



United States
Department of
Agriculture

Rural
Development

711 Corporate Drive, Suite 200
Lexington, KY 40503-5477
(859) 224-7336 TTY(859) 224-7422

3/25

August 6, 2003

Loan 91-07

Mr. Larry Arnett, President
Judy Water Association, Inc.
5031 Maysville Road
Mt. Sterling, Kentucky 40353

Dear Mr. Arnett:

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 \$695,300, a RUS grant not to exceed \$569,000, a Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) of \$573,000, a Kentucky Infrastructure Authority (KIA) 2020 Grant of \$315,400, and a cash contribution from the Bourbon County Fiscal Court in the amount of \$50,400.

If Rural Development makes the loan, the interest rate will be the lower of the rate in effect at the time of loan approval or the rate in effect at the time of loan closing, unless the applicant otherwise chooses. 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.

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 1,641 water users, of which 1,484 are existing users and 157 are new users contributing \$18,900 in connection fees toward the cost of the project. The connection fees will be collected prior to advertising for construction bids and will be placed in the construction account at loan pre-closing, unless spent for authorized purposes prior to loan pre-closing. The Rural Development Manager will review and authenticate the number of users and amount of connection fees prior to advertising for construction bids.

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 Association 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 Promissory Note. Principal payment will not be deferred for a period in excess of two years from the date of the Promissory Note. The Association will be required to adopt a supplemental payment agreement providing for monthly payments of principal and interest so long as the Promissory Note is held or insured by RUS.

3. Recommended Repayment Method:

Payments on this loan can be made using the Preauthorized Debit (PAD) payment method. This procedure eliminates the need for paper checks and ensures timely receipt of RD loan payments. To initiate PAD payments, Form SF 5510, "Authorization Agreement for Preauthorized Payments," should be signed by the Association to authorize the electronic withdrawal of funds from your designated bank account on the exact installment payment due date. The Rural Development Manager will furnish the necessary forms and further guidance on the PAD procedure.

4. Funded Depreciation Reserve Account:

The Association will be required to deposit \$325.00 per month into a "Funded Depreciation Reserve Account" until the account reaches \$39,000. The deposits are to be resumed any time the account falls below the \$39,000.

The required monthly deposits to the Reserve Account and required Reserve account levels are in addition to the requirements of the Association's prior note 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.

5. Security Requirements:

The loan will be secured by a real estate mortgage, a financing statement, and pledge of gross water revenue, in the Loan Resolution and Financing Statement.

6. Land Rights and Real Property:

The Association 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.

7. Organization:

The Association will be legally organized under applicable KRS, which will permit them to perform this service, borrow and repay money.

8. Business Operations:

The Association 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 Association after review by Rural Development. At no later than loan pre-closing, the Association 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.

9. Accounts, Records and Audits:

The Association will be required to maintain adequate records and accounts and submit statistical and financial reports in accordance with subsection 1780.47 of RUS Instruction 1780 and RUS Staff Instruction 1780-4, a copy of which is enclosed. Annual audits, budgets, and reports will be submitted to Rural Development showing separate accounts, if applicable.

10. Accomplish Audits for Years in Which Federal Financial Assistance is Received:

The Association will accomplish audits in accordance with OMB Circular A-133, during the years in which federal funds are received. The Association will provide copies of the audits to the Area Office and the appropriate Federal cognizant agency as designated by OMB Circular A-133.

11. 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 Association. The Association should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.

- B. Worker's Compensation - The Association will carry worker's compensation insurance for employees in accordance with applicable state laws.
- C. Fidelity Bond - The Association 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 \$188,000.
- D. Real Property Insurance - The Association 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 Association 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 Association will obtain and maintain adequate coverage on any facilities located in special flood and mudslide prone areas.

12. 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 "22" 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.

13. Compliance with Section 504 of the Rehabilitation Act of 1973:

The Association 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.

14. 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 Association.

15. Compliance with Special Laws and Regulations:

The Association will be required to conform with any and all state and local laws and regulations affecting this type project.

16. System Operator:

The Association is reminded that the system operator must have an Operator's Certificate issued by the State.

17. Prior to Pre-Closing the Loan, the Association will be Required to Adopt:

- A. Form RD 1942-8, "Resolution of Members or Stockholders."
- B. Form RUS Bulletin 1780-28, "Loan Resolution Security Agreement."
- C. Form RD 400-1, "Equal Opportunity Agreement."
- D. Form RD 400-4, "Assurance Agreement."
- E. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- F. Form RD 1910-11, "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts."
- G. RD Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."

The Association 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.

