

NEW ISSUE

RATINGS: Moody's "Aaa"
Standard & Poor's "AAA"
(See "RATINGS" herein)

In the opinion of Bond Counsel, based on laws, regulations, rulings and decisions in effect on the date of delivery of the Series 1994 Bonds, and assuming continuing compliance with certain covenants made by the Authority, interest on the Series 1994 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 an item of preference for purposes of the federal alternative minimum tax on individuals and corporations. Interest on the Series 1994 Bonds held by corporations is includable in such corporations' adjusted current earnings and modified alternative minimum taxable income. Bond Counsel is further of the opinion that interest on the Series 1994 Bonds is exempt from Kentucky income tax and the Series 1994 Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

\$45,595,000

**Kentucky Local Correctional Facilities Construction Authority
Multi-County Correctional Facilities Revenue Refunding Bonds,
Series 1994**

Dated: February 1, 1994

Due: November 1, as shown below

Interest on the 1994 Bonds is payable on May 1, 1994, and semi-annually on each May 1 and November 1 thereafter until Maturity. The Series 1994 Bonds will be issued in registered form in denominations of \$5,000 or any integral multiple thereof. Principal of and redemption premium, if any, on the Series 1994 Bonds are payable at the principal corporate trust office of the Trustee, Star Bank, N.A., Kentucky, Cincinnati, Ohio. Interest is payable by check or draft mailed to the registered owners in whose names the Series 1994 Bonds are registered at the close of business on the 15th day of the calendar month immediately preceding the interest payment date or the date on which the principal of the Series 1994 Bonds is paid. The Series 1994 Bonds shall bear interest at the rates and shall mature in the amounts and on the dates set forth below. The Series 1994 Bonds are subject to redemption prior to maturity as described herein.

The Series 1994 Bonds are being issued for the purpose of (i) providing the funds required to refund, redeem, pay and discharge the outstanding Kentucky Local Correctional Facilities Construction Authority Series 1984 Bonds in the total amount of \$2,735,000 (the "Refunded 1984 Bonds") and the outstanding Kentucky Local Correctional Facilities Construction Authority Series 1987 Bonds, in the total amount of \$37,585,000 (the "Refunded 1987 Bonds") (collectively, the "Refunded Bonds"), and (ii) providing for the payment of the Underwriter's discount and costs of issuance of the Series 1984 Bonds.

The Series 1994 Bonds are special obligations of the Authority secured under a Trust Indenture and are payable solely from the hereinafter defined Pledged Receipts designated under the Trust Indenture, including the Court Costs, Rental Payments to be made by certain Local Governments under the hereinafter defined Lease Agreements, Investment Earnings, and other monies pledged therefor. The scheduled payment of principal of and interest on the Series 1994 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 1994 Bonds by Financial Security Assurance Inc.



**FINANCIAL
SECURITY
ASSURANCE®**

The Series 1994 Bonds do not constitute a debt, liability or obligation of the Commonwealth or of any political subdivision thereof, or a pledge of the faith and credit of the Commonwealth or of any such political subdivision. The Authority has no taxing power.

**AMOUNTS, MATURITIES, INTEREST RATES AND PRICES
Serial Bonds**

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>
1994	\$1,980,000	2.75%	100.000	2002	\$1,845,000	4.75%	99.294
1995	1,390,000	3.25%	100.000	2003	1,940,000	4.85%	99.234
1996	1,440,000	3.75%	100.000	2004	2,030,000	4.95%	99.177
1997	1,485,000	4.00%	100.000	2005	2,135,000	5.05%	99.125
1998	1,515,000	4.25%	100.000	2006	2,240,000	5.15%	99.077
1999	1,620,000	4.40%	100.000	2007	2,355,000	5.25%	99.032
2000	1,690,000	4.55%	100.000	2008	2,475,000	5.40%	98.995
2001	1,765,000	4.65%	99.359				

Term Bonds

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>
2014	\$17,690,000	5.50%	98.177

The Series 1994 Bonds are offered when, as and if issued by the Authority and accepted by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality, by Peck, Shaffer & Williams, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Brown, Todd & Heyburn, Louisville, Kentucky. It is expected that the Series 1994 Bonds will be available for delivery in New York, on or about March 8, 1994.

Stifel, Nicolaus & Company, Inc.

**J.C. Bradford & Co. First Kentucky Securities J.J.B. Hilliard, W.L. Lyons, Inc.
Johnson, Brown, Burnett and Knight, Inc. PNC Securities Corp.**

**KENTUCKY LOCAL CORRECTIONAL FACILITIES
CONSTRUCTION AUTHORITY**

Office of Financial Management and Economic Analysis
Room 261, Capitol Annex
Frankfort, Kentucky 40601
(502) 564-2924

MEMBERS

W. PATRICK MULLOY II -- Chairman	HON. THOMAS G. TURNER
HON. ADRIAN ARNOLD -- Vice Chairman	HON. HAROLD ROBINSON
JACK C. LEWIS -- Secretary	LUCILLE ROEBUCK
BILLY G. WELLMAN	JERRY STEWART
HAROLD N. TAYLOR	HON. ED FORD

STAFF

GORDON L. MULLIS - Executive Director
S. LYNN TRAVIS - Treasurer
(Office of Financial Management and Economic Analysis)

ROBERT POWELL - Director of Local Facilities
(Justice Cabinet -- Department of Corrections)

No dealer, broker, salesman or other person has been authorized by the Authority or the Underwriters to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the Authority, the Local Governments and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter. The information herein is subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or any of the Local Governments since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE SERIES 1994 BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
PLAN OF REFUNDING	2
DESCRIPTION OF THE SERIES 1994 BONDS	2
Series, Dates and Interest Rates	2
Registration, Transfer and Exchange	2
Redemption Provisions	3
ESTIMATED APPLICATION OF BOND PROCEEDS	4
SECURITY FOR THE SERIES 1994 BONDS	4
Bond Insurance Policy	4
Financial Security Assurance Inc.	5
Pledged Receipts--Court Costs	6
Pledged Receipts -- Rental Payments Under Lease Agreements	7
Pledged Receipts -- Local Governments -- Annual Rental Payment -- Principal Balance	7
Other Pledged Receipts	8
Title to Leased Projects and Terms of the Lease	8
Debt Service Reserve	9
Additional Parity Bonds	9
DEBT SERVICE REQUIREMENTS	10
THE AUTHORITY	11
Authority Membership	11
Powers of the Authority	12
Regional and Local Facilities Bond Programs	12
LOCAL GOVERNMENTS AND THE PROJECTS	13
VERIFICATION OF MATHEMATICAL COMPUTATIONS	14
TAX EXEMPTION	14
General	14
Original Issue Discount	14
CERTAIN OTHER LEGAL MATTERS	15
LITIGATION	15
LEGALITY OF SERIES 1994 BONDS FOR INVESTMENT AND DEPOSIT	15
RATINGS	15
UNDERWRITING	16
APPROVAL OF ISSUANCE OF SERIES 1994 BONDS	16
MISCELLANEOUS	16
Appendix A -- Financial Statements of the Authority	A-1
Appendix B -- Economic and Demographic Data of the Counties Obligated to Make Rental Payments	B-1
Appendix C -- Summary of Bond Documents	C-1
Appendix D -- Form of Bond Counsel's Opinion	D-1

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the captions "Bond Insurance Policy" and "Financial Security Assurance Inc." herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 1994 Bonds; or (iii) the tax exempt status of the interest on the Series 1994 Bonds.

SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information set forth in the Official Statement.

The Issue

The Multi-County Correctional Facilities Revenue Refunding Bonds, Series 1994 (the "Series 1994 Bonds"), in the aggregate principal amount of \$45,595,000, are being issued by the Kentucky Local Correctional Facilities Construction Authority (the "Authority"). The Series 1994 Bonds will be issued in registered form only and will be in denominations of \$5,000 or any integral multiple thereof. The Series 1994 Bonds will consist of both Serial and Term Bonds. The principal amount, interest rates and maturities of the Series 1994 Bonds are set forth on the cover page of this Official Statement.

Purpose of Issue

The Series 1994 Bonds are being issued for the purposes of (i) providing the funds required to refund, redeem, pay and discharge the outstanding Kentucky Local Correctional Facilities Construction Authority Series 1984 Bonds and the outstanding Kentucky Local Correctional Facilities Construction Authority Series 1987 Bonds, and (ii) providing for the payment of the Underwriter's discount and costs of issuance of the Series 1994 Bonds.

Security for the Series 1994 Bonds

The Series 1994 Bonds are special obligations of the Authority and, except to the extent payable from the proceeds of such Series 1994 Bonds and other monies pledged therefor, are payable solely from the Pledged Receipts which will be secured under a Trust Indenture with Star Bank, N.A., Cincinnati, Ohio, acting as Trustee. The Pledged Receipts shall include (i) all monies collected and deposited in the State Treasury for the benefit of the Authority (the "Court Costs") pursuant to Section 24A.175(6) of the Kentucky Revised Statutes ("KRS"); (ii) all Rental Payments received by the Authority under the Lease Agreements entered into by the Local Governments which have requested that the Authority act as an issuing agency on their behalf in order to provide the Local Government's financial contribution to a particular Project (the "Rental Payments"); (iii) all Supplemental Rental Payments received by the Authority under Supplemental Leases from Local Governments in repayment of and as interest on Construction Completion Loans; (iv) all other available monies received by the Authority in the form of gifts, grants and appropriations; and (v) investment earnings and gains on certain monies on deposit under the Trust Indenture. The amounts of Court Costs received by the Authority are based on a schedule of fees respecting certain criminal cases in the Commonwealth, which schedule is determined by the Kentucky General Assembly. Consequently, increases or decreases in the amounts of Court Costs (through an increase or decrease of the fee schedule) cannot be dictated by the Authority.

The scheduled payment of principal and interest on the Series 1994 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 1994 Bonds by Financial Security Assurance Inc.

Additional Parity Bonds

The Trust Indenture provides that the Authority may issue additional bonds ranking on a basis of parity as to security and sources of payment with the Series 1994 Bonds if all three of the following requirements are met: (i) there is on deposit in the Debt Service Reserve an amount equal to the Annual Debt Service Reserve Requirement on the Series 1994 Bonds then outstanding and the additional parity bonds proposed to be issued; (ii) the aggregate amount of Court Costs collected by the Authority for any 12 consecutive months out of the 18 months immediately preceding the date of issuance of such additional parity bonds at least equals the Annual Debt Service Reserve Requirement on the Series 1994 Bonds then outstanding and the additional parity bonds proposed to be issued (however, this requirement is subject to adjustment for legislative increases in Court Costs allocated to the Authority); and (iii) the total of (A) the aggregate amount of Court Costs collected by the Authority for any 12

consecutive months out of the 18 months immediately preceding the date of issuance of such additional parity bonds plus (B) the aggregate amount of annual Rental Payments and Supplemental Rental Payments due under the Leases and any Supplemental Leases then outstanding and under the Leases and any Supplemental Leases executed and to be executed in connection with the additional parity bonds proposed to be issued equals not less than 1.3 times the Annual Debt Service Reserve Requirement on the Series 1994 Bonds then outstanding and the additional parity bonds proposed to be issued.

Redemption Provisions

The Series 1994 Term Bonds are subject to mandatory sinking fund redemption on the dates and in the amounts hereinafter described. The redemption price will be 100% of the principal amount of the Series 1994 Term Bonds to be redeemed plus accrued interest, if any, to the redemption date.

All Series 1994 Bonds maturing on or after November 1, 2005, shall be subject to redemption at the option of the Authority in whole or in part, at a redemption price expressed as a percentage, ranging from 102% to 100%, of the principal amount of the Series 1994 Bonds to be redeemed plus accrued interest, if any, to the redemption date.

The Series 1994 Bonds are subject to extraordinary redemption, without premium, to the extent of casualty insurance proceeds, condemnation awards or monies received from a Local Government electing to purchase (subject to certain limitations) its Project. *"See Description of Series 1994 - Redemption Provisions"*

The Authority

The Authority is a body corporate and politic and an agency and instrumentality of the Commonwealth created in 1982 pursuant to KRS Sections 441.605 through 441.695, as amended, to provide an additional and alternative method of constructing, improving or repairing and financing local and regional jails and other correctional facilities in the Commonwealth.

The Projects

The Projects (as defined below) consist of the acquisition, construction, repair or improvement of regional and local jails and other correctional facilities. In 1983, the Department of Corrections, a part of the Justice Cabinet, adopted new Kentucky Jail Standards relating to health and safety conditions, fire safety and custody, care and treatment of prisoners. Many existing jails did not comply with the new standards and some jails were ordered closed by the Department of Corrections resulting in the necessity of building the Projects. The Projects, encompassing jails and correctional facilities, have been completed. The Local Governments participated in the Authority's Bond Program on the basis of an application and selection process established by the Department of Corrections and the Authority.

Definitions

Except as the context otherwise indicates or as otherwise defined herein, capitalized terms used in this Official Statement have the same meanings as in "SUMMARY OF BOND DOCUMENTS" included as Appendix "C" and have the same meanings as in the Trust Indenture and the Series 1994 Resolution.

OFFICIAL STATEMENT
relating to
\$45,595,000
Kentucky Local Correctional Facilities Construction Authority
Multi-County Correctional Facilities Revenue Refunding Bonds,
Series 1994

INTRODUCTION

The purpose of this Official Statement, including the cover page, Summary Statement and Appendices hereto, is to provide certain information concerning the sale by the Kentucky Local Correctional Facilities Construction Authority (the "Authority") of \$45,595,000 principal amount of its Multi-County Correctional Facilities Revenue Refunding Bonds, Series 1994 (the "Series 1994 Bonds").

The Authority is a body corporate and politic and an agency and instrumentality of the Commonwealth of Kentucky (the "Commonwealth" or the "State") created in 1982 pursuant to Sections 441.605 through 441.695 of the Kentucky Revised Statutes ("KRS"), as amended (the "Act"), to provide an additional and alternative method of constructing, improving or repairing and financing jails as that term is defined in the Act (hereinafter called "jails" or "Correctional Facilities"). The Series 1994 Bonds are being issued pursuant to the Act and are secured under a Trust Indenture dated as of February 1, 1994 (the "Trust Indenture") by and between the Authority and Star Bank, N.A., Kentucky, Cincinnati, Ohio (the "Trustee"), and a Series 1994 Resolution of the Authority adopted on February 25, 1994 (the "Series 1994 Resolution"). The Trustee also acts in the capacities of Bond Registrar and Paying Agent under the Trust Indenture.

The Series 1994 Bonds are being issued for the purposes of (i) providing the funds required to refund, redeem, pay and discharge the outstanding Kentucky Local Correctional Facilities Construction Authority Series 1984 Bonds in the total amount of \$2,735,000 (the "Series 1984 Bonds") and the outstanding Kentucky Local Correctional Facilities Construction Authority Series 1987 Bonds, in the total amount of \$37,585,000 (the "Series 1987 Bonds") (collectively, the "Refunded Bonds"), and (ii) providing for the payment of the Underwriter's discount and costs of issuance of the Series 1994 Bonds. See "PLAN OF REFUNDING," "PURPOSE," "ESTIMATED APPLICATION OF BOND PROCEEDS."

As of January, 1994, there have been 40 jails completed, 26 of which were financed with proceeds of the Series 1984 and Series 1987 Bonds of the Authority (with local financial participation from each of the counties) and 14 of which were financed with excess Authority revenues.

The Court Costs constituting part of the Pledged Receipts are authorized under the provisions of KRS Section 24A.175(6), which presently requires that \$10 of the authorized court costs imposed in certain criminal cases within the jurisdiction of the District Courts of the Commonwealth be paid to the State Treasury for the use and benefit of the Authority. Under the terms of the Trust Indenture, all Court Costs, together with all interest earnings thereon, are to be remitted by the Authority to the Trustee monthly. In addition, the Authority has assigned to the Trustee the right to collect the Rental Payments due under the Leases 30 days in advance of each principal and interest due date on the Bonds.

The Series 1994 Bonds do not constitute a debt of the Commonwealth or of any political subdivision thereof, or a pledge of the faith and credit of the Commonwealth or of any political subdivision thereof. The Authority has no taxing power.

This Official Statement also includes summaries of the Lease Agreements, the Participation Agreements, the Trust Indenture, the Series 1994 Resolution, the Act, other Kentucky statutes, information about the Projects and the Local Governments and certain reports and statistical data. The summaries of and references to all

documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive and each such summary and reference is qualified in its entirety by reference to each such document, statute, report or instrument. Certain capitalized terms which are not otherwise defined herein shall have the respective meanings set forth in such documents.

PLAN OF REFUNDING

The Series 1994 Bonds are being issued for the purposes of (i) providing the funds required to refund, redeem, pay and discharge the outstanding Refunded Bonds, and (ii) providing for the payment of the Underwriter's discount and costs of issuance of the Series 1994 Bonds. See "ESTIMATED APPLICATION OF BOND PROCEEDS."

From the proceeds of the Series 1994 Bonds, there will be deposited in the Escrow Fund established pursuant to the Escrow Trust Agreement dated as of February 1, 1994, between the Authority and National City Bank, Kentucky, Louisville, Kentucky an amount sufficient to refund, redeem, pay and discharge the Series 1987 Serial Bonds as they become due on November 1, 1994 through November 1, 1997, inclusive; the Series 1987 Serial Bonds due on November 1, 1998, the Series 1987 Term Bonds due on November 1, 2005 and November 1, 2014 (to be redeemed on November 1, 1997); and the Series 1984 Serial Bonds due on November 1, 1994 through November 1, 1998, inclusive (to be redeemed on November 1, 1994). Such monies deposited in the Escrow Fund shall be held by the Escrow Agent and shall be invested in direct obligations of or obligations guaranteed by the United States of America, with such monies and the earnings thereon to be applied solely for payment or redemption of the Refunded Bonds at or before their stated maturities.

DESCRIPTION OF THE SERIES 1994 BONDS

Series, Dates and Interest Rates

The Series 1994 Bonds will be dated February 1, 1994 and will bear interest at the rates and mature in the amounts and on the dates set forth on the cover page of this Official Statement. The Series 1994 Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will be payable semi-annually on May 1 and November 1 of each year, commencing May 1, 1994. The principal of and premium, if any, on the Series 1994 Bonds are payable at the principal corporate trust office of the Trustee. Interest is payable by check or draft mailed to the Registered Owners in whose names the Series 1994 Bonds are registered at the close of business on the 15th day of the calendar month immediately preceding the interest payment date or the date on which the principal of the Series 1994 Bonds is paid.

Registration, Transfer and Exchange

The Series 1994 Bonds, upon surrender thereof at the principal corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the Registered Owner or his attorney duly authorized in writing, may be, at the option of the Registered Owner, exchanged or transferred for an equal aggregate principal amount of Series 1994 Bonds in authorized denominations of the same maturity as the surrendered Series 1994 Bonds. Each Series 1994 Bond shall be transferable only upon the books of the Authority maintained by the Trustee.

In all cases in which the privilege of exchanging or transferring the Series 1994 Bonds is exercised, the Authority shall execute and the Trustee shall authenticate and deliver Series 1994 Bonds in accordance with the provisions of the Trust Indenture. There shall be no charge for any such exchange or transfer of Series 1994 Bonds, but the Authority or the Trustee may require the payment of a sum sufficient to pay any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. Neither the Authority nor the Trustee shall be required to transfer or exchange Series 1994 Bonds for a period of 15 days next preceding an interest payment date on such Series 1994 Bonds or, in the case of any proposed redemption of Series 1994 Bonds,

during the 15 days next preceding the mailing of the redemption notice. Neither the Authority nor the Trustee shall be required to transfer or exchange any Series 1994 Bonds called for redemption.

Redemption Provisions

Mandatory Sinking Fund Redemption. The Series 1994 Term Bonds maturing on November 1, 2014 (the "Term Bonds") will be subject to redemption by operation of the Debt Service Fund established under the Trust Indenture through mandatory sinking fund installments commencing on November 1, 2009, and each November 1 thereafter. The redemption price will be 100% of the principal amount of the Term Bonds to be redeemed plus accrued interest, if any, to the redemption date. Such sinking fund installments will be sufficient to redeem the following principal amounts of the Term Bonds on November 1 in the years set forth below:

<u>Term Bonds</u>	
<u>Year</u>	<u>Principal</u>
2009	\$2,610,000
2010	\$2,755,000
2011	\$2,905,000
2012	\$3,065,000
2013	\$3,235,000
2014	\$3,120,000

Optional Redemption. The Series 1994 Bonds maturing on or after November 1, 2005 shall be subject to redemption prior to their stated maturity at the option of the Authority in whole at any time or in part on any interest payment date on or after November 1, 2004, at the redemption prices, expressed as percentages of the principal amount of each Series 1994 Bond redeemed, as set forth below, plus in each case accrued interest to the date of redemption. In the case of any optional redemption of less than all of the Series 1994 Bonds, the amounts and maturities of such Series 1994 Bonds to be redeemed shall be determined by the Authority, and if less than all of a single maturity is to be redeemed, the Series 1994 Bonds within such maturity to be redeemed shall be selected by the Trustee by lot in such manner as the Trustee may determine.

<u>Redemption Dates</u>	<u>Redemption Price</u>
November 1, 2004 through October 31, 2005	102 %
November 1, 2005 through October 31, 2006	101 %
November 1, 2006 and thereafter	100 %

Extraordinary Redemption. The Series 1994 Bonds are subject to redemption prior to maturity as a whole at any time or in part on any interest payment date, to the extent of any casualty insurance proceeds and/or condemnation awards. Additionally, monies received from any Local Government electing to purchase its Project by paying the outstanding principal balance of its Lease will result in a redemption of the Series 1994 Bonds in an amount corresponding to the then outstanding principal balance rounded down to the greatest \$5000 denomination. See "Pledged Receipts - Local Governments and Local Governments - Project Costs and Principal Balance". Any such redemption shall be effected at a redemption price of 100% of the principal amount of Series 1994 Bonds so redeemed, plus accrued interest, if any, to the redemption date, but without premium. Bonds to be redeemed due to an extraordinary redemption shall be Bonds which mature, or are subject to Mandatory Sinking Fund Redemption,

on the dates that correspond to the dates the principal portion of the Rental Payments under the related Lease and Participation Agreement were due. In the event of redemption of less than all of the Series 1994 Bonds of like series and maturity, the Trustee shall assign to each such Outstanding Bond a distinctive number for each \$5,000 of the principal amount of such Bond and shall select by lot using such method of selection as it shall deem proper in its discretion, from the numbers so assigned as many numbers as at \$5,000 for each shall equal the principal amount of such Bonds to be redeemed.

Notice of Redemption. Any notice or call for redemption of Series 1994 Bonds shall be given by the Trustee by regular United States Mail to the Registered Owners of the Series 1994 Bonds so selected not less than 30 days prior to the date stated for redemption.

