

**Audubon Area Community Services, Inc.
Board of Directors Meeting**

MINUTES

June 24, 2008

The AACCS, Inc. Board of Directors gathered at 5:15 p.m. on Tuesday, June 24, 2008, at the Central Office in Owensboro. At 5:55 p.m, following dinner, AACCS, Inc. Board Chairperson Mr. Manning called the meeting to order and welcomed the Board, and staff.

Members Present (13 Members/13 Voting):

Ms. Nelda Barnett	Mr. Marshall Hatfield	Mr. Thomas Platt
Ms. Janie Drury	Ms. Daisy James	Ms. Betty Rucker
Hon. Reid Haire	Mr. Paul Lashbrooke	Mr. M. Douglas Smith
Mr. Paul Hart	Mr. Jerry Manning	Ms. Vicki Tinsley
	Ms. Debbie McClanahan *	

Key: **Bold** = Officer/Executive Committee Member *Italics* = Ex-Officio Member
*Alternate – Member not present **New Board Member

Alternates Present with Member (1):

Mr. Frank Craig	Ms. Jeanette Manning	Ms. Sandra Obilade
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Ex-Officio (3):

<i>Mr. J.D. Meyer</i>	<i>Mr. Keith Sanders</i>	<i>Ms. Anna Winkler</i>
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Staff Present :

Ms. Carrie Blackham, CCAP & KWP Director	Mr. Ronald Logsdon, Executive Director
Ms. Sheila Boling, Housing Services Director	Ms. Denise Marcum, Executive Assistant
Ms. Cheryl Gatton, HR Director	Ms. Robyn Mattingly, SSC Director
Mr. Dan Lanham, GRITS Director	Mr. Terry Payne, Chief Financial Officer

Others Present:

Mr. Jesse Mountjoy, Attorney at Law, Board Counsel

Chairman Manning thanked everyone for attending. He then advised the members of the death of Ms. Juliana Craig, wife of Frank Craig, and asked for a moment of reverence in remembrance of Ms. Craig. Mr. Logsdon noted that Mr. and Mrs. Craig had been married for sixty-three years.

CONSENT AGENDA

Mr. Manning noted to the Board the customary items already on the Consent Agenda:

- The April 15th Board meeting minutes, and the
- The May 2008 Financial Statement

In view of the late-breaking business concerning the Owensboro Regional Recovery Center, National City Bank's late requirement that AACCS, Inc. "guarantee" its subsidiary's obligations, and the expectation that the Board's discussion of that matter would be rather lengthy, Chairman Manning requested that the Audit Review Committee's selection of the FY2008 auditor (Section III on the Tentative Agenda) and all the items in Section IV-B, business referred from the Administrative Support Committee; Section IV-C,

business referred from the Child and Family Services Committee; and Section IV-D, business referred from the Community Support Committee (Section IV-E, Community Services Committee dealt with committee oversight only) all be added to the Consent Agenda. Specifically, these business items to be added to the Consent Agenda were:

Administrative Support Committee...

- Criminal Records Checks — “General Hiring Policies,” Section 2.5 (Personnel Manual) and “Head Start/Child Development Hiring Procedures,” Section 13.4 — Implementing new Head Start criminal records check requirements
- “Unpaid Leave of Absence,” (FMLA), Section 5.8 — Granting the executive director authority to handle these extended leave requests without Board action
- GRITS “5311” Operating Grant Resolutions...
 - Committing the FY2009 Local Share — Committing a 50% local “matching” share
 - Authorizing the CEO to Execute and File the Application and its Assurances
- FY2009 Indirect Cost Pool Budget
- Mileage Reimbursement Rate Policy Change (to adopt the *quarterly* State rate)
- Selection of the FY2008 Audit Firm — Alexander & Company, Owensboro, Kentucky
- Revised Salaried and Hourly Position Classification Charts
- Classifying New AACS Positions...
 - Internal Auditor, AACS Finance Department — Grade 12 (Hourly), Non-exempt
 - Quality Assurance Specialist, CCAP — Grade 12 (Hourly), Non-exempt
 - Assistant Director, *KentuckyWorks* Program — Grade 32 (*Salaried*), Exempt
 - Job Readiness Trainer, *KentuckyWorks* Program — Grade 25 (*Salaried*), Exempt

Child and Family Services Committee...

- Job Opportunities for Low-income Individuals (JOLI) Grant Proposal
- FY2009 Head Start Refunding Proposal — \$12,168,372
- Western Kentucky University “Head Start Delegate” Refunding Proposal — *\$TBD*
- Head Start Community Needs Assessment
- Head Start FY2008 Self Assessment
- Head Start 2008-2009 Strategic Plan
- Head Start One-Time Training and Technical Assistance Funding Proposal
- Head Start Selection and Eligibility Criteria

Community Support Committee...

- GRITS Parking Garage Add-on Foundation Work — \$85,000 Add-on

Chairman Manning explained that all the foregoing items had been reviewed in their respective committees, whose minutes were included in the mailed June Board Booklet. In addition, there had been additional explanatory and reference material on each business item in the Board Booklet for members’ review prior to the meeting. Finally, it was noted that if there were any item which any member wished *not* to include on the Consent Agenda that would be done. But unless some member objected to the “consent” approach on any given item it would certainly help expedite the Board’s June meeting to go ahead and accept those items as presented and recommended by the respective Board committees. Mr. Logsdon reiterated that if any member wanted to discuss an item separately then the Board could do so.

The members unanimously consented for the agenda’s business items in Section IV-B (including the Section III Audit Committee actions) through IV-E be handled under the evening’s Consent Agenda.

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By unanimous consent the following business items prior-reviewed by the respective Board oversight committees and recommended for Board approval were approved:

- *Criminal Records Checks — “General Hiring Policies,” Section 2.5 (Personnel Manual) and “Head Start/Child Development Hiring Procedures,” Section 13.4*
- *“Unpaid Leave of Absence,” (FMLA), Section 5.8*

- *GRITS “5311” Operating Grant Resolutions...*
 - *Committing the FY2009 Local Share*
 - *Authorizing the CEO to Execute and File the Application and its Assurances*
- *FY2009 Indirect Cost Pool Budget*
- *Mileage Reimbursement Rate Policy Change (to adopt the State rate)*
- *Selection of the FY2008 Audit Firm*
- *Revised Salaried and Hourly Position Classification Charts*
- *Classifying New AACS Positions...*
 - *Internal Auditor, AACS Finance Department*
 - *Assistant Director, KentuckyWorks Program*
 - *Job Readiness Trainer, KentuckyWorks Program*
- *Job Opportunities for Low-income Individuals (JOLI) Grant Proposal*
- *FY2009 Head Start Refunding Proposal*
- *Western Kentucky University “Head Start Delegate” Refunding Proposal*
- *Head Start Community Needs Assessment*
- *Head Start FY2008 Self Assessment*
- *Head Start 2008-2009 Strategic Plan*
- *Head Start One-Time Training and Technical Assistance Funding Proposal*
- *Head Start Selection and Eligibility Criteria*
- *GRITS Parking Garage Add-on Foundation Work*

Mr. Logsdon informed the Board that due to the end-of-month submission of the FY2009 Head Start refunding proposal that Mr. Nehring wanted to be sure that the minutes specifically enumerated everything that needed to be enumerated under this Consent action. So preparing the members for what promised to look rather long and rambling in the June meeting’s minutes, Mr. Logsdon advised the Board members that the motion on the Consent Agenda might well look a bit odd. But all those topics just approved will need to be put in the minutes concerning the motion to satisfy Mr. Nehring’s refunding requirements.

NEW BUSINESS

Owensboro Regional Recovery Center. Mr. Logsdon informed the Board that a lot of time would need to be spent discussing the issue of the Owensboro Regional Recovery (ORR). Last October 2007, the AACS Board was presented with a request from National City Bank and Lighthouse Recovery, Inc Board member and attorney J.D. Meyer that AACS become a co-general partner in the Owensboro Regional Recovery Center. National City Bank (NCB) was at that point requiring it. A decision got deferred/referred to a November Executive Committee, which discussed the matter at length and recommended that AACS, Inc. join the tax-credit venture as a co-general partner. The Executive Committee action was then ratified at the Board’s December 2007 Annual Meeting.

Since then, AACS was thinking everything was proceeding just fine — until late May or early June of this year. All of the discussions with National City Bank and its attorneys picked up again and all of a sudden things weren’t exactly as AACS and Lighthouse, the two co-general partners, thought they were. Mr. Logsdon then stated that AACS’ Board Counsel, Mr. Jesse Mountjoy, would continue the presentation from that point on, explaining what has happened and what the Board now needed to do.

General ORR Project Overview. Mr. Mountjoy referred everyone to the video screen up front containing the ORR project “flowchart.” Mr. Mountjoy advised the Board that CFO Mr. Payne would after his presentation run through the risk assessments, and he would be followed by Mr. Meyer, to be followed by Mr. Logsdon and then himself again at the end. Mr. Mountjoy recited how the ORR matter was first introduced at the October 2007 Board meeting, referred to the Executive Committee, which met in

November 2007, and then on the recommendation of the Executive Committee was adopted at the December 2007 Annual Meeting. Mr. Mountjoy stated that although he wasn't sure when he put the "flowchart" together, it was probably right after "Audubon ORR" (Owensboro Regional Recovery) was formed. That Audubon ORR, LLC is a drop-down subsidiary, a legal entity in Kentucky that is wholly owned by AACS. The reason why this was done was at that point AACS was being asked, as the agency fully understood it, by Lighthouse and by the potential investor, National City, to come in as a "co-venturer," effectively to manage and act as co-general partner with Lighthouse with respect to the management of this partnership (that in turn owns the ORR facility). Mr. Mountjoy informed the Board that he and Mr. Logsdon may refer to the *facility* versus the *partnership*, but unless there is a distinction made they are probably referring to the same thing.

In forming the Audubon ORR, LLC, AACS had every intention of limiting the liability of AACS back in October and November 2007. Mr. Mountjoy stated that he and Mr. Meyer were meeting all of the time with the Board, the Executive Committee, Mr. Payne and Mr. Logsdon. Mr. Mountjoy said he sat down just for his own understanding and put together two (2) flowcharts that he shared with Mr. Payne and Mr. Logsdon and later with Mr. Meyer. Again, it was not to impress anybody but just to figure out the configuration of all facets of the ORR enterprise and its financial makeup. Unless you go back to flowcharts and some documents, you can get very easily "lost in the maze," he said.