18. Refinancing and Graduation Requirements:

The Association is reminded that if at any time it shall appear to the Government that the Association 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 Association will apply for and accept such loan in sufficient amount to repay the Government.

19. Commercial Interim Financing:

The Association 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 Association 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.

20. Disbursement of Project Funds:

A construction account for the purpose of disbursement of project funds (RUS) will be established by the Association 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 Association 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 Association, 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 Association.

Form RD 440-11, "Estimate of Funds Needed for 30-Day Period Commencing _____," will be prepared by the Association and submitted to Rural Development in order that a periodic advance of federal cash may be requested.

Monthly audits of the Association's construction account records shall be made by Rural Development.

21. 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 Association. Grant funds, upon receipt, must be deposited in an interest bearing account in accordance with 7 CFR part 3019 (as applicable). Interest earned on grant funds in excess of \$250 (as applicable) per year will be submitted to RUS at least quarterly.

22. Cost of Facility:

Breakdown of Costs:

Development	\$ 1,721,200
Land and Rights	15,000
Legal and Administrative	60,000
Engineering	216,100
Interest	15,000
Contingencies	<u>194,700</u>
TOTAL	\$ 2,222,000

Financing:

RUS Loan	\$ 695,300
RUS Grant	569,000
HUD-CDBG	573,000
KIA 2020 Grant	315,400
Bourbon Co. Fiscal Court Contribution	50,400
Applicant Contribution	<u>18,900</u>
TOTAL	\$ 2,222,000

23. 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 Clearinghouse (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.

24. Use of Remaining Project Funds:

The applicant contribution and Bourbon County Fiscal Court contribution shall be considered as the first funds expended. After providing for all authorized costs, any remaining project funds will be considered to be RUS/CDBG/KIA 2020 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.

25. Rates and Charges:

Rates and charges for facilities and services rendered by the Association 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	1,000	gallons @ \$	12.00 - Minimum Bill.
Next	4,000	gallons @ \$	5.00 - per 1,000 gallons.
Next	5,000	gallons @ \$	4.50 - per 1,000 gallons.
All Over	10,000	gallons @ \$	4.00 - per 1,000 gallons.

A surcharge of \$16.77 per month will be assessed to all new users served by the proposed Bourbon County Waterline Extension Project and the surcharge will remain on previous Bourbon County Water customers with the \$16.77 per month surcharge.

The above mentioned surcharge will be in effect for the period of the loans unless discontinued with the concurrence of RUS and the Public Service Commission.

Water Connection Fees - \$350.00.

26. Water Purchase Contract:

The Association will submit Water Purchase Contracts for approval by Rural Development before advertising for construction bids. If the contracts are not on Form RD 442-30, "Water Purchase Contract," the contracts will require approval by our Regional Attorney. The contracts must meet the requirements of subsection 1780.62 of RUS Instruction 1780.

27. Commitment of HUD and KIA Grants and Bourbon County Fiscal Court Contribution:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the HID grant in the amount of \$573,000, for the KIA 2020 grant in the amount of \$315,400, and for the Bourbon County Fiscal Court cash contribution in the amount of \$50,400.

28. Floodplain Construction:

The Association will be required to pass and adopt a Resolution or amend its By-Laws whereby the Association 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 Association 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.

29. Mitigation Measures:

- A. The project shall be in compliance with all requirements noted in the Kentucky Department for Local Government letter dated June 20, 2002, from Mr. Ronald A. Cook, Manager.

- B. The design and construction shall be in compliance with the requirements of the U.S. Fish and Wildlife Service as requested by letter dated May 1, 2002, and signed by Virgil Lee Andrews, Jr., Field Supervisor.
- C. The line design and construction shall be accomplished in a way that will leave flood plains and farmland without affect after construction is complete. The Army Corps of Engineers Nationwide Permit No. 12 applies to all floodplain and wetland utility line construction.
- D. The design and construction shall be in compliance with all local, state and federal environmental statutes, regulations and executive orders applicable to the project.

