sup> day of December, 2001, is entered into by and between DINNA MULLINS, single, 1424 FRASURE CREEK, McDOWELL Ky 41647 ("Lessor") and SOUTHERN WATER & SEWER DISTRICT, P.O. Box 610, McDowell, Kentucky, 41647, ("Lessee").

Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the premises located at Frasure Creek, Floyd County, Kentucky, being more particularly described on Exhibit A attached hereto and incorporated herein, along with ingress and egress to the premises along the private access road (collectively the "Premises").

1. This Lease shall be for a term of Fifty (50) years, commencing on December 22<sup>ND</sup>, 2001, and terminating on December 21<sup>ST</sup>, 2051, (the "Term"). Notwithstanding the foregoing, Lessee shall have the right to occupy the Premises upon the full execution of this Lease, subject to all terms and conditions contained herein. Lessee shall have the option to renew the term of the lease for additional periods upon notification to Lessor and upon negotiation and acceptance by Lessor or the new terms of the extension of lease.

2. Lessee agrees to pay to Lessor the sum of \$3,000.00, upon execution of this Lease Agreement as rent for the full 50 year term of the lease.

3. The granting of this lease shall include the right of the Lessee to install and maintain upon the premises a water pump station, together with rights of ingress and egress to the premises for installation, use, maintenance, repairs, replacement, and removal of the pump station and the ancillary equipment associated with the pump station.



4. That at no time during the term of this Lease Agreement shall the pump station or the ancillary equipment become a fixture on the Premises, but shall at all times remain the personal property of Lessee. Title to the pump station and ancillary equipment shall remain with Lessee, and Lessor acknowledges and hereby specifically waives any and all rights to a landlords lien, whether by statute, common law, or otherwise in the pump station ancillary equipment, and other personal property of Lessee.

5. This Ground Lease Agreement, including the Exhibit, constitutes the entire agreement between the parties and will supersede all previous negotiations and commitments whether written or oral. No waivers, alterations, or modifications of this Lease or any agreements in connection with it shall be valid unless in writing and duly executed by both Lessor and Lessee.

6. All covenants, promises, conditions, representations and agreements herein contained shall be binding upon, apply and insure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors and assign.

IN WITNESS WHEREOF, the parties have caused this Lease to be executed by their duly authorized representatives.

"LESSOR"

*Dinna Mullins*  
DINNA MULLINS

SOUTHERN WATER & SEWER  
DISTRICT, Grantee

BY: *Robert Halbert*  
ITS: CHAIRMAN

COMMONWEALTH OF KENTUCKY

COUNTY OF FLOYD

SUBSCRIBED and SWORN to before me this 2<sup>nd</sup> day of Dec., 2001, by DINNA MULLINS, single, to be her free act and deed.

My Commission Expires: 5/10/03

Margaret G. Wickham  
NOTARY PUBLIC

COMMONWEALTH OF KENTUCKY

COUNTY OF FLOYD

SUBSCRIBED and SWORN to before me this 3<sup>rd</sup> day of Dec., 2002, by SOUTHERN WATER & SEWER DISTRICT by Hubert Halbert, its Chairman, Grantee.

My Commission Expires: 5/10/03

Margaret G. Wickham  
NOTARY PUBLIC

THIS INSTRUMENT WAS PREPARED BY:

RALPH H. STEVENS, P.S.C.  
ATTORNEY AT LAW  
P.O. DRAWER 466  
142 WEST BRANHAM STREET  
PRESTONSBURG, KY 41653  
(606) 886-1000

BY: Ralph H. Stevens  
RALPH H. STEVENS  
ATTORNEY AT LAW

**EXHIBIT A (The Premises)**

Being a part of the same property conveyed to Geneva Mullins and Dinna Mullins, from Mitchell Short and Bertha Short, his wife, by deed dated September 22, 1973, of record in Deed Book 215, Page 32, and being a part of the same property conveyed to Dinna Mullins, from Geneva Mullins, single, by deed dated January 18, 1988, of record in Deed Book 316, Page 278, both in the office of the Floyd County Clerk, and being a certain tract or parcel of land lying in Floyd County, Kentucky, on the waters of Frasures Creek, which is more particularly described as follows:

**Frasure Creek Pump Station**

Description of a certain tract or parcel of land lying and being on Frasure Creek near the town of McDowell, Floyd County, Kentucky, approximately 312' feet northwest from the intersection of Gearheart Branch and Frasure Creek, subject property lies on the north side of KY RT. 1929 and entirely within a boundary of land now owned by Dinna Mullins as recorded in the Office of the Floyd County Clerk in Deed Book 215, Page 32, and Deed Book 316, Page 278, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set near the northern line of the KY RT. 1929 right-of-way said point also being a common corner to the new boundary for the Dinna and Geneva Mullins property as recorded in Deed Book 215, Page 32 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,055,511.68, and East 2,520,894.58; thence severing the Dinna and Geneva Mullins property for three (3) calls as follows:

- N 13° 23' 41" W a distance of 30.03' feet to a capped pin set
- N 76° 35' 08" E a distance of 30.01' feet to a capped pin set
- S 13° 20' 30" E a distance of 30.03' feet to a capped pin set near the northern line of

KY RT. 1929 right-of-way; thence leaving the new boundary line of Dinna and Geneva Mullins and following a line near the right-of-way of and parallel to KY RT. 1929 for one call as follows:

S 76° 35' 00" W a distance of 29.98' feet to the beginning, containing 0.021 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-21-01.

I, the undersigned, Clerk of the County of Floyd, Kentucky, do hereby certify that the foregoing was on the 11th day of January, 2001, at 10:00 o'clock a.m. lodged for record whereupon the same with the foregoing and this certificate have been duly recorded in my office.

Witness my hand, this 11th day of January, 2001.

Deanne Bunk, D.C.

D491 180

**TRACT NO. 1**

Description of a certain tract or parcel of land lying and being on Mink Branch of Mud Creek, Floyd County, Kentucky, approximately 8,177' feet southwest from the intersection of Mink Branch and Mud Creek. Subject property is at approximately 1246' feet elevation above Mean Sea Level and lies entirely within a boundary of land now owned by Roy and Mary Hall as recorded in the office of the Floyd County Clerk in Deed Book 354, Page 225 and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set, said capped pin also being a common corner to the new boundary for the Roy and Mary Hall property as recorded in Deed Book 354, Page 225 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,053,353.6854 and East 2,533,513.4123; thence severing the Roy and Mary Hall property for four (4) calls as follows:

S 38° 52' 40" W a distance of 50.00' feet to a capped pin set

N 51° 06' 47" W a distance of 49.99' feet to a capped pin set

N 38° 49' 48" E a distance of 50.00' feet to a capped pin set

S 51° 06' 49" E a distance of 50.03' feet to the beginning containing 0.057 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 12-10-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of Roy and Mary Hall beginning at Mink Branch Road and continuing across said Hall property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from Ray Hall and Mary Hall, his wife, by deed dated December 22, 2001, of record in Deed Book 467, Page 510, in the office of the Floyd County Clerk.



Book 491 Page 181

**TRACT NO. 2**

Description of a certain tract or parcel of land lying and being on the Right Fork of Beaver Creek near the City of Martin, Floyd County, Kentucky, approximately 660' feet southeast from the intersection of KY RT. 80 and KY RT. 122. Subject property is at approximately 850' feet elevation above Mean Sea Level and lies entirely within a boundary of land now owned by Susan Elaine Compton as recorded in the Office of The Floyd County Court Clerk in Deed Book 237, Page 74, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set, said pin also being a common corner to the new boundary for the Susan Elaine Compton property as recorded in Deed Book 237, Page 74 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North-2,100,730.74 and East 2,506,037.68; thence severing the Susan Elaine Compton property for four calls as follows:

- S 61° 54' 35" E a distance of 149.98' feet to a capped pin set
- S 28° 04' 42" W a distance of 149.99' feet to a capped pin set
- N 61° 54' 37" W a distance of 150.00' feet to a capped pin set
- N 28° 05' 08" E a distance of 149.99' feet to the beginning, containing 0.516 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-21-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of Susan Elaine Compton beginning at an existing graveled road and continuing across said Compton property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from T. J. Compton and Juanita Compton, his wife, and Susan Elaine Compton, single, by deed dated January 30, 2002, of record in Deed Book 468, Page 474, in the office of the Floyd County Clerk.

**Hamilton Branch Pump Station****TRACT NO. 3**

Deed description for a certain tract or parcel of land lying and being on Hamilton Branch of Mud Creek, in Floyd County, Kentucky, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set in the southeast right-of-way line of KY RT. 680 having an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,065,587.8620 and East 2,537,867.1100, said capped pin being 35' feet right of Centerline Station 235+00, and also being a common corner to land now owned by the Floyd County Fiscal court and recorded in Deed Book 410, Page 356, records of the Floyd County Court Clerk's Office; thence leaving the right-of-way of KY RT 680 and severing the remaining land of the Floyd County Fiscal Court for four (4) calls as follows:

N 29° 04' 01" E a distance of 5.68' feet to a capped pin set

S 60° 56' 48" E a distance of 25.01' feet to a capped pin set

S 29° 04' 03" W a distance of 25.03' feet to a capped pin set

N 60° 54' 35" W a distance of 25.01' feet to a capped pin set in the southeast right-of-way line of KY RT 680, said point being 35' feet right of Centerline Station 234+80.71; thence leaving the land owned by the Floyd County Fiscal Court and following the southeast right-of-way line of KY RT. 680 for one call as follows:

N 29° 04' 01" E a distance of 19.34' feet to the beginning, containing 0.014 acres more or less as per a survey by R. M. Johnson Engineering, Inc., completed on 11-20-01.

Being a part of the same property conveyed to the Grantor, from Floyd County Fiscal Court, by deed dated January 25, 2002, of record in Deed Book 468, Page 479, in the office of the Floyd County Clerk.

**Weeksbury Pump Station**

**TRACT NO. 4**

Description for a certain tract or parcel of land lying and being on Left Beaver Creek, in the town of Weeksbury, Floyd County, Kentucky, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set within the boundary of a tract of land now owned by Tommy and Barbara Roop, this tract of land is designated as Lot #5 in the town of Weeksbury as shown on Map #142 and recorded in the Floyd County Court Clerk's Office in Deed Book 360, Page 628. Said capped pin has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,017,179.07 and East 2,529,765.82 and bears N 59° 04' 17" W approximately 47.16' feet from the intersection of KY RT 466 and Caleb Fork Road; thence severing the remaining land owned by Tommy and Barbara Roop with four (4) calls as follows:

- S 52° 42' 00" W a distance of 30.01' feet to a capped pin set
- N 37° 18' 31" W a distance of 30.02' feet to a capped pin set
- N 52° 39' 41" E a distance of 30.01' feet to a capped pin set
- S 37° 18' 39" E a distance of 30.04' feet to the beginning, containing 0.021 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-26-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining land of Tommy and Barbara Roop beginning at KY RT 466 and continuing across said Roop property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from Tommy Roop and Barbara Roop, his wife, by deed dated January 25, 2002, of record in Deed Book 468, Page 483, in the office of the Floyd County Clerk.

TRACT NO. 5

Description for a certain tract or parcel of land lying and being on Johns Branch near the town of Langley, Floyd County, Kentucky, approximately 4,647' feet northwest from the intersection of Johns Branch and the Right Fork of Beaver Creek. Subject property lies on the north side of Johns Branch Road and entirely within a boundary of land owned by The Floyd County Fish and Game Club as recorded in the Office of the Floyd County Court Clerk in Deed Book 185, Page 460, and being more particularly described as follows: Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

184  
 184  
 184

Beginning at a capped pin set approximately 15.69' feet north of the northern edge of pavement of Johns Branch Road, said capped pin also being a common point in the new boundary line of land owned by The Floyd County Fish and Game Club as recorded in the Office of the Floyd County Court Clerk in Deed Book 185, Page 460, and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,095,555.65 and East 2,497,547.86; thence severing The Floyd County Fish and Game Club property for four (4) calls as follows:

- S 86° 00' 12" W a distance of 30.00' feet to a capped pin set
- N 03° 58' 57" W a distance of 29.99' feet to a capped pin set
- N 85° 58' 43" E a distance of 30.00' feet to a capped pin set
- S 03° 59' 41" E a distance of 30.00' feet to the beginning, containing 0.021 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 01-09-02.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of The Floyd County Fish and Game Club beginning at Johns Branch Road and continuing across said Floyd County Fish and Game Club property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from Floyd County Fish and Game Club, Inc., by deed dated January 28, 2002, of record in Deed Book 468, Page 487, in the office of the Floyd County Clerk.

TRACT NO. 6

Description of a certain tract or parcel of land lying and being in Spurlock Creek, Floyd County, Kentucky, approximately 330' feet north of KY RT 2030 and approximately 1,093' feet northwest from the Road Gap on KY Rt 2030 between Trace Fork and Spurlock Creek. Subject property is at approximately 1,110' feet elevation above Mean Sea Level and lies entirely within a boundary of land now owned by Ivan and Ethel Carroll as recorded in the Office of the Floyd County Court Clerk in Deed Book 286, Page 102 and being more particularly described as follows:

491 Page 185

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set, said pin also being a common corner to the new boundary for the Ivan and Ethel Carroll property as recorded in the Office of the Floyd County Court Clerk in Deed Book 286, Page 102 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,081,502.3203 East 2,522,255.2038; thence severing the Ivan and Ethel Carrol property for four calls as follows:

- N 55° 24' 01" W a distance of 50.00' feet to a capped pin set
- N 34° 35' 47" E a distance of 49.99' feet to a capped pin set
- S 55° 4' 24" E a distance of 50.02' feet to a capped pin set
- S 34° 37' 30" W a distance of 49.99' feet to the beginning containing 0.057 acres more or less as per survey by R.M. Johnson Engineering, Inc., completed on 12-10-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of Ivan and Ethel Carroll beginning at KY RT 2030 and continuing across said Carroll property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from Ethel Carroll, single, by deed dated January 28, 2002, of record in Deed Book 468, Page 492, in the office of the Floyd County Clerk.

R

Book 491 Page 186

**Mink Branch Pump Station**

**TRACT NO. 7**

A description for a certain tract or parcel of land lying and being on Mink Branch of Mud Creek, Floyd County, Kentucky, on the west bank of Mud Creek at the mouth of Mink Branch. Subject property lies on the south side of Mink Branch and Mink Branch Road and entirely within a boundary of land now owned by Eula Hall as recorded in the Office of the Floyd County Court Clerk in Deed Book 221, Page 233, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineer 3521.

Beginning at a capped pin set 4.41' feet south of the southern edge of Mink Branch Road, and being S 54° 40' 10" W 14.67' feet from the southwest corner of the bridge crossing Mud Creek. Said point also being a common corner in the new boundary line of property now owned by Eula Hall as recorded in the Floyd County Clerks Office in Deed Book 221, Page 233 and has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,059,714.6700 and East 2,538,636.5440; thence severing the Eula Hall property with three (3) calls as follows;

S 14° 06' 15" W a distance of 29.92' feet to a capped pin set

S 73° 09' 46" W a distance of 29.90' feet to a capped pin set

N 13° 49' 35" E a distance of 30.05' feet to a capped pin set 3.72' feet south of the southern edge of Mink Branch Road; thence following a line near the southern edge of Mink Branch Road for one call as follows:

N 73° 31' 00" E a distance of 29.96' feet to the beginning, containing 0.018 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-21-01.

Being a part of the same property conveyed to the Grantor, from Eula Hall, single, by deed dated January 31, 2002, of record in Deed Book 469, Page 13, in the office of the Floyd County Clerk.

**John Hall Branch Tank Site**

**TRACT NO. 8**

Description of a certain tract or parcel of land lying and being on the John Hall Branch of Frasure Creek in Floyd County, Kentucky, at the head of John Hall Branch, approximately 780' feet north of KY RT. 680 and approximate elevation of 1406' feet above Mean Sea Level and lies entirely within a boundary of land now owned by Vernon Cornett as recorded in the Office of the Floyd County Clerk in Deed Book 336, Page 708 and being more particularly described as follows:

D191 187

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set, said capped pin being a common corner to the new boundary for the Vernon Cornett property as recorded in the Office of the Floyd County Court Clerk in Deed Book 336, Page 708 and has approximate NAD 83 Kentucky South Zone State Plane coordinate value North 2,061,847.8941 and East 2,529,052.0629; thence severing the Vernon Cornett property for the four (4) calls as follows:

- N 18 degrees 01' 16" W a distance of 49.96' feet to a capped pin set
- N 71 degrees 59' 03" E a distance of 50.00' feet to a capped pin set
- S 17 degrees 59' 59" E a distance of 49.97' feet to a capped pin set
- S 71 degrees 59' 28" W a distance of 49.98' feet to the point of beginning, containing 0.057 acres more or less as per survey by R.M. Johnson Engineering, Inc., completed on 11-26-01.

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of Vernon Cornett as recorded in the Office of the Floyd County Court Clerk in Deed Book 336, Page 708, beginning at KY Rt. 680 and continuing across said Cornett property to the boundary of the aforementioned tract to be conveyed and there ending.

Book D491 Page 188

**Being a part of the same property conveyed to the Grantor, from Vernon Cornett, single, by deed dated January 31, 2002, of record in Deed Book 469, Page 131, in the office of the Floyd County Clerk.**

## Weeksbury Tank Site

Book 491 Page 189

## TRACT NO. 9

A description of a certain tract or parcel of land lying and being on the Left Fork of Beaver Creek in Floyd County, Kentucky, approximately 6,327' feet southwest from the intersection of KY RT 466 and Caleb Fork Road, said road intersection is in the town of Weeksbury, Kentucky. Subject property is at approximately 1680' feet elevation above Mean Sea Level and lies entirely within a boundary of land now owned by John J. and Patsy J. Sword as recorded in the office of the Floyd County Court Clerk in Deed Book 396, Page 164, and being more particularly described as follows:

Unless otherwise stated, any monument referred to herein as a capped pin set is a 5/8" inch diameter rebar steel, 18" inches in length, with a plastic cap stamped R.M. Johnson Engineering 3521.

Beginning at a capped pin set in the dividing line between property now owned by John J. and Patsy J. Sword and recorded in Deed Book 396, Page 264, records of the Floyd County Court Clerk's Office and property now owned by Collins and Mayo, and recorded in Office of the Floyd County Court Clerk in Deed Book \_\_\_\_\_, Page \_\_\_\_\_. Said capped pin has an approximate NAD 83 Kentucky South Zone State Plane coordinate value of North 2,011,167.4396 and East 2,527,759.8617; thence following the dividing line between the property of Collins and Mayo and John J. and Patsy J. Sword down the point for one call as follows:

N 40° 52' 20" W a distance of 50.01' feet to a capped pin set; thence leaving the lines of land owned by Collins and Mayo and severing the property owned by John J. and Patsy J. Sword for three (3) calls as follows:

N 49° 07' 53" E a distance of 49.98' feet to a capped pin set

S 40° 52' 58" E a distance of 50.01' feet to a capped pin set

S 49° 08' 07" W a distance of 49.99' feet to the beginning, containing 0.057 acres more or less as per a survey by R.M. Johnson Engineering, Inc., completed on 11-27-01.

D491 190

It is also understood that there is to be a 15' feet wide perpetual easement for access road and other necessary appurtenances across the remaining property of John J. and Patsy J. Sword beginning at KY RT. 466 and continuing across said Sword property to the boundary of the aforementioned tract to be conveyed and there ending.

Being a part of the same property conveyed to the Grantor, from John J. Sword and Patsy Sword, his wife, by deed dated January 31, 2002, of record in Deed Book 469, Page 252, in the office of the Floyd County Clerk.

STATE OF KENTUCKY, COUNTY OF FLOYD, S.S.  
I, CHRIS WAUGH, Clerk of Floyd County certify that the foregoing 2002 was on the 26 day of Sept, 2003 at 2:30 clock p.m. lodged for record whereupon the same with the foregoing and this certificate have been duly recorded in my office.  
Witness my hand, this 29<sup>th</sup> day of Sept, 2003  
CHRIS WAUGH, CLERK By Deanna Burke C.

**DEED OF CONVEYANCE**

**PARCEL NO. M-16**

THIS DEED, between VERBAL MEEKS, SINGLE, 149 School Street, Betsy Layne, Kentucky 41605; BERNIECE PRATER, SINGLE, 115 Arnold Prater Road, David, Kentucky 41616; KAYE EPLIN, and her husband, BUSTER EPLIN, 156 School Street, Betsy Layne, Kentucky 41605; MARTY HAMILTON, SINGLE, 142 School Street, Betsy Layne, Kentucky 41605; CAROLYN HAMILTON, SINGLE, 554 Store Hollow, Betsy Layne, Kentucky 41605, Grantors, and the COMMONWEALTH OF KENTUCKY for the use and benefit of the TRANSPORTATION CABINET, DEPARTMENT OF HIGHWAYS, Frankfort, Kentucky 40622, Grantee.

**WITNESSETH:** That the Grantors in consideration of SIXTEEN THOUSAND FIVE HUNDRED SIXTEEN DOLLARS AND TWELVE CENTS (\$16,516.12) cash in hand paid, the receipt of which is hereby acknowledged, have bargained and sold and does hereby sell, grant and convey to the Grantee its successors and assigns forever, the following property and property rights:

**Parcel No. M16-A**

Being a tract of sub-surface minerals lying in Floyd County, Kentucky, being on the west side of Big Mud Creek approximately 0.5 miles upstream of the intersection of existing KY 979 and Jim Rose Hollow Road and being more particularly described as follows.

