# PRELIMINARY OFFICIAL STATEMENT
# Dated December 6, 2002
# (Bonds to be sold December 18, 2002, 11:00 a.m. E.S.T.)

**BANK INTEREST DEDUCTION ELIGIBLE**

**Moody's Rating: "___"**
**(See "Rating" Herein)**

**BOOK-ENTRY-ONLY SYSTEM**

**PRELIMINARY OFFICIAL STATEMENT DEEMED NEAR FINAL UNDER SEC RULE 15c2-12(b)(1) but subject to revision, amendment and completion in a "Final Official Statement".**

## $727,000*
## FRANKFORT (KENTUCKY) INDEPENDENT SCHOOL DISTRICT FINANCE CORPORATION SCHOOL BUILDING REFUNDING REVENUE BONDS SERIES OF 2002

**Dated: December 1, 2002**

**Due: April 1, 2003 and October 1, 2003-2012**

The Bonds will be issued and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds. Accordingly, principal, interest and premium, if any, on the Bonds will be paid by Central Bank & Trust Co., Lexington, Kentucky, as Paying Agent and Registrar, directly to DTC or Cede & Co., its nominee. DTC will in turn remit such principal, interest or premium to the DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners (as defined herein) of the Bonds. The Bonds will be issued in denominations of $1,000 each or integral multiples thereof, and will bear interest payable on April 1, 2003 and thereafter semiannually on each October 1 and April 1.

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

**SCHEDULE OF MATURITIES**

| Due | Cusip # | Amount* | Rate | Yield | Due | Cusip # | Amount* | Rate | Yield |
|---|---|---|---|---|---|---|---|---|---|
| 4/1/03 | | $ 6,000 | | | 10/1/08 | | $84,000 | | |
| 10/1/03 | | 63,000 | | | 10/1/09 | | 92,000 | | |
| 10/1/04 | | 72,000 | | | 10/1/10 | | 74,000 | | |
| 10/1/05 | | 75,000 | | | 10/1/11 | | 77,000 | | |
| 10/1/06 | | 73,000 | | | 10/1/12 | | 25,000 | | |
| 10/1/07 | | 86,000 | | | | | | | |

(Plus accrued interest-when issued)

***Purchaser's Option*** - The Purchaser of the Bonds may specify to the Financial Advisor that any Bonds may be combined with immediately succeeding sequential maturities into a Term Bond or Term Bonds, bearing a single rate of interest, with the maturities set forth above (or as may be adjusted as provided herein) being subject to mandatory redemption in such maturities for such Term Bond(s).

The Bonds are issued under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Sections 162.120 through 162.290, 162.385, and Section 58.180 of the Kentucky Revised Statutes. The Bonds constitute a limited indebtedness of the Corporation and are payable, both principal and interest, only from revenues to be derived from lease rental payments to be paid on a year-to-year basis by the Frankfort Independent Board of Education to the Corporation for use of the school facilities in accordance with the terms of a Contract, Lease and Option between the Board and the Corporation.

*In the opinion of Bond Counsel, interest on the Bonds is excludable from the gross income of the recipients thereof for Federal income tax purposes under existing law, regulations and court decisions, except as to certain recipients, and the Bonds and interest thereon are exempt from income taxes and ad valorem taxes in the Commonwealth of Kentucky and any political subdivision thereof. See "Tax Exemption" herein.*

The Bonds are issued subject to approval of legality by Henry M. Reed III, Louisville, Kentucky, Bond and Special Tax Counsel to the Corporation. Delivery of the Bonds is expected on or about January 8, 2003.

*Preliminary, Subject to Permitted Adjustment.

## FIRST KENTUCKY SECURITIES CORPORATION
## Fiscal Agent

**FRANKFORT (KENTUCKY) INDEPENDENT SCHOOL DISTRICT**
**FINANCE CORPORATION**

Board of Directors

Terry Magel, President
Gilmore Dutton, Vice President
Bruce Dungan, Director
Jina Greathouse, Director
Marshall Thompson, Director

Mike Oder, Secretary
Tena Hartley, Treasurer

**FRANKFORT (KENTUCKY) INDEPENDENT SCHOOL DISTRICT**
**BOARD OF EDUCATION**

Board Members

Terry Magel, Chairman
Gilmore Dutton, Vice Chairman
Bruce Dungan
Jina Greathouse
Marshall Thompson

Terry Bush, Secretary
Tena Hartley, Treasurer
Mike Oder, Superintendent

**BOND AND SPECIAL TAX COUNSEL**

Henry M. Reed III
Louisville, Kentucky

**FISCAL AGENT**

First Kentucky Securities Corporation
Frankfort, Kentucky

**PAYING AGENT/BOND REGISTRAR/ESCROW AGENT**

Central Bank & Trust Co.
Lexington, Kentucky

**BOOK-ENTRY-ONLY-SYSTEM**

**No dealer, broker, salesman, or other person has been authorized by the Frankfort Independent School District Finance Corporation, the Frankfort Independent Board of Education, or First Kentucky Securities Corporation, the Financial Advisor, to give any information or representations, other than those contained in this Official Statement, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Except where otherwise indicated, the information set forth herein has been obtained from the Kentucky Department of Education and the Frankfort Independent Board of Education and is believed to be reliable; however, such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by First Kentucky Securities Corporation, the Financial Advisor, or by Bond Counsel. The delivery of this Official Statement at any time does not imply that information herein is correct as of any time subsequent to the date hereof.**

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Terms & Conditions of Sale

**PRELIMINARY OFFICIAL STATEMENT**

**$727,000***
**FRANKFORT (KENTUCKY) INDEPENDENT**
**SCHOOL DISTRICT FINANCE CORPORATION**
**SCHOOL BUILDING REFUNDING REVENUE BONDS**
**SERIES OF 2002**

**Dated Date: December 1, 2002**

This Official Statement, which includes the cover page, is being distributed by the Frankfort Independent School District Finance Corporation (the "Corporation") to furnish pertinent information to all who may become holders of its School Building Refunding Revenue Bonds, Series of 2002, dated December 1, 2002 (the "Bonds") being offered hereby pursuant to the provisions of Sections 162.120 through 162.290 and Section 162.385 of the Kentucky Revised Statutes, ("KRS") and KRS Chapter 273 and KRS 58.180, and pursuant to the terms of a Bond Resolution adopted by the Corporation.

The summaries and references to Sections of the Kentucky Revised Statutes, the Bond Resolution, and the Contract, Lease and Option, as included in this Official Statement, do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document.

## DESCRIPTION OF THE BONDS

### *Authorization*

Pursuant to Sections 162.120 through 162.290 and Section 162.385 of the Kentucky Revised Statutes and KRS Chapter 273 and KRS 58.180, the Corporation adopted a Bond Resolution (i) authorizing the issuance of $727,000* School Building Refunding Revenue Bonds; (ii) approving the publication of a Notice of Sale of Bonds; (iii) approving the terms and conditions of bond sale; and (iv) authorizing the President of the Corporation to execute the Official Statement related to the Bonds.

### *Terms*

The Bonds will be dated December 1, 2002 will bear interest payable April 1, 2003, and thereafter semiannually on each October 1 and April 1 at the rates established upon acceptance of a bid for said Bonds and, will mature on the dates and in the amounts set forth on the cover page.

### *Book Entry*

The following information regarding DTC and Cede & Co. will be applicable to the Bonds as long as a book entry system is utilized. The Corporation does not assume any responsibility for the accuracy or completeness of the information set forth under this caption "Book Entry", and the Corporation is not required to supervise, and will not supervise, the operation of the book entry system described herein.

DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need of physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

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

*Preliminary, Subject to Permitted Adjustment.

The Corporation has no responsibility or liability for any aspects of the records relative to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership.

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

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

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

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

The Corporation and the Paying Agent and Registrar cannot and do not represent or give any assurances that DTC, the DTC Participants or Indirect Participants or others will distribute payments of debt service charges on the Bonds paid to DTC or its nominee, as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will serve and act in the manner described in this Official Statement.

***Optional Redemption Provision***

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

***Authority and Purpose; Refinancing Plan***

The Refunding Bonds are being issued under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Sections 162.120 through 162.290, 162.385, and Section 58.180 of the Kentucky Revised Statutes, within the meaning of the decision of the Court of Appeals of Kentucky (Supreme Court) in the case of Hemlepp v. Aromberg, 369 S.W.2d 121, for the purpose of providing funds to redeem and retire all the Corporation's School Building Revenue Bonds, Series A of 1991, dated July 1, 1991, and Series of 1992, dated October 1, 1992 (the "Prior Bonds" or the "Prior Issues"). The Series 1991 Bonds were issued by the Corporation for the purpose of financing Phase III of the renovation of the Second Street Elementary School. The Series 1992 Bonds were issued by the Corporation for the purpose of financing Phase I of the renovation of and addition to the Frankfort High School (the "Projects").

The 1991 Bonds maturing on January 1 in each of the years 2004 through 2010 in the aggregate principal amount of $100,000 and the interest thereon and required redemption premium (the "Defeased 1991 Bonds") shall be provided for by the deposit of sufficient funds in the 2002 Escrow Fund from the proceeds of the Refunding Bonds. The Defeased 1991 Bonds shall be redeemed prior to their stated maturities on July 1, 2003.

The 1992 Bonds maturing on October 1 in each of the years 2003 through 2012 in the aggregate principal amount of $570,000 and the interest thereon and required redemption premium (the "Defeased 1992 Bonds") shall be provided for by the deposit of sufficient funds in the 2002 Escrow Fund from the proceeds of the Refunding Bonds. The Defeased 1992 Bonds shall be redeemed prior to their stated maturities on April 1, 2003.

