

**PRELIMINARY REMARKETING CIRCULAR DATED AUGUST 15, 2001****BOOK-ENTRY-ONLY-SYSTEM****BANK QUALIFIED  
REMARKETING**

In the opinion of Bond Counsel, under existing laws, regulations and judicial decisions in effect on the date of delivery of the Bonds, and assuming continuing compliance with certain covenants made by the Issuer, the Corporation and the Lessee, interest on the Bonds is excludable from gross income for federal income tax purposes on the conditions and subject to the limitations set forth herein under "TAX TREATMENT" and is not a specific item of tax preference under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. Interest on the Bonds is also exempt from income taxation by the Commonwealth of Kentucky and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and its political subdivisions (See "TAX TREATMENT" herein).

**\$2,250,000\***

**CITY OF DANVILLE, KENTUCKY  
MULTI-CITY LEASE REVENUE BONDS  
(CITY OF RADCLIFF, KENTUCKY  
SEWER SYSTEM REVENUE REFUNDING PROJECT)  
FIXED RATE SERIES 2001-A**

Fixed Rate Conversion Date: September 5, 2001

Mandatory Tender or Redemption Date: December 1, as shown below

On March 9, 1989, the City of Danville, Kentucky (the "Issuer") issued \$152,975,000 Money Market Municipal Multi-City Lease Revenue Bonds (Kentucky Municipal League Pooled Lease Financing Program) Series 1989 (the "Original Bonds"). The Original Bonds are special and limited obligations of the Issuer payable from (i) unexpended 1989 Bond proceeds and investment earnings thereon and available for such payment under a Trust Indenture dated as of March 1, 1989, as amended and supplemented (the "Indenture") among the Issuer, the Kentucky Municipal Finance Corporation (the "Corporation") and Chase Manhattan Trust Company, National Association (successor by acquisition to PNC Bank, National Association formerly known as Citizens Fidelity Bank and Trust Company), Louisville, Kentucky, as trustee (the "Trustee") and (ii) payments made to the Trustee under certain lease agreements executed by participants in the pooled leasing program, as described herein. The Original Bonds are also payable from funds drawn under an irrevocable direct pay Letter of Credit issued by PNC Bank, National Association.

On September 5, 2001, a portion of the Original Bonds in the amount of \$2,250,000 (the "Bonds") will be converted to a Fixed Rate for the periods set forth below. The Fixed Rate for the Bonds will be determined by the Remarketing Agent in accordance with the Indenture.

THE BONDS WILL BE SECURED SOLELY BY PAYMENTS TO BE MADE TO THE TRUSTEE UNDER A LEASE DATED AS OF SEPTEMBER 5, 2001 (THE "LEASE") BETWEEN THE CITY OF RADCLIFF, KENTUCKY (THE "LESSEE") AND THE CORPORATION, AS DESCRIBED HEREIN.

The Bonds will bear interest for the Fixed Rate Periods commencing September 5, 2001, at the rates, and will be subject to mandatory tender or redemption on the dates for termination of the Fixed Rate Periods, in the amounts, as follows:

<u>Date</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Cusip #</u>	<u>Date</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Cusip #</u>
12/1/2001	\$300,000			12/1/2006	\$115,000		
12/1/2002	300,000			12/1/2007	125,000		
12/1/2003	310,000			12/1/2008	125,000		
12/1/2004	325,000			12/1/2009	140,000		
12/1/2005	340,000			12/1/2010	160,000		

The Bonds will be issued and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds. Accordingly, principal, interest and premium, if any, on the Bonds will be paid by the principal corporate trust office of Bank One, Kentucky, NA, Lexington, Kentucky, as Paying Agent and Registrar, directly to DTC or Cede & Co., its nominee. DTC will in turn remit such principal, interest or premium to the DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners (as defined herein) of the Bonds. The Bonds will be issued in denominations of \$5,000 each or integral multiples thereof, and will bear interest payable on December 1, 2001 and thereafter semiannually on each June 1 and December 1.

The Bonds are not subject to optional redemption prior to their stated maturities. The Bonds are subject to mandatory tender for purchase as described herein.

THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE ISSUER OR THE CORPORATION OR THE LESSEE, BUT ARE LIMITED OBLIGATIONS PAYABLE ONLY FROM THE SERIES TRUST ESTATE APPLICABLE TO THE BONDS AND COMPRISED OF PAYMENTS TO BE MADE BY THE LESSEE UNDER THE LEASE REFERRED TO ABOVE. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OR CHARGE AGAINST THE GENERAL CREDIT OR THE TAXING POWER OF THE ISSUER OR THE LESSEE, IF ANY, OR THE GENERAL CREDIT OF THE CORPORATION AND ARE NOT IN ANY WAY AN OBLIGATION, INDEBTEDNESS OR CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWER OF THE COMMONWEALTH OF KENTUCKY.

Certain matters in connection with the remarketing of the Bonds are subject to the approval thereof by Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. It is expected that the remarketed Bonds will be available for delivery in definitive form on or about September 5, 2001.

**FIRST KENTUCKY SECURITIES CORPORATION**

\*Preliminary; subject to adjustment

This Remarketing Circular does not constitute an offering of any securities other than the offering of the Bonds identified on the cover hereof. No dealer, broker, salesman or any other person has been authorized to give any information or to make any representations, other than those contained in this Remarketing Circular, in connection with the offering described herein, and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Corporation, the Lessee or the Remarketing Agents. This Remarketing Circular does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the securities offered hereby or any offer or solicitation of such offer of the securities offered hereby to any person in any jurisdiction where such offer or solicitation of such offer or sale of such securities would be unlawful. Neither the delivery of this Remarketing Circular nor the sale of the Bonds implies that information herein is correct as of any time subsequent to the date hereof.

Information herein has been obtained from the Issuer, the Corporation, the Lessee and other sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a representation by, the Remarketing Agents.

The Bonds are not registered by the Issuer under the Securities Act of 1933, as amended, or any state securities laws, and are not listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other Federal, state, municipal or other governmental entity or agency has passed or will pass upon the adequacy of this Remarketing Circular or approved the Bonds for remarketing.

**CITY OF DANVILLE, KENTUCKY**

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ALEX W. STEVENS

**CITY OF RADCLIFF, KENTUCKY**

**Mayor**  
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**KENTUCKY LEAGUE OF CITIES**

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Lexington, Kentucky

**REMARKETING AGENT**

FIRST KENTUCKY SECURITIES CORPORATION  
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Peck, Shaffer & Williams LLP  
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## REMARKETING CIRCULAR

\$2,250,000\*

**CITY OF DANVILLE, KENTUCKY  
MULTI-CITY LEASE REVENUE BONDS  
(CITY OF RADCLIFF, KENTUCKY  
SEWER SYSTEM REVENUE REFUNDING PROJECT)  
FIXED RATE SERIES 2001-A**

### INTRODUCTION

The purpose of this Remarketing Circular is to provide information in connection with the remarketing of certain obligations of the City of Danville, Kentucky (the "Issuer") designated as its Multi-City Lease Revenue Bonds (City of Radcliff, Kentucky Sewer System Revenue Refunding Project) Fixed Rate Series 2001-A, in the aggregate principal amount of \$2,250,000\* (the "Bonds"). The Bonds were originally issued as part of the Issuer's \$152,975,000 Money Market Municipal Multi-City Lease Revenue Bonds (Kentucky Municipal League Pooled Lease Financing Program) Series 1989 (the "Original Bonds"). The descriptions of certain documents contained herein do not purport to be comprehensive or definitive, and are qualified in their entirety by reference to the documents themselves.

**This Remarketing Circular, together with the Appendices attached hereto, constitute the full and complete Remarketing Circular.**

A glossary of defined terms is set forth in Appendix A hereto. All terms not defined herein shall have the meanings ascribed to them in the Indenture.

The Original Bonds, including the Bonds, were issued under a Trust Indenture dated as of March 1, 1989 (the "Original Indenture" and together with all supplements, the "Indenture"), among the Issuer, the Kentucky Municipal Financing Corporation (the "Corporation") and Chase Manhattan Trust Company, National Association (successor by acquisition to PNC Bank, National Association, formerly known as Citizens Fidelity Bank and Trust Company), Louisville, Kentucky, as trustee (the "Trustee") and pursuant to the Constitution and laws of the Commonwealth of Kentucky, particularly, the provisions of § 58.010 *et seq.* of the Kentucky Revised Statutes, as amended.

The Original Bonds were issued to provide funds for a pooled lease financing program (the "Program") whereby participating cities and other political subdivisions in the Commonwealth of Kentucky can finance or refinance the acquisition of certain public projects intended for public and governmental purposes, by leasing such projects from the Corporation acting as the agent and instrumentality of the Issuer for purposes of the Program. Upon payment in full of all rentals and all other sums due under a particular lease with the Corporation, the lessee acquires all right, title and interest in and to the Project financed under such lease. The Issuer, the Corporation and the Trustee have entered into a Thirteenth Supplemental Indenture of Trust dated as of September 5, 2001 (the "Thirteenth Supplemental Indenture"), permitting the remarketing of certain of the Original Bonds (specifically the Bonds) as Fixed Rate Bonds without the support of the Credit Facility securing the payment of principal or purchase price of, or interest thereon.

The funds made available to the Lessee hereinafter identified pursuant to the Lease hereinafter described will be used for the purpose of (1) providing funds to retire the Lessee's outstanding Fixed Rate Lease Purchase Agreement dated as of June 3, 1991 (the "Prior Lease") with the Corporation and to thereupon currently refund on December 1, 2001, the Issuer's outstanding Multi-City Lease Revenue Bonds (City of Radcliff, Kentucky Sewer System Revenue Project), Fixed Rate Series 1991-B (the "Refunded Bonds") and (2) paying the costs and fees of delivering the Lease.

### THE BONDS

The Bonds being remarketed will be converted from the Money Market Municipal Rate to the Fixed Rate on the Fixed Rate Conversion Date shown on the cover hereof, and will be in denominations of \$5,000 and integral multiples thereof. The Bonds will bear interest as set forth on the cover hereof. The Bonds mature on March 1, 2019, but shall be subject to mandatory tender or redemption on the dates and in the amounts set forth on the cover hereof. The Bonds are not subject to optional redemption prior to their stated maturities. Reference is made to the Indenture for further details regarding the conversion of Fixed Rate Bonds to Money Market Bonds, tender provisions and redemption provisions.

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\*Preliminary; subject to adjustment

## **Special and Limited Obligations**

The Bonds are not general obligations of the Issuer, the Lessee or the Corporation but are special and limited obligations payable solely from the Series Trust Estate applicable to the Bonds. The Bonds do not constitute an indebtedness of the Issuer or the Lessee within the meaning of any constitutional or statutory debt limitation or restriction and do not constitute a pledge of the credit, revenues or taxing powers of the Issuer or the Lessee or the general credit of the Corporation.

## **Book Entry**

The following information regarding DTC and Cede & Co. will be applicable to the Bonds as long as a book entry system is utilized. Neither the Issuer nor the Lessee assumes any responsibility for the accuracy or completeness of the information set forth under this caption "Book Entry", and neither is required to supervise, and will not supervise, the operation of the book entry system described herein.

DTC is a limited purpose trust company organized under the laws of the State of New York, 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, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need of physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

Upon issuance of the Bonds, DTC Participants shall receive a credit balance in the records of DTC. ***The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") will be recorded through the records of the applicable DTC Participant.*** Beneficial Owners will receive a written confirmation of their purchase provided by the applicable DTC Participant, providing details of the Bonds acquired. Transfers of ownership interests in the Bonds ("Beneficial Ownership Interests") will be accomplished by book entries made by DTC and, in turn, by the DTC Participants who act on behalf of the Beneficial Owners. Beneficial Owners will **not** receive certificates representing their ownership interest in the Bonds.

Neither the Issuer nor the Lessee has any responsibility or liability for any aspects of the records relative to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership.

Principal, sinking fund, and interest payments on the Bonds will be made to DTC or its nominee, as registered owner of the Bonds.

Upon receipt of moneys, DTC's current practice is to immediately credit the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such DTC Participant or Indirect Participant and not of DTC, the Issuer or the Lessee, subject to any statutory and regulatory requirements as may be in effect from time to time.

A Beneficial Owner shall give notice to elect to have its Beneficial Ownership Interests purchased or tendered, through its DTC Participant, to the Paying Agent and Registrar, and shall effect delivery of such Beneficial Ownership Interests by causing the Direct Participant to transfer the DTC Participant's interest in the Beneficial Ownership Interests, on DTC's records, to the purchaser or the Paying Agent and Registrar, as appropriate. The requirements for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

The Paying Agent and Registrar, so long as a book entry method is used for the Bonds, will send only to DTC any notice of redemption or other notices required to be sent to Bondholders. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on such notice.

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

None of the Issuer, the Lessee or the Paying Agent and Registrar represent or give any assurances that DTC, the DTC Participants or Indirect Participants or others will distribute payments of debt service charges on the Bonds paid 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 will serve and act in the manner described in this Official Statement.

**Purchase and Redemption**

**Conversion of Interest Rate.** The interest rate on the Bonds will automatically convert to another interest rate in the amounts and on the dates for termination of the Fixed Rate Periods set forth on the cover hereof. The Bonds are subject to mandatory tender for purchase on such Conversion Dates at a Purchase Price equal to the principal amount thereof plus accrued interest thereon. Owners of Bonds converting to another interest rate will have no option to retain the Bonds upon such conversion.

**Notice of Mandatory Purchase.** Except for mandatory tenders occurring in accordance with the schedule set forth on the cover hereof, the Paying Agent will give notice by Mail to the Owners of Bonds of the Purchase Date for such Bonds, containing the information set forth in the Indenture (the “Conversion Notice”), not less than 30 days prior to the proposed Purchase Date.