Beginning at a point 139.07 feet right of Mainline station 445+18.18; thence North 74 degrees 01 minutes 40 seconds West, 137.22 feet to a point 2.38 feet right of Mainline station 445+30.28; thence South 72 degrees 59 minutes 47 seconds West, 76.09 feet to a point 64.85 feet left of Mainline station 444+94.65; thence North 19

# Exhibit R

MORTGAGE DEED OF TRUST

This Mortgage Deed of Trust (the "Mortgage"), is made and entered into as of the 26<sup>th</sup> day of September, 2003, by and between **Floyd County, Kentucky Public Properties Corporation**, a nonprofit, nonstock Kentucky public corporation of the County of Floyd, Kentucky (the "Corporation"), and **Citizens National Bank**, a trust company organized under and existing by virtue of the laws of the Commonwealth of Kentucky, with its principal office and place of business in Paintsville, Kentucky, and being duly qualified to accept and administer the trusts hereby created (the "Trustee");

## WITNESSETH:

**WHEREAS**, the Corporation is a nonprofit, nonstock public and governmental corporation duly organized under and existing by virtue of the laws of the Commonwealth of Kentucky for the purpose of serving as the agency and instrumentality and the constituted authority of the County in financing the construction and installation of necessary public governmental projects for use by the County in furtherance of the proper public purposes of the County; and

**WHEREAS**, the Corporation, at the direction of the County, for the purpose of paying the cost of constructing and installing water lines within the County (the "Project"), to authorize its **First Mortgage Revenue Bonds (Water Project)** in a principal amount to be determined by the County and the Corporation (the "Bonds"), and in anticipation of the issuance of the Bonds, the Corporation authorized its **First Mortgage Revenue Bond Anticipation Notes (Water Project)** in the principal amount of Two Million, One Hundred Seventy-five Thousand Dollars (\$2,175,000) ("Prior Notes") it having been determined by the Corporation that the issuance of the Bonds should be deferred but that in anticipation of the issuance of the Bonds, the Notes should be issued; and

**WHEREAS**, the Prior Notes are due October 1, 2003; and

**WHEREAS**, the Corporation proposes to issue its **First Mortgage Revenue Bond Anticipation Renewal Notes (Water Project), Series 2003** ("Renewal Notes") in the principal amount of \$2,395,000 to pay the principal and interest on the Prior Notes; and

**WHEREAS**, the borrowing by the Corporation of the amount represented by the Renewal Notes, the application of the proceeds of the Renewal Notes to the purpose aforesaid, and the execution and delivery by its officers on its behalf of the Renewal Notes as hereinafter set forth, evidencing the indebtedness of the Corporation, and the execution, acknowledgment and delivery by its officers on its behalf of a Mortgage for securing the payment thereof, has been authorized and directed by a Resolution of the Board of Directors of the Corporation at a meeting duly called and held for the purpose of authorizing the Renewal Notes at which time the Board of Directors of the Corporation voted and ordered and directed the issuance thereof, voted for the adoption of said Resolution as set forth in the records of the Corporation and proposes, at a future date, to authorize and approve the Bonds in anticipation of which the Renewal Notes are being issued; and

**WHEREAS**, the Renewal Notes are to be issued pursuant to the authority of this Mortgage;

**WHEREAS**, the County and the Corporation have entered into a Lease, dated as of September 26, 2003, pursuant to which the Corporation has, at the direction of the County, agreed to authorize and issue the Renewal Notes to pay part of the costs of the Project, and the County and the Corporation have each covenanted and agreed that they will, in a timely manner, take such actions, enact such proceedings, issue such directions and enter into and carry out such undertakings as shall be reasonably required for the issuance and delivery of the Renewal Notes in the principal amount necessary to discharge the outstanding Renewal Notes at or prior to maturity; and

**WHEREAS**, the County and the Corporation further covenant that they will adopt such Ordinances and Resolutions required to authorize the issuance of Bonds to pay in full the principal and interest on the Renewal Notes and completion of the Project; and

**WHEREAS**, it is appropriate at this time, pursuant to the direction of the County, that this Mortgage be consummated by and between the parties so that the Project may be financed and undertaken forthwith:

NOW, THEREFORE, THIS MORTGAGE, WITNESSETH, that in consideration of the premises, of the acceptance by the Trustee of the trusts hereby created, and of the purchase and acceptance of the Renewal Notes by the holders thereof, and for the purpose of fixing and declaring the terms and conditions upon which the Renewal Notes are to be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become holders thereof, and in order to secure the payment of the Renewal Notes at any time issued and outstanding hereunder and the interest thereon according to their tenor, purport and effect, in order to secure the performance and observance of all the covenants, agreements and conditions therein and herein contained, the Corporation has executed and delivered this Mortgage, and it is mutually agreed and covenanted by and between the parties hereto, for the equal and proportionate benefit and security of all and singular the present and future holders of the Renewal Notes issued under this Mortgage without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter provided, of any one Renewal Note over any other Renewal Note by reason of priority in the issue, sale or negotiation thereof or otherwise, as follows:

**ARTICLE I**  
**DEFINITIONS-CONSTRUCTION**

Section 101. Definitions. Unless the context clearly indicates some other meaning, the following words and terms shall, for all purposes of this Mortgage, have the following meanings.

"2003 Note Fund" shall mean, for the Renewal Notes, the account so designated which is established and created pursuant to the Lease and this Mortgage.

"Act" shall mean Chapter 58 and Sections 273.161 to 273.390, inclusive, of the Kentucky Revised Statutes, as the same may from time to time be amended.

"Architect" shall mean an architect or engineer selected by the County to supervise the construction of the Project for the Corporation.

"Authorized Officer" shall mean, with respect to the Corporation, the President, Vice President, Secretary or Treasurer, or other of its members, officers, agents or employees duly authorized by resolution of the Corporation to perform the act or sign the document in question; and shall mean, with respect to the County, the Judge/Executive or any officer, agent or employees duly authorized by ordinance or resolution of the County to perform the act or sign the document in question.

"Bonds" shall mean any of the principal amount, as hereinafter determined, of Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bonds, (Water Project), or the issue of such Bonds, as the case may be, authenticated and delivered under a Mortgage or Indenture and authorized and issued pursuant to a Resolution duly adopted by the Corporation or such other date as selected by Resolution of the Corporation and approved by the County maturing no later than thirty years from the date of delivery thereof. Pursuant to the Mortgage, the provisions, terms and denomination of the Bonds shall be altered and finally determined by the Corporation and the County at the time of actual issuance of the Bonds.

"Certificate" shall mean a document signed by an Authorized Officer of the County or the Corporation attesting to or acknowledging the circumstances or other matters therein stated.

"Code" shall mean the Internal Revenue Code of 1986, as amended and applicable regulations promulgated thereunder.

"Corporation" shall mean Floyd County, Kentucky Public Properties Corporation, a nonprofit, nonstock public corporation organized and existing under Kentucky law, including particularly Section 58.180 and Sections 273.161 to 273.390, inclusive, of the Kentucky Revised Statutes.

"Cost of Issuance" shall mean the costs of issuing the Renewal Notes.

"Cost of Issuance Fund" shall mean, for the Renewal Notes, the account so designated which is established and created pursuant to the Lease and this Mortgage.

"County" shall mean the County of Floyd, Kentucky, a political subdivision of the Commonwealth of Kentucky.

"Depository" shall mean any bank or trust company in which moneys in any Funds may be deposited pending the application of such moneys for the Project or the payments on the Renewal Notes.

"Fiduciary or Fiduciaries" shall mean the Trustee, the Paying Agent, any Depository or Depositories, or all of them, as may be appropriate.

"Funds" shall mean, collectively, all funds and accounts established pursuant to this Mortgage.

"Holders" or "Notcholders" shall mean the person in whose name a Renewal Note is registered or the beneficial owner thereof.

"Investment Obligations" shall mean and include any of the following:

(a) obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian and may be accomplished through repurchase agreements reached with sources including, but not limited to, national or state banks chartered in the Commonwealth of Kentucky;

(b) obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including but not limited to:

- (i) United States Treasury;
- (ii) Export-Import Bank of the United States;
- (iii) Farmers Home Administration;
- (iv) Government National Mortgage Corporation; and
- (v) Merchant Marine bonds;

(c) obligations of any corporation of the United States government, including but not limited to:

- (i) Federal Home Loan Mortgage Corporation;
- (ii) Federal Farm Credit Banks;
- (iii) Bank for Cooperatives;
- (iv) Federal Intermediate Credit Banks;
- (v) Federal Land Banks;
- (vi) Federal Home Loan Banks;
- (vii) Federal National Mortgage Association; and
- (viii) Tennessee Valley Authority;

(d) certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by the following:

- (i) bonds, notes, or other obligations of or guaranteed by the United States, or those for which the credit of the United States is pledged for the payment of the principal and interest thereof, and any bonds, notes, debentures or any other obligations or securities issued or guaranteed by any federal governmental agency, presently or in the future established by an Act of Congress, as amended or supplemented from time to time;

- (ii) obligations of the Commonwealth of Kentucky including revenue bonds issued by its statutory authorities, commissions or agencies;
- (iii) revenue bonds issued by educational institutions of the Commonwealth of Kentucky as authorized by KRS 162.340 to 162.380;
- (iv) obligations of any city of the first, second, and third classes of the Commonwealth of Kentucky, or any county for the payment of principal and interest on which the full faith and credit of the issuing body is pledged;
- (v) school improvement bonds issued in accordance with the authority granted under KRS 162.080 to 162.100; or
- (vi) school building revenue bonds issued in accordance with the authority granted under KRS 162.120 to 162.300, provided that the issuance of such bonds is approved by the state board for elementary and secondary education; and
- (e) shares of mutual funds, each of which shall have the following characteristics:
  - (i) the mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
  - (ii) the management company of the investment company shall have been in operation for at least five (5) years; and
  - (iii) all of the securities in the mutual fund shall be investments described in (a) - (d) above.

"Lease" shall mean the Contract, Lease and Option dated as of September 26, 2003, by and between the County and the Corporation.

"Memorandum of Instructions" shall mean the Memorandum of Instructions Regarding Rebate delivered to the Corporation and the Trustee at the time of the issuance and delivery of the Renewal Notes, as the same may be amended or supplemented in accordance with its terms.

"Mortgage" shall mean this Mortgage Deed of Trust dated as September 26, 2003, by and between the Corporation and the Trustee whereby there is assigned to the Trustee for the benefit of the holders of the Renewal Notes, all of the rights of the Corporation arising in and by virtue of the Lease and the Construction Agreement, and including without limitation all of the Pledged Receipts.

"Outstanding" when used with reference to the Renewal Notes, shall mean, as of any date, all Renewal Notes theretofore or then being authenticated and delivered under the Mortgage, except:

- (i) Any Renewal Notes cancelled by the Trustee at or prior to such date;
- (ii) Renewal Notes (or portions of Renewal Notes) for the payment or redemption of which there shall be held in trust under this Mortgage (whether at or prior to maturity or redemption date) (a) cash, equal to the principal amount or redemption price thereof, as the case may be, with interest to the date of maturity or redemption date, or (b) Investment Obligations as defined in clause (i) of the definition of Investment Obligations, in such principal amounts, having such maturities and bearing such interest, which, together with cash, if any, shall be sufficient to pay when due, the principal amount or redemption price, as the case may be, with interest to the date of maturity or redemption date; provided that if such Renewal Notes are to be redeemed, notice of such redemption shall have been given as in the Mortgage provided, or provision satisfactory to the Trustee shall have been made for the giving of such notice;

- (iii) Renewal Notes in lieu of or in substitution for which other Renewal Notes shall have been authenticated and delivered pursuant to the Mortgage; and
- (iv) Renewal Notes deemed to have been paid as provided in the Mortgage.

"Paying Agent" shall mean Citizens National Bank, or any bank or trust company designated by the County Judge/Executive, and its successor or successors hereafter appointed, as paying agent for the Renewal Notes.

"Pledged Receipts"

- (i) shall mean all lease rental payments paid to or upon the order of the Corporation pursuant to the Lease, including both timely and delinquent payments with late charges, if any.
- (ii) shall mean and include any and all appropriations made to the Corporation by the County or any other unit of government to the extent not otherwise required to be applied, nor otherwise committed and budgeted by the Corporation during any fiscal period of the Corporation;
- (iii) shall include all interest earned and gains realized on Investment Obligations unless the Mortgage specifically requires such interest earned and gains realized to remain in a particular fund or to be transferred to a particular fund.
- (iv) shall mean and include all rights arising under the Construction Agreement and this Lease, including, but not by way of limitation, the duty of the County to continuously operate, maintain, insure, replace and renew the Project during the term of the Lease and during any renewal terms thereof
- (v) shall mean and include all amounts in all funds and accounts created by the Mortgage, including capitalized interest; provided that amounts in the Rebate Fund shall not constitute Pledged Receipts.
- (vi) shall mean and include any amounts realized from the foreclosure and decretal sale of the Project.
- (vii) shall mean and include all future bond proceeds issued by the Corporation at the direction of the County to complete the Project.

"Prior Notes" shall mean the \$2,175,000 First Mortgage Revenue Bond Anticipation Notes (Water Project), Series 2001, dated September 1, 2001.

"Project" shall mean the construction and installation of water lines to be located on the Project Site.

"Project Site" shall mean the site on which the Project is located as more particularly described in Exhibit "A" attached hereto.

"Renewal Notes" shall mean the \$2,395,000 First Mortgage Revenue Bond Anticipation Renewal Notes (Water Project), Series 2003, dated September 26, 2003, and due on October 1, 2004.

"Trustee" shall mean Citizens National Bank, its successor or successors, and any other banking corporation which may at any time be substituted in its place pursuant to the Mortgage.

Section 102. Construction of Mortgage. In this Mortgage, unless the context otherwise requires:

Articles and Sections referred to by number shall mean the corresponding Articles and Sections of this Mortgage.

Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Words importing the singular number shall include the plural number and vice versa.

The terms "hereby", "hereof", "hereto", "hereunder", and any similar terms, as used in this Mortgage, refer to this Mortgage or sections or subsections of this Mortgage and the term "hereafter" means after the date of adoption of this Mortgage.

**ARTICLE II**  
**DEMISING CLAUSES**

Section 201. The Pledges Effected by this Mortgage.

(1) The Corporation, for and in consideration of the premises, and in order to secure equally the payment of the principal of, interest on, and premium (if any) in respect of the Renewal Notes without any preference, priority or distinction whatsoever of the lien hereof in favor of any one or more of the Renewal Notes or interest payments over any one or more of the others at any time outstanding, has granted, bargained, sold, aligned, remised, released, warranted, conveyed, confirmed, assigned, transferred and set over, and by these presents grants, bargains, sales, aligns, remises, releases, warrants, conveys and confirms, assigns, transfers and sets over unto the Trustee, its successors and assigns, all and singularly all its right, title and interest in and to the real property constituting the Project and the Project Site, being more particularly described in Exhibit "A" attached hereto and to the Lease, duly filed in the Office of the County Clerk of Floyd County, Kentucky, together with all improvements now situated thereon and to be hereafter constructed thereon.

(2) For the purpose of further securing the holders of the Renewal Notes, the Corporation does hereby transfer and assign to the Trustee all its right, title and interest in and to the Lease, the Corporation agreeing hereby that it shall not accept the rentals from the County but shall cause the same to be paid directly to the Trustee by the County the stipulated rentals accruing thereunder each year that the same shall be and remain in force, provided, however, that said sums when so paid to the Trustee shall be by the Trustee held, treated and applied in strict accordance with the terms of this Mortgage.

(3) For the purpose of further securing the holders of the Renewal Notes, the Corporation, as expressly provided and permitted by the Lease, does hereby transfer and assign to the Trustee all of its beneficial rights, titles and interests in and to: (a) the Construction Agreement and other executory contracts, and (b) the Pledged Receipts; the Corporation agreeing and covenanting hereby to the extent legally permissible it shall cause any and all payments thereunder to be made directly to the Trustee, to be held, treated and applied by the Trustee in strict accordance with the terms of this Mortgage.

TO HAVE AND TO HOLD the premises, choses in action, rights, receipts, franchises, revenues and privileges hereby conveyed and assigned to the Trustee, its successors and assigns forever.

BUT IN TRUST, NEVERTHELESS, for the equal pro rata benefit and security of each and every Holder of the Renewal Notes and interest payable thereunder and secured by this Mortgage, and for enforcing payment thereof, when payable, in accordance with the true intent and meaning of the stipulations of this Mortgage and of the Renewal Notes, respectively, and without preference as to lien or otherwise of any one Note and so that each Note issued under this Mortgage shall have the same lien and privilege hereunder and so that the principal of, interest on, and premium (if any) in respect of every Renewal Note shall be equally secured hereby according to the amount of the principal of and interest on each Renewal Note respectively, as herein specified; it being intended that the lien and security of all of the Renewal Notes shall take effect from the date of execution and delivery of this Mortgage whether the same shall be actually issued, sold or disposed of at said date or whether they shall be issued, negotiated or sold at some future date and so that the lien and security of this Mortgage and of all Renewal Notes that may be issued under the same shall take effect from the date of execution and delivery hereof as though actually issued, sold and delivered to and in the hands of innocent holders for value upon said date, and the lien and security of the Renewal Notes shall be in no manner altered, impaired or prejudiced by the creation of subsequent liens by the Corporation or by the entry or acquisition of judgments or liens in any form by creditors at any future time; and said properties shall be held for the further

uses and upon the terms and conditions herein set forth.

**ARTICLE III**  
**AUTHORIZATION AND ISSUANCE OF RENEWAL NOTES**

Section 301. Authorization for Mortgage. This Mortgage is adopted pursuant to the Act.

Section 302. Mortgage to Constitute Contract. In consideration of the purchase and acceptance of the Renewal Notes by those who shall purchase and hold the same from time to time, the provisions of this Mortgage shall be a part of the contract of the Corporation with the Holders from time to time of Renewal Notes and shall be deemed to be and shall constitute a contract among the Corporation, the Trustee and the Holders from time to time of the Renewal Notes, and such provisions are covenants and agreements with such Holders which the Corporation hereby determines to be necessary and desirable for the security and payment thereof. The provisions, covenants and agreements herein set forth to be performed on behalf of the Corporation shall be for the equal and ratable benefit, protection and security of the Holders of any and all of the Renewal Notes, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the Renewal Notes over any other thereof except as expressly provided in this Mortgage.

Section 303. Issuance and Delivery of Renewal Notes. Having been authorized by the Resolution, the Renewal Notes shall be executed by or on behalf of the Corporation and delivered to the Trustee for authentication, and upon compliance by the Corporation with the special requirements, if any, set forth in such resolution, and with the requirements of Section 304 hereof, the Trustee shall thereupon authenticate and deliver such Renewal Notes to or upon the order of the Corporation.

Section 304. Conditions Precedent to Authentication and Delivery of Renewal Notes. The Trustee shall authenticate and deliver, to or upon the order of the Corporation, any of the Renewal Notes authorized to be issued pursuant to this Mortgage and the Resolution only upon receipt by the Trustee of:

- (1) Original executed counterparts of this Mortgage, the Lease and the Resolution, each certified by an Authorized Officer of the Corporation;
- (2) The written order of the Corporation as to the delivery of the Renewal Notes, signed by an Authorized Officer of the Corporation describing the Renewal Notes to be authenticated and delivered, designating the purchasers to whom the Renewal Notes are to be delivered, and stating the purchase price of the Renewal Notes;
- (3) An opinion of counsel, stating that in the opinion of such counsel the Lease and this Mortgage have been duly authorized, executed and delivered and the Resolution of the Corporation authorizing the Renewal Notes has been duly and lawfully adopted by the Corporation; that the Lease, this Mortgage and the Resolution are in full force and effect and are valid and binding upon the Corporation and enforceable in accordance with their terms; that this Mortgage creates a valid pledge of the Pledged Receipts and any other assets of the Corporation pledged for the payment of the Renewal Notes; and upon the execution, authentication and delivery thereof, that the Renewal Notes will be duly and validly issued and will constitute valid and binding obligations of the Corporation in accordance with their terms entitled to the benefits of this Mortgage, the Lease and the Corporation's Note;
- (4) A certificate of an Authorized Officer of the Corporation stating that the Corporation is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Mortgage;
- (5) A certificate of an Authorized Officer of the County stating that the County is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Lease; and
- (6) Such certificates, opinions and other evidentiary materials as shall be reasonably required.

Section 305. Medium of Paying; Form and Date. The Renewal Notes shall be payable, with respect to principal, redemption price, if any, and interest, in any coin or currency of the United States of America which at the time of paying is legal tender for the payment of public and private debts.

Interest on each Renewal Notes shall be payable by check or draft mailed to the registered Owner thereof as of the fifteenth (15<sup>th</sup>) day of the month immediately preceding the date for payment of such interest, at the address shown on the registration books kept by the Trustee. The principal and redemption price, if any, of the Renewal Notes shall be payable, without exchange or collection charges, in lawful money of the United States of America upon their presentation and surrender as they respectively become due and payable, whether at maturity or by prior redemption, at the corporate trust office of the Trustee.

The Renewal Notes shall be issued only in book-entry form.

The Renewal Notes may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Mortgage as may be necessary or desirable to comply with custom, or otherwise, as may be determined by the Corporation prior to the delivery thereof.

Section 306. Execution. The Renewal Notes shall be executed in the name and on behalf of the Corporation by the manual or facsimile signature of an Authorized Officer of the Corporation and attested by the manual or facsimile signature of another Authorized Officer of the Corporation. In case any one or more of such Authorized Officers who shall have signed any of the Renewal Notes so signed shall cease to hold such office or be so employed and the Renewal Notes shall not have been actually delivered, such Renewal Notes may, nevertheless, be delivered as herein provided, and may be issued as if the persons who signed such Renewal Notes had not ceased to hold such office or be so employed. Any Renewal Note may be signed on behalf of the Corporation by such persons as at the actual time of the execution of such Renewal Note shall be duly authorized or hold the proper office in or employment by the Corporation, although at the date of the Renewal Notes such persons may not have been so authorized or have held such office or employment.

Section 307. Transfer and Registration of Renewal Notes. All Renewal Notes shall be registered as to both principal and interest on the books of the Corporation maintained at the office of the Trustee (hereby designated as Registrar for the Renewal Notes). The Renewal Notes shall be subject to transfer, without charge to the Holder, except for any tax, fee or other governmental charge required to be paid with respect to such transfer. No transfer of any Renewal Note shall be valid unless made on said books at the request of the registered owner in person or by his attorney duly authorized in writing, and similarly noted on such Renewal Note. The Trustee shall not be required to transfer or exchange any Renewal Note on any date which is after the fifteenth (15<sup>th</sup>) day of the month preceding any interest payment date, or during any period beginning fifteen (15) days prior to the selection by the Trustee of Renewal Notes to be redeemed prior to maturity and ending on the date of mailing of notice of any such redemption. The person in whose name a Renewal Note is registered upon the books of the Corporation shall be deemed the owner thereof for all purposes hereunder.

Section 308. Renewal Notes Mutilated, Destroyed, Stolen or Lost. In case any Renewal Notes shall become mutilated or be destroyed, stolen or lost, the Corporation shall execute and the Trustee shall authenticate and deliver a new Renewal Note of like maturity and principal amount as the Renewal Note so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Renewal Note upon surrender and cancellation of such mutilated Renewal Note or in lieu of and in substitution for the Renewal Note destroyed, stolen or lost, upon filing with the Corporation evidence satisfactory to the Corporation and the Trustee that such Renewal Note has been destroyed, stolen or lost, and upon furnishing the Corporation and the Trustee with indemnity satisfactory to them and complying with such other reasonable regulations as the Corporation and the Trustee may prescribe and paying such expenses as the Corporation and the Trustee may incur in connection therewith. All Renewal Notes so surrendered to the Trustee shall be cancelled by it and evidence of such cancellation shall be given to the Corporation.

Section 309. Authentication of Renewal Notes. Each Renewal Note shall bear thereon a certificate of authentication, substantially in the form set forth in the form of Renewal Note attached hereto as Exhibit "B" duly completed and manually executed by the Trustee. Only such Renewal Notes as shall bear thereon such certificate of authentication and registration, duly executed, shall be entitled to any right or benefit under this

Mortgage. No Renewal Note shall be valid or obligatory for any purpose unless such certificate of authentication upon such Renewal Note shall have been duly executed by the Trustee. Such certificate of authentication by the Trustee upon any Renewal Note executed on behalf of the Corporation shall be conclusive and the only evidence that the Renewal Note so authenticated has been duly authenticated and delivered under this Mortgage and that the Holder thereof is entitled to the benefit of this Mortgage. The authentication of any Renewal Note by the Trustee shall in itself constitute the acceptance by the Trustee of the trusts created by this Mortgage.

Section 310. Form of Renewal Notes. Subject to the provisions of any resolution of the Corporation, the Renewal Notes shall be substantially in the form set forth in Exhibit "B" hereto.

Section 311. Authorization of Renewal Notes. Pursuant to the Act, there is hereby authorized the "Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Renewal Notes (Water Project), Series 2003" dated September 26, 2003, in the principal amount of \$2,395,000, to provide sufficient funds for the payment of the costs of the Project and payment of Cost of Issuance.

The Renewal Notes shall be issued only as book-entry in the minimum denomination of \$25,000 and any multiples of \$5,000 thereof, and shall be numbered consecutively from one upward.

The Renewal Notes will be dated September 26, 2003, and will bear interest from the date of delivery at the rate per annum from such date at the rate or rates set forth in the resolution of the Corporation approving the sale of the Renewal Notes (calculated on a 360-day basis), payable on April 1, 2004 (except as the redemption provisions hereinafter set forth may be and become applicable hereto).

The Renewal Notes, and any Additional Bonds, when issued, shall rank on a basis of parity and equality with one another and be entitled to the benefit of the continuing pledge and lien created by this Mortgage to secure the full and final payment of the principal of, interest on, and premium, if any, with respect to the Renewal Notes. The Renewal Notes, and the interest thereon, shall not constitute a general obligation or indebtedness of the Corporation or the County within the meaning of the Constitution and laws of the Commonwealth of Kentucky nor shall they be a charge against the general credit or taxing power of the County or the general credit of the Corporation, but shall be special obligations of the Corporation, payable solely and only from revenues and funds specifically pledged by the Corporation for the payment of the principal of, interest on, and premium, if any, with respect to the Renewal Notes.