ESTIMATED APPLICATION OF BOND PROCEEDS

The following table sets forth the estimated application of the proceeds of the Series 1994 Bonds:

Deposit to Escrow Fund	\$44,388,110.00
Underwriters' Discount	342,874.00
Original Issue Discount	465,421.00
Cost of Issuance (including Bond Insurance)	<u>398,595.00</u>
 Total Principal Amount	 <u>\$45,595,000.00</u>

SECURITY FOR THE SERIES 1994 BONDS

The Series 1994 Bonds are special and limited obligations of the Authority, secured by and payable from the specific revenues, funds and properties pledged therefor as described herein. The Series 1994 Bonds do not constitute a debt of the Commonwealth or any political subdivision thereof. The payment of the principal of and interest on the Series 1994 Bonds is not secured by a pledge of the faith and credit or the taxing power of the Commonwealth or any political subdivision thereof. The Authority has no taxing power.

The Series 1994 Bonds are special and limited obligations of the Authority and except to the extent payable from the proceeds of such Series 1994 Bonds or other monies pledged therefor under the Trust Indenture the Series 1994 Bonds will be payable from the Pledged Receipts as described below.

Bond Insurance Policy

Concurrently with the issuance of the Series 1994 Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Series 1994 Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Series 1994 Bonds that has become due for payment, but shall be unpaid by reason of nonpayment by the Authority. On the later of the day on which such principal and interest is due or on the business day next following the business day on which Financial Security shall have received notice by telephone or telecopy, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner of Series 1994 Bonds, the Trustee or the Paying Agent (as defined in the Policy), of the nonpayment of such amount by the Authority, Financial Security will disburse such amount due on any Series 1994 Bonds to the Trustee or the Paying Agent, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, in either case upon receipt by Financial Security in form reasonably satisfactory to it of (a) evidence of the Owner's right to receive payment of the principal and interest that is due for payment and (b) evidence, including any appropriate instruments of assignment, that all of such Owner's rights to payment of such principal and interest shall be vested in Financial Security. The term "nonpayment" in respect of a Series 1994 Bond includes any payment of principal or interest that is insured by Financial Security made to an Owner of a Series 1994 Bond that has been recovered from such Owner pursuant to

the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancelable and the premium will be fully paid at the time of delivery of the Series 1994 Bonds. The Policy covers failure to pay principal of the Series 1994 Bonds on their respective stated maturity dates, or dates on which the same shall have been duly called for mandatory sinking fund redemption and not on any other date on which the Series 1994 Bonds may have been called for redemption, acceleration or other advancement of maturity, unless Financial Security shall elect, in its sole discretion, to pay such principal due upon acceleration together with any interest accrued to the date of acceleration, and covers the failure to pay an installment of interest on the stated date for its payment. Payment by Financial Security of principal due upon acceleration and interest accrued to the accelerated maturity date (to the extent unpaid by the Authority) shall fully discharge Financial Security's obligations under the Policy.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for the purposes of the Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (i) copies of all notices required to be delivered to Financial Security pursuant to the Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (ii) all payments required to be made by Financial Security under the Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security.

The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to Owners of the Series 1994 Bonds for any acts of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under the Policy.

Under the Policy, Financial Security will, to the extent permitted by applicable law, waive, only for the benefit of the Owners of the Series 1994 Bonds, all rights and defenses that might otherwise have been available to Financial Security to avoid payment of its obligations under the Policy in accordance with its terms.

THE POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

Financial Security Assurance Inc.

Financial Security is a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"), which in turn is approximately 92.5% owned by U S WEST Capital Corporation ("U S WEST") and 7.5% owned by The Tokio Marine and Fire Insurance Co., Ltd. ("Tokio Marine"). U S WEST is a subsidiary of U S WEST, Inc., which operates businesses involved in communications, data solutions, marketing services and capital assets, including the provision of telephone services in 14 states in the Western and midWestern United States. Tokio Marine is a major Japanese property and casualty insurance company. No shareholder of Holdings is obligated to pay any debt of Financial Security or any claim under any insurance policy issued by Financial Security or to make any additional contribution to the capital of Financial Security. U S WEST has announced its intention to dispose of its interest in Holdings as part of its strategic plan to withdraw from businesses not directly involved in telecommunications. U S WEST has stated that it intends to accomplish such disposition in a manner that will maximize the value of its investment in Holdings. Holdings has filed with the Securities and Exchange Commission a registration statement on Form S-1 contemplating an initial public offering of Holdings' common shares by U S WEST, reducing U S WEST's ownership interest in Holdings below 50%. Affirmation of the triple-A ratings of the claims-paying ability of Financial Security is a condition to the closing of the public offering. In anticipation of such public offering, in December 1993, Financial Security completed a restructuring transaction which significantly reduced Financial Security's risk of loss from certain commercial real estate transactions insured by Financial Security.

Financial Security is domiciled in the State of New York and is subject to regulation by the State of New York Insurance Department. As of September 30, 1993, the total policyholders' surplus and contingency reserves

and the total unearned premium reserve, respectively, of Financial Security and its consolidated subsidiaries were, in accordance with statutory accounting principles approximately \$510,262,000 and \$239,639,000 (\$438,651,000 and \$221,939,000, respectively, giving effect to the restructuring of Financial Security completed on December 23, 1993) and the total qualified capital and the total unearned premium reserve, respectively, of Financial Security and its consolidated subsidiaries were, in accordance with generally accepted accounting principles, approximately \$585,935,000 and \$216,434,000 (\$505,087,000 and \$198,734,000, respectively, giving effect to such restructuring). Copies of Financial Security's financial statements may be obtained by writing to Financial Security at 350 Park Avenue, New York, New York 10022, Attention: Communications Department. Financial Security's telephone number is (212) 826-0100.

Financial Security's claims-paying ability is rated "Aaa" by Moody's Investors Service, Inc. and "AAA" by Standard & Poor's Corporation. Such ratings reflect only the views of the respective rating agencies, are not recommendations to buy, sell or hold securities and are subject to revision or withdrawal at any time by such rating agencies.

The Policy does not protect investors against changes in market value of the Series 1994 Bonds. The market value of the Series 1994 Bonds may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes.

Financial Security makes no representation regarding the Series 1994 Bonds or the advisability of investing in the Series 1994 Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Authority the information presented under this caption for inclusion in the Official Statement.

Pledged Receipts--Court Costs

Pledged Receipts include all monies collected and deposited in the State Treasury for the benefit of the Authority as Court Costs pursuant to KRS Section 24A.175(6).

The Court Costs received by the Authority are derived from certain criminal cases, excluding parking violations, adjudicated by the District Courts of the Commonwealth resulting in a finding or admission of guilt whereby the offenders are assessed court costs, which are a minimum of \$42.50 per case and which may be greater depending on the necessity of a trial. The amount of court costs assessed is automatically determined by the method of disposition of the case and is not subject to the discretion of the Court. Of the total court costs collected, \$10 per case is allocated to the Authority pursuant to KRS Section 24A.175(6). These funds are collected from offenders by the Circuit Court Clerk in the county in which the District Court presides. By the tenth day of each month, the Circuit Court Clerk remits to the Treasurer of the Commonwealth the Authority's allocation of Court Costs, along with other monies collected for the Commonwealth. The Department for Local Government verifies the amount of those funds. The Finance and Administration Cabinet then transfers the aggregate amount of Court Costs collected from all 120 counties of the Commonwealth to the Authority for deposit with the Trustee by the end of each month.

The amounts of Court Costs received per case by the Authority is established by the Kentucky General Assembly, and therefore such amounts cannot be increased by the Authority without legislative approval. Moreover, the Authority cannot unilaterally prevent a decrease in such amounts if such decrease is adopted by the Kentucky General Assembly, though the Authority has covenanted to oppose, by appropriate legal action, any future legislation introduced in the Kentucky General Assembly designed to repeal, reduce or redirect the Court Costs allocated for the use and benefit of the Authority by KRS 24A.175(6). See "SUMMARY OF BOND DOCUMENTS -- TRUST INDENTURE."

The pledge of Court Costs hereunder being a contractual obligation of the Authority for the benefit of the Bondholders, the Authority covenants to oppose, including, to the extent necessary, by appropriate legal action, the adoption or enforcement of any statute or regulation that would reduce the amount of aggregate annual Court Costs payable to the Authority as an impairment of such contractual obligation, if such reduction would cause the total

amount of Court Costs, Rental Payments and Supplemental Rental Payments, based on reasonable projections, to be less than the Principal Installments and interest on the Bonds which are due and payable in any future fiscal year.

The amounts of Court Costs received by the Authority during the period from July 1, 1990 through June 30, 1993 are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
1990	\$4,099,531.02
1991	4,132,148.21
1992	4,018,690.33
1993	3,865,871.25

Pledged Receipts -- Rental Payments Under Lease Agreements

Pledged Receipts also include the Rental Payments received by the Authority under the Leases from Local Governments in repayment of and as interest on each Local Government's Lease and Participation Agreement with respect to Projects funded or partially funded by the Series 1984 Bonds or the Series 1987 Bonds. The term of each Lease on a Project is one year, subject to automatic annual renewals unless a Local Government fails to exercise its option to renew. Thereafter, the Leases automatically are renewed and will continue to automatically renew on July 1 of each year for a period of one year unless the Local Government gives notice to the Authority, the Finance and Administration Cabinet and the Department of Corrections in writing not less than 60 days prior to the expiration date of the Lease of its intention not to renew. Each Lease on a Project contains a statement by the Local Government that it presently intends to renew the Lease from year to year until its Project Bonds are retired, however, such statement of intent cannot be construed as a present election to renew the Lease.

The participation of each Local Government in the financing plan represented by the Project Bonds and the execution by a Local Government of a Lease is subject to the approval of the State Local Finance Officer of Kentucky in accordance with the County Debt Act, KRS Sections 66.280 through 66.390, which requires that in each instance the State Local Finance Officer render a decision indicating that the projected obligations of the Local Government under the Lease are within the anticipated revenue of the Local Government available for such purpose.

In the event a Local Government should elect not to renew its Lease, all of its rights in the Project shall be terminated, including the right to have the Project reconveyed to the Local Government upon retirement of the Project Bonds. Upon a Local Government's failure to exercise its option to renew, all Rental Payments then due and unpaid for the then current Lease year shall become immediately due and payable and the Local Government is required to give immediate possession of the Project to the Authority.

Under each Lease, the Local Government has agreed that in any year the Lease remains in effect and the Local Government fails to pay the required Rental Payments, the Authority is entitled to notify the State Treasurer and/or the Department of Corrections and to request there be withheld from the delinquent lessee Local Government a sufficient portion of any undisbursed funds then held, set aside or allocated for jail purposes from State appropriations for that Local Government. This collection device, which is available only during any year in which the Lease is in effect, terminates should any Local Government elect not to renew its Lease.

In addition to such conditional assignment of each Local Government's rights with regard to State appropriations for their jail purposes, Rental Payments due under the Leases constitute general obligations of each Local Government but only to the extent of the Rental Payments due for the annual Lease term then in effect.

Pledged Receipts -- Local Governments -- Annual Rental Payment -- Principal Balance

The Local Governments with which the Authority has Leases, the annual Rental Payments payable to the Authority thereunder and the principal balance amount of such Leases are as follows:

<u>Local Government</u>	<u>Average Annual Rental Payment</u>	<u>Principal Balance¹</u>
Adair County	\$ 37,571.59	429,596.96
Estill County	15,934.47	182,196.19
Franklin County	156,904.47	1,794,059.98
Fulton County	28,246.17	314,998.54
Johnson County	85,419.59	954,662.58
Kenton County	342,703.09	3,918,481.72
Knox County	42,553.41	486,559.53
McCreary County	25,851.47	282,017.60
Montgomery County	74,230.97	112,577.11
Powell County	21,380.82	233,735.69
Simpson County	<u>31,562.08</u>	<u>355,674.38</u>
Total:		<u><u>9,064,560.28</u></u>

Other Pledged Receipts

Investment Earnings. Pledged Receipts also include all interest earned and gains realized on Investment Obligations acquired with monies on deposit under the Trust Indenture other than the Payment, Surplus and Operating Fund. Interest and gains derived from investment of monies or the Leases and the Revenue Bond Account will become Pledged Receipts.

Gifts, Grants and Appropriations. Pledged Receipts include any gifts or grants received from any agency of government, both Federal and State, to the extent not required to be otherwise applied, as well as any and all appropriations made to the Authority by the General Assembly of the Commonwealth to the extent not otherwise committed during any fiscal period of the Authority. To date, the Authority has received no such gifts, grants or appropriations constituting Pledged Receipts.

Title to Leased Projects and Terms of the Lease

Title to each Project which is subject to a Lease between the Authority and a Local Government is vested in the Authority. Under the Trust Indenture, the Authority grants the Trustee an assignment of the Leases.

Under the terms of the Lease Agreements, each of the Local Governments has agreed that if it should fail to make any Rental Payments during any then current one year Lease term, the Authority may notify the State Treasurer and/or the Department of Corrections and request there be withheld from State appropriations for the delinquent Local Government lessee a sufficient portion of any undisbursed funds then held, set aside or allocated for such Local Government for jail purposes. Any such withheld amounts would be paid directly to the Authority from the State Treasurer or Department of Corrections, as the case may be. Local Governments have agreed that such direct collections may only be in the amount of any such deficiency; and any amounts so collected by the Authority are required to be immediately remitted to the Trustee to be deposited in the Debt Service Fund for the benefit of the Bondholders. This direct collection device is available only during any year in which the Lease is in effect and terminates should any Local Government elect not to renew its Lease. Notwithstanding the Local Governments' agreement to permit such direct collections, no representation or assurance can be made that the future revenues of each Local Government will be sufficient to meet all of its obligations under its Lease Agreement.

¹(as of February 1, 1994)

The Lease Agreements will expire on June 30, 1994, but will be subject to automatic renewals for each ensuing one year period, unless a Local Government elects not to renew and notifies the Authority of such election, in writing, at least 60 days prior to the expiration date of its Lease Agreement. Each Lease Agreement contains a statement by the Local Government that it presently intends to renew the Lease from year to year until the Bonds attributable thereto have been paid, satisfied and discharged; however, such statement of present intent cannot be construed as a present election to so renew. A Local Government's obligations under a Lease Agreement, including the obligation to make Rental Payments, are subject to and dependent upon the Local Government's annual appropriations. In the event a Local Government elects not to renew its Lease Agreement, all of its rights in the Project shall be terminated, including the Local Government's right to receive reconveyance of the Project after all Rental Payments have been made. Although a County with a Participation in the Bonds will convey title to its Project to the Authority upon completion of construction, the Bondholders will not have a security interest in the Project. If a Local Government should default under or fail to renew its Lease Agreement, the Bondholders will have no rights in the Project, nor will they have the right to require that such Local Government appropriate any monies for the payment of the Rental Payments.

Upon such a default under or a failure to renew a Lease Agreement, the Authority will be entitled to take possession of the Project and may make the facility available for Federal, State or county prisoners on a per diem basis. However, there can be no assurance given that the Authority will follow this course of action, nor can there be any assurance that the per diem charges in such circumstances would be equal to the Rental Payments which would have been paid under the Lease Agreement.

Debt Service Reserve

Pursuant to the terms of the Trust Indenture, the Authority is required to maintain a Debt Service Reserve in an amount equal to the maximum annual principal and interest requirements on all of the Authority's outstanding Bonds (the "Annual Debt Service Reserve Requirement"). In any year in which the Court Costs, Rental Payments (including Supplemental Rental Payments) and Investment Earnings are not sufficient to meet principal and interest requirements on all of the Authority's outstanding Bonds, the Trust Indenture requires that a sufficient portion of the Debt Service Reserve be transferred to the Debt Service Fund in order to meet such requirements. Pursuant to the Series 1994 Resolution, upon delivery of the Series 1994 Bonds there will be sufficient monies already on deposit in the Debt Service Reserve fund necessary to equal the Annual Debt Service Reserve Requirement.

Additional Parity Bonds

The Trust Indenture provides that the Authority will not issue additional bonds ranking on a basis of parity as to security and sources of payment with the Series 1994 Bonds unless and until all three of the following requirements are met:

(i) There is on deposit in the Debt Service Reserve an amount equal to the Annual Debt Service Reserve Requirement on the Series 1994 Bonds then outstanding and the additional parity bonds proposed to be issued;

(ii) The aggregate amount of Court Costs collected by the Authority for any 12 consecutive months out of the 18 months immediately preceding the date of issuance of such additional parity bonds at least equals the Annual Debt Service Reserve Requirement on the Series 1994 Bonds then outstanding and the additional parity bonds proposed to be issued (however, this requirement is subject to adjustment for legislative increases in Court Costs allocated to the Authority); and

(iii) The total of (A) the aggregate amount of Court Costs collected by the Authority for any 12 consecutive months out of the 18 months immediately preceding the date of issuance of such additional parity bonds plus (B) the aggregate amount of annual Rental Payments and Supplemental Rental Payments due under the Leases and any Supplemental Leases, executed in connection with the Series 1984 Bonds then outstanding and under the Leases and any Supplemental Leases executed and to be executed in connection with the additional parity bonds

proposed to be issued equals not less than 1.3 times the Annual Debt Service Reserve Requirement on the Series 1994 Bonds then outstanding and the additional parity bonds proposed to be issued.

DEBT SERVICE REQUIREMENTS

The following table sets forth the annual debt service requirements of the Series 1994 Bonds:

Bond Year Ending <u>November 1</u>	<u>Principal*</u>	<u>Interest</u>	Total Debt <u>Service</u>
1994	1,980,000.00	1,682,465.63	3,662,465.63
1995	1,390,000.00	2,188,837.50	3,578,837.50
1996	1,440,000.00	2,143,662.50	3,583,662.50
1997	1,485,000.00	2,089,662.50	3,574,662.50
1998	1,515,000.00	2,030,262.50	3,545,262.50
1999	1,620,000.00	1,965,875.00	3,585,875.00
2000	1,690,000.00	1,894,595.00	3,584,595.50
2001	1,765,000.00	1,817,700.00	3,582,700.00
2002	1,845,000.00	1,735,627.50	3,580,627.50
2003	1,940,000.00	1,647,990.00	3,587,990.00
2004	2,030,000.00	1,553,900.00	3,583,900.00
2005	2,135,000.00	1,453,415.00	3,588,415.00
2006	2,240,000.00	1,345,597.50	3,585,597.50
2007	2,355,000.00	1,230,237.50	3,585,237.50
2008	2,475,000.00	1,106,600.00	3,581,600.00
2009	2,610,000.00	972,950.00	3,582,950.00
2010	2,755,000.00	829,400.00	3,584,400.00
2011	2,905,000.00	677,875.00	3,582,875.00
2012	3,065,000.00	518,100.00	3,583,100.00
2013	3,235,000.00	349,525.00	3,584,525.00
2014	3,120,000.00	171,600.00	3,291,600.00

The highest future annual debt service requirement on the Series 1994 Bonds is \$3,662,465.63. The Authority has no other debt outstanding.

THE AUTHORITY

The Authority is a body corporate and public and an agency and instrumentality of the Commonwealth created and existing under the Act. The general purpose of the Authority is to provide an additional and alternative method of constructing, reconstructing, improving or repairing and financing jails, correctional facilities and appurtenant facilities for any county or urban-county in the Commonwealth.

Authority Membership

The Act provides that the powers of the Authority are exercised by ten members who, serve without compensation but are entitled to reimbursement for all reasonable expenses necessary and proper to the performance of their duties and functions as members of the Authority.

The Authority is composed of the Secretary of the Finance and Administration Cabinet of the Commonwealth (who is Chairman of the Authority), the Secretary of the Justice Department of the Commonwealth, the President of the Kentucky Jailers Association, the President of the Kentucky County Judges/Executive Association, the President of the Kentucky Association of Counties, the President of the Kentucky Magistrates and Commissioners Association, two citizen members appointed by the Governor and two members of the General Assembly appointed by the Governor. Each of the *ex officio* members serves for the term of his respective office. Citizen members are appointed for a term of four years. The legislative members serve at the pleasure of the Governor. Any six members of the Authority shall constitute a quorum. The Office of Financial Management and Economic Analysis, Finance and Administration Cabinet, Room 261, Capitol Annex, Frankfort, Kentucky, serves as the office for the Authority.

The present members and officers of the Authority and their offices, terms of office and affiliations are as follows:

<u>Name</u>	<u>Term Expires</u>	<u>Affiliation</u>
W. Patrick Mulloy II Chairman	ex officio	Secretary of the Finance and Administration Cabinet
The Honorable Adrian Arnold, Vice-Chairman	August 1, 1995	Representative, General Assembly
Jack C. Lewis, Secretary	August 1, 1995	Commissioner, Department of Corrections
Billy G. Wellman	ex officio	Secretary, Justice Cabinet
The Honorable Ed Ford	August 1, 1995	Senator, General Assembly
Harold N. Taylor	June, 1994	President, Kentucky Jailer's Association
The Honorable Thomas G. Turner	December, 1994	President, Kentucky County Judge/Executive Association
The Honorable Harold Robinson	December, 1994	President, Kentucky Association of Counties

<u>Name</u>	<u>Term Expires</u>	<u>Affiliation</u>
Lucille Roebuck	August 1, 1995	Citizen Member
Jerry Stewart	July 1, 1995	President, Magistrates & Commissioners Association

Powers of the Authority

Under the terms of the Act, the Authority has, among other powers, the power: (i) to construct, reconstruct, improve or repair any jail and appurtenant facilities in any Local Government in the State; (ii) to acquire and to convey real estate and any improvements, buildings and facilities located thereon, for which a Project is undertaken, and in such manner and under such terms as may be provided by agreement; (iii) to issue revenue bonds and revenue bond anticipation notes payable solely from the revenues, rentals and other funds pledged for their payment, for the purpose of paying any part of the cost of any one or more Projects, and to refund any of its bonds; (iv) to combine for financing purposes any two or more Projects; (v) to lease as lessor any Project to any Local Government as lessee, pursuant to the terms and provisions of a Lease; (vi) to employ consulting engineers, attorneys, accountants, construction and financial experts, managers and other employees and agents as may be necessary in the judgment of the Authority, and to fix their compensation; (vii) to make and enter into such contracts and agreements with other parties as may be necessary and incidental to the performance of its duties and execution of its powers under the Act; (viii) to establish and enforce rules, regulations and specifications in respect to any Project undertaken by the Authority, except during any period when such powers are assigned to a lessee pursuant to a Lease Agreement, provided that such rules, regulations and specifications shall be consistent with State laws and regulations pertaining to jails; (ix) to receive, accept and expend funds or other contributions from any source, both public and private, for or in aid of any Project undertaken by the Authority; (x) to make grants to Local Governments from funds determined by it to be available to it for such purposes, upon such terms and according to such criteria as the Authority shall in its discretion determine; and (xi) to do all things and perform all acts desirable, necessary and proper to carry out and implement the powers expressly granted to it by the Act.