Sufficient proceeds of the Refunding Bonds will be deposited in a special 2002 Escrow Fund and invested in U.S. Government Obligations, or Certificates of Deposit of FDIC banks fully collateralized by said Obligations, so that said proceeds, plus the investment income therefrom, will be sufficient to (i) provide for the payment of the interest requirement coming due on the Defeased 1991 Bonds scheduled to come due July 1, 2003 until the prior redemption of the Defeased 1991 Bonds on July 1, 2003; (ii) payment of the interest requirement coming due on the Defeased 1992 Bonds scheduled to come due April 1, 2003 until the prior redemption of the Defeased 1992 Bonds on April 1, 2003; (iii) the redemption prior to maturity of $100,000 of said Defeased 1991 Bonds maturing January 1, 2004 and thereafter on July 1, 2003; (iv) the redemption prior to maturity of $570,000 of said Defeased 1992 Bonds maturing October 1, 2003 and thereafter on April 1, 2003; (v) a redemption premium of $3,000 (3%) for said Defeased 1991 Bonds maturing January 1, 2004 and thereafter on July 1, 2003; and (vi) a redemption premium of $17,100 (3%) for said Defeased 1992 Bonds maturing October 1, 2003 and thereafter on April 1, 2003.

***Security for Refunding Bonds***

The Bonds of the Prior Issues were issued under the authority of KRS Section 162.120 through 162.290 and 162.385 (the "School Bond Act") for the purpose of providing funds to finance Phase III of the renovation of the Second Street Elementary School and Phase I of the renovation of and addition to the Frankfort High School (the "Projects"). Under the terms of the Prior Bond Resolutions authorizing the Prior Issues, those Bonds are payable from the income and revenues of the Projects financed from the proceeds thereof. The Bonds of the Prior Issues are secured by statutory mortgage liens upon and pledges of revenue from the rental of the Projects to the Board under two separate Contract, Lease and Options, dated July 1, 1991 and October 1, 1992, respectively, (collectively, the "Prior Leases").

The principal amount of the 1991 Prior Issue outstanding as of December 1, 2002 is $110,000, scheduled to mature on January 1, in each of the years 2003 through 2010. The Commission will make the January 1, 2003 principal payment of $10,000 and interest payment of $3,850 as the final payment under the Series 1991 Prior Lease, as this maturity is not a part of the refunding. The principal amount of the 1992 Prior Issue outstanding as of December 1, 2002 is $570,000, scheduled to mature on October 1 in each of the years 2003 through 2012.

The Corporation and the Board have entered into a Contract, Lease and Option, dated as of December 1, 2002 (the "2002 Lease"). The Refunding Bonds are secured by statutory mortgage liens on the Projects leased to the Board under the 2002 Lease and by pledges of the rental revenues derived under the 2002 Lease.

Under the 2002 Lease, the Board has leased the Projects securing the Refunding Bonds in accordance with the provisions of KRS 162.140 for an initial period from December 1, 2002 through June 30, 2003, with the option in the Board to renew said 2002 Lease from year to year for one year at a time, at annual rentals, sufficient in each year to enable the Corporation to pay, solely from the rentals due under the 2002 Lease, the principal and interest on all of the Refunding Bonds as same become due.

In addition, the 2002 Lease provides that the Prior Leases will be canceled as to all of the Defeased 1991 Bonds and the Defeased 1992 Bonds effective upon the deposit in the 2002 Escrow Fund of sufficient funds to provide for the retirement of the Defeased 1991 Bonds and the Defeased 1992 Bonds. The 2002 Lease provides further that so long as the Board exercises its annual renewal options, its rentals will be payable according to the terms and provisions of the 2002 Lease until October 1, 2012, the final maturity date of the Refunding Bonds, and such annual rentals shall be deposited as received in the Bond Fund for the Refunding Bonds and used and applied for the payment of all maturing principal of and interest on the Refunding Bonds.

Under the terms of the 2002 Bond Resolution, the Prior Leases and the 2002 Lease, the statutory mortgage liens securing the Refunding Bonds which are created and granted pursuant to KRS 162.200 upon the school Projects are and shall be restricted in their applications to the exact locations of said school Projects and to such easements and rights of way for ingress, egress and the rendering of services thereto as may be necessary for the proper use and maintenance of said school buildings, the right being reserved to erect or construct upon any land not occupied by the school Projects other independently financed school buildings, free and clear of said statutory mortgage liens, which other independently financed school buildings, may not have a party wall with and adjoin said school buildings constituting the Projects, provided no part of the cost of said other independently financed school buildings is paid from the proceeds of the sale of the Refunding Bonds.

## KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION

The Commission ("SFCC") is an independent corporate agency and instrumentality of the Commonwealth of Kentucky established pursuant to the provisions of Sections 157.611 through 157.640 of the Kentucky Revised Statutes, as amended (the "Act") for the purpose of assisting local school districts in meeting the school construction needs of the Commonwealth in a manner which will ensure an equitable distribution of funds based upon unmet need.

Pursuant to the provisions of the Act and the Regulations of the Kentucky Board of Education and the Commission, the Commission has determined that the Board continues to be eligible for participation from the Commission in meeting the costs of refinancing the Project and has entered into a Participation Agreement with the Board whereunder the Commission agrees to continue to pay annually approximately 48% of the debt service requirements of the Bonds to be applied only to the payment of the principal and interest requirements on the Bonds; provided, however, that the contractual commitment of the Commission to pay the annual Agreed Participation is limited to the biennial budget period of the Commonwealth, with the first such biennial period terminating June 30, 2004; the right is reserved in the Commission to terminate the commitment to pay the Agreed Participation every two years thereafter. The obligation of the Commission to make payments of the Agreed Participation shall be automatically renewed each two years for a period of two years unless the Commission shall give notice of its intention not to participate not less than sixty days prior to the end of the biennium; however, by the execution of the Participation Agreement, the Commission has expressed its present intention to continue to pay the Agreed Participation in each successive biennial budget period until October 1, 2012, but such execution does not obligate the Commission to do so.

## ABSENCE OF STATE BUDGET; LITIGATION

The General Assembly is required by the Kentucky Constitution to adopt measures providing for the State's revenues and appropriations for each fiscal year. The Governor is required by law to submit a biennial State Budget (the "State Budget") to the General Assembly of the Commonwealth during the legislative session held in each even numbered year. State Budgets have generally been adopted by the General Assembly during those legislative sessions, which end in mid-April, to be effective for a two-year period commencing on the following July 1.

The Governor submitted a proposed State Budget, for the two-year period that begins July 1, 2002, during the regularly scheduled legislative session that began in January 2002. The regular legislative session of the General Assembly adjourned on April 15, 2002 without adoption of a State Budget. Upon conclusion of the Regular Session, the Governor called a Special Session for the sole purpose of adopting a State Budget. This special legislative session also adjourned without adoption of a State Budget.

Since a State Budget was not enacted by July 1, 2002, based upon advice received from the Attorney General of Kentucky, the Governor intends to authorize expenditures by executive order.

The Governor has advised all Kentucky School Superintendents by letter that it is his intention to implement a spending plan for the fiscal year ending June 30, 2003 by executive order, utilizing the same budget proposal he submitted to the Special Session and which, with few exceptions, was passed by both the House and the Senate.

The Governor’s letter states further that the Commonwealth “is expecting an additional revenue shortfall for the current fiscal year that we will accommodate through our normal budget reduction plan as set forth in the statute, without affecting education.”

The Kentucky Revised Statutes do not appear to anticipate or provide for an impasse of this nature, although the Section 183 of the Kentucky Constitution clearly directs that the General Assembly provide for a system of common schools.

Moody’s Investors Service has indicated that the absence of a State Budget is one of the reasons for placing School Building Revenue Bonds (as well as certain other State financings) on its Watchlist for possible downgrade and changing its Outlook from “Stable” to “Negative”.

While the extent of stress on the State Budget stemming from general economic conditions cannot be predicted with accuracy, Bond Counsel is confident that the Governor’s proposals for education as implemented by executive order would be upheld by Kentucky’s courts, if questioned in litigation, and that the ultimate approval of a State Budget by the General Assembly would not alter education spending to any meaningful degree with regard to these Bonds.

The Kentucky State Treasurer has initiated litigation in Franklin Circuit Court against the Governor “testing” the legality of the Governor’s plan of operating State government on his proposed budget. The President of the Senate has intervened in the action. It is anticipated that regardless of the determination of the Circuit Court the ruling will be appealed directly to the Kentucky Supreme Court.

On September 3, 2002 a private citizen filed pleadings pro se in the litigation seeking to intervene and alleging the Kentucky Constitution mandates only emergency spending in the absence of a legislatively approved budget

## FRANKFORT (KENTUCKY) INDEPENDENT SCHOOL DISTRICT FINANCE CORPORATION

The Corporation has been formed in accordance with the provisions of Section 162.120 through 162.290 and 162.385 of the Kentucky Revised Statutes ("KRS"), and KRS Chapter 273 and KRS 58.180, as a non-profit, non-stock corporation for the purpose of financing necessary school facilities for and on behalf of the Board of Education of the Frankfort Independent School District (the "Board"). Under the provisions of existing Kentucky law, the Corporation is permitted to act as an agency and instrumentality of the Board for financing purposes.

The Board of Directors of the Corporation is made up of the incumbent members of the Board of Education.