Notwithstanding anything herein to the contrary, the Corporation reserves the right at all times during the term of this Mortgage and the Lease, to make provision for discharge of all Renewal Notes by depositing into the 2003 Note Fund moneys sufficient to pay all principal and interest requirements on the Renewal Notes to a permitted date of redemption or, to the date of maturity, together with sufficient additional moneys to redeem and discharge all outstanding Renewal Notes on such redemption date, or to deposit into such 2003 Note Fund such principal amount of Investment Obligations (as defined in clause (i) of the definition of Investment Obligations) as shall, with earnings thereon, produce such identical result.

Section 312. Issuance of the Renewal Notes. The Renewal Notes shall be issued for the purpose of paying the principal and interest on "Floyd County, Kentucky Public Properties Corporation First Mortgage Revenue Bond Anticipation Renewal Notes (Water Project), Series 2001" ("the "Prior Notes"), due on October 1, 2003, the proceeds of which were used for the purpose of paying the costs of constructing and installing the Project and (ii) paying the costs incident to the issuance of the Prior Notes.

Section 313. Execution; Limited Obligation. The Renewal Notes shall be executed on behalf of the Corporation in the manner set forth in Section 306 of this Mortgage. The Renewal Notes, together with interest thereon, shall be special and limited obligations of the Corporation payable solely and only from moneys deposited from time to time in the 2003 Note Fund pursuant to the provisions of the Lease and this Mortgage, and under certain circumstances payable from proceeds of insurance awards. The Renewal Notes shall be a valid claim of the respective holders thereof only against the Pledged Receipts and the moneys held by the Trustee on behalf of the Corporation in the 2003 Note Fund, which moneys, revenues and other amounts (including the proceeds of the Renewal Notes or renewal notes, as received) are hereby pledged for the equal and ratable

payment of principal of and interest on the Renewal Notes and shall, so long as the Renewal Notes remain Outstanding, be used and applied for no other purpose. The Renewal Notes are further secured by the foreclosable first mortgage lien and all other security provisions set forth in this Mortgage. All security provisions set forth in this Mortgage shall be applicable to the Renewal Notes.

Section 314. Book-Entry. The Renewal Notes shall initially be issued in the form of one fully registered note in the principal amount of each maturity of the Renewal Notes, which Renewal Notes shall be registered in the name of Cede & Co., as nominee of DTC. Except as provided below, all of the Renewal Notes shall be registered in the registration books maintained by the Trustee in the name of Cede & Co., as nominee of DTC; provided if DTC shall request that the Renewal Notes be registered in the name of a different nominee, the Trustee shall exchange all or any portion of the Renewal Notes for an equal aggregate principal amount of Renewal Notes registered in the name of such nominee or nominees of DTC. No person other than DTC or its nominee shall be entitled to receive from the Trustee either a Renewal Note or any other evidence of ownership of the Renewal Notes, or any right to receive any payment in respect thereof, unless DTC or its nominee shall transfer record ownership of all or any portion of the Renewal Notes on the registration books maintained by the Trustee in connection with discontinuing the book-entry system as provided below.

So long as any Renewal Notes are registered in the name of DTC or any nominee thereof, all payments of the principal or redemption price of or interest on such Renewal Notes shall be made to DTC or its nominee in accordance with the Representation Letter on the dates provided for under this Mortgage. Each such payment to DTC or its nominee shall be valid and effective to fully discharge all liability of the Trustee with respect to the principal or redemption price of or interest on the Renewal Notes to the extent of the sum or sums so paid. In the event of the redemption of less than all of the Renewal Notes outstanding, the Trustee shall not require surrender by DTC or its nominee of the Renewal Notes so redeemed, but DTC (or its nominee) may retain such Renewal Notes and make an appropriate notation on the Renewal Note certificate as to the amount of such partial redemption, provided that DTC shall deliver to the Trustee, upon request, a written confirmation of such partial redemption and thereafter the records maintained by the Trustee shall be conclusive as to the amount of the Renewal Notes which have been redeemed.

The Trustee may treat DTC (or its nominee) as the sole and exclusive owner of the Renewal Notes registered in its name for the purposes of payment of the principal or redemption price of or interest on such Renewal Notes, selecting the Renewal Notes or portions thereof to be redeemed, giving any notice permitted or required to be given to Noteholders under this Mortgage, registering the transfer of Renewal Notes, obtaining any consent or other action to be taken by Noteholders and for all other purposes whatsoever. The Trustee shall be affected by any notice to the contrary. The Trustee shall not have any responsibility or obligation to any participant in DTC, any person claiming a beneficial ownership interest in the Renewal Notes under or through DTC or any such participant, or any other person which is not shown on the registration books as being a Noteholder, with respect to either: (1) the Renewal Notes; (2) the accuracy of any records maintained by DTC or any such participant; (3) the payment by DTC or any such participant of any amount in respect of the principal or redemption price of or interest on such Renewal Notes; (4) any notice which is permitted or required to be given to Noteholders under this Mortgage; (5) the selection by DTC or any such participant of any person to receive payment in the event of a partial redemption of the Renewal Notes; and (6) any consent given or other action taken by DTC as Noteholder.

So long as any Renewal Notes are registered in the name of DTC or any nominee thereof, all notices required or permitted to be given to the holders of such Renewal Notes under this Mortgage shall be given to DTC as provided in the representation letter. Notwithstanding the foregoing, the Trustee reserves the right to recognize as beneficial owner one other than the registered owner of a Renewal Note, upon the Trustee's being indemnified to its satisfaction.

In connection with any notice or other communication to be provided to Noteholders pursuant to this Mortgage by the Trustee with respect to any consent or other action to be taken by Noteholders, DTC shall consider the date of receipt of notice requesting such consent or other action as the record date for such consent or other action, provided that the Trustee may establish a special record date for such consent or other action. The Trustee shall give DTC notice of such special record date not less than 15 calendar days in advance of such special record date to the extent possible.

Section 315. Redemption. The Renewal Notes are callable in whole or in part on any date beginning April 1, 2004 at par (100%). The Trustee shall, upon being indemnified to its satisfaction, and receiving funds necessary to redeem such Renewal Notes, cause notice of the call for the redemption identifying the Renewal Notes to be sent by United States mail, postage prepaid, at least thirty (30) days prior to the date fixed for redemption to the Registered Owners of the Renewal Notes, the address as set forth in the registration books maintained by the Registrar. Failure to give such notice by mailing or any defect therein in respect of any Renewal Note shall not affect the validity of any proceedings for the redemption of any Renewal Note.

**ARTICLE IV**  
**LEASE AGREEMENT**

Section 401. Summary of the Lease Agreement. The Corporation and the County entered into a Lease Agreement ("Lease"), dated October 15, 2001, whereby the County agreed to lease from the Corporation the Project, on an initial term ending on June 30, 2002. The terms of the Lease have been amended, pursuant to an Addendum to Lease Agreement ("Addendum"), dated September 26, 2003, wherein the County and the Corporation have agreed to renew, affirm and ratify the Lease, with respect to the issuance of the Renewal Notes, and have amended said Lease to extend the initial term to end on June 30, 2004, and to increase the Rentals due thereunder in amounts equal to the principal, interest and premium, if any, due on the Renewal Notes.

The Lease and the Addendum are set forth in the records of the Floyd County Court Clerk, and reference thereto is hereby made, and all the terms and conditions of the Lease and Addendum shall be binding as if copied herein in full.

**ARTICLE V**  
**ESTABLISHMENT OF FUNDS AND ACCOUNTS**  
**APPLICATION OF PLEDGED RECEIPTS**

Section 501. Establishment of Funds and Accounts. The Corporation hereby formally establishes and creates the following special trust Funds described in Section 8 of the Lease as if fully set forth herein in respect of the Renewal Notes to be held and administered by the Trustee:

- To wit:           (1)     2003 Note Fund
- (2)     Cost of Issuance Fund

Each of the above trust Funds shall be held and maintained by the Trustee pursuant to the provisions of this Mortgage. The 2003 Note Fund shall be liquidated upon the discharge and payment of the Renewal Notes.

Section 502. Application of Proceeds of Renewal Notes, Maintenance of Funds. Upon the delivery of the Renewal Notes to the purchaser or purchasers thereof and receipt of the purchase price, the same shall forthwith in each case be deposited with the Trustee, as trust funds, and the Trustee shall hold, treat and disburse the same, as follows:

(1) 2003 Note Fund. The Trustee shall set aside into the 2003 Note Fund all sums received from the purchaser or purchasers of the Renewal Notes as representing accrued interest from the date of the Renewal Notes to the date of delivery and payment therefor. The 2003 Note Fund shall at all times be held as a separate and special fund or account dedicated to the payment of the interest on the Renewal Notes until the maturity thereof, and for the payment of the principal of the Renewal Notes at stated maturity. There shall be credited to the 2003 Note Fund the accrued interest herein described, together with investment income derived from the investment of any moneys in the 2003 Note Fund from time to time and all rental payments made by the County under the Lease. Pending expenditure, moneys in the 2003 Note Fund shall be invested in the Investment obligations as defined in clause (i) of the definition of Investment Obligations and any income derived therefrom shall be credited to and become a part of the 2003 Note Fund.

Upon the issuance of the Renewal Notes or any renewal notes, as the case may be, the proceeds thereof, to the extent designated by the Corporation for the payment in full of all principal of and interest on the Renewal

Notes at their stated maturity, or in advance of maturity, as the case may be, shall be deposited into the 2003 Note Fund and applied upon either the maturity or redemption date of the Renewal Notes or the date scheduled for the advance refunding of the Renewal Notes, for the payment and discharge of the Renewal Notes.

Upon the delivery of the Bonds, or any renewal notes, as the case may be, sufficient proceeds thereof shall be deposited into the 2003 Note Fund to provide for the full payment of the Renewal Notes, including accrued interest, principal and redemption premium, if any.

(2) Cost of Issuance Fund. Upon issuance of the Renewal Notes, there shall be deposited in the Cost of Issuance Fund the amount of moneys necessary to pay the Cost of Issuance of the Renewal Notes from the proceeds of the Renewal Notes as specified and determined in the Resolution of the Corporation authorizing the issuance of the Renewal Notes or in instructions of an Authorized Officer of the Corporation delivered to the Trustee.

The Cost of Issuance of the Renewal Notes shall be paid only from moneys credited to the Cost of Issuance Fund for the Renewal Notes. Upon receipt of a certificate signed by an Authorized Officer that all Cost of Issuance have been paid in full, or on the date which is one year from the date of the Renewal Notes, whichever occurs first, the Trustee shall transfer all amounts remaining in the Cost of Issuance Fund to the 2003 Note Fund.

Section 503. Investment of Funds. Except as otherwise provided for in this Mortgage:

(1) Investment Obligations purchased as an investment of moneys in any Fund held by the Trustee under the provisions of this Mortgage shall be deemed at all times to be a part of such Fund and the income or interest earned, gains realized or losses suffered by a Fund due to the investment thereof shall be retained in, credited or charged thereto as the case may be.

(2) In computing the amount in any Fund, Investment Obligations purchased as an investment of moneys therein shall be valued at the lower of cost or fair market value. Valuation as of any date of computation shall include the amount of interest or gain realized to such date.

(3) The Trustee shall sell or present for redemption or exchange, any Investment Obligation purchased by it as an investment pursuant to this Mortgage whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund for which such investment was made. The Trustee shall advise the Corporation in writing, on or before the twentieth day of each calendar month, of the details of all Investment Obligations held for the credit of each Fund in its custody under the provisions of this Mortgage as of the end of the preceding month.

(4) It shall not be necessary for any Paying Agent to give security for the deposit of any moneys with it held in trust for the payment of principal of or redemption price, if any, or interest on any Renewal Notes.

(5) In the absence of written direction from the Corporation with respect to investment of monies held in the Funds, monies will remain uninvested until the Trustee is directed, in writing, to invest monies in investments that qualify as Eligible Investments under this Indenture.

#### ARTICLE VI PARTICULAR COVENANTS AND REPRESENTATIONS OF THE CORPORATION

Section 601. Effect of Covenants. The Corporation hereby particularly covenants and agrees with the Trustee and with the Holders of the Renewal Notes, and makes provisions which shall be a part of the contract with such Holders to the effect and with the purposes set forth in the following Sections of this Article.

Section 602. Payment of Renewal Notes. The Corporation shall duly and punctually pay or cause to be paid the principal of the Renewal Notes and the interest thereon, at the date and places in the manner, but solely and only from the special funds, accounts and sources provided herein and in the Renewal Notes, according to the true intent and meaning hereof and thereof.

Section 603. Maintenance and Operation Costs of Project. In accordance with the Lease, the Corporation covenants and agrees that it will cause the County at all times during which the Lease is in effect, to keep and maintain the Project in thorough repair, working order and first class condition, and that it will from time to time cause the County to make all needed repairs and replacements, so that the use and operation of said properties shall be at all times properly enjoyed.

Section 604. Tax Covenant. The Corporation covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Renewal Notes under Section 103(a) of the Code. The Corporation will not directly or indirectly use or permit the use of any proceeds of the Renewal Notes or any other funds of the Corporation, or take or omit to take any action that would cause the Renewal Notes to be "Arbitrage Notes" within the meaning of Sections 103(b)(2) and 148 of the Code. To that end, the Corporation will comply with all requirements of Sections 103(b)(2) and 148 of the Code to the extent applicable to the Renewal Notes. In the event that at any time the Corporation is of the opinion that for purposes of this Section 604 it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under this Mortgage the Corporation shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the Corporation agrees that there shall be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Renewal Notes from time to time. This covenant shall survive payment in full or defeasance of the Renewal Notes. The Corporation specifically covenants to pay or cause to be paid to the United States at the times and in the amounts determined under Section 8 of the Lease the Rebate Amounts, as described in the Memorandum of Instructions. The Trustee agrees to comply with all instructions of the Corporation given in accordance with the Memorandum of Instructions.

Notwithstanding any provision of this Section, if the Corporation shall provide to the Trustee an opinion of nationally recognized bond counsel to the effect that any action required under this Section and the Lease is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Renewal Notes pursuant to Section 103(a) of the Code, the Corporation and the Trustee may rely conclusively on such opinion in complying with the provisions hereof.

Section 605. Insurance of Project.

(1) The Corporation further covenants and agrees that it will, at all times hereafter until the Renewal Notes shall be fully paid, require the County (to the extent such insurance is obtainable) to keep all insurable real properties herein described and all improvements thereon to be insured against loss or damage by fire and windstorm to their full insurable value with standard comprehensive coverage endorsement, and the Corporation will cause all such insurance policies to be made payable in case of loss to the Trustee, as its interests may appear and any amount collected under said policies for any loss covered or damage done, if there is not then existing on Event of Default hereunder, shall first be applied to the replacement or restoration of any buildings and improvements damaged or destroyed, if the amount thereof, together with such other funds as may be available for such purposes, is sufficient to replace or restore such buildings or improvements to a condition substantially the same as before said loss incurred; and should there be a surplus remaining after such replacement or restoration, such surplus shall be deposited by the Trustee in the Sinking Fund, while the Renewal Notes are Outstanding and in the Sinking Fund, while the Renewal Notes are Outstanding, and used and treated by the Trustee as in the case of other moneys in the Sinking Fund, as applicable.

(2) In the event the Trustee shall determine to its satisfaction that the amount of such collected insurance proceeds is insufficient to replace or repair the Project, so that the same is usable for County purposes, then the Trustee may call upon the Corporation and the County, or either of them, to produce additional funds sufficient to complete such replacement or repairs, and in the event the County or the Corporation are legally able to produce such funds and actually do so, the same shall be deposited with the Trustee and used with the insurance proceeds to restore the premises to tenantable and usable condition. If the County is unable or unwilling to produce such additional funds, the Corporation is hereby authorized and empowered, at its election,

to borrow such necessary additional funds, and any amounts so advanced to assure the restoration of the Project may, with the consent of the Trustee, be added to and deemed a part of the indebtedness secured by this Mortgage and if so treated shall be secured by a lien prior and superior to the lien of the Noteholders; but no such funds shall be secured by any such prior or superior lien unless the County is able to amortize the amount of such advancement, with interest, over a reasonable period of years by paying additional rentals over and above the annual rentals specified in the Lease, and unless the County actually agrees in writing to pay such increased rentals and thus retire such advancement in an orderly manner.

(3) In the event that the insurance proceeds are sufficient to retire all of the Renewal Notes then outstanding including interest and redemption premium computed to the next redemption date, then the Trustee may refuse to permit the advancement of additional funds to be secured by a lien prior and superior to the lien of this Mortgage, as herein provided, and in that event the Corporation at the direction of the Trustee, shall take all necessary and proper steps to call in the outstanding Renewal Notes for retirement and payment on the earliest ensuing redemption date in accordance with their terms. If the Renewal Notes are so called on and retired, the Corporation shall then reconvey the premises and properties in their damaged condition to the County, and the Trustee shall be authorized to make a release of this Mortgage.

Section 606. Authorization and Sale of Renewal Notes. The Corporation further covenants that it will sell and issue all of the Renewal Notes hereby secured and upon authentication thereof by the Trustee and delivery to the purchaser or purchasers will promptly take all necessary actions to cause to be delivered the net proceeds of sale to the Trustee for application and use in accordance with the terms of this Mortgage. Following the sale of the Renewal Notes, the Corporation will file with the Trustee an authenticated copy of the resolution adopted by the Corporation establishing interest rates, and the Trustee shall accept and rely upon said resolution as its authority to disburse and pay out interest for the benefit of the Noteholders from time to time at the respective rate as set forth in said resolution; and it shall not be necessary to execute a supplemental Mortgage in order to establish said interest rates.

The Corporation further covenants that it will sell all of the Renewal Notes hereby secured and upon authentication thereof by the Trustee and delivery to the purchaser will promptly take necessary actions to cause to be delivered the net proceeds of sale to the Trustee for application and use in accordance with the terms of this Mortgage. The Corporation covenants with the holders of the Renewal Notes that it will take in timely manner all necessary actions and adopt all necessary proceedings in order to authorize, issue and deliver the Renewal Notes so that the proceeds of the sale of the Renewal Notes will be available for deposit into the Sinking Fund in order to pay at maturity, being the principal amount of the Renewal Notes coming due on such date, plus accrued interest. Following the public sale of the Renewal Notes, the Corporation will file with the Trustee an authenticated copy of the resolution adopted by the Corporation establishing interest rates, and the Trustee shall accept and rely upon said resolution as its authority to disburse and pay out interest for the benefit of the Noteholders from time to time at the respective rate or rates as set forth in said resolution; and it shall not be necessary to execute a supplemental Mortgage in order to establish said interest rates.

Section 607. Accounts and Reports. The Corporation shall keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all its transactions relating to the Project, and all Funds established by this Mortgage, which shall at all reasonable times be subject to the inspection of the Trustee and the Holders of an aggregate of not less than five percent (5%) in principal amount of Renewal Notes then outstanding or their representatives duly authorized in writing.

Section 608. Further Assurance. At any time and at all times the Corporation shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, assets and revenues herein pledged or assigned, or intended so to be, or which the Corporation may hereafter become bound to pledge or assign.

Section 609. Powers as to Renewal Notes and Pledges. The Corporation is duly authorized pursuant to law to authorize and issue the Renewal Notes and to enter into and adopt the Lease and this Mortgage and to pledge the incomes, revenues and assets pledged by this Mortgage in the manner and to the extent provided

Book 419 Page 224

in this Mortgage. The income, revenues and assets so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by this Mortgage, and all official action on the part of the Corporation to that end has been duly and validly taken. The Renewal Notes and the provisions of this Mortgage and the Lease are and will be the valid and legally enforceable obligations of the Corporation in accordance with their terms and the terms of this Mortgage and the Lease. The Corporation shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the incomes, revenues and assets pledged under this Mortgage and all rights of the Noteholders under this Mortgage and the Lease against all claims and demands of all persons whomsoever.

Section 610. Compliance With Conditions Precedent. Upon the date of issuance of any of the Renewal Notes, all conditions, acts and things required by law or by this Mortgage to exist, to have happened or to have been performed precedent to or in the issuance of the Renewal Notes, shall exist, shall have happened and shall have been performed, and the Renewal Notes, together with all other indebtedness of the Corporation, if any, shall be within every debt and other limit prescribed by law.

Section 611. General. The Corporation shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Corporation under the provisions of the Act and this Mortgage in accordance with the terms of such provisions.

Section 612. Waiver of Laws. The Corporation shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension of law now or at any time hereafter in force which may affect the covenants and agreements contained in this Mortgage or in any resolution, or in the Renewal Notes, and all benefit or advantage of any such law or laws is hereby expressly waived by the Corporation.

Section 613. The Project. The Corporation shall from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the Act, the provisions of this Mortgage, and sound construction practices and principles, use and apply the proceeds of the Renewal Notes, to the extent required for the proper purposes of the Project.

Section 614. Corporation to Enforce Contracts. The Corporation shall, to the fullest extent provided and permitted by law, by legal action, mandamus, suit in equity, demand for specific performance, or otherwise, enforce the Lease, the Construction Agreement and any and all other contracts and agreements in respect of the Project to which it is a party or a third party beneficiary.

#### ARTICLE VII DEFAULT AND REMEDIES

Section 701. Trustee to Exercise Powers of Statutory Trustee. The Trustee shall be and hereby is vested with all of the rights, powers and duties of a trustee permitted to be secured pursuant to the Act, and any right of Noteholders to secure appointment of a trustee is hereby abrogated.

Section 702. Events of Default. Each of the following events is hereby declared an "Event of Default,":

- (1) The Corporation shall default in the payment of the principal of any Renewal Note when and as the same shall become due, whether at maturity or upon call for redemption or otherwise;
- (2) Payment of any installment of interest on any of the Renewal Notes shall not be made when and as the same shall become due; or
- (3) The Corporation shall fail or refuse to comply with the provisions of the Act, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part contained in this Mortgage, any authorizing resolution of the Corporation, or the Renewal Notes, and such failure, refusal or default shall continue for a period of forty-five (45) days after written notice thereof by the Trustee or by holders of not less than five percent (5%) in principal amount of the Outstanding Renewal Notes.

Book 419 Page 225

Section 703. Remedies. (1) Upon the happening and continuance of any Event of Default specified in subsections (1) and (2) of Section 702, the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in subsection (3) of Section 702, the Trustee may proceed, and upon the written request of the holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Renewal Notes, shall proceed, in its own name, subject to the provisions of this Section 703, to protect and enforce its rights and the rights of the Noteholders or by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

- (a) by enforcement of the foreclosable mortgage lien on the Project Site and improvements herein granted, and in such event the Trustee shall take over possession, custody and control of the Project Site and shall operate or carry out decretal sale of same with due regard to State and Federal law and the covenants contained in the Lease for the benefit of the holders of the Renewal Notes. Provided, however, that no such foreclosure sale shall result in a deficiency judgment of any type or in any amount against the County or the Corporation, and until such sale the County may at any time by the discharge of the Renewal Notes and interest thereon receive unencumbered fee simple title to the mortgaged facilities; provided that in the event of any such enforcement of said lien by the Trustee, there shall first be paid all expenses incident to said enforcement, and thereafter the Renewal Notes then outstanding shall be paid and retired;
- (b) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Noteholders, including the right to require the Corporation to enforce fully the Lease and to charge, collect and fully account for the Pledged Receipts, and to require the Corporation to carry out any and all other covenants or agreements with the Noteholders and to perform its duties under the Act;
- (c) by bringing suit upon the Renewal Notes;
- (d) by action or suit in equity, require the Corporation to account as if it were the trustee of an express trust for the Holders of the Renewal Notes;
- (e) by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of the Renewal Notes;
- (f) by declaring all Renewal Notes due and payable, and if all defaults shall be made good, then, with the written consent of the Holders of not less than fifty percent (50%) in principal amount of the Outstanding Renewal Notes, by annulling such declaration and its consequences;
- (g) in the event that all Renewal Notes are declared due and payable, by selling Investment obligations of the Corporation (to the extent not theretofore set aside for redemption of Renewal Notes for which call has been made), and enforcing all chooses in action of the Corporation to the fullest legal extent in the name of the Corporation for the use and benefit of the holders of the Renewal Notes; or

(2) In the enforcement of any rights and remedies under this Mortgage, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due from the Corporation for principal, interest or otherwise, under any provision of this Mortgage or of the Renewal Notes, and unpaid, with interest on overdue payments at the rate or rates of interest specified in the Renewal Notes, together with any and all costs and expenses of collection and of all proceedings hereunder and under the Renewal Notes, without prejudice to any other right or remedy of the Trustee or of the Noteholders, and to recover and enforce a judgment or decree against the Corporation for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

Section 704. Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case the

419 226

Corporation, the Trustee and the Noteholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 705. Noteholders' Direction of Proceedings. Anything in this Mortgage to the contrary notwithstanding, the Holders of the majority in principal amount of the Renewal Notes then Outstanding shall have the right by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with the law or the provisions of this Mortgage, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to the Noteholders not parties to such direction.