Regional and Local Facilities Bond Programs

The Department of Corrections of the Commonwealth was established by Executive Order 92-511 and KRS Chapter 196. The Department of Corrections is directed by a Commissioner. Programs within the Department of Corrections include corrections management, adult institutions and community services.

By Executive Order 81-1026, a Jail Standards Commission, composed of representatives of State and local governments, special interest groups, all segments of the criminal justice system and private citizens, was created to develop minimum jail standards. The standards developed include health and safety conditions, fire safety and custody, care and treatment of prisoners (the "Kentucky Jail Standards").

Pursuant to KRS Sections 441.055 through 441.095, the Department of Corrections is responsible for enforcement of the Kentucky Jail Standards, which the Department of Corrections has now promulgated into administrative regulations, Title 501, Chapter 3 of the Kentucky Administrative Regulations. The Department of Corrections employs personnel to inspect jails twice a year. If, as a result of such inspections, the Department of Corrections finds a violation of the Kentucky Jail Standards, the Commissioner of Corrections may order the jail or portions thereof to be vacated and closed until the violation is corrected.

Since the responsibility for the operation of jail facilities lies with the counties, the Department of Corrections recognizes that the maintenance of separate county jails complying with the Kentucky Jail Standards imposes a significant financial burden on the counties. In light of that reality, the Department of Corrections has endorsed the concept of regional jails and assisted in the determination of priorities for the Authority's Bond Programs.

Under the Act, the Authority is charged with the responsibility of providing an additional and alternate method of constructing, reconstructing, improving or repairing and financing county jails. As a result of this mandate and the Kentucky Jail Standards, the Authority has recognized that an adequate statewide system of county jails would require the construction or renovation of full service and holdover jail facilities whether on a single county or regional basis. Consequently, the Authority has established its Regional and Local Facilities Bond Programs. All counties in the Commonwealth have been invited to make an application to participate and receive funding from the Authority's Bond Programs.

LOCAL GOVERNMENTS AND THE PROJECTS

The Projects with corresponding total project costs and the date of completion of such Project are as follows:

<u>COUNTY</u>	<u>PROJECT COSTS</u>	<u>DATE OF COMPLETION</u>
Adair	\$1,436,760.27	June, 1987
Bell	\$1,385,994.14	December, 1987
Boone	\$1,073,989.62	October, 1986
Butler	\$ 419,722.72	July, 1987
Carroll	\$2,213,261.05	Incomplete
Casey	\$ 249,007.83	June, 1987
Christian	\$6,909,887.00	Incomplete
Clark	\$4,606,502.00	April, 1994 (est.)
Daviess	\$1,500,000.00	February, 1994
Estill	\$ 538,907.52	June, 1987
Fayette	\$1,134,375.00	May, 1986
Franklin	\$4,876,689.84	November, 1987
Fulton	\$ 666,436.52	December, 1987
Graves	\$1,540,113.00	October, 1986
Greenup	\$1,773,804.00	April, 1991
Jessamine	\$2,011,137.80	May, 1991
Jefferson	\$7,174,000.00	1988
Johnson	\$2,735,650.60	Incomplete
Kenton	\$6,481,400.00	February, 1988
Knox	\$ 775,000.00	August, 1988
Larue	\$ 397,403.00	February, 1985
Lincoln	\$ 562,454.40	November, 1987
Madison	\$3,052,154.00	March, 1986
Mason	\$2,236,486.30	August, 1990
McCracken	\$2,894,856.51	July, 1991
McCreary	\$ 609,750.00	November, 1990
Montgomery	\$2,554,490.00	October, 1988
Nelson	\$ 713,270.48	December, 1988
Oldham	\$1,391,535.00	November, 1987
Pike	\$3,790,490.00	November, 1990
Powell	\$ 535,160.00	November, 1990
Pulaski	\$2,930,081.92	October, 1988
Rowan	\$1,586,241.00	June, 1990
Scott	\$2,421,862.00	April, 1991
Shelby	\$ 82,743.00	June, 1992
Simpson	\$ 986,139.31	December, 1991
		June, 1987

Todd	\$ 270,556.63	October, 1986
Union	\$ 458,959.22	June, 1987
Warren	\$4,359,122.46	November, 1987
Webster	\$1,003,062.08	March, 1989

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of (i) the mathematical computations of the adequacy of the Investment Obligations to be held in the Escrow Fund, together with other available amounts, if any, and interest income on such Investment Obligations, to pay, when due or redeemed, the principal of and premium, if any, and interest on the Refunded Bonds, and (ii) the mathematical computations supporting the conclusion that the Series 1994 Bonds are not "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), will be verified for the Authority by Coopers & Lybrand, Louisville, Kentucky, independent certified public accountants. Such verification of arithmetical accuracy and mathematical computations will be based upon information supplied by the Authority and on interpretations of Section 148 of the Code provided by Bond Counsel.

TAX EXEMPTION

General

In the opinion of Bond Counsel, based upon certain representations and certifications of the Authority, which Bond Counsel has not independently verified, and assuming continuing compliance therewith, as set forth below, interest on the Series 1994 Bonds is excludable from gross income for federal income tax purposes under existing laws, regulations, rulings and decisions in effect on the date of delivery of the Series 1994 Bonds.

The Authority is required by the Internal Revenue Code of 1986, as amended (the "Code"), to comply on an ongoing basis with certain obligations in order for the interest on the Series 1994 Bonds to be and remain excludable from gross income for federal income tax purposes. Failure to meet those obligations could result in the interest on the Series 1994 Bonds becoming subject to federal income taxation, retroactive to the date of the Series 1994 Bonds. The Authority has covenanted to comply with all such obligations. Under the Code, interest on the Series 1994 Bonds will not be treated as an item of tax preference in computing the alternative minimum tax on individuals and corporations and the corporate environmental tax. However under the Code, interest on the Series 1994 Bonds will be included in the "adjusted current earnings" of certain corporations, and such corporations would be required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for alternative tax net operating losses). Interest on the Series 1994 Bonds is therefore includable in the tax base for computing such corporations' liability with respect to the alternative minimum tax, and with respect to the environmental tax, which is equal, in general, to .12% of the amount of such corporations' modified alternative minimum taxable income in excess of \$2,000,000 for taxable years beginning before January 1, 1996. Interest on the Series 1994 Bonds will be included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States. In addition, the Code disallows certain federal income tax deductions of certain financial institutions and property and casualty insurance companies which acquire the Series 1994 Bonds.

Original Issue Discount

The Series 1994 Bonds maturing on November 1, 2014 (the "Discount Bonds") are being offered and sold to the public at an original issue discount ("OID") from the amounts payable at maturity thereon. OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue ("accrete") over the term of the bond, and for the Discount Bonds, the accretion will be based on a single rate of interest,

compounded semiannually (the "yield to maturity"). The amount of OID that accretes during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accretes during the period that such purchaser owns the Discount Bond is added to such purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond and thus, in effect, is treated as stated interest on the Refunding Bonds is treated, that is, as interest excludable from gross income for federal income tax purposes.

Holders of Discount Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

CERTAIN OTHER LEGAL MATTERS

The delivery of the Series 1994 Bonds to the Underwriters is subject to the opinions of Bond Counsel as to the validity of the issuance of the Bonds under Federal and State laws. In addition, Bond Counsel will render an opinion with respect to the validity and enforceability of the Lease Agreements, Participation Agreements and Trust Indenture.

Certain legal matters will be passed on for the Underwriter by its counsel, Brown, Todd & Heyburn, Louisville, Kentucky.

LITIGATION

In the opinion of Bond Counsel, there is no controversy or litigation of any nature now pending or threatened, restraining or enjoining the issuance, sale, execution or delivery of the Series 1994 Bonds or in any way contesting or affecting the validity of such Series 1994 Bonds, or any proceedings of the Authority taken with respect to the issuance or sale thereof, or the pledge or application of any monies or security provided for the payment of such Series 1994 Bonds, or the due existence or powers of the Authority.

LEGALITY OF SERIES 1994 BONDS FOR INVESTMENT AND DEPOSIT

Subject to any applicable Federal requirements or limitations, the Series 1994 Bonds in Kentucky, are securities in which all public officers and public bodies, agencies and instrumentalities of the Commonwealth and its political subdivisions, all insurance companies, trust companies, bank associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them.

The Series 1994 Bonds are securities which may properly and legally be deposited with and received by any State or municipal officer or any agency or political subdivision of the Commonwealth for any purpose for which the deposit of bonds or other obligations of the Commonwealth is now or may hereafter be authorized by law.

RATINGS

Moody's Investors Service ("Moody's") and Standard & Poor's Corporation ("Standard & Poor's") have given the Bonds the ratings as "Aaa" and "AAA," respectively, with the understanding that upon delivery of the Bonds, a policy insuring the payment when due of the payment of and interest on the Bonds will be issued by Financial Security Assurance Inc. Such ratings reflect only the views of Moody's and Standard & Poor's and an explanation of the significance of such ratings may be obtained from Moody's at 99 Church Street, New York 10007, (212) 553-0470, and from Standard & Poor's at 25 Broadway, New York, New York 10004, (212) 208-8000. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The ratings do not constitute a recommendation to buy, sell or hold the Bonds. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the ratings agencies, if in the judgment of such rating agencies,

circumstances so warrant. Any downward revision or withdrawal could have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Series 1994 Bonds are to be purchased by Stifel, Nicolaus & Co., Inc. (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Series 1994 Bonds at an aggregate discount of \$342,874.40 from the initial public offering prices for the Series 1994 Bonds as stated on the cover page hereof, plus accrued interest, if any. The Underwriter will be obligated to purchase all of the Series 1994 Bonds if any are purchased. The Underwriter has advised the Authority that they intend to make a public offering of the Series 1994 Bonds at the initial public offering prices set forth on the cover page hereof.

The Underwriter may offer and sell the Series 1994 Bonds to certain dealers (including dealers depositing such Series 1994 Bonds into investment trusts) and others at prices lower than the initial public offering prices stated on the cover page hereof. The initial public offering prices may be changed from time to time by the Underwriter.

The Authority has agreed under certain circumstances to indemnify the Underwriter against damages or liabilities arising out of or based upon any untrue or alleged untrue statement or omissions or alleged omissions in connection with information furnished by the Authority for inclusion in this Official Statement.

APPROVAL OF ISSUANCE OF SERIES 1994 BONDS

Issuance of the Series 1994 Bonds by the Authority and the terms thereof have been approved by the Office of Financial Management and Economic Analysis of the Finance and Administration Cabinet of the Commonwealth and the Capital Project and Bond Oversight Committee.

Pursuant to the County Debt Act, KRS Sections 66.280 through 66.390, the State Local Finance Officer of the Commonwealth has approved the obligations of the Local Governments evidenced by the Lease Agreements.

MISCELLANEOUS

All references to the Trust Indenture, Series 1994 Resolution, Lease Agreements, Participation Agreements and other documents mentioned herein and in the accompanying Appendices, including any summaries thereof, are qualified in their entirety by reference to such documents. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Registered Owners of the Series 1994 Bonds.

The information in the foregoing pages is presented for the guidance of prospective purchasers of the Series 1994 Bonds described therein. The information has been compiled from official and other sources and, while not guaranteed by the Authority, is believed to be correct. So far as any statements made in this Official Statement and the Appendices attached hereto involve matters of opinion or estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The attached Appendices are integral parts of the Official Statement and must be read in their entirety together with all of the foregoing information.

The Authority has duly authorized the execution and delivery of this Official Statement by its Chairman.

Dated: February 25, 1994

Kentucky Local Correctional Facilities
Construction Authority

By: _____
W. Patrick Mulloy II, Chairman

Attest:

Vice Chairman

MSZ.E2448
072\STIFEL\CORREC.OS6
nj0216941927

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

FINANCIAL STATEMENTS OF THE AUTHORITY

This APPENDIX contains the Balance Sheet, Statement of Revenues, Expenses and Changes in Retained Earnings and Statement of Changes in Financial Position for the Kentucky Local Correctional Facilities Construction Authority (the "Authority") for Fiscal Years 1992 and 1993.

KENTUCKY LOCAL CORRECTIONAL
FACILITIES CONSTRUCTION AUTHORITY

FINANCIAL REPORT

JUNE 30, 1993

KENTUCKY LOCAL CORRECTIONAL
FACILITIES CONSTRUCTION AUTHORITY

FINANCIAL REPORT

JUNE 30, 1993

C O N T E N T S

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance sheet	2
Statement of revenues, expenses and changes in retained earnings (deficit)	3
Statement of cash flows	4
Notes to financial statements	5-18
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	19 and 20
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	21-23



Jones, Nale and Mattingly

CERTIFIED PUBLIC ACCOUNTANTS

642 South Fourth Avenue, Suite 300
Louisville, Kentucky 40202-9975
(502) 583-0248
Fax No. (502) 589-1680

MEMBER

American Institute of
Certified Public Accountants
Kentucky Society of
Certified Public Accountants

R. Wayne Stratton, CPA
Jon A. Meyer, CPA
Dennis G. Martin, CPA
David R. Price, CPA
Timothy W. Stephens, CPA

Willis C. Nale, CPA
James M. Breen, Jr., CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kentucky Local Correctional
Facilities Construction Authority
Frankfort, Kentucky

We have audited the accompanying balance sheet of the Kentucky Local Correctional Facilities Construction Authority, a component unit of the Commonwealth of Kentucky, as of June 30, 1993 and the related statements of revenue and expenses and changes in retained earnings (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Kentucky Local Correctional Facilities Construction Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky Local Correctional Facilities Construction Authority as of June 30, 1993, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Jones, Nale and Mattingly

Louisville, Kentucky
July 19, 1993

KENTUCKY LOCAL CORRECTIONAL
FACILITIES CONSTRUCTION AUTHORITY

BALANCE SHEET
June 30, 1993

ASSETS

CURRENT ASSETS

Cash and cash equivalents:

Rebate fund (Notes 2 and 3) \$ 2

Revenue bond accounts (Notes 3 and 4):

Operating account 11,884

Construction account 330,647

Debt service fund:

Principal account 2,246

Interest account 5,573

Debt service reserve 13,994

Revenue fund 18,681

Surplus and operating fund 1,456,478

Total cash and cash equivalents \$ 1,839,505

Short-term investments (Notes 3 and 4) 4,820,686

Accrued interest receivable,

bond investment accounts 89,627

Accrued interest on long-term receivables 158,490

Current maturities of long-term receivables 219,497

Total current assets \$ 7,127,805

INVESTMENTS (Notes 3 and 4) 3,786,298

LONG-TERM RECEIVABLES, lease agreement
receivables (Note 5):

Principal \$10,020,550

Less:

Current maturities (219,497)

Premium on leases (Note 6) (2,072,933) 7,728,120

OTHER ASSETS, unamortized debt
issuance costs 722,047

\$19,364,270

The Notes to Financial Statements are an integral part of this statement.

LIABILITIES AND RETAINED EARNINGS (DEFICIT)

CURRENT LIABILITIES

Current maturities of long-term debt, less unamortized discount (Note 7)	\$ 720,900
Accrued interest payable	497,345
Amounts held in custody for others (Note 9)	1,909,155
Construction grants payable	<u>1,263,895</u>

Total current liabilities \$ 4,391,295

LONG-TERM DEBT, revenue bonds
payable, less unamortized discount (Note 7) 39,236,750

COMMITMENTS AND CONTINGENCIES (Note 8)

RETAINED EARNINGS (DEFICIT) (Note 11) (24,263,775)

\$ 19,364,270

KENTUCKY LOCAL CORRECTIONAL
FACILITIES CONSTRUCTION AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS (DEFICIT)
Year Ended June 30, 1993

Operating revenues:		
Court cost receipts	\$3,865,871	
Income from investments, revenue bond accounts	419,148	
Interest income, leases	649,904	
Amortization of premium on leases	<u>175,615</u>	
Total operating revenues		\$ 5,110,538
Operating expenses:		
Revenue bonds payable:		
Interest	\$3,012,698	
Amortization of discount	64,100	
Amortization of debt issuance costs	48,146	
Construction grants awarded	3,941,429	
Other expenses	<u>70,852</u>	
Total operating expenses		<u>7,137,225</u>
Net (loss)		\$ (2,026,687)
Retained earnings (deficit), beginning		<u>(22,237,088)</u>
Retained earnings (deficit), ending		<u><u>\$(24,263,775)</u></u>

The Notes to Financial Statements are an integral part of this statement.

KENTUCKY LOCAL CORRECTIONAL
FACILITIES CONSTRUCTION AUTHORITY

STATEMENT OF CASH FLOWS
Year Ended June 30, 1993

CASH FLOWS FROM OPERATING ACTIVITIES

Net (loss)	\$(2,026,687)	
Adjustments to reconcile net (loss) to net cash provided by operating activities:		
Amortization of premium on leases	(175,615)	
Amortization of bond discount	64,100	
Amortization of debt issuance costs	48,146	
Income from investments, revenue bond accounts	(419,148)	
Revenue bond interest expense	3,012,698	
Change in assets and liabilities:		
Decrease in accrued interest on long-term receivables	11,650	
Decrease in long-term lease principal	566,739	
Increase in construction grant payable	<u>1,033,739</u>	
Net cash provided by operating activities		\$ 2,115,622

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Principal paid on revenue bonds	\$(1,080,000)	
Interest paid on revenue bonds	(3,026,333)	
Decrease in amounts held in custody for others	<u>(3,105,486)</u>	
Net cash (used in) noncapital financing activities		(7,211,819)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments, net	\$(2,438,337)	
Investment income received, revenue bond accounts	<u>446,708</u>	
Net cash (used in) investing activities		<u>(1,991,629)</u>
(Decrease) in cash and cash equivalents		\$(7,087,826)

Cash and cash equivalents:

Beginning		<u>8,927,331</u>
Ending		<u><u>\$ 1,839,505</u></u>

The Notes to Financial Statements are an integral part of this statement.

KENTUCKY LOCAL CORRECTIONAL
FACILITIES CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

A. Basis of presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and by the audit guide, Audits of State and Local Governmental Units issued by the American Institute of Certified Public Accountants (AICPA).

B. Scope of entity

The Kentucky Local Correctional Facilities Construction Authority is a component unit of the Commonwealth of Kentucky and is included in the Commonwealth of Kentucky's comprehensive annual financial report. The criteria for inclusion, as defined by the Governmental Accounting Standards Board, is determined on the basis of: 1) selection of governing authority 2) designation of management 3) ability to significantly influence operations and 4) accountability for fiscal matters.

The Authority is a public corporation and governmental agency of the Commonwealth of Kentucky created in 1982 by an Act of the Kentucky General Assembly. The purpose of the Authority is to provide up to 75% of the cost of construction, improvement or repair of any jails operated by Kentucky local governments.

The financial statements of the Authority are accounted for on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenditures are recognized when they are incurred.

C. Statement of cash flows

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

D. Cash, Repurchase Agreements, and Investments

Deposits

At year-end, all deposits of the Authority were covered by federal depository insurance.

Investments

Investments are stated at cost, adjusted for unamortized premiums and discounts, which approximates market value at June 30, 1993. All investments were fully collateralized with securities held by the Trustee, National City Bank.

Investments of Funds

Monies in any fund or account established under the Trust Indentures may be invested in Investment Obligations as follows:

- (1) Direct obligations guaranteed by the United States of America and, if determined by subsequent proceedings of the Authority, certificates which evidence ownership of the right to the payment of the principal or interest on such obligations.
- (2) Deposits in interest-bearing time deposits or certificates of deposit fully insured by the Federal Deposit Insurance Corporation.
- (3) Obligations issued by any of the following agencies: Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Home Loan Banks System, Federal Land Banks, Export-Import Bank, Tennessee Valley Authority, Government National Mortgage Association, to the extent that such obligations are backed by the full faith and credit of the United States of America.
- (4) Public housing bonds issued by public housing authorities and fully secured as to payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public housing authorities or project notes issued by local public agencies, in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America.

E. Amortization of premium on lease receivables

Premiums on lease receivables are amortized on the straight-line method over the life of the related receivable. The results of this method do not materially differ from those that would be obtained by applying the interest method of amortization.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

F. Amortization of bond discount and debt issuance costs

Bond discounts and debt issuance costs are amortized on the straight-line method over the life of the bond issue. The results of this method do not materially differ from those that would be obtained by applying the interest method of amortization.

G. Pledged receipts

The Authority issued Series 1984 revenue bonds in the aggregate principal amount of \$32,310,000 for the purpose of financing the costs incident to the acquisition, construction and renovation of correctional facilities located in certain specified participating counties throughout Kentucky. The Series 1987 Bonds in the aggregate principal amount of \$40,835,000 were issued for the purposes of (i) providing the funds required to refund, redeem, pay and discharge the outstanding \$13,680,000 and \$12,730,000 principal amounts of the Refunded 2009 Term Bonds and the Refunded 2014 Term Bonds respectively, issued as part of the Authority's Series 1984 Bonds; (ii) financing certain costs of Projects for the benefit of certain Local Governments; and (iii) paying the Underwriters' discount and certain other costs and expenses associated with issuing the Series 1987 Bonds. The bonds are special obligations of the Authority and, except to the extent payable from the proceeds of such bonds or other monies pledged under the Trust Indenture, are payable from the pledged receipts as described below, to the extent such sources exist:

- 1) The Authority is entitled to \$10 of court costs collected by each circuit clerk in Kentucky for each criminal case tried in a state district court. These fees are submitted by the circuit court clerks on a monthly basis.
- 2) Rental payments received by the Authority under the leases from local governments in repayment of and as interest on a local government's agreed participation.
- 3) All interest earned and gains realized on investment obligations unless the Trust indenture or Series 1984 Resolution specifically requires such interest earned or gains realized to be credited to the account of the Authority or a local government.
- 4) Any gifts or grants received from any agency of government, both federal and state, to the extent not otherwise required to be applied.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

- 5) Any and all appropriations made to the Authority by the General Assembly of the Commonwealth to the extent not otherwise committed during any fiscal period of the Authority.

The Trust Indenture provides for the issuance of the bonds and the establishment of the foregoing special accounts with the trustees.

H. Description of Funds, Revenue Bond accounts

Operating account

Designated for the operating costs of the Authority.

