MASTER COMMISSIONER

ACCOUNTING POLICIES AND PROCEDURES MANUAL

Version 10

Effective January 1, 2025

Written and Edited by:
Office of Finance and Administration, Department of Financial Services
Administrative Office of the Courts

DOCUMENT TITLE:	Master Commissioner Accounting Policies and Procedures Manual		
SUBJECT CODE ID:	DFS-MC	**DOCUMENT TYPE:**	☐ AOC POLICY ☐ OFFICE/DEPARTMENT POLICY ☒ MANUAL ☐ STANDARD ☐ PROCESS ☐ STANDARD OPERATING PROCEDURE
OFFICE:	Finance and Administration		
DEPARTMENT:	Financial Services		
DIVISION:	N/A	**ORIGINAL ISSUE DATE:**	June 2005
APPROVING AUTHORITY:	Jenny Lafferty	**RESPONSIBLE EMPLOYEE:**	Tammy Brown
EFFECTIVE DATE:	1/1/2025	**PUBLISHED DATE:**	1/1/2025
NEXT REVIEW DATE:	1/1/2027	**REVIEWED DATE:**	1/21/2025
CITED AUTHORITIES:	• Rules of Administrative Procedure (AP) Part IV, Master Commissioners of the Circuit Court • KRS Chapter 91 • KRS Chapter 426 • KRS 424.130 • KRS 61.675 • KRS 393A.040		
ASSOCIATED AOC FORMS:	• AOC-141AMC – Order Appointing Master Commissioner • AOC-141 – Order Referring Case to Master Commissioner • AOC-141S – Order Referring Case to Master Commissioner for Judicial Sale • AOC-141SP – Order Referring Case to Special Master Commissioner for Judicial Sale • AOC-595.1 – Account Verification Form (Master Commissioner) • OFA-MC-4 – Master Commissioner MCAPPM Waiver Request • OFA-MC-5 – Master Commissioner MCAPPM Approval Request		

TABLE OF CONTENTS

SECTION NUMBER	SUBJECT	PAGE
100.1	Authority of Administrative Office of the Courts	2
100.2	Appointment of Master Commissioner	3
100.3	Judicial Sales Administrative Fee	5
100.4	General Provisions of Judicial Sale	7
100.5	Master Commissioner Fees for Judicial Sales	9
100.6	Recovery of Direct Expenses and Costs	11
100.7	Additional Fees for Preparing Reports and Drafting Documents	13
100.8	Additional Fees for Receiving and Paying Out Money Under Court Order	14
100.9	Other Authorized Fees for Hearings	15
100.10	Limits on Annual Compensation of Master Commissioner	16
100.11	Limits on Annual Compensation of Deputy Master Commissioner and Staff	18
100.12	Excess Fees	23
100.13	Accounting of Master Commissioner	24
100.14	Escrow and Operating Accounts	27
100.15	Transfer of Office	30
100.16	Limits on Annual Compensation of Special Master Commissioner	31
Appendix A	Collateral Security Agreement	33

Section Number: **100.1**

Subject: **AUTHORITY OF ADMINISTRATIVE OFFICE OF THE COURTS**

Authority: **AP PART IV, SECTION 2(9) AND 2(10)**

1. The Administrative Office of the Courts (AOC) has the following authority:
   a. to establish accounting standards;
   b. to prescribe bookkeeping and accounting practices and procedures;
   c. to oversee the financial accounts of master commissioners;
   d. to establish audit standards; and
   e. to perform audits.

2. A copy of any audit report must be submitted by the AOC to the chief circuit judge.

3. In the event the audit reveals a serious or recurring bookkeeping, accounting, procedural or other irregularity, a copy of the audit report must also be submitted to the Chief Justice and the Director of the AOC.

4. After reviewing the audit report, the Chief Justice may refer the master commissioner to the circuit judge(s) for removal.

5. All deviations from this manual must be approved in advance on an OFA-MC-4 *Master Commissioner MCAPPM Waiver Request* form by the Executive Officer, Department of Financial Services. All approvals required by this manual must be requested in advance on an OFA-MC-5 *Master Commissioner MCAPPM Approval Request* form by the Executive Officer, Department of Financial Services. *Master Commissioner MCAPPM Waiver Request* forms and *Master Commissioner MCAPPM Approval Request* forms must be retained by the master commissioner and the Department of Financial Services. Failure to obtain required approval may result in financial sanctions.

Section Number: **100.2**

Subject: **APPOINTMENT OF MASTER COMMISSIONER**

Authority: **AP PART IV, SECTION 2**

1. A master commissioner may be appointed for each county within a judicial circuit.

2. The master commissioner shall serve at the pleasure of the judge(s) of the circuit court, but in no case shall the master commissioner's term exceed four years without reappointment.

Accounting Procedure

3. Upon appointment, the master commissioner must immediately contact the AOC Department of Financial Services at MasterCommissionerFilings@kycourts.net and provide the following information:

   a. Name
   b. Address
   c. Telephone numbers
   d. Email address
   e. Copy of the AOC-141AMC, *Order Appointing Master Commissioner*

4. Upon contact from the master commissioner pursuant to paragraph 3 above or receipt of the *Order Appointing Master Commissioner* from the Circuit Court Clerk, the Department of Financial Services will provide the following:

   a. Bond application;
   b. Authorized salary and staffing levels;
   c. Contact information for payroll/benefit reporting;
   d. Administrative Procedures of the Court of Justice, Part IV*, Master Commissioners of the Circuit Court;* and
   e. *Master Commissioner Accounting Policies and Procedures Manual.*

5. The master commissioner must complete the bond application and return it to the Department of Financial Services no later than two weeks after appointment.

6. No term of a master commissioner shall exceed four years without reappointment. Upon reappointment, the master commissioner must ensure that a copy of the AOC-141AMC, *Order Appointing Master Commissioner* is forwarded immediately to the Department of Financial Services.

7. A master commissioner must resign and notify the Department of Financial Services of the resignation prior to filing as a candidate for election to a non-judicial office.

Section Number: **100.3**

Subject: **JUDICIAL SALE ADMINISTRATIVE FEE**

Authority: **AP PART IV, SECTIONS 2(11) AND 4**

1. A non-refundable judicial sale administrative fee of $200 must be added to all cases referred to the master commissioner for judicial sale, hereafter referred to as the judicial sale administrative fee (JSAF).

2. The JSAF must be collected by the circuit court clerk upon receipt of the order referring a case for judicial sale. The order referring a case for judicial sale must include language indicating that the case will be transferred to the master commissioner **only after the JSAF has been received by the circuit court clerk**.

3. The circuit court clerk must remit all judicial sale administrative fees to the AOC as directed by the Department of Financial Services.