Section 706. Limitation on Rights of Noteholders No Holder of any Note shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law hereunder, or for the protection or enforcement of any right under this Mortgage or any right under law unless such Holder shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Holders of not less than twenty-five percent (25%) in principal amount of the Renewal Notes then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted under the law or to institute such action, suit or proceedings in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee to be conditions precedent to the execution of the powers under this Mortgage, or for any other remedy hereunder or under law. It is understood and intended that no one or more Holders of the Renewal Notes hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Mortgage, or to enforce any right hereunder or under law with respect to the Renewal Notes or this Mortgage, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all Holders of the Outstanding Renewal Notes. Nothing in this Article contained shall affect or impair the right of any Noteholder to enforce the payment of the principal of and interest on his Renewal Notes, or the obligation of the Corporation to pay the principal of and interest on each Note issued hereunder to the Holder thereof at the time and place in the Renewal Note expressed.

Anything to the contrary notwithstanding contained in this Section, or any other provision of this Mortgage, each Holder of any Renewal Note by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under this Mortgage, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Noteholder, or group of Noteholders, holding at least fifty percent (50%) in principal amount of the Renewal Notes Outstanding, or to any suit instituted by any Noteholder for the enforcement of the payment of the principal of or interest on any Renewal Note on or after the respective due date thereof expressed in such Renewal Note.

Section 707. Possession of Renewal Notes by Trustee Not Required. All rights of action under this Mortgage or under any of the Renewal Notes, enforceable by the Trustee, may be enforced by it without the possession of any of the Renewal Notes or the production thereof at the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the Holders of such Renewal Notes, subject to the provisions of this Mortgage.

Section 708. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Holders of the Renewal Notes is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or

Book 419 Page 227

hereafter existing at law or in equity or by statute.

Section 709. No Waiver of Default. No delay or omission of the Trustee or of any Holder of the Renewal Notes to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or in acquiescence therein; and every power and remedy given by this Mortgage to the Trustee and the Holders of the Renewal Notes, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 710. Notice of Event of Default. The Trustee shall give to the Noteholders notice of such Event of Default hereunder known to the Trustee within ninety (90) days after knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided that, except in the case of default in the payment of the principal of, or interest on any of the Renewal Notes, or in the making of any payment required to be made into the Sinking Fund, the Trustee shall be protected in withholding such notice if and so long as the Board, its executive committee, or a trust committee of members or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interests of the Noteholders.

Section 711. Notice to State Local Finance Officer in Respect of Non-Renewal. In the event the County shall elect to not renew the Lease pursuant to the provisions thereof, immediately upon receipt of notice of such non-renewal, Trustee shall promptly advise the State Local Finance Officer of the Commonwealth of Kentucky in order that said State Local Finance Officer shall be advised.

Section 712. Application of Monies. All moneys received by the Trustee pursuant to the provisions of this Article VII shall be applied by the Trustee, after payment of any fees, costs, expenses, liabilities and advances paid, incurred or made by the Trustee in the collection of moneys pursuant to any right given or action taken under the provisions of this Article VII or the provisions of the Lease (including without limitation, reasonable attorneys' fees and expenses, except as limited by law or judicial order or decision entered in any action taken under this Article VII), all moneys received by the Trustee, shall be applied as follows:

(1) Unless the principal of all of the Renewal Notes shall have become, or shall have been declared to be, due and payable, all of those moneys shall be deposited in the Sinking Fund and shall be applied;

First -- To the payment to the Holders entitled thereto of all installments of interest then due on the Renewal Notes, in the order of the dates of maturity of the installments of that interest, beginning with the earliest date of maturity and if the amount available is not sufficient to pay in full any particular installment, then to the payment thereof ratably, according to the amounts due on that installment, to the Holders entitled thereto, without any discrimination or privilege, except as to any difference in the respective rates of interest specified in the Renewal Notes; and

Second -- To the payment to the Holders entitled thereto of the unpaid principal of any of the Renewal Notes which shall have become due (other than Renewal Notes previously called for redemption for the payment of which moneys are held pursuant to the provisions of this Mortgage), whether at stated maturity, by redemption or pursuant to any mandatory sinking fund requirements, in the order of their due dates, beginning with the earliest due date, with interest on those Renewal Notes from the respective dates upon which they become due at the rates specified in those Renewal Notes, and if the amount available is not sufficient to pay in full all Renewal Notes due on any particular date, together with that interest, then to the payment thereof ratably, according to the amounts of principal due on that date, to the Holders entitled thereto, without any discrimination or privilege, except as to any difference in the respective rates of interest specified in the Renewal Notes.

(2) If the principal of all of the Renewal Notes shall have become due or shall have been declared to be due and payable pursuant to this Article, all of those moneys shall be deposited into the Sinking Fund and shall be applied to the payment of the principal and interest then due and unpaid upon the Renewal Notes, without preference or priority of principal over interest, of interest over principal, of any installment of interest over any other installment of interest, or of any Renewal Note over any other Renewal Note, ratably, according

Book 419 Page 228

to the amounts due respectively for principal and interest, to the Holders entitled thereto, without any discrimination or privilege, except as to any difference in the respective rates of interest specified in the Renewal Notes.

(3) If the principal of all of the Renewal Notes shall have been declared to be due and payable pursuant to this Article, and if that declaration thereafter shall have been rescinded and annulled subject to the provisions of paragraph (2) of this Section in the event that the principal of all of the Renewal Notes shall become due and payable later, the moneys shall be deposited in the Sinking Fund, as applicable, and shall be applied in accordance with the provisions of Article V.

(4) Whenever moneys are to be applied pursuant to the provisions of this Section, those moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of moneys available for application and the likelihood of additional moneys becoming available for application in the future. Whenever the Trustee shall direct the application of those moneys, it shall fix the date upon which the application is to be made, and upon that date, interest shall cease to accrue on the amounts of principal, if any, to be paid on that date, provided the moneys are available therefor. The Trustee shall give notice of the deposit with it of any moneys and of the fixing of that date, all consistent with the requirements of Section 303 hereof for giving notice of redemption. The Trustee shall not be required to make payment of principal of and any premium on a Renewal Note to the Holder thereof, until the Renewal Note shall be presented to the Trustee for appropriate endorsement or for cancellation if it is paid fully.

#### ARTICLE VIII CONCERNING THE FIDUCIARIES

Section 801. Appointment of Trustee. The Corporation hereby appoints the Trustee as Trustee and Renewal Note Registrar. The Trustee shall signify its acceptance of the duties and obligations imposed upon it by the Mortgage, by executing the certificate of authentication endorsed upon the Renewal Notes, and, by executing such certificate upon any Renewal Note, the Trustee shall be deemed to have accepted such duties and obligations not only with respect to the Renewal Note so authenticated, but with respect to all the Renewal Notes thereafter to be issued, but only, however, upon the terms and conditions set forth in the Mortgage.

Section 802. Duties Upon Events of Default. In case an Event of Default has occurred (which has not been cured or waived) the Trustee shall exercise the rights and powers vested in it by this Mortgage, and use the same degree of care and skill in its exercise, as a prudent corporate trustee would exercise or use under the circumstances in the conduct of its own affairs. The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers and employees but shall be answerable for the conduct of the same in accordance with the standard specified above, and may in all cases pay such reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act upon the opinion or advice of any attorneys approved by the Trustee in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action or non-action exercised in good faith in reliance upon such opinion or advice. The Trustee is not required to take notice or deemed to have notice of any default or Event of Default hereunder, except Events of Default under Section 7.02(1) and (2), unless a responsible officer of the Trustee had actual knowledge thereof or has received notice in writing of such default or Event of Default from the Corporation or the Holders of at least 25% in aggregate principal amount of the Outstanding Renewal Notes, and in the absence of any such notice, the Trustee may conclusively assume that no such default or Event of Default exists.

Before taking any action referred to in Article VII hereof, the Trustee may require that a satisfactory indemnity bond be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its gross negligence or willful default by reason of any action so taken.

Section 803. Appointment and Acceptance of Duties of Paying Agents. The Corporation may appoint one or more Paying Agents for the Renewal Notes by resolution of the Corporation adopted prior to the authentication and delivery of the Renewal Notes, and may at any time or from time to time appoint one or more

419 229

other Paying Agents in the manner and subject to the conditions set forth in this Article for the appointment of a successor Paying Agent. The Trustee shall be the principal Paying Agent.

Each Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by this Mortgage by written instrument by acceptance executed and delivered to the Corporation and the Trustee.

The principal offices of the Paying Agents are hereby designated as the respective agencies of the Corporation for the payment of the interest on and principal of the Renewal Notes.

Section 804. Responsibility of Fiduciaries. The recitals of fact herein and in the Renewal Notes contained shall be taken as the statements of the Corporation and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of the Mortgage or of any Renewal Notes issued thereunder or in respect of the security afforded by the Mortgage and no Fiduciary shall incur any responsibility in respect thereof. The Trustee shall, however, be responsible for its representation contained in its certificate on the Renewal Notes. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own gross negligence or willful misconduct. Neither the Trustee nor any Paying Agent shall be under any responsibility or duty with respect to the application of any moneys paid to any one of the others.

Section 805. Evidence on Which Fiduciaries May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, note, or other paper or document reasonably believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may or may not be of counsel to the Corporation, and the opinion of such counsel shall be full authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, including payment of moneys out of any Fund, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate signed by an Authorized Officer, and such Certificate shall be full warrant for any action taken or suffered in good faith thereof, but in its discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable. Except as otherwise expressly provided herein, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision hereof by the Corporation to any Fiduciary shall be sufficiently executed if executed in the name of the Corporation by an Authorized Officer.

Section 806. Compensation. The Corporation shall pay to the Trustee, the Renewal Note Registrar, and each Paying Agent from time to time reasonable compensation for all services rendered under this Mortgage and reimburse the Trustee, the Renewal Note Registrar, and each Paying Agent for their respective expenses, advances and counsel fees. The Corporation further agrees to indemnify and save the Trustee, the Renewal Note Registrar, and each Paying Agent harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its gross negligence or willful misconduct.

Section 807. Permitted Acts and Functions. The Trustee and any Paying Agent may become the owner of any Renewal Notes with the same rights it would have if it were not such Trustee or Paying Agent. The Trustee and any Paying Agent may act as depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Holders or to effect or aid in any reorganization growing out of the enforcement of the Renewal Notes or this Mortgage, whether or not any such committee shall represent the Holders of a majority in principal amount of the Renewal Notes then Outstanding.

Section 808. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Mortgage, by giving not less than sixty (60) days' written notice to the Corporation

m419 230

and to the holders of all the Renewal Notes Outstanding by first class mail to the addresses set forth in the registration books of the Registrar, specifying the date when such resignation shall take effect, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, as provided in Section 810, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 809. Removal of Trustee. The Trustee shall be removed by the Corporation if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the Corporation, and signed by the Holders of a majority in principal amount of the Renewal Notes then Outstanding or their attorneys-in-fact duly authorized, excluding any Renewal Notes held by or for the account of the Corporation.

Section 810. Appointment of Successor Trustee. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, the Corporation covenants and agrees that it will thereupon appoint a successor Trustee. The Corporation shall notify all Holders in the same manner as provided in Section 808 hereof or shall publish notice of any such appointment made by it in a newspaper of general circulation in Kentucky, such publication to be made within twenty (20) days after such appointment.

If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five (45) days after the Trustee shall have given to the Corporation written notice, as provided in Section 808, or after a vacancy in the office of the Trustee, the Holder of any Renewal Note may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any Trustee appointed under the provisions of this Section 810 in succession to the Trustee shall be a trust company or bank having the powers of a trust company within or outside the Commonwealth of Kentucky having capital and surplus aggregating at least Ten Million Dollars (\$10,000,000) if there be such a trust company or bank, willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Mortgage.

Section 811. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Mortgage shall execute, acknowledge and deliver to its predecessor Trustee, and also to the Corporation, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee; but the Trustee ceasing to act shall nevertheless, on the written request of the Corporation or of the successor Trustee execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all right, title and interest of the predecessor Trustee in and to any and all property held by it under to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from the Corporation be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by the Corporation. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee.

Section 812. Merger or Consolidation. Any company into which any Fiduciary may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a trust company or bank which is qualified to be a successor to such Fiduciary under Section 810 hereof and shall be authorized by law to perform all the duties imposed upon it by this Mortgage, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

419 231

Section 813. Resignation or Removal of the Paying Agents and Appointment of Successors. Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Mortgage by giving at least sixty (60) days' written notice to the Corporation and the Trustee. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and the Trustee and signed by an Authorized Officer of the Corporation. Any successor Paying Agent shall be appointed by the Corporation and shall be a trust company or bank having the powers of a trust company, having a capital and surplus aggregating at least Ten Million Dollars (\$10,000,000), and willing and able to accept the office of Paying Agent on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Mortgage.

In the event the Trustee receives inconsistent or conflicting requests and indemnity from two or more groups of holders of Renewal Notes, each representing less than a majority in aggregate principal amount of the Renewal Notes then outstanding, pursuant to the provisions of this Mortgage, the Trustee, in its sole discretion, may determine what action, if any, shall be taken.

The Trustee's immunities and protections from liability and its right to indemnification in connection with the performance of its duties under this Mortgage shall extend to the Trustee's officers, directors, agents, attorneys and employees.

The Trustee is under no obligation to exercise any of the rights or powers vested in it by this Mortgage at the request or direction of any of the Noteholders unless such Holders have offered to the Trustee security or indemnity satisfactory to the Trustee as to its terms, coverage, duration, amount and otherwise with respect to the costs, expenses, and liabilities which may be incurred by it in compliance with such request or direction, and the provision of such indemnity shall be mandatory for any remedy taken upon direction of the Holders of 25% in aggregate principal amount of the Renewal Notes.

Except for information provided by the Trustee concerning the Trustee, the Trustee shall have no responsibility for any information in any offering memorandum or other disclosure material distributed with respect to the Renewal Notes, and the Trustee shall have no responsibility for compliance with any state or federal securities laws in connection with the Renewal Notes.

**ARTICLE IX**  
**MISCELLANEOUS**

Section 901. Defeasance.

(1) If the Corporation shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of the Renewal Notes, all of the principal, premium, if any, and interest to become due thereon, at the times and in the manner stipulated therein and in this Mortgage, then and in that event this Mortgage shall cease, terminate, and become null and void, and the covenants, agreements and other obligations of the Corporation hereunder shall be satisfied and discharged, and in such event, the Trustee shall, upon the request of the Corporation, execute and deliver to the Corporation all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the Corporation all moneys or securities held by them pursuant to this Mortgage which are (i) not required for the payment or redemption of Renewal Notes not theretofore surrendered for such payment or redemption, and (ii) not required to be paid to the United States pursuant to the Memorandum of Instructions.

(2) Renewal Notes or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by Fiduciaries (through deposit by the Corporation of funds for such payment or redemption or otherwise) shall, at the maturity thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (1) of this Section. All Outstanding Renewal Notes shall, prior to the maturity thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (1) of this Section if (a) in case any of said Renewal Notes are to be redeemed on any date prior to their maturity, the Corporation shall have given to the Trustee in form satisfactory to it irrevocable instructions to give notice of redemption with respect to such Renewal Notes, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Obligations as defined in clause (i) of the definition of Investment Obligations, the principal, premium, if any, of and the interest on which when

419 232

due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, premium, if any, and interest due and to become due on said Renewal Notes on and prior to the maturity date thereof, and (c) in the event said Renewal Notes are not by their terms subject to redemption within the next succeeding 60 days, the Corporation shall have given the Trustee, in form satisfactory to it, irrevocable instructions to give notice to the holders of such Renewal Notes, by registered or certified mail, that the deposit required by (b) above has been made with the Trustee and that said Renewal Notes are deemed to have been paid in accordance with this Section and stating such maturity upon which moneys are to be available for the payment of the principal on said Renewal Notes. Neither Investment Obligations or moneys deposited with the Trustee pursuant to this Section nor principal, premium, if any, or interest payment on any such Investment Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal, premium, if any, and interest on said Renewal Notes; provided that any cash received from such principal, premium, if any, or interest payments on such Investment Obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Investment Obligations maturing at times and in amounts sufficient to pay when due the principal, premium, if any, and interest to become due on said Renewal Notes on and prior to maturity of such Renewal Notes, by the Trustee, free and clear of any trust, lien or pledge.

(3) If, through the deposit of moneys by the Corporation or otherwise, the Fiduciaries shall hold, pursuant to this Mortgage, moneys sufficient to pay the principal and interest to maturity on all Outstanding Renewal Notes, or in the case of Renewal Notes in respect of which the Corporation shall have taken all action necessary to redeem prior to maturity, sufficient to pay the principal, premium, if any, and interest to such redemption date, then at the request of the Corporation all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or redemption of Outstanding Renewal Notes.

(4) Anything herein to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Renewal Notes which remain unclaimed for seven (7) years after the date when all of the Renewal Notes have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for seven (7) years after the date of deposit of such moneys if deposited with the Fiduciary after said date when all of the Renewal Notes became due and payable, shall at the written request of the Corporation be repaid by the Fiduciary to the Corporation, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged; provided, however, that before being required to make any such payment to the Corporation, the Fiduciary shall, at the expense of the Corporation cause to be mailed by registered or certified mail any registered holder of any Renewal Notes, notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than ten (10) nor more than twenty (20) days after the date of such notice, the balance of such moneys then unclaimed will be returned to the Corporation. Thereafter such Holders shall look solely to the Corporation for payment and the Fiduciary will have no liability with respect to said payment.

Section 902. Option to Purchase Project. It is further specifically covenanted and agreed that the County may, on any interest payment date while the Renewal Notes are Outstanding, acquire title to the Project free and clear of the lien of this Mortgage which secures the Renewal Notes of the Corporation, by giving to the Corporation and the Trustee for the Noteholders at least sixty (60) days' notice in advance, in writing, of its intention to purchase on the next ensuing interest payment date, and by paying to the Trustee for the Noteholders, on or before the said interest payment date, a sum equal to the principal, interest and redemption premium which the Corporation will be obligated to pay if it calls all of the outstanding Renewal Notes for redemption on the earlier or next ensuing optional redemption date, as the case may be, together with a further sum equal to the expenses which the Corporation and the Trustee may incur in calling all of the outstanding Renewal Notes for payment on said date.

Upon the happening of any such event, and the issuance by the Trustee of an appropriate certificate evidencing defeasance of all Renewal Notes, the Corporation shall immediately convey all its right, title and interest in the Project to the County, free and clear of all liens and encumbrances created by and under this Mortgage.

Section 903. Release of Land. Notwithstanding any other provisions of this Mortgage, the parties hereto

Book 419 Page 233

reserve the right, by mutual written consent at any time and from time to time, to amend or supplement this Mortgage for the purpose of effectuating the release of one or more parcels of or interest in land constituting a part of the Project Site and the removal from the purview of this Mortgage of such parcel or parcels of or interest in land subject to the following conditions:

(a) the parcel or parcels of or interest in land thus released or removed shall be used to construct public improvements, or for the granting of an easement, or other interest or title to a public utility, public or private carrier or public body for providing or improving utility services or transportation facilities, or for the acquisition or construction of any "public project" within the meaning of Section 58.010 of the Kentucky Revised Statutes; and

(b) there shall be filed with the Trustee a copy of the instrument providing for such release together with a certificate of an Authorized Officer of the Corporation describing the improvements or other facilities which will be constructed thereon or the utility or other facilities and services which will be provided or improved thereby and that in the opinion of such Authorized Officer such parcel or parcels of land are not otherwise needed for the operation of the Project and that the release will not materially impair the efficiency or utilitarian value of the Project or the Project Site and will not impede the means of egress thereto or egress therefrom to any material extent.

Section 904. Amendments. Notwithstanding any other provision of this Mortgage, the parties hereto may at any time and from time to time supplement or make any amendment or change herein (i) to cure any formal defect or ambiguity if, in the opinion of the Trustee, such amendment or change is not adverse to the interest of the holders of the Renewal Notes, (ii) to grant to or confer upon the Trustee for the benefit of the Holders of the Renewal Notes any additional rights, remedies, powers, authority or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with this Mortgage, (iii) to make necessary or advisable amendments in connection with the issuance of renewal Renewal Notes or additional Renewal Notes in accordance with the terms hereof, (iv) to permit the Trustee to comply with any obligations imposed on it by law, (v) to achieve compliance with any federal tax law, (vi) to maintain or improve any rating on the Renewal Notes, or (vii) to provide for the release of land pursuant to and subject to the conditions specified in Section 903.

Any other amendment or change shall be subject to the written consent of the holders of at least two-thirds (2/3) in principal amount of the Renewal Notes outstanding at the time such consent is given, or in case less than all of the Renewal Notes then outstanding are affected by the modification or amendment, of the holders of at least two-thirds (2/3) of the principal amount of the Renewal Notes so affected.

Nothing in this Section shall permit, however, or be construed as permitting (a) without the consent of the holder of each Renewal Note so affected, (i) an extension of the maturity of the principal of or the interest on any Renewal Note, (ii) a reduction in the principal amount of any Renewal Note or the rate of interest or premium thereon, or (iii) a reduction in the amount or extension of the time of paying of any mandatory sinking fund requirements, or (b) without the consent of the Holders of all Renewal Notes then outstanding, (i) the creation of a privilege or priority of any Renewal Note over any other Renewal Note, or (ii) a reduction in the aggregate principal amount of the Renewal Notes required for consent to amendments.

An amended or supplemental Mortgage for the purposes described in this Section shall be effective upon the execution thereof by the Corporation and the Trustee and delivery thereof to the Trustee, together with any necessary consent of Noteholders.

Section 905. No Personal Liability Under Mortgage or on Renewal Notes. All covenants, stipulations, promises, agreements and obligations of the Corporation contained in this Mortgage shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Corporation and not of any member, officer, director or employee of the Corporation in his individual capacity, and no recourse shall be had for the payment of the principal of, premium, if any, or interest on the Renewal Notes or for any claim based thereon or on this Mortgage against any member, officer, director or employee of the Corporation or any natural person executing the Renewal Notes.

419 234

Section 906. Severability. If any one or more of the covenants, stipulations, promises, agreements or obligations provided in this Mortgage on the part of the Corporation, Trustee or any Paying Agent to be performed should be determined by a court of competent jurisdiction to be contrary to law, then such covenant or covenants, stipulation or stipulations, promise or promises, agreement or agreements, obligation or obligations shall be deemed and construed to be severable from the remaining covenants, stipulations, promises, agreements and obligations herein contained and shall in no way affect the validity of the other provisions of this Mortgage.