Construction account

Established from Bond proceeds, available funds of the Authority consisting of cash contributions of Local Governments not financed through the Authority (the "Local Government Contributions" or "County Contributions") or other sources as determined by series resolution, to be applied to the acquisition, construction, reconstruction and equipping of the Projects designated and the necessary expenses incidental thereto. No disbursements shall be made from the Construction Account unless the Trustee shall receive a Requisition for Funds approved by the Authority containing the following information:

- (1) The name of the person or parties to whom the payment or disbursement is to be made;
- (2) The amount to be paid to such person or party;
- (3) The applicable Lease Agreement or Participation Agreement in respect of which payment or disbursement is to be made;
- (4) Certification that with respect to such requested payment or disbursement there has not been filed with or served upon the Authority notice of any lien or attachment upon, or claim affecting the right to receive, payment of any of the amounts requisitioned and payable to any of the persons, firms or corporations named in such requisition which has not been released or will not be released simultaneously with such payments;

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

- (5) Certification that such Requisition for Funds contains no item representing payment on account of any retained percentages of the cost of construction which the Local Government is at the date of such requisition entitled to retain;
- (6) Certification that in connection with such Requisition for Funds the authority has received such proofs executed by the Architects for the Local Government and officials of the Local Government which has entered into the specified Lease Agreement of Participation Agreement as are properly required by the Authority, to the effect that a performance bond for the Project has been posted and that each obligation set forth in said Requisition (a) has been properly incurred; (b) is then due and unpaid; and (c) that insofar as such obligation was incurred for work, services, materials, equipment or supplies, such work services was actually performed or such materials, equipment or supplies were actually installed in furtherance of the construction of the particular Project, or were delivered at the site of the Project for such purposes, all in accordance with the Lease Agreement or Participation Agreement specifically identified in such Requisition for Funds;
- (7) That the Project is acceptable to the Facilities Management Department of the Finance and Administration Cabinet through the date of said Requisition for Funds; and
- (8) That the Project is acceptable to the Department of Corrections of the Justice Cabinet through the date of said Requisition for Funds.

Debt Service Fund

Interest Account

Established to receive accrued interest on delivery of Bonds and transfer of capitalized interest from the Construction Account for Local Governments so requesting. Subsequently, transfers from the Revenue Fund shall be made for payment of the interest becoming due on the Bonds.

Principal Account

To receive transfers from the Revenue Fund for principal becoming due on the Bonds.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Debt Service Reserve

Funded from Bond proceeds and funds of the Authority available upon delivery of bonds in an amount equal to the maximum annual principal and interest requirements on all Bonds issued under the Trust Indenture (the "Annual Debt Service Reserve Requirement").

Revenue Fund

All of the Pledged Receipts of the Authority, including Court Costs, Investments Earnings, Rental Payments and Supplemental Rental Payments, shall be deposited in the Revenue Fund and disbursed in the following order and manner:

- (1) On the last business day of each month preceding an Interest Payment Date, an amount equal to the interest which will come due on the Bonds on said Interest Payment Date shall be transferred from the Revenue Fund into the Interest Account within the Debt Service Fund;
- (2) On the last business day of each month preceding an Interest Payment Date, an amount equal to 50% of the principal which will come due on the Bonds on the next principal Installment Date shall be transferred from the Revenue Fund into the Principal Account within the Debt Service Fund;
- (3) As required, such amount as, with sums then on deposit therein, will equal the Annual Debt Service Reserve Requirement on the Authority's Bonds shall be transferred from the Revenue Fund to the Debt Service Reserve;
- (4) As required, but subject to the priority of the transfers enumerated in subsections (1) through (3) above, the amount remaining in the Revenue Fund shall be transferred to the Surplus and Operating Fund.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Surplus and Operating Fund

There shall be paid into the Surplus and Operating Fund the amounts required to be so paid by the provision of the Trust Indenture, and there may be paid into the Surplus and Operating Fund any monies received by the Authority from any other source, including legislative appropriations of the State unless required to be otherwise applied as provided by the Trust Indenture.

Monies in the Surplus and Operating Fund shall be withdrawn and paid out from time to time at the direction of the Authority for the purpose of paying reasonable or necessary operating costs and, when so withdrawn and paid out, shall be free and clear of any lien pledge or assignment in trust created by the Trust Indenture.

Notwithstanding anything in the Trust Indenture to the contrary, monies in the Surplus and Operating Fund may be withdrawn and paid out by the Trustee to or at the direction of the Authority for any lawful purpose of the Authority, including, but not being limited to transfers to other Funds or Accounts created by the Trust Indenture, including the Debt Service Fund, for the purpose of carrying out the duties and responsibilities of the Authority set forth in the Act, including making grants or loans to Local Governments.

Amounts in the Surplus and Operating Fund may, in the discretion of the Authority, be invested in Investment Obligations maturing in such amounts and at such times as may be necessary to provide funds when needed to pay operating costs or other purposes permitted. The Trustee may, and to the extent required for payments from the Surplus and Operating Fund shall, sell, or duly present for redemption, any such Investment Obligations at any time, and the proceeds of such sale and of all payments at maturity and upon redemption of such Investment Obligations shall be held in the Surplus and Operating Fund unless otherwise transferred or expended pursuant to the provisions of the Trust Indenture.

NOTES TO FINANCIAL STATEMENTS

Note 2. Rebate Fund

The Rebate Fund was established to receive the excess investment earnings over allowable earnings from the irrevocable trust created by the Series 1987 advance refunding (Note 10). The Internal Revenue Service requires the excess earnings to be rebated at the end of every five years over the term of the bonds. Allowable earnings is defined as the amount which would have been earned if all non-purpose obligations were invested at a rate equal to the yield on the Multi-County Correctional Facilities Refunding and Improvement Revenue Bonds, Series 1987. The rebate liability as of June 30, 1993 is zero as determined by the State of Kentucky Office of Financial Management and Economic Analysis.

Note 3. Rebate Fund and Revenue Bond Accounts

The following summarizes the components of the rebate fund and revenue bond accounts by cash and cash equivalents and investments at June 30, 1993:

	Cash and Cash <u>Equivalents</u>	<u>Investments</u>	<u>Total</u>
Rebate fund	\$ 2	\$ - -	\$ 2
Revenue Bond accounts:			
Operating account	11,884	- -	11,884
Construction account	330,647	3,079,560	3,410,207
Debt service, principal	2,246	521,087	523,333
Debt service, interest	5,573	494,481	500,054
Debt service reserve	13,994	3,786,298	3,800,292
Revenue fund	18,681	96,701	115,382
Surplus and operating fund	<u>1,456,478</u>	<u>628,857</u>	<u>2,085,335</u>
	<u>\$ 1,839,505</u>	<u>\$ 8,606,984</u>	<u>\$10,446,489</u>

NOTES TO FINANCIAL STATEMENTS

Note 4. Cash and Investments

The following schedules present the carrying and market values of cash and investments by type at June 30, 1993:

<u>Cash and Cash Equivalents</u>	<u>Category 1</u>	<u>Mutual Funds</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Cash	\$ 13,994	\$ - -	\$ 13,994	\$ 13,994
U.S. Government Mutual Funds	- -	385,594	385,594	385,594
Federal Farm Credit Banks discount notes	<u>1,439,917</u>	<u>- -</u>	<u>1,439,917</u>	<u>1,439,917</u>
	<u>\$1,453,911</u>	<u>\$ 385,594</u>	<u>\$1,839,505</u>	<u>\$1,839,505</u>

The above schedule classifies the carrying amounts of cash and cash equivalents as to credit risk by the three categories described below:

Category (1) - Amounts covered by federal depository insurance or collateralized with securities held by the Entity or the Entity's agent in the Entity's name; (An agent is an organization with which the Entity has a contractual relationship to hold securities owned or pledged to the Entity.)

Category (2) - Amounts collateralized with securities held by the pledging financial institution's trust department or agent in the Entity's name.

Category (3) - Amounts which are uninsured and uncollateralized or which are collateralized, but the securities are held by the financial institution's trust department or agent in the institution's name.

<u>Investments</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Federal Farm Credit Banks bonds	\$1,658,126	\$ - -	\$1,658,126	\$1,661,550
U.S. Treasury Certificates of Indebtedness	1,286,000	- -	1,286,000	1,286,000
U.S. Treasury notes	- -	2,058,563	2,058,563	2,116,699
U.S. Treasury bills	- -	2,393,060	2,393,060	2,433,694
U.S. Treasury bonds	- -	<u>1,211,235</u>	<u>1,211,235</u>	<u>1,345,069</u>
	<u>\$2,944,126</u>	<u>\$5,662,858</u>	<u>\$8,606,984</u>	<u>\$8,843,012</u>

NOTES TO FINANCIAL STATEMENTS

Note 4. Cash and Investments (Continued)

The above schedule classifies the carrying amounts of investments as to credit risk by the three categories described below:

Category (1) - Securities which are either fully insured, registered or which are held by the Entity or the Entity's agent in the Entity's name.

Category (2) - Securities which are neither insured nor registered, but are held by the Entity's counterparty in the Entity's name. (A counterparty is the issuer of a security or the purchasing agent for the Entity. If an organization is both an agent and counterparty then the organization is considered to be a counterparty.)

Category (3) - Uninsured and unregistered securities which are held by the Entity's agent or counterparty, but not in the Entity's name.

Note 5. Lease Agreement Receivables

Lease agreement receivables represent the participating counties agreed amount of bond principal required to finance the counties' share of project costs funded through the bond issue. The counties and their respective amounts are listed below:

	<u>June 30, 1993</u>
Adair	\$ 439,312
Estill	186,317
Franklin	1,834,632
Fulton	321,878
Johnson	975,566
Kenton	4,007,096
Knox	497,563
McCreary	287,979
Montgomery	867,957
Powell	238,692
Simpson	<u>363,558</u>
	<u>\$10,020,550</u>

Note 6. Premium on Leases

Premium on leases represents the difference between the amount of bond principal assigned to the participating counties and bond proceeds allocated to the participating counties, which reflects the counties' share of bond issuance costs.

NOTES TO FINANCIAL STATEMENTS

Note 7. Revenue Bonds Payable

Long-term debts payable consist of the following:

	June 30, 1993		
	<u>Balance</u>	<u>Current</u>	<u>Long-Term</u>
Multi-County Correctional Facilities revenue bonds, Series 1984*			
Serial bonds (a)	\$ 3,160,000	\$425,000	\$ 2,735,000
Multi-County Correctional Facilities Refunding and Improvement revenue bonds, Series 1987:			
Serial bonds (b)	2,535,000	360,000	2,175,000
Term bonds (c)	10,980,000	- -	10,980,000
Term bonds (d)	<u>24,430,000</u>	<u>- -</u>	<u>24,430,000</u>
	\$41,105,000	\$785,000	\$40,320,000
Less unamortized discount	<u>1,147,350</u>	<u>64,100</u>	<u>1,083,250</u>
	<u>\$39,957,650</u>	<u>\$720,900</u>	<u>\$39,236,750</u>

(a) Serial bonds, 8.0% to 9.75%, are due annually in amounts ranging from \$425,000 on November 1, 1992 to \$620,000 on November 1, 1998.

(b) Serial bonds, 5.50% to 7.0%, are due annually in amounts ranging from \$360,000 on November 1, 1992 to \$495,000 on November 1, 1998.

(c) Term bonds, 7.40%, are due November 1, 2005.

(d) Term bonds, 7.0%, are due November 1, 2014.

*Payments of principal and interest are fully guaranteed by the Financial Guaranty Insurance Company.

Substantially all assets of the Authority are held by a trustee bank and are pledged as collateral for the bond indebtedness.

The required annual principal payments during each of the next five years are as follows:

Years Ending June 30, :	Multi-County Correctional Facilities Revenues Bonds Series 1984	Multi-County Correctional Facility Refunding and Improvemen Revenue Bonds Series 198
	1994	\$425,000
1995	460,000	380,000
1996	505,000	405,000
1997	550,000	435,000
1998	600,000	460,000

NOTES TO FINANCIAL STATEMENTS

Note 7. Revenue Bonds Payable (Continued)

Redemption Provisions (Series 1984)

All Bonds maturing on or after November 1, 1995 shall be subject to redemption at the option of the Authority in whole or part in inverse order of maturities, at a redemption price, expressed in a percentage of the principal amount of Bonds to be redeemed. The redemption price, ranging from 103% to 100% of the principal amount of the maturity of the Bonds so redeemed, plus accrued interest, if any, are payable on the date of redemption.

The Bonds are subject to extraordinary redemption, without premium, to the extent of casualty insurance proceeds, condemnation awards, monies received from a Local Government electing to purchase its Project, or monies available as a result of the failure of a Local Government to initiate construction in a timely manner.

Redemption Provisions (Series 1987)

The Series 1987 Term Bonds are subject to redemption by operation of the Debt Service Fund through mandatory sinking fund installments. The redemption price will be 100% of the principal amount of the Series 1987 Term Bonds to be redeemed plus accrued interest, if any, to the redemption date.

All Series 1987 Bonds maturing on or after November 1, 1998, shall be subject to redemption at the option of Authority in whole or in part, at a redemption price expressed as a percentage, ranging from 102% to 100%, of the principal amount of the Series 1987 Bonds to be redeemed. Such redemption price, plus accrued interest, if any, is payable on the date of redemption.

The Series 1987 Bonds are subject to extraordinary redemption, without premium, to the extent of casualty insurance proceeds, condemnation awards, monies received from a Local Government electing to purchase its Project, monies available as a result of the failure of a Local Government to initiate construction in a timely manner or surplus Series 1987 Bond proceeds remaining after construction of the Projects is completed.

On November 1, 1992 Nelson County elected to payoff its lease obligation to the Authority. The Authority called the following bonds related to the lease obligation:

1984 bonds in the amount of \$40,000 maturing in 1998
1987 bonds in the amount of \$310,000 maturing in 2014

Note 8. Contingencies

Pursuant to the provisions of the Act, the resolutions of the Authority, the Authority's bond resolution and the Indenture, the Authority entered into "participation agreements" with counties eligible for assistance from the Authority in meeting the costs of said counties' projects. The Authority's original amount of participation in the projects was \$38,300,979.

NOTES TO FINANCIAL STATEMENTS

Note 8. Contingencies (Continued)

This amount represents the Authority's portion of bond proceeds which were payable to participating counties, contingent on each project's adherence to the Authority's established standards and various requirements.

"Participation agreements" were entered into by counties that were able to finance their portion of project costs without utilizing the Authority as an issuing agency.

Listed as follows are the counties that have entered "participation agreements" with the Authority. All of the amounts listed below are paid from bond proceeds, except Larue County which was paid out of the Authority's excess accounts.

County	<u>Grant Amount</u>	<u>Prior Years Disburse- ments</u>	<u>Current Period Grants Awarded</u>	<u>Remaining Potential Authority Obligation</u>
Bell	\$ 1,028,000	\$ 1,028,000	\$ - -	\$ - -
Boone	1,073,990	1,073,990	- -	- -
Butler	349,343	349,343	- -	- -
Campbell	2,002,650	2,002,650	- -	- -
Carroll	1,382,800	1,305,806	22,151	54,843
Casey	179,008	179,008	- -	- -
Christian	2,578,887	- -	1,685,100	893,787
Clark	1,900,000	788,880	1,086,338	24,782
Daviess	1,500,000	1,500,000	- -	- -
Fayette	1,031,250	1,031,250	- -	- -
Graves	770,057	770,057	- -	- -
Greenup	886,902	886,902	- -	- -
Jefferson	1,147,840	- -	1,147,840	- -
Jessamine	801,931	801,931	- -	- -
Larue	298,052	298,052	- -	- -
Lincoln	396,000	396,000	- -	- -
Madison	1,526,077	1,526,077	- -	- -
Mason	992,048	992,048	- -	- -
McCracken	2,925,000	2,925,000	- -	- -
Oldham	1,394,360	1,394,360	- -	- -
Pike	1,914,700	1,914,700	- -	- -
Pulaski	1,413,272	1,413,272	- -	- -
Rowan	793,121	793,121	- -	- -
Scott	1,210,931	1,210,931	- -	- -
Shelby	82,743	82,743	- -	- -
Todd	231,320	231,320	- -	- -
Union	106,800	106,800	- -	- -
Warren	3,314,039	3,314,039	- -	- -
Webster	693,677	693,677	- -	- -
	<u>\$33,924,798</u>	<u>\$29,009,957</u>	<u>\$ 3,941,429</u>	<u>\$ 973,412</u>

NOTES TO FINANCIAL STATEMENTS

Note 9. Amounts Held in Custody for Others

Counties entering participation agreements with the Authority are required to deposit their agreed cash contribution to the project with the Authority prior to the first disbursement of construction payments. These funds will be disbursed as construction payments are made on the basis of Authority/County participation.

Note 10. Advance Refunding

During the fiscal year June 30, 1987, Kentucky Local Correctional Facilities Construction Authority issued \$40,835,000 par value, \$1,436,157 original issue discount in Multi-County Correctional Facilities Refunding and Improvement revenue bonds, Series 1987 with interest rates ranging from 4.5 to 7.4 percent to advance refund \$26,410,000 in Multi-County Correctional Facilities revenue term bonds, Series 1984 with interest rates ranging from 6.75% to 10.375%. The net proceeds of \$38,545,391 (after payment of \$992,131 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities in the amount of \$27,707,900 and to deposit \$7,549,000 for capital construction and \$3,149,800 in the Debt Service Reserve Fund. The securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Multi-County Correctional Facilities Revenue Term Bonds, Series 1984. As a result, the 1984 Series Bonds have been removed from long-term debt as a legally defeased bond issue.

The amount of the defeased debt that resulted from the advance refunding during fiscal year June 30, 1987 and remains outstanding at June 30, 1993 is \$13,680,000.

Note 11. Retained Earnings (Deficit)

In providing funds for the construction and improvement of correctional facilities, the authority obtains its funding through the issuance of revenue bonds and the receipt of court cost remittances. When revenue bonds are issued, the Authority incurs long-term obligations that are repaid by revenue received from annual court cost receipts. When construction grants are awarded to local governments, the disbursements are immediately reflected as operating expenses. Due to the timing of these transactions, the Authority periodically incurs losses from operations and has accumulated a net deficit in retained earnings at June 30, 1993 in the amount of \$24,263,775.



Jones, Nale and Mattingly

CERTIFIED PUBLIC ACCOUNTANTS

642 South Fourth Avenue, Suite 300
Louisville, Kentucky 40202-9975
(502) 583-0248
Fax No. (502) 589-1680

MEMBER
American Institute of
Certified Public Accountants
Kentucky Society of
Certified Public Accountants

R. Wayne Stratton, CPA
Jon A. Meyer, CPA
Dennis G. Martin, CPA
David R. Price, CPA
Timothy W. Stephens, CPA

Willis C. Nale, CPA
James M. Breen, Jr., CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Kentucky Local Correctional
Facilities Construction Authority
Frankfort, Kentucky

We have audited the financial statements of Kentucky Local Correctional Facilities Construction Authority as of and for the year ended June 30, 1993, and have issued our report thereon dated July 19, 1993.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Kentucky Local Correctional Facilities Construction Authority is the responsibility of Kentucky Local Correctional Facilities Construction Authority's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, Kentucky Local Correctional Facilities Construction Authority complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Authority had not complied, in all material respects, with those provisions.

This report is intended for the information of management and the Auditor of Public Accounts of the Commonwealth of Kentucky. However, this report is a matter of public record and its distribution is not limited.

Jones, Hale and Mattingly

Louisville, Kentucky
July 19, 1993



Jones, Nale and Mattingly

CERTIFIED PUBLIC ACCOUNTANTS

642 South Fourth Avenue, Suite 300
Louisville, Kentucky 40202-9975
(502) 583-0248
Fax No. (502) 589-1680

MEMBER

American Institute of
Certified Public Accountants
Kentucky Society of
Certified Public Accountants

R. Wayne Stratton, CPA
Jon A. Meyer, CPA
Dennis G. Martin, CPA
David R. Price, CPA
Timothy W. Stephens, CPA

Willis C. Nale, CPA
James M. Breen, Jr., CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL STRUCTURE BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Kentucky Local Correctional
Facilities Construction Authority
Frankfort, Kentucky

We have audited the financial statements of Kentucky Local Correctional Facilities Construction Authority, as of and for the year ended June 30, 1993, and have issued our report thereon dated July 19, 1993.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Kentucky Local Correctional Facilities Construction Authority, for the year ended June 30, 1993, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of Kentucky Local Correctional Facilities Construction Authority, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- (1) Cycles of the entity's activity:
 - financing
 - revenue/receipts
 - cash disbursements

- (2) Financial statement captions:
 - cash and investments
 - receivables
 - debt

- (3) Accounting applications:
 - receivables
 - cash receipts
 - cash disbursements
 - general ledger

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of management and the Auditor of Public Accounts of the Commonwealth of Kentucky. However, this report is a matter of public record and its distribution is not limited.

Jones, Male and Mattingly

Louisville, Kentucky
July 19, 1993

KENTUCKY LOCAL CORRECTIONAL
FACILITIES CONSTRUCTION AUTHORITY

FINANCIAL REPORT

JUNE 30, 1992



Jones, Nale and Mattingly

CERTIFIED PUBLIC ACCOUNTANTS

LOUISVILLE, KENTUCKY

KENTUCKY LOCAL CORRECTIONAL
FACILITIES CONSTRUCTION AUTHORITY

FINANCIAL REPORT

JUNE 30, 1992

C O N T E N T S

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	2
Balance sheet	3
Statement of revenues, expenses and changes in retained earnings (deficit)	4
Statement of cash flows	5-18
Notes to financial statements	
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	19 and 20
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE RELATED MATTERS NOTED IN A FINANCIAL STATEMENT AUDIT CONDUCTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	21-23

[THIS PAGE INTENTIONALLY LEFT BLANK]



Jones, Nale and Mattingly

CERTIFIED PUBLIC ACCOUNTANTS

642 South Fourth Avenue, Suite 300
Louisville, Kentucky 40202-9975
(502) 583-0248
Fax No. (502) 589-1680

MEMBERS

American Institute of
Certified Public Accountants

OFFICES:

Louisville
Shelbyville

James M. Breen, Jr., CPA
R. Wayne Stratton, CPA
Jon A. Meyer, CPA

J. Bertrand Mattingly, CPA
Willis C. Nale, CPA
Dennis G. Martin, CPA
David R. Price, CPA
Timothy W. Stephens, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kentucky Local Correctional
Facilities Construction Authority
Frankfort, Kentucky

We have audited the accompanying balance sheet of the Kentucky Local Correctional Facilities Construction Authority, a component unit of the Commonwealth of Kentucky, as of June 30, 1992 and the related statements of revenue and expenses and changes in retained earnings (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Kentucky Local Correctional Facilities Construction Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky Local Correctional Facilities Construction Authority as of June 30, 1992, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Jones, Nale and Mattingly

Louisville, Kentucky
July 31, 1992

KENTUCKY LOCAL CORRECTIONAL
FACILITIES CONSTRUCTION AUTHORITY

BALANCE SHEET
June 30, 1992

ASSETS

CURRENT ASSETS

Rebate fund (Notes 2, 3 and 4)	\$ 5,472
Revenue bond accounts (Notes 3 and 4):	
Operating account	13,781
Construction account	9,343,454
Debt service fund:	
Principal account	486,667
Interest account	510,985
Debt service reserve	7,761
Revenue fund	173,347
Surplus and operating fund	764,780
Accrued interest receivable, bond account investments	117,187
Accrued interest on long-term receivables	170,140
Current maturities of long-term receivables	<u>213,208</u>

Total current assets \$11,806,782

INVESTMENTS, debt service reserve (Notes 3 and 4) 3,789,731

LONG-TERM RECEIVABLES, lease agreement
receivables (Note 5):

Principal	\$10,587,289	
Less:		
Current maturities	(213,208)	
Premium on leases (Note 6)	<u>(2,248,548)</u>	8,125,533

OTHER ASSETS, unamortized debt
issuance costs

770,193

\$24,492,239

The Notes to Financial Statements are an integral part of this statement.