4. The AOC holds JSAF money in a restricted fund designated to cover the administrative costs of the master commissioner program.

    a. These administrative costs include, but are not limited to, all necessary bonding of master commissioners and the employment of sufficient staff to conduct audits of master commissioner offices statewide.

    b. To whatever extent total JSAFs collected do not fully cover these expenses, excess fees submitted to the AOC with the master commissioner's mandatory *Annual Report of Master Commissioner* may be used to do so.

Accounting Procedure

5. One of the following forms must be completed and filed in the official court file in each case referred for judicial sale:

    a. AOC-141S, *Order Referring Case to Master Commissioner for Judicial Sale*; or

    b. AOC-141SP, *Order Referring Case to Special Master Commissioner for Judicial Sale*.

6. Tracking and statistical comparison will be accomplished through the KCOJ's electronic case management system.

7. All JSAFs must be tracked under the circuit court case number and maintained by the circuit court clerk.

8. The master commissioner must obtain a copy of the applicable form, AOC-141S or AOC-141SP, and a copy of the receipt reflecting payment of the JSAF before proceeding to schedule a judicial sale.

Section Number: **100.4**

Subject: **GENERAL PROVISIONS OF JUDICIAL SALE**

Authority: **AP PART IV, SECTION 5**

1. The master commissioner shall sell the property in a reasonable time not to exceed 90 days after the date of the order of referral except that property found to be "vacant and abandoned" shall be sold in accordance with KRS 426.205. Upon motion and good cause shown, the court may extend this deadline for a period not to exceed 30 days.

2. Except for city tax sales pursuant to KRS Chapter 91 and partition sales, before any real property is sold under a judgment and order of sale, the appraisal value must be determined by two disinterested persons both of whom are actively engaged in or have had at least one year of experience in the field of real estate. In accordance with KRS 426.520(2) the appraisal must be in writing, must be signed by the persons making it, and must be filed in the court record prior to the sale.

3. All sales shall be advertised in accordance with KRS 424.130 as follows: The advertisement shall be published at least once not less than seven days nor more than 21 days before the date of the sale but may be published two or more times provided that one publication occurs not less than seven days nor more than 21 days before the date of the sale.

4. At the time of sale, the successful bidder shall either pay full cash or make a deposit of 10% of the purchase price with the balance on credit for 30 days. If the purchase price is not paid in full, the successful bidder shall execute a bond at the time of sale with sufficient surety approved by the master commissioner prior to the sale to secure the unpaid balance of the purchase price. Pursuant to KRS 426.705, the bond shall bear interest at the rate the judgment bears, from the date of sale until paid, and shall have the force and effect of a judgment. In the event the successful bidder is the plaintiff, then in lieu of the deposit the plaintiff shall be allowed to bid on credit up to the judgment amount.

5. No right of redemption applies in partition sales. For all other sales, excluding city tax sales pursuant to KRS Chapter 91, if the real property did not sell for at least two-thirds (2/3) of its appraised value, the defendant and his or her representatives have a right of redemption for six months from the day of sale. In that case, the purchaser receives an immediate writ of possession and a deed containing a lien in favor of the defendant, reflecting the defendant's right to redeem during the statutory period per KRS 426.530.

6. When a city files for enforcement of a city tax lien under KRS 91.511, and the real property sells for less than 100% of its most recent assessed value as determined by the PVA, the

defendant may redeem it within 60 days from the day of the sale by paying the purchaser the original purchase money and interest at eighteen percent (18%) per annum. The master commissioner must hold the deed until the right of redemption has expired.

7. The report of sale must be filed by the master commissioner no later than three business days after the date of sale.

8. The master commissioner must execute and deliver the deed to the purchaser of the property no later than five business days after the court has confirmed the sale and approved the deed and all costs, fees, and other required amounts due and owing, if any, have been paid by the foreclosing mortgagee or lienholder or the purchase price has been paid in full by the third-party purchaser.

Accounting Procedure

9. A log of all cases referred for sale must be maintained. At a minimum, this log must contain:

    a. Case number and style
    b. Date AOC-141S or AOC-141SP entered
    c. Date appraisal filed in court record
    d. Date of required advertisement
    e. Scheduled sale date
    f. Date Report of Sale filed
    g. Date full winning bid or sale costs/fees received by the commissioner
    h. Date deed delivered to purchaser.

10. The master commissioner should calculate and assess applicable interest in accordance with KRS 426.705 (per the judgment) on any unpaid balance of purchase price and collect the same from the purchaser. All sale bond interest is to be included in the total funds to be distributed by the master commissioner.

Section Number: **100.5**

Subject: **MASTER COMMISSIONER FEES FOR JUDICIAL SALES**

Authority: **AP PART IV, SECTION 8(2)**

1. The office of master commissioner shall earn fees as authorized by law, including fees for judicial sales.

2. The master commissioner fee for each judicial sale must be calculated as set out in the accounting procedures below.

Accounting Procedure

3. If the sale is completed and confirmed:

    a. The fee for each judicial sale must be calculated at 3% of the final bid, or if the sale involves multiple indivisible lots sold at the same time under the same judgment, 3% of the aggregate of the final bids. The fee based upon this calculation shall be no less than $500 and shall not exceed $8,500.

    b. If the sale involves more than one property, parcel, or judgment, a fee of $650 per **additional** property, parcel, or judgment shall be assessed in addition to the fee calculated above.

4. If the sale is withdrawn, a master commissioner fee of not more than 50% of the sale fee based upon the appraisal value of the property as calculated under 3. a) and b), or $500, whichever is greater, shall be assessed.

    a. The fee for each withdrawn judicial sale shall be 50% of the fee calculated at 3% of the appraised value, or if the sale involves multiple indivisible lots to be sold at the same time under the same judgment, 3% of the aggregate of the appraised values. The fee based upon this calculation shall be no less than $500 and shall not exceed $4,250.

    b. If the sale involves more than one property, parcel, or judgment, then $325 per additional property, parcel, or judgment shall be assessed, in addition to the fee calculated above.

    c. If the sale is withdrawn **before** an appraisal has been completed, a sale fee of $500 shall be assessed; or, upon good cause shown by proper motion, the circuit court may approve some other amount of fee (**not** to exceed $4,250).

5. If the sale is not confirmed through no fault of the master commissioner, a fee of no more than the sale fee as calculated in 3. a) and b) above shall be assessed.

6. The master commissioner fee is to be listed separately on the order of distribution and/or other individual case report confirming sale and cost.