Section 907. Headings. Any headings preceding the texts of the several Articles and Sections hereof, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Mortgage, nor shall they affect its meaning, construction or effect.

(Signatures on the following pages)

m49 235

IN WITNESS WHEREOF, Floyd County, Kentucky Public Properties Corporation has caused this Mortgage to be executed in its name and on its behalf by its President, and attested by its Secretary and Citizens National Bank, the Trustee hereunder, has caused this Mortgage to be executed in its name and on its behalf by an authorized officer, duly attested, all as of the date and year first above written.

FLOYD COUNTY, KENTUCKY PUBLIC PROPERTIES CORPORATION

ATTEST:

Chris Naugh  
Secretary

By: Paul H. Thompson  
President

CITIZENS NATIONAL BANK

ATTEST:

Tom Spradlin  
Title: VP & CFO

By: Tom Spradlin  
Title: Vice President - T.O.

STATE OF KENTUCKY )  
COUNTY OF FLOYD ) SS

Paul H. Thompson  
The foregoing instrument was acknowledged before me this 19th of Sept, 2003, by ~~September 2003~~ as President and Chris Naugh, as Secretary of the Floyd County, Kentucky Public Properties Corporation on behalf of the Corporation.

My commission expires: 9-19-05  
Brendy Weas  
NOTARY PUBLIC

STATE OF KENTUCKY )  
COUNTY OF FLOYD ) SS

The foregoing instrument was acknowledged before me this 19th of Sept, 2003, by ~~Tom Spradlin~~ serving as VP & TO, and Charles L. Patton, serving as SVH & CFO, of Citizens National Bank, a Kentucky trust company, on behalf of the Trustee.

My commission expires: 9-19-03  
Brendy Weas  
NOTARY PUBLIC

STATE OF KENTUCKY )  
COUNTY OF FLOYD )

Book 419 Page 236

I, \_\_\_\_\_, Clerk in and for the County and State aforesaid, hereby certify that on this \_\_\_\_\_, 2003, the foregoing Mortgage Deed of Trust was filed in my office to be and has been together with the foregoing certificates attached hereto, recorded in Mortgage Book \_\_\_\_\_, Page \_\_\_\_\_.

\_\_\_\_\_  
Clerk

This instrument was prepared by  
the undersigned, Attorney at Law  
of: Cox Bowling & Johnson PLLC  
201 East Main Street, Suite 1102  
Lexington, Kentucky 40507

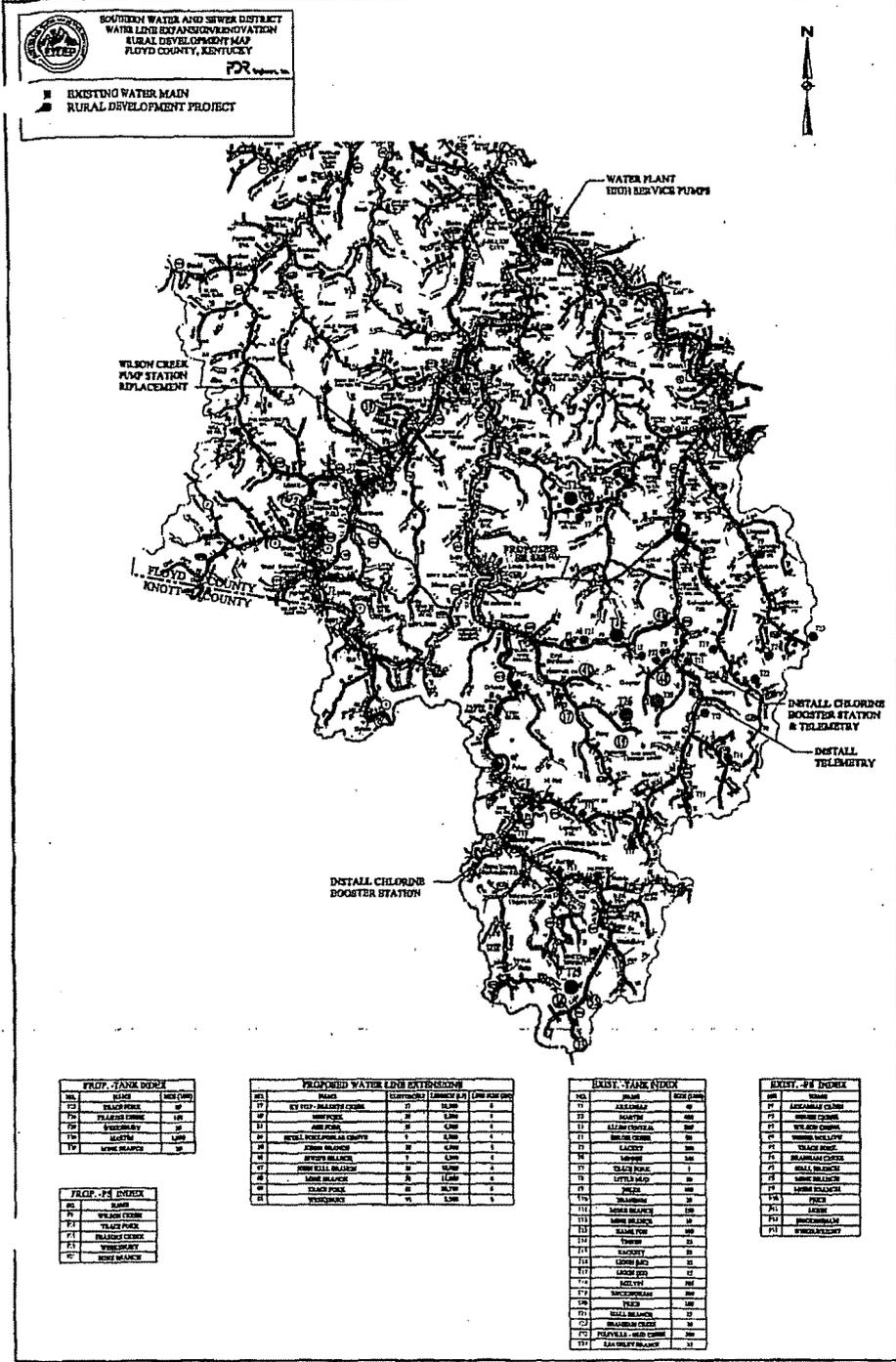
  
\_\_\_\_\_  
GILLARD B. JOHNSON, III

419 Page 237

EXHIBIT "A"

LEGAL DESCRIPTION OF PROJECT SITE

1. Floyd County, Kentucky Public Properties Corporation's (the "Corporation") right and interest in the easements and/or right of ways to locate and construct thereupon a water line expansion as shown on the attached map, Exhibit "1" hereto, including all improvements owned and constructed by the Corporation, all as described in the attached map.
2. Corporation's right and interest in and to the Ground Lease Agreement, attached as Exhibit "2" hereto, and recorded in Deed Book 467, beginning at 514, of the Floyd County Court Clerk's Office.
3. Corporation's fee simple interest in the real estate described and set forth in Exhibit "3" attached hereto, which was acquired by the Corporation pursuant to a Deed of Conveyance from Southern Water & Sewer District, as Grantor, to Floyd County, Kentucky Public Properties Corporation, as Grantee, dated April 29, 2002, and recorded in Deed Book 472, Page 166, Floyd County Court Clerk's Office.



**SOUTH WATER AND SEWER DISTRICT**  
**WATER LINE EXPANSION/RENOVATION**  
**RURAL DEVELOPMENT MAP**  
**FLOYD COUNTY, KENTUCKY**  
**FOR**

■ EXISTING WATER MAIN  
 ■ RURAL DEVELOPMENT PROJECT



**PROP. TANK INDEX**

NO.	NAME	REMARKS
12	BRANCH	SP
13	BRANCH	SP
14	BRANCH	SP
15	BRANCH	SP
16	BRANCH	SP

**PROP. PS INDEX**

NO.	NAME
1	WILSON CREEK
2	VALLEY FORD
3	BRANCH CREEK
4	WINDY CREEK
5	ROSE BRANCH

**PROPOSED WATER LINE EXTENSIONS**

NO.	NAME	CONNECTION	LENGTH	LOW POINT
1	BY FLOYD COUNTY	SP	1.00	1
2	BY FLOYD COUNTY	SP	1.00	1
3	BY FLOYD COUNTY	SP	1.00	1
4	BY FLOYD COUNTY	SP	1.00	1
5	BY FLOYD COUNTY	SP	1.00	1
6	BY FLOYD COUNTY	SP	1.00	1
7	BY FLOYD COUNTY	SP	1.00	1
8	BY FLOYD COUNTY	SP	1.00	1
9	BY FLOYD COUNTY	SP	1.00	1
10	BY FLOYD COUNTY	SP	1.00	1

**EXIST. TANK INDEX**

NO.	NAME	REMARKS
1	BRANCH	SP
2	BRANCH	SP
3	BRANCH	SP
4	BRANCH	SP
5	BRANCH	SP
6	BRANCH	SP
7	BRANCH	SP
8	BRANCH	SP
9	BRANCH	SP
10	BRANCH	SP
11	BRANCH	SP
12	BRANCH	SP
13	BRANCH	SP
14	BRANCH	SP
15	BRANCH	SP
16	BRANCH	SP
17	BRANCH	SP
18	BRANCH	SP
19	BRANCH	SP
20	BRANCH	SP
21	BRANCH	SP
22	BRANCH	SP
23	BRANCH	SP
24	BRANCH	SP
25	BRANCH	SP
26	BRANCH	SP
27	BRANCH	SP
28	BRANCH	SP
29	BRANCH	SP
30	BRANCH	SP
31	BRANCH	SP
32	BRANCH	SP
33	BRANCH	SP
34	BRANCH	SP
35	BRANCH	SP
36	BRANCH	SP
37	BRANCH	SP
38	BRANCH	SP
39	BRANCH	SP
40	BRANCH	SP
41	BRANCH	SP
42	BRANCH	SP
43	BRANCH	SP
44	BRANCH	SP
45	BRANCH	SP
46	BRANCH	SP
47	BRANCH	SP
48	BRANCH	SP
49	BRANCH	SP
50	BRANCH	SP
51	BRANCH	SP
52	BRANCH	SP
53	BRANCH	SP
54	BRANCH	SP
55	BRANCH	SP
56	BRANCH	SP
57	BRANCH	SP
58	BRANCH	SP
59	BRANCH	SP
60	BRANCH	SP
61	BRANCH	SP
62	BRANCH	SP
63	BRANCH	SP
64	BRANCH	SP
65	BRANCH	SP
66	BRANCH	SP
67	BRANCH	SP
68	BRANCH	SP
69	BRANCH	SP
70	BRANCH	SP
71	BRANCH	SP
72	BRANCH	SP
73	BRANCH	SP
74	BRANCH	SP
75	BRANCH	SP
76	BRANCH	SP
77	BRANCH	SP
78	BRANCH	SP
79	BRANCH	SP
80	BRANCH	SP
81	BRANCH	SP
82	BRANCH	SP
83	BRANCH	SP
84	BRANCH	SP
85	BRANCH	SP
86	BRANCH	SP
87	BRANCH	SP
88	BRANCH	SP
89	BRANCH	SP
90	BRANCH	SP
91	BRANCH	SP
92	BRANCH	SP
93	BRANCH	SP
94	BRANCH	SP
95	BRANCH	SP
96	BRANCH	SP
97	BRANCH	SP
98	BRANCH	SP
99	BRANCH	SP
100	BRANCH	SP

**EXIST. PS INDEX**

NO.	NAME
1	BRANCH
2	BRANCH
3	BRANCH
4	BRANCH
5	BRANCH
6	BRANCH
7	BRANCH
8	BRANCH
9	BRANCH
10	BRANCH
11	BRANCH
12	BRANCH
13	BRANCH
14	BRANCH
15	BRANCH
16	BRANCH
17	BRANCH
18	BRANCH
19	BRANCH
20	BRANCH
21	BRANCH
22	BRANCH
23	BRANCH
24	BRANCH
25	BRANCH
26	BRANCH
27	BRANCH
28	BRANCH
29	BRANCH
30	BRANCH
31	BRANCH
32	BRANCH
33	BRANCH
34	BRANCH
35	BRANCH
36	BRANCH
37	BRANCH
38	BRANCH
39	BRANCH
40	BRANCH
41	BRANCH
42	BRANCH
43	BRANCH
44	BRANCH
45	BRANCH
46	BRANCH
47	BRANCH
48	BRANCH
49	BRANCH
50	BRANCH
51	BRANCH
52	BRANCH
53	BRANCH
54	BRANCH
55	BRANCH
56	BRANCH
57	BRANCH
58	BRANCH
59	BRANCH
60	BRANCH
61	BRANCH
62	BRANCH
63	BRANCH
64	BRANCH
65	BRANCH
66	BRANCH
67	BRANCH
68	BRANCH
69	BRANCH
70	BRANCH
71	BRANCH
72	BRANCH
73	BRANCH
74	BRANCH
75	BRANCH
76	BRANCH
77	BRANCH
78	BRANCH
79	BRANCH
80	BRANCH
81	BRANCH
82	BRANCH
83	BRANCH
84	BRANCH
85	BRANCH
86	BRANCH
87	BRANCH
88	BRANCH
89	BRANCH
90	BRANCH
91	BRANCH
92	BRANCH
93	BRANCH
94	BRANCH
95	BRANCH
96	BRANCH
97	BRANCH
98	BRANCH
99	BRANCH
100	BRANCH

C:\GNDUP\Co\0103\Contract-07\q-rd-proj\rd\Map March 12 2002 3:29pm D:\s

# Exhibit S

SOUTHERN WATER & SEWER DISTRICT  
OPERATING ACCOUNT  
P.O. BOX 610  
MCDOWELL, KY 41647

FIRST GUARANTY BANK  
MARTIN, KENTUCKY 41649  
73-826-421

PAY  
TO THE  
ORDER OF

Twenty Five Thousand & 00/100

DATE  
5-27-2010

AMOUNT  
\$ 25,000.00

Floyd County Fiscal Court

*Tanda Johnson*  
AUTHORIZED SIGNATURE



SOUTHERN WATER & SEWER DISTRICT  
OPERATING ACCOUNT

RECEIVED 7981

JAN 31 2013

PUBLIC SERVICE  
COMMISSION

Floyd County Fiscal Court  
Bond Payment

SOUTHERN WATER & SEWER DISTRICT  
OPERATING ACCOUNT

7981

RECEIVED

JAN 31 2013

PUBLIC SERVICE  
COMMISSION

Attention:

Date: Tue Jan 22, 2013  
Account No.:

Southern Water & Sewer District  
Floyd County Bond Payment  
PO Box 610  
McDowell, Ky 41647

101

DATE 11-15-2010 73-928/421

PAY TO THE ORDER OF Floyd County Bond Payment \$ 41,647.67

forty one thousand six hundred forty seven <sup>67</sup>/<sub>100</sub> DOLLARS

First Guaranty Bank  
Martin, Kentucky 41649

FOR BOND PAYMENT

*[Signature]*

Date: 11/24/2010 Ref. [REDACTED]

[REDACTED] 11.232010

Community Trust Bank  
[REDACTED]

RECEIVED

JAN 31 2013

PUBLIC SERVICE COMMISSION

Attention:

Date: Tue Jan 22, 2013  
Account No.:

Southern Water & Sewer  
 Floyd County Bond Payment  
 P.O. Box 610  
 McDowell, Ky 41647

DATE May 12, 2011 73-825/421

PAY TO THE ORDER OF Floyd County Fiscal Court \$ 50,179.05

Fifty Thousand One Hundred Seventy-nine and 05/100 DOLLARS

First Guaranty Bank  
 Martin, Kentucky 41649

FOR Bond Payment

Cherish Lee  
Debra Johnson

Date: 05/17/2011 Ref:

[Redacted]

Community Trust Bank

[Redacted]

RECEIVED

JAN 31 2013

PUBLIC SERVICE  
COMMISSION

Attention:

Date: Tue Jan 22, 2013  
Account No.:

Southern Water & Sewer  
Floyd Co. Bond Payment  
P.O. Box 610  
McDowell, Ky. 41647

DATE May 2, 2012 73-826/421

PAY TO THE ORDER OF Floyd County Fiscal Court \$ 83,000.00

Eighty-three thousand and no/100 DOLLARS

First Guaranty Bank  
Martin, Kentucky 41649

FOR Payment on County Bond

*Paul Ray*  
*Paul Ray*

Date: 05/07/2012 Ref: [REDACTED]

[REDACTED]

[REDACTED]

FFFC  
FOR Deposit Only  
[Signature]

RECEIVED

JAN 31 2013

Attention:

Date: Tue Jan 22, 2013  
Account No.:

PUBLIC SERVICE  
COMMISSION

SOUTHERN WATER & SEWER DISTRICT		73-620/421	First Guaranty Bank
NAME	FLOYD COUNTY BOND PAYMENT	DATE	NOVEMBER 14, 2012
	PO BOX 610		Marlin, Kentucky 41649
	MCDOWELL, KY 41647		
PAY TO THE ORDER OF	FLOYD COUNTY FISCAL COURT	\$	50,588.30
FIFTY THOUSAND, FIVE HUNDRED EIGHTY EIGHT DOLLARS AND 30/100			DOLLARS
TRAN CODE	ACCOUNT NUMBER		
	[REDACTED]		
FOR	PAYMENT ON ACCOUNT	[Signature]	
	[REDACTED]	[Signature]	

Date: 11/20/2012 Ref: [REDACTED]

FEDERAL RESERVE BOARD OF GOVERNORS REG. CC [REDACTED] [REDACTED] Community Bank	11/19/2012	ENDORSE HERE PAY TO THE ORDER OF COMMUNITY TRUST BANK FLOYD COUNTY OFFICE 042102694 FOR DEPOSIT ONLY FLOYD COUNTY FISCAL COURT
		DO NOT WRITE, STAMP OR SIGN BELOW THIS LINE ATTENDED FOR FINANCIAL INSTITUTION USE

# Exhibit T

[print](#)

## **Leaders question need to bail out Southern**

---

by Sheldon Compton

05.18.09 - 10:59 am

PRESTONSBURG – Tension built Friday during a meeting of the Floyd County Fiscal Court after a motion to make a bond payment on behalf of Southern Water and Sewer turned into a lengthy discussion that left county leaders clearly frustrated.

The proposal in question was to make a bond and interest payment totaling \$104,988 to the Bank of New York before May 20.

The motion to do so was made Friday by Judge-Executive R.D. “Doc” Marshall after a long debate centered on why the company has not been able to make its own payments.

“I made that motion because I don’t want to see our people without water,” Marshall said.

Floyd County Attorney Keith Bartley called the debate about whether to make the payment, which becomes the responsibility of the county if Southern Water fails to pay, a “Catch-22 situation.”

“If this isn’t paid, then there’ll be several thousand people without water,” Bartley said. “That being said, the question is what we can do to get Southern Water to pay us.”

With the issue at a standstill, the court was told that there would be penalties and fees that would come into play if an agreement could not be reached on making the payment on behalf of the company.

Representatives with Southern Water have told county officials that some of the reasons they remain essentially about a month behind and currently roughly \$300,000 behind in bond payments is due to various details such as waterline breaks and slow collection. But Bartley said Friday this reasoning wasn’t enough for him.

“I don’t think that is a very legitimate answer,” said Bartley, who added that he would like to see the actual paperwork for the bond. “It’s hard for me to answer questions for the magistrates about this because I’ve never actually seen the bond itself.”

Magistrate Donnie Daniels, who initiated the discussion by asking about the payments, agreed with Bartley, requesting that the bond be made available for closer examination before making a decision.

In order to do this without incurring penalties, the fiscal court will have to meet in special session Tuesday after a vote Friday ended in a 2-2 deadlock, with Marshall and Daniels voting to make the payment and Magistrates John Goble and Jackie Edford Owens voting against.

Daniels, explaining his reasoning as he was the first to question the motion, said he voted for the payment "from the standpoint of people losing their water."

Magiistrate Ronnie Akers was not present for Friday's meeting.

---

© floydcountytimes.com 2009

[print](#)

## **Court resolves Southern flap with payment**

---

by Sheldon Compton

05.27.09 - 11:36 am

PRESTONSBURG – A stalemate gave way during a special-called meeting of the Floyd County Fiscal Court that saw court members vote in complete agreement to make good on a bond payment owed by local service provider Southern Water and Sewer District.

The resolution to make the payment, totaling \$104,988, saw a split vote during the court's regular session the previous week.

At that time Floyd County Judge-Executive R.D. "Doc" Marshall and Magistrate Donnie Daniels voted to approve the payment for the company while Magistrates John Goble and Jackie Edford Owens voted against the move.

The court has now voted to pay the amount during the special session at which Southern Water officials attended, including the company's chairman Hubert Halbert.

When asked about the tension surrounding the decision to make good on the payments for Southern Water, Halbert replied following the meeting by saying the situation was "fine now." Calls left for Halbert in the days following the meeting had not been returned at press time.

The focus of the tension weighed most heavily on the fact that that all attending magistrates, including Daniels before voting with Marshall for the split, had reservations about standing in with county money on the payment that many felt should have already been taken care of by Southern Water.

At the time, Daniels sided with Marshall, saying it was a matter of making sure that residents did not lose water.

Floyd County Attorney Keith Bartley stressed during the court's regular session and again during the special-called meeting the importance of paying the \$104,988 bond payment to the Bank of New York considering the county was essentially a co-signer on the bond.

"This particular resolution has nothing to do with Southern Water," Bartley said just before the full court approved the payment. "It's just us and the Bank of New York, and they need their money."

However, Bartley followed that comment by saying that it would be a good idea for county leaders and officials with Southern Water to have a future meeting to further discussion concerns about future payments.

The company has pointed to water line breaks, slow collections and other business-related hurdles as part of the reason that payments have lagged of late, reasons Bartley characterized as not a "very legitimate answer" during the court's previous deadlock on the issue.

---

© floydcountytimes.com 2009

[print](#)

## **County still paying Southern's bond**

---

by Sheldon Compton

11.30.09 - 01:32 pm

PRESTONSBURG – An old itch has resurfaced for county leaders and it came during a special-called session Tuesday morning.

During the meeting, Floyd Judge-Executive R.D. "Doc" Marshall offered for approval a twice-annual bond payment of more than \$54,000 on behalf of Southern Water and Sewer District.

The utility company went before the fiscal court this past May and explained that they could not make the payments, forcing county leaders to stand in for the obligation or risk residents losing water.

The payment, totaling \$54,151, was made during that meeting and Southern Water representatives told the court they would soon be able to make the payments on their own.

"That's what they told us then," Magistrate Donny Daniels said Tuesday. "I remember them saying that they would be able to pay."

One point of much concern for Daniels, as well as Magistrates Ronnie Akers, Jackie Edford Owens and John Goble, was that Southern Water recently implemented a rate increase.

Now, county leaders are now wondering why the utility company can still not afford to make its own bond payment.

At the time the problem was first brought up, Floyd County Attorney Keith Bartley called it a classic "Catch-22" situation.

Assistant Floyd County Attorney Stacy Marshall said Tuesday he felt that now that the rate increase had been put in place, Southern Water would be able by next quarter to make the payment.

It can't come soon enough for some on the court.

"They've got us over a barrel here," continued Daniels. "I don't like this court and our residents to be held hostage by rate increases."

Akers said people in his district are being forced to either pay their water bills or buy medicine. He wanted a motion Tuesday to see the rate increase dropped, but will have to wait to present the idea again in regular session.

"We just watched them buy three new vehicles for about \$70,000," Akers added. "I don't see why they couldn't use that to make their bond payment."

---

© floydcountytimes.com 2009

[print](#)

## **Former judge tries to dispel Southern rumors**

---

by Sheldon Compton

01.20.10 - 11:26 am

PRESTONSBURG – Former Judge-Executive Paul Hunt Thompson paid a visit to the Floyd County Fiscal Court this past Friday in hopes of clearing up some points concerning Southern Water and Sewer District.