30. 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

Enclosures

- cc: Rural Development Manager - Shelbyville, Kentucky
Community Development Manager - Winchester, Kentucky
✓ Gateway ADD - Owingsville, Kentucky
Bluegrass ADD - Lexington, Kentucky
Carolyn Kenton - Lexington, Kentucky
PEH Engineers - Lexington, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky

91-07

USDA
Form RD 440-22
(Rev. 6-98)

PROMISSORY NOTE
(ASSOCIATION OR ORGANIZATION)

State			
KENTUCKY			
County			
MONTGOMERY			
Case No.			
20-87-611057445			
FINANCE OFFICE USE ONLY			
F	LN	LC	IA
91	07		

KIND OF LOAN:

- ASSOCIATION- ORGANIZATION
- HOUSING-ORGANIZATION
- PUBLIC BODY
- OTHER

Date MARCH 18, 2004

FOR VALUE RECEIVED, JUDY WATER ASSOCIATION, INC
 (herein called "Borrower") promises to pay to the order of the United States of America, acting through the Rural Housing Service, Rural Business-Cooperative Service, or Rural Utilities Service within the Rural Development Mission Area, the Farm Service Agency, or their successor Agencies, United States Department of Agriculture, (herein called the "Government") at its office in 90 HOWARD
DRIVE, SUITE 3 SHELBYVILLE, KY 40065, or at such other place as the Government may hereafter designate in writing, the principal amount of SIX HUNDRED NINETY-FIVE THOUSAND THREE HUNDRED AND NO/100'S dollars
 (\$ 695,300.00), plus interest on the unused principal balance at the rate of FOUR AND ONE percent
 (4.25 %) per annum. The said principal and interest shall be paid in the following installments on or before the following dates:

- \$ INTEREST ONLY on MARCH 18, 2005,
- \$ INTEREST ONLY on MARCH 18, 2006,
- \$ _____ on _____,
- \$ _____ on _____, and
- \$ 37,206.00 thereafter on the 18TH OF MARCH of each YEAR

until the principal and interest are fully paid except that the final installment of the entire indebtedness evidenced hereby, if not sooner paid, shall be due and payable FORTY (40) years from the date of this note, and except that prepayments may be made as provided below. The consideration herefor shall support any agreement modifying the foregoing schedule of payments.

If the total amount of the loan is not advanced at the time of loan closing, the loan shall be advanced to Borrower as requested by Borrower and approved by the Government and interest shall accrue on the amount of each advance from its actual date as shown on the reverse hereof.

Every payment made on any indebtedness evidenced by this note shall be applied first to interest computed to the effective date of the payment and then to principal.

Prepayments of scheduled installments, or any portion thereof, may be made at any time at the option of Borrower. Refunds and extra payments, as defined in the regulations of the Government according to the source of funds involved, shall, after payment of interest, be applied to the installments last to become due under this note and shall not affect the obligation of Borrower to pay the remaining installments as scheduled herein.

If the Government at any time assigns this note and insures the payment thereof, Borrower shall continue to make payments to the Government as collection agent for the holder. No assignment of this note shall be effective unless the Borrower is notified in writing of the name and address of the assignee. The Borrower shall thereupon duly note in its records the occurrence of such assignment, together with the name and address of the assignee.

While this note is held by an insured lender, prepayments as above authorized made by Borrower may, at the option of the Government, be remitted by the Government to the holder promptly or, except for final payment, be retained by the Government and remitted to the holder on either a calendar quarter basis or an annual installment due date basis. The effective date of every payment made by Borrower, except payments retained and remitted by the Government on an annual installment due date basis, shall be the date of the United States Treasury check by which the Government remits the payment to the holder. The effective date of any prepayment retained and remitted by the Government to the holder on an annual installment due date basis shall be the date of the prepayment of Borrower, and the Government will pay the interest to which the holder is entitled accruing between the effective date of any such prepayment and the date of the Treasury check to the holder.

Any amount advanced or expended by the Government for the collection hereof or to preserve or protect any security hereto, or otherwise under the terms of any security or other instrument executed in connection with the loan evidenced hereby, at the option of the Government shall become a part of and bear interest at the same rate as the principal of the debt evidenced hereby and be immediately due and payable by Borrower to the Government without demand. Borrower agrees to use the loan evidenced hereby solely for purposes authorized by the Government.

Borrower hereby certifies that it is unable to obtain sufficient credit elsewhere to finance its actual needs at reasonable rates and terms, taking into consideration prevailing private and cooperative rates and terms in or near its community for loans for similar purposes and periods of time.

If at any time it shall appear to the Government that Borrower may be able to obtain a loan from a responsible cooperative or private credit source at reasonable rates and terms for loans for similar purposes and periods of time, Borrower will, at the Government's request, apply for and accept such loan in sufficient amount to repay the Government.

Default hereunder shall constitute default under any other instrument evidencing a debt or other obligation of Borrower to the Government or securing such a debt or other obligation and default under any such other instrument shall constitute default hereunder. Upon any such default, the Government at its option may declare all or any part of any such indebtedness immediately due and payable.