Mr. Mountjoy pointed out that flowchart #1 had to do with how ORR is organized and where the money is coming from. Flowchart #2 depicts how ORR is organized and going to be operated. Looking at flowchart #1, see that "Audubon ORR" is a 100% subsidiary of AACS, Inc., and under Kentucky law there is limited liability under Audubon ORR. Kentucky law generally provides that whatever Audubon ORR commits to or is obligated for, that is the subsidiary's obligation. Audubon is a shareholder. Shareholders are normally not responsible for their entities' obligation. That's the way this was discussed with the Board before — and that is true also of Lighthouse and Lighthouse Recovery, LLC. AACS went into this thing on that shielded basis, negotiating a Commitment Letter with the potential equity investor, which is actually National City Bank Community Development Association. AACS went into this thinking — and on the clear understanding — that it would be co-partnering with Lighthouse and their LLC entity to operate as the co-general partners. These and the "limited partnership" (NCB) are, in turn, is the legal owners of ORR — with NCB providing much of the equity and the co-general partners provide the management and operations of the facility.

Other parts of flowchart #1 show just where **all** the money is going to come from, he said. See the equity sources that ultimately provide the big bucks. That's who the Board really pays attention to; that equity is \$2.8 million. A \$500,000 Federal Home Loan Bank Board (FHLBB) commitment will be administered through First Security Bank (FSB). Other funding sources come from Daviess County Wellness Fund (\$200,000), Affordable Housing Trust Fund (\$208,605). Those are all, in general terms, the equity sources. To the left on the chart are the debt sources. Kentucky Housing Corporation (KHC) is providing \$835,000, and will hold a first mortgage on the facility.

The other part of the puzzle is a short-term construction loan through FSB. Some people call it a "bridge loan." Construction contracts have been negotiated and sub-contractors are raring to go. Mr. Meyer and AACS executives have been negotiating with First Security Bank on behalf of the two co-general partners and ORR, the limited partnership, to take out a \$1.9 million short-term loan from First Security Bank. The reason First Security Bank was determined was that it is the agent for the Federal Home Loan Bank money. First Security Bank is looking at this thing and saying, "Ok, maybe we'll loan you \$1.9 million. When are *we* going to get repaid?" They're really looking and looking hard at National City Bank and their expected closing on the General Partnership Agreement, which will seal the \$2.8 million equity commitment. Before you know it, everybody is looking at one another and figuring out what to do.

Mr. Meyer explained the debt incurred on KHC, the \$835,000, is already in place. It was before any of these discussions were undertaken ... and one for which AACS is not obligated. That is in place and is a *deferred repayment* loan, in essence. Mr. Mountjoy said that was a good point. As we go along, you can assume if you are most concerned as you should be about AACS' obligations and liabilities as Audubon. Mr. Mountjoy stated that unless he points an error, AACS is not at this point responsible for anything. That's what we need to go through very slowly to make sure that everybody understands because when Mr. Meyer, Mr. Mountjoy, Mr. Payne or Mr. Logsdon talk about "we did this" or "we did that", what we're talking about is *we*, acting through "Audubon ORR, LLC" or Mr. Meyer acting through the Lighthouse Recovery, LLC, as co-general partners. In other words, the managers of this limited partnership. That's really where the activity is. If you really want to know which hat we're wearing, that's the hat we're wearing, he said — not wearing AACS, Inc. hat, but the Audubon ORR, LLC hat.

Judge Haire asked who the principals of Audubon ORR, LLC were? Mr. Mountjoy answered that the principal is Audubon (AACS, Inc.). Judge Haire then asked if Audubon ORR, LLC has a board. Mr. Mountjoy stated that Mr. Logsdon is the sole member of the board of Audubon ORR, LLC and will be until this Board decides if it wants to have another type of Board. AACS is in full control of Audubon ORR, LLC, just like Lighthouse Recovery, Inc. is its LLC.

Mr. Mountjoy asked if everyone would go to flowchart #2. He pointed out the lines representing the NCB equity guarantee that NCB now demands; if you take out that line, he said, you're pretty close (except for some numbers) to where the AACS Board voted in December. This guarantee was not part of the November-December actions.

There is another level of understanding, too, that Audubon and/or Audubon ORR is/are negotiating with Mr. Meyer and the Lighthouse group with respect to how both are going to be jointly managing the property. Mr. Mountjoy explained that what he was trying to get across is that with respect to most of these transactional lines. He asked if everybody was clear.

National City Bank Partnership Agreement Negotiations. At the time Audubon committed to join as co-general partner it had negotiated and relied upon a tentative Commitment Letter from National City Bank with respect to what it was requiring as a condition to making what is now a \$2.8 million equity investment. Not a loan, but an investment. This commitment letter had been negotiated pretty much in December 2007. The Commitment Letter in its final form came in February 2008, pretty late as far as we're concerned, said Mr. Mountjoy — and only then because Mr. Meyer was pushing them. Mr. Logsdon, myself and Mr. Payne were also pushing them. We finally got a final Commitment Letter done. That commitment letter, I can assure you — and this is a hang up that I as a lawyer have, and I will not beat a dead horse — that Commitment Letter did *not* provide in any way that AACS would have to provide a guarantee. In fact, this whole matter was sold to the Board when Judge Haire looked me in the eye, I remember this, and he said, "Is AACS on the line?" I said, "Under this scenario, no, it is not, Sir." I feel very serious about this, particularly with National City. They changed the landscape.

They have now said — and they can make all of the excuses they want to; they're the "800 pound gorilla" with their \$2.8 million toward a project that needs to get off the ground — they have now said AACS must guarantee the performance of its LLC. I am going to muzzle myself so far as awaiting change with National City. I can tell you right now that the deal that was presented to us and sold to this Board was *without* those guarantees on the basis of National City's then Commitment Letter.

That *no guarantee* scenario went on all the way through mid May. At which point, National City then started sending us drafts of documents where AACS suddenly appears as a guarantor. We immediately picked up on that. And we said, "Now wait a minute, that wasn't our deal." For the last couple of weeks, there have been arguments about whether there was a deal or not. Mr. Mountjoy said that he wished National City would simply be up front with AACS and to say whether or not it was the deal, it is now the

deal. If they would simply say, “Fine, if that is the deal”, instead of excuses as to, “Well, you misconstrued something”. We didn’t misconstrue anything. Mr. Mountjoy said he thinks Mr. Meyer, Mr. Logsdon and Mr. Payne would agree. Right or wrong, that is behind us at this point.

The bottom line now is that as a condition to making the \$2.8 million investment, which again has serious impact on FSB’s construction loan and the ability of the partnership to go forward, National City wants the AACS, Inc. to guarantee of all obligations of Audubon ORR — and the Lighthouse Recovery, Inc. its LLC’s as well. Whatever their obligations as co-general partners, they want the parent agencies of those LLCs to stand behind them. Now what are those obligations? Mr. Payne will get into what those obligations are under his risk assessment handout.

Mr. Manning asked of what happened at the end of March that NCB didn’t close the deal according to their February 2008 Commitment Letter? Why didn’t they acknowledge their commitment before the March 31st expiration of their commitment? Mr. Mountjoy said he thinks with a lot of commitment letters like that, a committing bank can always point to a condition that had not yet been technically complied with in order to get out of a commitment. Mr. Mountjoy said he hasn’t looked to see if AACS could bring an action against National City because they are now changing the terms.

Mr. Meyer said that he doesn’t understand National City’s whole methodology in the way that they have proceeded in this matter. AACS and Lighthouse contacted them in mid-May of 2007 when Lighthouse learned that it was going to reach a resolution with the residents who had sued to block the conditional use permit. Lighthouse had already gotten a favorable ruling from the District Court. The residents had appealed to the Court of Appeals, but their attorney contacted Lighthouse about reaching a settlement. When the settlement was achieved, Mr. Meyer said he immediately contacted National City and said, “Let’s go.” Mr. Meyer said that he can’t explain and doesn’t understand why it has taken them so long as it has to get to this point. Nothing was heard from them until August 2007 and that’s when we began negotiations based on those conferences between Lighthouse and National City. That’s also when he began the discussions with AACS. Mr. Meyer said that he couldn’t emphasize his own frustration with the situation and the pace that which National City is proceeding.

Mr. M. Douglas Smith stated that whenever the big banks failed earlier in the year it really put a damper on a lot of banking institutions and they have been exercising much greater caution. This is probably why they’re doing this. Mr. Mountjoy stated that he just wished they would be honest with AACS. Mr. Smith also stated but the thing of it is, the bank is hiding behind this to cover their posterior. Mr. Mountjoy said this goes back to what Mr. Manning asked a couple of days ago and that is if you get Audubon’s guarantee, what risk does the bank have? The bank doesn’t have any risk. They’re supposed to be an equity investor that means an investor, and not a lender. Mr. Manning stated that it’s almost a two to one asset.

Mr. Mountjoy said, with that being said — and what Mr. Meyer said, we are where we are. At this point, the Board has already taken action to approve this entire general concept except for those lines and that’s what we’re here for today. I think everything is dependent upon that. Mr. Mountjoy stated him and Mr. Meyer have not seen any other documents that are out of line with what they have always thought is going to happen, but this is a serious and major matter for the Board to consider. Mr. Hart asked about Audubon’s half share in the ½% co-general partners’ stake in the project. Mr. Mountjoy said AACS is *not* investing from that standpoint. AACS is not investing any dollars in the project like the equity investor is. Mr. Logsdon said AACS’ 50/50 ownership interest with Lighthouse Recovery, Inc. only comes fifteen years down the road with their option to purchase the \$8 million facility for a nominal fee.

Guaranty Risk Assessment. Mr. Payne presented a series of PowerPoint slides to walk the Board members through the assessment of risk to the agency to guarantee its Audubon ORR, LLC’s performance, stating that the first slide was essentially what Mr. Mountjoy went through, so he was going

to skip. It just talks about the entities and how we have them set up and what the current deal is. Mr. Payne asked if anyone had any questions about what the current deal was. There were none.

NCB is now insisting that AACS guarantee the obligations of Audubon ORR, which essentially what that means is AACS is guaranteeing all of the obligations of this Partnership, but not all of the transactions. AACS will be guaranteeing basically three things with respect to ORR, but there's also one pertinent side note, he said. BB&T, through whom the \$5.5 million bond for the construction of the Christian County Head Start Center was secured, inserted covenants in their bond agreement on the Hopkinsville Head Start facility that requires us to get their (BB&T's) written permission on any additional debt that AACS adds. That request for BB&T approval has been made. Their attorneys are pouring over it to try to figure out if they're okay and comfortable with it. They've told us initially, "We don't really see anything or a problem with it but we're going to look at it just to make sure". We don't anticipate that to be a problem. We will have to have that before we proceed.