Southern has been in discussions in the last several months with county leaders, who have asked if the company can pay more or all on a bond issued during Thompson's tenure as top official.

The annual bond payment, which totals at \$160,000, was initially set up so the county paid \$60,000 each year and Southern made up the remaining \$100,000.

Thompson explained Friday the origins of the bond and also moved to dispel rumors concerning the actual amount of the payment over the course of the next several years.

“There has been a lot of talk about Southern Water and Sewer, especially with bonds,” said Thompson, who addressed the fiscal court with several folders of documentation Friday. “There were grants available and we took advantage of that and received millions of dollars for water extensions. All of this money was dedicated to this project and not one cent of this money was spent outside the boundaries of Southern Water and Sewer.”

The total amount taken out for water and sewer grants early in Thompson's administration was \$2.6 million that kick-started some \$20 million in later grants and funding which resulted in making treated water available to approximately 99 percent of Floyd Countians. The first \$2.6 million covered the first group of projects such as line installations, tank sites and pump stations, Thompson said.

In the past several months, floods and ice storms have pinched county resources, according to magistrates such as District 1's John Goble, who said he and others on the fiscal court had to start looking at where money could be found to continue county business. Southern's bond payment made it onto the radar, and officials have been discussing it since that time.

“This county's suffered three floods and an ice storm and we've been looking to tighten our belts,” Goble said Friday.

Floyd County Attorney Keith Bartley said the fiscal court looking to Southern to become self-sufficient reflects back to the original plan when the company was first formed.

“At one point it was the vision that Southern pay their bond payment,” Bartley said. “If they can do that, they should. If they can't, then the fiscal court will have to decide whether to step up.”

The point was one Bartley has made often during discussions about Southern's

bond payment issues in past court meetings.

A June 2005 refinancing of the bond insured the payments would not increase, Thompson said, but he told court members Friday that misinformation about that contract had been spread throughout the county.

“Someone has been showing documents all over Floyd County showing a document that reflects five years of payments and saying it’s for one year,” Thompson said. “Whoever put that out there, it was misstated and misinformation.”

The document Thompson referred to Friday was from a past county audit that showed the extended payment schedule for Southern’s bond. It reflects the \$100,000/ \$60,000 split until the planned amount for 2014. At this point the payment, \$330,000, is shown in five-year increments rather than one-year.

Thompson said this misled people to believe the county’s payments would jump this much in a single year.

---

© floydcountytimes.com 2010

[print](#)

## **Outgoing magistrate decries bond payments**

---

by Jarrid Deaton

05.28.10 - 12:00 pm

PRESTONSBURG – The contractual obligation of the Floyd County Fiscal Court to make bond payments for Southern Water and Sewer brought about questions from District 3 Magistrate Donny Daniels during a meeting on Wednesday.

The court voted to approve the 2007 bond principal and interest payment to Bank of New York in the amount of \$55,000, to be paid out of the bond principal budget account, and \$54,151,25, to be paid from the bond interest budget account. Daniels voted against the motion.

“The last three meetings I’ve asked to have somebody here from Southern Water,” Daniels said. “This is three years that we’ve paid both payments of their bond payments, and they’ve had a rate increase.”

Judge-Executive R.D. “Doc” Marshall told the court that Southern Water and Sewer started to deposit \$8,500 a month beginning in February and the amount is currently at \$25,000.

“I have a lot of unanswered questions,” Daniels said.

County Attorney Keith Bartley said the court doesn’t have an option in the matter.

“We are contractually obligated to pay whether or not Southern Water pays a penny,” Bartley said.

Before voting against the motion, Daniels expressed his displeasure with the situation.

“They’ve got us hamstrunged,” Daniels said.

In total, the court voted to make the semi-annual bond payment of \$109,151.25. The payment was due on May 20.

---

© floydcountytimes.com 2010

[print](#)

## **Court appoints Southern commissioners, makes payment**

by Sheldon Compton

11.26.10 - 07:21 am

by SHELDON COMPTON

Staff Writer

PRESTONSBURG – Three commissioners were either newly appointed or reappointed to Southern Water and Sewer’s commission Wednesday.

Following the death of former commissioner Palmer Frasure on Sept. 12, the county has been working to find someone to appoint to fill the vacancy. On Wednesday, fiscal court members appointed Hayes Hamilton to fill that spot.

In addition, county officials also issued reappointments for four-year terms for serving commissioners Paula Johnson and Scarlett Stumbo.

In related news, the county continued to make bond payments for Southern Water and Sewer, releasing more than \$42,000 from its coffers for the upcoming December payment. Floyd Judge-Executive R.D. “Doc” Marshall said this still left the county roughly \$11,000 short on the second of two yearly payments that have to be made.

This payment, according to County Treasurer David Layne, does not cut into the principal amount of the bond, but only covers the interest.

The fiscal court also:

- Approved payment of \$2,493 to WestCare for the month of October. The Floyd County Detention Center was awarded a community corrections recovery program grant of \$138,000 through the Office of Drug Control Policy, which is the funding source for the county payments.
- Approved their most recent claims list and transfers relating to election commissioners, highway equipment, and debt services.

All members were present for Wednesday’s meeting.

---

© floydcountytimes.com 2010

[print](#)

## **Court votes down request for Southern accounting**

---

by Ralph B. Davis  
Managing Editor  
12.21.11 - 09:00 am

PRESTONSBURG — A divided court rejected a proposal by one magistrate to have a local utility account for its financial condition.

District 1 Magistrate John Goble asked fellow members of the court to adopt a resolution requiring Southern Water and Sewer District to provide the court with copies of its audits from 2008, 2009 and 2010, as well as a balance sheet for 2011. In his motion to that effect, he also asked that members of the Southern Water board meet with the fiscal court to go over the utility's finances.

Goble explained that he was motivated to make the request because he is not satisfied with the amount of financial reporting the county is receiving about Southern Water, even though the county is paying the bulk of Southern Water's bond.

"We're paying this bond and we have been for five years," Goble said, during a meeting of the fiscal court Friday. "I don't mind paying it, because the people need the service, but we need to know what condition they're in."

Seemingly surprised by the request, County Judge-Executive R.D. "Doc" Marshall said there was nothing Goble was requesting that wasn't public record, available not only to the fiscal court, but to anyone who requested it.

District 4 Magistrate Ronnie Akers seconded Goble's motion, but they were the only two who voted in favor of the request. District 2 Magistrate Hattie Owens and District 3 Magistrate Warren Jarrell voted against the motion, and Marshall broke the tie by also voting against it.

The request by Goble was the only hiccup during a mostly routine meeting. In other action, the court:

- Approved a request by Marshall to pay \$50,000 to Floyd County Senior Citizens. Marshall said the amount represented one of four such payments the court had previously agreed to provide to Floyd County Senior Citizens, but would simply be paid one month early. Marshall said the program is "in dire need" of funds, leading to his request for the early payment. The motion passed unanimously.
- Approved a \$1.4 million budget for the sheriff's office and set a salary cap of \$792,900 for deputies and other employees of the department.
- Approved a \$12.7 million budget for the county clerk's office and set a salary cap of \$700,000 for deputy clerks.

- Paid bills and made transfers between accounts.

---

© floydcountytimes.com 2011

# Exhibit U

---

**COUNTY OF FLOYD, KENTUCKY**  
**KADD LEASE – FINAL SCHEDULES**  
**KADD2005\_147K**

---

Sources and Uses of Funds .....	1
Gross Debt Service.....	2-3
Net Debt Service.....	4-5
Production Report.....	6
Bond Yield Report .....	7
Summary of Fees.....	8-9
Final Lessee Payment Schedule .....	10
Final Net Payment Schedule .....	11

## Kentucky Area Development Districts Financing Trusts

County of Floyd, Kentucky

KADD2005\_147K -- Final Schedules

### Sources & Uses

Dated 06/28/2005 | Delivered 06/28/2005

#### Sources Of Funds

Par Amount of Bonds	\$2,600,000.00
---------------------	----------------

<b>Total Sources</b>	<b>\$2,600,000.00</b>
----------------------	-----------------------

#### Uses Of Funds

Total Underwriter's Expense	52,000.00
-----------------------------	-----------

Bond Counsel	6,000.00
--------------	----------

Trustee Origination	1,000.00
---------------------	----------

Rating Agency Fee	6,800.00
-------------------	----------

Gross Bond Insurance Premium (172.0 bp)	82,314.55
---	-----------

Deposit to Project Construction Fund	2,451,885.45
--------------------------------------	--------------

<b>Total Uses</b>	<b>\$2,600,000.00</b>
-------------------	-----------------------

**Kentucky Area Development Districts Financing Trusts**

County of Floyd, Kentucky

KADD2005\_147K -- Final Schedules

**Debt Service Schedule**

Part 1 of 2

Date	Principal	Coupon	Interest	Total P+I
12/01/2005	-	-	47,984.63	47,984.63
06/01/2006	55,000.00	3.000%	56,452.50	111,452.50
12/01/2006	-	-	55,627.50	55,627.50
06/01/2007	50,000.00	3.000%	55,627.50	105,627.50
12/01/2007	-	-	54,877.50	54,877.50
06/01/2008	50,000.00	3.000%	54,877.50	104,877.50
12/01/2008	-	-	54,127.50	54,127.50
06/01/2009	50,000.00	3.300%	54,127.50	104,127.50
12/01/2009	-	-	53,302.50	53,302.50
06/01/2010	55,000.00	3.300%	53,302.50	108,302.50
12/01/2010	-	-	52,395.00	52,395.00
06/01/2011	55,000.00	3.500%	52,395.00	107,395.00
12/01/2011	-	-	51,432.50	51,432.50
06/01/2012	55,000.00	3.500%	51,432.50	106,432.50
12/01/2012	-	-	50,470.00	50,470.00
06/01/2013	60,000.00	3.800%	50,470.00	110,470.00
12/01/2013	-	-	49,330.00	49,330.00
06/01/2014	60,000.00	3.800%	49,330.00	109,330.00
12/01/2014	-	-	48,190.00	48,190.00
06/01/2015	65,000.00	3.800%	48,190.00	113,190.00
12/01/2015	-	-	46,955.00	46,955.00
06/01/2016	65,000.00	4.250%	46,955.00	111,955.00
12/01/2016	-	-	45,573.75	45,573.75
06/01/2017	70,000.00	4.250%	45,573.75	115,573.75
12/01/2017	-	-	44,086.25	44,086.25
06/01/2018	70,000.00	4.250%	44,086.25	114,086.25
12/01/2018	-	-	42,598.75	42,598.75
06/01/2019	75,000.00	4.250%	42,598.75	117,598.75
12/01/2019	-	-	41,005.00	41,005.00
06/01/2020	75,000.00	4.500%	41,005.00	116,005.00
12/01/2020	-	-	39,317.50	39,317.50
06/01/2021	80,000.00	4.500%	39,317.50	119,317.50
12/01/2021	-	-	37,517.50	37,517.50
06/01/2022	85,000.00	4.500%	37,517.50	122,517.50
12/01/2022	-	-	35,605.00	35,605.00
06/01/2023	90,000.00	4.500%	35,605.00	125,605.00
12/01/2023	-	-	33,580.00	33,580.00
06/01/2024	90,000.00	4.600%	33,580.00	123,580.00
12/01/2024	-	-	31,510.00	31,510.00
06/01/2025	95,000.00	4.600%	31,510.00	126,510.00
12/01/2025	-	-	29,325.00	29,325.00
06/01/2026	100,000.00	4.600%	29,325.00	129,325.00
12/01/2026	-	-	27,025.00	27,025.00

## Kentucky Area Development Districts Financing Trusts

County of Floyd, Kentucky

KADD2005\_147K -- Final Schedules

### Debt Service Schedule

Part 2 of 2

Date	Principal	Coupon	Interest	Total P+I
06/01/2027	105,000.00	4.700%	27,025.00	132,025.00
12/01/2027	-	-	24,557.50	24,557.50
06/01/2028	110,000.00	4.700%	24,557.50	134,557.50
12/01/2028	-	-	21,972.50	21,972.50
06/01/2029	115,000.00	4.700%	21,972.50	136,972.50
12/01/2029	-	-	19,270.00	19,270.00
06/01/2030	120,000.00	4.700%	19,270.00	139,270.00
12/01/2030	-	-	16,450.00	16,450.00
06/01/2031	125,000.00	4.700%	16,450.00	141,450.00
12/01/2031	-	-	13,512.50	13,512.50
06/01/2032	135,000.00	4.700%	13,512.50	148,512.50
12/01/2032	-	-	10,340.00	10,340.00
06/01/2033	140,000.00	4.700%	10,340.00	150,340.00
12/01/2033	-	-	7,050.00	7,050.00
06/01/2034	145,000.00	4.700%	7,050.00	152,050.00
12/01/2034	-	-	3,642.50	3,642.50
06/01/2035	155,000.00	4.700%	3,642.50	158,642.50
<b>Total</b>	<b>\$2,600,000.00</b>	<b>-</b>	<b>\$2,185,729.63</b>	<b>\$4,785,729.63</b>

#### Yield Statistics

Bond Year Dollars	\$47,935.00
Average Life	18.437 Years
Average Coupon	4.5597781%
Net Interest Cost (NIC)	4.6682583%
True Interest Cost (TIC)	4.6977813%
Bond Yield for Arbitrage Purposes	4.8010854%
All Inclusive Cost (AIC)	5.1119375%

#### IRS Form 8038

Net Interest Cost	4.5597781%
Weighted Average Maturity	18.437 Years

## Kentucky Area Development Districts Financing Trusts

County of Floyd, Kentucky

KADD2005\_147K -- Final Schedules

### Net Debt Service Schedule

Part 1 of 2

Date	Principal	Coupon	Interest	Total P+I	Expenses	Net New D/S	Fiscal Total
06/28/2005	-	-	-	-	-	-	-
12/01/2005	-	-	47,984.63	47,984.63	900.00	48,884.63	-
06/01/2006	55,000.00	3.000%	56,452.50	111,452.50	900.00	112,352.50	161,237.13
12/01/2006	-	-	55,627.50	55,627.50	886.25	56,513.75	-
06/01/2007	50,000.00	3.000%	55,627.50	105,627.50	886.25	106,513.75	163,027.50
12/01/2007	-	-	54,877.50	54,877.50	873.75	55,751.25	-
06/01/2008	50,000.00	3.000%	54,877.50	104,877.50	873.75	105,751.25	161,502.50
12/01/2008	-	-	54,127.50	54,127.50	861.25	54,988.75	-
06/01/2009	50,000.00	3.300%	54,127.50	104,127.50	861.25	104,988.75	159,977.50
12/01/2009	-	-	53,302.50	53,302.50	848.75	54,151.25	-
06/01/2010	55,000.00	3.300%	53,302.50	108,302.50	848.75	109,151.25	163,302.50
12/01/2010	-	-	52,395.00	52,395.00	835.00	53,230.00	-
06/01/2011	55,000.00	3.500%	52,395.00	107,395.00	835.00	108,230.00	161,460.00
12/01/2011	-	-	51,432.50	51,432.50	821.25	52,253.75	-
06/01/2012	55,000.00	3.500%	51,432.50	106,432.50	821.25	107,253.75	159,507.50
12/01/2012	-	-	50,470.00	50,470.00	807.50	51,277.50	-
06/01/2013	60,000.00	3.800%	50,470.00	110,470.00	807.50	111,277.50	162,555.00
12/01/2013	-	-	49,330.00	49,330.00	792.50	50,122.50	-
06/01/2014	60,000.00	3.800%	49,330.00	109,330.00	792.50	110,122.50	160,245.00
12/01/2014	-	-	48,190.00	48,190.00	777.50	48,967.50	-
06/01/2015	65,000.00	3.800%	48,190.00	113,190.00	777.50	113,967.50	162,935.00
12/01/2015	-	-	46,955.00	46,955.00	761.25	47,716.25	-
06/01/2016	65,000.00	4.250%	46,955.00	111,955.00	761.25	112,716.25	160,432.50
12/01/2016	-	-	45,573.75	45,573.75	745.00	46,318.75	-
06/01/2017	70,000.00	4.250%	45,573.75	115,573.75	745.00	116,318.75	162,637.50
12/01/2017	-	-	44,086.25	44,086.25	727.50	44,813.75	-
06/01/2018	70,000.00	4.250%	44,086.25	114,086.25	727.50	114,813.75	159,627.50
12/01/2018	-	-	42,598.75	42,598.75	710.00	43,308.75	-
06/01/2019	75,000.00	4.250%	42,598.75	117,598.75	710.00	118,308.75	161,617.50
12/01/2019	-	-	41,005.00	41,005.00	691.25	41,696.25	-
06/01/2020	75,000.00	4.500%	41,005.00	116,005.00	691.25	116,696.25	158,392.50
12/01/2020	-	-	39,317.50	39,317.50	672.50	39,990.00	-
06/01/2021	80,000.00	4.500%	39,317.50	119,317.50	672.50	119,990.00	159,980.00
12/01/2021	-	-	37,517.50	37,517.50	652.50	38,170.00	-
06/01/2022	85,000.00	4.500%	37,517.50	122,517.50	652.50	123,170.00	161,340.00
12/01/2022	-	-	35,605.00	35,605.00	631.25	36,236.25	-
06/01/2023	90,000.00	4.500%	35,605.00	125,605.00	631.25	126,236.25	162,472.50
12/01/2023	-	-	33,580.00	33,580.00	608.75	34,188.75	-
06/01/2024	90,000.00	4.600%	33,580.00	123,580.00	608.75	124,188.75	158,377.50
12/01/2024	-	-	31,510.00	31,510.00	586.25	32,096.25	-
06/01/2025	95,000.00	4.600%	31,510.00	126,510.00	586.25	127,096.25	159,192.50
12/01/2025	-	-	29,325.00	29,325.00	562.50	29,887.50	-

Floyd County | 6/23/2005 | 12:57 PM

**Kentucky Area Development Districts Financing Trusts**

County of Floyd, Kentucky

KADD2005\_147K -- Final Schedules

**Net Debt Service Schedule**

Part 2 of 2

Date	Principal	Coupon	Interest	Total P+I	Expenses	Net New D/S	Fiscal Total
06/01/2026	100,000.00	4.600%	29,325.00	129,325.00	562.50	129,887.50	159,775.00
12/01/2026	-	-	27,025.00	27,025.00	537.50	27,562.50	-
06/01/2027	105,000.00	4.700%	27,025.00	132,025.00	537.50	132,562.50	160,125.00
12/01/2027	-	-	24,557.50	24,557.50	511.25	25,068.75	-
06/01/2028	110,000.00	4.700%	24,557.50	134,557.50	511.25	135,068.75	160,137.50
12/01/2028	-	-	21,972.50	21,972.50	483.75	22,456.25	-
06/01/2029	115,000.00	4.700%	21,972.50	136,972.50	483.75	137,456.25	159,912.50
12/01/2029	-	-	19,270.00	19,270.00	455.00	19,725.00	-
06/01/2030	120,000.00	4.700%	19,270.00	139,270.00	455.00	139,725.00	159,450.00
12/01/2030	-	-	16,450.00	16,450.00	425.00	16,875.00	-
06/01/2031	125,000.00	4.700%	16,450.00	141,450.00	425.00	141,875.00	158,750.00
12/01/2031	-	-	13,512.50	13,512.50	393.75	13,906.25	-
06/01/2032	135,000.00	4.700%	13,512.50	148,512.50	393.75	148,906.25	162,812.50
12/01/2032	-	-	10,340.00	10,340.00	360.00	10,700.00	-
06/01/2033	140,000.00	4.700%	10,340.00	150,340.00	360.00	150,700.00	161,400.00
12/01/2033	-	-	7,050.00	7,050.00	325.00	7,375.00	-
06/01/2034	145,000.00	4.700%	7,050.00	152,050.00	325.00	152,375.00	159,750.00
12/01/2034	-	-	3,642.50	3,642.50	288.75	3,931.25	-
06/01/2035	155,000.00	4.700%	3,642.50	158,642.50	288.75	158,931.25	162,862.50
<b>Total</b>	<b>\$2,600,000.00</b>	<b>-</b>	<b>\$2,185,729.63</b>	<b>\$4,785,729.63</b>	<b>\$39,065.00</b>	<b>\$4,824,794.63</b>	<b>-</b>

## Kentucky Area Development Districts Financing Trusts

County of Floyd, Kentucky

KADD2005\_147K -- Final Schedules

### Pricing Summary

Maturity	Type of Bond	Coupon	Yield	Maturity Value	Price	Dollar Price
06/01/2008	Term 1 Coupon	3.000%	2.999%	155,000.00	100.000%	155,000.00
06/01/2010	Term 2 Coupon	3.300%	3.300%	105,000.00	100.000%	105,000.00
06/01/2012	Term 3 Coupon	3.500%	3.500%	110,000.00	100.000%	110,000.00
06/01/2015	Term 4 Coupon	3.800%	3.800%	185,000.00	100.000%	185,000.00
06/01/2019	Term 5 Coupon	4.250%	4.250%	280,000.00	100.000%	280,000.00
06/01/2023	Term 6 Coupon	4.500%	4.500%	330,000.00	100.000%	330,000.00
06/01/2026	Term 7 Coupon	4.600%	4.600%	285,000.00	100.000%	285,000.00
06/01/2035	Term 8 Coupon	4.700%	4.700%	1,150,000.00	100.000%	1,150,000.00
<b>Total</b>	-	-	-	<b>\$2,600,000.00</b>	-	<b>\$2,600,000.00</b>

### Bid Information

Par Amount of Bonds	\$2,600,000.00
Gross Production	\$2,600,000.00
Total Underwriter's Discount (2.000%)	\$(52,000.00)
Bid (98.000%)	2,548,000.00
Total Purchase Price	\$2,548,000.00
Bond Year Dollars	\$47,935.00
Average Life	18.437 Years
Average Coupon	4.5597781%
Net Interest Cost (NIC)	4.6682583%
True Interest Cost (TIC)	4.6977813%

**Kentucky Area Development Districts Financing Trusts**

County of Floyd, Kentucky

KADD2005\_147K -- Final Schedules

**Derivation Of Form 8038 Yield Statistics**

Maturity	Issuance Value	Price	Issuance PRICE	Exponent	Bond Years
06/28/2005	-	-	-	-	-
06/01/2006	55,000.00	100.000%	55,000.00	0.9250000x	50,875.00
06/01/2007	50,000.00	100.000%	50,000.00	1.9250000x	96,250.00
06/01/2008	50,000.00	100.000%	50,000.00	2.9250000x	146,250.00
06/01/2009	50,000.00	100.000%	50,000.00	3.9250000x	196,250.00
06/01/2010	55,000.00	100.000%	55,000.00	4.9250000x	270,875.00
06/01/2011	55,000.00	100.000%	55,000.00	5.9250000x	325,875.00
06/01/2012	55,000.00	100.000%	55,000.00	6.9250000x	380,875.00
06/01/2013	60,000.00	100.000%	60,000.00	7.9250000x	475,500.00
06/01/2014	60,000.00	100.000%	60,000.00	8.9250000x	535,500.00
06/01/2015	65,000.00	100.000%	65,000.00	9.9250000x	645,125.00
06/01/2016	65,000.00	100.000%	65,000.00	10.9250000x	710,125.00
06/01/2017	70,000.00	100.000%	70,000.00	11.9250000x	834,750.00
06/01/2018	70,000.00	100.000%	70,000.00	12.9250000x	904,750.00
06/01/2019	75,000.00	100.000%	75,000.00	13.9250000x	1,044,375.00
06/01/2020	75,000.00	100.000%	75,000.00	14.9250000x	1,119,375.00
06/01/2021	80,000.00	100.000%	80,000.00	15.9250000x	1,274,000.00
06/01/2022	85,000.00	100.000%	85,000.00	16.9250000x	1,438,625.00
06/01/2023	90,000.00	100.000%	90,000.00	17.9250000x	1,613,250.00
06/01/2024	90,000.00	100.000%	90,000.00	18.9250000x	1,703,250.00
06/01/2025	95,000.00	100.000%	95,000.00	19.9250000x	1,892,875.00
06/01/2026	100,000.00	100.000%	100,000.00	20.9250000x	2,092,500.00
06/01/2027	105,000.00	100.000%	105,000.00	21.9250000x	2,302,125.00
06/01/2028	110,000.00	100.000%	110,000.00	22.9250000x	2,521,750.00
06/01/2029	115,000.00	100.000%	115,000.00	23.9250000x	2,751,375.00
06/01/2030	120,000.00	100.000%	120,000.00	24.9250000x	2,991,000.00
06/01/2031	125,000.00	100.000%	125,000.00	25.9250000x	3,240,625.00
06/01/2032	135,000.00	100.000%	135,000.00	26.9250000x	3,634,875.00
06/01/2033	140,000.00	100.000%	140,000.00	27.9250000x	3,909,500.00
06/01/2034	145,000.00	100.000%	145,000.00	28.9250000x	4,194,125.00
06/01/2035	155,000.00	100.000%	155,000.00	29.9250000x	4,638,375.00
<b>Total</b>	<b>\$2,600,000.00</b>	<b>-</b>	<b>\$2,600,000.00</b>	<b>-</b>	<b>\$47,935,000.00</b>