## THE REFUNDING PLAN

The Bonds are being issued to refund all school building revenue bonds originally issued by the Frankfort Independent (Kentucky) School District Finance Corporation designated as the Series A of July 1, 1991 and the Series of October 1, 1992 (the "Prior Bonds"). Under the refunding plan, all the maturities (the "Refunded Bonds") of the Prior Bonds, as described below will be subject to the refunding.

The Corporation will issue Bonds in an amount sufficient (1) to fund an escrow composed of United States government Obligations or Certificates of Deposit of FDIC banks fully collateralized by said Obligations that will produce sufficient receipts to pay the interest requirements due and payable on the Refunded Bonds until the respective redemption dates and to redeem the Refunded Bonds on the redemption dates at the premium specified below, all as set out in the following table, and (2) to pay the costs of issuance of and the purchaser discount on the Bonds.

| Series | Redemption Date | Refunded Bond Amount | Refunded Maturities | Redemption Premium |
|---|---|---|---|---|
| July 1, 1991 | July 1, 2003 | $100,000 | January 1, 2004-2010 | $3,000 (3%) |
| October 1, 1992 | April 1, 2003 | $570,000 | October 1, 2003-2012 | $17,100 (3%) |

***Estimated Sources and Uses of Funds***

**Sources of Funds**

| | | |
|---|---|---|
| Series of 2002 Bonds | | |
| Local Participation | $375,736 | |
| SFCC Participation | 351,264 | |
| Total | | $727,000 |

**Uses of Funds**

| | |
|---|---|
| Fund Escrow | $704,912 |
| Underwriter's Discount | 7,270 |
| Issuance Costs | 14,000 |
| Surplus | 818 |
| Total | $727,000 |

The Series of 1991 Bonds were issued by the Corporation for the purpose of financing Phase III of the renovation of the Second Street Elementary School. The Series 1992 Bonds were issued by the Corporation for the purpose of financing Phase I of the renovation of and addition to the Frankfort High School (the "Projects").

## DISPOSITION OF BOND PROCEEDS

Upon delivery of the Bonds, there shall first be paid all expenses incident to the authorization, sale and delivery of the Bonds.

Next, the accrued interest received, if any, shall be deposited into the "Frankfort Independent School District Finance Corporation School Building Refunding Revenue Bond and Interest Redemption Fund of December 1, 2002" (the "Bond Fund") to be held therein for payment of interest on the Bonds at the next ensuing interest due date.

The entire remaining proceeds of the Bonds shall be deposited into "Frankfort Independent School District Finance Corporation Escrow Fund of 2002" (the "Escrow Fund") to be earmarked and held for credit to the account of the Prior Bond Funds.

## CERTAIN PROVISIONS OF THE BOND RESOLUTION

The Bond Resolution contains various covenants of the Corporation and provisions for the payment of the Bonds in accordance with their terms, certain of which are summarized below. Reference is made to the Bond Resolution for a full and complete statement of its provisions.

The Corporation has authorized the issuance of its Frankfort Independent School District Finance Corporation School Building Refunding Revenue Bonds, Series of 2002, in an aggregate amount of $727,000*. The Bonds are fully registered and in denominations in multiples of $1,000. The Bonds bear interest payable on April 1 and October 1 in each year, beginning April 1, 2003, at such interest rate or rates as a result of an advertised sale of Bonds and competitive bidding therefor. Said Bonds shall mature on the dates and in the amounts set forth on the cover page.

### *Paying Agent and Registrar*

Central Bank & Trust Co., Lexington, Kentucky, has been named Paying Agent and Bond Registrar. Interest and principal payments will be made by the Paying Agent by wire transfer to DTC on each due date. Please see "Book Entry" supra.

### *Funds Established by the Resolution*

The Resolution establishes the following funds:

**Frankfort Independent School District Finance Corporation School Building Refunding Revenue Bond and Interest Redemption Fund of December 1, 2002 (the "Bond Fund")**. -- The Corporation covenants that all amounts received as rentals pursuant to the terms of the Contract, Lease and Option shall be deposited into the Bond Fund and held apart from all other funds for the payment of the principal of and interest on the Bonds as same become due. The required annual payments due from the Board shall be made in semi-annual installments on or before each March 15 and September 15, the first such payment to be made on or before March 15, 2003.

Moneys held in the Bond Fund shall be invested at the direction of the Corporation in (i) securities of the United States Government; (ii) obligations fully guaranteed by the United States, having a maturity date prior to the date when the sums invested will be needed for meeting interest and principal payments; or (iii) in certificates of time deposit maturing as and when required to pay principal and interest. Such certificates of time deposit shall be secured by a valid pledge of United States Government securities to the extent same exceed FDIC coverage. All income from the investment of the Bond Fund shall be deposited into said Bond Fund and may be used as a credit to any future deposit required to be made by the Board into said Bond Fund.

**Frankfort Independent School District Finance Corporation School Building Escrow Fund of 2002 (the "Escrow Fund")**. -- Proceeds of the Bonds, after payment of the costs of issuance and deposit of accrued interest received in the Bond Fund, shall be deposited into the Escrow Fund; provided, however, that prior to or simultaneously with the delivery of the Bonds, the Corporation shall obtain a commitment or commitments for the investment of such remaining proceeds only in direct Obligations of the United States Government or Obligations which are fully guaranteed by the United States Governmentor Certificates of Deposit of FDIC banks fully collateralized by said Obligations (the "Investments") sufficient to accomplish the purposes intended, which Investments shall be scheduled to mature at such times and in such amounts as are necessary to pay the principal of, interest on, and redemption premium for the Refunded Bonds prior to their stated maturities by deposit in the respective sinking fund for said Refunded Bonds (the ""Prior Bond Funds").

### *Contract, Lease and Option*

The Board covenants to faithfully and punctually perform all duties required by the Lease including providing for the maintenance and insurance of the school properties.

The Corporation further agrees to collect such rents and charges for services rendered by the school Projects properties as will be sufficient to pay the principal of and interest on the Bonds when same become due.

### *Statutory Mortgage Liens Created*

The Resolution recognizes the statutory mortgage liens upon the school Projects properties which are granted and created by Section 162.200 of the Kentucky Revised Statutes. Please see "Statutory Authority, Purpose of Issue and Security" herein on page 3. Said liens are and shall be restricted in their applications to the facilities, the costs of refinancing of which are defrayed from the proceeds of the Bonds, together with appurtenances, equipment therein, that portion of the school sites physically occupied thereby, and such easements and rights-of-way for ingress, egress, and the rendering of services thereto as may be necessary for the proper use and maintenance of the same.

The right is reserved to erect or construct upon the school sites described in the Resolution other structures and improvements free and clear of said statutory mortgage liens, even though the same are connected by using as party walls one or more walls of structures which are subject to said mortgage liens, providing the same are capable of use as separate entities in themselves and have their own outside entrances and providing no part of the costs of said additional structures and improvements are paid from the proceeds of these Bonds.

***Arbitrage Provisions***

The Corporation shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Corporation on the Bonds shall, for the purpose of Federal income taxation, be excludable from the gross income of the recipients under any valid provision of law.

The Corporation shall not permit at any time any of the proceeds of the Bonds or other funds of the Corporation to be used to acquire any securities or obligations the acquisition of which would cause any such Bond to be an "arbitrage bond", as defined in the Internal Revenue Code of 1986, as amended (the "Code"), unless, under any valid provision of law hereafter enacted, the interest paid by the Corporation on the Bonds shall be excludable from the gross income of a recipient thereof for Federal income tax purposes without regard to compliance with the Code.

***Resolution to Constitute a Contract***

The provisions of the Resolution shall constitute a contract between the Corporation and the Registered Owners of any Bonds from time to time outstanding and, after the sale of such Bonds, no change in the provisions of the Resolution shall be permitted while any of said Bonds remain outstanding and unpaid, except as expressly authorized in the Resolution.

***Other Covenants***

The Corporation binds and obligates itself not to sell, mortgage, or in any manner dispose of the school Projects properties, including any and all extensions and additions that may be made thereto, except as specifically permitted and provided by the Resolution until all of the Bonds shall have been paid in full.

## CERTAIN PROVISIONS OF THE CONTRACT, LEASE AND OPTION

The following summarizes certain provisions of the Lease pursuant to which the Corporation leases the school building properties to the Board. Reference is made to the Lease for a full and complete statement of its provisions.

***Lease to the Board***

The Corporation agrees to lease the Projects to the Board and the Board agrees to lease the Projects from the Corporation from year to year commencing on December 1, 2002.

The initial term of the Lease shall expire on June 30, 2003; provided, however, that the Lease shall be automatically renewed from year to year for one-year terms unless terminated by the Board upon written notice to the Corporation ninety days before the end of the fiscal year.

***Amount and Due Date of Rentals***

The amount of the annual rentals to be paid by the Board shall be a sum equal to the interest which will be due on April 1, together with the Bonds and interest which will be due on October 1 during the rental year, plus the costs of operation, maintenance and insurance.

***Conveyance upon Retirement of Bonds***

It is agreed that if the Board shall pay rentals from year to year until the first day of October, 2012, then upon completion of such payments the leased premises shall be and become the property of the Board.

***Options to Purchase***

It is hereby further agreed that the Board may purchase the Projects and thereby terminate the Lease on any date by the payment of a sum sufficient to accomplish the retirement or defeasance of the same proportionate principal amount of outstanding Bonds issued by the Corporation as was allocated to the site for which the release is sought, such sum to include interest due and all expenses incident to such retirement, including payment of any premium required to be paid to bondholders for such prior redemption.