Calculation of Master Commissioner Sale Fee Examples

7. Sale of **one** parcel at $130,000 is confirmed.

3% of	$ 130,000.00	=	**$**	**3,900.00** (up to $8,500)
Total Fee				**$ 3,900.00**

8. Sale of **three** parcels with aggregate winning bids of $130,000 is confirmed.

3% of	$ 130,000.00	=	$ 3,900.00 (up to $8,500)
Plus Additional Parcels (2)			
	$ 650.00 x 2	=	$ 1,300.00
Total Fee			**$ 5,200.00**

9. Sale of **one** parcel, appraised at $130,000, is withdrawn.

3% of	$ 130,000.00	=	$ 3,900.00 (up to $8,500)
	x 50%	=	$ 1,950.00
Total Fee			**$ 1,950.00**

10. Sale of **three** parcels, with aggregate appraisal values of $130,000, is withdrawn.

3% of	$ 130,000.00	=	$ 3,900.00 (up to $8,500)
	x 50%	=	$ 1,950.00
Plus Additional Parcels (2)			
	$325.00 x 2 = $650.00	=	$ 2,600.00
Total Fee			**$ 2,600.00**

Section Number: **100.6**

Subject: **RECOVERY OF DIRECT EXPENSES AND COSTS**

Authority: **AP PART IV, SECTION 8(3)**

1. The master commissioner may recover necessary direct **expenses** attributable to the case referred for judicial sale from the parties as authorized by the court. These charges may be combined and charged to the case as office expenses of the master commissioner and are as follows:

   a. The actual cost of postage;
   b. Copies at the rate of $0.25 per page;
   c. The actual or documented average long-distance charge per minute; and
   d. Faxes at the rate of $2 for the first page and $1 per page for every page thereafter.

2. The master commissioner may also recover the following **costs** from the proceeds of the sale:

   a. The actual cost of advertising; *****
   b. The appraiser's fee as set by the court; ******
   c. A licensed auctioneer's fee pursuant to KRS 426.522;
   d. The actual costs associated with the care of the property in the master commissioner's possession; and
   e. The master commissioner fees.

   ** See AP Part IV, Section 5(3) and Section 100.4 of this Manual for frequency and content of advertising.*

   *** Appraisers are required to be actively engaged in, or have had at least one year of experience in, the field of real estate in order to conduct appraisals on behalf of the office of master commissioner. See AP Part IV, Section 5(2).*

Accounting Procedure

3. The circuit court may require a deposit by a party, prior to the sale, sufficient in amount to pay the direct expenses and costs of the sale.

4. Deposits are to be held in the master commissioner escrow account and tracked under the circuit court case number.

5. Each direct expense and cost, including the amount of fees earned by the office of master commissioner, must be listed separately on any order of distribution and/or other individual case report.

6. A separate check from the escrow account must be written for each expenditure, with the following exceptions:

    a. One check for the total expenses may be written from the escrow account to reimburse the master commissioner.

    b. One check for the sales fee, Report and Recommendation (RAR) fee(s), and Deed or Title (DOT) fee(s) may be written from the escrow account and deposited to the operating account.

7. Reimbursements for direct expenses and costs attributable to a judicial sale are to be tracked, with documentation supporting the reimbursements to be retained by the master commissioner in his or her file.

Section Number: **100.7**

Subject: **ADDITIONAL FEES FOR PREPARING REPORTS AND DRAFTING DOCUMENTS**

Authority: **AP PART IV, SECTIONS 4(4) AND 8(4)**

1. The office of master commissioner shall earn fees as authorized by law, including fees for preparing reports and drafting documents.

2. A fee of $90 shall be charged for each commissioner's report prepared on tendered foreclosure judgments in uncontested cases for enforcement of a mortgage or other lien, hereafter referred to as the Report and Recommendation (RAR) fee.

3. Additionally, a fee of $90 shall be charged for drafting any necessary deed or title and executing same, hereafter referred to as the Deed or Title (DOT) fee.

Accounting Procedure

4. The master commissioner shall charge the $90 RAR fee on tendered judgments. **No** fee shall be charged for drafts of reports but shall be charged only for final reports.

5. The master commissioner shall charge the $90 DOT fee for drafting any deed or title and executing same.

6. The above referenced $90 fees are in addition to the sale fee and must be deposited into the escrow account and distributed to the operating account upon proper order from the court. To obtain approval to deposit non-sale fees directly into the operating account, the master commissioner must submit a *Master Commissioner MCAPPM Waiver Request* form to MasterCommissionerFilings@kycourts.net.

7. The above referenced fees are to be listed separately on the order of distribution and/or individual case report.

8. The DOT and RAR fees must be included in the master commissioner's total fee income for annual reporting purposes.

Section Number: **100.8**

Subject: **ADDITIONAL FEES FOR RECEIVING AND PAYING OUT MONEY UNDER COURT ORDER**

Authority: **AP PART IV, SECTION 8(5)**

1. The office of master commissioner shall earn fees as authorized by law, including fees for receiving and paying out money.

2. For receiving and paying out money under court order and for settling the accounts of estates, the fee must be computed as set forth in the accounting procedures below.

3. For settlement of accounts of insolvent estates this computation must exclude any amounts exempt from creditors.

4. This fee must **not** exceed $8,500.

5. The master commissioner may recover the costs and expenses as set out in Section 100.7 of this Manual.

6. The costs and expenses are to be listed separately on the order of distribution and/or individual case report. All costs and reimbursements must be supported by adequate documentation.

Accounting Procedure

7. The fee for receiving and paying out money under court order and for settling the accounts of estates shall be 3% up to a maximum of $8,500.

8. The above referenced fee must be deposited into the escrow account and distributed to the operating account upon proper order from the court. To obtain approval to deposit non-sale fees directly into the operating account, the master commissioner must submit a *Master Commissioner MCAPPM Waiver Request* form to MasterCommissionerFilings@kycourts.net.

Section Number: **100.9**

Subject: **OTHER AUTHORIZED FEES FOR HEARINGS**

Authority: **AP PART IV, SECTION 18**

1. The office of master commissioner shall earn fees as authorized by law, including fees for hearings.

2. For any hearing in which there is no sale, settlement, or receivership, the master commissioner shall receive a fee of $125 per hour. The fee shall be assessed at a rate of $31.25 for each quarter hour or part thereof. This fee shall hereafter be referred to as the "hearing fee."

Accounting Procedure

3. Hearing fees must be deposited in the master commissioner escrow account and then distributed to the operating account. This allows the hearing fees to be tracked with other fees generated by the master commissioner. To obtain approval to deposit hearing fees directly into the operating account, the master commissioner must submit a *Master Commissioner MCAPPM Waiver Request* form to MasterCommissionerFilings@kycourts.net.

4. Hearing fees must be paid to the commissioner and shall be due on the fifth working day following the conclusion of the hearing.

5. Hearing fees should be distinguished from **all other fees** by referencing the circuit court case number for each deposit and by annotation on the deposit slip indicating that it is a hearing fee.