**Delivery of Bonds Subject to Purchase.** On the applicable Conversion Date, all Bonds must be delivered to the Paying Agent for purchase (with all necessary endorsements) at the Purchase Price. Bonds will be deemed to have been tendered for purchase on the Conversion Date whether or not delivered to the Paying Agent.

Delivery of Bonds (with an appropriate transfer of registration executed in blank in form satisfactory to the Paying Agent) at the designated office of the Paying Agent at or prior to 10:00 a.m., New York City time, on the Purchase Date will be required for payment in same-day funds of the Purchase Price due on such Purchase Date. No owner of Bonds will be entitled to payment of the Purchase Price due on the Purchase Date except upon surrender of such Bonds as described above.

Undelivered Bonds will be deemed tendered for purchase and will be deemed no longer Outstanding. Interest on such Undelivered Bonds will cease to accrue on the applicable Purchase Date and the Owner thereof will not be entitled to any payment other than the Purchase Price for such Undelivered Bond and such Undelivered Bond will no longer be entitled to the benefits of the Indenture, except for the payment of the Purchase Price thereof upon presentation of such Bond.

**Redemption.** Under certain circumstances the Bonds will be subject to mandatory redemption rather than mandatory purchase. In such event, the provisions described above regarding mandatory purchase, notice of mandatory purchase and delivery of Bonds subject to purchase will apply to the redemption of Bonds so that the Bonds will be subject to mandatory redemption in the same manner as described for the mandatory purchase of Bonds.

The Bonds are not subject to optional redemption prior to their stated maturities.

**ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and uses of funds are as follows:

<b><u>Sources of Funds</u></b>	
Lease Proceeds	<u>\$2,250,000</u>
Total	<u>\$2,250,000</u>
<b><u>Uses of Funds</u></b>	
Retirement of Prior Lease	\$2,175,363
Costs of Conversion and Remarketing of Bonds	60,580
Surplus	<u>4,057</u>
Total	<u>\$2,250,000</u>

## THE LEASE AND ADDITIONAL SECURITY FOR THE BONDS

Pursuant to the Program and the terms of the Original Indenture, the Corporation has entered into a Lease Purchase Agreement (the "Lease") with the City of Radcliff, Kentucky (the "Lessee") to provide funds to refinance various improvements to the Lessee's Sewer system (the "System") which were financed initially with the proceeds of the Prior Lease (the "Project").

### **General Provisions**

The Lease provides for the payment by the Lessee of lease rental payments in amounts sufficient, together with amounts on deposit in and income from the investment of the funds and accounts established under the Indenture, to pay the principal of, premium if any, and interest on the Bonds when due. The holders of the Bonds will have a separate and distinct pledge of payments under the Lease as security for the payment of debt service on the Bonds. The amounts payable under the Lease are pledged as security for all the Bonds.

The following is a brief summary of certain provisions of the Lease. The summary does not purport to be comprehensive. All references to the Lease are qualified in their entirety by reference to the Lease, copies of which are available for review at the offices of the Trustee.

**Duration of Lease Term.** The Lease Term shall commence as of the date of delivery of the Bonds and shall terminate on the date of payment in full of all obligations thereunder.

**Base Rentals and Additional Rentals.** The Lessee shall pay from the sources provided in the Lease, Base Rentals directly to the Trustee during the Lease Term on the applicable Lease Rental Payment Date. The Lessee shall pay, from the sources specified in the Lease, Additional Rentals to the Trustee within fifteen (15) days after a written request therefor is mailed to the Lessee.

The Payments of Base Rentals shall be applied in order upon receipt thereof by the Trustee [1] to the accrued and unpaid interest component of Base Rentals; [2] to the accrued and unpaid principal component of Base Rentals; [3] to the Lessee's Proportionate Share of Program Expenses which have not been paid by Lessee or Lessor; and [4] to the accrued and unpaid Additional Rentals due from Lessee.

The payments of Additional Rentals shall be applied in order upon receipt thereof by the Trustee [1] to the accrued and unpaid Additional Rentals; and [2] the excess, if any, shall be held by the Trustee in an account for the credit of the Lessee until needed to be applied for the payment of Base Rentals or Additional Rentals coming due during the remainder of the Fiscal Year and then applied as overpayments.

**Agreement To Refinance the Project and Lease It to the Lessee.** The Lessee shall provide for the financing and refinancing of the Project as the agent of the Lessor through the application of moneys to be disbursed from the Lessee Acquisition Account. The Lessee shall take possession of the Project upon delivery thereof, and Lessor agrees to lease the Project to the Lessee for the Lease Term.

**Damage, Destruction or Condemnation.** If during the Lease Term [i] the Project or any portion thereof is destroyed, or damaged by fire or other casualty; [ii] title to, or the temporary or permanent use of the Project or any portion thereof or the estate of the Lessee or the Lessor in the Project or any portion thereof shall be taken under the power of eminent domain by any governmental authority; [iii] a material defect in construction of the Project shall become apparent, or [iv] title to or the use of all or any portion of the Project shall be lost by reason of a defect in title, then the Lessee shall continue to be obligated to pay Base Rentals and Additional Rentals.

**Obligation of the Lessee To Repair and Replace the Project.** The Lessor shall cause the Net Proceeds of any insurance policies, performance bonds, condemnation awards or Net Proceeds received as a consequence of default under a construction contract or made available by reason of any occurrence described above, to be deposited in the Lessee Acquisition Account, if received before the completion date of the Project, or, if received thereafter, to be deposited in a separate trust fund held by the Trustee. Net proceeds so deposited shall be applied to the prompt repair, restoration, modification, improvement or replacement of the Project. The balance of any such net proceeds remaining after such repair, restoration, modification, improvement or replacement has been completed shall be applied to prepayment of the principal components of Base Rentals. Any repair, restoration, modification, improvement or replacement paid for in whole or in part from such net proceeds shall be the property of the Lessor, subject to the Lease, and shall be included as part of the Project under the Lease.

**Maintenance of the Project by the Lessee.** The Lessee agrees that, during the Lease Term and at its sole cost and expense, 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, and that the Lessee will from time to time make or cause to be made all necessary and proper repairs, except as otherwise provided in the Lease.



Provisions Regarding Casualty, Public Liability and Property Damage Insurance. The Lessee shall cause casualty and property damage insurance to be carried and maintained with respect to the Project in an amount equal to the aggregate principal components of Base Rentals then payable; or the replacement cost of the Project, whichever is greater. The insurance policy may have a deductible clause not greater than that then customarily carried by the Lessee. The Project may be insured under a blanket insurance policy which insures other buildings as well as long as such blanket insurance policy complies with the requirements of this Lease. The Lessee shall, at its own expense, cause public liability insurance (which may be self-insurance) to be carried and maintained with respect to the Project. Such insurance shall be in amounts and with such coverages and exclusions as are customary and reasonable for the Lessee. Any self-insurance fund shall be reviewed annually by the Lessee's risk manager or an independent insurance consultant. The Lessor may rely on a certificate of the Lessee's risk manager or an independent insurance consultant (dated as of the first day of the Fiscal Year) as to the adequacy of any self-insurance fund.

No Encumbrance, Mortgage or Pledge of Project. The Lessor and the Lessee shall not permit any mechanic's or other lien to be perfected or remain against the Project; provided that subsequent to the Completion Date, if the Lessee shall first notify the Lessor, the Lessee may in good faith contest any mechanic's or other lien filed or perfected against the Project, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom unless the Lessor shall notify the Lessee that, in the opinion of Independent Counsel, by nonpayment of any such items the Lessor's title to the Project, or the lien on the Project, will be materially endangered or the Project or any part thereof will be subject to loss or forfeiture, in which event the Lessee shall promptly pay and cause to be satisfied and discharged all such unpaid items (provided, however, that such payment shall not constitute a waiver of the right to continue to contest such items). The Lessor will cooperate fully with the Lessee in any such contest, upon the request and at the expense of the Lessee. Neither the Lessor nor, except as provided above, the Lessee shall directly or indirectly create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Site or the Project, except Permitted Encumbrances. The Lessee shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim not excepted above which it shall have created, incurred or suffered to exist. The Lessor shall promptly, at its own expense, take such action as may be necessary to duly discharge any such mortgage, pledge, lien, charge, encumbrance or claim not excepted above which it shall have created, incurred or suffered to exist.

"Permitted Encumbrances" means, as of any particular time: [a] liens for taxes and assessments not then delinquent, or liens which may remain unpaid pursuant to the provisions of the Lease; [b] the Lease; [c] any lien created by a Collateral Document; [d] utility, access and other easements and rights of way, restrictions and exceptions which do not, in the opinion of the Independent Counsel, interfere with or impair the Project; [e] any Financing Statements filed to perfect security interests; [f] such minor defects, irregularities, encumbrances and clouds on title as normally exist with respect to property of the general character of the Equipment and Improvements and as do not, in the opinion of the Independent Counsel, materially impair title to the Project; and [g] such additional liens described as an additional Permitted Encumbrance in Exhibit G of the Lease.

Conveyance of the Project. The Lessor shall convey the Project to the Lessee, in the manner provided in the Lease if prior to such conveyance Lessee shall have paid in full all Lease Rental Payments required under the Lease for the Lease Term.

Events of Default Defined. The following shall be "Events of Default" or "Defaults" under the Lease:

- A. failure by the Lessee to pay any Base Rentals at the time specified therein;
- B. failure by the Lessee to pay any Additional Rentals or to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in A above, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied shall have been given to the Lessee and the Bond Insurer by the Lessor and the Bond Insurer, unless the Lessor shall agree in writing to an extension of such time prior to its expiration; provided, however, that if such failure cannot be corrected within the applicable period, the Lessor and the Bond Insurer will not unreasonably withhold their consent to an extension of time if corrective action is instituted by the Lessee within the applicable period and diligently pursued until such failure is corrected. If, however, by reason of Force Majeure, the Lessee is unable in whole or in part to carry out any of its agreements contained in the Lease (other than its obligations contained in Section 2.1 and Article 6 thereof), the Lessee shall not be deemed in default during the continuance of such inability. The Lessee agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the Lessee from carrying out such agreement, provided that the settlement of strikes and other employee-related disturbances shall be entirely within the discretion of the Lessee and the Lessee shall not be required to make settlement of strikes, lockouts and other employee-related disturbances by acceding to the demands of the opposing party or parties when such course is in its judgment unfavorable to the Lessee;

- C. a default or event of default under a Collateral Document, if any;
- D. a failure to use or apply the funds in the Acquisition Account to pay the costs of the Project or as otherwise permitted under the Lease;
- E. a breach by Lessee of the representations, covenants and warranties set forth in the Lease;
- F. the dissolution or liquidation of the Lessee, or the voluntary initiation by the Lessee of any proceeding under any federal or state law relating to bankruptcy, insolvency, arrangement, reorganization, readjustment of debt or any other form of debtor relief.
- G. Such additional events of default as may be described in Exhibit G to the Lease.

**Remedies on Default.** Whenever an Event of Default shall have happened and be continuing, the Trustee, on behalf of the Lessor, may, or at the request of the Owners of a majority in aggregate principal amount of the Bonds Outstanding shall, without any further demand or notice, exercise any of the remedies set forth below:

- A. The Trustee may (i) terminate the Lease and give notice to the Lessee to vacate or surrender the Project, within sixty (60) days from the date of such notice or (ii) declare that all interest and principal components of Base Rentals and all Additional Rentals are immediately due and payable.
- B. The Trustee shall be entitled to all amounts on deposit in the Lessee's Acquisition Account.
- C. The Trustee may exercise all the rights and remedies of a secured party under the Kentucky Uniform Commercial Code with respect to any personal property comprising a portion of the Project and may otherwise repossess and liquidate such property in any lawful manner.
- D. The Trustee, acting for the Lessor, may sublease the Project or any portion thereof.
- E. The Trustee, acting for the Lessor, may recover from the Lessee the Optional Prepayment Price, calculated to the date of recovery of such amount.
- F. The Trustee may sell or otherwise dispose of the Project and apply the proceeds to payment of amounts due.
- G. The Trustee may, acting for the Lessor, take whatever action at law or in equity may appear necessary or desirable to enforce its rights in and to the Project under the Lease and any Collateral Documents.

**Application of Revenues**

The Lessee's Sewer system (the "System"), more specifically described in Appendix C hereto, is required to be operated as a Sewer system for the security and source of payment of the Lease, the Bonds, the Current Bonds and any Parity Debt (as hereinafter described). The Sewer Revenue Bond Ordinance of the Lessee adopted on May 3, 1978 (the "1978 Bond Ordinance") established the various funds and accounts of the System and the procedures for applying System revenues. Capitalized terms used in the following paragraphs and not defined therein or in Appendix A are defined in the Lease.

The Gross Income and Revenues of the System shall be set aside as and when received into the Revenue Fund and shall then be expended, used and apportioned as follows:

**Flow of Funds**

- A. **Current Sinking Fund:** There shall be transferred on or before the first day of each month, from the Current Revenue Fund, the amounts hereinafter specified to pay the interest on and principal of the Current Bonds as may be outstanding from time to time, together with any additional Parity Debt and to accumulate a sinking fund reserve (the "Current Sinking Fund Reserve") as a debt service reserve. The amount to be so set aside shall be amounts sufficient to pay the Adjusted Net Annual Debt Service Requirements of the Current Bonds and any Parity Debt (the "Required Reserve"). Said monthly installments shall be sums not less than the following respective amounts:

1. Monthly Interest Payments: An amount equal to one-sixth (1/6) of the interest becoming due on the Current Bonds and any Parity Debt on the next succeeding interest due date; subject to there being credited on such foregoing requirements the amount of interest received on the investment of the Reserve in the Current Sinking Fund and the interest received on the Invested Sinking Fund; plus
2. Monthly Principal Payments: An amount equal to one-twelfth (1/12) of the principal amount of all Current Bonds and any Parity Debt maturing on the next succeeding December 1; the foregoing requirements to be credited by the interest received on the Current Sinking Fund Reserve and the interest received on the Invested Sinking Fund.
3. Monthly Sinking Fund Reserve Payments: An amount equal to 1/60 of the difference between the amount initially deposited into the Current Sinking Fund Reserve and the amount of the Required Reserve specified above, so that such total Required Reserve will be accumulated on or before 5 years from the date of issuance of any Parity Debt.