This note is given as evidence of a loan to Borrower made or insured by the Government pursuant to the Consolidated Farm and Rural Development Act if the box opposite "Association" is checked under the heading "KIND OF LOAN," or pursuant to Title V of the Housing Act of 1949 if the box opposite "HOUSING-ORGANIZATION" is checked. This note shall be subject to the present regulations of the Government and to its future regulations not inconsistent with the express provisions hereof.

Presentment, protest, and notice are hereby waived.

JUDY WATER ASSOCIATION, INC

(CORPORATE SEAL)

Larry N. Arnett By Larry Lee (Name of Borrower)
(Signature of Executive Official)

ATTEST:
Larry Lee
(Signature of Attesting Official)
Larry Lee, Secretary/Treasurer
(Title of Attesting Official)

Larry N. Arnett, President
(Title of Executive Official)

P O Box 781
(Post Office Box No. or Street Address)

Mt. Sterling, KY 40353
(City, State, and Zip Code)

RECORD OF ADVANCES

AMOUNT	DATE	AMOUNT	DATE
(1) \$275,000.00	03 / 18 / 04	(6) \$	/ /
(2) \$	/ /	(7) \$	/ /
(3) \$	/ /	(8) \$	/ /
(4) \$	/ /	(9) \$	/ /
(5) \$	/ /	(10) \$	/ /
TOTAL			

PAY TO THE ORDER OF _____

UNITED STATES OF AMERICA

(Name of Agency)

BY _____

Form RD 3550-14 KY
(8-99)

Form Approved
OMB No. 0575-0172

United States Department of Agriculture
Rural Housing Service
MORTGAGE FOR KENTUCKY

THIS MORTGAGE ("Security Instrument") is made on March 18, 2004.
The mortgagor is United States Department of Agriculture, Rural Development ("Lender")
JUDY WATER ASSOCIATION, INC. ("Borrower").

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

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

<u>Date of Instrument</u>	<u>Principal Amount</u>	<u>Maturity Date</u>
/ March 18, 2004	\$695,300.00	March 17, 2044
/ October 19, 1990	\$647,000.00	October 18, 2030
/ July 25, 1995	\$198,000.00	July 24, 2035
June 14, 2000	\$1,237,000.00	June 13, 2040

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

PARCEL I All that tract or parcel of land situated at the southeast corner of the intersection of Howard Lane and Denny Lane in Montgomery County, Kentucky, being more fully described and bounded as follows, to wit: BEGINNING at a set #4 rebar with cap at point #106 of Lot 21 of Franklin Howard Subdivision (Cab. "A", S1.50), said point being part of the existing Judy Water Association Tank site (DB 194, Pg 36) on the east right of way of Howard Lane; thence with said Howard Lane south 11 degrees 45 minutes 03 seconds West 25.00 feet to the TRUE POINT OF BEGINNING, said point being a fence post at the southwest corner of the existing Judy Water Association tank site, said point being witnessed by a set #4 rebar with cap at South 81 degrees 38 minutes 39 seconds West, 1.00 foot; thence leaving said Howard Lane for three (3) new lines through the lands of J. O. Briggs and Rachel Briggs (DB 200, Pg 211): (1) North 81 degrees 38 minutes 39 seconds East, 50.00 feet to a fence post, said point being witnessed by a set #4 rebar with cap at North 81 degrees 38 minutes 39 seconds East, 3.00 feet. (2) South 08 degrees 21 minutes 20 seconds East 40.00 feet to a set #4 rebar with cap, (3)

South 81 degrees 38 minutes 39 seconds West, 47.63 feet to a set #4 rebar with cap in the Howard Lane east right of way. Thence with said Howard Lane east right of way, North 11 degrees 45 minutes 03 seconds West, 40.07 feet to the TRUE POINT OF BEGINNING, containing 0.04 acres. This property belonging to Judy Water Association by deed dated August 22, 2003 and of record in the Montgomery County Clerk's Office at DB 256, PG 317.