LIABILITIES AND RETAINED EARNINGS (DEFICIT)

CURRENT LIABILITIES

Current maturities of long-term debt, less unamortized discount (Note 7)	\$ 665,900
Accrued interest payable	510,980
Amounts held in custody for others (Note 9)	5,014,641
Construction grant payable	<u>230,156</u>

Total current liabilities \$ 6,421,677

LONG-TERM DEBT, revenue bonds
payable, less unamortized discount (Note 7) 40,307,650

COMMITMENTS AND CONTINGENCIES (Note 8)

RETAINED EARNINGS (DEFICIT) (Note 11) (22,237,088)

\$ 24,492,239

KENTUCKY LOCAL CORRECTIONAL
FACILITIES CONSTRUCTION AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS (DEFICIT)
Year Ended June 30, 1992

Operating revenues:		
Court cost receipts	\$4,018,690	
Income from investments, revenue bond accounts	724,804	
Interest income, leases	683,773	
Amortization of premium on leases	<u>103,322</u>	
Total operating revenues		\$ 5,530,589
Operating expenses:		
Revenue bonds payable:		
Interest	\$3,081,937	
Amortization of discount	64,100	
Amortization of debt issuance costs	48,146	
Arbitrage rebate	37,500	
Other expenses	72,740	
Construction grants awarded	<u>3,388,280</u>	
Total operating expenses		<u>6,692,703</u>
Net (loss)		\$ (1,162,114)
Retained earnings (deficit) at July 1		<u>(21,074,974)</u>
Retained earnings (deficit) at June 30		<u><u>\$ (22,237,088)</u></u>

The Notes to Financial Statements are an integral part of this statement.

KENTUCKY LOCAL CORRECTIONAL
FACILITIES CONSTRUCTION AUTHORITY

STATEMENT OF CASH FLOWS
Year Ended June 30, 1992

CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)	\$(1,162,114)	
Adjustments to reconcile net (loss) to net cash provided by operating activities:		
Amortization of premium on leases	(103,322)	
Amortization of bond discount	64,100	
Amortization of debt issuance costs	48,146	
Income from investments, revenue bond accounts	(724,804)	
Revenue bond interest expense	3,081,937	
Change in assets and liabilities:		
Decrease in accrued interest on long-term receivables	3,215	
Decrease in long-term lease principal	200,576	
Increase in construction grant payable	<u>230,156</u>	
Net cash provided by operating activities		\$1,637,890
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Principal paid on revenue bonds	\$ (680,000)	
Interest paid on revenue bonds	(3,089,958)	
Increase in amounts held in custody for others	<u>4,894,596</u>	
Net cash provided by noncapital financing activities		1,124,638
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments, net	\$ 1,204,052	
Investment income received, revenue bond accounts	<u>729,595</u>	
Net cash provided by investing activities		<u>1,933,647</u>
Increase in cash and cash equivalents		\$4,696,175
Cash and cash equivalents (Note 3):		
Beginning		<u>4,231,156</u>
Ending		<u><u>\$8,927,331</u></u>

The Notes to Financial Statements are an integral part of this statement.

KENTUCKY LOCAL CORRECTIONAL
FACILITIES CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

A. Basis of presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as originally prescribed by the National Council on Governmental Accounting (NCGA), later affirmed by the Governmental Accounting Standards Board (GASB); and by Audits of State and Local Governmental Units issued by the American Institute of Certified Public Accountants (AICPA).

B. Scope of entity

The Kentucky Local Correctional Facilities Construction Authority is a component unit of the Commonwealth of Kentucky and is included in the Commonwealth of Kentucky's comprehensive annual financial report. The criteria for inclusion, as defined by the Governmental Accounting Standards Board, is determined on the basis of: 1) selection of governing authority 2) designation of management 3) ability to significantly influence operations and 4) accountability for fiscal matters.

The Authority is a public corporation and governmental agency of the Commonwealth of Kentucky created in 1982 by an Act of the Kentucky General Assembly. The purpose of the Authority is to provide up to 75% of the cost of construction, improvement or repair of any jails operated by Kentucky local governments.

All of the proprietary accounts are accounted for on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenditures are recognized when they are incurred.

C. Statement of cash flows

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

D. Cash, Repurchase Agreements, and Investments

Deposits

At year-end, all deposits of the Authority were covered by federal depository insurance and all investments were fully collateralized with securities held by the Trustee, First National Bank of Louisville.

Investments

Investments are stated at cost, adjusted for unamortized premiums and discounts, which approximated market value at June 30, 1992.

Investments of Funds

Monies in any fund or account established under the Trust Indentures may be invested in Investment Obligations as follows:

(1) Direct obligations guaranteed by the United States of America and, if determined by subsequent proceedings of the Authority, certificates which evidence ownership of the right to the payment of the principal of or interest on such obligations;

(2) Deposits in interest-bearing time deposits or certificates of deposit fully insured by the Federal Deposit Insurance Corporation;

(3) Obligations issued by any of the following agencies: Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Home Loan Banks System, Federal Land Banks, Export-Import Bank, Tennessee Valley Authority, Government National Mortgage Association, to the extent that such obligations are backed by the full faith and credit of the United States of America; and

(4) Public housing bonds issued by public housing authorities and fully secured as to payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public housing authorities or project notes issued by local public agencies, in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America.

E. Amortization of premium on lease receivables

Premiums on lease receivables are amortized on the straight-line method over the life of the related receivable. The results of this method do not materially differ from those that would be obtained by applying the interest method of amortization.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

F. Amortization of bond discount and debt issuance costs

Bond discounts and debt issuance costs are amortized on the straight-line method over the life of the bond issue. The results of this method do not materially differ from those that would be obtained by applying the interest method of amortization.

G. Pledged receipts

The Authority issued Series 1984 revenue bonds in the aggregate principal amount of \$32,310,000 for the purpose of financing the costs incident to the acquisition, construction and renovation of correctional facilities located in certain specified participating counties throughout Kentucky. The Series 1987 Bonds in the aggregate principal amount of \$40,835,000 were issued for the purposes of (i) providing the funds required to refund, redeem, pay and discharge the outstanding \$13,680,000 and \$12,730,000 principal amounts of the Refunded 2009 Term Bonds and the Refunded 2014 Term Bonds respectively, issued as part of the Authority's Series 1984 Bonds; (ii) financing certain costs of Projects for the benefit of certain Local Governments; and (iii) paying the Underwriters' discount and certain other costs and expenses associated with issuing the Series 1987 Bonds. The bonds are special obligations of the Authority and, except to the extent payable from the proceeds of such bonds or other monies pledged under the Trust Indenture, are payable from the pledged receipts as described below, to the extent such sources exist:

- 1) The Authority is entitled to \$10 of court costs collected by each circuit clerk in Kentucky for each criminal case tried in a state district court. These fees are submitted by the circuit court clerks on a monthly basis.
- 2) Rental payments received by the Authority under the leases from local governments in repayment of and as interest on a local government's agreed participation.
- 3) All interest earned and gains realized on investment obligations unless the Trust indenture or Series 1984 Resolution specifically requires such interest earned or gains realized to be credited to the account of the Authority or a local government.
- 4) Any gifts or grants received from any agency of government, both federal and state, to the extent not otherwise required to be applied.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

- 5) Any and all appropriations made to the Authority by the General Assembly of the Commonwealth to the extent not otherwise committed during any fiscal period of the Authority.

The Trust Indenture provides for the issuance of the bonds and the establishment of the following special accounts with the trustees:

H. Description of Funds, Revenue Bond accounts

Operating account

Designated for the operating costs of the Authority.

Construction account

Established from Bond proceeds, available funds of the Authority consisting of cash contributions of Local Governments not financed through the Authority (the "Local Government Contributions" or "County Contributions") or other sources as determined by series resolution, to be applied to the acquisition, construction, reconstruction and equipping of the Projects designated and the necessary expenses incidental thereto. No disbursements shall be made from the Construction Account unless the Trustee shall receive a Requisition for Funds approved by the Authority containing the following information:

- (1) The name of the person or parties to whom the payment or disbursement is to be made;
- (2) The amount to be paid to such person or party;
- (3) The applicable Lease Agreement or Participation Agreement in respect of which payment or disbursement is to be made;
- (4) Certification that with respect to such requested payment or disbursement there has not been filed with or served upon the Authority notice of any lien or attachment upon, or claim affecting the right to receive, payment of any of the amounts requisitioned and payable to any of the persons, firms or corporations named in such requisition which has not been released or will not be released simultaneously with such payments;

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

(5) Certification that such Requisition for Funds contains no item representing payment on account of any retained percentages of the cost of construction which the Local Government is at the date of such requisition entitled to retain;

(6) Certification that in connection with such Requisition for Funds the authority has received such proofs executed by the Architects for the Local Government and officials of the Local Government which has entered into the specified Lease Agreement or Participation Agreement as are properly required by the Authority, to the effect that a performance bond for the Project has been posted and that each obligation set forth in said Requisition (a) has been properly incurred; (b) is then due and unpaid; and (c) that insofar as such obligation was incurred for work, services, materials, equipment or supplies, such work services was actually performed or such materials, equipment or supplies were actually installed in furtherance of the construction of the particular Project, or were delivered at the site of the Project for such purposes, all in accordance with the Lease Agreement or Participation Agreement specifically identified in such Requisition for Funds;

(7) That the Project is acceptable to the Facilities Management Department of the Finance and Administration Cabinet through the date of said Requisition for Funds; and

(8) That the Project is acceptable to the Correction Cabinet through the date of said Requisition for Funds.

Debt Service Fund

Interest Account

Established to receive accrued interest on delivery of Bonds and transfer of capitalized interest from the Construction Account for Local Governments so requesting. Subsequently, transfers from the Revenue Fund shall be made for payment of the interest becoming due on the Bonds.

Principal Account

To receive transfers from the Revenue Fund for principal becoming due on the Bonds.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Debt Service Reserve

Funded from Bond proceeds and funds of the Authority available upon delivery of bonds in an amount equal to the maximum annual principal and interest requirements on all Bonds issued under the Trust Indenture (the "Annual Debt Service Reserve Requirement").

Revenue Fund

All of the Pledged Receipts of the Authority, including Court Costs, Investments Earnings, Rental Payments and Supplemental Rental Payments, shall be deposited in the Revenue Fund and disbursed in the following order and manner:

(1) On the last business day of each month preceding an Interest Payment Date, an amount equal to the interest which will come due on the Bonds on said Interest Payment Date shall be transferred from the Revenue Fund into the Interest Account within the Debt Service Fund;

(2) On the last business day of each month preceding an Interest Payment Date, an amount equal to 50% of the principal which will come due on the Bonds on the next principal Installment Date shall be transferred from the Revenue Fund into the Principal Account within the Debt Service Fund;

(3) As required, such amount as, with sums then on deposit therein, will equal the Annual Debt Service Reserve Requirement on the Authority's Bonds shall be transferred from the Revenue Fund to the Debt Service Reserve;

(4) As required, but subject to the priority of the transfers enumerated in subsections (1) through (3) above, the amount remaining in the Revenue Fund shall be transferred to the Surplus and Operating Fund.

NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies (Continued)

Surplus and Operating Fund

There shall be paid into the Surplus and Operating Fund the amounts required to be so paid by the provision of the Trust Indenture, and there may be paid into the Surplus and Operating Fund any monies received by the Authority from any other source, including legislative appropriations of the State unless required to be otherwise applied as provided by the Trust Indenture.

Monies in the Surplus and Operating Fund shall be withdrawn and paid out from time to time at the direction of the Authority for the purpose of paying reasonable or necessary operating costs and, when so withdrawn and paid out, shall be free and clear of any lien pledge or assignment in trust created by the Trust Indenture.

Notwithstanding anything in the Trust Indenture to the contrary, monies in the Surplus and Operating Fund may be withdrawn and paid out by the Trustee to or at the direction of the Authority for any lawful purpose of the Authority, including, but not being limited to transfers to other Funds or Accounts created by the Trust Indenture, including the Debt Service Fund, for the purpose of carrying out the duties and responsibilities of the Authority set forth in the Act, including making grants or loans to Local Governments.

Amounts in the Surplus and Operating Fund may, in the discretion of the Authority, be invested in Investment Obligations maturing in such amounts and at such times as may be necessary to provide funds when needed to pay operating costs or other purposes permitted. The Trustee may, and to the extent required for payments from the Surplus and Operating Fund shall, sell, or duly present for redemption, any such Investment Obligations at any time, and the proceeds of such sale and of all payments at maturity and upon redemption of such Investment Obligations shall be held in the Surplus and Operating Fund unless otherwise transferred or expended pursuant to the provisions of the Trust Indenture.

NOTES TO FINANCIAL STATEMENTS

Note 2. Rebate Fund

The Rebate Fund was established to receive the excess investment earnings over allowable earnings from the irrevocable trust created by the Series 1987 advance refunding (Note 10). Allowable earnings is defined as the amount which would have been earned if all non-purpose obligations were invested at a rate equal to the yield on the Multi-County Correctional Facilities Refunding and Improvement Revenue Bonds, Series 1987. The excess investment earnings is determined by an independent arbitrage rebate calculation. For the year ended June 30, 1992 a payment of \$37,500 was made to the Internal Revenue Service for the arbitrage rebate.

The rebate liability after the above payment is \$4,263. The Rebate Fund balance of \$5,472 at June 30, 1992 exceeds the rebate liability as required by section 148(f) of the Internal Revenue Code.

Note 3. Rebate Fund and Revenue Bond Accounts

The following summarizes the components of the rebate fund and revenue bond accounts by cash and cash equivalents and investments at June 30, 1992:

	Cash and Cash <u>Equivalents</u>	<u>Investments</u>	<u>Total</u>
Rebate fund	\$ 5,472	\$ - -	\$ 5,472
Revenue Bond accounts:			
Operating account	13,781	- -	13,781
Construction account	8,096,604	1,246,850	9,343,454
Debt service, principal	10,044	476,623	486,667
Debt service, interest	27,904	483,081	510,985
Debt service reserve	7,761	- -	7,761
Revenue fund	985	172,362	173,347
Surplus and operating fund	764,780	- -	764,780
Investments, debt service reserve	- -	3,789,731	3,789,731
	<u>\$ 8,927,331</u>	<u>\$ 6,168,647</u>	<u>\$15,095,978</u>

NOTES TO FINANCIAL STATEMENTS

Note 4. Cash and Investments

The following schedules present the carrying and market values of cash and investments by type at June 30, 1992:

<u>Cash and Cash Equivalents</u>	<u>Category 1</u>	<u>Mutual Funds</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Cash	\$ 16,759	\$ - -	\$ 16,759	\$ 16,759
U.S. Government Mutual Funds	- -	248,535	248,535	248,535
Repurchase agreements	7,277,000	- -	7,277,000	7,277,000
Federal Farm Credit Banks discount notes	627,979	- -	627,979	627,979
Federal National Mortgage Assn. discount notes	757,058	- -	757,058	757,058
	<u>\$8,678,796</u>	<u>\$ 248,535</u>	<u>\$8,927,331</u>	<u>\$8,927,331</u>

The above schedule classifies the carrying amounts of cash and cash equivalents as to credit risk by the three categories described below:

Category (1) - Amounts covered by federal depository insurance or collateralized with securities held by the Entity or the Entity's agent in the Entity's name; (An agent is an organization with which the Entity has a contractual relationship to hold securities owned or pledged to the Entity.)

Category (2) - Amounts collateralized with securities held by the pledging financial institution's trust department or agent in the Entity's name.

Category (3) - Amounts which are uninsured and uncollateralized or which are collateralized, but the securities are held by the financial institution's trust department or agent in the institution's name.

<u>Investments</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Carrying Amount</u>	<u>Market Value</u>
U.S. Treasury Certificates of Indebtedness	\$1,286,000	\$ - -	\$1,286,000	\$1,286,000
U.S. Treasury notes	- -	1,347,473	1,347,473	1,423,753
U.S. Treasury bills	- -	2,322,490	2,322,490	2,368,460
U.S. Treasury bonds	- -	1,212,684	1,212,684	1,227,188
	<u>\$1,286,000</u>	<u>\$4,882,647</u>	<u>\$6,168,647</u>	<u>\$6,305,401</u>

NOTES TO FINANCIAL STATEMENTS

Note 4. Cash and Investments (Continued)

The above schedule classifies the carrying amounts of investments as to credit risk by the three categories described below:

Category (1) - Securities which are either fully insured, registered or which are held by the Entity or the Entity's agent in the Entity's name.

Category (2) - Securities which are neither insured nor registered, but are held by the Entity's counterparty in the Entity's name. (A counterparty is the issuer of a security or the purchasing agent for the Entity. If an organization is both an agent and counterparty then the organization is considered to be a counterparty.)

Category (3) - Uninsured and unregistered securities which are held by the Entity's agent or counterparty, but not in the Entity's name.

Note 5. Lease Agreement Receivables

Lease agreement receivables represent the participating counties agreed amount of bond principal required to finance the counties' share of project costs funded through the bond issue. The counties and their respective amounts are listed below:

	<u>June 30, 1992</u>
Adair	\$ 448,448
Estill	190,191
Franklin	1,872,785
Fulton	328,331
Johnson	995,178
Kenton	4,090,427
Knox	507,910
McCreary	293,558
Montgomery	886,007
Nelson	360,161
Powell	243,332
Simpson	<u>370,961</u>
	<u>\$10,587,289</u>

Note 6. Premium on Leases

Premium on leases represents the difference between the amount of bond principal assigned to the participating counties and bond proceeds allocated to the participating counties, which reflects the counties' share of bond issuance costs.

NOTES TO FINANCIAL STATEMENTS

Note 7. Revenue Bonds Payable

Long-term debts payable consist of the following:

	June 30, 1992		
	<u>Balance</u>	<u>Current</u>	<u>Long-Term</u>
Multi-County Correctional Facilities revenue bonds, Series 1984* Serial bonds (a)	\$ 3,590,000	\$390,000	\$ 3,200,000
Multi-County Correctional Facilities Refunding and Improvement revenue bonds, Series 1987: Serial bonds (b)	2,875,000	340,000	2,535,000
Term bonds (c)	10,980,000	- -	10,980,000
Term bonds (d)	<u>24,740,000</u>	<u>- -</u>	<u>24,740,000</u>
	\$42,185,000	\$730,000	\$41,455,000
Less unamortized discount	<u>1,211,450</u>	<u>64,100</u>	<u>1,147,350</u>
	<u>\$40,973,550</u>	<u>\$665,900</u>	<u>\$40,307,650</u>

- (a) Serial bonds, 8.0% to 9.75%, are due annually in amounts ranging from \$390,000 on November 1, 1992 to \$660,000 on November 1, 1998.
- (b) Serial bonds, 5.50% to 7.0%, are due annually in amounts ranging from \$340,000 on November 1, 1992 to \$495,000 on November 1, 1998.
- (c) Term bonds, 7.40%, are due November 1, 2005.
- (d) Term bonds, 7.0%, are due November 1, 2014.

*Payments of principal and interest are fully guaranteed by the Financial Guaranty Insurance Company.

Substantially all assets of the Authority are held by a trustee bank and are pledged as collateral for the bond indebtedness.

The required annual principal payments during each of the next five years are as follows:

Years Ending June 30,:	Multi-County Correctional Facility Refunding and Improvement Revenue Bonds	Multi-County Correctional Facilities Revenues Bond
	<u></u>	<u></u>
1993	\$340,000	\$390,000
1994	360,000	425,000
1995	380,000	460,000
1996	405,000	505,000
1997	435,000	550,000

Authority Share

NOTES TO FINANCIAL STATEMENTS

Note 7. Revenue Bonds Payable (Continued)

Redemption Provisions (Series 1984)

All Bonds maturing on or after November 1, 1995 shall be subject to redemption at the option of the Authority in whole or part in inverse order of maturities, at a redemption price, expressed in a percentage of the principal amount of Bonds to be redeemed. The redemption price, ranging from 103% to 100% of the principal amount of the maturity of the Bonds so redeemed, plus accrued interest, if any, are payable on the date of redemption.

The Bonds are subject to extraordinary redemption, without premium, to the extent of casualty insurance proceeds, condemnation awards, monies received from a Local Government electing to purchase its Project, or monies available as a result of the failure of a Local Government to initiate construction in a timely manner.

Redemption Provisions (Series 1987)

The Series 1987 Term Bonds are subject to redemption by operation of the Debt Service Fund through mandatory sinking fund installments. The redemption price will be 100% of the principal amount of the Series 1987 Term Bonds to be redeemed plus accrued interest, if any, to the redemption date.

All Series 1987 Bonds maturing on or after November 1, 1998, shall be subject to redemption at the option of Authority in whole or in part, at a redemption price expressed as a percentage, ranging from 102% to 100%, of the principal amount of the Series 1987 Bonds to be redeemed. Such redemption price, plus accrued interest, if any, is payable on the date of redemption.

The Series 1987 Bonds are subject to extraordinary redemption, without premium, to the extent of casualty insurance proceeds, condemnation awards, monies received from a Local Government electing to purchase its Project, monies available as a result of the failure of a Local Government to initiate construction in a timely manner or surplus Series 1987 Bond proceeds remaining after construction of the Projects is completed.

Note 8. Contingencies

Construction grants

Pursuant to the provisions of the Act, the resolutions of the Authority, the Authority's bond resolution and the Indenture, the Authority entered into "participation agreements" with counties eligible for assistance from the Authority in meeting the costs of said counties' projects. The Authority's original amount of participation in the projects was \$38,300,979. This amount represents the Authority's portion of bond proceeds which were payable to participating counties, contingent on each project's adherence to the Authority's established standards and various requirements.

NOTES TO FINANCIAL STATEMENTS

Note 8. Contingencies (Continued)

"Participation agreements" were entered into by counties that were able to finance their portion of project costs without utilizing the Authority as an issuing agency.

Listed as follows are the counties that have entered "participation agreements" with the Authority. All of the amounts listed below are to be paid from bond proceeds, except Larue County which will be paid out of the Authority's excess accounts.