Whenever said Required Reserve shall have been accumulated and is being maintained in the Current Sinking Fund Reserve, the amount to be set aside thereafter into the Current Sinking Fund on or before the first day of each month, from the Current Revenue Fund, may be decreased to the amounts required in (1) and (2) above; and the additional amounts required by (3) above may then be discontinued; provided further, however, that additional monthly deposits equal to 1/60 of the additional reserve to be accumulated to restore the Required Reserve shall be resumed if and whenever authorized disbursements from the Current Sinking Fund Reserve shall reduce the balance therein below the Required Reserve, such increased deposits to be continued for such period of time as may then be required in order to restore the balance in the Current Sinking Fund Reserve to such Required Reserve, after which such deposits may again be reduced to 100% of the current annual debt service requirements as specified in (1) and (2) above.

As and when additional Parity Debt is issued, provisions shall be made for additional payments into the Current Sinking Fund to pay the interest on and the principal of such additional Parity Debt as and when the same become due, and for increasing the Current Sinking Fund Reserve by similarly calculated monthly deposits, viz., the amounts required by (1) and (2) above plus 1/60 in each month of the total additional amount necessary to restore the Required Reserve to an amount equal to not less than the average Net Annual Debt Service Requirements of all bonds then scheduled to be outstanding (including such additional Parity Debt) falling due in any twelve-month period thereafter, which Current Sinking Fund Reserve shall be similarly maintained and restored when necessary; provided, however, that if, whenever, and so long as, the total amount on deposit in the Current Sinking Fund Reserve is equal to the then Required Reserve, the only amounts required to be deposited in each month into the Current Sinking Fund shall be the amounts specified in subsections (1) and (2) above (1/6 of the next semi-annual interest payment plus 1/12 of the next annual principal payment).

The Current Sinking Fund and the Current Sinking Fund Reserve have been pledged for the payment of the interest on and the principal of the Current Bonds and on any additional Parity Debt and are subject to a first and paramount lien and charge in favor of the holders of the Current Bonds.

No further payments need to be made into the Current Sinking Fund or into the Current Sinking Fund Reserve (a) whenever and so long as such amount of the Current Bonds or Parity Debt shall have been retired that the amounts then held in the Current Sinking Fund, including the Current Sinking Fund Reserve, are equal to the entire amount of the interest and principal that will be payable to and at the time of the retirement or maturity of all the Current Bonds and any Parity Debt then remaining outstanding, or (b) whenever the Current Bonds and any Parity Debt shall have been defeased.

Such payments into the Current Sinking Fund and the Current Sinking Fund Reserve shall be made in equal monthly installments on or before the first day of each month, except that when the first day of any month shall be on a Sunday or legal holiday, then such payments shall be made on the next succeeding secular or business day.

In the event that the income and revenues during any month are inadequate to make the required payments into the Current Sinking Fund and/or the Current Sinking Fund Reserve, the deficiency shall be made up and paid from the first available income and revenues thereafter received, and same shall be in addition to payments otherwise provided to be made in such succeeding month or months.

- B. Current Renewal and Replacement Fund of 1978: Subject to the foregoing disposition of the revenues of the System, there shall be set aside and paid into the Current Renewal and Replacement Fund of 1978 in each month, as the next payment from the Current Revenue Fund, beginning on or before the first day of the month following the month in which the Current Bonds were delivered, an amount equal to not less than 1/12 of 5% of the annual gross income and revenues of the System for the previous fiscal year, if, whenever and so long as the amount on deposit in said Current Renewal and Replacement Fund of 1978 shall be less than the sum of \$100,000; provided that whenever and so long as said sum of \$100,000 is maintained, no monthly deposits are required to be made into the Current Renewal and Replacement Fund of 1978. There shall also be deposited in the Current Renewal and Replacement Fund of 1978 the proceeds of the sale of equipment no longer usable or needed, any tapping and connection charges, fees or charges collected from potential customers and the proceeds of any property damage insurance not immediately used to replace the damaged or destroyed property.

Moneys in the Current Renewal and Replacement Fund of 1978 may be withdrawn and used upon appropriate certification by whatever official is duly authorized by the governing body of the Lessee to make such certification, for the purpose of paying the cost of making unusual or extraordinary maintenance, repairs renewals and/or replacements to the System not included in the annual budget of current expenses, which would be necessary to keep the System in good operating condition, or for the purpose of paying the cost of constructing extensions, additions and/or improvements to the System which will either enhance the revenue-producing capacity of the System or provide a higher degree of service; provided, however, that if the available balance in the Current Sinking Fund and the Current Sinking Fund Reserve on any May 20 or November 20 shall be insufficient to pay the next maturing installment of interest and/or principal of the Current Bonds and any Parity Debt, the Issuer shall withdraw and transfer from the Current Renewal and Replacement Fund of 1978 such amounts as may be required to avoid a default. Provided further that any such withdrawals shall be promptly restored to the Current Renewal and Replacement Fund of 1978 from the first revenues of the System available after meeting all current requirements of the Current Sinking Fund, including the Current Sinking Fund Reserve.

All funds on deposit in the Current Renewal and Replacement Fund of 1978 shall be kept separate and apart from all other municipal funds and shall be deposited, secured and/or invested in the manner provided herein for the deposit, security and/or investment of the Current Sinking Fund.

- C. Current Operation and Maintenance Fund: Subject to the foregoing disposition of the revenues of the System, and after transfer of the amounts required to be transferred by A and B above, there shall be transferred from the Current Revenue Fund and deposited, from month to month, or as needed, such amounts as are required to pay, as they accrue, the proper and necessary costs of operating, maintaining and insuring the system, as set out in the "Current Expenses" contained in the annual budget. Subject to the foregoing requirements, all costs of operating, maintaining and insuring said System shall be paid from the Current Operation and Maintenance Fund.

All funds in the Current Operating and Maintenance Fund shall be kept separate and apart from all other municipal funds and shall be deposited, secured and/or invested in the manner provided herein for the deposit, security and/or investment of the Current Sinking Fund.

There shall be paid into and retained in the Current Operation and Maintenance Fund an amount at least equal to one-sixth (1/6) of the amount budgeted for current operating expenses for the current fiscal year, thereby maintaining in said Fund an amount equal to two months' requirements.

- D. Surplus Funds: If, at the end of any fiscal year, after making the payments required by the foregoing, there shall remain a balance in the Current Revenue Fund in excess of the amounts required to be transferred during the ensuing year, such balance within sixty (60) days after the end of such fiscal year, may be used as follows:

1. To retire or redeem outstanding Current Bonds or Parity Debt in inverse order of maturities, to purchase Current Bonds or Parity Debt in the open market, or to purchase Current Bonds or Parity Debt through advertisement for and receipt of tenders of Current Bonds or Parity Debt, at not exceeding the call price, as may be determined by the governing body of the Lessee;
2. To transfer additional amounts to the Current Sinking Fund Reserve;
3. To transfer additional amounts to be the Current Renewal and Replacement Fund of 1978;
4. To transfer additional amounts to the Current Operation and Maintenance Fund;

5. To pay principal and interest requirements of any outstanding junior and subordinate obligations against the System, or any part thereof.
6. Provided further that after the following shall have been accumulated and are being maintained;
  - (a) the Required Reserve (Current Sinking Fund Reserve);
  - (b) the amount required to be accumulated in the Current Renewal and Replacement Fund of 1978, as specified above;
  - (c) an amount equal to two month's average requirements of the Operating and Maintenance Fund; and
  - (d) an amount in the Sinking Fund (exclusive of the Required Reserve) equal to the Net Annual Debt Service Reserve Requirements for the ensuing year,

any surplus in the Current Revenue Fund then remaining, may, at the direction of the Governing Body, be transferred and used for any lawful purpose of the Lessee.

### **Security**

**Pledge of Gross Income and Revenues:** Pursuant to the Lease, the Gross Income and Revenues of the System are being pledged and assigned as security for the payment of the Lease Rental Payments and any additional Parity Debt. The Gross Income and Revenues will be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge will be valid and binding as against all persons having claims of any kind in tort, contract or otherwise against the Lessee, irrespective of whether such persons have notice thereof. The pledge created, insofar as it relates to the Gross Income and Revenues, is on a parity with the pledges and assignments created and existing by the 1978 Bond Ordinance for the security and source of payment of the Current Bonds and any additional Parity Debt. The Pledge created under the Lease is and shall be superior to a pledge of such Gross Income and Revenues securing any Inferior Debt.

Nothing contained in the Lease is to be construed as limiting any authority granted to the Lessee in the 1978 Bond Ordinance to issue other Inferior Debt or to be a limitation upon the authority of the Lessee to issue bonds, notes or other obligations secured by other income, property and funds other than the Gross Income and Revenues of the System.

**Debt Service Reserve.** A debt service reserve is required to be maintained for all Current Bonds and Parity Debt under the terms of the 1978 Bond Ordinance in an amount equal to the Required Reserve. The Required Reserve and Current Sinking Fund Reserve are described above under the heading "Application of Revenues" – A. "Current Sinking Fund". An amount equal to the Required Reserve will be on deposit in the Current Sinking Fund Reserve on the date of delivery of the Bonds.

**Parity Debt to Finance Additional Facilities.** The Lessee reserves the right to add new sewer facilities, and/or related auxiliary facilities, and/or to finance future extensions, additions and/or improvements to the System by the issuance of additional obligations on a parity with the Current Bonds of the Lessee and the Lease ("Parity Debt") which are to be secured by a parity lien on and ratably payable from the revenues of the System; provided that:

- A. The facility or facilities to be constructed from the proceeds of the additional Parity Debt issued for that purpose is or are made a part of the System and its or their revenues are pledged as additional security for the additional Parity Debt and the outstanding Current Bonds.
- B. There shall have been procured and filed with the Clerk of the Lessee a statement by a Certified Public Accountant reciting the opinion based upon necessary investigation that all payments required by the 1978 Bond Ordinance are current and that the net revenues of the System for 12 consecutive months out of the preceding 18 months (with adjustments as hereinafter provided) were equal to at least 1.3 times the average Adjusted Net Annual Debt Service Requirements on the Current Bonds then outstanding and any Parity Debt including the debt then proposed to be issued. (The Calculation of the average Adjusted Net Annual Debt Service Requirements for principal of and interest on the additional debt to be issued shall be determined on the basis of the principal of, and interest on, such debt and all outstanding bonds being payable in approximately equal annual installments.)

“Adjusted Net Annual Debt Service Requirements” as used herein are defined as the Net Annual Debt Service Requirements minus the income on the Reserve in the Current Sinking Fund, if at the time of calculating the Adjusted Net Annual Debt Service Requirements, such Reserve in the Current Sinking Fund is being maintained as required in the 1978 Bond Ordinance.

“Net Revenues” as herein used are defined as Gross Income and Revenues of the System less operating expenses, which shall include salaries, wages, cost of maintenance and operation, materials and supplies, pumping costs, insurance, and all other items that are normally and regularly so included under recognized accounting practices, exclusive of allowances for depreciation.

“Gross Income and Revenues” shall include connection fees, disconnection fees, and all other items of income which have been established as “reasonably anticipated annual income of the System”, based upon a certification of independent consulting engineers and/or certified public accountants.

“Operating Expenses” shall include only those items of costs of maintenance and operation which are “reasonably anticipated annual operation and maintenance expense of the System”, and shall exclude any unusual items of operation and maintenance expense which are of a generally non-recurring nature, according to the certification of independent consulting engineers and/or of certified public accountants.

Such “Net Revenues” may be adjusted for the purpose of the foregoing computations to reflect (i) any revisions in the schedule of rates or charges being imposed at the time of the issuance of any such additional Parity Debt, and also to reflect (ii) any increase in such Net Revenues projected by reason of the revenues anticipated to be derived from the extensions, additions and/or improvements to the System, or any separate acquired (or to be acquired) sewer system or facilities being financed (in whole or in part) by such additional Parity Debt; provided such latter adjustment shall be made only if contracts (secured by 100% performance bond) for the immediate acquisition and/or construction of such extensions, additions and/or improvements, or contracts for the acquisition of an existing sewer system or existing sewer facilities have been or will have been entered into prior to the issuance of such additional Parity Debt. All of such adjustments shall be based upon the written certification of an independent consulting engineer.

Parity Debt to Refund or Refinance Outstanding Bonds or Parity Debt. The Lessee reserves the right to issue one or more additional series of bonds to be secured by a parity lien on and ratably payable from the revenues of the System, for the purpose of refunding or refinancing the outstanding Current Bonds, or any portion thereof, and/or any then previously issued Parity Debt, provided that prior to the issuance of such additional Parity Debt for that purpose, there shall have been procured and filed with the Clerk of the Lessee a statement by a certified public accountant reciting the opinion based upon necessary investigation that:

- A. after the issuance of such Parity Debt, the annual Net Revenues, as adjusted and defined above, of the then existing System for the fiscal year preceding the date of issuance of such Parity Debt, after taking into account the revised Adjusted Net Annual Debt Service Requirements resulting from the issuance of such Parity Debt and from the elimination of the debt being refunded or refinanced thereby, are equal to not less than 130% of the average Adjusted Net Annual Debt Service Requirements thereafter on all of the then outstanding bonds or debt payable from the revenues of the System, calculated in the manner specified above; or
- B. in the alternative, that the Net Debt Service Requirements for the Current Bonds, any then previously issued Parity Debt and the proposed parity refunding bonds or debt, in any year of maturities thereof after the redemption of the Current Bonds or Parity Debt scheduled to be refunded through the issuance of such proposed parity refunding bonds or debt, shall not exceed the scheduled Net Annual Debt Service Requirements applicable to the then outstanding Current Bonds and any then previously issued Parity Debt for any corresponding year prior to the issuance of such proposed parity refunding bonds or debt.