Section Number: **100.10**

Subject: **LIMITS ON ANNUAL COMPENSATION OF MASTER COMMISSIONER**

Authority: **AP PART IV, SECTIONS 8(1), 9, 10(4), AND 11**

1. The annual personal compensation of master commissioners shall be derived from fees earned by the office of master commissioner as authorized by law and deposited into the operating account.

2. The office of master commissioner shall be limited in total personal compensation derived from fees to not more than $64,678 per annum, unless otherwise approved by written order of the Chief Justice.

3. This limitation on compensation shall be prorated on a monthly basis where the master commissioner serves less than the entire year.

4. Rates of compensation must be in accordance with a schedule(s) established by the Supreme Court.

5. All fees generated by the office of master commissioner in excess of the authorized maximum annual personal compensation of the master commissioner are excess fees of the office of master commissioner.

Accounting Procedure

6. Compensation of the master commissioner must be disbursed from the operating account to the master commissioner on a prorated basis over a 12-month period, with the master commissioner receiving no more than 1/12 of annual compensation per month. (For example, compensation of $64,678 per annum entitles the master commissioner to a salary of $5,389.83 per month.)

7. The master commissioner must disburse the prorated allowable compensation monthly in an amount not to exceed the accumulated allowable salary proportionate to the time served. The disbursement must be made at the end of each month of service.

8. All compensation is to be reported monthly to the Finance and Administration Cabinet, Department of Local Government Services, Social Security Coverage and Reporting Branch (SSCRB) on the Commonwealth of Kentucky form SS-16 or SS-16-A, as directed by the SSCRB.

9. Master commissioners meeting the minimum requirement of working an average of 100 hours per month on master commissioner work **only**, and having sufficient proof of such work, may participate in the Kentucky Employees Retirement System (KERS) so long as they meet all other requirements established by the Kentucky Public Pension Authority (KPPA).

10. The cost of health insurance premiums for master commissioners working at least 37.5 hours per week in the master commissioner's office and having sufficient proof of such work are authorized expenses if:

    a. Excess fees of the office of master commissioner are available;

    b. The master commissioner does not engage in private practice or business as an owner or employee; and

    c. The health insurance premium is approved in writing by the Executive Officer, Department of Financial Services prior to the policy initiation or renewal.

    To obtain prior approval for the health insurance premium as an authorized expense, the master commissioner must submit a *Master Commissioner MCAPPM Approval Request* form with the cost information to MasterCommissionerFilings@kycourts.net.

Section Number: **100.11**

Subject: **LIMITS ON ANNUAL COMPENSATION OF DEPUTY MASTER COMMISSIONER AND CLERICAL STAFF**

Authority: **AP PART IV, SECTIONS 2(6), 9(2)-(3), 10(3), AND 14(3)**

1. Upon the express written authority of the AOC on behalf of the Chief Justice, the master commissioner may have deputies and clerical staff as are necessary to perform the functions of the master commissioner's office.

2. Personal compensation of authorized deputies and salaries of authorized clerical staff must be derived from available fees of the office of master commissioner and are authorized only to the extent that such fees are available.

3. Each deputy master commissioner shall be limited in his or her total personal compensation derived from fees to not more than $48,878 per annum.

4. This limitation on compensation must be prorated on a monthly basis where the deputy master commissioner serves less than the entire year.

5. Salaries of clerical staff must be set by the master commissioner in an amount not to exceed the amount authorized in writing by the Executive Officer, Department of Financial Services.

Accounting Procedure

6. The allowable compensation of the deputy master commissioner must be disbursed on a prorated basis over a 12-month period, with the deputy master commissioner receiving no more than 1/12 of his or her annual compensation per month.

7. For example, compensation of $48,878 per annum entitles the deputy master commissioner to a salary of no more than $4,073.17 per month.

8. The master commissioner's office is to pay the deputy the prorated allowable compensation monthly in an amount not to exceed the accumulated allowable salary proportionate to the time served. The disbursement must be made at the end of each month of service.

9. The deputy master commissioner's compensation is to be paid from the operating account of the office of master commissioner.

10. Salaries and/or hourly wages for all staff are to be approved in writing by the Executive Officer, Department of Financial Services, as follows:

    a. Prior to the beginning of each calendar year, the Executive Officer, Department of Financial Services shall send annual letters to each master commissioner's office authorized to have a deputy master commissioner and/or clerical staff setting forth the maximum hourly wage or annual salary for each employee in accordance with the pay schedule established by the judicial personnel system and any allowable Court of Justice annual increment.

    b. The master commissioner must submit a *Master Commissioner MCAPPM Approval Request* form to request approval of the Executive Officer, Department of Financial Services before making any salary adjustment that would cause an employee's maximum salary to exceed the authorized maximum hourly wage or annual salary.

    c. Prior to establishing a wage for a new employee, the master commissioner must submit a *Master Commissioner MCAPPM Approval Request* form with the new employee's resume to the Executive Officer, Department of Financial Services for the purpose of establishing a maximum hourly wage or annual salary for the employee that is in accordance with the pay schedule established by the judicial personnel system.

11. All full-time and part-time employees must keep track of their time using time sheets in a format designated by the master commissioner. These time sheets must be reviewed by the master commissioner at the end of each pay period. The time sheet must be signed and dated by the employee, then reviewed, signed, and dated by the master commissioner. Time sheets must be retained for a period of three years from the end of the calendar year.

12. All staff are employees of the office of master commissioner in his or her role as master commissioner. Payroll for staff must be paid out of the master commissioner's operating account. The master commissioner must **not** use his or her private practice payroll to compensate staff for their role as employees of the master commissioner. The master commissioner may **not** lease employees from his or her private practice. Staff of the master commissioner are **not** employees of the AOC.

13. All compensation is to be reported monthly to the SSCRB on the Commonwealth of Kentucky form SS-16 or SS-16-A, as directed by the SSCRB.

14. Full-time Staff

    a. Full-time is defined as a minimum of 37.5 hours per week performing only master commissioner work.

b. All staff who work more than 100 hours per month for the office of master commissioner are eligible for retirement benefits through the Kentucky Employees Retirement System. The master commissioner must report creditable compensation of such staff and submit payment for employee contributions on a monthly basis as directed by the Kentucky Public Pensions Authority.

   i. If the master commissioner fails to file all required contributions and reports on or before the tenth day of the month following the period being reported, interest on the delinquent contributions of at least $1,000 per month may be charged by the Kentucky Public Pensions Authority to the master commissioner pursuant to KRS 61.675.

   ii. Late reporting penalties are **not** authorized expenses.

   iii. Late reporting penalties may be paid by the AOC. The annual limit on the master commissioner's personal compensation shall be reduced by the amount of any late reporting penalties paid by the AOC.

c. The cost of health insurance premiums for deputies and clerical staff working at least 37.5 hours in the master commissioner's office are authorized expenses if excess fees of the office of master commissioner are available and the health insurance premium is approved in writing by the Executive Officer, Department of Financial Services, prior to the policy initiation or renewal. To obtain approval for the health insurance premium, the master commissioner must submit a *Master Commissioner MCAPPM Approval Request* form with cost information to MasterCommissionerFilings@kycourts.net.

d. Social Security and Medicare match are paid by the AOC for full-time employees. Master commissioners must report and remit employee FICA tax deductions monthly to the SSCRB on the Commonwealth of Kentucky form SS-16 or SS-16A.

e. Workers Compensation is paid by the AOC.

f. Unemployment Insurance is an authorized expense using excess fees of the office of master commissioner. The master commissioner must establish an appropriate account with the Unemployment Insurance Tax Enforcement Branch. Contact information may be obtained from the Department of Financial Services at the AOC.

g. Flexible benefits and 401(k) matching are **not** authorized expenses.