Mr. Payne stated there were **three (3) guarantees** in the ORR Partnership Agreement. **1)** There be adequate funding to build the building. Is there enough revenue? Is there enough money to actually build the facility that is proposed? If we come up short, where will the money come from? **2)** In the agreement, AACS agrees to guarantee any deficit cash flows that may occur during the *first sixty months* of the project. Mr. Payne said that he would explain all of these in more detail. **3)** The actual tax credit delivery. The actual tax credits: NCB gets those over a ten (10) year period, but the ORR has to remain in IRS tax compliance over a fifteen (15) year period. In order for NCB to get the credits, the co-general partners have to keep the ORR facility in compliance with all of the *low income housing tax credit* laws and regulations. Those are the three (3) areas of risk that AACS face, said Mr. Payne.

Judge Haire asked about deficit cash flows in years six through ten. Mr. Payne said that AACS wouldn't be guaranteeing it as per the Partnership arrangement.

Construction Risk. The construction risk, let's look at that, said Mr. Payne. National City's investment, is again pledged according to their June 23, 2008 "amended and restated" Commitment Letter, which everyone has a copy of in the packet; they're committed to fund the project. They are going to provide \$2,846,158 of cash investment to build this facility. HOME funds, as you saw earlier, are available through KHC — there are HOME funds of \$835,000. This is "loan" from KHC in which payment is deferred; there are no payments on this loan during the 15-year tax credit period. It would be due at the end of the project. The Federal Home Loan Bank has committed \$500,000 towards the project. All of these are committed, in-hand money. There is no "hope to get it", "we think we're going to get it", nothing like that. All of these are definite sources of revenue. KHC \$208,605.00, that's not a loan, it's a commitment that they are giving us. Daviess County, through its Health and Wellness Fund, committed \$200,000.00. Thus, there is a total of \$4,589,763 already committed to build this ORR facility on land already purchased (\$300,000). That is the total money that we have coming in.

ORR has in hand a contract with PDC Companies, Little Rock, Arkansas, for the ORR's construction. It's a fixed price contract, \$4,739,246. We have sources of cash for \$4,589,000, which leaves us with a difference of \$149,483 at this point in time. KHC has made verbal commitments that says, "Don't worry about it, we're going to find the money, we want this facility." If this has happened in other facilities that have been built, and they have come up with the extra money. AACS' risk is that they don't. The construction risk is \$149,483.

Mr. Manning asked if AACS had a letter from KHC for that. Mr. Payne said they have not and he doesn't know if they would, probably not. The relationship that Mr. Meyer has had and others have had with KHC and these projects with people that we have talked to, KHC has done everything that they have committed to do that they said they were going to do. We don't have any reason to believe at this point that they're not going to do it.

Judge Haire asked if the construction contract was current. Mr. Payne said yes. Right now, one of the issues that makes it so paramount this week is that this contract has been in place for sometime. The general contractor has obtained sub-contracts from sub-contractors for set prices in the contract. As everyone has heard all of the prices are going up. Sub-contractors are getting very uncomfortable. The general contractors have said that “if you don’t do something this week, then we’re going to let the sub contractors go.”

Judge Haire asked that on the change orders, who would make the decisions regarding the change orders. Mr. Payne said that it has to come back to this Board and the Lighthouse board. Mr. Meyer said there will be monthly construction meetings and we’ll have representatives from Lighthouse and AACCS who will be contacted and have to sign off on any changes.

Judge Haire said that we won’t know until the end whether or not KHC would be forthcoming with the deficit funding for the construction. Too, he has never seen any construction contract without several hundred thousand worth of change orders. We won’t know the ultimate cost of construction until the very end, and if we authorize change orders that \$149,000 cash shortfall could be higher.

Mr. Meyer stated the thing is that there is already at least one (1) facility almost 100% identical to what we are building in place in Henderson (the WARM women’s drug recovery center) and there are four (4) others in place through out the state that are in different phases of construction. It’s possible there will be change orders and a possibility there will be things that need to be changed but from a practical standpoint, they know exactly what they’re building based upon the construction of the other facilities.

Judge Haire said his question was *if* the facility was to be built before steel doubled its prices too. Mr. Meyer said that there is a fixed-price contract with those contractors in place at this point in time. Judge Haire asked if the contingency percentage was 5% or 10%. Mr. Meyer said it starts off at 10%, and then once the project gets beyond 50% completion, the state of Kentucky’s current statutes now require that retainage goes down to 5%. Judge Haire said that may be, but it’s not the retainage he was concerned about but the possibility of over-running the contingency percentage. Mr. Meyer said he couldn’t answer that right off the top of his head. Judge Haire asked if the contingency was 3%. Mr. M. Douglas Smith suggested that should be checked on.

Mr. Manning asked if KHC was “motivated” on this project and if things might change “politically” with respect to their “promises.” Mr. Meyer stated that KHC is not tied to the governor’s office, nor the legislature. They are their own separate independent entity. The director is appointed by the Governor.

Ms. Drury asked about getting the agency’s investment back should it have to provide any stopgap funding. Mr. Payne stated that what the bank is going to do is provide funding through the low-income housing tax credits. If AACCS promises to build a facility that qualifies for low-income housing, the government makes available to the investor these credits. In effect, these tax credits are “sold” to National City in exchange for its equity investment. National City takes those credits annually as a direct write-off on their tax return. What they do is, they have a couple of options, they play the percentage’s game where they discount them back and they pay us \$2.8 million. The actual credit they are going to get is \$3.2 million. Through the percentages and interest, they make money that way. They also have the option to sell those credits to someone else.

Questions followed about the contingency and the “fixed price contract,” and some members wanted confirmation of that and more detail. Mr. Logsdon used the conference phone to call Rick Pierce, vice president of the PDC Companies (PDC), Little Rock, Arkansas. When Mr. Pierce was on the line, Mr. Payne said the question that has come up was, What is the contingency percentage in the contract? What members are concerned about is, right now is that there is a shortage of roughly \$150,000. What is the contingency in the contract? How much could the cost go up and our construction costs not change?

Mr. Pierce stated that PDC has a fixed contract price amount right now. PDC has already issued about \$2.5 million in sub-contracts. "If we don't get started soon, PDC will end up having to go back; we have subs pushing her already. They are saying, "Look, I know we signed up, but if you don't start us in the next couple of weeks, we are going to have to go up on our prices." Mr. Pierce said he thinks the "big" trades are pretty well fixed because their sub-contracts have already been assigned.

Mr. Payne stated that in the construction contract, there should be a line item that says "contingency 5%" or "10%" and asked what that percentage was. Mr. Pierce said that a percentage was not in the contract. There is a contingency line item, and he wanted to say it is \$60,000, but he said he was away from his computer so he couldn't just run and look it up. But there is a \$60,000 line item in there that is the contingency item. We all agreed that we didn't want to start out or was under the assumption that we didn't want to start out with the \$0 contingency.

If PDC has a fixed price and construction gets going, what if a change order gets issued to do some things? Mr. Payne asked Mr. Pierce what is the likelihood that there is going to be any change orders in this project and how much can AACS rely on the \$4,739,000 fixed-price construction cost? Mr. Pierce stated that his construction division, if they issue a fixed price, PDC is not going to come back and issue change orders and say "well, we didn't bid it that way and it's going to be \$30,000 more, it's going to be this or it's going to be that." The only change orders that Mr. Pierce could foresee are different major design changes or things that have been changed by the owner. Those are the change orders that he sees that are outside the scope of the contract at work. If something happens and PDC explores alternates that wind up being less expensive, it may be a change order in reverse or he may have to literally issue a change order, i.e., there's a Delta faucet specified in the project specifications and a Kohler is found that's 50% cheaper, it's just the same quality. PDC literally has to issue a change order for that. But in terms of a major change order affecting the budget, once there is a fixed price contract, short of the owner's design he hasn't seen that his company has done change orders.

Mr. M. Douglas Smith asked Mr. Pierce that if AACS doesn't make changes, then this will be a fixed contract and AACS will be guaranteed that price. Mr. Pierce said that was correct. Once that cost is issued, the only things that change it up or down are the changes that are implemented outside the scope of the work. So it's not going to be, "Well, we didn't bid it this way," said Mr. Pierce. Mr. Pierce stated that he knows there are some contractors that play that game of getting you within the price you need and then come back later on and say, "Well, we didn't bid it this way. It's an extra \$25,000." Mr. Pierce said that he lives in a real world and understands there are some that do that, but PDC doesn't. The price you pay is the price you get. PDC is going to give you an up-front price, a fixed cost and in the long run that is cheaper. Mr. Pierce also stated that he has talked to Karen Ross of PDC's construction division and they know AACS doesn't have any "added cost" luxury. That's his honest opinion. PDC doesn't issue change orders. Mr. Pierce said that in the past PDC has lost a lot of profit because there were things that they might have underestimated the cost by \$5,000 or \$10,000. PDC has a fixed price contract and that is done on their own jobs. Mr. Pierce said that PDC doesn't even "change order" itself.

Mr. Payne thanked Mr. Pierce for answering the question and then asked if there were more questions from anyone else. Mr. Craig asked if architectural fees were covered in the contract. Mr. Payne answered yes. Mr. Logsdon then asked Mr. Pierce if he would be standing by to possibly answer any more questions and Mr. Pierce said yes.

Mr. Meyer said that he had a question. Mr. Meyer stated that one of the issues or bullet points that is on the Board is that KHC has indicated that they will come up with the necessary funds to satisfy any construction overrun and the shortfall that we are currently showing in our budget. Mr. Meyer asked if this was correct. Mr. Pierce said that he knows and would be happy to ask Tammy Stansbury about that. He said he could already put in front of her what the amount of the shortfall was. Her staff was processing through the different pots of money that they would be able to utilize and try to meet that

shortfall. Mr. Pierce stated that he was not going to say that it is a guarantee that they have already found it. He knows they're working on finding it so it's not a "we're sorry, we have done all that we can". They are literally working on finding it while he is away.

Mr. Manning stated that Mr. Craig and Mr. M. Douglas Smith have been involved in construction and that they might have some insight into all of this somewhere along the line. Mr. Smith said that Mr. Craig was an architect and he knows the whole plan of it.

At this point Mr. Pierce left the conference.