**Rate Covenants**

While the Current Bonds and Parity Debt; including the Lease, or any of them, remain outstanding and unpaid, the rates for all services and facilities rendered by the System to the Lessee and to its citizens, corporations, or others requiring the same, shall be reasonable and just, taking into account and consideration the cost and value of the System, the cost maintaining and operating the same, the proper and necessary allowance for depreciation thereof, and the amounts necessary for the retirement of all Bonds and the accruing interest on all such Bonds as may be outstanding under the provisions of the 1978 Bond Ordinance. Compensation for services and facilities rendered to the Lessee, shall be made by monthly payments into the Current Revenue Fund the same as other income and revenues of the System are paid, and shall then be apportioned as other income and revenues thereof are required by the 1978 Bond Ordinance to be apportioned among the various funds. Prior to the issuance of the Lease, a schedule of rates and charges for the services rendered by the System to all users adequate to meet all requirements of the 1978 Bond Ordinance has been established and adopted and is now in full force and effect.

## **Other Covenants**

The Lessee further covenants, so long as the Lease is outstanding, as follows:

- A. It will at all times own and operate the System as a combined and consolidated public project on a revenue-producing basis, and will permit no services to be rendered free of charge or without full compensation.
- B. It will at all times maintain the System in good condition through application of revenues accumulated and set aside for operation and maintenance as described above and will make renewals and replacements, as the same may be required, through application of revenues accumulated and set aside into the Current Renewal and Replacement Fund of 1978.
- C. It will not permit any competing sewer system, public or private, to sell sewer services to customers within the corporate limits of the Lessee and its outside service area, to the extent the Lessee is legally able to prevent same.
- D. It will perform all duties with reference to the System required by the Statutes and Constitution of Kentucky and will not sell, lease, mortgage or in any manner dispose of the System, or any part thereof except as permitted under law and the terms of the 1978 Bond Ordinance.
- E. It will cause rates and charges for services furnished by the System to be billed monthly to customers of the System, and will provide that sewer service will be discontinued to any premise where there is a failure to pay any part of the charges so billed for a period of sixty (60) days following the due date of such bill, including such penalties and fees for disconnection and/or reconnection as may be prescribed from time to time, to the greatest extent permitted by law. Also, to the greatest extent permitted by law, it will cause anyone furnishing water service to any sewer user who does not pay his bill for sewer service, to disconnect the water service from such customer of the Lessee for sewer service. The Lessee shall not reduce the existing rates unless and until all principal and interest requirements have been paid, there has been accumulated in the Current Sinking Fund Reserve a balance equal to no less than the average principal and interest requirements on the Current Bonds and all Parity Debt and the Lessee has obtained a written determination of a certified public accountant that the proposed reduction will not adversely affect the ability of the Lessee to meet all of the requirements of the 1978 Bond Ordinance, including the requirement that rates must be maintained so as to produce net revenues equal to not less than 1.3 times the average Adjusted Net Annual Debt Service Requirements.

Further information concerning the Lessee and the Lessee's Sewer system is set forth in attached Appendix C. Additional information about the Lessee may be obtained from the Corporation by writing to the Kentucky League of Cities, 101 East Vine Street, Suite 600, Lexington, Kentucky 40507, Attention Garrett Drakeford.

## **THE INDENTURE**

The Original Indenture provided that the Original Bonds were secured by a letter of credit issued by PNC Bank, National Association (the "Credit Facility"). The Thirteenth Supplemental Trust Indenture, dated as of September 5, 2001 (the "Thirteenth Supplemental Indenture"), among the Trustee, the Corporation and the Issuer, modifies the Original Indenture to permit the remarketing of a portion of the Original Bonds, at a fixed rate without the benefit of the Credit Facility securing the principal or purchase price of or interest on such portion of the Original Bonds.

The following is a brief summary of certain provisions of the Indenture, as supplemented. The summary does not purport to be comprehensive. All references herein to the Indenture, as supplemented are qualified in their entirety by reference to such document, copies of which are available at the office of the Trustee.

### **Series Trust Estate**

The Bonds will be secured by a separate and distinct Series Trust Estate created with respect to the Bonds. Nothing in the Bonds or the Thirteenth Supplemental Indenture will be considered as assigning or pledging any other funds or assets of the Issuer other than the Series Trust Estate. Subject to the prior lien and security interest on the Series Trust Estate for the benefit of the Owners of the Bonds, the Series Trust Estate is also pledged on a subordinated basis as security for the payment of principal and Purchase Price of, premium, if any, and interest on the Original Bonds. The Bonds will not be secured by the Credit Facility and the provisions of the Original Indenture relating to draws on the Credit Facility or Alternate Credit Facility in order to pay principal or Purchase Price of or interest on Bonds shall not apply to the Bonds.

When the Bonds are no longer Outstanding, the priority lien and security interest on the Series Trust Estate shall cease and be discharged.

THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE ISSUER, THE LESSEE OR THE CORPORATION BUT ARE LIMITED OBLIGATIONS PAYABLE SOLELY AND ONLY FROM THE SERIES TRUST ESTATE. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

### **Conversion of Original Bonds to Supplemental Bonds**

Original Bonds in the aggregate principal amount of \$2,250,000\* shall be converted to the Bonds pursuant to the terms and conditions and subject to the procedures set forth in the Original Indenture relating to conversion of Money Market Municipal Bonds to Fixed Rate Bonds and certain requirements set forth in the Thirteenth Supplemental Indenture.

### **Description of the Bonds**

The Bonds shall be dated the date of their conversion to Fixed Rate Bonds and will bear interest at the Fixed Rate determined as provided in the Thirteenth Supplemental Indenture. The Bonds will be fully registered Fixed Rate Bonds in Authorized Denominations. The Bonds will mature as provided in the Original Indenture. Payment of the Purchase Price and principal of and interest on the Bonds shall not be secured by the Credit Facility or the Trust Estate created by the Original Indenture.

### **Payment of Principal and Interest**

The Issuer covenants that it will promptly pay the principal and Purchase Price of, and premium, if any, on the Bonds in the manner provided in the Bonds, and interest on the Bonds shall be payable on each Interest Payment Date at the rates set forth in the Lease; provided that all such payments are payable by the Issuer from the Series Trust Estate.

### **Funds and Accounts**

Creation of Funds. Under the Original Indenture the Issuer created and established the following Funds to be held by the Trustee which may be applicable to the Bonds: (a) the Debt Service Reserve Fund, (b) the Project Fund and, within the Project Fund, Lessee Acquisition Accounts; and (c) the Revenue Fund and, within the Revenue Fund, a Lessee Account. Segregated funds and accounts have been established under the Thirteenth Supplemental Indenture, hereinafter described, and descriptions of such accounts are provided under the heading "Creation of Segregated Accounts."

Creation of Segregated Accounts. In connection with the conversion and remarketing of the Bonds, the Trustee will create a separate series of Segregated Accounts identified by the series designation of the Bonds in the Revenue Fund. The Paying Agent will also create a separate Segregated Account in the Principal and Interest Account of the Paying Agent Fund and may create a separate premium account if deposits are made to pay premium upon purchase or redemption of the Bonds.

Lease and Lessee Acquisition Account. Except as described herein, the provisions of the Original Indenture shall apply to the Lessee Acquisition Account, the Lease, and the closing of the Lease with respect to which the Bonds are being converted and remarketed except that the Lessee Acquisition Account shall constitute a part of the Series Trust Estate and the total principal component of Base Rentals to be due under such Lease shall be equal to the total principal amount of the Bonds. Notwithstanding the provisions of the Original Indenture, amounts remaining in the Lessee Acquisition Account after delivery of a completion certificate shall be used to (i) finance additional improvements to the System or (ii) pay Base Rentals next coming due and payable.

Deposit of Moneys in Funds or Accounts. All payments received by the Trustee pursuant to the Lease shall be deposited in the respective Segregated Accounts created by the Thirteenth Supplemental Indenture, provided that if, the deposit of any funds is not provided for in the Thirteenth Supplemental Indenture, deposits shall be made in accordance with the Original Indenture.

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\*Preliminary; subject to adjustment



Applications of Moneys in Funds or Accounts. Amounts on deposit in the Segregated Account shall be applied as follows:

- A. Revenue Fund. Moneys in the Segregated Account of the Revenue Fund shall be applied on a first-in, first-out basis to make the payments specified below in the order of priority specified below; provided however that investment earnings on the Segregated Account of the Revenue Fund will be applied for such payments prior to the use of any other moneys in the Segregated Account of the Revenue Fund:
1. At such times as are necessary to pay interest on the Bonds; and
  2. At such times as are necessary to pay Program Expenses under the Lease; and
  3. At such times and for such other purposes as may be authorized or permitted by the Thirteenth Supplemental Indenture or as may be required under the Lease.
- B. Lessee Account.
1. Liquidation Proceeds and any payment by the Lessee of its Optional Prepayment Price will be deposited in the Lessee's Lessee Account in the Revenue Fund and shall constitute a part of the Series Trust Estate. All interest earnings thereon shall be transferred to the Lessee as received or applied as a part of the Optional Prepayment Price, if necessary, to fully pay all of the Lessee's obligations under the Lease or under the Thirteenth Supplemental Indenture or to the Bond Insurer. Amounts shall be transferred from the Lessee Account to the Segregated Accounts of the Paying Agent Fund as needed to pay principal of and premium and interest on the Bonds.
  2. On the date the Optional Prepayment Price is used to redeem Bonds or is deposited in the Revolving Fund Account, and after payment in full of all amounts due and owing to the Bond Insurer, any remaining funds in the Lessee Account shall be paid to the Lessee or other person from which they were received, as directed by the Corporation on behalf of the Issuer.

Deposits of Moneys in Segregated Account of the Paying Agent Fund. The Paying Agent shall deposit any moneys for the payment of the principal of and interest on the Bonds in the Segregated Account of the Principal and Interest Account for the Bonds and shall deposit any moneys for the payment of any premium on the Bonds in a special segregated premium account to be established for such purpose in the Paying Agent Fund. The Paying Agent will use moneys in the Segregated Principal and Interest Account for the Bonds on each Bond Payment Date for the payment of the principal of and interest on the Bonds then due and payable, whether by redemption, maturity or acceleration.

Moneys To Be Held in Trust. All moneys required to be deposited with or paid to the Trustee or the Paying Agent for account of any fund established under any provision of the Thirteenth Supplemental Indenture shall be held by the Trustee or the Paying Agent, as the case may be, in trust, and except moneys deposited with or paid to the Trustee or the Paying Agent for the redemption of the Bonds, notice of the redemption of which has been duly given, shall, while held by the Trustee or the Paying Agent, constitute part of the Series Trust Estate and be subject to the security interest created thereby.

### **Investment of Funds**

Any moneys transferred to and held in the Lessee Acquisition Account shall be promptly invested and reinvested as provided in the Lease by the Trustee pursuant to written directions from the Lessee, or, in the absence of such direction by the Lessee, in the sole discretion of the Trustee, which shall mature, or be subject to redemption at the option of the holder thereof, not later than the dates when the moneys in the Lessee Acquisition Account are expected to be required for the purposes intended. All earnings on moneys in the Lessee Acquisition Account shall be credited to that account.

### **Defeasance**

If the Issuer pays or causes to be paid to the Owner of any Bond the principal of and interest due and payable and thereafter to become due and payable on such Bond, or any portion of such Bond in an Authorized Denomination thereof, such Bond or portion thereof will cease to be entitled to any lien, benefit or security under the Indenture. If the Issuer pays or causes to be paid the principal of and interest due and payable on all Outstanding Bonds, pays or causes to be paid all other sums payable by the Issuer, including all fees, expenses and other amounts payable to the Trustee, the Paying Agent, the Registrar, the Corporation and the Remarketing Agent, then, and in that case, the right, title and interest of the Trustee in and to the Series Trust Estate will thereupon cease, terminate and become void.

Any Bond will be deemed to be paid for all purposes of the Thirteenth Supplemental Indenture when (a) payment of the principal of such Bond plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption as provided in the Thirteenth Supplemental 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 Government 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, (b) all necessary and proper fees, compensation and expenses of the Trustee, the Paying Agent, the Registrar, the Corporation and the Remarketing Agent pertaining to the Bonds with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Trustee, and (c) the Trustee has received a report from a firm of certified public accountants that the amount set forth in (a)(ii) above is sufficient to make such payments and an opinion of bond counsel that such deposit of funds will not adversely affect the excludability from gross income of the interest on the Bonds for Federal income tax purposes. At such times as a Bond is deemed to be paid hereunder, as aforesaid, such Bond will no longer be secured by or entitled to the benefits of the Thirteenth Supplemental Indenture, except for the purposes of any such payment from such moneys or Government Obligations.

Notwithstanding the foregoing paragraph, no deposit under (a)(ii) above will be deemed a payment of such Bonds as aforesaid until (a) proper notice of redemption of such Bonds has been given in accordance with the Indenture or if the Bonds are not to be redeemed within the next succeeding sixty (60) days, until the Issuer has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions to notify, as soon as practicable, the Owners of the Bonds to be redeemed, that the deposit required by (a)(ii) above has been made with the Trustee and that the Bonds are deemed to have been paid in accordance with the Thirteenth Supplemental Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of the Bonds plus interest thereon to the due date thereof, or (b) the maturity of the Bonds.