*Maintenance and Insurance*

The Board agrees that so long as the Board continues to lease the school Projects it will, at its own expense, maintain the Projects in good state of repair and will procure and pay the cost of insurance on all buildings located thereon against loss by fire, lightning, and windstorm in an amount equal to the full insurable value of the Projects or the face amount of the Bonds outstanding, whichever is greater.

## KENTUCKY DEPARTMENT OF EDUCATION SUPERVISION

According to a report furnished by the Kentucky Department of Education, under the terms of the Kentucky Revised Statutes and the regulations of the Kentucky Board of Education (the "State Board"), the State Board, by itself and through its executive officer, the Commissioner of Education (the "Commissioner"), supervises the general operations of the local boards of education and school building revenue bond financing for school purposes. The Commissioner examines and advises on the expenditures, business methods and accounts of all local boards of education, including the Board. The Commissioner is responsible for assuring that all financial and educational accounts are accurately and neatly kept, and that all reports are made according to the forms adopted by the State Board. Each school district supported in whole or in part from taxation is required to make a report to the State Board at the close of each scholastic year, showing in detail all funds received from the Commonwealth and from all other sources during the year, and a detailed statement of all expenditures for the year.

Each local board of education must prepare and submit to the Commissioner an annual budget showing the amount needed for current expenses, capital outlay, debt service and lease rental payments for the ensuing year, the estimated amount to be received from other sources, and the amount needed to be raised from local taxation, including the assessed valuation and tax rate for property subject to taxation by the school district. If the budget is disapproved, it must be amended and resubmitted. No budget is effective until approved by the Commissioner.

Each local school board must prepare and submit to the State Board, not later than January 15 of each year, a close estimate of its working budget which must conform to the rules and regulations prescribed by the State Board, and which must be consistent in its major divisions with the general school budget previously prepared.

A local superintendent may not recommend and a local school board member may not vote for an expenditure in excess of the income and revenue of any year as shown by the budget approved by the Commissioner, except for a purpose for which bonds have been voted, or in case of an emergency declared by the State Board.

All local boards of education who have entered into contracts with respect to the issuance of revenue bonds must arrange for insurance protection in an amount equal to the amount of bonds outstanding against the particular building or buildings, or to the full insurable value of such building or buildings, whichever is greater, and must report annually to the Superintendent, on forms provided by the Department of Education, the amount of insurance coverage provided for each building which has been mortgaged for the security of outstanding revenue bonds.

The State Department of Education must approve a bond issue and its related financial, educational and construction plans prior to issuance and such approval will be obtained prior to the sale of this issue.

## STATE SUPPORT OF EDUCATION

The 1990 Regular Session of the General Assembly of the Commonwealth enacted a comprehensive legislative package known as the Kentucky Education Reform Act ("KERA") designed to comply with the mandate of the Kentucky Supreme Court that the General Assembly provide for an efficient and equitable system of schools throughout the State.

KERA became fully effective on July 13, 1990. Elementary and Secondary Education in the Commonwealth is supervised by the Commissioner of Education as the Chief Executive Officer of the State Department of Education ("DOE"), and appointee of the reconstituted Kentucky Board of Education (the "State Board"). Some salient features of KERA are as follows:

KRS 157.330 establishes the fund to Support Education Excellence in Kentucky ("SEEK") funded from biennial appropriations from the General Assembly for distribution to school districts. The base funding guaranteed to each school district by SEEK for operating and capital expenditures is determined in each fiscal year by dividing the total annual SEEK appropriation by the state-wide total of pupils in average daily attendance ("ADA") in the preceding fiscal year; the ADA for each district is subject to adjustment to reflect the number of at risk students (approved for free lunch programs under state and federal guidelines), number and types of exceptional children, and transportation costs.

KRS 157.420 establishes a formula which results in the allocation of funds for capital expenditures in school districts at $100 per ADA pupil of the SEEK allotment which is required to be segregated into a Capital Outlay Allotment Fund which may be used only for (1) direct payment of construction costs; (2) debt service on voted and funding bonds; (3) lease rental payments in support of bond issues; (4) reduction of deficits resulting from over-expenditures for emergency capital construction; and (5) a reserve for each of the categories enumerated in 1 through 4 above.

KRS 160.470(12)(a) requires that effective for fiscal years beginning July 1, 1990 each school district shall levy a minimum equivalent tax rate of $0.30 for general school purposes. The equivalent tax rate is defined as the rate which results when the income collected during the prior year from all taxes levied by the district (including utilities gross receipts license and special voted) for school purposes is divided by the total assessed value of property, plus the assessment for motor vehicles certified by the Revenue Cabinet of the Commonwealth. Any school district board of education which fails to comply with the minimum equivalent tax rate levy shall be subject to removal from office.

KRS 157.440(2) provides that for fiscal years beginning July 1, 1990 each school district may levy an equivalent tax rate which will produce up to 15% of those revenues guaranteed by the SEEK program. Any increase beyond the 4% annual limitation imposed by KRS 132.017 ("House Bill 44") is not subject to the recall provisions of that Section. Revenue generated by the 15% levy is to be equalized at 150% of the state-wide average per pupil equalized assessment.

KRS 157.440(2) permits school districts to levy up to 30% of the revenue guaranteed by the SEEK program, plus the revenue produced by the 15% levy, but said additional tax will not be equalized with state funds and will be subject to recall by a simple majority of those voting on the question.

KRS 157.620(1) also provides that in order to be eligible for participation from the Kentucky School Facilities Construction Commission for debt service on bond issues the district must levy a tax which will produce revenues equivalent to $0.05 per $100 of the total assessed value of all property in the district (including tangible and intangible property and motor vehicles). A district having a special voted tax which is equal to or higher than the required $0.05 tax, must commit and segregate for capital purposes at least an amount equal to the required $0.05 tax. Those districts which levy the additional $0.05 tax are also eligible for participation in the Facilities Support Program of Kentucky ("FSPK") program for which funds are appropriated separately from SEEK funds and are distributed to districts in accordance with a formula taking into account outstanding debt and funds available for payment from both local and state sources.

KRS 160.460 provides that as of July 1, 1994 all real property located in the Commonwealth subject to local taxation shall be assessed at 100% of fair cash value.

## CONTINUING DISCLOSURE; EXEMPTION

In the opinion of Bond Counsel, the Board and the Corporation are exempt from the application of SEC Rule 15c2 as a result of the fact that the principal amount of the Bonds does not exceed $1,000,000.

Financial information regarding the Board may be obtained from Superintendent, Frankfort Independent Board of Education, 315 Steele Street, Frankfort, Kentucky 40601 (502-875-8661).

## TAX EXEMPTION

With regard to the Internal Revenue Code of 1986, as amended, Bond Counsel advises as follows:

(A) The Bonds and the interest thereon are exempt from income and ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions.

(B) The interest income from the Bonds is excludable from the gross income of the recipients thereof for Federal income tax purposes under existing law; provided, that the corporate entities noted below are advised of certain tax consequences as follows:

1) In the computation of the corporate minimum tax, earnings and profits may include otherwise tax-exempt interest on the Bonds; this provision applies to corporations only.

2) Property and casualty insurance companies may be denied certain loss reserve deductions to the extent of otherwise tax-exempt interest on the Bonds.

(C) As a result of designations and certifications by the Board and the Corporation, indicating the issuance of less than $10,000,000 of "qualified tax-exempt obligations" during either the calendar year ending December 31, 2002, or 2003, the Bonds may be treated by financial institutions as if they were acquired before August 8, 1986.

(D) The interest income from the Bonds is excludable from the gross income of the recipients thereof for Federal income tax purposes under existing law for individuals; however, said income must be included in the calculation of "modified adjusted gross income" in the determination of whether and to what extent Social Security benefits are subject to Federal income taxation.

## APPROVAL OF LEGALITY

Legal matters incident to the authorization, issuance, sale and delivery of the Bonds are subject to the approval of Henry M. Reed III, Louisville, Kentucky, Bond Counsel to the Corporation. The approving legal opinion of Bond Counsel will be printed on the Bonds and will contain a statement of tax exemption as represented herein. Bond Counsel has reviewed the information herein pertaining to the Bonds under the headings "Description of The Bonds", "Absence of State Budget; Litigation", "Certain Provisions of the Bond Resolution", "Certain Provisions of the Contract, Lease and Option", "State Support of Education", "Continuing Disclosure; Exemption" and "Tax Exemption", and is of the opinion that such information is a fair summary of the principal provisions of the instruments and information therein described. Bond Counsel has not otherwise participated in the preparation of the Official Statement and has not verified the accuracy or completeness of the information contained under the headings "The Refunding Plan", "Kentucky Department of Education Supervision", nor of any financial information, enrollment figures, projections, or computations related thereto, and therefore can make no representation with respect to such information.

## ABSENCE OF MATERIAL LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the Corporation taken with respect to the issuance or sale thereof.

## FINANCIAL ADVISOR

The Bonds will be sold by the solicitation and receipt of competitive bids. First Kentucky Securities Corporation, Frankfort, Kentucky, Financial Advisor to the Corporation, has requested and received permission and approval of the Corporation to bid, either alone or in conjunction with others, on the Bonds. The Financial Advisor has expressed its intent to so bid.

First Kentucky Securities Corporation will receive a fee, subject to sale and delivery of the Bonds, for its advisory services. Said fee is separate from and in addition to compensation received, if any, for underwriting of the Bonds.