Judge Haire asked about the shortfall of \$149,000. The way Mr. Mountjoy explained it with regard to the dual oversight of the recovery facility, is there a way that the risk can be split between Audubon ORR and Lighthouse? Mr. Payne stated it is split but because both are going to be provided guarantees, they'll each be jointly responsible. Judge Haire asked if there was a possibility to legally limit AACS' exposure to the 50-50 ownership of the facility — each being responsible for its own fifty percent share of the liability rather than either one 100% liable for any shortfall. Or are there other ways to limit AACS' potential liability. Mr. Mountjoy said that he spoke with Mr. Robert Vice, attorney for National City, and he brought up the fact, and he wasn't sure how well he was received on the other end, of one option that AACS offer a simple limitation on any guarantee. Right now, AACS is talking about an unlimited guarantee from the standpoint of the dollar amount. Mr. Mountjoy said that he thinks Judge Haire is saying there would be a possibility of limiting it to AACS' 50% of the guarantee. Mr. Mountjoy also said that he brought this up with Mr. Payne and Mr. Logsdon that the other option would simply be to say whatever it is it is but the maximum exposure is so many dollars. Apparently, that is not acceptable to National City. Judge Haire said there is a third way to do that; that is, if AACS' share of actual investment outstrips Lighthouse's then AACS recoups it on the back end — AACS increases its equity interest in the ORR facility beyond 50%, but that's after 15 years.

Mr. Hart asked about the \$150,000 shortfall: Is AACS' liability in that only .005%. Mr. Payne said no. Judge Haire said that AACS is liable for the whole \$1,500,000 — and so is Lighthouse! Mr. Mountjoy told the Board that Mr. Meyer would agree that Lighthouse does *not* have the capital net worth that AACS has.

Mr. Craig asked if there is anything in PDC's history that indicates things could go negatively and if they would fold. Mr. Logsdon stated that PDC says it has fifty (50) tax credit projects all around the country. They are a huge operator. It's PDC Company out of Little Rock, Arkansas and they were recommended by KHC. Mr. Payne noted that in past conversations with KHC, they recommended two (2) companies for these types of projects, PDC and the other one is Wabuck Development, which did Henderson's WARM facility.

Mr. Meyer said that PDC would have "walked" two years ago and they have been patiently awaiting this for four (4) years. Mr. Payne mentioned that PDC will have a performance bond. Mr. Meyer said that PDC already has it. Mr. Payne asked if there were any more questions on the construction aspect. There were none.

Operational Funding Risk. Mr. Payne advised the Board to look at the operational risks of where the funds come from to operate the programs. The principal source is the Community Development Block Grant (CDBG) funding, which were administered under prior (Fletcher) state administration. ORR has three (3) years of CDBG funds available. They are in the bank, Frankfort's bank, committed to ORR that AACS — the co-general partners — can draw down over the next three (3) years at \$277,823 a year. ORR has allotted 1/3 of the beds to Department of Corrections participants; the Department will pay ORR a fee for those participants to be in the program. Lighthouse decided some time ago that 1/3 of those bids were all they wanted to allocate to the Department. ORR has the option to raise that number which would raise the revenue.

Ms. Drury asked if this was a 30-bed facility. Mr. Payne said that it will be a 100-bed facility, but you members may also see references to 38 “units” within the facility.

Judge Haire asked if the facility was going to house juveniles. Mr. Meyer stated it should be the Department of Corrections. It is the individuals who have pleaded guilty or have been convicted of a Class D felony, and they’re non-violent offenders who have predominantly had substance abuse that has lead to their incarceration and are qualified into the program. ORR is not required to take any of them. They have to meet the program selection criteria in order to be admitted and ORR has the right to refuse anyone that ORR doesn’t want in the program. The budget is based upon 1/3 of the beds (or 33 men) allocated to the Department of Corrections, which is paying the state’s per diem rate to house a state prisoner in any non-state home detention facility.

Mr. Payne stated the units would also be supported through Section 8 rental assistance. KHC has set aside thirty-five (35) vouchers for participants to use to pay their rent for this facility. That income is \$149,000. The total annual operating budget is going to be \$649,999.

Judge Haire said that he wanted to comment about the Department of Corrections (DoC) — the \$222,551 ORR expects to receive from DoC, because his Fiscal Court deals with that on a regular basis, as does every county in AACS’ service district. Currently, Governor Beshear has said that Kentucky, with the hugest increase in prison population in our history and it’s the hugest greatest cost continuing to escalate, plans to reduce its prison population. Don’t look for the likelihood of per diem increase. Look for the likelihood of per diem *elimination*. The governor has suggested early release for prisoners. He has suggested an emphasis on home incarceration and a continual decline of state prisoners. That’s why our subsidiary of the jail will increase this year and next year and in ongoing years. Every Class D felon and state prisoner that goes to the ORR will not go to the Daviess County Detention Center. That means that either the Department of Corrections will pay ORR *or* then, of course, the citizens and taxpayers of Daviess County will subsidize the shortfall in funding at the Daviess County Detention Center. Judge Haire stated that his biggest fear is the CDBG funds through the Governor’s Office of Local Government (GOLD) will run out in three (3) years. That’s a concern. Another huge fear is the volatility of the Department of Corrections and the availability of the state prisoners. Judge Haire also stated that he doesn’t know if there is an answer to that, but it sure is a challenge for ORR.

Mr. Meyer said there was no easy answer to that question when you look under the program. Mr. Meyer knows KHC has committed to providing a line of credit to offset any operational deficits. That’s one mitigating factor. Obviously you can’t control the concerns. Judge, you and I have talked about from day one in talking about this program, Mr. Meyer said. I don’t know how you can eliminate that risk. The task we have tonight is to make sure everybody is informed of all of the various risks and weigh the risks and to determine whether to proceed and go forward with the project.

Judge Haire asked about the dollar amount/line of credit. Mr. Meyer said it was \$300,000. Then Judge Haire asked if that was annually. Mr. Meyer replied by saying he thinks it’s just the flat \$300,000 line of credit that can be drawn upon at any time and fluctuate up and down. Judge Haire asked if it just increases the mortgage amount. Mr. Meyer said yes; it is in a separate second mortgage.

Ms. James asked about the Section 8 housing payments, if that was the normal Section 8 housing of what each individual will apply by application and if they are certified on an individual basis. Mr. Meyer said yes. They have to meet two (2) requirements as a resident: **1)** They have to meet the low-income housing tax credit guidelines as well as **2)** the Section 8 housing guidelines for income and for whatever other qualifications there are. They will be administered just like the normal Section 8 housing that AACS currently administers in its “public” housing facilities.

Ms. James asked of what will happen when those individuals that according to the Justice Department and KHC do not meet the criteria of *no drug record*. Mr. Meyer said he believes there is some type of procedure where if they're enrolled in some type of recovery program to address their addiction that they have become eligible again through Section 8 housing even though they have had that type of offense.

Mr. Payne noted to the Board members the annual sources of income. For the expenses, there are *two (2) separate budgets* that have been developed: **1)** The building and the maintenance of the building. The income for that is \$149,625. The expenses related to that is \$149,625.00 is \$127,002.00 a year. That pays the utilities, the insurance on the building, maintenance on the building, there is a reserve for repairs on the building that that pays, and all of the things that are related to the building are paid out of those expenses. There will be some positive cash flow there. That budget was done by the people at PDC and Mr. Payne said he asked about their confidence level in those numbers were and they said they were "extremely high." Mr. Payne stated he doesn't know how many type of these units PDC has across the country and they're extremely confident of their numbers. Their projections at the beginning, they say, are extremely conservative. They way they do it is achieve full occupancy over the first twelve (12) months, but ORR will surely be filled in three (3) months; PDC has it fully occupied over twelve months. The WARM regional drug recovery center in Henderson has a waiting list of 100 people. **2)** Staffing and general operational costs. Mr. Payne said the way he sees the program expenses for the CDBG dollars and the Department of Corrections dollars is we'll spend whatever the dollars are that we get. Mr. Payne also said that he's aware of there being no obligation for ORR to run a pre-configured program staffing or have, say, ten counselors or thirteen people running around; there's no requirement of this project to have that. Lastly, the tax credit is earned by the low-income housing, not the ORR *program*.

Judge Haire asked if ORR had to provide health care for the DoC-placed residents — and of who picks up the cost if a resident has to go to the doctor or emergency room. Mr. Meyer said the *paroled prisoners* will be responsible for their own cost. There are agreements in place with the Green River District Health District or the residents are eligible for the McCauley clinic and other free clinics.

Judge Haire asked about someone having a medical emergency in the facility. Mr. Meyer said this facility is providing housing for them and it's no different from Lincolnshire or other Section 8 housing. Insurance is not provided for them. It's no different than somebody residing in another Section 8 housing unit that AACCS operates. They're just a resident.

Ms. James asked if the residents are Medicaid eligible. Mr. Meyer stated that they would be if they meet those requirements. Judge Haire stated that he was confused because he thought they were *state prisoners*. Mr. Meyer noted that the DoC-referred/-placed residents are probated. They would have *been* a state prisoner, but they're probated out. The condition of their probation is that they reside and attend the ORR program, but they're not required to. If they get there and they're there for a week, and say, "I can't stand the program, I want to go back to jail", then they'll go back to jail. We don't have to provide them medical care.

Judge Haire stated he was confused (again) because he's looking at the facility receiving per diem as if they were a state prisoner. But yet on the other hand, they're not a state prisoner, they are probated. Mr. Meyer stated if they don't want to participate in the program then they can go back to prison. The Department of Corrections is essentially reallocating their uses of funds to say OK, instead of housing this prisoner in the Daviess County Detention Center (DCDC), we want them out of the DCDC and into this program to treat their addiction. We're willing to pay the program to operate, but we're not obligated to provide them any medical treatment or insurance coverage. Judge Haire said technically, then, they're not a state prisoner. Mr. Meyer said when they cease becoming a state prisoner, technically because they're probated, they're free citizens.

Ms Tinsley also said she was confused about ORR *not* being obligated to provide medical care. It is her understanding that this is a facility where these people will go and will actually get good quality rehabilitation for alcohol problems, but it's not a facility that they are actually *only* residents. Mr. Logsdon stated what Mr. Payne and Mr. Meyer were saying is that AACS doesn't have to staff and provide services beyond ORR's budget means. Yes, ORR is going to have adequate staff and services to meet ORR residents' needs according to the Healing Place (Louisville)/Hope Center (Lexington) model; all of those model interventions and services will be provided, and there are going to be qualified people hired to do that, but at the same time ORR is also going to live within its operating budget.

Ms. Tinsley asked if the residents would have counseling. Mr. Logsdon stated that Ms. Lamar who directs AACS' Counseling Services Department, is on the Lighthouse board — Mr. Payne is on that board as well. He asked Ms. Lamar to respond to Ms. Tinsley's inquiry. Ms. Lamar advised the Board that one of the things with this facility is that it will pretty much be run by the residents. Yes, there is going to be paid staff there and yes there are going to be professional resources, but the whole facility that you are seeing is this is their house and this is where they are going to live. They will actually be "trucking" out in the community and will be using other services and doing just like they would do if they had their own apartment here in Owensboro. That is what their responsibility is. We're just providing a safe secure house and being able to monitor their recovery in a safe and secure home.