### **Events of Default and Remedies**

In no event shall an Event of Default under the Original Indenture constitute an Event of Default under the Thirteenth Supplemental Indenture unless it is also an Event of Default under the Thirteenth Supplemental Indenture. In like manner, no Event of Default under the Thirteenth Supplemental Indenture with respect to the Bonds will constitute an Event of Default under the Original Indenture or an Event of Default with respect to any other series of Supplemental Bonds.

- A. **Events of Default.** With respect to the Bonds, each of the following events will constitute and is referred to in the Thirteenth Supplemental Indenture as an "Event of Default":
1. A failure to pay interest on or principal (either by purchase or mandatory sinking fund redemption) of the Bonds when the same becomes due and payable;
  2. Any event of default under the Lease;
  3. A failure by the Issuer to observe and perform any covenant, condition, agreement or provisions (other than as described in 1. above) contained in the Bonds or in the Thirteenth Supplemental Indenture as it relates to the Bonds, 60 days after written notice specifying such failure and requesting that it be remedied, has been given to the Issuer and the Corporation by the Trustee. The Trustee may agree to an extension of such period prior to its expiration; provided, however, that the Trustee will be deemed to have agreed to an extension of such period of corrective action is initiated by the Issuer or the Corporation within such period and is being diligently pursued.

**Acceleration; Other Remedies.** Upon the occurrence of an Event of Default with respect to the Bonds described in paragraph 1. under **Events of Default**, the Trustee shall declare the Bonds to be immediately due and payable, whereupon the Bonds will, without further action, become immediately due and payable, and the Trustee will give written notice thereof to the Issuer, the Corporation, the Paying Agent, and, by Mail, to all Owners of the Bonds.

The provisions of the preceding paragraph are subject to the condition that if, after the principal of the Bonds has been so declared to be due and payable, the Issuer causes to be deposited with the Trustee an amount sufficient to pay all matured installments of interest and the principal of all the Bonds which has become due otherwise than by reason of such declaration (with interest upon such principal and, to the extent permissible by law, on overdue installments of interest, at the Late Payment Rate) and such amount as will be sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee and the Paying Agent, and all Events of Default, other than nonpayment of the Purchase Price or principal of Bonds which has become due as a result of said declaration, are remedied, then, in every such case, such Event of Default will be deemed waived and such declaration and its consequences rescinded and annulled. The Trustee will promptly give written notice of such waiver, rescission or annulment to the Issuer, the Corporation, the Paying Agent, and, by Mail, to all Owners of Bonds; but no such waiver, rescission and annulment will extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

Upon the occurrence and continuance of any Event of Default, then and in every such case the Trustee may, and 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 shall:

- (i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners and require the Issuer and the Corporation to carry out their agreements with or for the benefit of the Owners of the Bonds and to perform their duties under the Act and the Thirteenth Supplemental Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Thirteenth Supplemental Indenture;
- (ii) bring suit upon the Bonds or the Lease; or
- (iii) 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 Bonds.

All rights and remedies available to the Corporation under the Lease shall be remedies available to and enforceable by the Trustee and the Trustee may enforce such remedies to the extent permitted under the Lease.

Restoration to Former Position. If any proceeding taken by the Trustee to enforce any right under the Thirteenth Supplemental Indenture is discontinued or abandoned for any reason, or is determined adversely to the Trustee, then the Issuer, the Trustee and the Owners will be restored to their former positions and rights hereunder, respectively, and all rights, remedies and powers of the Trustee will continue as though no such proceeding had been taken.

Owner's Right to Direct Proceeding. The Owners of a majority in principal amount of the Bonds, have the right, by an instrument in writing executed and delivered to the Trustee and upon furnishing indemnity satisfactory to the Trustee for all costs and expenses of such action, including attorneys' fees and expenses, to direct the time, method and place of conducting all remedial proceedings available to the Trustee under the Thirteenth Supplemental Indenture or exercising any trust or power conferred on the Trustee by the Thirteenth Supplemental Indenture.

Application of Moneys. Any moneys received by the Trustee, by any receiver or by any Owner pursuant to any right given or action taken under the provisions described above, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee and the fees and expenses of the Paying Agent will be deposited in the segregated account of the Revenue Fund and all moneys so deposited in such account during the continuance of an Event of Default (other than moneys for the payment of Bonds which have matured or otherwise become payable prior to such Event of Default) will be applied in the order described in the Indenture. Whenever moneys are to be so applied, 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 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 Outstanding Bonds and will not be required to make payment to any Owner until such Bond is presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

### **Covenants of the Issuer**

Payment of Principal and Interest; Pledge of Series Trust Estate; Limited Liability. The Issuer covenants that it will promptly pay the principal and Purchase Price of, premium, if any, and interest on the Bonds at the place, on the dates and in the manner provided in the Bonds, provided that all such payments are payable by the Issuer solely from the Series Trust Estate. Nothing in the Bonds or the Supplemental Indenture will be considered as assigning or pledging any other funds or assets of the Issuer other than the Series Trust Estate. The Series Trust Estate is pledged and assigned as security for the equal and ratable payment of the Bonds and will be used on a first priority basis to pay the principal of and interest on the Bonds except as may be otherwise expressly authorized in the Thirteenth Supplemental Indenture or the Lease. Subject to the prior lien and security interest on the Series Trust Estate for the Owners of the Bonds, the Series Trust Estate is also pledged on a subordinated basis as security for the payment of principal and purchase price of, premium, if any, and interest on the Original Bonds.

**Arbitrage and Tax Covenants.** The Issuer and the Corporation on behalf of the Issuer will not take or permit, or omit to take or cause to be taken, any action that would adversely affect the exclusion by the Owners from federal income taxation of the interest on the Bonds and, if they should take or permit, or omit to take or cause to be taken, any such action, the Issuer and the Corporation on behalf of the Issuer will take or cause to be taken all lawful actions necessary to rescind or correct such actions or omissions promptly upon having knowledge thereof. The Issuer and the Corporation on behalf of the Issuer acknowledges that the continued exclusion of interest on the Bonds from the gross income of the Owners for federal income tax purposes depends, in part, upon compliance with the arbitrage limitations imposed by Section 148 of the Code. The Issuer and the Corporation on behalf of the Issuer covenant that they will comply with all the requirements of Section 148 of the Code, and that they will not permit at any time any of the proceeds of the Bonds 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 Bonds to be "arbitrage bonds" for purposes of Section 148 of the Code.

### **Trustee; Paying Agent**

**Limitations on Liability.** The Trustee and the Paying Agent will not be answerable for the default or misconduct of any agent or employee selected by them with reasonable care to perform any of the duties required under the Indenture. Neither the Trustee nor the Paying Agent will be answerable for the exercise of any discretion or power under the Indenture or for anything whatsoever in connection with the trust created thereby, except only for its own gross negligence or willful misconduct.

**Compensation, Expenses and Advances.** The Trustee and the Paying Agent are entitled to reasonable compensation for their services rendered (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.

**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, the Supplemental Indenture or the Lease, 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, the Remarketing Agent and or 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 trust and accuracy of such statements.

**Resignation of Trustee.** The Trustee may resign and be discharged of the trusts created by the Indenture by a written notice of resignation.

**Removal of Trustee.** The Trustee may be removed at any time by filing with the Trustee so removed, and with the Issuer, the Credit Facility Provider, the Paying Agent and the Remarketing Agent an instrument or instruments in writing, appointing a successor or an instrument or instruments in writing, consenting to the appointment by the Issuer of a successor and accompanied by an instrument of appointment by the Issuer of such successor and executed by Owners of not less than a majority in principal amount of the Bonds Outstanding.

**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, subject to the approval of the Credit Facility Provider, by the Issuer or by the Owners of not less than a majority in principal amount of Bonds Outstanding.

Every successor Trustee (a) must be a bank or trust company duly organized under the laws of the United States or any state or territory thereof and authorized by law to perform all the duties imposed upon it by the Original Indenture, (b) must (i) 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 and (c) must be qualified under the Act to perform the duties of Trustee.

Any corporation into which any Trustee hereunder is merged or converted or with which it is consolidated, or any corporation resulting from any merger or consolidation to which any Trustee is a party will be the successor Trustee under the Indenture.

**Standard of Care.** The Trustee will, during the existence of an Event of Default exercise such of the rights and powers vested in it by the Indenture and use the same degree of skill and care in such exercise as a prudent person would use and exercise under the circumstances in the conduct of his own affairs.

**Intervention in Litigation of the Issuer.** The Trustee may intervene on behalf of the Owners in any judicial proceeding to which the Issuer 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 Bond Insurer or at the request of the Owners of at least 25% in principal amount of the Bonds Outstanding and if permitted by the court having jurisdiction in the premises.

**Qualification of Paying Agent; Resignation; Removal.** Each Paying Agent (a) must be 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 45 days notice to the Corporation on behalf of the Issuer, the Trustee, the Remarketing Agent and the Credit Facility Provider. The Paying Agent may be removed at any time by the Corporation on behalf of the Issuer with the consent of the Credit Facility Provider and the Remarketing Agent by an instrument, signed by the Trustee and filed with the Paying Agent.

In the event of the resignation or removal of the Paying Agent, the Paying Agent will pay over, assign and deliver any moneys and any Credit Facility held by it in such capacity to its successor or, if there be no successor, to the Trustee.

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 Trustee 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.

**Several Capacities.** The same entity may serve as the Trustee and the Paying Agent and in any other combination of such capacities, to the extent permitted by law.

**Modification and Amendment of Thirteenth Supplemental Indenture: Modification and Amendment of Lease.**

**Supplemental Indentures Without Owner's Consent.** The Issuer, the Corporation and the Trustee may, from time to time and at any time, without the consent of or notice to the Owners, enter into supplemental indentures to cure any formal defect, omission, inconsistency or ambiguity in the Indenture; 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; to add to the covenants and agreements of, and limitations and restrictions upon the Issuer or the Corporation in the Indenture other covenants, agreements, limitations and restrictions; 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; to authorize a different denomination or denominations of the Bonds and to make correlative amendments and modifications to the Thirteenth Supplemental Indenture regarding exchangeability of Bonds of different denominations, redemptions of portions of Bonds of particular denominations and similar amendments and modifications of a technical nature; to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended; to evidence or give effect to the delivery of an Alternate Credit Facility; to secure or maintain a rating on the Bonds with either or both of Moody's and Standard & Poor's, provided that any such modification, amendment or supplement is not, in the judgment of the Trustee, materially adverse to the Owners; in connection with the issuance of additional Bonds or obligations; in any manner necessary, in the opinion of Bond Counsel, to preserve the exclusion of interest on the Bonds from the gross income of a recipient thereof for federal income tax purposes; to modify, amend or supplement the Indenture in such manner as to permit the qualification of the bonds for deposit with The Depository Trust Corporation 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; to make any modifications or amendments necessary to permit the Bonds or a portion thereof to be remarketed to a purchaser, without the benefit of any Credit Facility securing the payment of principal or purchase price of or interest on the Bonds or such portion of the Bonds; and to modify, alter, amend or supplement the Indenture in any other respect or which in the judgment of the Trustee is not materially adverse to the Owners.

Supplemental Indentures Requiring Owners' Consent. Except for any supplemental indenture entered into as described above, Owners of not less than 60% in aggregate principal amount of the Bonds Outstanding will have the right from time to time to consent to and approve the execution and delivery by the Issuer, the Corporation and the Trustee of any Supplemental Indenture deemed necessary or desirable by the Issuer for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Thirteenth Supplemental Indenture.

If Owners of not less than the above-specified percentage of Bonds consent to and approve the execution and delivery of any supplemental indenture, then, with certain exceptions specified in the Indenture, no Owner will have any right to object to the execution and delivery thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution and delivery thereof, or to enjoin or restrain the Issuer, the Corporation or the Trustee from executing and delivering the same or from taking an action pursuant to the provisions thereof.

Effect of Thirteenth Supplemental Indenture. Upon the execution and delivery of such supplemental indenture, the Thirteenth Supplemental 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 Issuer, the Trustee, the Paying Agent, the Remarketing Agent, the Corporation and all Owners will thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modifications and amendments.

Consent of Lessee Required. No supplemental indenture which affects any rights, powers, agreement or obligations of the Lessee or requires a revision of the Lease, will become effective unless and until the Lessee consents to such supplemental indenture.

## **ABSENCE OF LITIGATION**

The Issuer and the Corporation have certified as of the date hereof that there is presently no action, case, proceeding or other litigation pending or, to the best knowledge of the persons so certifying, threatened before any court or administrative agency which, if adversely determined, would materially and adversely affect the ability of the Issuer to meet its obligations under the Indenture and the other Bond documents to which the Issuer is a party or the remarketing of and security for the Bonds.

## **TAX TREATMENT**

### **General**

In the opinion of Bond Counsel for the Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Bonds is excludable from gross income for Federal income tax purposes. Bond Counsel for the Bonds is also of the opinion that interest on the Bonds 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, Bond Counsel for the Bonds is of the opinion that interest on the Bonds is exempt from income taxation and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

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 Bonds. The Issuer, the Corporation and the Lessee have covenanted to comply with certain restrictions designed to ensure that interest on the Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Bonds being includable in income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond 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 Bonds may adversely affect the tax status of the interest on the Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Lease and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

Although Bond Counsel for the Bonds is of the opinion that interest on the Bonds will be excludable from gross income for Federal income tax purposes and the above-described opinion with respect to Kentucky taxation of the Bonds, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder'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 Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Bonds on the tax liabilities of the individual or entity.

For example, although Bond Counsel for the Bonds is of the opinion that interest on the Bonds 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 Bonds 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 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 Bonds 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 Bonds 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 Bonds.

The Issuer has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265 of the Code.

#### **Bank Qualification**

The Issuer has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265 of the Code.

Purchasers of the Bonds should consult their tax advisors for a further description of the Federal income tax rules mentioned above and for an analysis of the effect on their individual tax situations of their ownership of the Bonds and receipt of interest on the Bonds.