County	<u>Grant Amount</u>	<u>Prior Years Disburse- ments</u>	<u>Current Period Disburse- ments</u>	<u>Remaining Potential Authority Obligation</u>
Bell	\$ 1,028,000	\$ 1,028,000	\$ - -	\$ - -
Boone	1,073,990	1,073,990	- -	- -
Butler	349,343	349,343	- -	- -
Campbell	2,002,650	2,002,650	- -	- -
Carroll	1,382,800	- -	1,305,806	76,994
Casey	179,008	179,008	- -	- -
Christian	2,578,887	- -	- -	2,578,887
Clark	1,900,000	- -	788,800	1,111,200
Daviess	1,500,000	1,500,000	- -	- -
Fayette	1,031,250	1,031,250	- -	- -
Graves	770,057	770,057	- -	- -
Greenup	886,902	886,902	- -	- -
Jessamine	801,931	801,931	- -	- -
Larue	298,052	298,052	- -	- -
Lincoln	396,000	396,000	- -	- -
Madison	1,526,077	1,526,077	- -	- -
Mason	992,048	992,048	- -	- -
McCracken	2,925,000	2,925,000	- -	- -
Oldham	1,394,360	1,394,360	- -	- -
Pike	1,914,700	1,914,700	- -	- -
Pulaski	1,413,272	1,413,272	- -	- -
Rowan	793,121	793,121	- -	- -
Scott	1,210,931	- -	1,210,931	- -
Shelby	82,743	- -	82,743	- -
Todd	231,320	231,320	- -	- -
Union	106,800	106,800	- -	- -
Warren	3,314,039	3,314,039	- -	- -
Webster	693,677	693,677	- -	- -
	<u>\$32,776,958</u>	<u>\$25,621,597</u>	<u>\$ 3,388,280</u>	<u>\$3,767,081</u>

NOTES TO FINANCIAL STATEMENTS

Note 9. Amounts Held in Custody for Others

Counties entering participation agreements with the Authority are required to deposit their agreed cash contribution to the project with the Authority prior to the first disbursement of construction payments. These funds will be disbursed as construction payments are made on the basis of Authority/County participation.

Note 10. Advance Refunding

During the fiscal year June 30, 1987, Kentucky Local Correctional Facilities Construction Authority issued \$40,835,000 par value, \$1,436,157 original issue discount in Multi-County Correctional Facilities Refunding and Improvement revenue bonds, Series 1987 with interest rates ranging from 4.5 to 7.4 percent to advance refund \$26,410,000 in Multi-County Correctional Facilities revenue term bonds, Series 1984 with interest rates ranging from 6.75% to 10.375%. The net proceeds of \$38,545,391 (after payment of \$992,131 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities in the amount of \$27,707,900 and to deposit \$7,549,000 for capital construction and \$3,149,800 in the Debt Service Reserve Fund. The securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Multi-County Correctional Facilities Revenue Term Bonds, Series 1984. As a result, the 1984 Series Bonds have been removed from long-term debt as a legally defeased bond issue.

The amount of the defeased debt that resulted from the advance refunding during fiscal year June 30, 1987 and remains outstanding at June 30, 1992 is \$13,680,000.

Note 11. Retained Earnings (Deficit)

In providing funds for the construction and improvement of correctional facilities, the authority obtains its funding through the issuance of revenue bonds and the receipt of court cost remittances. When revenue bonds are issued, the Authority incurs long-term obligations that are repaid by revenue received from annual court cost receipts. When construction grants are awarded to local governments, the disbursements are immediately reflected as operating expenses. Due to the timing of these transactions, the Authority periodically incurs losses from operations and has accumulated a net deficit in retained earnings at June 30, 1992 in the amount of \$22,237,088.



Jones, Nale and Mattingly

CERTIFIED PUBLIC ACCOUNTANTS

642 South Fourth Avenue, Suite 300
Louisville, Kentucky 40202-9975
(502) 583-0248
Fax No. (502) 589-1680

MEMBERS

American Institute of
Certified Public Accountants

OFFICES:

Louisville
Shelbyville

James M. Breen, Jr., CPA
R. Wayne Stratton, CPA
Jon A. Meyer, CPA

J. Bertrand Mattingly, CPA
Willis C. Nale, CPA
Dennis G. Martin, CPA
David R. Price, CPA
Timothy W. Stephens, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
LAWS AND REGULATIONS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Kentucky Local Correctional
Facilities Construction Authority
Frankfort, Kentucky

We have audited the financial statements of Kentucky Local Correctional Facilities Construction Authority as of and for the year ended June 30, 1992, and have issued our report thereon dated July 31, 1992.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Kentucky Local Correctional Facilities Construction Authority is the responsibility of Kentucky Local Correctional Facilities Construction Authority's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, Kentucky Local Correctional Facilities Construction Authority complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Authority had not complied, in all material respects, with those provisions.

This report is intended for the information of management. However, this report is a matter of public record and its distribution is not limited.

Jones, Hale and Mattingly

Louisville, Kentucky
July 31, 1992



Jones, Nale and Mattingly

CERTIFIED PUBLIC ACCOUNTANTS

642 South Fourth Avenue, Suite 300
Louisville, Kentucky 40202-9975
(502) 583-0248
Fax No. (502) 589-1680

MEMBERS

American Institute of
Certified Public Accountants

OFFICES:

Louisville
Shelbyville

James M. Breen, Jr., CPA
R. Wayne Stratton, CPA
Jon A. Meyer, CPA

J. Bertrand Mattingly, CPA
Willis C. Nale, CPA
Dennis G. Martin, CPA
David R. Price, CPA
Timothy W. Stephens, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL STRUCTURE RELATED MATTERS NOTED IN A
FINANCIAL STATEMENT AUDIT CONDUCTED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Kentucky Local Correctional
Facilities Construction Authority
Frankfort, Kentucky

We have audited the financial statements of Kentucky Local Correctional Facilities Construction Authority, for the year ended June 30, 1992, and have issued our report thereon dated July 31, 1992.

We have conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Kentucky Local Correctional Facilities Construction Authority, for the year ended June 30, 1992, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of Kentucky Local Correctional Facilities Construction Authority, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

(1) Cycles of the entity's activity:

- financing
- revenue/receipts
- cash disbursements
- external financial reporting

(2) Financial statement captions:

- cash and investments
- receivables
- debt

(3) Accounting applications:

- receivables
- cash receipts
- cash disbursements
- general ledger

For all of the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of management. However, this report is a matter of public record and its distribution is not limited.

Jones, Hale and Mattingly

Louisville, Kentucky
July 31, 1992

APPENDIX B

ECONOMIC AND DEMOGRAPHIC DATA OF THE COUNTIES OBLIGATED TO MAKE RENTAL PAYMENTS

This APPENDIX contains information concerning the Counties that have entered into Leases with the Authority and are obligated to make Rental Payments. This information is included only for the purposes of supplying general information about these Counties. No representations are made, by the inclusion of this information, as to the ability of the Counties to meet their obligations under the Leases. The information in this Appendix has been derived from what are believed to be reliable sources but has not been independently verified by either the Authority or the Underwriters.

	POPULATION 1990	1991 RATE OF UNEMPLOYMENT	PERSONAL INCOME PER CAPITA 1990
KENTUCKY	3,685,296	7.4	\$14,965
ADAIR	15,360	8.7	\$11,803
ESTILL	14,614	13.4	\$10,053
FRANKLIN	43,781	4.6	\$16,977
FULTON	8,271	10.3	\$14,100
JOHNSON	23,248	9.9	\$12,273
KENTON	142,031	5.4	\$16,935
KNOX	29,676	8.5	\$ 9,941
McCREARY	15,603	13.8	\$ 7,663
MONTGOMERY	19,561	15.8	\$13,215
POWELL	11,686	10.4	\$ 9,883
SIMPSON	15,145	8.1	\$13,240

Source: 1993 Kentucky Deskbook of Economic Statistics

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

SUMMARY OF BOND DOCUMENTS

The following is a general summary of the Trust Indenture, the Lease Agreements, the Participation Agreements and the Series 1994 Resolution. Such summary does not purport to be complete and accordingly is qualified by reference to the full text of such documents, copies of which may be obtained from the Trustee upon written request.

Definitions

"Accountant's Certificate" shall mean an opinion signed by an independent firm of state licensed certified public accountants of recognized standing selected by the Authority with the approval of the Trustee.

"Aggregate Debt Service Reserve Requirement" shall mean the maximum Annual Debt Service Requirement in the current or any succeeding Bond Fiscal Year with respect to all outstanding Bonds.

"Annual Budget" shall mean the annual budget, as amended or supplemented, for a particular Bond Fiscal Year adopted by the Authority under the Indenture and filed with the Trustee.

"Annual Debt Service Requirement" shall mean, for any Bond Fiscal Year, the interest on all Outstanding Bonds which shall be due and payable November 1 and May 1 of each such Bond Fiscal Year and the principal of all Outstanding Bonds which shall be due and payable on November 1 in each such Bond Fiscal Year; including Serial Bond principal requirements and Mandatory Sinking Fund Installments for Term Bonds.

"Authority's Agreed Financial Participation" or "Authority's Participation" shall mean the financial obligation of the Authority to pay and retire as the same become due the Authority's pro rata portion of the principal and interest requirements of Bonds allocated to a particular Project.

"Authorized Officer" shall mean the Chairman, Vice-Chairman, Secretary or Treasurer of the Authority, and any other of its members, officers, agents, or employees duly authorized by Resolution of the Authority to perform the act or sign the document in question.

"Bond Fiscal Year" shall mean each annual period which begins on July 1 in any calendar year and ends on June 30 in the following calendar year.

"Bond Insurance Policy" shall mean the municipal bond insurance policy issued by the Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Series 1994 Bonds.

"Bond Insurer" shall mean Financial Security Assurance, Inc., a New York stock insurance company, or any successor thereto.

"Bond Proceeds Fund" shall mean the Fund so designated which is established and created by the Trust Indenture.

"Certificate" shall mean a document signed by an Authorized officer attesting to or acknowledging the circumstances or other matters therein stated.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Construction" shall mean and shall include, inter alia, (a) preliminary planning to determine the feasibility of any Project; the engineering, architectural, legal, fiscal, and economic investigations and studies necessary thereto; and surveys, designs, plans, working drawings, specifications, procedures and other actions necessary to the construction of any Project; (b) the erection, building, acquisition, alteration, remodeling, improvement or extension of any Project; (c) the inspection and supervision of the construction of any Project, and all costs incidental to the construction and financing of same; and such term shall also relate to and mean any other physical

devices or appurtenances in connection with, or reasonably attendant, to, any Project; and (d) any and all other acts performed in connection with the planning, implementation, acquisition, financing or construction of any Project.

"Construction Account" shall mean, for each Series of Bonds, the account so designated which is established and created pursuant to the Trust Indenture.

"Construction Completion Loan" shall mean a loan made by the Authority to a Local Government from the Construction Account for the purpose of completing a particular Project in the event monies on deposit in the Construction Account are not sufficient for such purpose.

"Corrections Cabinet" shall mean the Corrections Cabinet of the Commonwealth.

"Costs of Issuance" shall mean the costs of issuing a Series of Bonds as approved by an Authorized Officer.

"Costs of Issuance Account" shall mean, for each Series of Bonds, the Account so designated which is established and created pursuant to the Trust Indenture.

"Court Costs" shall mean those court costs authorized to be imposed by KRS 24A.175(l), as amended, and required to be paid over to the State Treasury by Circuit Clerks for the benefit and use of the Authority pursuant to KRS 24A.175(6) and KRS 441.685(l)(d).

"Debt Service Fund" shall mean the Fund so designated which is established and created by the Trust Indenture.

"Debt Service Reserve" shall mean the reserve for payment of principal of, interest on, and mandatory sinking fund redemption requirements in respect of the Bonds, created and established by the Trust Indenture.

"Defeasance Obligations" shall mean:

(a) direct obligations (including obligations issued or held in book entry form) of the United States of America; and

(b) pre-funded municipal obligations defined as follows:

Any bonds or other obligations of any state of the United States of America or of an agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in such instructions; and which are rated, based on the related escrow, "AAA" and "Aaa," respectively, by S&P and Moody's.

"Funds and Accounts" shall mean the funds and accounts created under the Trust Indenture or any Series Resolution.

"Interim Financing Escrow Account" shall mean, for each Series of Bonds, the account so designated which is established and created pursuant to Section 502 hereof.

"KRS" shall mean the Kentucky Revised Statutes, as amended.

"Lease and Participation Agreement" or "Lease" shall mean the agreement made and entered into by and between a Local Government and the Authority, as authorized by the Act, providing for the lease of a particular Project by the Authority to the Local Government from year to year and establishing the Authority's Agreed Financial Participation in financing the cost of the particular Project in substantially the same form as set forth in Exhibit B to the Indenture.

"Local Government" shall mean any county or urban-county government having entered into a Lease and Participation Agreement or Participation Agreement with the Authority relating to the construction and operation of a particular Project.

"Local Government's Agreed Financial Participation" or "County's Participation" shall mean the financial obligation of a Local Government to pay Rental Payments under a Lease for application to the payment and retirement as the same become due of its pro rata portion of the principal and interest requirements of Bonds allocated to a particular Project.

"Mandatory Sinking Fund Installment" shall mean the annual installment of principal established for Term Bonds by a Series Resolution.

"Moody's" shall mean Moody's Investors Service, Inc., a Delaware corporation, its successors and assigns.

"Operating Costs" shall mean, as of any particular date, the Authority's operating expenses and all other expenses, if any, of carrying out and administering its statutory functions and its duties under the Trust Indenture and shall include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment machinery and apparatus, insurance premiums, legal, accounting, management, consulting and banking services and expenses, the fees and expenses of the Trustee, Fiduciaries and Paying Agents, including Costs of Issuance, if any, other than Costs of Issuance paid from proceeds of Bonds.

"Outstanding" when used with reference to Bonds, shall mean, as of any date, all Bonds, theretofore or then being authenticated and delivered under the Trust Indenture except:

- (i) Any Bonds cancelled by the Trustee on or prior to such date;
- (ii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Trust Indenture; and
- (iii) Bonds deemed to have been paid as provided in the Trust Indenture.

"Parity Bonds" shall mean Bonds issued pursuant to a Series Resolution of the Authority in accordance with the terms and provisions of the Trust Indenture ranking on the basis of parity as to security and source of payment with previously issued Bonds.

"Participation Agreement" shall mean the agreement made and entered into by and between a Local Government and the Authority, as authorized by the Act, providing for the operation, maintenance and insurance of a particular Project and establishing the Authority's Agreed Financial Participation in financing part of the cost of the particular Project.

"Payment, Surplus and Operating Fund" shall mean the Fund so designated which is established and created by the Trust Indenture.

"Permitted Investments" shall mean to the extent permitted by applicable law

(a) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligation"), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by an agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the Local Government and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

(b) Federal Housing Administration debentures.

(c) The listed obligations of government sponsored agencies which are not backed by the full faith and credit of the United States of America.

(1) Federal Home Loan Mortgage Corporation (FHLMC)

(i) Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amount)

(ii) Senior Debt obligations

(2) Farm Credit Bank

(3) Federal Home Loan Banks (FHL Banks)

(4) Federal National Mortgage Association (FNMA)

(i) Senior debt obligations

(ii) Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amount)

(5) Student Loan Marketing Association (SLMA)

(excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)

(6) Financing Corporation (FICO)

(7) Resolution Funding Corporation (REFCORP)

(d) Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated "A-1" or better by S&P.

(e) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC) in banks which have capital and surplus of at least \$5 million.

(f) Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by S&P and "Prime-1" by Moody's.

(g) Money market funds rated "AAm" or "AAm-G" by S&P, or better.

(h) "State Obligations," which means:

- (1) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.
- (2) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (A) above and rated "A-1" by S&P and "Prime-1" by Moody's.
- (3) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (A) above and rated "AA" or better by S&P and "Aa" or better by Moody's.

(i) Pre-refunding municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:

- (1) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given Irrevocable Instructions concerning their call and redemption and issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instruction;
- (2) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;
- (3) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");
- (4) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;
- (5) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and
- (6) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(j) Repurchase agreements:

- (1) With any domestic bank the long term debt of which is rated "AA" or better by S&P (so long as an opinion is rendered that the repurchase agreement is a "repurchase Agreement" and a "qualified financial contract" as defined in the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") and that such bank is subject to FIRREA, or any foreign bank the

long term debt of which is rated at least "AA" by S&P and "Aaa" by Moody's, or "AAA" by S&P and at least "Aa" by Moody's; provided the term of such repurchase agreement is for one year or less.

(2) With (y) any broker-dealer with "retail customers" which has, or the parent company of which has long-term debt rated at least "AA" by S&P and "Aa" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation (SIPC) or (2) any other entity approved by Financial Security, provided that:

- (i) The market value of the collateral is maintained (i) for United States Treasury Securities at the levels shown below under "Collateral Levies for United States Treasury Obligations" and (ii) for other collateral, at levels acceptable to Financial Security;
- (ii) Failure to maintain the requisite collateral percentage will require the Issuer or the Trustee to liquidate the collateral;
- (iii) The Issuer, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);
- (iv) The repurchase agreement shall state an opinion of counsel shall be rendered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);
- (v) The transferor represents the collateral is free and clear of any third-party liens or claims;
- (vi) An opinion is rendered that the repurchase agreement is a "repurchase agreement" as defined in the United States Bankruptcy Code and, if the provider is a bank, a "qualified financial contract" as defined in FIRREA and that such bank subject to FIRREA;
- (vii) There is or will be a written agreement governing every repurchase transaction;
- (viii) The Authority and the Trustee represents that it has no knowledge of any fraud involved in the repurchase transaction;
- (ix) The Issuer and the Trustee receives the opinion of counsel (which opinion shall be addressed to the Issuer and the Bond Insurer) that such repurchase agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms;

(k) Investment agreements with (A) a domestic bank the long-term debt of which is rated at least "AA" by S&P and "Aa" by Moody's (so long as an opinion is rendered that the bank is subject to FIRREA); or (B) a foreign bank the long-term debt of which is rated "AAA" by S&P and at least "Aa" by Moody's, or at least "AA" by S&P and "Aaa" by Moody's; provided, that, by the terms of the investment agreement:

- (1) interest payments are to be made to the Trustee at times and in amounts necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;
- (2) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice (which notice may be amended or withdrawn at any time prior to the specified withdrawal date); provided that the Indenture specifically requires the Issuer or the Trustee to give notice in accordance with the terms of the investment agreed so as to receive funds thereunder with no penalty or premium paid;
- (3) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof;
- (4) a fixed guaranteed rate of interest is to be paid on invested funds and all future deposits, if any, required to be made to restore the amount of such funds to the level specified under the Indenture;
- (5) the term of the investment agreement does not exceed seven years or such longer term as shall be approved by the Bond Insurer;
- (6) the Issuer or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Issuer and the Bond Insurer) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Bond Insurer;
- (7) the investment agreement shall provide that if during its term
 - (i) the provider's rating by either S&P or Moody's falls below "AA" or "Aa," respectively, or, with respect to a foreign bank, below the ratings of such provider at the delivery date of the investment agreement, the provider must, at the direction of the Issuer or the Trustee (who shall give such direction if so directed by the Bonds Insurer), within 10 days of receipt of such direction, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Issuer, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") United States Treasury Obligations which are free and clear of any third-party liens or claims at the Collateral Levels set forth below; or (ii) repay the principal of and accrued but unpaid interest on the investment; and
 - (ii) the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A," or, with respect to a foreign bank below "AA" or "Aa" by S&P or Moody's, as appropriate, the provider must at the direction of the Issuer or the Trustee (who shall give such direction if so directed by the Bond Insurer) within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Issuer or Trustee; and

- (8) the investment agreement shall state and an opinion of counsel shall be rendered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);
- (9) the investment agreement must provide that if during its term
 - (i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Issuer or the Trustee (who shall give such direction if so directed by the Bond Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Trustee; as appropriate, and
 - (ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Trustee; as appropriate.

"Pledged Receipts"

- (i) shall include the Rental Payments received by the Authority under the Leases from Local Governments;
- (ii) shall include Supplemental Rental Payments received by the Authority under Supplemental Leases from Local Governments in repayment of and as interest on Construction Completion Loans;
- (iii) shall include all monies collected and deposited in the State Treasury for the benefit of the Authority as Court Costs pursuant to KRS 24A.175(6).
- (iv) shall include all interest earned and gains realized on Permitted Investments unless the Trust Indenture or Series Resolution specifically requires such interest earned or gains realized to be credited to the Rebate Fund or a construction account of a Local Government;
- (v) shall include any gifts or grants received from any agency of government, both Federal and State, to the extent not otherwise required to be applied; and
- (vi) shall include any and all appropriations made to the Authority by the General Assembly of the Commonwealth of Kentucky to the extent not otherwise committed and budgeted by the Authority during any fiscal period of the Authority.

"Principal Installment" for any Bond Fiscal Year shall mean, as of any date of calculation and with respect to any Series so long as any Bonds thereof are outstanding:

- (i) the principal amount of the Outstanding Bonds of said Series which mature in such Bond Fiscal Year, reduced by the aggregate principal amount of such Bonds which would before such Bond Fiscal Year be retired by reason of the payment when due and application in accordance with the Trust Indenture of Mandatory Sinking Fund Installments for the retirement of such Bonds; plus
- (ii) the unsatisfied balance of the Mandatory Sinking Fund Installments, if any, due during such Bond Fiscal Year for the Bonds of such Series.

"Principal Installment Date" shall mean, for each Series, the date upon which each Principal Installment on the Bonds of such Series shall be payable, which shall be a November 1.

"Project" shall mean the jail building or buildings and related detention facilities determined by Resolution of the Authority to qualify for financial assistance from the Authority pursuant to the Act and Resolutions of the Authority.

"Redemption Date" shall mean the date set forth in a Series Resolution on which Bonds of the Series authorized by such Series Resolution may be called for redemption.

"Redemption Price" shall mean, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to the Trust Indenture and the Series Resolution pursuant to which the same was issued.

"Redemption Ratio" shall mean the amount of Bonds redeemed or purchased (other than by Mandatory Sinking Fund Installment or pursuant to the issuance of Refunding Bonds) divided by the total principal amount of the Outstanding Bonds subject to Mandatory Sinking Fund Redemption immediately preceding such redemption or purchase.

"Refunding Bonds" shall mean all Bonds, whether issued in one or more Series, authenticated and delivered on original issuance for the purpose of refunding Bonds theretofore issued pursuant to the Trust Indenture.

"Rental Payments" shall mean the total amount due each year as rent from Local Governments to the Authority under a Lease and Participation Agreement.

"Revenue Fund" shall mean the Kentucky Local Correctional Facilities Construction Authority Fund identified by KRS 441.685, which is established and created by the Trust Indenture.

"Series" shall mean all of the Bonds authenticated and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Trust Indenture, regardless of variations in maturity, interest rate, Sinking Fund Installments or other provisions.