## RATING

Moody’s Investors Service has given the Bonds the rating set forth on the cover page of this Official Statement. Such rating reflects only the opinion of such organization. There can be no assurance that such rating will be maintained for any given period of time or that it will not be revised or withdrawn entirely. Any downward revision or withdrawal of such rating may have a material adverse effect on the market price of the Bonds.

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All quotations from, and summaries and explanations of, the Kentucky Revised Statutes, the Bond Resolution, and the Contract, Lease and Option contained herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of the Bond Resolution, and the Contract, Lease and Option may be obtained from First Kentucky Securities Corporation, P. O. Box 554, Frankfort, Kentucky 40602-0554.

This Official Statement does not, as of its date, contain any untrue statement of a material fact or omit to state a material fact which should be included herein for the purpose for which the Official Statement is to be used or which is necessary in order to make the statements contained herein, in the light of the circumstances under which they were made, not misleading in any material respect.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Corporation and the purchasers or holder of any of the Bonds.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT FINANCE CORPORATION**

/s/ Dr. Terry Magel
President

**ATTEST:**

/s/ Michael Oder
Secretary

**KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION**

/s/ Dr. Robert E. Tarvin
Executive Director

## APPENDIX A

***Enrollment***
***Property Subject to Taxation***
***History of Assessment Rates***
***General Fund***
***Capital Outlay Fund***
***Utilities Gross Receipts Tax for Schools***
***Funds Available for Debt Service***
***Outstanding School Building Revenue Bonds***

## BOARD OF EDUCATION
## FRANKFORT INDEPENDENT SCHOOL DISTRICT

The Frankfort Independent School District represents a portion of the County. Because the Board is fully obligated, so long as the Lease remains in effect to pay rental payments equal to the principal of and interest on the total amount of Bonds outstanding, the information on the following pages is submitted as officially reported by the Board or by the Kentucky Department of Education, unless otherwise noted.

***Enrollment***

| School Year | Enrollment | Average Daily Attendance |
|---|---|---|
| 2003 (est.) | 866 | 768.1 |
| 2002 | 865 | 820.4 |
| 2001 | 872 | 847.1 |
| 2000 | 868 | 808.5 |

***Property Subject to Taxation***

| Year | Total Assessed Value |
|---|---|
| 2002/03 | $206,093,406 |
| 2001/02 | 201,978,278 |
| 2000/01 | 191,436,283 |
| 1999/00 | 191,624,084 |

***History of Assessment Rates***

| | 2001/02 | 2000/01 | 1999-00 |
|---|---|---|---|
| Real Estate | 45.4¢ | 46.1¢ | 44.7¢ |
| Tangible | 45.4¢ | 46.1¢ | 44.7¢ |
| Motor Vehicle | 44.5¢ | 42.8¢ | 42.8¢ |
| Utilities | 3% | 3% | 3% |

**FRANKFORT INDEPENDENT SCHOOL DISTRICT**
**Comparative Statement of Receipts and Disbursements**
**GENERAL FUND**

Fiscal Years Ending June 30

| | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|
| Beginning Cash Balance, July 1 | $2,064,761 | $1,738,125 | $1,656,147 | $1,285,389 |
| **RECEIPTS:** | | | | |
| Revenue from Local Sources | 1,632,000 | 1,852,239 | 1,700,680 | 1,696,076 |
| Revenue from Intermediate Sources | 0 | 345 | 150 | 0 |
| Revenue from State Sources | 2,855,208 | 3,429,161 | 2,974,023 | 2,729,344 |
| Other Sources | 21,600 | 18,631 | 17,593 | 19,319 |
| Total Receipts | 4,508,808 | 5,300,376 | 4,692,446 | 4,444,739 |
| Total Funds Available | 6,573,569 | 7,038,501 | 6,348,593 | 5,730,128 |
| **DISBURSEMENTS:** | | | | |
| Total Current Expenses | 6,563,569 | 4,957,431 | 4555,640 | 3,974,953 |
| Fund Transfers | 10,000 | 18,308 | 54,828 | 99,028 |
| Total Disbursements | 6,573,569 | 4,975,739 | 4,610,468 | 4,073,981 |
| Cash Balance, June 30 | $ 0 | $2,062,762 | $1,738,125 | $1,656,147 |

**CAPITAL OUTLAY FUND**

Fiscal Years Ending June 30

| | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|
| Cash Balance, July 1 | $ 5,817 | $ 5,816 | $ 49,435 | $ 74,759 |
| **RECEIPTS:** | | | | |
| Capital Outlay Allotment | 76,810 | 82,040 | 84,710 | 80,850 |
| Total Receipts and Balance | 82,627 | 82,040 | 134,145 | 155,609 |
| **DISBURSEMENTS:** | | | | |
| Building Renovations | 0 | 0 | 0 | 22,023 |
| Debt Service | 82,627 | 82,040 | 128,329 | 84,151 |
| Total Disbursements | 82,627 | 82,040 | 134,145 | 106,174 |
| Cash Balance, June 30 | $ 0 | $ 5,816 | $ 5,816 | $ 49,435 |

Source: Information for fiscal year 2003 was taken from a working budget. Information for fiscal years 2002-2000 was taken from audited financial statements prepared by Charles T. Mitchell, LLP, Certified Public Accountant, Frankfort, Kentucky.

### *Utilities Gross Receipts Tax For Schools*

Under the provisions of KRS 160.613, 160.615, and 160.617, the Frankfort Independent Board of Education levies a three percent Utility Gross Receipts License Tax for Schools. Receipts from the tax are as follows:

| 2002/2003 (est.) | 2001/2002 | 2000/2001 | 1999/2000 |
|---|---|---|---|
| $650,000 | $768,127 | $690,574 | $707,808 |

### *Funds Available for Debt Service*

Beginning with fiscal year 1990-91, capital expenditures in school districts are provided by the segregation of $100 per ADA pupil from the SEEK funds allotment to each district. Expenditures from the Capital Outlay Allotment Fund may be used, up to a maximum of eighty percent (80%) of the annual allotment, for (1) direct payment of construction costs; (2) debt service on voted and funding bonds; (3) lease rental payments in support of bond issues; (4) reduction of deficits resulting from over-expenditures for emergency capital construction; and (5) a reserve for each of the categories enumerated in (1) through (4).

In addition to the Capital Outlay Allotment Fund as described above, each district is required to levy a tax which will produce revenues equivalent to five cents ($0.05) per $100 of assessed value of all property in the district in order to be eligible for participation from the Kentucky School Facilities Construction Commission. Tax receipts MUST be used for purposes enumerated in (1) through (5) above.

Those districts which levy the additional $0.05 tax are also eligible to receive funds from the Facilities Support Program of Kentucky (the "FSPK"). These funds are appropriated separately from the SEEK funds and are distributed to districts in accordance with a formula taking into account outstanding debt and funds available for payment from both local and state sources. FSPK funds MAY be used for purposes enumerated in (1) through (5) above.

The funds available for Capital Outlay purposes, as described above, are not directly pledged for payment of principal and interest on outstanding school building revenue bonds, but as a practical matter and to the extent needed, have been and will continue to be applied to debt service through rental payments on Lease obligations.

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*Outstanding School Building Revenue Bonds*

**Local Participation:**

| Date of Issue | Final Maturity | Original Amount Issued | Bonds Outstanding as of December 1, 2002 |
|---|---|---|---|
| October 1, 1992 (1) | 10/1/2011 | $ 591,115 | $ 364,394 |
| September 1, 1996 | 4/1/2009 | 755,619 | 411,235 |
| September 11, 1997 (2) | 6/1/2007 | 73,000 | 40,000 |
| July 15, 1999 | 7/1/2019 | 1,300,000 | 1,285,000 |
| Subtotal | | $2,719,734 | $2,100,629 |

**SFCC Participation (3):**

| Date of Issue | Final Maturity | Original Amount Issued | Bonds Outstanding as of December 1, 2002 |
|---|---|---|---|
| July 1, 1991 (1) | 1/1/2010 | $ 200,000 | $ 100,00 |
| October 1, 1992 (1) | 10/1/2012 | 333,885 | 205,606 |
| September 1, 1996 | 4/1/2009 | 1,919,381 | 1,123,765 |
| Subtotal | | $2,453,266 | $1,329,471 |
| Total | | $5,173,000 | $3,430,100 |

(1) These bonds will be refunded by the Series of 2002 Bonds. See "The Refunding Plan" for more detail.
(2) KISTA Small Issuer Loan.
(3) These bonds are payable by the Kentucky School Facilities Construction Commission.

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**APPENDIX B**

***Frankfort and Franklin County, Kentucky***
***General Information***

***General Information***

Frankfort, Kentucky is considered one of the most picturesque state capitals in the United States. Situated on a double curve in the Kentucky River, Frankfort has served as the capital of the Commonwealth of Kentucky since December 8, 1792, and as the seat of government for Franklin County since 1795.

Although explorers and hunters following an ancient buffalo trace visited the area as early as 1751, the history of Frankfort began in August 1786 when Gen. James Wilkinson (1757-1825) purchased of a 260-acre tract of land on the north side of the Kentucky River from Humphrey Marshall. Kentucky was part of Virginia at the time of Wilkinson's acquisition, and within two months the Virginia Legislature designated one hundred acres of Wilkinson's land as the site for the town of Frankfort. A seven-member board of trustees directed the town government.

Within a century the population of Frankfort grew from 9,487 in 1900, to 27,741 in 2000. The commission-manager form of government governs the city. The members of the city commission and the mayor are elected.

Frankfort remains one of the most unique state capitals. Steeped in a rich history, nestled in one of the most beautiful river valleys in the nation, Frankfort in the epitome of southern charm and grace.