PARCEL II All that tract or parcel of land situated northeast of the intersection of Cecil Road and Bunker Hill Road (KY 537) in Montgomery County, Kentucky being more fully described and bounded as follows, to wit: BEGINNING at a fence post, a common corner to Roger and Beulah Wilson (DB 196, PG 369, Tract II) and Bobby and Sarah Jones (DB 202, PG 56), said fence post being in the north right of way of Cecil Road, approximately 1,020 feet east of the intersection of Cecil Road and Bunker Hill Road (KY 537); thence with said Jones for two (2) lines: North 04 degrees 27 minutes 41 seconds East, 576.04 feet to a fence post, North 03 degrees 28 minutes 17 seconds East 264.67 feet to a fence post; thence leaving said Jones with a reference line through the lands of said Wilson, South 81 degrees 51 minutes 24 seconds West 236.21 feet to the TRUE POINT OF BEGINNING, said point being witnessed by a set #4 rebar with cap (18" long with a red survey cap stamped PLS 3185 Cambliss) in a field fence line at North 02 degrees 27 minutes 25 seconds East, 50.00 feet; thence for four (4) new lines through the lands of said Wilson: South 02 degrees 27 minutes 25 Seconds West, 100.00 feet to a set #4 rebar with cap, North 87 degrees 32 minutes 35 seconds West 100.00 feet to a set #4 rebar with cap, North 02 degrees 27 minutes 25 seconds East, 100.00 feet to a point, said point being witnessed by a set #4 rebar with cap in a field fence at North 02 degrees 27 minutes 25 seconds East 50.00 feet; South 87 degrees 32 minutes 35 seconds East, 1900.00 feet to the TRUE POINT OF BEGINNING, containing 0.23 acres. This property belonging to Judy Water Association by deed dated October 8, 2003 and of record in the Montgomery County Clerk's Office at DB 257, PG 103.

PARCEL III PERMANENT EASEMENT: for Booster Pump Station located at KY 537 in Montgomery County, Kentucky. Beginning in the northwest corner of the easement, said corner being nineteen feet from the centerline of KY 537 and approximately four hundred nineteen feet east of the Connie Boyd Property (DB 255, PG 349); thence in a northeast direction twenty-five feet to a point; thence in a southeast direction twenty-five feet to a point; thence in a southwest direction twenty-five feet to a point; thence in a southwest direction twenty-five feet to a point; thence in a northwest direction twenty-five feet to the point of beginning, said easement contains 0.0143 acres. This easement granted to Judy Water Association, Inc. on September 24, 2003 and if record in the Montgomery County Clerk's Office at MS 88, PG 759.

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

BORROWER COVENANTS that Borrower is lawfully seised of the estate hereby conveyed and has the right to grant and convey the Property and that the Property is unencumbered, except for encumbrances of record. Borrower warrants and will defend generally the title to the Property against all claims and demands, subject to any encumbrances of record.

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

covering real property.

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

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

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

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

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

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

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

the escrow items under paragraph 2; (5) to late charges and other fees and charges.

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

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

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

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

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

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

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

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

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

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

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

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

10. Condemnation. The proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation or other taking of any part of the Property, or for conveyance in lieu of condemnation, are hereby assigned and shall be paid to Lender. In the event of a total taking of the Property, the proceeds shall be applied to the sums secured by this Security Instrument, whether or not then due, with any excess paid to Borrower. In the event of a partial taking of the Property in which the fair market value of the Property immediately before the taking is equal to or greater than the amount of the sums secured by this Security Instrument immediately before the taking, unless Borrower and Lender otherwise agree in writing, the sums secured by this Security Instrument shall be reduced by the amount of the proceeds multiplied by the following fraction: (a) the total amount of the sums secured immediately before the taking, divided by (b) the fair market value of the Property immediately before the taking. Any balance shall be paid to Borrower. In the event of a partial taking of the Property, in which the fair market value of the Property immediately before the taking is less than the amount of the

sums secured hereby immediately before the taking, unless Borrower and Lender otherwise agree in writing, or unless applicable law otherwise provides, the proceeds shall be applied to the sums secured by this Security Instrument whether or not the sums are then due.

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

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

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

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

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

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

16. Transfer of the Property or a Beneficial Interest in Borrower. If all or any part of the Property or any interest in it is leased for a term greater than three (3) years, leased with an option to

purchase, sold, or transferred (or if a beneficial interest in Borrower is sold or transferred and Borrower is not a natural person) without Lender's prior written consent, Lender may, at its option, require immediate payment in full of all sums secured by this Security Instrument.

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

18. Sale of Note; Change of Loan Servicer. The Note or a partial interest in the Note (together with this Security Instrument) may be sold one or more times without prior notice to Borrower. A sale may result in a change in the entity (known as the "Loan Servicer") that collects monthly payments due under the Note and this Security Instrument. There also may be one or more changes of the Loan Servicer unrelated to a sale of the Note. If there is a change of the Loan Servicer, Borrower will be given written notice of the change in accordance with paragraph 13 above and applicable law. The notice will state the name and address of the new Loan Servicer and the address to which payments should be made.