Mr. Logsdon stated that the facility will be adequately staffed, but not beyond ORR's means. Mr. Meyer stated that it goes back to the point where what happens if there is a decline in the Department of Corrections. That means if ORR doesn't have the \$220,000, then it's got to have budget cuts and make sure ORR keeps its occupancy up and keeps the Section 8 housing units filled to keep the voucher income coming in. ORR *might* have to reduce staff somehow and limit the number of people in the program, just like any other business. Mr. Meyer also stated that he knows that AACS has been through similar periods during the "Bush years."

Mr. Payne explained to the Board another important thing to bring up is the tax credits that are connected to the low-income housing. Should the drug recovery program or currently planned ORR services for whatever reason go away, then this facility can be converted and it is being designed and built so that people can live there in these units like you would in an apartment complex and they'll still qualify for the Section 8 housing. This facility does *not* have to be kept as a drug facility, and the tax credits can still be maintained as long as the facility meets the low-income affordable housing requirements.

Mr. Nehring asked what the minimum number of units that the facility has to maintain. Mr. Payne responded by saying the fewer there are, the less revenue you have. This number has a vacancy rate built in just like there is with Lincolnshire. It will have some vacancies with people constantly moving in and out.

Ms. Drury asked if the program is going to work then what is going to keep the target population who needs it coming to the ORR facility. Mr. Payne said if the DoC-placed residents (state prisoners) walk out, they go back to jail. Others are mandated by various courts to go there in lieu of a jail sentence. Mr. Hart stated those residents have to go to the rehabilitation program and they have to live there. If they decide not to go through the program or not stay in the facility, they go back to jail and jail is not a nice place.

Mr. Meyer explained that what keeps them there is once they realize the kind of trouble they're in, whether it be someone convicted of a Class D Felony or above, or whether they have been continuously convicted of a misdemeanor and they are before District Judge Castlen, Judge Jones or Judge Payne, they understand that they need help. It's their recognition that they need help because they know that this is one of the few options they have.

Mr. Logsdon said this whole facility is based on the model of Lexington's Hope Center and Louisville's Healing Place. On page 140 of the mailed out Board Booklet there is an article concerning the Lexington center for every Board member to get some insight of how the ORR will operate. In the April packet, there were other articles and pictures of the Louisville facility. ORR is one of the ten (10) "Recovery Kentucky" facilities being built all around the state on the Hope Center/Healing Place proven model. AACS staff and Lighthouse advocates are confident that it's going to work. Mr. Hart stated that if the facility lost prisoners, and we went to Section 8, he doesn't think there will be a shortfall.

Mr. Payne explained given the fact that with AACS in charge of the ORR's finances as its "fiscal agent" ORR is *not* going to spend more money than it receives for the program services and the building expenses, the latter which will generate some cash flow of about \$22,623. He said that he recommended putting that \$22,000 in *reserves* for future needs, not use that for current programming and for AACS *not* to subsidize center operations. ORR can use that to subsidize programming, but it's not AACS' recommendation to do that, but to put that in a reserve fund for future needs.

Tax Credit Delivery Risk. Mr. Payne suggested moving on to the tax credit risks. What is the risk with the tax credits? The risk is that the ORR program will fail to meet the compliance for the low income tax credits. If for some reason it fails to meet those requirements, there is a recapture of that tax. What that means is National City won't get their credit and they'll say, "We didn't get our credits". They will get their credit one way or the other. How do we keep that from happening? We are going to go through all of the ways that we're going to keep that from happening. 1) PDC, the ORR *developer*, has an arm of its company that promotes and supports tax credits projects, monitors compliance, makes sure that the facilities are in compliance. In their developer role, PDC will be assisting ORR in its startup to make sure that everything that ORR does is in compliance to qualify the ORR units for the affordable housing tax credits. This particular item is important. The lease-up period is particular important because that first resident that goes into the unit establishes, generally for the life of that unit, the unit's eligibility for tax credits. If for some reason that very first person doesn't meet those requirements, then you will have eligibility problems the whole time. It is no different with The Learning Villa. That's why the application process is so difficult and it's so tedious to get the initial people in there because you want to make absolutely sure that they're qualified for the low income tax credit. Mr. Mountjoy pointed out to the Board members to look on flow chart #2, in the bottom right hand corner, is what Mr. Payne was talking about.

Mr. Payne stated there will be two (2) stages of this. As part of this development contract, they are going to assist us with this. We will not have to pay for this piece. PDC will assist us in getting started as part of the cost of the project. They are also going to provide us with initial training as to how to do the paperwork, what forms have to be filled out, how it has to be filed, all of the things that have to be done within the facility to continue compliance. That's all part of the deal.

2) What ORR will likely do is then further sub-contract with the PDC Companies, and possibly Wabuck's subsidiary, Homeland. Homeland is doing that compliance work for the Henderson facility. So they are intimately aware of what that Recovery Kentucky process takes. AACS wants the Wabuck tax credit consultants to be involved because they have been through this unique Kentucky situation and they know what they're doing in terms of Recovery Kentucky tax credit projects. ORR will likely contract with one or both of those tax credit consultants to assist at least the first five (5) years to make sure that ORR is in compliance. Too, ORR can only lose credits for *non-corrected* compliance. Let's say after that initial period, the compliance authorities come in during the second year and finds a person is "over qualified," i.e., makes too much income to qualify for low-income housing. AACS staff are advised that's not going to automatically trigger some recapture of tax credits. Those authorities, probably KHC, are going to say, "This person doesn't qualify; it needs to be corrected." ORR will move the unqualified resident out and move some qualified person in; it's corrected, and the project moves on. There is no loss of tax credit.

The AACS management believes that the only way that ORR or AACS will get in trouble down the road that is if ORR/AACS simply mismanages the tax credits, and the staff are not going to do that. ORR management and co-general partners are going to have the opportunity to correct any issues that ORR may have with respect to the affordable housing tax credit placements.

Too, when ORR is built, there is going to exist a facility that is worth \$4.5 million. There is going to be only \$835,000 in debt (to KHC) on the building, which leaves equity of \$3,665,000. The maximum credit liability, if ORR had to pay back the credits from day-one is \$3.2 million. You have a facility that theoretically should cover the cost of tax credits. In reality, ORR could just give NCB the building, said Mr. Payne, and NCB would recover its “lost” equity.

Judge Haire commented another opinion. ORR will have a “special purpose building;” all you’re doing is adding the construction to the value of the property. Just because you do that and you have a special purpose building, it doesn’t necessarily mean that you have a facility that has a *value* that you can put on the market and hope to get \$4.5 million. In that case the Executive Inn Rivermont would not be where it is today. There is a *paper* equity and a *cost* equity, he said. Judge Haire stated that one of the questions he had earlier that it kind of related to this cost share with Recovery Kentucky. In the other example, Mr. Payne talked about the cash flow of \$22,000 and said “we” are going to put that in a reserve annually. Judge Haire asked who the “we” is.

Mr. Payne stated that in this case, he thinks that cash would be held by the Partnership. Judge Haire asked if this was the co-general partners, Audubon ORR and Lighthouse ORR. He also asked if there was an agreement made up between those two general partners. Mr. Logsdon stated that AACS is the fiscal agent for the whole ORR entity, so AACS was going to be handling the books for the ORR.

Mr. Mountjoy stated the AACS-Lighthouse management/operating agreement was evolving and under negotiation. He also stated that was a good point and that just goes to show that again, the operation of this entire animal is the two (2) sub-entities called the LLCs, and entities by whatever governing board is later determined will be the ORR’s decision makers.

Mr. Meyer further explained there also is built in the construction fund or sources a \$60,000 operating reserve. Technically, once everything is finalized and ORR pays everything off, its suppose to have \$60,000 left over to put in a reserve account for future operating needs. You do come into a project with a little bit of operating reserves from construction.

Ms. James asked if this was not going to be the change order. Mr. Meyer said the projected \$150,000 construction deficit number could be reduced if you wanted to say let’s do away with the \$60,000 reserve. It takes your number down to \$90,000 in your projected construction shortfall. Ms. Drury opined that in construction there are good and bad prices.

Mr. Payne informed the Board that in conversations with KHC, PDC and National City Bank, all said that none of them have *ever* had to recapture any tax credits. Does that indicate a risk for us? No, not other than to say that these people have done it before and it’s been done before. It’s been tested and it can be done.

Judge Haire said that Mr. Payne said something from the very start when talking about BB&T analyzing AACS’ debt in respect to the Hopkinsville venture. Are there any restrictions in the future for AACS to incur debt and it having to get past the “BB&T test” with respect to National City? Mr. Mountjoy stated AACS’ involvement through a guarantee with National City would oppose new restrictions on top of BB&T’s. Mr. Mountjoy said no, he doesn’t believe that’s in the Partnership Agreement and that he would look into that.

Judge Haire expressed his concern that he didn't want National City to have authority over future AACS transactions. Mr. Mountjoy asked if that concern would be in connection to the fact that AACS signed an ORR guarantee. Judge Haire stated the Hopkinsville thing through a red flag up to him. BB&T had the opportunity to review AACS' financial transactions another matter unrelated to BB&T. Mr. Meyer said National City does not have any negative covenants that would prohibit AACS from buying a new facility or entering into a new project that would incur any debt.

Mr. Payne explained that as the credits are earned each year that the tax credits owed have a declining balance, so that liability gets less each year. It will start out at the maximum of \$3.2 million and then as ORR gets through the project years that liability goes down. If ORR has tax credit consultants as planned, they're going to help ORR and AACS monitor those tax credits. Too, AACS, and presumably ORR, would insist that they have errors and emissions insurance so that if the consultants messed up for some reason, ORR/AACS would be protected on the tax credits.

AACS/ORR Risk Summary. Mr. Payne pointed out that in summary, there are three (3) areas of risk contained in the NCB-requested guarantee — construction, operations, and tax credit compliance. In **construction**, we have talked about the potential for any cost over runs affecting that. The developer and the contractor assured us as well as he can that unless ORR makes construction changes that that's the fixed-price construction contract number should firm. From an **operation** standpoint, AACS management has assured its intent not to spend more than ORR's operating revenues and budget will allow — that if ORR's funding goes down, expenses are going to have to go down to meet the funding. ORR will *not* operate outside of its means and will not create any negative cash flow issues. And then the third is the **tax credits**. That's the most serious guarantee that ORR, AACS or Lighthouse has in terms of the money; that's a guarantee of a \$3.2 million to the Partnership. The only way that ORR can have to pay that debt is affordable housing tax credit non-compliance. AACS and ORR are in control of their own destiny on that. If ORR complies with all of the tax credit rules and regulations, it will have no issues.