### **CONTINUING DISCLOSURE**

In accordance with Securities and Exchange Commission Rule 15c-12 (the "Rule") the Lessee (the "Obligated Person") will agree pursuant to a Continuing Disclosure Agreement dated as of September 5, 2001 (the "Disclosure Agreement"), to be delivered on the date of delivery of the Bonds, to cause the following information to be provided:

- (i) upon request, to any person, or at least annually to its state information depository ("SID"), if one is established for the Commonwealth of Kentucky, certain annual financial information and operating data, including audited financial statements, generally consistent with the information contained in Appendices C and D of the Remarketing Circular ("Financial Data"); such information shall include, at a minimum, that financial information and operating data which is customarily prepared by the Obligated Person and is publicly available. The annual financial information shall be provided within nine months of the end of the fiscal year ending June 30; provided that the audited financial statements may not be available by such date, but will be made available immediately upon delivery thereof to the Obligated Person; and
- (ii) in a timely manner, to each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB") and to the SID, notice of the occurrence of the certain events, if material, with respect to the Bonds, which events are as follows; and
  - (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 financial difficulties;
  - (e) substitution of credit or liquidity providers, or their failure to perform;
  - (f) adverse tax opinions or events affecting the tax-exempt status of the security;
  - (g) modifications to rights of security holders;

- (h) bond calls, except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event;
- (i) defeasances;
- (j) release, substitution, or sale of property securing repayment of the securities
- (k) rating changes, and
- (l) the cure, in the manner provided under the Thirteenth Supplemental Indenture, of any payment or nonpayment related default under the Thirteenth Supplemental Indenture.

The Disclosure Agreement provides holders of the Bonds, including beneficial owners of the Bonds, with certain enforcement rights in the event of a failure by the Lessee to comply with the terms thereof; however, a default under the Disclosure Agreement does not constitute an event of default under the Lease or the Thirteenth Supplemental Indenture. The Disclosure Agreement may also be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein. Holders of the Bonds are advised that the Disclosure Agreement, the form of which is obtainable from the Remarketing Agent, should be read in its entirety for more complete information regarding its contents.

Persons desiring the foregoing annual financial information and notices of material events may also obtain such information by contacting the Mayor of Radcliff, Kentucky at 411 W. Lincoln Trail Blvd., Radcliff, Kentucky 40159-0519.

The Lessee has heretofore not been subject to the continuing disclosure undertaking requirements of the Rule. The Lessee has covenanted that it is not an "obligated person" within the meaning of the Rule with respect to more than \$10,000,000 aggregate principal amount of outstanding securities, including the Lease and excluding any municipal securities exempt from the Rule pursuant to subsection (d)(I) of the Rule.

#### **LEGAL MATTERS**

Certain legal matters incident to the remarketing, sale and delivery of the Bonds are subject to the unqualified approving opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, as Bond Counsel.

#### **THE REMARKETING AGENT**

First Kentucky Securities Corporation, Frankfort, Kentucky has acted as Remarketing Agent for the Issuer in connection with the remarketing of the Bonds and will receive a remarketing fee in an amount equal to \_\_\_\_% of the aggregate principal amount of the Bonds, payable only from the proceeds of the Bonds, when, as and if remarketed.

#### **MISCELLANEOUS**

This Remarketing Circular is made available in connection with the remarketing of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose. Any statement in this Remarketing Circular involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Remarketing Circular is not to be construed as a contract or agreement between the Issuer and the purchasers or Owners of any of the Bonds.

This Remarketing Circular has been duly approved by the Corporation as Agent for the Issuer.



**APPENDIX A**

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**Glossary of Terms**

## APPENDIX A

### GLOSSARY OF TERMS

In addition to the words and terms elsewhere defined in this Remarketing Circular, the following words and terms as used in this Remarketing Circular shall have the following meanings unless the context or use indicates another or different meanings or intent:

"*Additional Rentals*" means any expenses of the Lessor in connection with the Lease and the Project and 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 which the Lessor may pay with respect to the Project and any Program Expenses not included in Base Rentals.

"*Authorized Denomination*" means with respect to the Bonds, \$5,000 or any integral multiple thereof.

"*Authorized Officer*" means the Mayor of the Lessee, or any other person authorized by law to act on behalf of the Lessee under or with respect to the Lease, the Series 1993 Bonds and the Series 1999 Lease, as evidenced by a certificate conferring such authority executed by the Mayor and given to the Corporation.

"*Base Rentals*" means the payments by the Lessee for and in consideration of the right to use and the option to purchase the Project during the Lease Term and shall be comprised of [i] scheduled payments of principal, [ii] scheduled payments of interest on the Bonds and [iii] Lessee's Proportionate Share of recurring Program Expenses.

"*Bond Payment Date*" means any Interest Payment Date and any other date on which the principal of or interest on the Bonds is to be paid to the Owners thereof, whether upon redemption, at maturity or upon acceleration of maturity of the Bonds.

"*Bonds*" means the \$2,250,000 City of Danville, Kentucky Multi-City Lease Revenue Bonds (City of Radcliff, Kentucky Sewer System Revenue Refunding Project) Fixed Rate Series 2001-A Bonds issued pursuant to the Thirteenth Supplemental Indenture.

"*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, the Paying Agent or the Remarketing Agent have their respective principal offices are authorized to close or (ii) a day on which the New York Stock Exchange is closed.

"*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 Bonds or the use of the proceeds thereof.

"*Collateral Document*" means any letter of credit, mortgage, escrow agreement, guarantee, security agreement, pledge agreement or other document or agreement, if any, securing the Lease or granting a lien on or a security interest in the Project or executed in connection with the Lease of the Project.

"*Conversion*" means the conversion of the interest rate on the Bonds from one interest rate mode to another interest rate mode in accordance with the provisions of the Indenture or the conversion of the Bonds from one Fixed Rate to another Fixed Rate.

"*Conversion Date*" means the date on which a Conversion occurs.

"*Corporation*" means the Kentucky Municipal Finance Corporation, an agency and instrumentality of the Issuer which will be the Lessor under the Lease.

"*Correlative Leases*" means Leases as to which the interest rate component of Base Rentals will be determined in part on the interest rate of certain Fixed Rate Bonds.

"*Costs*" means with respect to the Project all or any part of the cost of refinancing the costs of construction, installation and acquisition of all land, buildings, structures, machinery and equipment as may be applicable; finance charges, extensions, enlargements, additions, replacements, renovations and improvements, engineering, financial and legal services relating to the refinancing of the Project; plans, specifications, studies, surveys, estimates of cost of revenue, administrative expenses, expenses necessary or incidental to determining the feasibility or practicability of constructing the Project; and such other expenses as the Corporation determines may be necessary or incidental to the refinancing of the costs of construction, installation and acquisition of the Project, and the placing of the Project in operation.

"*Current Bonds*" means the Lessee's Sewer Refunding Revenue Bonds of 1978, dated May 1, 1978.

"*Current Operation and Maintenance Fund*" means the Current Operation and Maintenance Fund established by Section 13 of the 1978 Bond Ordinance.

"*Current Renewal and Replacement Fund of 1978*" means the Current Renewal and Replacement Fund of 1978 established by Section 13 of the 1978 Bond Ordinance.

"*Current Revenue Fund*" means the Current Revenue Fund established in Section 13 of the 1978 Bond Ordinance.

"*Current Sinking Fund*" means the Current Sinking Fund established in Section 13 of the 1978 Bond Ordinance.

"*Current Sinking Fund Reserve*" means the Current Sinking Fund Reserve established by Section 13 of the 1978 Bond Ordinance.

"*Debt Service Reserve Fund*" means the Debt Service Reserve Fund created under the Original Indenture as security for the Original Bonds, a portion of which may be transferred to a Segregated Account as security for Supplemental Bonds. Further information regarding the requirement for a reserve fund, if any, is described under the heading "The Lease".

"*Default*" and "*Event of Default*" means any occurrence or event specified as an Event of Default in the Thirteenth Supplemental Indenture.

"*Depository*" means one or more commercial banks or trust companies having the same qualifications required for a Paying Agent pursuant to the Indenture.

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

"*Fixed Rate*" means an interest rate which is fixed and non-variable for a period of at least one (1) year established in accordance with the Indenture.

"*Fixed Rate Bonds*" means Supplemental Bonds bearing interest at a Fixed Rate.

"*Fixed Rate Conversion Date*" means the effective date of a Fixed Rate established in accordance with the terms of the Indenture.

"*Fixed Rate Period*" means the period during which the Bonds bear interest at the Fixed Rate.

"*Governing Body*" means the City Council of the Lessee.

"*Government Obligations*" means, (i) with respect to the Lease, a direct obligation of, or obligations the payment of principal and interest on which is unconditionally guaranteed, by the United States of America and (ii) with respect to the Indenture, (a) direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America is pledged and (b) obligations issued by a person controlled or supervised by and acting as an instrumentality of the United States of America, the payment of the principal of, premium, if any, and interest on which is fully guaranteed as a full faith and credit obligation of the United States of America (including any securities described in (a) or (b) issued or held in book-entry form on the books of the Department of Treasury of the United States of America), which obligations, in either case, are not subject to redemption prior to maturity at less than par at the option of anyone other than the holder.

"*Gross Income and Revenues*" means and includes connection fees, disconnection fees, and all other items of income which have been established as "reasonably anticipated annual income of the System", based upon a certification of independent consulting engineers and or certified public accountant.

"*Indenture*" means the Indenture dated as of March 1, 1989, as supplemented by the First Supplemental Trust Indenture, the Second Supplemental Trust Indenture and the Thirteenth Supplemental Trust Indenture.

"*Inferior Debt*" means indebtedness issued or obligations incurred pursuant to and complying with the provisions of Section 18 of the 1978 Bond Ordinance.

"*Interest Payment Date*" means (i) in the case of the Bonds, each June 1 and December 1, (ii) any Conversion Date, and (iii) any date on which the Bonds are purchased or deemed purchased pursuant to the Indenture or any Redemption Date for the Bonds.

"*Investment Obligations*" 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;

(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*" means the Correlative Lease dated as of September 5, 2001 between the Corporation and the Lessee, as from time to time amended or supplemented.

"*Lease Rental Payment Date*" means [i] the 15th day of May and November with respect to the interest component of Base Rentals; [ii] with respect to the principal component of the Lease, the 15th day of November of each year; and [iii] with respect to Additional Rentals fifteen (15) days after written request for such payment.

"*Lease Rental Payments*" means Base Rentals and Additional Rentals.

"*Lease Term*" means the date commencing with the delivery of the Bonds and terminating on the date of payment of all obligations thereunder.

"*Lessee*" means the City of Radcliff, Kentucky, a municipal corporation and political subdivision of the Commonwealth.

"*Liquidation Proceeds*" means amounts received by the Trustee in connection with enforcement of any of the remedies under the Lease, including the liquidation of Lease Collateral, after the occurrence of an "Event of Default" under such Lease or such Collateral Document (whether or not it is a default under the related Lease) which has not been waived or cured.

"*Mail*" means mail by first class postage.

"*1978 Bond Ordinance*" means the Sewer Revenue Bond Ordinance adopted on May 3, 1978.

"*Optional Prepayment Price*" means the amount which the Lessee may, in its discretion, pay under the Lease in order to prepay in full its obligations under the Lease, which amount shall be equal to the unpaid principal component of Base Rentals 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, (b) the unpaid interest component of Base Rentals for the month of the prepayment, (c) an estimated amount equal to all interest, Program Expenses and Additional Rentals which would have been due between the date of the prepayment by the Lessee and the date on which the prepayment will be used to redeem Bonds or is deposited in the Revolving Fund Account, it being understood that all investment earnings on the Optional Prepayment Price, other than on past-due Lease Rental Payments, will be paid to the

Lessee as received or applied, if necessary, as a part of the Optional Prepayment Price and any excess payment under this subpart (c) shall be paid to the Lessee on the date the prepayment is used to redeem Bonds or is deposited in the Revolving Fund Account and (d) the premium, if any, payable on any Bonds to be redeemed or purchased on account of the payment of such Optional Prepayment Price.

"*Original Bonds*" means Original Bonds other than Bonds being converted and remarketed as Supplemental Bonds. Accordingly, Original Bonds includes, Bonds that were previously Supplemental Bonds that have been converted from Supplemental Bonds and remarketed as Original Bonds.

"*Owner*" or "*Owners*" means the person or persons in whose name any Bond is registered on the books of the Issuer maintained by the Registrar.

"*Parity Debt*" means parity debt authenticated and delivered under Section 18 of the 1978 Bond Ordinance and on a parity with the Current Bonds and the Lease. Parity Debt shall also include the obligation of the Lessee under the Lease.

"*Paying Agent*" means Bank One, Kentucky, NA, Lexington, Kentucky, or any other or additional paying agent designated pursuant to the Indenture.

"*Principal Installment*" means, as of any date of calculation and with respect to any System Bonds, so long as any System Bonds are outstanding, System Bonds maturing and System Bonds subject to mandatory redemption in such period.

"*Principal Payment*" means a payment of principal of a Bond at maturity.

"*Principal Prepayment*" means any payment or recovery of the principal component of any Lease Rental Payment which is received more than one month in advance of its scheduled due date, including the portion of any Liquidation Proceeds or Optional Prepayment Price representing such amount.

"*Prior Lease*" means the Fixed Rate Lease Purchase Agreement dated as of June 3, 1991 between the Corporation and the Lessee.

"*Program*" means the program of the Issuer described in this Remarketing Circular with respect to the issuance by the Issuer of its Money Market Municipal Multi-City Lease Revenue Bonds (Kentucky Municipal League Pooled Lease Financing Program), Series 1989 pursuant to which the Project for the Lessee is being financed or refinanced from the proceeds of the Bonds and being leased to the Lessee pursuant to the Lease.