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## Total Population

| | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Labor Market Area | 1,238,232 | 1,247,590 | 1,256,693 | 1,306,320 | 1,312,984 |
| Franklin County | 46,226 | 46,438 | 46,588 | 47,687 | 48,210 |
| Frankfort | 26,472 | 26,418 | 26,762 | 27,741 | N/A |

Source: U.S. Department of Commerce, Bureau of the Census.

## Population Projections

| | 2005 | 2010 | 2015 | 2020 |
|---|---|---|---|---|
| Labor Market Area | 1,374,331 | 1,439,030 | 1,504,644 | 1,571,932 |
| Franklin County | 49,196 | 50,440 | 51,469 | 52,255 |

Source: Kentucky State Data Center, University of Louisville and Kentucky Cabinet for Economic Development.

## Population by Selected Age Groups, 1999

| | Franklin County | | Labor Market Area | |
|---|---|---|---|---|
| | Number | Percent | Number | Percent |
| Under 18 | 10,425 | 22.4 | 285,379 | 22.7 |
| 18-24 | 4,745 | 10.2 | 135,059 | 10.7 |
| 25-34 | 6,275 | 13.5 | 182,022 | 14.5 |
| 35-44 | 8,281 | 17.8 | 211,425 | 16.8 |
| 45-54 | 6,813 | 14.6 | 168,225 | 13.4 |
| 55-64 | 4,478 | 9.6 | 117,439 | 9.3 |
| 65-74 | 3,097 | 6.6 | 86,444 | 6.9 |
| 75 and older | 2,474 | 5.3 | 70,700 | 5.6 |

Source: U.S. Department of Commerce, Bureau of the Census.

## Population by Race and Hispanic Origin, 2000

| | Franklin County | | Labor Market Area | |
|---|---|---|---|---|
| | Number | Percent | Number | Percent |
| White | 41,953 | 89.6 | 1,071,410 | 83.8 |
| Black | 4,463 | 9.5 | 185,493 | 14.5 |
| Asian, Pacific Islander | 354 | 0.8 | 18,295 | 1.4 |
| American Indian | 63 | 0.1 | 2,795 | 0.2 |
| Hispanic Origin | 531 | 1.1 | 26,782 | 2.1 |

Note: Hispanic is not a race category. A person can be white, black, etc. and be of hispanic origin.
Source: U.S. Department of Commerce, Bureau of the Census.

## Personal Income

| | 1995 | 2000 | Pct. Change |
|---|---|---|---|
| Franklin County | $22,459 | $29,145 | 29.8% |
| Kentucky | $19,056 | $24,085 | 26.4% |
| U.S. | $23,255 | $29,649 | 27.5% |
| Labor Market Area Range | $14,807 - $25,268 | $16,279 - $34,448 | |

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## Households

| | 2000 | | 1999 |
|---|---|---|---|
| | Number of Households | Persons Per Household | Median Household Income |
| Franklin County | 19,907 | 2.3 | $40,011 |

U.S. Department of Commerce, Bureau of the Census.

## Total Available Labor

| | Available Labor, 2000 | | | | Future Labor: Becoming 18 Years of Age (2002-2006) |
|---|---|---|---|---|---|
| | Total | Unemployed | Potential Labor Supply | Underemployed | |
| Labor Market Area | 255,586 | 21,314 | 17,510 | 216,762 | 83,263 |
| Franklin County | 7,153 | 676 | 749 | 5,728 | 3,020 |

Source: U.S. Department of Labor, Bureau of Labor Statistics; Kentucky Cabinet for Economic Development.
Note: Total Available Labor = Unemployed + Potential Labor Supply + Underemployed.
Unemployed - people currently not employed, but actively seeking work.
Potential Labor - people not in the labor force, but would work if jobs were available.
Underemployed - people employed in wholesale/retail trade and non-professional services.
Future Labor - people becoming 18 years of age (not part of the total available labor statistics).

## Civilian Labor Force

| | Franklin County | | Labor Market Area | |
|---|---|---|---|---|
| | 2001 | Sep. 2002 | 2001 | Sep. 2002 |
| Civilian Labor Force | 24,708 | 24,791 | 709,421 | 719,850 |
| Employed | 24,001 | 24,168 | 679,629 | 689,527 |
| Unemployed | 707 | 623 | 29,792 | 30,323 |
| Unemployment Rate | 2.9 | 2.5 | 4.2 | 4.3 |

Source: U.S. Department of Labor, Bureau of Labor Statistics.

## Unemployment Rate (%)

| Year | Franklin County | Labor Market Area | Kentucky | U.S. |
|---|---|---|---|---|
| 1997 | 3.2 | 3.8 | 5.4 | 4.9 |
| 1998 | 2.9 | 3.0 | 4.6 | 4.5 |
| 1999 | 2.5 | 3.1 | 4.5 | 4.2 |
| 2000 | 2.7 | 3.0 | 4.1 | 4.0 |
| 2001 | 2.9 | 4.2 | 5.5 | 4.8 |

Source: U.S. Department of Labor, Bureau of Labor Statistics.

## Average Weekly Wage, 2000

| | Franklin County | Kentucky (Statewide) | U.S. | Ohio |
|---|---|---|---|---|
| All Industries | $598 | $512 | $610 | $579 |
| Mining and Quarrying | $0 | 808 | 1,000 | 813 |
| Contract Construction | 569 | 543 | 641 | 650 |
| Manufacturing | 641 | 666 | 770 | 801 |
| Transportation and Public Utilities | 659 | 686 | 756 | 698 |
| Wholesale and Retail Trade | 320 | 357 | 434 | 409 |
| Finance, Insurance and Real Estate | 717 | 652 | 935 | 736 |
| Services | 518 | 462 | 577 | 510 |
| State and Local Government | 740 | 494 | 598 | 586 |

Source: U.S. Department of Labor, Bureau of Labor Statistics.

## Employment by Major Industry by Place of Work, 2000

| | Franklin County | | Labor Market Area | |
|---|---|---|---|---|
| | Employment | Percent | Employment | Percent |
| All Industries | 32,823 | 100.0 | 766,876 | 100.0 |
| Agriculture, Forestry & Fishing | 106 | 0.3 | 8,599 | 1.1 |
| Mining and Quarrying | 0 | 0.0 | N/A | N/A |
| Contract Construction | 928 | 2.8 | 37,091 | 4.8 |
| Manufacturing | 3,737 | 11.4 | 126,300 | 16.5 |
| Transportation and Public Utilities | 560 | 1.7 | 57,378 | 7.5 |
| Wholesale Trade | 654 | 2.0 | 40,788 | 5.3 |
| Retail Trade | 4,479 | 13.6 | 142,847 | 18.6 |
| Finance, Insurance and Real Estate | 1,177 | 3.6 | 40,984 | 5.3 |
| Services | 6,966 | 21.2 | 240,095 | 31.3 |
| State and Local Government | 12,547 | 38.2 | N/A | N/A |
| Other | 0 | 0.0 | N/A | N/A |

Source: U.S. Department of Labor, Bureau of Labor Statistics.

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## Major Manufacturers

| Firm | Product(s) | Emp. | Year Established |
|---|---|---|---|
| ***Frankfort*** | | | |
| AWP Industries Inc | Roll forming & metal stamping; materials handling equipment, wire containers, shelving & products; automotive towing accessories | 150 | 1990 |
| Bendix Commercial Vehicle Systems, LLC | Compressors & valves, truck braking systems. | 256 | 1968 |
| Buffalo Trace Distillery | Whiskey distilling, vodka distilling, wine & spirit importing | 211 | 1775 |
| Capital City Tool Inc | Machine shop: custom, general, lathe, mill & CNC machining; plastic machined parts, screw machined parts & grinding service | 85 | 1973 |
| CENTRIA/Rollcom | Steel building components: electrified floor decks, roll formed products, gutters, louvers, vents, siding & wall panels | 140 | 1987 |
| Certified Tool & Manufacturing | Injection molds, metal stampings & automotive components | 146 | 1996 |
| Frankfort Habilitation Inc | Sheltered workshop: wood pallets & rough lumber products | 200 | 1972 |
| Frankfort Publishing Co | Daily newspaper, weekly shopping guide & tabloid publishing | 40 | 1917 |
| Greenheck Fan Corp | Fire dampers & louvers | 60 | 1946 |
| H T G Metal Methods | Metal heat treating, brazing alloys & metal catalyst | 25 | 1980 |
| Harrod Concrete & Stone Co | Ready-mixed concrete & crushed limestone | 100 | 1970 |
| Jim Beam Brands Co | Distilled liquor bottling | 225 | 1901 |
| Kentucky Bar Association | Magazine publishing | 37 | 1937 |
| Lee Brick & Block | Concrete blocks | 38 | 1964 |
| Meritor Automotive Inc | Truck axles | 105 | 1992 |
| Montaplast of North America | Automotive plastic products | 600 | 1994 |
| Ohi Automotive of America | Automotive parts & metal stampings | 350 | 1988 |
| Rebecca Ruth Candy Inc | Liquored, soft & chocolate candy | 25 | 1919 |
| Topy Corp | Automobile wheels | 504 | 1986 |
| WMI Incorporated | Metal stampings, tool & die | 120 | 1989 |

Source: Kentucky Cabinet for Economic Development (11/19/2002).