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

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

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

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

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

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

22. SHOULD DEFAULT occur in the performance or discharge of any obligation in this instrument or secured by this instrument, or should any one of the parties named as Borrower die or be declared an incompetent, or should any one of the parties named as Borrower be discharged in

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

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

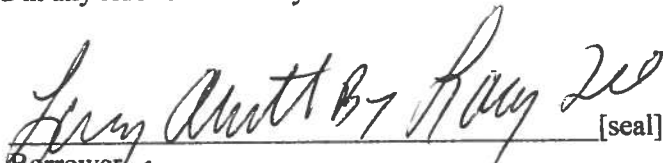
24. Borrower agrees that Lender will not be bound by any present or future state laws, (a) providing for valuation, appraisal, homestead or exemption of the Property, (b) prohibiting maintenance of an action for a deficiency judgment or limiting the amount thereof or the time within which such action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

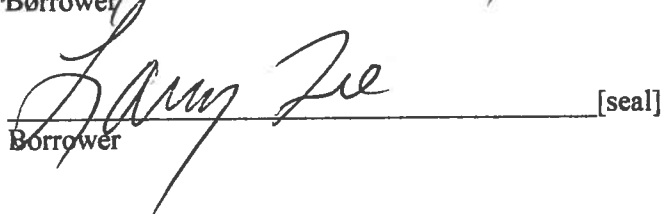
25. Release. Upon termination of this mortgage, after payment in full, the mortgagee, at Borrower's expense, shall execute and file or record such instruments of release, satisfaction and termination in proper form pursuant to the requirements contained in KRS 382.365.

26. Riders to this Security Instrument. If one or more riders are executed by Borrower and recorded together with this Security Instrument, the covenants and agreements of each rider shall be incorporated into and shall amend and supplement the covenants and agreements of this Security Instrument as if the rider(s) were a part of this Security Instrument [Check applicable box]

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

BY SIGNING BELOW, Borrower accepts and agrees to the terms and covenants contained in pages 1 through 9 of this Security Instrument and in any rider executed by Borrower and recorded with this Security Instrument


Borrower _____ [seal]


Borrower _____ [seal]

ACKNOWLEDGMENT

STATE OF KENTUCKY
COUNTY OF FAYETTE

Acknowledged, subscribed and sworn to before me this the 18 day of March 2004 by Larry Arnett, President, and Larry Lee, Secretary/Treasurer, Judy Water Association, Inc.

Carolyn L. Kenton
Notary Public, State at Large
My commission expires 8-9-2006

PREPARER'S STATEMENT

The form of this instrument was drafted by the Office of the General Counsel of the United States Department of Agriculture. Additional information was inserted by or under the direction of the following

Carolyn L. Kenton
Carolyn L. Kenton
Attorney at Law
109 North Mill Street
Lexington, Kentucky 40507
859-281-0048

RECORDER'S CERTIFICATE

STATE OF KENTUCKY
COUNTY OF MONTGOMERY

I, Judy Long Witt, Clerk of the County Court for the County aforesaid, do certify that the foregoing mortgage was on the 18 day of March 2004 lodged for record at 10:40 o'clock a.m. whereupon the same, with the foregoing and this certificate, have been duly recorded in my office.

Given under my hand this 18 day of March 2004.

Judy Long Witt
Clerk of Montgomery County Court
by Lo, D.C.

UNITED STATES DEPARTMENT OF AGRICULTURE

SECURITY AGREEMENT

(Loans For Community Facilities and Rural Rental Housing)

I. THIS SECURITY AGREEMENT IS MADE THIS 18th day of March, 2004, between the United States of America acting through the United States Department of Agriculture (herein called Secured Party) and JUDY WATER ASSOCIATION, INC., a corporation organized and existing under the laws of the State of Kentucky, whose mailing address is P. O. Box 781, Mt. Sterling, Kentucky 40353, County of Montgomery, State of Kentucky (herein called Debtor).

II. WHEREAS, Debtor is justly indebted to Secured Party as evidence by a certain promissory note, herein called the note, dated March 18, 2004 for the principal sum of Six hundred Ninety-five Thousand Three Hundred Dollars (\$695,300.00), with interest at a rate of Four and Twenty-five One Hundredths percent (4.25%), per annum, executed by Debtor and payable to the Order of Secured Party; and

WHEREAS, the note evidences a loan to Debtor in the principal amount specified herein, made with the purpose and intention that Secured Party, at any time, may assign the note and insure the payment thereof pursuant to the Consolidated Farm and Rural development Act or Title V or the Housing Act of 1949, as amended, or any other statute administered by the United States Department of Agriculture; and

WHEREAS, when payment of the note is insured by Secured Party, it may be assigned from time to time and each holder of the insured note, in turn, will be the insured lender; and