"*Program Expenses*" means the expenses and fees of the Lessor and the Administrator relating to the Supplemental Bonds; the cost of issuance of the Supplemental Bonds; the fees and expenses of the Issuer, the Trustee, and the Paying Agent relating to the Supplemental Bonds; and such other fees and expenses in connection with the Supplemental Bonds as the Lessor and the Administrator may in good faith determine are allocable to the Correlative Lease.

"*Project*" means property the Costs of which are financed or refinanced, or the Costs of which are reimbursed, as a result of the Lease.

"*Purchase Date*" means (i) any Business Day on which Bonds are subject to mandatory purchase pursuant to the Indenture, and (ii) in the case of an optional purchase of Bonds, the dates established for such optional purchase as described in the Indenture.

"*Purchase Price*" means 100% of the principal amount of and premium, if any, on Bonds tendered for purchase pursuant to the Indenture plus accrued interest, if any, to the Purchase Date.

"*Record Date*" means the fifteenth day of the month next preceding an Interest Payment Date.

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

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

"*Registrar*" means the Paying Agent and any other or additional entity appointed by the Issuer or the Trustee to act as registrar for the Bonds.

"*Revolving Fund Account*" means the account created under the Original Indenture which account is not pledged to the Bonds or the Series Trust Estate.

"*Segregated Accounts*" means the separate accounts to be established pursuant to the Thirteenth Supplemental Indenture and pledged as security for the Bonds.

"*Series Trust Estate*" means, while a series of Supplemental Bonds is Outstanding, all right, title and interest of the Issuer and the Corporation in and to [i] the Correlative Lease with respect to such series of Supplemental Bonds, [ii] the Supplemental Credit Support, if any, [iii] the Lease Rental Payments due under the Correlative Lease, [iv] the Collateral Documents, if any and [v] all moneys and securities, including earnings thereon, held in the Lessee Acquisition Account and the Lessee Account of the Lessee under the Correlative Lease and in any of the Segregated Accounts created with respect to such series of Supplemental Bonds.

"*State*" means the Commonwealth of Kentucky.

"*Supplemental Bonds*" means Fixed Rate Bonds issued pursuant to the Indenture which are secured only by a Series Trust Estate, including the Bonds.

"*Supplemental Credit Support*" means an instrument, such as an irrevocable letter of credit, policy of bond insurance, credit facility, bond or guarantee issued by one or more financial institutional or insurance companies which provides security for the payment of the principal of and interest on a series of Supplemental Bonds when due and may include payment of the redemption price of the Supplemental Bonds.

"*System*" means (a) the existing sewer collection, treatment and distribution facilities of the Lessee and (b) all future improvements, additions and extensions thereto.

"*Thirteenth Supplemental Trust Indenture*" means the Thirteenth Supplemental Trust Indenture dated as of September 5, 2001.

"*Undelivered Bonds*" means those Bonds not delivered to the Paying Agent on any Redemption or Purchase Date relating to such Bonds.

**APPENDIX B**

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**Form of Bond Counsel Opinion**



[Date of Delivery]

City of Danville, Kentucky  
Danville, Kentucky

Re: \$\_\_\_\_\_ City of Danville, Kentucky Multi-City Lease Revenue Bonds (City of Radcliff, Kentucky Sewer System Revenue Refunding Project) Fixed Rate Series 2001-A

Gentlemen:

We have acted as bond counsel in connection with the conversion and remarketing of a portion of the "City of Danville, Kentucky Money Market Municipal Multi-City Lease Revenue Bonds (Kentucky Municipal League Pooled Lease Financing Program), Series 1989" dated on original issuance as of March 1, 1989 in the aggregate principal amount of \$152,975,000 (the "Bonds") to a Fixed Rate Series of Supplemental Bonds (as defined in the Indenture hereinafter identified) that is designated as the "City of Danville, Kentucky, Multi-City Lease Revenue Bonds (City of Radcliff, Kentucky Sewer System Revenue Refunding Project) Fixed Rate Series 2001-A" dated September 5, 2001 in the aggregate principal amount of \$\_\_\_\_\_ (the "Supplemental Bonds").

The Supplemental Bonds are issued and secured under and pursuant to an ordinance of the City of Danville, Kentucky (the "Issuer") duly enacted on March 7, 1989 (the "Bond Ordinance"), as supplemented by an ordinance of the Issuer on August 27, 2001 (the "Supplemental Ordinance"), a Trust Indenture dated as of March 1, 1989 among the Issuer, the Kentucky Municipal Finance Corporation (the "Corporation") and Chase Manhattan Trust Company, National Association (successor to PNC Bank, Kentucky, Inc. F/K/A Citizens Fidelity Bank and Trust Company), Louisville, Kentucky, as trustee (the "Trustee"), as amended and supplemented by First, Second and Thirteenth Supplemental Indentures duly adopted (collectively, the "Indenture"). Capitalized terms not otherwise defined herein are used as defined in the Indenture.

The Supplemental Bonds are being converted and remarketed for the purpose of refinancing a Project for the City of Radcliff, Kentucky (the "Lessee") pursuant to a lease purchase agreement dated as of September 5, 2001 (the "Lease") between the Corporation, acting as an agency and instrumentality of the Issuer, as Lessor, and the Lessee.

In our capacity as bond counsel we have examined such documents, records of the Issuer, the Corporation and the Lessee and other instruments as we have deemed necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Bond Ordinance, the Indenture, the Supplemental Indenture and the Lease.

Bond counsel has relied upon the opinion of even date herewith of Skeeters, Bennett, Shumate & Wilson, Counsel for the Lessee, as to the due organization and existence of the Lessee, and the authorization, execution and delivery of the Lease and its enforceability in accordance with its terms with respect to the Lessee and on the opinion of even date herewith of Edward D. Hays, Esq., City Attorney, as to the due organization and existence of the Issuer, the due enactment of the Ordinance and the Supplemental Ordinance and due authorization, execution and delivery of the Indenture.

Based on the foregoing, we are of the opinion that:

1. The Issuer is a municipal corporation and political subdivision of the Commonwealth, duly organized and validly existing under the laws of the Commonwealth; the Corporation is a nonprofit corporation duly organized and validly existing under the laws of the Commonwealth as the agency and instrumentality of the Issuer; and the Lessee is a municipal corporation and political subdivision of the Commonwealth, duly organized and existing under the laws of the Commonwealth.

2. The Indenture has been duly authorized, executed and delivered by the Issuer and the Corporation and is a valid and binding obligation of the Issuer and the Corporation enforceable in accordance with its terms and the Lease has been duly authorized, executed and delivered by the Corporation and the Lessee and is the valid and binding obligation of the Corporation and the Lessee enforceable in accordance with its terms.

3. The conversion and remarketing of the Supplemental Bonds have been duly authorized by the Issuer and the Supplemental Bonds have been duly executed and delivered by the Issuer and are the valid and binding special and limited obligations of the Issuer enforceable in accordance with their terms, payable solely from the revenues and other moneys pledged under the Indenture. The Supplemental Bonds and the payment of principal of and interest and any premium thereon are not secured by an obligation or pledge of any moneys raised by taxation and the Supplemental Bonds do not represent or constitute an indebtedness of the Issuer, the Corporation or the Lessee or a pledge of the faith and credit or the taxing power, if any, of the Issuer, the Corporation or the Lessee, the Commonwealth of Kentucky or any political subdivision thereof.

4. The Supplemental Bonds are exempt from ad valorem taxation, and the interest thereon is exempt from income taxation, by the Commonwealth and all of its political subdivisions and taxing authorities.

5. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the Supplemental Bonds 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 Supplemental Bonds will not be treated as a specific item of tax preference, under Section 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 with certain covenants designed to meet the requirements of Section 103 of the Code. The Issuer, the Corporation and the Lessee have covenanted to comply with the applicable provisions of the Code, and such compliance by the Issuer, the Corporation and the Lessee are necessary, to maintain the federal income tax status described above.

The Issuer has designated the Supplemental Bonds as "qualified tax-exempt obligations" under Section 265 of the Code.

This opinion is based upon laws, regulations, rulings and decisions in effect on the date hereof. In giving this opinion, we have relied upon covenants and certifications of facts, estimates and expectations made by the Issuer, the Corporation, the Lessee and others which we have not independently verified. It is to be understood that the enforceability of the Supplemental Bonds, the Indenture and the Lease may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting creditors' rights, and to exercise of judicial discretion in accordance with general principles of equity.

Very Truly Yours,  
PECK, SHAFFER & WILLIAMS LLP

**APPENDIX C**

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**Current Information About The System,  
The Lessee  
Outstanding System Indebtedness  
Estimated Debt Service Requirements on Fixed Rate Series 2001-A Bonds  
Future Financings**

## THE SYSTEM

The City of Radcliff maintains separate Storm-water and Wastewater systems. All wastewater is treated by the City of Radcliff Wastewater Treatment Facility. The facility is a 4.0-MGD design flow plant with a peak design flow of 10.0-MGD. The treatment process is designed to effectively treat 8,683 pounds per day of BOD5 and TSS. The basic treatment processes include equalization, pretreatment, extended aeration, secondary treatment with clarification, UV disinfection, stair-step reoxygenation and solids handling.

Pretreatment consists of one mechanically and one manually cleaned bar screen, each with a capacity of 7.5-MGD. Wastewater enters a grit basin, which reduces the velocity of the water allowing grit (sand, cinders, stones, etc.) to settle. Settled grit is removed by air-lift pump and a self-dumping hopper and landfill. Because the screw is properly inclined and rotated slowly, water flows by gravity back into the grit basin. Wastewater effluent flows out of the grit basin, over weirs, and through a parshall flume where it is metered.

Wastewater then flows to a splitter box, which divides the flow between the three Carrousel ditches. If needed, flow can be diverted to the three equalization basins, two of which are aerated by floating mixers. Wastewater from the equalization basins is to be pumped back to the plant during periods of low flow.

The Carrousel oxidation ditches are operated in an extended aeration mode. The total volume of all three ditches is 4.33-MG. The desired dissolved oxygen levels are supplied by 100HP vertical, low speed aerators and 20 HP supplemental aerators for ditches 1 and 2. Ditch 3 is supplied with one 125 HP aerator.

Effluent from the oxidation ditches flows to a splitter box, which divides the flow between the two clarifiers, which are 95 feet in diameter. The clarifiers are designed for the RAS and WAS to be adjusted according to process needs. The effluent from the clarifiers flows over weirs and into the contact chamber, which consists of drags to remove any settleable solids. The effluent from the contact chamber flows over weirs into the disinfection chamber, which consists of a UV3000 Disinfection System.

The treated effluent exits the plant by a reoxygenation ladder, which is used to increase the dissolved oxygen content in the final effluent. Effluent is discharged into an unnamed tributary of Mill Creek.

Solids handling consists of three sludge holding tanks. Two tanks have diffused air, and the other has two 25 HP aerators. The sludge is pumped to a 2-meter belt filter press with a solids loading rate of 1,500 lbs/hr. Dewatered sludge is conveyed to dumpsters and hauled to a landfill.

The collection system consists of 58 lift stations and over 100 miles of sewer lines.

### *Average Influent Flow*

<u>Year</u>	<u>Flow, MGD</u>
2001 (1)	1.921
2000	1.900
1999	1.528
1998	1.492
1997	1.642
1996	2.052

(1) January-June

### *Sewer Service Customers (connections)*

<u>Year</u>	<u>Number of Connections</u>
2001 (1)	8,020
2000	7,998
1999	7,935
1998	7,851
1997	7,787
1996	7,738

(1) January-June

***Current Sewer Rates***

The following schedule of rates apply to each user of the wastewater treatment system. The schedule includes the rate for user charges as established, and the rate for debt service charge, each based on the volume of metered water consumption unless otherwise noted.

<b><u>Rate Category</u></b>	<b><u>User Rate Per 1,000 Gallons</u></b>	<b><u>Debt Service Rate Per 1,000 Gallons</u></b>	<b><u>Total Rate Per 1,000 Gallons</u></b>
First 2,000 gallons or less	\$5.75 (min.)	\$7.36/2,000 gallons	\$13.11/2,000 gallons (minimum fee for 2,000 gallons)
2,000 – 15,000 gallons	\$2.89	\$1.40	\$4.29
Over 15,000 gallons	\$2.89	\$0.53	\$3.42

For residential, industrial, institutional and commercial users, monthly user charges will be based on actual water usage. If a residential, commercial, institutional, or industrial user has a consumptive use of water, or, in some other manner, uses water which is not discharged into the wastewater collection system, the user charge for that contributor may be based on readings of a wastewater meter(s) or separate water meter(s) installed and maintained at the user’s expense.

Sewer rates provided above are based on the underlying assumption that all metered water consumption is eventually returned to the wastewater treatment system. The City reserves the right to determine, by whatever means and methods it may find practicable, the amount of water consumption and/or wastewater discharge that shall be used to compute sewer service charges.