15. Part-time Staff

   a. Staff working less than 37.5 hours per week are part-time staff.

b. Part-time staff who work less than 100 hours per month are **not** eligible for retirement benefits through the Kentucky Employees Retirement System.

c. Part-time staff are **not** eligible for health insurance.

d. Social Security and Medicare match are paid by the AOC for part-time staff. Master commissioners must report and remit employee FICA deductions monthly to the SSCRB on the Commonwealth of Kentucky form SS-16 or SS-16A.

e. Workers Compensation is paid by the AOC.

f. Unemployment Insurance is an authorized expense using excess fees of the office of master commissioner. The master commissioner must establish an appropriate account with the Unemployment Insurance Tax Enforcement Branch. Contact information may be obtained from the Department of Financial Services at the AOC.

g. Employer contributions to flexible spending accounts and 401(k) matching are **not** authorized expenses.

16. Changes in salary amounts and other budgetary allowances for the master commissioner, deputy master commissioner, and clerical staff are at the discretion of the Executive Officer, Department of Financial Services, with approval of the Chief Justice.

    The Department of Financial Services at the AOC will notify master commissioners of salary changes before the effective date of January 1 of each year.

17. Expenses other than payroll and benefits.

    a. A fidelity bond equal to the penal sum of the master commissioner's bond as determined by the AOC shall be maintained for all staff with check signing authority. Costs of the fidelity bond are authorized to be paid with excess fees of the office of master commissioner upon approval of the Executive Officer, Department of Financial Services, on an OFA-MC-5 *Master Commissioner MCAPPM Approval Request* form.

    b. The cost incurred for the purchase of accounting/bookkeeping software is authorized to be paid with excess fees of the office of master commissioner upon approval of the Executive Officer, Department of Financial Services, on an OFA-MC-5 *Master Commissioner MCAPPM Approval Request* form.

    c. Check printing charges for the master commissioner escrow and operating account(s) may be paid from the operating account.

d. A master commissioner subscription to CourtNet may be obtained directly from the AOC at courtnetbilling@kycourts.net for a fee. The CourtNet access through this subscription shall not be used for any personal or private business, but only for case information searches related to master commissioner activity. This cost is authorized to be paid from available excess fees of the office of master commissioner.

e. Attorney fees are an authorized expense when the master commissioner is sued in his or her capacity as master commissioner and when:

   i. The retention of counsel has been approved by the Executive Officer of Financial Services and the AOC General Counsel; and

   ii. The hourly rate does not exceed the Commonwealth's standard reimbursement rates for legal services as published by the Kentucky Legislature's Government Contract Review Committee unless otherwise approved by the Executive Officer of Financial Services and the AOC General Counsel.

f. Full-time offices authorized by the Chief Justice may deduct ordinary business expenses allowed by the IRS and directly related to the master commissioner responsibilities if no private practice or business is also conducted in or with the same resources as the office of master commissioner.

   i. When purchasing supplies and/or services, the master commissioner and staff must be prudent buyers. Purchases may not be made from related entities or persons. In no case shall the good or service be purchased at a rate higher than fair market value.

   ii. Purchase of any item with a cost in excess of $500 must have prior written approval of the Executive Officer, Department of Financial Services. A *Master Commissioner MCAPPM Approval Request* form with a quote for the supply or service must be submitted to MasterCommissionerFilings@kycourts.net. A copy of the approval must be attached to the paid invoice.

   iii. Costs must **not** be allocated between the office of master commissioner and the private practice of the master commissioner without the prior approval of the Executive Officer, Department of Financial Services.

Section Number: **100.12**

Subject: **EXCESS FEES**

Authority: **AP PART IV, SECTIONS 9(3), 10(2) and (4), AND 12(1)**

1. Except for excess fees used to compensate authorized deputy master commissioners, to pay salaries of authorized clerical staff, and to pay for office expenses authorized by this Manual or the Executive Officer, Department of Financial Services, the excess fees of the office of master commissioner must be remitted to the Department of Financial Services at the AOC with the master commissioner's completed *Annual Report of Master Commissioner* on or before March 1st of the following year or with the master commissioner's completed *Final Report of Master Commissioner* within 30 days of termination, removal, or death of the former master commissioner, as provided in Section 100.15 of this Manual.

2. Anticipated six months of expenses, <u>including</u> personal compensation of the master commissioner, may be retained from excess fees. Computation of the anticipated six months of expenses must be supported by adequate records and documentary evidence and be submitted with the *Annual Report of Master Commissioner* to the Department of Financial Services at the AOC.

Section Number: **100.13**

Subject: **ACCOUNTING OF MASTER COMMISSIONER**

Authority: **AP PART IV, SECTIONS 5, 9(3), AND 10**

Reports

1. For each case, the master commissioner must provide an individual case report to the circuit judge. The individual case report must account for all amounts received and distributed, for all proceeds of sales disbursed, for all fees collected, and for all expenses deducted.

2. Accounting of the individual case report must be in a manner directed by the circuit judge. The circuit judge shall approve the report by his or her signature and date of approval.

3. The master commissioner must file the approved individual case report with the circuit court clerk who shall record the approved accounts in the case management system and file in the applicable case.

4. Each foreclosure case must include an accounting of all fees taken in and disbursed.

5. Each master commissioner must provide to the AOC, on or before March 1st of each year, a complete accounting of the prior calendar year for all fees collected and for all expenses deducted. Supporting documentation demonstrating approval of the Executive Officer of the Department of Financial Services, when required for expenses, must be attached to the Business Expenses for Master Commissioners schedule (Schedule A or B) attached to the *Annual Report of Master Commissioner*.

6. The accounting must be completed utilizing the *Annual Report of Master Commissioner* template provided by the Department of Financial Services at the AOC.