## APPENDIX C

***Estimated District & SFCC Debt Service Requirements on Series of 2002 Bonds***
***Estimated District Total Annual Debt Service Requirements***

***FRANKFORT INDEPENDENT SCHOOL DISTRICT FINANCE CORPORATION***
***SCHOOL BUILDING REFUNDING REVENUE BONDS***
***SERIES OF 2002***

***ESTIMATED DISTRICT AND SFCC DEBT SERVICE REQUIREMENTS***

| | *District Participation* | | | *SFCC Participation* | | | *Total Participation* | | |
|---|---|---|---|---|---|---|---|---|---|
| **Date** | **Principal** | **Interest** | **Total** | **Principal** | **Interest** | **Total** | **Principal** | **Interest** | **Total** |
| 4/1/03 | $ 2,116 | $ 3,964.71 | $ 6,080.71 | $ 3,884 | $ 3,613.12 | $ 7,497.12 | $ 6,000 | $ 7,577.83 | $ 13,577.83 |
| 10/1/03 | 28,120 | 5,925.91 | 34,045.91 | 34,,880 | 5,380.85 | 40,260.85 | 63,000 | 11,306.75 | 74,306.75 |
| 4/1/04 | - | 5,644.71 | 5,644.71 | - | 5,032.05 | 5,032.05 | - | 10,676.75 | 10,676.75 |
| 10/1/04 | 37,069 | 5,644.71 | 42,713.71 | 34,931 | 5,032.05 | 39,963.05 | 72,000 | 10,676.75 | 82,676.75 |
| 4/1/05 | - | 5,218.41 | 5,218.41 | - | 4,630.34 | 4,630.34 | - | 9,848.75 | 9,848.75 |
| 10/1/05 | 34,845 | 5,218.41 | 40,063.41 | 40,155 | 4,630.34 | 44,785.34 | 75,000 | 9,848.75 | 84,848.75 |
| 4/1/06 | - | 4,765.43 | 4,765.43 | - | 4,108.33 | 4,108.33 | - | 8,873.75 | 8,873.75 |
| 10/1/06 | 33,840 | 4,765.43 | 38,605.43 | 39,160 | 4,108.33 | 43,268.33 | 73,000 | 8,873.75 | 81,873.75 |
| 4/1/07 | | 4,274.75 | 4,274.75 | - | 3,540.51 | 3,540.51 | - | 7,815.25 | 7,815.25 |
| 10/1/07 | 47,329 | 4,274.75 | 51,603.75 | 38,671 | 3,540.51 | 42,211.51 | 86,000 | 7,815.25 | 93,815.25 |
| 4/1/08 | - | 3,517.48 | 3,517.48 | - | 2,921.77 | 2,921.77 | - | 6,439.25 | 6,439.25 |
| 10/1/08 | 44,758 | 3,517.48 | 48,275.48 | 39,242 | 2,921.77 | 42,163.77 | 84,000 | 6,439.25 | 90,439.25 |
| 4/1/09 | - | 2,734.22 | 2,734.22 | - | 2,235.04 | 2,235.04 | - | 4,969.25 | 4,969.25 |
| 10/1/09 | 46,609 | 2,734.22 | 49,343.22 | 45,391 | 2,235.04 | 47,626.04 | 92,000 | 4,969.25 | 96,969.25 |
| 4/1/10 | - | 1,895.26 | 1,895.26 | - | 1,418.00 | 1,418.00 | - | 3,313.25 | 3,313.25 |
| 10/1/10 | 49,387 | 1,895.26 | 51,282.26 | 24,613 | 1,418.00 | 26,031.00 | 74,000 | 3,313.25 | 77,313.25 |
| 4/1/11 | - | 981.60 | 981.60 | - | 962.66 | 962.66 | - | 1,944.25 | 1,944.25 |
| 10/1/11 | 51,663 | 981.60 | 52,644.60 | 25,337 | 962.66 | 26,299.66 | 77,000 | 1,944.25 | 78,944.25 |
| 4/1/12 | - | 0 | 0 | - | 481.25 | 481.25 | - | 481.25 | 481.25 |
| 10/1/12 | 0 | 0 | 0 | 25,000 | 481.25 | 25,481.25 | 25,000 | 481.25 | 25,481.25 |
| Total | $375,736 | $67,954.34 | $443,690.34 | $351,264 | $59,653.87 | $410,917.87 | $727,000 | $127,608.08 | $854,608.08 |

Source: Fiscal Agent

**FRANKFORT INDEPENDENT SCHOOL DISTRICT FINANCE CORPORATION**
**SCHOOL BUILDING REFUNDING REVENUE BONDS**
**SERIES OF 2002**

***Estimated Total Annual District Debt Service Requirements***

| FY 6/30 | Existing Debt Service (1) | Series of 2002 Bonds | | | Total |
|---|---|---|---|---|---|
| | | Principal | Interest | Total | |
| 2003 | $207,749 | $ 2,116 | $ 3,965 | $ 6,081 | $213,830 |
| 2004 | 173,086 | 28,120 | 11,571 | 39,691 | 212,777 |
| 2005 | 168,223 | 37,069 | 10,863 | 47,932 | 216,155 |
| 2006 | 168,317 | 34,845 | 9,984 | 44,829 | 213,146 |
| 2007 | 173,598 | 33,840 | 9,040 | 42,880 | 216,478 |
| 2008 | 99,213 | 47,329 | 7,792 | 55,121 | 154,334 |
| 2009 | 102,735 | 44,758 | 6,252 | 51,010 | 153,745 |
| 2010 | 103,002 | 46,609 | 4,629 | 51,238 | 154,240 |
| 2011 | 105,770 | 49,387 | 2,877 | 52,264 | 158,034 |
| 2012 | 103,420 | 51,663 | 982 | 52,645 | 156,065 |
| 2013 | 159,578 | - | - | - | 159,578 |
| 2014 | 159,121 | - | - | - | 159,121 |
| 2015 | 158,423 | - | - | - | 158,423 |
| 2016 | 157,419 | - | - | - | 157,419 |
| 2017 | 160,883 | - | - | - | 160,883 |
| 2018 | 158,870 | - | - | - | 158,870 |
| 2019 | 156,603 | - | - | - | 156,603 |
| 2020 | 158,953 | - | - | - | 158,953 |
| **Total** | | | | | |

Note: All calculations have been rounded to the nearest dollar.

(1) Existing debt service does not include the debt service requirements on the Prior Bonds which will be refunded by the Series of 2002 Bonds.

Source: Fiscal Agent

## OFFICIAL BID FORM

Subject to the terms and conditions set forth in the Official Terms and Conditions of Bond Sale for $727,000* of School Building Refunding Revenue Bonds, Series of 2002, dated December 1, 2002 (the "Bonds") offered for sale by the Frankfort (Kentucky) Independent School District Finance Corporation (the "Corporation"), an agency and instrumentality acting on behalf of the Board of Education of the Frankfort Independent School District, Frankfort, Kentucky and in accordance with the Notice of Bond Sale, as advertised, in The Courier- Journal, published in Louisville, Kentucky, to all of which the undersigned agrees, the undersigned hereby submits the following offer to purchase said Bonds.

We hereby bid for said $727,000* principal amount of Bonds, the total sum of $___________(not less than $719,730), plus accrued interest from December 1, 2002, at the following annual rate(s), payable semiannually (rates on ascending scale; number of interest rates unlimited) and maturing on April 1, 2003 and on October 1, in each of the years thereafter as follows:

| Year | Amount* | Rate | Year | Amount* | Rate |
|---|---|---|---|---|---|
| 2003[1] | $6,000 | ______% | 2008 | $ 84,000 | ______% |
| 2003 | 63,000 | ______ | 2009 | 92,000 | ______ |
| 2004 | 72,000 | ______ | 2010 | 74,000 | ______ |
| 2005 | 75,000 | ______ | 2011 | 77,000 | ______ |
| 2006 | 73,000 | ______ | 2012 | 25,000 | ______ |
| 2007 | 86,000 | ______ | | | |

[1]First Maturity April 1, 2003
*Subject to Permitted Adjustment

We understand this bid may be accepted for as much as $800,000 of Bonds or as little as $654,000 of Bonds, at the same price per $1,000 Bond, with the variation in such amount occurring in any maturity or all maturities, which will be determined by the Secretary of the Corporation at the time of acceptance of the best bid.

We understand that if we are the Purchaser we must supply the Financial Advisor with reoffering prices at the time of the award.

The successful bidder may elect to notify the Financial Advisor within twenty-four (24) hours of the award of the Bonds that certain serial maturities as awarded may be combined with immediately succeeding serial maturities as one or more Term Bonds; provided, however, (a) bids must be submitted to permit only a single interest rate for each Term Bond specified, and (b) Term Bonds will be subject to mandatory redemption by lot on October 1 in accordance with the maturity schedule setting the actual size of the issue.

It is understood that the Corporation will furnish the final, approving Legal Opinion of Henry M. Reed III, Bond Counsel, of Louisville, Kentucky. No certified or bank cashier's check will be required to accompany a bid, but the successful bidder shall be required to wire transfer an amount equal to 2% of the principal amount of Bonds awarded by the close of business on the day following the award. Said good faith amount will be applied (without interest) to the purchase price on delivery. Wire transfer procedures should be arranged through Central Bank & Trust Co., Lexington, Kentucky, Attn: Mr. Douglas E. Fritz (859-253-6247).

If we are the successful bidder, we agree to accept and make payment for the Bonds in Federal Funds within forty-five (45) days from the date of sale in accordance with the terms of the sale.