***Proposed Rate Increase***

<b><u>Rate Category</u></b>	<b><u>User Rate Per 1,000 Gallons</u></b>	<b><u>Debt Service Rate Per 1,000 Gallons</u></b>	<b><u>Total Rate Per 1,000 Gallons</u></b>
First 2,000 gallons or less	\$7.80 (min.)	\$8.59/2,000 gallons	\$16.39/2,000 gallons (minimum fee for 2,000 gallons)
2,000 – 15,000 gallons	\$3.90	\$1.46	\$5.36
Over 15,000 gallons	\$3.90	\$0.38	\$4.28

***Ten Largest Users of the System***

<b><u>Name</u></b>	<b><u>Approximate Use Per Month</u></b>
North Hardin Nursing Center	456,125
Housing Authority of Radcliff	319,833
Gold Vault Inn	309,350
North Hardin High School	244,992
Super Slant Car Wash	200,583
Lincoln Trail Hospital	198,292
Shoney’s	162,992
Boone Cleaners	135,267
Radcliff Partnership	110,167
Los Nopales	95,167

Source: City of Radcliff

## THE LESSEE

The City of Radcliff is centrally located in the historic “Heartland” of Kentucky, making it easily accessible from nearly every direction. The community is located just 12 miles from Elizabethtown, along US31W (“Dixie Highway”). Radcliff is also 45 miles south of Louisville. Travelers can access the area via US Highway 31W, a triple A-rated thoroughfare, Interstate 65 or Bluegrass and Western Kentucky Parkway. Additionally, I-65 southbound travelers can reach Radcliff by way of Exit 102, Highway 313 westbound and on Dixie Highway South, commonly referred to as the “Dixie Heritage Trail”, and recognized as one of 14 historic tour routes designated “Kentucky Heritage Tours” by Kentucky’s Department of Travel Development. Radcliff has an estimated population of 22,000 (largest population in Hardin County).

The topography of Radcliff ranges from a low, rolling plateau in the central section to steeper hills and ridges along the eastern border of the county.

### ***Economy***

The City of Radcliff’s economy is a young, growing economy with few businesses having been established for more than fifteen years. Due to this fact, the economy is still in a state of change. Historically, the Radcliff economy has been composed of retail businesses and selected services which were oriented to the Dixie Highway Commercial Corridor. However, as the population of the area has stabilized, the economy has shifted towards one which is based upon providing services to the local population.

Radcliff has a good number of strong and well established businesses. The headquarters of U.S. Cavalry, for example, has located in Radcliff. U.S. Cavalry has retail and catalog sales worldwide. Another major contributor to the local economy is Standard Register. Standard Register manufactures corrugated material for various uses. Both of these firms represent the largest employers in Radcliff.

Many successful small businesses are also evident. These include several establishments which cater to the ethnic diversity represented in Radcliff. This ethnicity is also represented among Radcliff’s restaurants. At one time, Radcliff had more fast food restaurants per capita than any other city.

There is a current estimated labor supply of 18,170 persons available for industrial jobs in the labor market area. In addition, from 1996 through 2000, 20,852 young persons in the area will become 18 years of age and potentially available for industrial jobs.

### ***Government***

Radcliff City Hall represents the focal point of local government as well as the headquarters of community affairs. Most city offices are located within this building or within close proximity. The Radcliff City Council Members for 2000-2001 are as follows:

Mayor Sheila C. Enyart  
Martha P. Baker  
Jerry L. Brown  
Jack L. Holland  
Chuck Angus  
Jeannette Stephens  
Donnell L. Yates

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Source: <http://www.ltadd.org/radcliff>

**OUTSTANDING SYSTEM INDEBTEDNESS**

<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Original Amount Issued</u>	<u>Bonds Outstanding as of August 1, 2001</u>
May 1, 1978	12/1/2007	\$1,560,000	\$ 815,000
June 3, 1991 (1)	12/1/2010	\$3,840,000	\$2,080,000

(1) The proceeds of the Fixed Rate Series 2001-A Bonds will be used to retire the Lessee's outstanding Fixed Rate Lease Purchase Agreement dated as of June 3, 1991 with the Corporation and to thereupon currently refund on December 1, 2001, the Bonds dated June 3, 1991.

Source: 1999 Kentucky Local Debt Report

**ESTIMATED DEBT SERVICE REQUIREMENTS  
ON FIXED RATE SERIES 2001-A BONDS**

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Period Total</u>	<u>Fiscal Year Total</u>
12/1/01	\$310,000	\$ 21,860.72	\$ 331,860.72	
6/1/02		39,865.00	39,865.00	\$371,725.72
12/1/02	300,000	39,865.00	339,865.00	
6/1/03		34,015.00	34,015.00	373,880.00
12/1/03	310,000	34,015.00	344,015.00	
6/1/04		27,815.00	27,815.00	371,830.00
12/1/04	325,000	27,815.00	352,815.00	
6/1/05		21,233.75	21,233.75	374,048.75
12/1/05	340,000	21,233.75	361,233.75	
6/1/06		14,263.75	14,263.75	375,497.50
12/1/06	115,000	14,263.75	129,263.75	
6/1/07		11,877.50	11,877.50	141,141.25
12/1/07	125,000	11,877.50	136,877.50	
6/1/08		9,252.50	9,252.50	146,130.00
12/1/08	125,000	9,252.50	134,252.50	
6/1/09		6,565.00	6,565.00	140,817.50
12/1/09	140,000	6,565.00	146,565.00	
6/1/10		3,520.00	3,520.00	150,085.00
12/1/10	160,000	3,520.00	163,520.00	163,520.00
<hr/>				
Total	<u>\$2,250,000</u>	<u>\$358,675.72</u>	<u>\$2,608,675.72</u>	<u>\$2,608,675.72</u>

Source: Remarketing Agent

**FUTURE FINANCINGS**

At this time, the Lessee does not anticipate any future borrowings.

**APPENDIX D**

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**Selected Financial Information of the System**



**CITY OF RADCLIFF, KENTUCKY  
ENTERPRISE FUND**

**Balance Sheets**

Fiscal Years Ending June 30

	<b><u>2000</u></b>	<b><u>1999</u></b>	<b><u>1998</u></b>
<b>ASSETS</b>			
Cash and cash equivalent	\$ 804,916	1361434	\$ 1,026,099
Receivables (net of allowances for uncollectibles)			
Accounts	340,116	241239	214,217
Other	4,667	6480	19,172
Prepaid expenses and other	0	0	10,768
Restricted assets:			
Cash	652,440	874350	383,529
Investments	1,253,226	1074516	1,371,521
Customer deposits	0	0	99,893
Fixed assets (net, where applicable, of accumulated depreciation)	19,189,856	18405479	16,512,835
Unamortized bond expense	<u>121,612</u>	<u>127331</u>	<u>140,172</u>
<b>TOTAL ASSETS</b>	<b><u>\$22,366,833</u></b>	<b><u>\$22,090,829</u></b>	<b><u>\$19,778,206</u></b>
<b>LIABILITIES</b>			
Accounts payable	\$ 591,465	\$ 326,808	\$ 58,847
Compensated absences payable	11,468	8,728	
Customer deposits	80,899	82,100	84,013
Accrued expenses	54,896	51,254	48,684
Other current liabilities	10,963	8,134	
Reimbursement due subdividers	0	0	82,652
Revenue bonds, notes and leases payable	3,605,579	3,955,659	4,314,673
KIA revolving loan	<u>4,567,192</u>	<u>4,481,005</u>	<u>2,871,991</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$8,922,462</u></b>	<b><u>\$8,913,688</u></b>	<b><u>\$7,460,860</u></b>
<b>FUND EQUITY</b>			
Contributed capital	\$9,318,069	\$9,318,069	\$9,318,069
Retained earnings	<u>4,126,302</u>	<u>3,859,072</u>	<u>2,999,277</u>
<b>TOTAL FUND EQUITY</b>	<b><u>\$13,444,371</u></b>	<b><u>\$13,177,141</u></b>	<b><u>\$12,317,346</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$22,366,833</u></b>	<b><u>\$22,090,829</u></b>	<b><u>\$19,778,206</u></b>

Source: Amounts for fiscal years 2000 and 1999 have been taken from audit reports prepared by Clauson, Mouser & Co., PSC, Certified Public Accountants, Elizabethtown, Kentucky. Amounts for fiscal year 1998 have been taken from an audit report prepared by Young & Hutcherson, Certified Public Accountants, Elizabethtown, Kentucky

**CITY OF RADCLIFF, KENTUCKY  
ENTERPRISE FUND**

**Revenues, Expenses and Changes in Retained Earnings**

Fiscal Years Ending June 30

	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>OPERATING REVENUES:</b>			
Charges for services	\$2,551,828	\$2,592,677	\$2,163,689
Other revenues	<u>58,008</u>	<u>14,857</u>	<u>29,240</u>
<b>TOTAL OPERATING REVENUES</b>	<b>2,609,836</b>	<b>2,607,534</b>	<b>2,192,929</b>
<b>OPERATING EXPENSES:</b>			
Personnel costs	514,701	421,084	416,561
Contract services	147,394	142,164	24,642
Power and utilities	139,219	150,758	0
Repairs and maintenance	288,024	261,123	0
Materials and supplies	149,654	81,949	158,469
Other operating costs	245,065	147,201	517,962
Depreciation	<u>578,151</u>	<u>463,988</u>	<u>462,883</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>2,062,208</b>	<b>1,668,267</b>	<b>1,580,517</b>
<b>OPERATING INCOME</b>	<b>547,628</b>	<b>939,267</b>	<b>612,412</b>
<b>NONOPERATING REVENUES</b>			
Interest earnings	177,031	193,889	151,488
Contractor forfeitures	0	65,645	0
Bond service fees	(11,132)	(5,073)	0
Grants	0	39,878	0
Amortization	(14,523)	(12,841)	0
Interest expense	<u>(431,774)</u>	<u>(360,971)</u>	<u>(292,483)</u>
<b>TOTAL NONOPERATING REVENUES</b>	<b><u>(280,398)</u></b>	<b><u>(79,473)</u></b>	<b><u>(140,995)</u></b>
<b>NET INCOME</b>	<b>267,230</b>	<b>859,794</b>	<b>\$471,417</b>
<b>RETAINED EARNINGS – Beginning</b>	<b><u>3,859,072</u></b>	<b><u>2,999,278</u></b>	<b><u>2,527,860</u></b>
<b>RETAINED EARNINGS – Ending</b>	<b><u>\$4,126,302</u></b>	<b><u>\$3,859,072</u></b>	<b><u>\$2,999,277</u></b>

Source: Amounts for fiscal years 2000 and 1999 have been taken from audit reports prepared by Clauson, Mouser & Co., PSC, Certified Public Accountants, Elizabethtown, Kentucky. Amounts for fiscal year 1998 have been taken from an audit report prepared by Young & Hutcherson, Certified Public Accountants, Elizabethtown, Kentucky

**CITY OF RADCLIFF, KENTUCKY  
ENTERPRISE FUND**

**Cash Flows**

Fiscal Years Ending June 30

	<u><b>2000</b></u>	<u><b>1999</b></u>	<u><b>1998</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Operations:			
Operating income (loss)	\$ 547,628	\$ 939,267	\$ 612,412
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	578,151	463,988	462,883
Change in assets and liabilities:			
Increase in accounts receivable	(98,877)	(14,330)	(98,581)
Decrease in prepaid expenses	1,813	10,768	0
Decrease in restricted assets	43,200	(93,923)	0
Increase in accounts payable	264,657	267,961	43,847
Increase in compensated absences payable	2,740	8,728	0
Increase in accrued expenses	3,642	2,570	0
Increase in other current liabilities	2,829	(8,873)	0
Decrease in customer deposits	<u>(1,201)</u>	<u>(1,913)</u>	<u>0</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,344,582</b>	<b>1,574,243</b>	<b>1,020,561</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Principal payments on bonds and notes	(263,893)	(433,839)	(296,863)
Principal payments on capital lease obligation	0	0	(44,910)
Increase in restricted assets	0	0	(212,401)
Interest paid on bonds and notes	(431,774)	(360,971)	(292,483)
Bond service fees	(11,132)	(5,073)	0
Proceeds from KIA revolving loan	0	1,683,839	2,871,991
Proceeds from grants and contracts	0	39,878	0
Proceeds from capital lease obligation	0	0	57,552
Construction/Purchase of fixed assets	<u>(1,371,332)</u>	<u>(2,356,631)</u>	<u>0</u>
<b>NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b><u>(2,078,131)</u></b>	<b><u>(1,432,797)</u></b>	<b><u>2,082,886</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Payments to developers	0	0	(27,192)
Purchase of property, plant and equipment	0	0	(2,708,127)
Interest received	<u>177,031</u>	<u>193,889</u>	<u>151,488</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b><u>177,031</u></b>	<b><u>193,889</u></b>	<b><u>(2,583,831)</u></b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(556,518)</b>	<b>335,335</b>	<b>519,616</b>
<b>CASH AND CASH EQUIVALENTS - Beginning</b>	<b><u>1,361,434</u></b>	<b><u>1,026,099</u></b>	<b><u>506,483</u></b>
<b>CASH AND CASH EQUIVALENTS – Ending</b>	<b><u>\$ 804,916</u></b>	<b><u>\$1,361,434</u></b>	<b><u>\$1,026,099</u></b>

Source: Amounts for fiscal years 2000 and 1999 have been taken from audit reports prepared by Clauson, Mouser & Co., PSC, Certified Public Accountants, Elizabethtown, Kentucky. Amounts for fiscal year 1998 have been taken from an audit report prepared by Young & Hutcherson, Certified Public Accountants, Elizabethtown, Kentucky

## NOTES TO SELECTED FINANCIAL INFORMATION

### RESTRICTED ASSETS

The Lease Payable – KMC 97 Series established a Debt Service Reserve Fund in the amount of \$131,037. A reserve withdrawal is applied to the debt service requirements semi-annually. At June 30, 2000, the account is funded with a balance of \$100,190.

The revenue bonds of 1978 require the Lessee to maintain a Renewal and Replacement Reserve of \$100,000. At June 30, 2000, the account is fully funded in the amount of \$175,714.

The Lessee is required to maintain a current Sinking Fund Reserve which shall be no less than the adjusted net annual debt service requirement. This requirement has been met with funding in the amount of \$1,603,294 consisting of \$525,782 in cash and cash equivalents and \$1,077,512 investments in U.S. Treasury Bonds.

The KIA Revolving Loan requires the Lessee to fund a reserve account of \$310,000 to be funded over a ten-year period beginning in fiscal year ended June 30, 1999. This requirement has been met with funding the amount of \$31,000 per year with a balance of \$101,210 at June 30, 2000.