**IRS Form 8038**

Weighted Average Maturity = Bond Years/Issue Price	18.437 Years
Total Interest from Debt Service	2,185,729.63
Total Interest	2,185,729.63
NIC = Interest / (Issue Price * Average Maturity)	4.5597781%
Bond Yield for Arbitrage Purposes	4.8010854%

Floyd County | 6/23/2005 | 12:57 PM

## Kentucky Area Development Districts Financing Trusts

County of Floyd, Kentucky

KADD2005\_147K -- Final Schedules

### Expense Summary

Part 1 of 2

DATE	Trustee Fee	KADD Admin Fee	TOTAL
12/01/2005	250.00	650.00	900.00
06/01/2006	250.00	650.00	900.00
12/01/2006	250.00	636.25	886.25
06/01/2007	250.00	636.25	886.25
12/01/2007	250.00	623.75	873.75
06/01/2008	250.00	623.75	873.75
12/01/2008	250.00	611.25	861.25
06/01/2009	250.00	611.25	861.25
12/01/2009	250.00	598.75	848.75
06/01/2010	250.00	598.75	848.75
12/01/2010	250.00	585.00	835.00
06/01/2011	250.00	585.00	835.00
12/01/2011	250.00	571.25	821.25
06/01/2012	250.00	571.25	821.25
12/01/2012	250.00	557.50	807.50
06/01/2013	250.00	557.50	807.50
12/01/2013	250.00	542.50	792.50
06/01/2014	250.00	542.50	792.50
12/01/2014	250.00	527.50	777.50
06/01/2015	250.00	527.50	777.50
12/01/2015	250.00	511.25	761.25
06/01/2016	250.00	511.25	761.25
12/01/2016	250.00	495.00	745.00
06/01/2017	250.00	495.00	745.00
12/01/2017	250.00	477.50	727.50
06/01/2018	250.00	477.50	727.50
12/01/2018	250.00	460.00	710.00
06/01/2019	250.00	460.00	710.00
12/01/2019	250.00	441.25	691.25
06/01/2020	250.00	441.25	691.25
12/01/2020	250.00	422.50	672.50
06/01/2021	250.00	422.50	672.50
12/01/2021	250.00	402.50	652.50
06/01/2022	250.00	402.50	652.50
12/01/2022	250.00	381.25	631.25
06/01/2023	250.00	381.25	631.25
12/01/2023	250.00	358.75	608.75
06/01/2024	250.00	358.75	608.75
12/01/2024	250.00	336.25	586.25
06/01/2025	250.00	336.25	586.25
12/01/2025	250.00	312.50	562.50

Floyd County | 6/23/2005 | 12:57 PM

**Kentucky Area Development Districts Financing Trusts**

County of Floyd, Kentucky

KADD2005\_147K -- Final Schedules

**Expense Summary**

Part 2 of 2

DATE	Trustee Fee	KADD Admin Fee	TOTAL
06/01/2026	250.00	312.50	562.50
12/01/2026	250.00	287.50	537.50
06/01/2027	250.00	287.50	537.50
12/01/2027	250.00	261.25	511.25
06/01/2028	250.00	261.25	511.25
12/01/2028	250.00	233.75	483.75
06/01/2029	250.00	233.75	483.75
12/01/2029	250.00	205.00	455.00
06/01/2030	250.00	205.00	455.00
12/01/2030	250.00	175.00	425.00
06/01/2031	250.00	175.00	425.00
12/01/2031	250.00	143.75	393.75
06/01/2032	250.00	143.75	393.75
12/01/2032	250.00	110.00	360.00
06/01/2033	250.00	110.00	360.00
12/01/2033	250.00	75.00	325.00
06/01/2034	250.00	75.00	325.00
12/01/2034	250.00	38.75	288.75
06/01/2035	250.00	38.75	288.75
<b>Total</b>	<b>\$15,000.00</b>	<b>\$24,065.00</b>	<b>\$39,065.00</b>

**FINAL LESSEE PAYMENT SCHEDULE**

Lease Closing Date: 06/28/05  
 Lease Amount: \$2,600,000  
 Loan Number: KADD2005\_147K  
 Borrower: Floyd County, Kentucky  
 First Installment: 12/01/05  
 Final Installment: 06/01/35

Due Date	Interest Rate	Principal Payment	Bond Rate	Program Fees	Total Net Lease Payment	Net FY Payment	Date Paid
01-Dec-05		\$0	\$47,084.63	\$800.00	\$48,084.63		
01-Jun-06	3.00%	\$55,000	\$66,462.60	\$800.00	\$112,352.60	\$161,237.13	
01-Dec-06		\$0	\$55,627.50	\$886.25	\$56,513.75		
01-Jun-07	3.00%	\$50,000	\$55,627.50	\$886.25	\$108,513.75	\$163,027.60	
01-Dec-07		\$0	\$54,877.60	\$873.75	\$55,751.25		
01-Jun-08	3.00%	\$60,000	\$54,877.60	\$873.75	\$105,751.25	\$161,602.60	
01-Dec-08		\$0	\$54,127.50	\$861.25	\$54,988.75		
01-Jun-09	3.30%	\$50,000	\$54,127.50	\$861.25	\$104,988.75	\$159,977.60	
01-Dec-09		\$0	\$53,302.60	\$848.75	\$54,151.25		
01-Jun-10	3.30%	\$55,000	\$53,302.60	\$848.75	\$109,151.25	\$163,302.60	
01-Dec-10		\$0	\$52,395.00	\$835.00	\$53,230.00		
01-Jun-11	3.50%	\$55,000	\$52,395.00	\$835.00	\$108,230.00	\$161,460.00	
01-Dec-11		\$0	\$51,432.60	\$821.25	\$52,253.75		
01-Jun-12	3.50%	\$55,000	\$51,432.60	\$821.25	\$107,253.75	\$159,507.60	
01-Dec-12		\$0	\$50,470.00	\$807.50	\$51,277.60		
01-Jun-13	3.80%	\$60,000	\$50,470.00	\$807.50	\$111,277.60	\$162,555.00	
01-Dec-13		\$0	\$49,330.00	\$792.50	\$50,122.50		
01-Jun-14	3.80%	\$60,000	\$49,330.00	\$792.50	\$110,122.50	\$160,245.00	
01-Dec-14		\$0	\$48,190.00	\$777.50	\$48,967.60		
01-Jun-15	3.80%	\$65,000	\$48,190.00	\$777.50	\$113,967.60	\$162,935.00	
01-Dec-15		\$0	\$46,955.00	\$761.25	\$47,716.25		
01-Jun-16	4.25%	\$65,000	\$46,955.00	\$761.25	\$112,716.25	\$160,432.60	
01-Dec-16		\$0	\$45,573.75	\$746.00	\$46,319.75		
01-Jun-17	4.25%	\$70,000	\$45,573.75	\$746.00	\$116,319.75	\$162,037.60	
01-Dec-17		\$0	\$44,086.25	\$727.60	\$44,813.75		
01-Jun-18	4.25%	\$70,000	\$44,086.25	\$727.60	\$114,813.75	\$159,627.60	
01-Dec-18		\$0	\$42,598.75	\$710.00	\$43,308.75		
01-Jun-19	4.25%	\$75,000	\$42,598.75	\$710.00	\$118,308.75	\$161,617.60	
01-Dec-19		\$0	\$41,005.00	\$691.25	\$41,696.25		
01-Jun-20	4.50%	\$75,000	\$41,005.00	\$691.25	\$116,696.25	\$158,392.60	
01-Dec-20		\$0	\$39,317.60	\$672.60	\$39,990.00		
01-Jun-21	4.50%	\$80,000	\$39,317.60	\$672.60	\$119,990.00	\$159,980.00	
01-Dec-21		\$0	\$37,517.50	\$652.60	\$38,170.00		
01-Jun-22	4.50%	\$85,000	\$37,517.50	\$652.60	\$123,170.00	\$161,340.00	
01-Dec-22		\$0	\$35,605.00	\$631.25	\$36,236.25		
01-Jun-23	4.50%	\$90,000	\$35,605.00	\$631.25	\$126,236.25	\$162,472.60	
01-Dec-23		\$0	\$33,580.00	\$608.75	\$34,188.75		
01-Jun-24	4.60%	\$90,000	\$33,580.00	\$608.75	\$124,188.75	\$160,377.60	
01-Dec-24		\$0	\$31,510.00	\$588.25	\$32,098.25		
01-Jun-25	4.60%	\$95,000	\$31,510.00	\$588.25	\$127,096.25	\$159,192.60	
01-Dec-25		\$0	\$29,326.00	\$562.60	\$29,887.60		
01-Jun-26	4.60%	\$100,000	\$29,326.00	\$562.60	\$129,887.60	\$159,775.00	
01-Dec-26		\$0	\$27,026.00	\$537.50	\$27,562.60		
01-Jun-27	4.70%	\$105,000	\$27,026.00	\$537.50	\$132,562.60	\$160,125.00	
01-Dec-27		\$0	\$24,557.60	\$511.25	\$25,068.75		
01-Jun-28	4.70%	\$110,000	\$24,557.60	\$511.25	\$135,068.75	\$160,137.60	
01-Dec-28		\$0	\$21,972.50	\$483.75	\$22,456.25		
01-Jun-29	4.70%	\$115,000	\$21,972.50	\$483.75	\$137,456.25	\$159,912.60	
01-Dec-29		\$0	\$19,270.00	\$455.00	\$19,725.00		
01-Jun-30	4.70%	\$120,000	\$19,270.00	\$455.00	\$139,725.00	\$159,460.00	
01-Dec-30		\$0	\$16,450.00	\$426.00	\$16,876.00		
01-Jun-31	4.70%	\$125,000	\$16,450.00	\$426.00	\$141,876.00	\$159,760.00	
01-Dec-31		\$0	\$13,512.60	\$393.75	\$13,906.25		
01-Jun-32	4.70%	\$135,000	\$13,512.60	\$393.75	\$148,906.25	\$162,812.60	
01-Dec-32		\$0	\$10,340.00	\$360.00	\$10,700.00		
01-Jun-33	4.70%	\$140,000	\$10,340.00	\$360.00	\$160,700.00	\$161,400.00	
01-Dec-33		\$0	\$7,050.00	\$325.00	\$7,375.00		
01-Jun-34	4.70%	\$145,000	\$7,050.00	\$325.00	\$162,375.00	\$159,760.00	
01-Dec-34		\$0	\$3,642.60	\$288.75	\$3,931.25		
01-Jun-35	4.70%	\$155,000	\$3,642.60	\$288.75	\$158,931.25	\$162,862.60	
		\$2,600,000	\$2,186,728.63	\$39,065.00	\$4,824,794.63	\$4,824,794.63	

**Your Loan reference is:**

Loan Number:	KADD2005_147K
Lessee:	Floyd County, Kentucky
Average interest rate:	4.66%

**Remit payments to:**

The Bank of New York Trust Company, N.A.	
Attn:	David Graf
625 Vine Street, Suite 600	
Cincinnati, Ohio 45202	

County of Floyd, Kentucky - Series 2005K General Obligation KADD Lease  
Final Net Debt Service Breakout

**Assumptions:**

Average Fixed Interest Rate:	4.56%
Term (years):	30
Annual Lease Payment of Water District:	\$100,000
Average Annual County Payment:	\$60,826

Payment Date	Coupon	Principal Payment	Interest Payment	Fees*	Total Payment	Less Lease Payment	Net Period Payment Due of County	FY Payment Due of County
01-Dec-05			47,985	900	\$48,885	\$50,000	(\$1,115)	
01-Jun-06	3.00%	55,000	56,453	900	\$112,353	\$50,000	\$62,353	\$61,237
01-Dec-06			55,828	866	\$56,514	\$50,000	\$8,514	
01-Jun-07	3.00%	50,000	55,828	866	\$106,514	\$50,000	\$56,514	\$83,028
01-Dec-07			54,878	874	\$55,751	\$50,000	\$5,751	
01-Jun-08	3.00%	50,000	54,878	874	\$105,751	\$50,000	\$55,751	\$61,503
01-Dec-08			54,128	861	\$54,989	\$50,000	\$4,989	
01-Jun-09	3.30%	50,000	54,128	861	\$104,989	\$50,000	\$54,989	\$59,978
01-Dec-09			53,303	849	\$54,151	\$50,000	\$4,151	
01-Jun-10	3.30%	65,000	53,303	849	\$109,151	\$50,000	\$59,151	\$63,303
01-Dec-10			52,395	835	\$53,230	\$50,000	\$3,230	
01-Jun-11	3.50%	55,000	52,395	835	\$108,230	\$50,000	\$58,230	\$61,460
01-Dec-11			51,433	821	\$52,254	\$50,000	\$2,254	
01-Jun-12	3.50%	55,000	51,433	821	\$107,254	\$50,000	\$57,254	\$59,508
01-Dec-12			50,470	808	\$51,278	\$50,000	\$1,278	
01-Jun-13	3.80%	60,000	50,470	808	\$111,278	\$50,000	\$61,278	\$82,555
01-Dec-13			49,330	793	\$50,123	\$50,000	\$123	
01-Jun-14	3.80%	60,000	49,330	793	\$110,123	\$50,000	\$60,123	\$60,245
01-Dec-14			48,190	778	\$48,968	\$50,000	(\$1,033)	
01-Jun-15	3.80%	65,000	48,190	778	\$113,968	\$50,000	\$63,968	\$62,935
01-Dec-15			46,955	761	\$47,716	\$50,000	(\$2,284)	
01-Jun-16	4.25%	65,000	46,955	761	\$112,716	\$50,000	\$62,716	\$60,433
01-Dec-16			45,574	745	\$46,319	\$50,000	(\$3,681)	
01-Jun-17	4.25%	70,000	45,574	745	\$116,319	\$50,000	\$66,319	\$62,638
01-Dec-17			44,086	728	\$44,814	\$50,000	(\$5,186)	
01-Jun-18	4.25%	70,000	44,086	728	\$114,814	\$50,000	\$64,814	\$59,628
01-Dec-18			42,599	710	\$43,309	\$50,000	(\$6,691)	
01-Jun-19	4.25%	75,000	42,599	710	\$118,309	\$50,000	\$68,309	\$61,618
01-Dec-19			41,005	691	\$41,696	\$50,000	(\$8,304)	
01-Jun-20	4.50%	75,000	41,005	691	\$116,696	\$50,000	\$66,696	\$58,393
01-Dec-20			39,318	673	\$39,990	\$50,000	(\$10,010)	
01-Jun-21	4.50%	80,000	39,318	673	\$119,990	\$50,000	\$69,990	\$59,980
01-Dec-21			37,518	653	\$38,170	\$50,000	(\$11,830)	
01-Jun-22	4.50%	85,000	37,518	653	\$123,170	\$50,000	\$73,170	\$61,340
01-Dec-22			35,605	631	\$36,236	\$50,000	(\$13,764)	
01-Jun-23	4.50%	90,000	35,605	631	\$126,236	\$50,000	\$76,236	\$62,473
01-Dec-23			33,580	609	\$34,189	\$50,000	(\$15,811)	
01-Jun-24	4.60%	90,000	33,580	609	\$124,189	\$50,000	\$74,189	\$58,378
01-Dec-24			31,510	586	\$32,096	\$50,000	(\$17,904)	
01-Jun-25	4.60%	95,000	31,510	586	\$127,096	\$50,000	\$77,096	\$59,193
01-Dec-25			29,325	563	\$29,888	\$50,000	(\$20,113)	
01-Jun-26	4.60%	100,000	29,325	563	\$129,888	\$50,000	\$79,888	\$59,775
01-Dec-26			27,025	538	\$27,563	\$50,000	(\$22,438)	
01-Jun-27	4.70%	105,000	27,025	538	\$132,563	\$50,000	\$82,563	\$60,125
01-Dec-27			24,558	511	\$25,069	\$50,000	(\$24,931)	
01-Jun-28	4.70%	110,000	24,558	511	\$135,069	\$50,000	\$85,069	\$60,138
01-Dec-28			21,973	484	\$22,456	\$50,000	(\$27,544)	
01-Jun-29	4.70%	115,000	21,973	484	\$137,456	\$50,000	\$87,456	\$59,913
01-Dec-29			19,270	455	\$19,725	\$50,000	(\$30,275)	
01-Jun-30	4.70%	120,000	19,270	455	\$139,725	\$50,000	\$89,725	\$59,450
01-Dec-30			16,450	425	\$16,875	\$50,000	(\$33,125)	
01-Jun-31	4.70%	125,000	16,450	425	\$141,875	\$50,000	\$91,875	\$58,750
01-Dec-31			13,513	394	\$13,908	\$50,000	(\$36,094)	
01-Jun-32	4.70%	135,000	13,513	394	\$148,908	\$50,000	\$98,908	\$62,813
01-Dec-32			10,340	360	\$10,700	\$50,000	(\$39,300)	
01-Jun-33	4.70%	140,000	10,340	360	\$150,700	\$50,000	\$100,700	\$61,400
01-Dec-33			7,050	325	\$7,375	\$50,000	(\$42,625)	
01-Jun-34	4.70%	145,000	7,050	325	\$152,375	\$50,000	\$102,375	\$59,750
01-Dec-34			3,643	289	\$3,931	\$50,000	(\$46,069)	
01-Jun-35	4.70%	155,000	3,643	289	\$158,931	\$50,000	\$108,931	\$62,863
<b>Totals:</b>		<b>\$2,600,000</b>	<b>\$2,185,730</b>	<b>\$39,085</b>	<b>\$4,824,795</b>	<b>\$3,000,000</b>	<b>\$1,824,795</b>	<b>\$1,824,795</b>

\* Fees are annual Trustee Fee paid to Bank of New York and KADD Administrative Fee

# Exhibit V

## **Beyer, Jonathan (PSC)**

---

**From:** Beyer, Jonathan (PSC)  
**Sent:** Friday, February 01, 2013 1:53 PM  
**To:** 'bmeyer@umgllc.net'  
**Subject:** Southern Water and Sewer District

Mr. Meyer:

The Public Service Commission is investigating an annual payment of approximately \$100,000 that Southern Water and Sewer District has apparently been making to Floyd County Fiscal Court. The primary issue is whether that payment can be recovered through Southern Water District's rates. To make that determination, the Commission is examining the financing of a project that was constructed in 2002. Floyd County Fiscal Court agreed to donate approximately \$2.5 million towards the project cost. Because of Floyd Fiscal Court's subsequent financial problems, around 2004, Southern District agreed to make annual payments of roughly \$100,000 to assist in paying the debt service on the bonds that Floyd County issued to finance its contribution.

Hubert Halpert, Southern's current manager, informed me that you were Southern's manager during the 2002-2005 time period. I wanted to inquire whether you would be able to provide any information regarding the financing arrangement surrounding the Floyd County contribution to Southern, specifically:

- What was your understanding, in 2002, regarding the Floyd County contribution? Was there any expectation or agreement that Southern would repay the contribution?
- What was your understanding regarding the circumstances in 2004-2005 when Floyd County first requested payment from Southern? Was the payment a voluntary measure or was Southern required to make it?
- Was there any written or verbal agreement regarding the payment from Southern to Floyd County?
- In providing the funds, did Floyd County take any ownership interest in or place any liens on the land or infrastructure that was financed?

If you would prefer to discuss this issue via the telephone I can be reached at (502) 782-2581. Thank you for your time and assistance in this matter.

Jonathan Beyer  
Staff Attorney  
Kentucky Public Service Commission  
(502) 782-2581

**Beyer, Jonathan (PSC)**

---

**From:** Bob Meyer <bmeyer@umgllc.net>  
**To:** Beyer, Jonathan (PSC)  
**Sent:** Friday, February 01, 2013 2:17 PM  
**Subject:** Read: Southern Water and Sewer District

Your message

To:  
Subject: Southern Water and Sewer District  
Sent: Friday, February 01, 2013 2:04:15 PM (UTC-05:00) Eastern Time (US & Canada)

was read on Friday, February 01, 2013 2:17:10 PM (UTC-05:00) Eastern Time (US & Canada).

# Exhibit W



United States  
Department of  
Agriculture

Rural  
Development

1 Corporate Drive, Suite 200  
Lexington, KY 40503-5477  
(859) 224-7336 TTY(859) 224-7422

3/22

May 31, 2001

Mr. Hubert Halbert, Chairman  
Southern Water and Sewer District  
P.O. Box 610  
McDowell, Kentucky 41647

Dear Mr. Halbert:

This letter establishes conditions which must be understood and agreed to by you before further consideration may be given to the application. The loan and/or grant will be administered on behalf of the Rural Utilities Service (RUS) by the State and Area office staff of USDA, Rural Development. Any changes in project cost, source of funds, scope of services or any other significant changes in the project or applicant must be reported to and approved by USDA, Rural Development, by written amendment to this letter. Any changes not approved by Rural Development shall be cause for discontinuing processing of the application. It should also be understood that Rural Development is under no obligation to provide additional funds to meet an overrun in construction costs.

This letter is not to be considered as loan and/or grant approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS loan not to exceed \$2,515,000, a RUS grant not to exceed \$450,000, an Appalachian Regional Commission (ARC) grant of \$433,900, a Kentucky State Surplus Grant of \$300,000, and a Floyd County Fiscal Court contribution in the amount of \$2,474,000.

If Rural Development makes the loan, you may make a written request that the interest rate be the lower of the rate in effect at the time of loan approval or the time of loan closing. If you do not request the lower of the two interest rates, the interest rate charged will be the rate in effect at the time of loan approval. The loan will be considered approved on the date a signed copy of Form RD 1940-1, "Request for Obligation of Funds," is mailed to you. If you want the lower of the two rates, your written request should be submitted to Rural Development as soon as practical. In order to avoid possible delays in loan closing, such a request should ordinarily be submitted at least 30 days before loan closing.

Please complete and return the attached Form RD 1942-46, "Letter of Intent to Meet Conditions," if you desire that further consideration be given to your application.

The "Letter of Intent to Meet Conditions" must be executed within three weeks from the date of this letter or it becomes invalid unless a time extension is granted by Rural Development.

If the conditions set forth in this letter are not met within 240 days from the date hereof, Rural Development reserves the right to discontinue the processing of the application.

In signing Form RD 1942-46, "Letter of Intent to Meet Conditions," you are agreeing to complete the following as expeditiously as possible:

1. Number of Users and Their Contribution:

There shall be 5,724 water users, of which 5,148 are existing users and 576 are new users. The Rural Development Manager will review and authenticate the number of users prior to advertising for construction bids. No contribution is required from the Water District.