"Series of Bonds" or "Bonds of a Series" or words of similar import shall mean the Series authorized by a Series Resolution.

"Series Resolution" shall mean a Resolution of the Authority authorizing the issuance of a Series of Bonds in accordance with the terms and provisions hereof, adopted by the Authority and incorporated by reference within the Indenture.

"State" shall mean the Commonwealth of Kentucky.

"Supplemental Lease" shall mean an amendment to a Lease and Participation Agreement containing provisions for additional rental payments by a Local Government to the Authority in order to provide for principal and interest requirements on Construction Completion Loans.

"Supplemental Trust Indenture" shall mean any trust indenture supplemental to or amendatory of the Trust Indenture adopted by the Authority in accordance with Article VIII and Article IX of the Trust Indenture.

"Term Bonds" shall mean those Bonds designated by Series Resolution as requiring Mandatory Sinking Fund Installments.

Trust Indenture

The Trust Indenture provides for the issuance of the Authority's Bonds and the establishment of the following special accounts with the Trustee:

Bond Proceeds Fund. To the extent any deposit is required to be made therein pursuant to a Series Resolution, the Trustee shall establish and create within the Bond Proceeds Fund a separate Costs of Issuance Account, a separate Construction Account and a separate Interim Financing Escrow Account for such Series of Bonds, and shall identify each such separate Account by inserting in the designation therefor the year, letter or other designation of the Bonds of such Series.

Cost of Issuance Account. (a) There shall be deposited from time to time in the Costs of Issuance Account established for each Series the amount of monies necessary to pay the Costs of Issuance of such Series from either:

(i) the proceeds of the Bonds of such Series as specified and determined in the Series Resolution authorizing the issuance of such Series, or

(ii) monies from time to time received by the Authority from any other source, including Court Costs and legislative appropriations by the State, and determined by the Authority to be deposited in such Account, unless required to be otherwise applied as provided by the Trust Indenture.

(b) The Trustee shall from time to time pay out, or permit the withdrawal of, monies credited to any Costs of Issuance Account, free and clear of any lien or pledge or assignment in trust created by this Article, for the purpose of paying in the manner herein authorized any Costs of Issuance of the Bonds of the Series for which such Account was established, upon receipt by said Trustee of the following:

(i) a written requisition of the Authority signed by an Authorized Officer stating with respect to each payment to be made:

(A) the item for which payment is to be made,

(B) the name of the person or party to whom the payment is to be made, and

(C) the amount to be paid, and

(ii) a Certificate signed by an Authorized Officer stating that the amount to be paid from such Account pursuant to such requisition is a proper charge thereon. Upon receipt of each such requisition, the Trustee shall deliver to the Authority or designated payee a check or draft drawn upon the applicable Costs of Issuance Account for the payment of each item.

(c) Upon receipt of a Certificate signed by an Authorized Officer of the Authority to the effect that all Costs of Issuance of the applicable Series of Bonds have been paid, the Trustee shall transfer any monies remaining in said Costs of Issuance Account to the Construction Account established for such Series.

(d) Upon the deposit of the proceeds of the Bonds of a Series or other monies in the manner hereinabove prescribed in any Costs of Issuance Account, the Authority shall furnish the Trustee with a schedule of dates on which it is estimated by the Authority that such monies in said Account will be required to be expended. The Authority may from time to time amend the schedule so furnished. Upon receipt of such schedule or amended schedule by the Trustee, the Authority may direct the Trustee to, or in the absence of direction the Trustee shall, invest and reinvest the monies in said identified Account in Permitted Investments, so that the maturity date or date of redemption at the option of the holder of such Permitted Investments shall coincide as nearly as practicable with the times at which monies are needed by the Authority to be so expended. The Trustee shall sell or present for

redemption, any obligations purchased by it as an investment whenever it shall be necessary in order to provide monies to meet any payment from the Costs of Issuance Account.

Construction Account. (a) There shall be deposited into the applicable Construction Account (i) such amount of the proceeds of the Bonds of any Series required to be deposited therein as shall be specified and determined by the Series Resolution authorizing such Series of Bonds, in accordance with and subject to the provisions of Article IV of the Indenture, (ii) amounts to be transferred from the Costs of Issuance Account and (iii) amounts to be transferred from the Interim Financing Escrow Account.

(b) In accordance with each Series Resolution, upon the written direction of the Authority signed by an Authorized Officer, the Trustee shall allocate for accounting purposes the Estimated Construction Cost for each Project; or such lesser amount which will generate said Estimated Construction Cost from earnings on Permitted Investments over the estimated construction period as may be specified in a Series Resolution.

(c) Except as may be limited by the purposes for which a Series of Bonds is issued as set forth in the Series Resolution, amounts in any Construction Account shall be expended and applied by the Trustee upon written direction of the Authority signed by an Authorized Officer from time to time as hereinafter provided, only for the making of reimbursements to the Local Government or for the making of disbursements directly to contractors, architects or engineers, or suppliers of the particular Project in accordance with the Local Government's Construction Contract pursuant to the terms of a Lease and Participation Agreement or Participation Agreement between the Authority and the Local Government and this Trust Indenture.

The Trustee shall keep and maintain records with respect to the Construction Account, which shall include a separate accounting, through the establishment of sub-accounts for each Project, with respect to funds and monies in said Construction Account held for the use and benefit of each individual Local Government which has entered into a Lease and Participation Agreement or Participation Agreement with the Authority and pursuant to the terms and provisions of which the Authority is to participate in financing the cost of the acquisition and construction of that respective Project.

At or prior to the delivery of any Series of Bonds, the Trustee shall be furnished with executed copies or duly authenticated counterparts of all Lease and Participation Agreements and Participation Agreements between the Authority and Local Governments to which said Series of Bonds relates, or in lieu thereof, shall be furnished by the Authority, with a duly certified list of all such Lease and Participation Agreements and Participation Agreements containing all pertinent data in respect thereto, together with summaries thereof.

(d) Upon the deposit of the proceeds of Bonds or other monies in the manner hereinabove prescribed in the sub-accounts of the Construction Account, the Authority shall furnish the Trustee with a schedule of dates on which it is estimated by each Local Government that such monies in such sub-account will be required to be expended. The Authority, upon advice of a Local Government, may from time to time amend the schedule so furnished as further data and information respecting the construction of that particular Project become available. After such schedule or amended schedule has been furnished to the Trustee, the Authority may direct the Trustee to, or in the absence of direction the Trustee shall, invest and reinvest the monies in such sub-accounts (and in the aggregate for the Construction Account) in Permitted Investments so that the maturity date or date of redemption at the option of the holder of such Permitted Investments shall coincide as nearly as practicable with the times at which monies are required by the Authority to be so expended on account of the particular Project. The Trustee shall sell or present for redemption any Permitted Investments purchased by it as an investment whenever it shall be necessary in order to provide monies to meet any authorized payment from such Construction Account.

(e) The Trustee shall from time to time pay out or permit the withdrawal of monies from the applicable sub-account of the Construction Account pursuant to subsection (c) hereof, upon receipt by the Trustee of a written Requisition for Funds of the Local Government approved by an Authorized Officer of the Authority containing the following with respect to each payment or disbursement to be made:

- (i) the name of the person or parties to whom the payment or disbursement is to be made;
 - (ii) the amount to be paid to such person or party;
 - (iii) the applicable Lease and Participation Agreement or Participation Agreement in respect of which the payment or disbursement is to be made;
 - (iv) that with respect to such requested payment or disbursement there has not been filed with or served upon the Authority notice of any lien or attachment upon, or claim affecting the right to receive, payment of any of the amounts requisitioned and payable to any of the persons, firms or corporations named in such requisition which has not been released or will not be released simultaneously with such payment.
 - (v) that such Requisition for Funds contains no item representing payment on account of any retained percentages of the cost of Construction which the Local Government is at the date of such requisition entitled to retain;
 - (vi) that in connection with such Requisition for Funds the Authority has received such proofs executed by the Architects for the Local Government and officials of the Local Government which has entered into the specified Lease and Participation Agreement or Participation Agreement as are properly required by Authority, to the effect that a payment and performance bond for the Project has been posted and that each obligation set forth in said requisition has been (a) properly incurred, and (b) is then due and unpaid; and (c) that insofar as such obligation was incurred for work, services, materials, equipment or supplies, such work or services was actually performed, or such materials, equipment or supplies were actually installed in furtherance of the Construction of the particular Project, or were delivered at the site of the Project for such purposes, all in accordance with the Lease and Participation Agreement or Participation Agreement specifically identified in such Requisition for Funds;
 - (vii) that all of the requirements of Facilities Management through the date of said Requisition for Funds have been met;
 - (viii) that all of the requirements of the Department of Corrections through the date of said Requisition for Funds have been met.
- (f) All such written Requisitions for Funds of Local Governments approved by an Authorized Officer of the Authority and conforming to subsection (e) above received by the Trustee as herein set forth may be relied upon by and shall be retained in the possession of the Trustee.

Notwithstanding the foregoing requirements for written requisitions for funds, the Trustee shall transfer from the appropriate sub-accounts of the Construction Account to the Debt Service Fund such amounts as a Series Resolution or Lease and Participation Agreement may designate as Capitalized Interest without further direction of the Authority or a Local Government.

(g) At such time as all monies due to be disbursed from a sub-account of the Construction Account in respect of a Lease and Participation Agreement or Participation Agreement have been so disbursed and paid, and the Trustee has received a Certificate executed by the Chairman of the Authority stating that completion of the particular Project authorized by the specified Series of Bonds has occurred, which Certificate shall be accompanied by an opinion of legal counsel stating that there are no uncanceled mechanics', laborers', contractors' or materialmen's liens on file in any public office where the same should be filed in order to be valid liens against any part of any Project, and that in the opinion of said legal counsel the time within which such liens can be filed has expired, that part of the balance in said sub-account shall be transferred by the Trustee in accordance with subsection (h) below.

(h) In those instances in which the Local Government has entered into a Lease and Participation Agreement, that portion of the surplus, if any, in the applicable sub-account of the Construction Account determined from the Local Government's Participation shall be transferred by the Trustee to the Debt Service Fund and the Local Government shall receive a credit against its Rental Payment then due under its Lease in the amount so determined. In those instances in which the Local Government has entered into a Participation Agreement, the Local Government shall receive a rebate in cash in an amount determined by applying the same percentage as the Local Government's contribution, if any, to the applicable sub-account of the Construction Account from funds other than the proceeds of the related Bonds.

Any (i) such surplus amounts representing the Authority's Participation in any sub-account of the Construction Account and (ii) amounts in a sub-account for a Project for which construction has not commenced within the time required under a Participation Agreement shall be transferred by the Trustee at the direction of the Authority to a separate sub-account of the Construction Account and used for the purpose of making Construction Completion Loans or providing increased funding under a Participation Agreement. In such event, amounts shall be transferred to the Project sub-account related to the applicable Project and, in the case of a Construction Completion Loan, the Authority and applicable Local Government shall enter into a Supplemental Lease and Participation Agreement providing for increased Rental Payments in an amount adequate to pay the proportionate amount of debt service on the Bonds applicable to such Construction Completion Loan. Amounts that are not required for Construction Completion Loans or for additional funding to complete Projects subject to a Participation Agreement may be transferred to sub-accounts for additional Projects, upon the order of an Authorized Officer.

In the event any Local Government fails to initiate the construction of its Project in accordance with the terms of the Lease and Participation Agreement, the Trustee, upon written direction of the Authority, shall transfer that portion of the Construction Account allocated to the Local Government's share of said Project to the Debt Service Fund and shall apply the amount so transferred to the extraordinary redemption of Bonds in accordance with the provisions of Article VI of the Indenture.

Interim Financing Escrow Account. (a) There shall be deposited in the Interim Financing Escrow Account such amount of the proceeds of the Bonds of any Series required to be deposited therein as shall be specified and determined by the Series Resolution to be sufficient to either:

(i) fund the Authority's Agreed Financial Participation in a Project the Construction of which has been completed (or substantially completed) prior to the delivery of such Bonds and for which there is no Agreed Financial Participation by the Local Government, or

(ii) provide for the retirement of interim financing debt obligations incurred by Local Governments in the Construction of Projects when the Authority's Participation and/or the Local Government's Participation related to such Bonds are to be used to retire said interim debt obligations.

(b) The Trustee shall from time to time pay out, or permit the withdrawal of, monies credited to any Interim Financing Escrow Account, free and clear of any lien or pledge or assignment in trust created by this Article, for the purpose of effecting cash payments to Local Governments or retiring existing obligations of Local Governments in accordance with the Series Resolution, upon receipt by the Trustee of a written requisition of the Authority signed by an Authorized Officer stating (i) the item for which the payment is to be made, (ii) the name of the person or party to whom the payment is to be made, and (iii) the amount to be paid.

(c) Upon the receipt of a Certificate signed by an Authorized Officer of the Authority to the effect that all disbursements from the Interim Financing Escrow Account contemplated by the applicable Series Resolution have been paid, the Trustee shall transfer any monies remaining in said Account to the Construction Account.

(d) Monies on deposit in the Interim Financing Escrow Account may be invested in Permitted Investments until expended in the same manner as monies on deposit in the Costs of Issuance Account.

Revenue Fund

(1) The Authority shall cause all monies received as Rental Payments pursuant to Lease and Participation Agreements, and Supplemental Rental Payments pursuant to Supplemental Leases to be deposited promptly with the Trustee, to the credit of the Revenue Fund.

(2) The Authority shall transfer all monies received as Court Costs pursuant to KRS 24A.175(6), together with all investment earnings therefrom, to the Trustee to the credit of the Revenue Fund on or before the last business day of each month. At any time the Authority holds monies representing Court Costs pending the deposit required by this subsection, the Authority shall keep said Court Costs segregated from all other State monies for accounting purposes.

(3) The Trustee shall transfer monies from the Revenue Fund to the following Accounts and Funds at the times and in the amounts hereinafter stated in the following sequence:

(a) There shall be transferred to the Interest Account, on the last business day of each month preceding an Interest Payment Date, an amount equal to the interest which will come due on the Bonds on said Interest Payment Date.

(b) There shall be transferred to the Principal Account, on the last business day of each month preceding an Interest Payment Date, an amount equal to the fifty percent (50%) of the Principal Installment which will come due on the Bonds on the next Principal Installment Date.

(c) There shall be transferred to the Debt Service Reserve such amount as will cause the amount on deposit therein to equal the Aggregate Debt Service Reserve Requirement.

(d) Subject to the priority transfers enumerated in subsections (3)(a) through (c) above, such transfers as are set forth in a Series Resolution.

(e) As required, but subject to the priority of the transfers enumerated in subsections (3)(a) through (d) above, the amount remaining in the Revenue Fund on each May 1 and November 1 may be transferred to the Payment, Surplus and Operating Fund.

(4) Monies on deposit in the Revenue Fund may be invested in Permitted Investments maturing or subject to redemption at the option of the holder thereof no later than the date for any required disbursement from the Revenue Fund.

Payment, Surplus and Operating Fund

(1) There shall be deposited into the Payment, Surplus and Operating Fund the amounts transferred from the Revenue Fund.

(2) Monies in the Payment, Surplus and Operating Fund shall be withdrawn and paid out from time to time for the purpose of (a) depositing funds to the Debt Service Fund to the extent amounts on deposit therein are not adequate to pay Interest and Principal Installments which are due and payable, (b) depositing funds in the Debt Service Reserve to the extent amounts in the Revenue Fund are not adequate to maintain therein the Aggregate Debt Service Reserve Requirement, (c) paying amounts due and payable to a Local Government under a Participation Agreement, and (d) at the direction of an Authorized Officer, paying reasonable or necessary Operating Costs and when amounts permitted by (c) and (d) are so withdrawn and paid out, such monies shall be free and clear of any lien, pledge or assignment in trust created by the Trust Indenture.

(3) Notwithstanding anything in the Trust Indenture to the contrary, monies in the Payment, Surplus and Operating Fund may be withdrawn and paid out by the Trustee to or at the direction of the Authority for any lawful purpose of the Authority, including, but not being limited to, (i) transfers to other Funds or Accounts

created by the Trust Indenture, including the Debt Service Fund, or (ii) for the purpose of carrying out the duties and responsibilities of the Authority set forth in the Act, including making grants to Local Governments.

(4) Amounts in the Payment, Surplus and Operating Fund may, in the discretion of the Authority, be invested in Permitted Investments maturing in such amounts and at such times as may be necessary to provide funds when needed. The Trustee may, and to the extent required for payments from the Payment, Surplus and Operating Fund shall, sell or duly present for redemption, any such Permitted Investments at any time, and the proceeds of such sale and of all payments at maturity and upon redemption of such Permitted Investments shall be held in the Payment, Surplus and Operating Fund unless otherwise transferred or expended pursuant to the provisions of this Section.

Debt Service Fund

(1) There shall be deposited to the appropriate accounts of the Debt Service Fund (i) the amounts required to be transferred thereto from the Revenue Fund and (ii) accrued interest received upon the delivery of any Series of Bonds.

(2) The Trustee shall pay from the Interest Account to the Paying Agent for any of the Bonds (i) on the business day preceding each Interest Payment Date, the amounts required for the payment of interest on the Outstanding Bonds due on such date, and (ii) on the day preceding the Redemption Date or date of purchase of any Bonds, the amounts required for the payment of accrued interest on Bonds redeemed or purchased for retirement unless the payment of such accrued interest shall be otherwise provided for, and in each such case, such amounts shall be applied by the Paying Agent to such payments.

(3) The Authority may direct the Trustee to, or in the absence of direction the Trustee shall, invest the monies in the Interest Account in Permitted Investments so that the maturity date or date of redemption at the option of the holder shall be before the Interest Payment Date next succeeding the date upon which such investment is made and if such amounts are not disbursed on such Interest Payment Date, then in Permitted Investments that are redeemable at the option of the holder thereof at their purchase price.

(4) The Trustee shall pay from monies credited to the Principal Account to the Paying Agent on the business day preceding each Principal Installment Date for any of the Outstanding Bonds, the amounts required for the payment of principal due on such date and such amounts shall be applied by the Paying Agent to such payments.

(5) The amount accumulated in the Principal Account for each Mandatory Sinking Fund Installment may, and if so directed by the Authority shall, be applied (together with amounts accumulated in the Interest Account with respect to interest on the Bonds for which such Mandatory Sinking Fund Installment was established) by the Trustee prior to the forty-fifth (45th) day preceding the due date of such Mandatory Sinking Fund Installment as follows:

(i) to the purchase of Bonds of the Series and maturity for which such Mandatory Sinking Fund Installment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price payable from Mandatory Sinking Fund Installments for such Bonds when such Bonds are redeemable by application of said Mandatory Sinking Fund Installments plus unpaid interest accrued to the date of purchase, such purchases to be made in such manner as the Trustee shall determine, or

(ii) to the redemption, pursuant to Article VI of the Indenture, if such Bonds if then redeemable by their terms at the Redemption Price referred to in clause (i) hereof.

As soon as practicable after the forty-fifth (45th) day preceding the due date of any such Mandatory Sinking Fund Installment, the Trustee shall proceed to call for redemption on such due date, Bonds of the Series and maturity for which such Mandatory Sinking Fund Installment was established in such amount (after taking into

account Bonds purchased pursuant to subsection (i) hereof) as shall be necessary to complete the retirement of the principal amount specified for such Mandatory Sinking Fund Installment of the Bonds of such Series and maturity. The Trustee shall pay out of such Principal Account to the Paying Agent, on the business day preceding each such Redemption Date, the amount required for the redemption of the Bonds so called for redemption, and such amount shall be applied by said Paying Agent to such redemption.

(6) The Authority may direct the Trustee to, or in the absence of direction, the Trustee shall, invest the monies in the Principal Account in Permitted Investments so that the maturity date or date of redemption at the option of the holder shall be on or before the Principal Installment Date next succeeding the date when such investment is made and if such amounts are not disbursed on such Principal Installment Date, then in Permitted Investments that are redeemable at the option of the holder thereof at their purchase price.

(7) Upon any purchase or redemption of Term Bonds of any Series and maturity, other than by Mandatory Sinking Fund Installments, by use of monies deposited in the Debt Service Fund from a source other than the Revenue Fund, the amount of future Mandatory Sinking Fund Installments for such Term Bonds shall be reduced (subject to \$5,000 rounding) by multiplying the amount of each applicable future Mandatory Sinking Fund Installment by the Redemption Ratio. The portion of any such Mandatory Sinking Fund Installment remaining after the deduction of any such amounts so credited (or the original amount of any such Mandatory Sinking Fund Installment if no such amounts shall have been credited) shall constitute the unsatisfied balance of such Mandatory Sinking Fund Installment for the purpose of the calculation of Principal Installments due on a such date.

Debt Service Reserve

(1) There shall be deposited to the credit of the Debt Service Reserve (a) any proceeds of Bonds so provided to be deposited by any Series Resolution, (b) any Pledged Receipts from the Revenue Fund required to be deposited therein and (c) any monies received on account of or in connection with Permitted Investments credited to the Debt Service Reserve as in this Section provided.

(2) The Trustee shall use amounts on deposit in the Debt Service Reserve for the payment of Principal Installments of, or interest on, any outstanding Bond, but only to the extent amounts in the Debt Service Fund and the Revenue Fund are not adequate for such purpose.

(3) Any interest earned or sums realized as a result of investment of monies in the Debt Service Reserve shall accrue to, and be a part of, the Debt Service Reserve; provided that any such interest earned or sums realized which cause the amount in the Debt Service Reserve to exceed the Aggregate Debt Service Reserve Requirement shall be transferred to the Revenue Fund.

(4) The value of amounts on deposit in the Debt Service Reserve shall be determined as of each May 1 and November 1 prior to making any disbursements authorized by a Series Resolution or to the Payment, Surplus and Operating Fund.

Investment of Funds

(1) Except as otherwise provided for in the Trust Indenture:

(a) Investment obligations purchased as an investment of monies in any Fund or Account held by the Authority or the Trustee under the provisions of the Trust Indenture shall be deemed at all times to be a part of such Fund or Account and the income or interest earned, gains realized or losses suffered by a Fund or Account due to the investment thereof shall be retained in, credited or charged thereto as the case may be.

(b) In computing the amount in all Funds, including the Accounts thereof, Permitted Investments purchased as an investment of monies therein shall be valued at cost. Valuation as of any date of computation shall include the amount of interest or gain realized to such date.

(c) The Trustee shall sell or present for redemption or exchange, any Investment Obligation purchased by it as an investment pursuant to the Trust Indenture whenever it shall be necessary in order to provide monies to meet any payment or transfer from the Fund or Account for which such investment was made. The Trustee shall provide periodic statements to the Authority in writing, relating to the Permitted Investments held for the credit of each Fund or Account in its custody under the provisions of this Trust Indenture as of the end of the preceding month.