Mr. Mountjoy asked Mr. Payne if addressed the declining nature of the tax credit exposure. Mr. Payne said yes; he reiterated that its cumulative obligation would get less every year. Judge Haire said that his fear is not so much the tax credits because all seem to have that well under control, you know what needs to be done and you have the system in place. His fear is the loss of the state-funded CDBG funds and changes with the Department of Corrections, Judge Haire said. That's a \$½ million dollars — and that's in today's dollars. It could be \$600,000.00 in year four or five years into the future. "That's pretty healthy," he said.

Mr. Payne said one of the things that we have to do is both Audubon ORR and Lighthouse have to work to make sure that there is new and additional funding in place before those three years are out, either new funding or fundraising, or an extension of the existing funding. The Henderson facility has a reserve through donations about \$1 million. Mr. Payne thinks the facility has potential to raise money.

Judge Haire asked if Mr. Payne had gone to Henderson and looked at their books to see where they are. Mr. Payne said no. Mr. Logsdon stated that a minister at Owensboro's First Baptist Church had spoken with him concerning an endowment there over \$100,000 that's reserved for drug recovery services. They're looking for a place to put it. Mr. Logsdon also stated they have asked him to submit a proposal in behalf of ORR for those resources. There are resources out in the community and ORR must pursue them.

Judge Haire referred back to Mr. Meyer's presentation to the Daviess County Fiscal Court. Didn't Mr. Meyer say that there was kind of an expectation that there will be some fundraising or some local dollars on an annual basis in addition to the \$200,000, that there is that is ORR's expectation? Mr. Meyer said there was no requirement. What you had to do at the time of the submission of ORR's initial application

to KHC was to show community support in the program, and that's where the Wellness Fund came in. The Lighthouse Board has discussed a fundraising effort during construction to allow people to buy a brick similar to what the RiverPark Center did in memory of a loved one that either had an addiction or may have died as a result of the addiction as one way to start the fundraising. There is no matching fund requirement in future years. Obviously, ORR partners and advocates are conscious, and have been throughout this project, that they pursue avenues where we can raise money. That was one thing we thought of as a Board to start off and hit the ground running so ORR could have some money in its reserves, he said.

Mr. Meyer informed the Board that the Henderson facility would never have been built had it not been for Wabuck Development. Developer Garry Watkins simply built that facility with his own money. He built it on blind faith and verbal commitments from KHC. He went out on a limb and his company guaranteed the construction loan. Mr. Mountjoy added that's the same developer who is the guarantor is as to The Learning Villa, Horizon Place and Independence Heights, all projects in which AACCS, Inc. is the general partner. That's why AACCS, Inc. is *not* the guarantor in those projects; Wabuck Development is the guarantor.

Mr. Manning asked if the ORR guarantee would end after sixty months. Mr. Payne said the operational deficit guarantee is for sixty (60) months, but not the guarantee on the tax credits. As a practical matter, the sixty months is stated in the Partnership Agreement, but AACCS/ORR is neither going to spend money it doesn't have nor exceed the ORR's annual operating budgets.

Mr. Craig asked to clarify for all who the ORR developer was. Mr. Payne said that PDC Companies is the construction entity as well as the ORR developer. Mr. Meyer chimed in and said that PDC was based in Little Rock, Arkansas. They are going to be involved with helping ORR and its general partners manage the tax credits

Mr. Craig inquired about planned ORR construction meetings. Mr. Meyer said that every month there would be an inspection meeting. Once the bulldozers get out there, there will be a monthly meeting, say the 20th of each month. KHC actually has an inspector assigned to this project. Mr. Meyer said he has met with him and he looked him in the eyes and said, "I would be more than diligent in making sure this facility is built and built in a top notch manner and I'm going to be overzealous to make sure it's done right". Mr. Manning asked about the time element for the completion of the facility. Mr. Meyer stated that ORR would be completed within months of the commencement of construction.

Judge Haire said that the AACCS and Lighthouse boards and those agencies managements can't let this project go in the red! We run the risk of not providing the tax credit availability in which National City can come back on those entities, particularly AACCS. Judge Haire asked of why even talk about the sixty months, what's the advantage of the sixty months? It's a commitment for the life of the ORR project!

Mr. Mountjoy reminded the members of the long-term option of converting ORR to straight Section 8 housing or whatever it takes to maintain the project's affordable housing tax credits. Judge Haire suggested that could be done anyway. The only thing that ORR could reasonably stand to lose could be the CDBG and the Department of Corrections fundings. Mr. Mountjoy said there is just some flexibility in not being hamstrung at the end of that sixty-month period.

Judge Haire noted that if ORR goes under and NCB has recourse against AACCS for the balance on the tax credits, that could become awfully serious. Mr. M. Douglas Smith said that AACCS also has the right to "recover the building" to take care of that. Mr. Hart stated that as long as the occupants of Section 8 qualify that qualifies ORR for the tax credits.

Mr. Payne said his only thought would be there is definitely some risk attached to this project and he doesn't think there is excessive risk outside of what we face in a lot of AACCS programs everyday. Mr.

Payne also said he doesn't want it to be misunderstood, so when you pin him down and ask what's the maximum-guarantee dollar number, it's going to be \$3.2 million plus. Mr. Payne stated he has enough belief in the organization that we can do the ORR programming, find the additional funding and believe in Lighthouse that they will help ORR and its AACS partner find the additional funding to fund these projects to make sure that it operates and that it does what ORR says it's going to do — and this community needs this project. AACS has to be fiscally responsible about making this decision ... about what it's going to do for this project. Without AACS' involvement in this project there is a really good chance this project doesn't come to this community, he said in his opinion. Mr. Payne then asked the Board to be in support of the facility.

Request for AACS Board Support for the NCB-required Guarantee. Mr. M. Douglas Smith said his thoughts on the ORR goes back several years ago he was a member of an Ohio County advocacy group back in the late 1980's when some less concerned citizens thought the drug problem would "go away." It hasn't gone away; it's not going away. We're going to have to deal with it and deal with it over a long period of time. Mr. Smith said he was personally in favor of getting this project going.

Mr. Manning addressed Mr. Mountjoy about putting a dollar amount on the AACS guarantee. Mr. Mountjoy said he had suggested first exploring various options as to how to minimize whatever liability AACS might have under its guarantee, and that resulted in his pitching that out during the conference call with National City. The pitch was made, but he wasn't sure whether they "caught it." They weren't jumping up and down to respond on any such approach.

Mr. Meyer said he first wanted to say on behalf of Lighthouse's board that it appreciated AACS' consideration in this matter of the NCB-required guarantee. The Lighthouse Board recognizes the value of AACS' commitment and what is being asked of AACS is far more than what it is asked of Lighthouse. Lighthouse recognizes that it obviously has no assets, so it was easier for Lighthouse to vote as it did the other day to personally guarantee this project.

This ORR is a truly needed project in the community. We had this discussion months ago. What Lighthouse is asking — or what National City is asking, is for AACS' guarantee. And it is crucial that the AACS Board makes a decision because of the realities of what we're faced with. The PDC Company is actually on the hook. They have signed the fixed price construction contract and Mr. Meyer has seen the \$2.5 million worth of sub contracts. There is urgency in fact the PDC Companies sent a letter saying that they need to get the First Security Bank construction loan closed and this Partnership matter resolved or PDC was going to have to go back and rescind those contracts before any more of their sub-contractors expended those funds further hooking PDC Company into liability. PDC has "stuck their neck out a lot."

Mr. Meyer said that he understands that with the First Security Bank \$1.9 million construction loan, the PDC Companies are ready to go in as soon as the construction loan is in place. But First Security Bank has indicated that it is not willing to proceed on the construction loan until they've got a "good handle" on (and know) that the Partnership Agreement fully engaging AACS and its drop down subsidiary, Audubon ORR, LLC, and Lighthouse and National City are on solid ground. Mr. Meyer asked if there were any questions. There were none.

Mr. Logsdon again advised the Board National City Bank's June 23, 2008, amended and restated Letter of Commitment was in the Board's handout packet. NCB's three-page listing of documents required to finish up this tax credit deal (most of which are completed) is also enclosed. In addition, there's a draft document that we're still working on that will seal the partnership between AACS and Lighthouse. And then following that, there were two **Resolutions** that have been drawn up by Mr. Mountjoy.

Mr. Mountjoy advised there was a distinction between *investment* and *commitment*. Mr. Meyer mentioned a comment was made by the Lighthouse chairman. This is a little bit like the story of the chicken and the egg who wanted to make breakfast for the king. The chicken said, "Well why don't we

make him ham and eggs. The pig went berserk. That's an investment on your part but it's truly a commitment on mine." Lighthouse recognizes the commitment level that AACS has, said Mr. Meyer.

Board Resolutions. Mr. Mountjoy pointed out to the Board that right after the *draft* AACS-Lighthouse Memo of Understanding (MoU) in the handout packet was a two-page document called **First Resolution**. This is simply what Mr. Mountjoy prepared and Mr. Logsdon's request to try to put what we've talked about into some tangible form in the form of a Board resolution recognizing again that we have already approved the project which you're being asked to do is to approve and authorize a guarantee of Audubon ORR's obligations under the Limited Partnership Agreement.

Judge Haire said he has two questions on that. Under Resolution #1, if there is no difference between AACS and Audubon ORR, why have Audubon ORR? Mr. Mountjoy said that he thinks there was a comment made that AACS' guarantee is limited to whatever obligations there are under this contract called the limited partnership agreement. There may be other obligations and liabilities floating out there of which the partnership binds its general partners would be responsible and if Audubon ORR is hanging out on some other matter, we're not responsible from that standpoint. That's one reason to have it.

Judge Haire read from the final paragraph of the resolution, "Now therefore be it resolved, that the chair or the executive director or other authorized officers, are authorized and the power to execute for and on behalf of Audubon any guarantees as well as the limited partnership agreement." Judge Haire said his concern was that we have given the chair and the executive director full authority on behalf of Audubon to enter in to any of these agreements with regards to limited partnership in Owensboro Regional Recovery. He was wondering if that is extending the authority to those individuals beyond what the Board should have. That's a lot of authority given to the executive director.

Mr. Mountjoy stated that may want to limit it. The only reason he added guarantee and/or the Limited Partnership Agreement is the fact that right now in its present form, AACS is being asked to sign what he understand to be the present draft of the Limited Partnership Agreement. Mr. Mountjoy said he was not sure where this whole thing will turn out to be as far as what documents are concerned.

Judge Haire said the only thing that concerns him about the Resolution is the last paragraph. We don't know what Audubon ORR's duties, liabilities and obligations under the limited partnership agreement because we haven't seen and reviewed that limited partnership. Mr. Mountjoy said we're in the process of reviewing it but he will have to say that that review process was held up pending this most recent issue.