WHEREAS, when payment of the note is insured by Secured Party, Secured Party will execute and deliver to the insured lender along with the note an insurance endorsement insuring the payment of the note fully as to the principal and interest; and

WHEREAS, at all times when payment of the note is insured by Secured party, Secured Party by agreement with the insured lender

set forth in the insurance endorsement will be entitled to a specified portion of the interest payments on the note, to be designated the "annual Charge"; and

WHEREAS, a condition of the insurance of payment of the note will be that the holder will forego its rights and remedies against Debtor and any others in connection with said loan, as well as any benefits of this instrument, it will accept the benefits of such insurance in lieu thereof, and upon Secured Party's request will assign the note to Secured Party; and

WHEREAS, it is the purpose and intent of this instrument that, among other things, at all times when the note is held by Secured Party, or in the event Secured Party should assign this instrument without insurance of the note, this instrument shall secure payment of the note, but when the note is held by an insured lender, this instrument shall not secure payment of the note or attach to the debt evidenced thereby, but as to the note and such debt, shall constitute an insurance endorsement by reason of any default by Debtor;

NOW, THEREFORE, in consideration of said loan and (a) at all times when the note is held by Secured Party, or in the event Secured Party should assign this instrument without insurance of the payment of the note, to secure prompt payment of the note and any renewals and times extensions thereof and any agreements contained herein, (b) at all times when the note is held by an insured lender, to secure performance of Debtor's agreement therein to indemnify and save harmless Secured Party against loss under its insurance endorsement by reason of any default by Debtor and (c) in any event and at all times to secure the prompt payment of all advances and expenditures made by Secured Party, with interest, as herein after described, and the performance of every covenant and agreement of Debtor contained herein or in any supplementary agreement;

DEBTOR HEREBY GRANTS to Secured Party a security interest in its interest in the following collateral, including the proceeds thereof, located or to be located in the County of Montgomery, State of Kentucky.

All of the personal property, equipment, fixtures, revenues, fees, charges, assessments, all income from whatever source derived, accounts receivable and other choses in action of whatever nature in connection with the operation of the facilities of the Debtor.

Disposition of such collateral is not hereby authorized.

III. DEBTOR WARRANTS, COVENANTS, AND AGREES THAT:

A. Debtor is the absolute and exclusive owner of the above described collateral, and such collateral is free from all liens, encumbrances, security and other interests except (1) any existing liens, encumbrances, security or other interests in favor of Secured Party which shall remain in full force and effect, and (2) other liens encumbrances, security or other interests as follows:

None.

and Debtor will defend the collateral against the claims and demands of all other persons. Reference to the above liens, encumbrances, security and other interests is for warranty purposes only and does not indicate their priority.

B. Statements contained in Debtor's loan application(s) are true and correct; and Debtor will (1) use the loan funds for the purpose for which they are advanced, (2) care for and maintain the collateral in a good and husband like manner, (3) insure the collateral in such amounts and manner as may be required by Secured Party, and if Debtor fails to do so, Secured Party, at its option, may procure such insurance, (4) permit Secured Party to inspect the collateral. At any reasonable time, (5) not abandon the collateral or encumber, conceal, remove, sell or otherwise dispose of it or of any interest herein, or permit others to do so, without the prior written consent of Secured Party, and (6) not permit the collateral to be levied upon, injured or destroyed, or its value to be impaired.

C. Debtor will pay promptly when due all (1) indebtedness to Secured Party secured hereby, (2) rents, taxes, insurance premiums, levies, assessments, liens, and other encumbrances, and costs of lien searches and maintenance and other charges not or hereafter attaching to, levied on, or otherwise pertaining to the collateral of this security interest, (3) filing or recording fees for the instruments necessary to perfect, continue, service, or terminate this security interest, and (4) fees for inspection and appraisal and delinquency charges not or hereafter required by regulations of the United States Department of Agriculture. At all times when the note is held by an insured lender, Debtor shall continue to make payments on the note to Secured Party, as collection agent for the holder of the note.

D. Debtor will indemnify and save harmless Secured Party against any loss under its insurance of payment of the note by reason of any default by Debtor.

E. At all times when the note is held by an insured lender, any amount due and unpaid under the terms of the note, less the amount of the annual charge, any be paid by Secured Party to the holder of the note as provided in the note and insurance endorsement for the account of Debtor. Any amount due and unpaid under the terms of the note, whether it is held by Secured Party or by an insured lender, may be credited by Secured Party for the account of the Debtor. Any advance by Secured Party as described in this paragraph shall bear interest set at the note rate from the date on which the amount of the advance was due to the date of payment to Secured Party.