1a. Grant Agreement:

Attached is a copy of RUS Bulletin 1780-12, "Water and Waste System Grant Agreement," for your review. You will be required to execute a completed form at the time of grant closing.

1b. Drug-Free Work Place:

Prior to grant approval, the Water District will be required to execute Form AD-1049, "Certification Regarding Drug-Free Workplace Requirements (Grants) Alternative I - For Grantees Other Than Individuals."

2. Repayment Period:

The loan will be scheduled for repayment over a period not to exceed 40 years from the date of the bond. Principal payment will not be deferred for a period in excess of two (2) years from the date of the bond. Payments will be in accordance with applicable KRS, which requires interest to be paid semi-annually (January 1st and July 1st) and principal will be due on or before the first of January. Rural Development may require the Water District to adopt a supplemental payment agreement providing for monthly payments of principal and interest so long as the bond is held or insured by RUS. Monthly payments will be approximate amortized installments.

Rural Development encourages the use of the Preauthorized Debit (PAD) payment process, which authorizes the electronic withdrawal of funds from your bank account on the exact installment payment due date (contact the Rural Development Manager for further information).

3. Funded Depreciation Reserve Account:

The Water District will be required to deposit \$1,165.00 per month into a "Funded Depreciation Reserve Account" until the account reaches \$139,800. The deposits are to be resumed any time the account falls below the \$139,800.

The required monthly deposits to the Reserve Account and required Reserve Account levels are in addition to the requirements of the Water District's prior bond resolutions.

The monthly deposits to the Reserve Account are required to commence with the first month of the first full fiscal year after the facility becomes operational.

4. Security Requirements:

A pledge of gross water revenue will be provided in the Bond Resolution.

5. Land Rights and Real Property:

The Water District will be required to furnish satisfactory title, easements, etc., necessary to install, maintain and operate the facility to serve the intended users. The pipelines will be on private rights-of-way where feasible. Easements and options are to be secured prior to advertising for construction bids.

6. Organization:

The Water District will be legally organized under applicable KRS which will permit them to perform this service, borrow and repay money.

7. Business Operations:

The Water District will be required to operate the system under a well-established set of resolutions, rules and regulations. A budget must be established annually and adopted by the Water District after review by Rural Development. At no later than loan pre-closing, the Water District will be required to furnish a prior approved management plan to include, as a minimum, provisions for management, maintenance, meter reading, miscellaneous services, billing, collecting, bookkeeping, making and delivering required reports and audits.

8. Accounts, Records and Audits:

The Water District will be required to maintain adequate records and accounts and submit statistical and financial reports, quarterly and annually, in accordance with subsection 1780.47 of RUS Instruction 1780 and RUS Staff Instruction 1780-4, a copy of which is enclosed. The enclosed audit booklet will be used as a guide for preparation of audits. The Water District will be required to establish and maintain separate accounts for each system. Annual audits, budgets, and reports will be submitted to Rural Development showing separate accounts. The Water District shall be required to submit a copy of its audit agreement for review and approval prior to pre-closing the loan. The Water District shall obtain the assistance of its accountant to establish the Water District's accounting system. Rural Development approval of the accounting system is required.

9. Accomplish Audits for Years in Which Federal Financial Assistance is Received:

The Water District will accomplish audits in accordance with OMB Circular A-133, during the years in which federal funds are received. The Water District will provide copies of the audits to the Area Office and the appropriate Federal cognizant agency as designated by OMB Circular A-133.

10. Insurance and Bonding:

The following insurance and bonding will be required:

- A. Adequate Liability and Property Damage Insurance including vehicular coverage, if applicable, must be obtained and maintained by the Water District. The Water District should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.
- B. Worker's Compensation - The Water District will carry worker's compensation insurance for employees in accordance with applicable state laws.
- C. Fidelity Bond - The Water District will provide Fidelity Bond Coverage for all persons who have access to funds. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing protection for all appropriate employees and/or officials. The amount of coverage required for all RUS loans is \$140,000.
- D. Real Property Insurance - The Water District will obtain and maintain adequate fire and extended coverage on all structures including major items of equipment or machinery located in the structures. The amounts of coverage should be based on recommendations obtained by the Water District from its attorney, consulting engineer and/or insurance provider. Subsurface lift stations do not have to be covered except for the value of electrical and pumping equipment therein.
- E. Flood Insurance - The Water District will obtain and maintain adequate coverage on any facilities located in a special flood and mudslide prone areas.

11. Planning and Performing Development:

- A. The engineer should not be authorized to commence work on final plans and specifications until a determination has been made that the project can be planned and constructed within the estimated cost shown in paragraph "21" of this letter. The engineer may then proceed to develop final plans and specifications to be completed no later than 210 days from this date, and prepare bid documents. The Rural Development Manager is prepared to furnish the necessary guide for him to follow so as to keep the project plans and documents within our guidelines and requirements. The project should not be advertised for construction bids until all easements and enforceable options have been obtained, and total funds are committed or available for the project.
- B. The following documents will be submitted to Rural Development for review and must be concurred in by Rural Development prior to advertisement for construction bids:
  - 1. Final plans, specifications and bid documents.
  - 2. Applicant's letter on efforts to encourage small business and minority-owned business participation.
  - 3. Legal Service Agreements.
  - 4. Engineering Agreements.

Revision in these documents will be subject to Rural Development concurrence. Any agreements, contracts, etc. not reviewed and approved by Rural Development will not be eligible for payment from project funds or revenues from facilities financed by this Agency.

Prior to receipt of an authorization to advertise for construction bids, the Water District will obtain advance clearance from Bond Counsel regarding compliance with KRS 424 pertaining to publishing of the advertisement for construction bids in local newspapers and the period of time the notice is required to be published.

12. Compliance with Section 504 of the Rehabilitation Act of 1973:

The Water District will be required to comply with Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), in order to make sure no handicapped individual, solely by reason of their handicap, is excluded from participation in the use of the water system, be denied the benefits of the water system, or be subjected to discrimination.

13. Closing Instructions:

The Office of General Counsel, our Regional Attorney, will be required to write closing instructions in connection with this loan. Conditions listed therein must be met by the Water District.

14. Compliance with Special Laws and Regulations:

The Water District will be required to conform with any and all state and local laws and regulations affecting this type project.

15. Treatment Plant/System Operator:

The Water District is reminded that the treatment plant and/or system operator must have an Operator's Certificate issued by the State.

16. Prior to Pre-Closing the Loan, the Water District will be Required to Adopt:

- A. Form RUS Bulletin 1780-27, "Loan Resolution (Public Bodies)."
- B. Form RD 400-1, "Equal Opportunity Agreement."
- C. Form RD 400-4, "Assurance Agreement."
- D. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- E. Form RD 1910-11, "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts."
- F. FmHA Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."

The Water District must offer the opportunity for all residents in the service area to become users of the facilities regardless of race, creed, color, religion, sex, national origin, marital status, physical or mental handicap or level of income.

17. Refinancing and Graduation Requirements:

The Water District is reminded that if at any time it shall appear to the Government that the Water District is able to refinance the amount of the RUS indebtedness then outstanding, in whole or in part, by obtaining a loan from commercial sources at reasonable rates and terms, upon the request of the Government, the Water District will apply for and accept such loan in sufficient amount to repay the Government.

18. Commercial Interim Financing:

The Water District will be required to use commercial interim financing for the project during construction for the RUS loan portion of the financing, if available at reasonable rates and terms.

Before the loan is closed, the Water District will be required to provide Rural Development with statements from the contractor, engineer and attorneys that they have been paid to date in accordance with their contract or other agreements and, in the case of the contractor, that he has paid his suppliers and sub-contractors.

19. Disbursement of Project Funds:

A construction account for the purpose of disbursement of project funds (RUS) will be established by the Water District prior to start of construction. The position of officials entrusted with the receipt and disbursement of RUS project funds will be covered by a "Fidelity Bond," with USDA-Rural Development as Co-Obligee, in the amount of construction funds on hand at any one time during the construction phase.

During construction, the Water District shall disburse project funds in a manner consistent with subsection 1780.76 (e) of RUS Instruction 1780. Form RD 1924-18, "Partial Payment Estimate," or similar form approved by Rural Development, shall be used for the purpose of documenting periodic construction estimates, and shall be submitted to Rural Development for review and acceptance. Prior to disbursement of funds by the Water District, the Board of Directors shall review and approve each payment estimate. All bills and vouchers must be approved by Rural Development prior to payment by the Water District.

Form RD 440-11, "Estimate of Funds Needed for 30-Day Period Commencing \_\_\_\_\_," will be prepared by the Water District and submitted to Rural Development in order that a periodic advance of federal cash may be requested.

Monthly audits of the Water District's construction account records shall be made by Rural Development.

20. Disbursement of Grant Funds:

The RUS funds will be advanced as they are needed in the amount(s) necessary to cover the RUS proportionate share of obligations due and payable by the Water District. Interest earned on grant funds in excess of \$100 (as applicable) per year will be submitted to RUS at least quarterly, as required in 7CFR part 3016 (as applicable).

21. Cost of Facility:

Breakdown of Costs:

Development	\$ 2,942,500
Land and Rights	25,000
Legal and Administrative	32,200
Engineering	391,000
Interest	92,500
Contingencies	303,700
Refinancing	<u>2,386,000</u>
TOTAL	\$ 6,172,900

Financing:

RUS Loan	\$ 2,515,000 ✓
RUS Grant	450,000 ✓
ARC Grant	433,900 ✓
State of Kentucky Surplus Grant	300,000
Floyd County Fiscal Court	<u>2,474,000</u>
TOTAL	\$ 6,172,900

22. Debt Collection Improvement Act (DCIA) of 1996:

The Debt Collection Improvement Act (DCIA) of 1996 requires that all federal payments after January 1, 1999, must be made by Electronic Funds Transfer/Automated Clearing House (EFT/ACH). Borrowers receiving payments by EFT will have funds directly deposited to a specified account at a financial institution with funds being available to the recipient on the date of payment. The borrower should complete Form SF-3881, "Electronic Funds Transfer Payment Enrollment Form," for each account where funds will be electronically received. The completed form(s) must be received by Rural Development at least thirty (30) days prior to the first advance of funds.

23. Use of Remaining Project Funds:

After providing for all authorized costs, any remaining project funds will be considered to be RUS/ARC/State Surplus/Floyd County Fiscal Court grant funds and refunded in proportion to participation in the project. If the amount of unused grant funds exceeds the grants, that part would be RUS loan funds.

24. Rates and Charges:

Rates and charges for facilities and services rendered by the Water District must be at least adequate to meet cost of maintaining, repairing and operating the water system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

First	2,000	gallons @ \$	14.80 - Minimum Bill.
All Over	2,000	gallons @ \$	4.30 - per 1,000 gallons.

25. Water Purchase Contract:

The Water District will submit a Water Purchase Contract for approval by Rural Development before advertising for construction bids. If the contract is not on Form RD 442-30, "Water Purchase Contract," the contract will require approval by our Regional Attorney. The contract must meet the requirements of subsection 1780.62 of RUS Instruction 1780.

26. Commitment of Floyd County Fiscal Court, State Surplus and ARC Grants:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the Floyd County Fiscal Court contribution of \$2,474,000, for the State Surplus Grant in the amount of \$300,000, and for the ARC Grant in the amount of \$433,900.

27. Floodplain Construction:

The Water District will be required to pass and adopt a Resolution or amend its By-Laws whereby the Water District will deny any water service to any future customer wishing to build on or develop property located within a designated floodplain. If a customer or developer requests service for construction in a designated floodplain, the customer or developer must provide evidence and a justification for approval by the Water District and Rural Development officials that there are no other alternatives to construction or development within the designated floodplain. The community must be a participant in the National Flood Insurance Program (NFIP) and the customer or developer must obtain the required permits prior to the tap on restrictions being waived.

28. Water Withdrawal Permit:

The Water District will be required to obtain satisfactory evidence that a revised water withdrawal permit has been secured from the Division of Water. The permit must be obtained prior to the commencement of construction on the water project.

29. Management Agreement:

The Agreement for Management Services between the Water District and the Management Company must comply with RUS Bulletin 1780-8. The Water District's Board of Directors is ultimately responsible for operating, maintaining and managing the facility even though the facility is managed by a third party under contract or management agreement. Our office of General Counsel (OGC) will need to review the contract for legal sufficiency prior to authorization to advertise for construction bids.

30. Mitigation Measures:

- A. The Water District shall be required to comply with the requirements of the Kentucky State Clearinghouse as detailed by letter to Ms. Holly Nicholas of PDR Engineers, Inc., dated January 10, 2001, and signed by Mr. Ronald W. Cook.
- B. The Water District shall be required to comply with the requirements, if any, of the U.S. Fish and Wildlife Service as requested by letter dated October 23, 2000, and signed by Lee A. Barclay, Ph.D., Field Supervisor.
- C. The Water District will comply with all applicable executive orders and regulations that are applicable to the preservation of prime farmlands and wetlands.

31. Final Approval Conditions:

Final approval of this loan will depend on your willingness, with the assistance of all your co-workers, to meet the conditions of this letter in an orderly and systematic manner. Then too, final approval will depend on funds being available.

If you desire to proceed with your application, the Rural Development Manager will allot a reasonable portion of time to provide guidance in application processing.

Sincerely,



KENNETH SLONE  
State Director  
Rural Development

Enclosures

cc: Rural Development Manager - Morehead, Kentucky  
Community Development Manager - Prestonsburg, Kentucky  
Big Sandy ADD - Prestonsburg, Kentucky  
Stacy Marshall - Prestonsburg, Kentucky  
Rubin and Hays - Louisville, Kentucky  
PDR Engineers, Inc. - Lexington, Kentucky  
PSC - ATTN: Bob Amato - Frankfort, Kentucky

3/19



**PAUL HUNT THOMPSON**  
JUDGE/EXECUTIVE of FLOYD COUNTY  
COMMONWEALTH of KENTUCKY



Telephone (606) 886-9193  
Fax (606) 886-1083

Floyd County Fiscal Court  
149 South Central Avenue - Suite 9  
Prestonsburg, Kentucky 41653

February 7, 2002

Mr. Robert A. Meyer  
Project Manager  
**U.S. FILTER OPERATING SERVICES, INC.**  
P.O. Box 610  
McDowell, Kentucky 41647

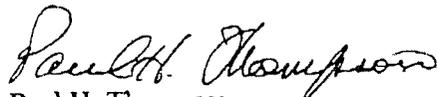
Re: Funding for Water Line Construction Projects

Dear Bob:

This correspondence will confirm that the Floyd County Fiscal Court currently has the sum of Two Million Dollars (\$2,000,000.00) available for use in the Southern Water & Sewer District of Floyd County, Kentucky. These funds are earmarked for construction projects in the District and were generated through a bond issue approved by the Department for Local Government.

Should you need any additional information regarding this matter, please do not hesitate to contact me.

Sincerely,

  
Paul H. Thompson,  
Floyd County Judge/Executive

**SOUTHERN WATER AND SEWER DISTRICT  
WATERWORKS REVENUE BOND, SERIES 2002**

Interest Rate: 4.50%



KNOW ALL PERSONS BY THESE PRESENTS: That the Southern Water and Sewer District (the "District"), acting by and through its Board of Commissioners (the "Commission"), a public body Knott Counties, Kentucky, for value received, hereby promises to pay to the UNITED STATES OF AMERICA, acting by and through the U.S. DEPARTMENT OF AGRICULTURE, 771 Corporate Driv Kentucky 40503-5477, the Registered Owner hereof, or to its registered assigns, as hereinafter provided, solely from the fund hereinafter identified, the sum of

**TWO MILLION FIVE HUNDRED FIFTEEN THOUSAND DOLLARS (\$2,515,000)**

on the first day of January, in years and installments as follows:

Payment Due January 1,	Principal Payment	Payment Due January 1,	Principal Payment	Payment Due January 1,	Principal Payment
2005	\$26,000	2016	\$46,000	2031	\$ 82,000
2006	27,000	2019	48,000	2032	86,000
2007	29,000	2020	51,000	2033	90,000
2008	30,000	2021	53,000	2034	94,000
2009	31,000	2022	55,000	2035	98,000
2010	33,000	2023	58,000	2036	103,000
2011	34,000	2024	60,000	2037	107,000
2012	36,000	2025	63,000	2038	112,000
2013	37,000	2026	66,000	2039	117,000
2014	39,000	2027	69,000	2040	122,000
2015	41,000	2028	72,000	2041	128,000
2016	43,000	2029	75,000	2042	130,000
2017	44,000	2030	79,000		

and interest being payable, without deduction for exchange or collection charges, in law States of America, at the address of the Registered Owner shown on the registration bo

This Bond is issued by the District under and in full compliance with the Constitut Commonwealth of Kentucky, including Chapters 58 and 74 of the Kentucky Revised S "Act", and pursuant to a duly adopted Bond Resolution of the District authorizing sai Resolution", to which Current Bond Resolution reference is hereby made for a descri extent of the security thereby created, the rights and limitations of rights of the Register and the rights, obligations and duties of the District, for the purpose of financing it provided) of the construction of extensions, additions and improvements to the existing the District (said existing waterworks system, together with said extensions, additions an hereinafter referred to as the "System").

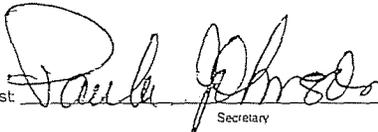
[FURTHER PROVISIONS OF THIS BOND ARE SET FORTH ON THE REVER

It is hereby certified, recited and declared that all acts, conditions and things requir be performed precedent to and in the issuance of this Bond, do exist, have happened and in due time, form and manner as required by law; and that the face amount of this Bond, obligations of the District does not exceed any limit prescribed by the Constituti Commonwealth of Kentucky.

IN WITNESS WHEREOF said Southern Water and Sewer District, by its Board c caused this Bond to be executed by its Chairman, its corporate seal to be hereunto affix Secretary, on the date of this Bond, which is December 17, 2002.

and in like manner, solely from said fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, at the Interest Rate specified above, semiannually on the first days of January and July in each year, beginning with the first January or July after the date of this Bond, until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal

SOUTHERN WATER AND SEWER DISTRICT  
Floyd and Knott Counties, Kentucky

Attest:   
Secretary

By:   
Chairman



# Exhibit X

**Beyer, Jonathan (PSC)**

---

**From:** Dale, Lisa (DLG)  
**Sent:** Wednesday, February 13, 2013 4:51 PM  
**To:** Beyer, Jonathan (PSC)  
**Subject:** RE: Floyd County & Southern Water/Sewer District

Mr. Beyer,

To answer your first question, yes, water districts are suppose to notify the State Local Debt Officer when they enter into a debt issue with a principal amount over \$200,000.

For the second question, we have received the following issues:

\$2,515,000 Southern Water and Sewer District Waterworks Revenue Bonds, Series 2002, dated June 12, 2002 to provide extensions, additions and improvements to the current waterworks system

\$225,000 Southern Water and Sewer District Waterworks Revenue Bonds, Series 2005, dated November 3, 2005 for improvements to the water system

If you would like a copy of the original notification letters and or payment schedules for either of these issues I will be glad to send them to you. Just let me know. Thanks.

*Lisa Dale  
Local Government Advisor  
Department for Local Government  
1024 Capital Center Drive  
Suite 340  
Frankfort, KY 40601  
PH (502) 573-2382, Ext. 277  
FAX (502) 573-3712  
[lisa.dale@ky.gov](mailto:lisa.dale@ky.gov)*

---

**From:** Beyer, Jonathan (PSC)  
**Sent:** Wednesday, February 13, 2013 10:52 AM  
**To:** Dale, Lisa (DLG)  
**Subject:** Floyd County & Southern Water/Sewer District

Ms. Dale,

We spoke on January 10, 2013 regarding the recurring payments of Southern Water and Sewer District to Floyd County. Local Government provided the PSC with several documents relating to Floyd County's application to enter into a lease agreement in May/June of 2005. I have several follow-up questions on which I would appreciate any input you may have.

First, do water districts notify or apply to Local Government prior to entering into long term debt obligations?

Second, does Local Government have any documentation regarding an application of Southern Water and Sewer District to enter into a repayment agreement, lease agreement or issue a bond or any other long term debt instrument for the period of 2001 – 2005.

APPENDIX B  
STAFF REPORT CASE NO. 2012-00309  
INTERVIEW LIST

Date	Interviewees Involved	Title(s)
January 23, 2013	Keith Bartley	County Attorney, Floyd County
January 23, 2013	Hubert Halpert	General Manager/Former Chairman
	Gary Blankenship	Commissioner, Southern Water & Sewer District
January 24, 2013	Paula Johnson	Chairwoman, Southern Water & Sewer District
January 24, 2013	Robert Marshall	Judge/Executive, Floyd County
	Barry Davis	Deputy Judge/Executive, Floyd County
	Keith Bartley	County Attorney, Floyd County
February 5, 2013	Hubert Halpert	General Manager/Former Chairman, Southern Water & Sewer District
February 6, 2013	Brett Davis	Former Deputy Judge/Executive, Floyd County

\*Telephone and electronic mail messages left on January 30, 2013 and February 1, 2013 with Robert Meyer, former Southern District/Veolia Water manager were not returned.<sup>85</sup>

---

<sup>85</sup> See Ex. V.

APPENDIX C  
STAFF REPORT CASE NO. 2012-00309  
CHRONOLOGY

Date	Event
May 31, 2001	Rural Development issues its letter of conditions for financing to Southern Water District
October 1, 2001	Floyd County issues Bond Anticipation Notes Series 2001 in the amount of \$2,175,000.
October 15, 2001	Floyd County, Kentucky Public Properties Corporation and Floyd County execute Lease Agreement.
April 29, 2002	Southern Water District conveys several land parcels to the Floyd County, Kentucky Public Properties Corporation.
May 8, 2002	Southern Water District applies for a CPCN and an adjustment of rates, Case No. 2002-00166.
June 7, 2002	The Commission approves Southern Water District's application in Case No. 2002-00166.
June 12, 2002	Southern Water District applies to the Governor's Office for Local Development to issue bonds in the amount of \$2,515,000.
September 10, 2003	Floyd County issues Bond Anticipation Notes Series 2003 in the amount of \$2,395,000.
September 26, 2003	Floyd County, Kentucky Public Properties Corporation and Floyd County execute Addendum to Lease Agreement and Mortgage Deed of Trust.
September 24, 2004	Floyd County authorizes the Corporation to issue Bond Anticipation Renewal Notes in the amount of \$2,450,000.
October 1, 2004	Floyd County issues Bond Anticipation Notes Series 2004 in the amount of \$2,455,000.
May 16, 2005	Floyd County applies to the Governor's Office for Local Development to enter into a Lease in the amount of \$2,600,000.
May 20, 2005	Floyd County Fiscal Court authorizes the General Lease Agreement with KADD.
June 10, 2005	The Governor's Office for Local Development approves Floyd County's request to enter into the General Lease Agreement.
June 28, 2005	Floyd County and Kentucky Area Development District enter into the General Lease Agreement.
September 10, 2005	Southern Water District applies for a CPCN and adjustment of rates, Case No. 2005-00374.

October 14, 2005	The Commission approves Southern Water District's application in Case No. 2005-00374.
May 27, 2010	Southern Water makes its first payment to Floyd County in the amount of \$25,000
August 8, 2012	Southern Water District files its Application in the Case No. 2012-00309.
December 21, 2012	The Commission establishes interim rates and ordered the Staff Report regarding the payments.

Hubert Halbert  
Chairman  
Southern Water & Sewer District  
245 Kentucky Route 680  
P. O. Box 610  
McDowell, KY 41647

Honorable David Edward Spenard  
Assistant Attorney General  
Office of the Attorney General Utility & Rate  
1024 Capital Center Drive  
Suite 200  
Frankfort, KENTUCKY 40601-8204