Judge Haire asked if the Board members were going to be asked to approve the Resolution tonight, because they haven't yet seen the Limited Partnership Agreement. Mr. Mountjoy told Judge Haire that he understands what he is saying but it could be that what we need to do is to change this to take out the Limited Partnership Agreement and to simply say the guarantee or a guarantee of obligations. But here again, you're guaranteeing obligations of a general partner without knowing the extent of Mr. Payne's explanation.

Mr. M. Douglas Smith asked if he could put in the Resolution and use the phrase to conclude with "subject to subsequent approval of the Board". Judge Haire said he doesn't have a problem with the guarantees as explained by Mr. Payne. Mr. Meyer asked about limiting limit it to the guarantees requested by National City Bank.

Mr. Mountjoy said the guarantee requested by National City Bank is a guarantee as to be stipulated in some future agreement not yet seen or approved by the Board. He knows of all obligations of the general partner as set forth in the Limited Partnership Agreement, which again goes back to Judge Haire. Mr. Mountjoy guesses you would have the same problem. If we weren't talking about a guarantee, which the Board already authorized, the Board wouldn't have to authorize or approve because it is being done only by Audubon ORR, the subsidiary of AACS. Mr. Mountjoy said he sees the Judge's point and he's not

sure exactly how to work through that. Judge Haire said he has a hesitation about approving some of these because he doesn't know the terms of the ultimate Agreement. Mr. M. Douglas Smith stated he thinks that's why there needs to be a revision or subject to approval.

Mr. Mountjoy said the time element involved should be to authorize the Executive Committee or the Administrative Support Committee or whatever the authority in advance to review, approve and be in on negotiations for the Limited Partnership Agreement which, in turn, is going to be a full look at whatever that ultimate guarantee of Audubon is. Had we not had a guarantee this Board would be hearing a report by Mr. Logsdon as the sole director of Audubon ORR that he has negotiated and signed the Limited Partnership Agreement and you all really wouldn't care from your pocketbook because there has been no connecting guarantee. But now we're in this thing "as the pig." Mr. Meyer stated that this guarantee is the currently proposed *draft* Limited Partnership Agreement which Mr. Mountjoy has reviewed it on behalf of AACS.

Judge Haire confessed that he trusted Mr. Mountjoy explicitly. Mr. Mountjoy informed the Board that he, Mr. Meyer, Mr. Logsdon, and Mr. Payne have all reviewed the NCB-proposed Agreement and have a lot of comments with respect to the Limited Partnership Agreement. If we get over this hump of the guarantee the Agreement will be made to the satisfaction of everyone, he suggested. The only answer, then, is to provide for the authorization to the Executive Committee to execute that eventual agreement.

Mr. M. Douglas Smith suggested going ahead and approving that language in the Resolution. Mr. Mountjoy advised that the last paragraph would basically say all of those matters presently set forth, but then add "as authorized and approved by the Executive Committee," or if we want to say, "subject specifically to the authorization of the Executive Committee." Judge Haire said he keeps coming back to the responsibilities of a Board member. Members have a responsibility for what they pass so they need to be aware of what they're approving.

Mr. Mountjoy advised that he would add at the very end of the page "subject to the specific approval of the Executive Committee". Mr. Manning asked if to leave all of the other wording in there as it is. Mr. Mountjoy said all of the wording flows and as long as you're saying that wording is void unless the Executive Committee of AACS approves it. Mr. Mountjoy told Mr. Logsdon to add "subject to the specific approval of Executive Committee". That goes at the very end of that First Resolution on the second page. That's not on the floor so we don't have to amend it yet.

Mr. Manning asked Mr. Mountjoy if he had a comment on the second resolution. Mr. Mountjoy replied that he does, but doesn't want to get the two mixed up. Mr. Manning asked if there were any questions. There were none.

Mr. Smith made a motion to amend the First Resolution with the additional language on the second page stating, "subject to the specific approval of the Executive Committee". Mr. Hart seconded the motion. Motion passed.

Mr. Smith moved to adopt the National City Bank Guarantee Resolution as amended. Mr. Hart seconded. Motion passed unanimously.

Mr. Meyer noted that the Limited Partnership Agreement as it stands right now is still being reviewed. First Security Bank has indicated that as long as they see and their attorney has reviewed and understands where all of the partners are and where the negotiations are in connection with the Partnership Agreement and that all items needed on National City Bank's closing check list to close on the Partnership Agreement are within arms reach. First Security Bank is willing to go ahead and lend the money and make the construction loan even though these partnership agreements have not been finalized. They are willing to take and assume some of that risk to make sure the project gets done and gets started so that if it

gets completed and we don't have a construction issue we talked about with respect to the sub-contractors and we have to reissue the construction contract.

Mr. Mountjoy explained to the Board that on the **Second Resolution** has to do with the short-term construction loan that is the "bridge" between those contracts that PDC had and our ultimate funding of the \$2.8 million. How do we get from A through C? Well, we go through B, which is First Security Bank. The original deal that was made with First Security Bank was First Security. Believe it or not, had actually asked AACS for a guarantee to which AACS said, "No, we're not giving it to National City, why should we give it to you?" And they said, "Okay, well we won't insist on that". Now this thing has turned around and we will be voting on the First Resolution to give our guarantee to National City. We're not going to offer anything to First Security other than what we already have just to keep this going. We're not going to offer them and we're not going to call them up tomorrow. We're not going to do anything other than meet with their attorney tomorrow at 1:00 p.m. and try to push the closing for the short-term construction loan.

Now, FSB will likely know by then that National City's commitment is forthcoming as a result of our First Resolution. Mr. Mountjoy said he thinks AACS wisely identified the fact that things are so complicated with all of these banks that in the event First Security *does* want AACS' guarantee of the \$1.9 million short term construction ... or in the event the Chair or the Executive Committee, whatever we want to say deems it absolutely necessary that we volunteer that guarantee in order to expedite these matters. We're talking now in terms of days and not weeks because we really are down to sub-contractors. We need to keep the sub-contractors on board to keep ORR construction costs down to keep the facility under way. What we're asking the Board to do is as a *contingency* plan is to go ahead and authorize Mr. Logsdon, the Board Chair and/or the Executive Committee, it really doesn't make any difference, to offer a guarantee to FSB should they so require. If requested or if so determined, this would authorize the designee(s) to grant AACS' guarantee of this short-term construction loan.

Mr. Lashbrooke asked what the loan rate was. Mr. Meyer stated the rate was 6% according to the documents. Mr. Mountjoy advised that this is subject to BB&T approval. It makes no reference to limited partnership. It's just a pretty simple guarantee of the \$1.9 million. Again, this is just a contingency. We're not going to offer it. We don't think that it's necessary to offer it if everything is on track, but just in case it's needed we want to be prepared with it.

Judge Haire suggested Mr. Mountjoy explain the "Therefore be it resolved" paragraph and the "In the event of First Security requires it necessary to expedite the short term construction that Audubon hereby authorizes and approves the guarantee" provision. In other words, he said, as he read it *First Security* had the right to determine whether AACS would be the guarantor. Judge Haire noted that to him, this gives a little more authority to First Security than he thinks it should. Mr. Mountjoy said that was probably a good change. This is *Audubon's* guarantee. ORR is going to be signing the note as a general partner of the limited partnership and probably Audubon ORR would sign a guarantee but it has no money. So we're not worried about Audubon ORR. We are worried about AACS. Mr. Mountjoy stated that he thinks what Judge Haire had suggested was a good idea. There are actually two parts at the bottom of that page. The first part might read, "if First Security so requires and with the consent concurrence of Audubon's Executive Committee, board Chair and Executive Director," or the alternate would be, "if Audubon's chair determines" without First Security.

Mr. Mountjoy further explained that the language might read, "in the event First Security so requires and with the concurrence of Audubon's Board Chair and Executive Director". Mr. M. Douglas Smith asked about changing the word "requires" to "request". Mr. Mountjoy read from the Resolution with the word "requests", "in the event First Security so requests and with the concurrence of Audubon's Board Chair and the Executive Director," or "in the event Audubon's Board Chair and Executive Director determine that it is necessary" and then everything else is the same. The first change would be from *requires* to

request. The second change is to add as part of that segment and *with the concurrence of the Board Chair and Executive Director* and then you would go on with the rest. Mr. Manning asked if any Board member had any questions.

Judge Haire made a motion to amend the first resolution by adding, “in the event First Security so requests and with the concurrence of Audubon’s Board Chair and the Executive Director,” to the very last paragraph of the First Security Bank (Second) Resolution. Mr. M. Douglas Smith seconded the motion. Motion passed.

Mr. Hatfield made a motion to adopt the First Security Bank Resolution as amended. Ms. Betty Rucker seconded the motion. Motion passed.

Head Start Johnson & Johnson Fellow One-Time Supplement. Mr. Logsdon stated that there was a small Head Start grant proposal in the evening’s handout packet. Mr. Logsdon asked Mr. Nehring to comment on the proposal to the Administration for Children & Families, Atlanta, in the amount was \$2,166.00. Mr. Nehring said Head Start is asking for approval of that request to help subsidize the costs of sending Ms. Sarah Lewis to the Johnson & Johnson Fellows program in July 2008.

Weatherization Assistance Program FY2009 Refunding. Mr. Logsdon stated that due to the budget action in the 2008 Kentucky General Assembly all of the Cabinet for Health and Families’ contracts and grant refundings were late this year. Mr. Logsdon also stated that Weatherization director received the request for FY2009 budget proposal just the previous week and that the promptly submitted proposal for \$302,715 for ten-month FY2009 Weatherization services was in the Board member’s handout packet.

KentuckyWorks (KWP) Job Readiness Activities (JRA) Budget/Proposal. Mr. Logsdon told the Board that this was generally the same program that KWP had last year, but with the addition of the job readiness activities (JRA). The 34-county \$2,148,034 FY2009 refunding proposal is for Mr. Logsdon told KWP director Ms. Blackham that if she thought he wasn’t giving enough information and that she could add more detail to it if it’s necessary.

Child Care Resource and Referral FY2009 Budget. The FY2009 Child Care “R&R” funding allocations have been received from the University of Kentucky: \$284,198 state/federal and \$319,978 total, inclusive of \$35,780 “matching.” Ms. Blackham is also the director of this program, which received a slight funding increase over the previous year.

GRITS “5311” Supplemental Funding. Mr. Logsdon stated that the amount for a late-in-the-year supplemental funding of \$60,000. Mr. Lanham, GRITS’ director, had noted that these funds were provided for \$20,000 to be added toward the GRITS parking garage construction costs and the remaining \$40,000 to help offset increase operational costs, including substantially increased fuel costs.