(2) It shall not be necessary for the Paying Agent to give security for the deposit of any monies with it held in trust for the payment of principal of or Redemption Price, if any, or interest on any Bonds.

Conditions Precedent to Authentication and Delivery of Bonds

The Trustee shall authenticate and deliver, to or upon the order of the Authority, any of the Bonds authorized to be issued pursuant to the Trust Indenture and a Series Resolution only upon receipt by the Trustee of:

(1) A copy of the Trust Indenture and the applicable Series Resolution, each certified by an Authorized Officer of the Authority;

(2) The written order of the Authority as to the delivery of such Bonds signed by an Authorized Officer describing such Bonds to be authenticated and delivered, designating the purchaser or purchasers to whom such Bonds are to be delivered, and stating the purchase price of such Bonds;

(3) Except in the case of an issue of Refunding Bonds, an Accountant's Certificate stating in effect that (a) annual Court Costs received are at least equal to 1.00 times maximum Annual Debt Service Requirement of the Outstanding Bonds and the Series Bonds then proposed to be issued and (b) Court Costs plus annual Rental Payments under Leases made and to be made with Local Governments are equal to at least 1.30 times maximum Annual Debt Service Requirement on the Outstanding Bonds and the Series Bonds proposed to be issued. The computation of annual Court Costs shall cover a period of twelve consecutive months out of the eighteen months preceding the delivery of the additional Series Bonds and may utilize an estimate in order to reflect an adjustment for a legislative increase in Court Costs over those in effect during such twelve month period.

In the event the additional Series Bonds proposed to be issued are to bear a variable or periodically adjustable interest rate, the calculations of maximum Annual Debt Service Requirement shall be made with the assumption the interest rate on the Bonds is the 30-year Revenue Bond Index as published in The Bond Buyer as of the month preceding the month in which the additional Series Bonds are to be delivered (or similar index if same is no longer published). In the event any Outstanding Bonds have previously been issued on a variable rate basis, the calculation of maximum Annual Debt Service Requirement shall be made utilizing the greater of either (i) the highest interest rate on said variable-rate Outstanding Bonds during the preceding twenty-four months; or (ii) 9.2%.

(4) An opinion of Bond Counsel stating the opinion that the Trust Indenture and the applicable Series Resolution authorizing the Series of Bonds have been duly and lawfully adopted by the Authority, that the Trust Indenture and the applicable Series Resolution are in full force and effect and are valid and binding upon the Authority and enforceable in accordance with their terms; that the Trust Indenture creates a valid pledge of the Pledged Receipts and any other funds, assets and revenues of the Authority pledged for the payment of such Bonds; that upon the execution, authentication and delivery thereof, the Bonds of such Series will be duly and validly issued and will constitute valid and binding obligations of the Authority entitled to the benefits of the Trust Indenture and

such applicable Series Resolution; and, to the extent the Series Bonds are to be issued as "tax-exempt" Bonds, that at the time of their delivery the receipt of interest on said Bonds will be excludable from the gross income of the recipients thereof for State and Federal income tax purposes.

(5) A written order of the Authority signed by an Authorized Officer directing the deposit in the Debt Service Reserve of so much of the proceeds of the Bonds to be issued, or other funds of the Authority, upon their issuance, sale and delivery, as is required to increase the aggregate amount then held by the Trustee in said Reserve to the Aggregate Debt Service Reserve Requirement, assuming for such purposes that the proposed Bonds have been issued;

(6) Except in the case of an issue of Refunding Bonds, a certificate of an Authorized officer of the Authority stating that the Authority is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Trust Indenture;

(7) To the extent any Lease and Participation Agreements are to be entered into with respect to the issuance of such additional Bonds, an opinion of counsel that each such Lease and Participation Agreement has been duly authorized, executed and delivered by and is a legally binding enforceable obligation of, the applicable Local Government; and

(8) Such further documents, monies and securities as are required by the provisions of the Trust Indenture or any Supplemental Trust Indenture.

Provisions for Refunding Issue

One or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund all Outstanding Bonds or any Series of Outstanding Bonds or any part of one or more Series of Outstanding Bonds without compliance with the requirements of Section 206 of the Indenture so long as the maximum Annual Debt Service Requirement assuming issuance of such Refunding Bonds is no greater than the maximum Annual Debt Service prior to such issuance. Bonds of the Series of Refunding Bonds shall be issued in a principal amount sufficient, together with other monies available therefor, to accomplish such refunding and to make such deposits required by the provisions of the Act, the Indenture and of the Series Resolution authorizing said Series of Refunding Bonds.

Certain Covenants

Tax Covenant. The Authority shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Authority on the Bonds shall, for the purposes of Federal income taxation, be excludable from gross income under any valid provision of law. The establishment of a Rebate Fund is required in to which the Authority is required to deposit excess investment earnings for transfer to the federal government of the United States.

Budgets. The Authority shall adopt an Annual Budget for the its activities covering its fiscal operations for the succeeding Bond fiscal Year not later than July 1 of each year, and file the same with the Trustee and with such officials of the State as may be required by the Act, as then amended. The Annual Budget shall at least set forth for such Bond Fiscal Year the estimated Pledged Receipts, Principal Installments and interest due and payable or estimated to become due and payable during such Bond Fiscal Year and estimated Operating Costs.

Personnel and Servicing of Program. The Authority shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its activities and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by the Authority shall be qualified for their respective positions.

General Covenant to Collect Rental Payments. The Authority generally covenants and agrees to take all actions and perform all rights of the Authority as set forth in the Lease and Participation Agreements and

Supplemental Leases in a timely fashion and the Authority hereby specifically assigns to the Trustee its right under each Lease to collect from the State Treasurer or Department of Corrections those amounts to which a Local Government which is delinquent in its Rental Payments would be entitled under the provisions of KRS 441.206, or such other then existing provision of law, from State appropriations, to the extent of said delinquencies.

Revenue Covenant. If, during any fiscal year, the total amount received in Court Costs, Rental Payments and Supplemental Rental Payments is less than the Principal Installments and interest on the Bonds due and payable in such fiscal year, the Authority will request that the Governor of the Commonwealth of Kentucky request that the General Assembly of the Commonwealth of Kentucky amend KRS 24A.175 to provide that the amount of Court Costs payable to the Authority be increased so that the total amount received as Court Costs, Rental Payments and Supplemental Rental Payments will be, based on reasonable projections, no less than the Principal Installments and interest on the Bonds which will be due and payable in any future fiscal year.

Non-Impairment. The pledge of Court Costs hereunder being a contractual obligation of the Authority for the benefit of the Bondholders, the Authority covenants to oppose, including, to the extent necessary, by appropriate legal action, the adoption or enforcement of any statute or regulation that would reduce the amount of aggregate annual Court Costs payable to the Authority as an impairment of such contractual obligation, if such reduction would cause the total amount of Court Costs, Rental Payments and Supplemental Rental Payments, based on reasonable projections, to be less than the Principal Installments and interest on the Bonds which are due and payable in any future fiscal year.

Events of Default; Remedies

Article X of the Trust Indenture, dealing with Defaults and Remedies, sets forth substantially the following provisions:

Trustee to Exercise Powers of Statutory Trustee. The Trustee is vested with all of the rights, powers and duties of a trustee permitted to be secured pursuant to the Act.

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

- (i) Default by the Authority in the payment of any Principal Installment of or Redemption Price, if any, on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise; or
- (ii) Payment of any interest on any of the Bonds shall not be made when and as the same shall become due; or
- (iii) Failure or refusal by the Authority to comply with the provisions of the Act, or default by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Trust Indenture, any Series Resolution, any Supplemental Trust Indenture or the Bonds, which failure, refusal or default continues for a period of 45 days after written notice thereof by the Trustee; provided that if the failure stated in such notice cannot be corrected within such period, such failure shall not constitute an Event of Default so long as corrective action is commenced and diligently pursued until such failure is corrected.

Remedies. Upon the happening and continuance of any Event of Default specified in paragraphs (i) or (ii) above, the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (iii) above, the Trustee may proceed, and upon the written request of the Registered Owners of not less than 25% in principal amount of the Outstanding Bonds, shall proceed, in its own name, to protect and enforce its rights and the rights of the Registered Owners by such of the following remedies as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(a) By mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Registered Owners, including the right to require the Authority to enforce, collect and receive Rental Payments required by Lease Agreements, Participation Agreements and Supplemental Leases adequate to carry out the covenants and agreements as to, and pledge of, the Pledged Receipts, and to require the Authority to carry out any and all other covenants or agreements with Registered Owners and to perform its duties under the Act;

(b) By bringing suit upon the Bonds;

(c) By action or suit in equity, require the Authority to account as if it were the trustee of an express trust for the Registered Owners of the Bonds;

(d) By action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the Registered Owners of the Bonds;

(e) By declaring all Bonds due and payable and if all defaults shall be made good, then, with the written consent of the Registered Owners of not less than 25% in principal amount of the Outstanding Bonds by annulling such declaration and its consequences;

(f) In the event that all Bonds are declared due and payable, by selling Permitted Investments and all other assets of the Authority (to the extent not theretofore set aside for redemption of Bonds for which call has been made), and enforcing all Lease Agreements, Participation Agreements and Supplemental Leases to the fullest legal extent in the name of the Authority for the use and benefit of the Registered Owners of Bonds; or

(g) By action or suit for any and all other relief, including the appointment of a receiver to enforce the rights of the Registered Owners.

The remedies enumerated above are subject to the effect or limitation of bankruptcy, moratorium, insolvency and other similar laws or equitable principles relating to or affecting the enforcement of creditors' rights generally.

In the enforcement of any rights and remedies under the Trust Indenture, the Trustee shall be entitled to collect its expenses incident to such enforcement from funds of the Authority pledged under the Trust Indenture and shall have a lien upon all monies held under the Trust Indenture for such purpose, and shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due from the Authority for principal, Redemption Price, interest or otherwise, under any provision of the Trust Indenture a Series Resolution or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Registered Owners or of the Bond Insurer, and to recover and enforce a judgment or decree against the Authority for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from any monies available for such purpose, in any manner provided by law, the monies adjudged or decreed to be payable.

Priority of Payments After Default. In the event that upon the happening and continuance of any Event of Default, the funds held by the Trustee and Paying Agent shall be insufficient for the payment of principal or Redemption Price, if any, and interest then due on the Bonds, such funds other than funds held for the payment or redemption of particular Bonds which have theretofore become (due at maturity or by call for redemption) and any other monies received or collected by the Trustee acting pursuant to the Act and the Trust Indenture, shall be applied as follows:

(i) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price, if any, of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price, if any, due on such date, to the persons entitled thereto, without any discrimination or preference.

(ii) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case the Authority, the Trustee and the Registered Owners shall be restored to their former positions.

Registered Owners' Direction of Proceedings. The Registered Owners of a majority in principal amount of the Bonds then Outstanding shall have the right, by any instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee.

Limitation on Rights of Registered Owners. No Registered Owner of any Bond shall have any right to institute any action for the protection or enforcement of any right under the Trust Indenture unless such Registered Owner shall have given to the Trustee written notice of the Event of Default or breach of duty, and unless the Registered Owners of not less than 25% in principal amount of the Outstanding Bonds shall have made written request of the Trustee after the right to exercise such right of action shall have occurred. Furthermore, the Trustee shall have been afforded a reasonable opportunity either to proceed to exercise its powers or to institute such action, suit or proceeding in its name, and in addition, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or to the Registered Owners of the Bonds is intended to be exclusive of any other remedy or remedies.

No Waiver of Default. No delay or omission of the Trustee or of any Registered Owner of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein.

Notice of Event of Default. The Trustee shall give to the Registered Owners notice of each Event of Default known to the Trustee within 30 days after acquiring knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice. Each such notice of an Event of Default shall be given by the Trustee by mailing written notice thereof to all Registered Owners.

Lease Agreements

The Authority has entered into Lease Agreements with certain Local Government financing through the Authority.

Conveyance of Title to Project. Each Participating County which has entered into a Lease Agreement has conveyed the Project to the Authority.

The Authority agrees to reconvey the Project to the Participating County upon the payment by the Participating County of all Rental Payments provided for under the Lease Agreement.

Lease of Project to Participating County. Each Project subject to a Lease was leased by the Authority to the Participating County for a current period ending June 30, 1994 for a Rental Payment equal to the total interest requirements becoming due on the Project Bonds during that Bond Fiscal Year. Each Lease has automatically renewed and shall continue to be automatically renewed on July 1 of each year for a period of one year at a time unless the Participating County shall give notice to the Authority and others not less than 60 days prior to July 1.

In each year that the Lease is in effect, the Authority agrees that so long as the Participating County is current in its obligations under the Lease, the Authority shall contribute the Authority Participation toward the Rental Payments due under the Lease.

Each year's Rental Payments under the Lease are equal to the annual principal and interest requirements to become due on the Project Bonds, subject to the credit in favor of the Participating County for the payment of the Authority Participation. In addition, each Participating County will be obligated to pay the costs of operating, maintaining and insuring its Project.

Rental Payments As Annual Obligations of Participating County. Nothing contained in the Lease binds the Participating County to a renewal or the payment of Rental Payments for any but the current period unless the Participating County shall exercise its option to renew, in which event the Participating County obligates itself to make Rental Payments for such one-year renewal Lease Term. The Participating County's option to renew its Lease is deemed to have been exercised unless the required notice of termination is given. Each Participating County's governing body has declared that each Project constitutes a public project and has formally expressed its present intention to renew the Lease.

Participating County's Assignment of Interest in State Appropriations. Under the Lease the Participating County agrees that in the event it is delinquent in a Rental Payment for any period during which the Lease has been renewed, and said delinquency continues for a period of 30 days beyond the (due date, then the Authority, or the Trustee acting on behalf of the Authority, may without further demand collect from the State Treasurer or the Department of Corrections, to the extent of the delinquent amount, those amounts to which the Participating County might be entitled under the provisions of KRS 441 et. seq. or such other provisions of Kentucky law then existing relating to the appropriation of State funds to Counties for correctional facilities. The Lease specifically states that nothing should be construed as an assignment of the Participating County's rights in appropriations for any period following a termination of the Lease by the Participating County.

Termination of Lease on Participating County's Failure to Renew. In the event the Participating County fails to renew the Lease in any year, then the Lease shall immediately terminate and all Rental Payments for the current year shall be due and collectible and the Participating County shall give immediate possession of the Project to the Authority.

Application of Insurance Proceeds. In the event any of the Project buildings are destroyed by hazards covered by casualty insurance, the Authority shall have the right to expend the proceeds to restore the property and if said proceeds are not so expended then same shall be applied to the redemption of outstanding

ZProject Bonds. In the event of partial destruction, the proceeds of such insurance shall be applied solely for the purpose of making the necessary repairs and replacements.

Participating County's Option to Purchase Project. The Participating County shall have the right at any time to purchase from the Authority and secure the reconveyance of the Project upon the payment of the price equal to the principal amount of all Project Bonds then due and outstanding, together with a sum equal to the interest due or to become due on said Project Bonds until the retirement thereof, plus the redemption premium, if any. If provisions are made for the payment of all Project Bonds from County funds, then the Participating County's obligations under the Lease are terminated.

General Covenants of Participating County. The Participating County agrees that it will each year file with the appropriate agency of the State its proposed annual budget which shall contain an adequate allocation to provide for the payment of Rental Payments due under the Lease for any year in which the Lease is renewed and for the expenses of operating, maintaining and insuring the Project. In addition, the Participating County agrees that in the event it exercises its right not to renew its Lease, unless such non-renewal is precipitated by the purchase of its Project by the Participating County, the Participating County will not purchase, lease or rent any other facilities for the purpose of performing the functions or providing the services for which the Project was to be constructed until the complete payment and retirement of all of the Project Bonds.

The Participating County agrees to the Authority's assignment of all rights of the Authority under the Lease to the Trustees as additional security for the Project Bonds.

Participation Agreements

Those Participating Counties which are not utilizing the Authority as issuing agency and for whose Projects no Project Bonds have been issued have entered or will enter into Participation Agreements with the Authority under which the Participating County, in consideration of the Authority's grant of financial assistance for the Project, covenants and agrees to operate, maintain and insure the Project so long as the Authority's Bonds remain outstanding. Title to Projects which are the subject of Participation Agreements remains vested in the Participating County.

Series 1994 Resolution

Municipal Bond Insurance. The Series 1994 Resolution authorizes the Authorized Officers of the Authority to obtain the issuance of the Bond Insurance Policy pertaining to the Series 1994 Bonds.

Concerning the Bond Insurance Policy and the Bond Insurer. In determining whether a payment default has occurred, no effect shall be given to payments made under the Bond Insurance Policy.

No grace period for a covenant default shall exceed 30 days, nor be extended for more than 60 days without the prior written consent of the Bond Insurer.

Bondholder's direction or institution of remedies upon an Event of Default shall be subject to the prior written consent of the Bond Insurer. The Bond Insurer, acting alone, shall have the right to direct all remedies upon default.

No waiver of an Event of Default shall be granted without obtaining the prior written consent of the Bond Insurer.

The Trustee shall not exercise any remedies under this Series 1994 Resolution or the Indenture without the written consent of the Bond Insurer.

No acceleration of the Series 1994 Bonds may be made without obtaining the prior written consent of the Bond Insurer. Upon an Event of Default, the maturity of the Series 1994 Bonds shall be accelerated if so directed by the Bond Insurer. In the event the maturity of the Series 1994 Bonds is accelerated, the Bond Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued on such principal to the date of acceleration (to the extent unpaid by the Authority) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Bond Insurer's obligations under the Bond Insurance Policy shall be fully discharged.

The Bond Insurer shall be entitled to request the Trustee, and the Trustee shall be required if so requested, to intervene in judicial proceedings that affect the Series 1994 Bonds or the security therefor.

The Trustee and the Authority shall enforce and exercise all remedies and rights under the Indenture if so directed by the Bond Insurer.

No amendments or supplements to the Series 1994 Resolution or the Indenture shall become effective except upon obtaining the prior written consent of the Bond Insurer.

Copies of any modification or amendment to the Series 1994 Resolution or the Indenture shall be sent to Standard & Poor's Corporation and Moody's Investors Service, Inc. at least 15 days prior to the effective date thereof.

Suspension of Rights of the Bond Insurer. Rights of the Bond Insurer to direct or consent to Authority, Trustee or Bondholder actions under the Series 1994 Resolution or the Indenture shall be suspended during any period in which the Bond Insurer is in default in its payment obligations under the Bond Insurance Policy (except to the extent of amounts previously paid by the Bond Insurer and due and owing to the Bond Insurer) and shall be of no force or effect in the event the Bond Insurance Policy is no longer in effect or the Bond Insurer shall have provided written notice that it waives such rights.

Advance Payments. The Bond Insurer shall have the right to advance any payment required to be made by the Authority in order to prevent an Event of Default under this Series 1994 Resolution and the Indenture, and the Trustee shall be required to accept such advance. The Authority shall be required to reimburse the Bond Insurer for any such advance.

Series 1994 Resolution is a Contract. The provisions of the Series 1994 Resolution shall constitute a contract between the Authority, the Bond Insurer and the Bondholders, and after the issuance of any of the Series 1994 Bonds no change or alteration of any kind in the provisions of the Series 1994 Resolution may be made, except as provided herein or as provided in the Trust Indenture for entering into Supplemental Trust Indentures.

APPENDIX D

FORM OF BOND COUNSEL'S OPINION

Letterhead of Peck, Shaffer & Williams

[Date of Delivery]

Kentucky Local Correctional Facilities Construction Authority
Frankfort, Kentucky

Re: \$ _____ Kentucky Local Correctional Facilities Construction Authority Multi-County Correctional Facilities Revenue Refunding Bonds, Series 1994

We have examined a certified copy of the transcript of proceedings of the Kentucky Local Correctional Facilities Construction Authority (the "Authority") relating to the authorization, sale and issuance of its Multi-County Correctional Facilities Revenue Refunding Bonds, Series 1994, in the aggregate principal amount of \$ _____ (the "Bonds"), dated February 1, 1994.

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth of Kentucky (the "Commonwealth"), including particularly Sections 441.605 through 441.695, inclusive of the Kentucky Revised Statutes (the "Act"), a Trust Indenture dated as of February 1, 1994 (the "Indenture") between the Authority and Star Bank, N.A., Cincinnati (the "Trustee") and in accordance with a series resolution of the Authority adopted on February __, 1994 (the "Series Resolution") for the purpose of (i) advance refunding the Authority's outstanding Multi-County Correctional Facilities Revenue Bonds, Series 1984 and Multi-County Correctional Facilities Refunding and Improvement Revenue Bonds, Series 1987 (collectively, the "Prior Issue") the proceeds of which were used to pay the cost, in participation with certain counties in the Commonwealth, of constructing, acquiring, installing and equipping various local correctional facilities (collectively, the "Project"), and (ii) paying the costs of issuing the Bonds.

We have examined such portions of the Constitution and Statutes of the United States, the Constitution and Statutes of the Commonwealth, and such applicable court decisions, regulations, rulings and opinions as we have deemed necessary or relevant for the purposes of the opinions set forth below.

We have also examined records relating to the authorization and issuance of the Bonds, including a specimen Bond, and other relevant matters. We have also made such investigation as we have deemed necessary for the purposes of such opinions, and relied upon certificates of officials of the Authority as to certain factual matters.

Based upon the foregoing, it is our opinion, under the law existing on the date of this opinion, that:

I. The Authority is an authority constituting an agency and instrumentality of the Commonwealth, duly organized and validly existing under the laws of the Commonwealth. The Authority has the legal right and authority to issue the Bonds.

II. The Indenture has been duly authorized, executed and delivered by the Authority and the Series Resolution has been duly adopted by the Authority and each constitutes a valid and binding obligation of the Authority, enforceable in accordance with their respective terms.

III. The Bonds have been duly authorized and issued by the Authority and are the valid and binding special and limited obligations of the Authority enforceable in accordance with their terms.

IV. The Bonds are special and limited obligations of the Authority payable solely and only from the Pledged Receipts, as defined in the Indenture. The Bonds do not pledge the general credit or taxing power, if any, of the Commonwealth, the Authority or any other agency or political subdivision of the Commonwealth.

V. Interest payable on the Bonds, including original issue discount, is excludable from gross income for Federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code") and interest on the Bonds will not be treated as an item of tax preference in computing the alternative minimum tax for individuals and corporations. However, under the Code, interest on the Bonds will have to be included in the "adjusted current earnings" of certain corporations and such corporations would be required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for alternative tax net operating losses) for purposes of determining such corporations' liability for the alternative minimum tax. The Authority has covenanted to comply with the applicable provisions of the Code, and such compliance by the Authority is necessary to maintain the Federal income tax status described above.

VI. The Authority has not designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265 of the Code.

VII. The interest on the Bonds is exempt from income taxation and the Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

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

Very truly yours,

PECK, SHAFFER & WILLIAMS