7. The master commissioner is responsible for all IRS 1099 reporting requirements as directed by the SSCRB.

8. All compensation is to be reported monthly to the SSCRB on the Commonwealth of Kentucky form SS-16 or SS-16-A, as directed by the SSCRB.

Documentation of Expenses

9. Adequate records and documentary evidence must be maintained to support each element of an expense.

10. Only salaries, benefits as described herein, bonding expenses for employees that have check signing authority, check printing charges, master commissioner subscriptions to CourtNet, and the cost incurred for purchase of accounting/bookkeeping software mandated by the AOC auditing standards may be deducted from any fees generated by the office of a master commissioner. Salaries are to be itemized per employee and must **not** exceed the amount authorized by the Executive Officer, Department of Financial Services.

11. Notwithstanding any provision to the contrary herein, a master commissioner authorized by the Chief Justice to operate a full-time master commissioner's office and who does not engage in any private business enterprise in their master commissioner's office may deduct business expenses directly related and necessary to the operation of the master commissioner's office as established by the AOC auditing standards.

Accounting Procedure

12. Each master commissioner must maintain a ledger control balance by case for all escrow funds received for executing the duties of master commissioner. Failure to maintain a detailed escrow ledger card balance per case (inflows and outflows) results in a lack of "book balance."

13. Ledger control cards must be balanced with the escrow account bank reconciliation to identify all funds held and case number associated with said funds. This will enable the master commissioner as well as the AOC to track all funds handled and disbursed by the office of master commissioner by case.

14. Each ledger card should accurately and completely reflect the amounts reported in the order of distribution and/or individual case report filed by the master commissioner.

15. Implementation of a ledger system must be as follows:

    a. By manual ledger cards, or

    b. By an electronic accounting system where each case is identified separately.

16. The master commissioner should retain a copy of each check received as payment of judicial sale proceeds, stamped with the date of receipt. Sale proceeds should be deposited to the escrow account daily as received.

17. All master commissioner fees disbursed from the escrow account must be deposited in a separate interest-bearing operating account. The master commissioner must deposit all master commissioner fees generated in the execution of duties as master commissioner into this operating account not less than weekly, although daily deposits are recommended. To obtain approval to deposit non-sale fees directly into the operating account, the master commissioner must submit a *Master Commissioner MCAPPM Waiver Request* form to MasterCommissionerFilings@kycourts.net.

18. The Department of Financial Services at the AOC provides the *Annual Report of Master Commissioner* template to each master commissioner. This template must be completed by the master commissioner filed on or before March 1st of each year. Any questions regarding the completion of the *Annual Report of Master Commissioner* template should be directed to the Department of Financial Services at the AOC.

19. Excess fees of the office of master commissioner, pursuant to Section 9(3) of AP Part IV, must be remitted by check along with the master commissioner's completed *Annual Report of Master Commissioner*. In addition, the master commissioner should remit all interest earned during the year on a separate check drawn on each account. Checks are to be made payable to the "Kentucky State Treasurer."

20. The master commissioner must maintain two separate interest-bearing checking accounts, for master commissioner funds only. The checking accounts must be reconciled monthly. The reconciliation must be performed within 30 days of the date of the bank statement. The checking accounts are as follows:

    a. an escrow account for all funds received, to be distributed per court order; and

    b. an operating account where all fees generated by the office of master commissioner are deposited.

21. Any disbursement of master commissioner funds which is not in compliance with a court order, does not relate to authorized expenses, or does not represent activities related to the master commissioner's duties and functions must be reported immediately to the Division of Audit Services and the Department of Financial Services at the AOC.

22. Any deposit of personal or non-master commissioner funds to either of the master commissioner's checking accounts must be reported immediately to the Division of Audit Services and the Department of Financial Services at the AOC.

23. Any deposit of master commissioner funds to a personal or non-commissioner account must be reported immediately to the Division of Audit Services and the Department of Financial Services at the AOC.

Section Number: **100.14**

Subject: **ESCROW AND OPERATING ACCOUNTS**

Authority: **AP PART IV, SECTION 11**

1. Master commissioners must maintain one or more separate interest-bearing escrow accounts for all proceeds received and disbursed and must maintain an itemized accounting of same.

2. Where a master commissioner operates as master commissioner for multiple counties or acts as both a master commissioner and as a domestic relations commissioner, all fees must be deposited into a single operating account.

    a. Deposits must be clearly identified by county or type (MC or DRC) and must be tracked through separate income/revenue accounts in the accounting software or manual ledgers.

    b. Only master commissioner fees earned in the applicable county may be used to pay compensation and office expenses in that county. Only DRC fees can be used to pay authorized DRC compensation.

    c. Excess fees of the office of master commissioner must be calculated for each county and type (MC/DRC) separately and properly reported on the applicable Annual Report.

3. Proceeds relating to the office of master commissioner must **not** be comingled with any other accounts or funds held by the master commissioner in his or her personal or professional capacity.

4. Interest earned on the account must be remitted to the AOC with the master commissioner's completed *Annual Report of Master Commissioner*.

5. The account must be subject to periodic, but no less than annual, audits by the AOC.

Accounting Procedure

6. All master commissioner bank accounts are to be set up under the Commonwealth of Kentucky Federal ID (61-0600439) and must have "Commonwealth of Kentucky" as the first line in the account name. All interest earned must be remitted with each year's *Annual Report of Master Commissioner*. Copies of the December bank statements showing the year to date (YTD) interest earned on each account must be attached to the *Annual Report of Master Commissioner*. A separate check from each account is to be made payable to the "Kentucky State Treasurer."

7. An AOC-approved collateral security agreement that perfects the master commissioner's security interest in the collateral is required from each depository bank used by the master commissioner. The collateral security agreement must require the bank to pledge securities for all amounts over the FDIC insured amount deposited in the bank and to provide regular statements of pledged securities from the Trustee to the master commissioner. A pre-approved collateral security agreement is attached to this manual as Appendix A. If any collateral security agreement other than the pre-approved copy supplied by the AOC is proposed, the master commissioner must submit a copy to the Department of Financial Services, for approval **prior** to the execution of the agreement. If the proposed collateral security agreement is not approved by the AOC, the master commissioner must negotiate an AOC-approved agreement with the bank.

8. The master commissioner must receive and review statements of collateral balances at least quarterly to ensure the collateral is sufficient to cover all deposits in the depository bank not insured by the FDIC.

9. The master commissioner is the only person authorized to sign checks unless prior approval is received from the Executive Officer, Department of Financial Services. A *Master Commissioner MCAPPM Approval Request* form must be submitted to MasterCommissionerFilings@kycourts.net.

10. All documentation to support the payee and check amount must be provided with the check at the time the check is signed. The supporting documentation must be stamped or annotated as paid when the check is signed. The stamped or annotated supporting documentation must include the date, check number, and amount paid.