F. Whether or not the note is insured by Secured Party, Secured Party may at any time pay any other amounts required herein to be paid by Debtor and not paid by it when due, including any costs and expenses for the preservation or protection of the collateral or this security interest, as advances for the account of the Debtor. All such advances shall bear interest at the note rate until paid to Secured Party.

G. All advances by Secured Party as described in this instrument, with interest, shall be immediately due and payable by Debtor to Secured Party without demand at the place designated in the note and shall be secured hereby. No such advance by Secured Party shall relieve Debtor from breach of its covenant to pay. Such advances, with interest, shall be repaid from the first available collections received from Debtor. Otherwise, any payment made by Debtor may be applied on the note or any indebtedness to Secured Party secured hereby, in any other Secured Party determines.

H. In order to secure or better secure the aforesaid obligations or indebtedness, Debtor will execute and deliver to Secured Party at any time, upon demand, such additional security instruments on such real and personal property as Secured Party may require.

IV. IT IS FURTHER AGREED THAT:

A. Until default Debtor may retain possession of the collateral.

B. Default shall exist hereunder if Debtor fails to perform or discharge any obligation or to pay promptly any indebtedness hereby secured or to observe or perform any covenants or agreements herein contained, or if any of Debtor's representations or warranties herein prove false or misleading, or upon the dissolution, bankruptcy, insolvency or incompetency

of Debtor. Upon any such default:

1. Secured Party, at its option, may (a) declare the unpaid balance on the note and any indebtedness secured hereby immediately due and payable, (b) enter upon the premises and take possession of, repair, improve, use, and operate the collateral or make equipment **unusable**, for the purpose of protecting or preserving the collateral of this lien, or preparing or processing the collateral for sale, and ©) exercise any sale or other rights accorded by law.

2. Debtor hereby (a) agrees to assemble the collateral and make it available to Secured Party at such time(s) and place(s) as designated by Secured Party, and (b) waives all notices, exemptions, compulsory disposition and redemption rights.

3. A default shall exist under any other security instrument held or insured by Secured Party and executed or assumed by Debtor on real or personal property. Likewise, default under any such other security instrument shall constitute default hereunder.

C. Proceeds from disposition of collateral shall be applied first on expenses of retaking, holding, preparing for sale, selling and the like and for payment of reasonable attorney's fees and legal expenses incurred by Secured Party, second to the satisfaction of indebtedness secured hereby, third to the satisfaction of subordinate security interests to the extent required by law, fourth to any other obligations of Debtor owing to or insured by Secured Party, and fifth to Debtor. Any proceeds collected under insurance policies shall be applied first on advances and expenditures made by Secured Party, with interest, as hereinabove provided, second on the debt evidenced by the note, unless Secured Party consents in writing to their use by Debtor under Secured Party's direction for repair or replacement of collateral, third on any other obligation of Debtor owing to or insured by Secured Party, and any balance shall be paid to Debtor unless otherwise provided in the insurance contract. Debtor will be liable for any deficiency owed to Secured Party after such disposition of proceeds of collateral and insurance.

D. It is the intent of Debtor and Secured Party that to the extent permitted by law and for the purpose of this agreement, not collateral covered hereby is or shall become realty or accessioned to other goods.

E. This Agreement is subject to the present regulations of the United States Department of Agriculture, and to its future regulations not inconsistent with the expense provisions hereof.

F. If any provision of this Agreement is held invalid or unenforceable, it shall not affect any other provisions hereof, but this Agreement shall be construed as if it had never contained such invalid or unenforceable provision.

G. The rights and privileges of Secured Party under this Agreement shall inure to the benefit of its successors and assigns. All covenants, warranties, representations, and agreements of Debtor contained in this Agreement are joint and several and shall bind its representatives, successors, and assigns.

H. If at any time it shall appear to Secured party that Debtor may be able to obtain a loan from responsible cooperative or private credit sources, at reasonable rates and terms for loans for similar purposes and periods of time, Debtor will, upon Secured Party's request, apply for and accept such loan in sufficient amount to pay the note and any indebtedness secured thereby.

I. Secured Party shall have the sole and exclusive rights as the Secured party hereunder, including but not limited to the power to grant or issue any consent, release, subordination, continuation statement or termination statement, and no insured lender shall have any right, title, or interest in or to the security interest created by this Agreement or any benefits thereof.

JUDY WATER ASSOCIATION, INC.

By: Larry Lee
President

Attest: Larry Lee
Secretary

(SEAL)