Family Preservation (FPP)/Family Reunification (FRP)/Families and Children Together Safely (FACTS) Refunding. Mr. Logsdon told the Board that this FY2009 funding allocation notice came from the Cabinet for Health and Families really late. Its budget is in the handout packet. The FY2009 total funding amount for these three programs — FPP, FRP and FACTS — was \$407,881.

The Learning Villa-to-Horizon Place Land Option. Mr. Logsdon stated there was a small piece in the handout packet titled “Option.” This document needs AACS Board approval to allow the transfer of a tract of land from The Learning Villa to Horizon Place. Horizon Place is a senior housing development to be constructed on Eighteenth Street, Owensboro, across from The Learning Villa. A Mountjoy “flowchart” depicts The Learning Villa project. Mr. Logsdon told the Board the piece of land for Horizon Place is presently part of The Learning Villa, which AACS is the co-owner of. A construction permit for Horizon Place was issued about ten days ago. Mr. Logsdon stated that AACS was getting ready to get started on that project and they are just parceling out the land.

Mr. Logsdon noted to the Board members that there were a slew of documents under Horizon Place and Independence Heights. Mr. Logsdon said that everybody has probably read and heard about all of them. The most important thing that everyone heard tonight and that was Wabuck is assuming all guarantees on both of these projects, which should be completed around the year's end. AACS is not putting up or risking anything but basically asking for the Board's endorsement and approval on the execution of all of these documents.

For informational update to the Board, Mr. Mountjoy stated that Audubon ORR, LLC, has already been formed and a number of documents related to its establishment were executed. Mr. Logsdon and Mr. Payne have signed and/or will be signing on behalf of Audubon ORR.

Mr. Mountjoy further advised that this Horizon Place matter is very similar except for this option with respect to its carve out from The Learning Villa. Audubon is not guaranteeing Horizon Place, Independence Heights or any of those projects developed with Wabuck Development.

Mr. Marshall made a motion to approve the Head Start Johnson & Johnson Fellows one-time supplement request; the Weatherization Assistance Program FY2009 refunding; the KentuckyWorks/Job Readiness Activities (JRA) FY2009 budget/proposal; the Child Care Resource and Referral FY2009 budget; the GRITS "5311" FY2008 supplemental funding; the Family Preservation/Family Reunification/FACTS FY2009 refunding; and The Learning Villa-to-Horizon Place Land Option. Ms. Daisy James seconded the motion. Motion passed.

REPORTS

AACS' "990" – For Board Review. Mr. Logsdon stated that one of the things he and Mr. Manning learned last week in a legal conference in Denver, Colorado, is that AACS should make sure that the Board annually reviews the agency's IRS 990 form. In the future, it's going to be *before* it goes in. Mr. Logsdon stated that they didn't even know about that until last week and that it is all on the web.

DHHS/ACF "Risk Management" Report. Mr. Logsdon stated that the report was just two pages, which was a praise session. There was really no risk that they identified.

1700 West Fifth Street, Owensboro, Office Building. Mr. Logsdon showed a picture of the "elevation" of the building under construction at Fifth Street and Foust Avenue, behind the current Central Office. The construction workers are putting in the footers and getting construction going up. This is being financed through the Daviess County Fiscal Court, the actual owner of the building. But Audubon Area's Head Start program and Counseling Services Department, along with the agency's "IT" department, will have the pleasure of occupying it. It is going to be a fine facility for Head Start, Counseling Services, and IT. AACS will have a twenty year lease on the building. The decision for the color of the roof hasn't been made yet, but Mr. Logsdon stated that he has been looking at a shiny copper roof on a doctor's building out on Highway 231.

OTHER REPORTS

Additional reports were provided to the Board in the mailed June Board Booklet and the June meeting Handout Packet:

AACS' State-required FY2009 Budget, Independence Heights/Horizon Place flowcharts and references, Kentucky Intensive Services Program (KISP) Reductions and Restructuring, The Learning Villa rent and utility policy change, Head Start enrollment reduction update (FY2009 budget projections for Head Start's proposed reduction and Head Start's current total funded

enrollment [June 2008]), Head Start's triennial review notices, Cabinet for Health and Family Services FY2008 agency monitoring summary and Corrective Action Plan, Low-Income Home Energy Assistance Program Monitoring, Senior Community Service Supplement Program Advisory and Plan of Correction, Community Action Kentucky Radio/Television PSAs, *CAP-FACTS* – FY2009 Spending/Appropriations (Community Services Block Grant Appropriation / Weatherization Assistance Program Appropriations / Head Start FY2009 Appropriations), WKU Center for Community Partnerships' *ALIVE*, Senior Companion Program MetLife Recognition, 2008-2009 Workers' Compensation Renewal, Anthem FY2008 Contingent Premium Settlement, BB&T account collateralization updates, WellPoint stock portfolio update and "Managed Care Stocks Better for Long-Term", KHC's AACS Title VI Compliance Update, and Community Action Kentucky videos on YouTube.

SENIOR STAFF REPORTS

Senior Service Corps. Ms. Mattingly stated that SSC is coming up on its first six months of its current fiscal year and it looks like everything is "right on target" with all projections. Everything is looking good, she said.

Weatherization. Ms. Boling stated that she had no report other than getting ready to start moving people in to the Learning Villa in the next week or two.

Human Resources. Ms. Gatton stated that she had no further matters to report.

CCAP, KWP. Ms. Blackham stated that she too had no further report.

CSBG. Ms. Lamar said that the Kentucky Intensive Services Program (KISP) was concluding its reduction in the force (RIF), and that it would be completed as of Monday, June 30, 2008.

Head Start. Mr. Nehring stated that he had nothing further to report.

GRITS. Mr. Lanham stated that July 1st, GRITS would start brokering (and delivering) Medicaid rides in the Owensboro/Green River and Bowling Green/Barren River regions. GRITS employees are all geared up and "going like crazy," getting things going. Mr. Lanham also stated that it looks like everything is going to go well. The nice thing was the state Medicaid program "capitation rates" in Region 3 (Green River)/Region 5 (Barren River) have increased from \$5.70 per eligible Medicaid resident to \$8.00 per eligible. Mr. Logsdon commented that Mr. Lanham was well aware of and committed to the fact that among AACS' priorities was to recoup much of the reserve that was spent in the past 2 ½ years just to get the Medicaid brokerage contract back.

Finance. Mr. Payne stated that he had nothing further to report.

ADJOURNMENT

Mr. Manning asked if there were any questions prior to adjournment. There were none. There being no further business ...

Mr. M. Douglas Smith made a motion to adjourn the June Board meeting. Without objection, the meeting adjourned at 8:03 p.m.

Mr. Jerry Manning
Chairperson of the Board

AUDUBON AREA COMMUNITY SERVICES, INC.

OWENSBORO REGIONAL RECOVERY, LTD.

RESOLUTION

JUNE 24, 2008

WHEREAS, the Board of Directors (the “Board”) of Audubon Area Community Services, Inc. (“Audubon”), at the Board’s annual meeting on December 18, 2007, approved Audubon’s involvement and participation in the low income housing tax credit limited partnership project known as “Owensboro Regional Recovery, Ltd.” (hereinafter “ORR”), by and through Audubon’s wholly owned (subsidiary) limited liability company, Audubon ORR, LLC (“Audubon ORR”), and

WHEREAS, Audubon ORR will be acting as Co-General Partner, with Lighthouse Regional Recovery, LLC (“Lighthouse RR”), a wholly owned subsidiary of Lighthouse Recovery Services, Inc. (“Lighthouse”) in respect of the management and operations of the ORR project, and

WHEREAS, as Co-General Partners, Audubon ORR and Lighthouse RR must perform various covenants and may have certain obligations and liabilities in respect of the operations of, and low income housing tax credits available through, ORR, and

WHEREAS, National City Bank Community Development Association (“National City”) as the sole equity investor/limited partner in and of ORR, as a condition of its equity investment therein, has required Audubon to guarantee performance of the covenants and payment of any obligations of Audubon ORR (as Co-General Partner of ORR) as provided in the Limited Partnership Agreement for ORR (the “Limited Partnership Agreement”).

NOW THEREFORE BE IT RESOLVED, that Audubon guarantee Audubon ORR's performance of its covenants, and Audubon ORR's duties, liabilities and obligations under the Limited Partnership Agreement, and that the Chair, and/or Executive Director of Audubon, and other authorized officers are hereby authorized and empowered to execute for and on behalf of Audubon any guarantees as well as the Limited Partnership Agreement and any other documents or legal instruments relating to or in connection with Owensboro Regional Recovery, Ltd. low income housing tax credit limited partnership, subject to the specific approval of Audubon's Executive Committee.

AUDUBON AREA COMMUNITY SERVICES, INC.

By: _____
M. DOUGLAS SMITH, Corporate Secretary

ATTEST:

Ronald Lee Logsdon, Executive Director

AUDUBON AREA COMMUNITY SERVICES, INC.

OWENSBORO REGIONAL RECOVERY, LTD.

RESOLUTION

JUNE 24, 2008

WHEREAS, in respect of the Owensboro Regional Recovery, low income housing tax credit partnership project, Owensboro Regional Recovery, Ltd., a Kentucky limited partnership (“ORR”), by and through its Co-General Partners [namely Audubon ORR, LLC. (A wholly owned subsidiary of Audubon) (“Audubon ORR”) and Lighthouse Regional Recovery, LLC (a wholly owned subsidiary of Lighthouse Recovery Services, Inc.) (“Lighthouse RRR”)] has applied for a short-term construction loan (the “Construction Loan”) with First Security Bank, Owensboro, Kentucky (“First Security”), which construction loan will be repaid when ORR is funded and capitalized with National City Bank Community Development Association’s (“National City”) equity investment in ORR, and

WHEREAS, preliminary construction efforts have begun by PDC Company is the construction contractor in respect of construction on and for the ORR Facility, and

WHEREAS, due to time delays it may become necessary, either as a requirement of and by First Security, or by the time pressures and exigencies of initial construction, for the Construction Loan to be expedited;

NOW THEREFORE BE IT RESOLVED, that in the event First Security so requires and Audubon’s Board Chairman and Executive Director concur and determine that it is necessary to expedite the short term construction financing for the ORR Facility, that Audubon hereby authorizes and approves a guarantee by Audubon of Audubon

ORR's obligations in respect of the ORR Construction Loan for the Owensboro Regional Recovery Project in the amount of \$1,900,000.00 with First Security, and the Chair and/or Executive Director and other authorized officers of the Board are authorized and directed to execute such guaranty, and any other related documents necessary to effect this Resolution, and the Construction Loan.

AUDUBON AREA COMMUNITY SERVICES, INC.

By: _____
M. DOUGLAS SMITH, Corporate Secretary

ATTEST:

Ronald Lee Logsdon, Executive Director