11. Escrow and operating accounts must be reconciled on a monthly basis. The reconciliation must be performed within 30 days of the date of the bank statement. If the account agreement with the bank calls for a period of less than 30 days, then the reconciliation must be performed in accordance with the agreement with the bank. The reconciliation must be performed by either the master commissioner or an individual **without** check signing authority. The monthly bank statements must be mailed to and opened by the individual performing the reconciliation. The master commissioner must review and approve each month's reconciliations and denote such approval by signing and dating each month's reconciliation. These procedures also apply to the operating checking account.

12. Stale dated checks and checks outstanding for over six months must be voided and added back to applicable case balances, and the master commissioner must attempt to reissue payment as ordered by the court. If the master commissioner is unable to reissue payment, the funds must be held until they are eligible to be escheated as unclaimed property.

13. The master commissioner must disburse all judicial sale proceeds per court order. If the master commissioner is unable to locate a payee, if stale dated checks are voided and cannot be reissued, or if proceeds ordered to be disbursed are otherwise unclaimed, those funds must be considered unclaimed and escheated pursuant to KRS Chapter 393A or other applicable statute. Funds are not eligible for escheatment if the judicial sale has not been confirmed or objections or appeals remain unresolved.

    a. Direct expenses related to escheating funds are not recoverable pursuant to Section 100.6 of this Manual.

    b. The master commissioner shall not charge fees for preparing reports or drafting documents related to the escheatment of funds.

14. Blank checks may **not** be signed in advance. Unused check stock shall be maintained in a locked container when not in use. Only those with check signing authority shall have access to the check stock. Facsimile signatures are **not** allowed.

Section Number: **100.15**

Subject: **TRANSFER OF OFFICE**

Authority: **AP PART IV, SECTION 12**

1. Upon the death, termination, or removal of a master commissioner, all books, papers, account information, case files, and other documents related to the office of master commissioner shall be immediately transferred to the circuit judge for whom the master commissioner served and immediate notice shall be given to the Department of Financial Services at the AOC. In a single-judge circuit, if termination is due to the death, resignation, or permanent replacement of the circuit judge who appointed the master commissioner, said documents shall be transferred pursuant to the order of the chief regional circuit judge.

Accounting Procedure

2. Upon death, termination, or removal of a master commissioner, the circuit judge should immediately notify the Department of Financial Services at the AOC.

3. Transfer of all funds, records, and documents must be accomplished within 30 days of termination or removal and must be made pursuant to the order of the appointing circuit judge or the chief regional circuit judge, if termination is due to the death, resignation, or permanent replacement of the circuit judge who appointed the master commissioner.

4. All financial records must be made immediately available to the Division of Audit Services to facilitate a close-out audit of the former master commissioner.

5. Upon termination or removal of a master commissioner, a *Final Report of Master Commissioner* must be completed by the former master commissioner within 30 days and submitted to the Department of Financial Services along with any applicable excess fees and/or interest of the office of master commissioner. The *Final Report of Master Commissioner* template may be obtained from the Department of Financial Services at the AOC.

6. Upon death of a master commissioner or where the former master commissioner's assistance is either impossible or ill-advised, a *Final Report of Master Commissioner* must be completed by the newly appointed master commissioner with the assistance of a judicial auditor following the close-out audit. This report must be submitted to the Department of Financial Services at the AOC along with any applicable excess fees and/or interest of the office of master commissioner.

Section Number: **100.16**

Subject: **LIMITS ON ANNUAL COMPENSATION OF SPECIAL MASTER COMMISSIONER**

Authority: **AP PART IV, SECTIONS 13 AND 15**

1. Any master commissioner who is disqualified under the provisions of Section 13 of AP Part IV or is unable to discharge the duties of his or her office for any other reason shall be replaced by a special master commissioner who shall be appointed by the judge of the court before whom the action is pending.

2. The judge shall enter an order appointing the special master commissioner and shall provide a copy of the order to the Department of Financial Services at the AOC.

3. The special master commissioner shall meet the same qualifications as a master commissioner and shall take an oath, execute a bond in an amount to be set by the chief circuit judge based upon the estimated sum to be derived from the proceedings, and be subject to the same rules as the regular master commissioner.

4. If the special master commissioner is a master commissioner in another county, no additional bond is required unless ordered by the appointing judge.

Accounting Procedure

5. Special master commissioners are **not** entitled to benefits.

6. Fees earned by a master commissioner for service as a special master commissioner in another county(ies) must be treated as follows:

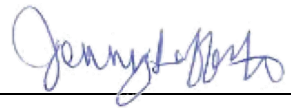
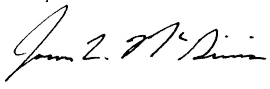
    a. The first $5,000 earned annually from service as a special master commissioner shall **not** count toward the master commissioner's salary cap and should **not** be reported to the SSCRB.

    b. Any fees in excess of $5,000 earned annually from service as a special master commissioner shall count toward the master commissioner's salary cap and must be reported on the master commissioner's completed *Annual Report of Master Commissioner*. These fees must be deposited to the master commissioner's operating account.

7. The special master commissioner is responsible for IRS Form 1099 reporting requirements as directed by the SSCRB.

8. In the event of extenuating circumstances where the appointed master commissioner cannot perform his or her duties for an extended period of time, the appointed acting master commissioner should be considered a deputy master commissioner for compensation purposes, with allowable annual salary of $48,878 prorated at $4,073.17 per month for each month served as acting master commissioner.

9. The Department of Financial Services at the AOC must be notified when a special or acting master commissioner is appointed.

	PRINTED NAME	SIGNATURE	DATE
REVIEWED & APPROVED BY APPROVING AUTHORITY:	Jenny Lafferty		1/30/25
REVIEWED & RECOMMENDED BY OGC:	Margaret Ivie		1/30/25
REVIEWED & APPROVED BY AOC DIRECTOR:	Jason L. McGinnis		1/30/25

COLLATERAL SECURITY AGREEMENT

THIS COLLATERAL SECURITY AGREEMENT, hereinafter called "Agreement", is made and entered into on this _____day of _____, 2____, by and between _____, hereinafter called "Depositor", and _____, a financial institution organized under the laws of the United States or Commonwealth of Kentucky and authorized by law to conduct banking business in the Commonwealth of Kentucky, hereinafter called "Bank."

I. RECITALS

A. The Depositor is a validly existing governmental officer or entity in Kentucky, and has designated the Bank as a depository for its funds. All funds on deposit with the Bank to the credit of the Depositor are required to be insured by the Federal Deposit Insurance Corporation or be secured by collateral of the like and kind described in KRS 41.240 (hereinafter called "Public Funds Law").

B. To perfect the security interest of the Depositor in the collateral to be pledged by the Bank hereunder, _____(hereinafter called "Trustee"), an independent third party, will hold the collateral in a custody account for the benefit of the Depositor. The Bank shall not utilize the Trustee if such Trustee and Bank are owned by a single bank holding company.

C. The parties hereto desire to provide for the collateralization of the Depositor's funds as required by the Public Funds Law and on the terms and conditions set forth herein. This Collateral Security Agreement was approved by, and duly recorded in the minutes of, the Board of Directors or Loan Committee of the Bank on _____, 2_____.

D. The Bank shall maintain this Agreement among its official records continuously until such time this Agreement is terminated and all deposits of the Depositor have been properly paid out.

II. AGREEMENT

IN CONSIDERATION of the foregoing and mutual covenants and promises set forth below, the parties hereto agree as follows:

A. During the term of this Agreement, the Depositor will designate the officer or officers who singly or jointly shall be authorized to represent and act on behalf of the Depositor in any and all matters of every kind arising under this Agreement. The Bank's deposit agreement is incorporated herein for all purposes; however, to the extent that any provision in such deposit agreement conflicts with the provisions hereof, the provisions of this Agreement will control.

B. The Bank hereby pledges to the Depositor and grants to the Depositor a security interest in certain assets owned by the Bank and held by the Trustee for the benefit of the Depositor (hereinafter called "Collateral") to secure the deposits held by the Bank for the Depositor as follows:

1. The total market value of the Collateral securing such deposits will be in an amount having an aggregate current face value or current quoted market value at least equal to

the amount of such deposits as of the last business day of each quarter in which funds are so deposited, reduced to the extent that such deposits are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation.

2. At no time shall Depositor's funds collectively exceed the Bank's sum of capital, reserves, undivided profits, and surplus, or 10% of the total deposits of the Bank, whichever is less.

C. The Bank has heretofore or will immediately hereafter deliver to the Trustee Collateral of the kind and character permitted by the Public Funds Law. The Collateral shall be of sufficient amount or market value to provide adequate collateral for funds of the Depositor deposited with the Bank, as provided by Article II.B.1 herein. The Collateral, or substitute Collateral as hereinafter provided for, shall be kept and retained by the Trustee in trust so long as the depository relationship between the Depositor and the Bank shall exist hereunder, and thereafter until all deposits made by the Depositor with the Bank shall have been properly paid out by the Bank to the Depositor or on its order.

D. The Bank shall cause the Trustee to accept the Collateral and hold the same in trust for the purpose herein stated.

E. The Bank shall cause the Trustee to promptly forward to the Depositor copies of safekeeping or trust receipts covering all Collateral, or substitute Collateral as provided for herein, held by the Trustee for the benefit of the Depositor within three (3) business days of the Collateral pledge. The Bank shall also cause the Trustee to remit statements of accounts of the Collateral to the Depositor at least on a quarterly basis.

F. Should the Bank fail at any time to pay and satisfy upon presentment, any check, electronic funds transfer, draft, or voucher lawfully drawn upon public funds deposited with the Bank whenever due, or in case the Bank becomes insolvent, or fails to maintain adequate Collateral as required by this Agreement, or in any manner breaches its contract with the Depositor, the Depositor may give written notice of such failure, insolvency or breach and the Bank shall cure such failure, insolvency, or breach within three (3) business days from receipt of such notice. In the event the Bank shall fail to cure such failure, insolvency, or breach within three (3) business days of its receipt of such written notice from the Depositor, it shall be the duty of the Trustee, upon demand of the Depositor with the proper supporting evidence thereof, to surrender the Collateral to the Depositor.

1. The Depositor may sell all or any part of the Collateral and out of the proceeds thereof pay the Depositor all damages, losses, and expenses of any and every kind incurred by it on account of such failure, insolvency, or breach, or sale. The Depositor shall account to the Bank for the remainder, if any, of such proceeds or Collateral remaining unsold.

2. Any sale of the Collateral or any part thereof made by the Depositor may be either at public or private sale; provided, however, that notice of time and place where such sale shall be given three (3) days prior to the sale to the Depositor and the Bank. Such sale

shall be to the highest bidder thereof for cash. The Depositor and Bank shall have the right to bid at such sale.

G. If the Bank shall desire to sell or otherwise dispose of any one or more of the securities constituting part of the Collateral deposited with the Trustee, it may substitute for any one or more of such securities other securities of the same market value and of the character authorized herein after written notice of such substitution is provided to the Depositor. The Depositor shall have the right to reject substitute Collateral by the Bank. Such right of substitution shall remain in full force and may be exercised by the Bank as often as it is desired; provided that the aggregate market value of all Collateral pledged hereunder shall be at least equal to the amount of Collateral required hereunder.

H. If at any time the aggregate market value of the Collateral so deposited with the Trustee is less than the amount required hereunder, the Bank shall within one (1) business day deposit with the Trustee such additional amount as may be necessary to cause the market value of such Collateral to equal the total amount of required Collateral hereunder.

I. The Bank shall be entitled to income on securities held by the Trustee, and the Trustee may dispose of such income as directed by the Bank without the approval of the Depositor, provided a breach of contract does not exist.

J. If at any time the Collateral in the hands of the Trustee shall have a market value in excess of the amount required hereunder, the Depositor shall authorize the Trustee to withdraw a specified amount of Collateral equal to the amount in excess of that required. The Trustee may deliver this amount of collateral, and no more, to the Bank taking its receipt therefore, and the Trustee shall have no further liability for Collateral so redelivered to the Bank.

K. Each party shall have the right to terminate this Agreement by advance written notice to the other of its election to do so, and this Agreement shall be void from and after the expiration of sixty (60) days after the receipt of such notice provided all provisions of this Agreement have been fulfilled.

L. When the relationship of the Depositor and the Bank has ceased to exist and the Bank shall have properly paid out all deposits of the Depositor, the Depositor shall give to the Trustee written notice to that effect; whereupon the Trustee shall redeliver to the Bank all Collateral then in its possession belonging to the Bank taking receipt therefore.

M. This Agreement shall be governed and construed in accordance with the laws of the Commonwealth of Kentucky and venue for any disputes related to this Agreement shall be in Kentucky.

N. Any modifications to this Agreement, or change in Trustee, shall be agreed to in writing signed by the Depositor and the Bank.

O. This Agreement is continuing and binding upon the bank and its successor and assigns and shall inure to the benefit of the Depositor.

P. As used in this Agreement, the term "business day" shall mean a day in which the Federal Reserve Bank shall be open for the transaction of business.

EXECUTED this _____day of _____, 2_____, by the undersigned duly authorized officers of the parties hereto.

DEPOSITOR:

By: _____
(Signature of Public Official)

Title: _____

BANK:

By: _____
(Signature of Bank Official)

Title: _____