Respectfully submitted,

___________________________________________
Bidder

By_______________________________________
Signature

______________________________________
Address

Total interest cost from December 1, 2002 to final maturity $______________________________

Plus discount $______________________________

Net interest cost (Total interest cost
plus discount) $______________________________

Average interest rate or cost ________%

The above computation of net interest cost and of average interest rate or cost is submitted for information only and is not a part of this Bid.

Accepted by the Secretary of the Frankfort Independent School District Finance Corporation for $_________________ amount of Bonds at a price of $______________ as follows:

| Year | Amount* | Rate | Reoffering Yield | Year | Amount* | Rate | Reoffering Yield |
|---|---|---|---|---|---|---|---|
| 2003□ | _______,000 | _______% | ________% | 2008 | _______,000 | _______% | ________% |
| 2003 | _______,000 | _______ | ________ | 2009 | _______,000 | _______ | ________ |
| 2004 | _______,000 | _______ | ________ | 2010 | _______,000 | _______ | ________ |
| 2005 | _______,000 | _______ | ________ | 2011 | _______,000 | _______ | ________ |
| 2006 | _______,000 | _______ | ________ | 2012 | _______,000 | _______ | ________ |
| 2007 | _______,000 | _______ | ________ | | | | |

□First Maturity April 1, 2003
Dated: December 18, 2002.

______________________________________
Secretary, Frankfort Independent School District
Finance Corporation

**OFFICIAL TERMS AND CONDITIONS OF BOND SALE**

**$727,000***
**Frankfort (Kentucky) Independent School District Finance Corporation**
**School Building Refunding Revenue Bonds, Series of 2002**
**Dated December 1, 2002**

**SALE: December 18, 2002 AT 11:00 A.M., E.S.T.**

The Secretary of the Frankfort (Kentucky) Independent School District Finance Corporation (the "Corporation") will until 11:00 A.M., E.S.T., on December 18, 2002 receive at the office of Dr. Robert E. Tarvin, Executive Director, the Kentucky School Facilities Construction Commission, 229 West Main St., Suite 102, Frankfort, Kentucky 40601, competitive, sealed bids for the purchase of $727,000 principal amount of Frankfort Independent School District Finance Corporation School Building Refunding Revenue Bonds, Series of 2002 (the "Refunding Bonds"), dated and bearing interest from December 1, 2002, payable on April 1, 2003, and semi-annually thereafter, in denominations in multiples of $1,000 within the same maturity, maturing on April 1, 2003 and October 1 in each of the respective years thereafter, as follows:

| Year | Amount* | Year | Amount* |
|---|---|---|---|
| 2003[1] | $ 6,000 | 2008 | $ 84,000 |
| 2003 | 63,000 | 2009 | 92,000 |
| 2004 | 72,000 | 2010 | 74,000 |
| 2005 | 75,000 | 2011 | 77,000 |
| 2006 | 73,000 | 2012 | 25,000 |
| 2007 | 86,000 | | |

[1]First Maturity April 1, 2003
*Subject to the Permitted Adjustment increasing or decreasing the principal amount of Refunding Bonds to be sold by 10%.

**REDEMPTION PROVISIONS; REGISTRAR/PAYING AGENT**

The Refunding Bonds are NOT subject to redemption at the option of the Corporation prior to their stated maturities.

The Refunding Bonds are to be issued in fully registered form (both principal and interest). Central Bank & Trust Co., Lexington, Kentucky, Bond Registrar and Paying Agent, shall remit interest on each semiannual due date to Cede & Co., as nominee of The Depository Trust Company. Please see "Book-Entry Only System" below.

**FRANKFORT INDEPENDENT (KENTUCKY)**
**SCHOOL DISTRICT FINANCE CORPORATION**

The Corporation has been formed in accordance with the provisions of Sections 162.120 through 162.290 and Section 162.385 of the Kentucky Revised Statutes ("KRS"), and KRS Chapter 273 and KRS 58.180, as a non-profit, non-stock corporation for the purpose of financing necessary school building facilities for and on behalf of the Board of Education of the Frankfort Independent School District (the "Board"). Under the provisions of existing Kentucky law, the Corporation is permitted to act as an agency and instrumentality of the Board for financing purposes and the legality of the financing plan to be implemented by the Bonds herein referred to has been upheld by the Kentucky Court of Appeals (Supreme Court) in the case of White v. City of Middlesboro, Ky. 414 S.W.2d 569.

**AUTHORITY AND PURPOSE; REFINANCING PLAN**

The Refunding Bonds are being issued under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Sections 162.120 through 162.290, 162.385, and Section 58.180 of the Kentucky Revised Statutes, within the meaning of the decision of the Court of Appeals of Kentucky (Supreme Court) in the case of Hemlepp v. Aronberg, 369 S.W.2d 121, for the purpose of providing funds to prepay, redeem and retire certain of the outstanding Frankfort Independent School District Finance Corporation School Building Revenue Bonds, Series A of 1991, dated July 1, 1991 (the "Series A 1991 Bonds") and all of the outstanding Frankfort Independent School District Finance Corporation School Building Revenue Bonds, Series of 1992, dated October 1, 1992 (the "Series 1992 Bonds") (collectively the "Prior Issues").

The Series A 1991 Bonds maturing on January 1 in each of the years 2004 through 2010 in the aggregate principal amount of $100,000 (the "Defeased Series A 1991 Bonds") and the Series 1992 Bonds maturing on October 1 in each of the years 2003 through 2012 in the aggregate principal amount of $570,000 (the "Defeased Series 1992 Bonds") shall be redeemed prior to their stated maturities on July 1, 2003 and April 1, 2003, respectively.

Sufficient proceeds of the Refunding Bonds will be deposited in a special 2002 Escrow Fund and invested in U.S. Government Obligations or Certificates of Deposit of FDIC banks fully collateralized by said Obligations sufficient (i) to pay the interest requirements on the Defeased Series A 1991 Bonds as the same become due and redeem and retire said Defeased Series A 1991 Bonds on July 1, 2003 and (ii) to pay the interest requirements on the Defeased Series 1992 Bonds as the same become due and redeem and retire said Defeased Series 1992 Bonds on April 1, 2003.

## SCHOOL FACILITIES CONSTRUCTION COMMISSION

The Kentucky School Facilities Construction Commission (the "Commission") is an independent corporate agency and instrumentality of the Commonwealth of Kentucky established pursuant to the provisions of Sections 157.611 through 157.640 of the Kentucky Revised Statutes, as amended, repealed and reenacted (the "Act") for the purpose of assisting local school districts in meeting the school construction needs of the Commonwealth in a manner which will ensure an equitable distribution of funds based upon unmet need.

The Commission has entered into Participation Agreements with the Board relating to the Series A 1991 and Series 1992 Bonds whereunder it agreed on a biennial obligation basis to contribute approximately 80% and 36.5%, respectively, of the debt service requirements.

The Commission will enter into a new Participation Agreement with the Board whereunder the Commission, will agree to continue to pay approximately 48% of the debt service for the Refunding Bonds; provided, however, that the contractual commitment of the Commission to pay the annual Agreed Participation is limited to the biennial budget period of the Commonwealth, with the first such biennial budget period terminating on June 30, 2004.

## SECURITY FOR REFUNDING BONDS

The Bonds of the Prior Issues were issued under the authority of Sections 162.120 through 162.290 and 162.385 of the Kentucky Revised Statutes for the purpose of providing funds to finance the construction of school building improvements for the Board consisting of the construction of Phase III renovation of Second Street Elementary School (the "Series A 1991 Project") and Phase I renovation of Frankfort High School (the "Series 1992 Project"). Under the terms of the Series A 1991 and the Series 1992 Bond Resolutions authorizing the Prior Issues, those Bonds are payable from the income and revenues of the Projects financed from the proceeds thereof. The Bonds of the Prior Issues are secured by respective statutory mortgage liens upon and pledges of revenues from the rental of the Projects to the Board by the Corporation under each respective Contract, Lease and Option, dated July 1, 1991 and October 1, 1992 (the "Prior Leases").

The aggregate principal amount of the Prior Issues outstanding as of December 1, 2002 is $680,000, scheduled to mature in each of the years 2003 through 2012. The Bonds of the Prior Issues constitute the only outstanding bonded indebtedness payable from or secured by the school Projects financed from the proceeds thereof.

The Corporation will lease the Projects to the Board under the 2002 Lease at sufficient rentals to amortize the Refunding Bonds.

The Corporation and the Board have entered a Contract, Lease and Option, dated as of December 1, 2002 (the "2002 Lease"). The Refunding Bonds are secured by statutory mortgage liens on the Series A 1991 and Series 1992 Projects leased to the Board under the 2002 Lease and by pledges of the rental revenues derived under the 2002 Lease.

Under the 2002 Lease the Board has leased the Series A 1991 and Series 1992 Projects securing the Refunding Bonds in accordance with the provisions of KRS 162.140 for an initial period from December 1, 2002 through June 30, 2003, with the option in the Board to renew said 2002 Lease from year to year for one year at a time, at annual rentals, sufficient in each year to enable the Corporation to pay, solely from the rentals due under the 2002 Lease, the principal and interest on all of the Refunding Bonds as same become due.

In addition, the 2002 Lease provides that the Prior Leases will be canceled effective upon the deposit of the proceeds of the Refunding Bonds into the 2002 Escrow Fund. The 2002 Lease provides further that so long as the Board exercises its annual renewal options, its rentals will be payable according to the terms and provisions of the 2002 Lease until October 1, 2012, the final maturity date of the Refunding Bonds, and such annual rentals shall be deposited as received in the Bond Fund for the Refunding Bonds and used and applied for the payment of all maturing principal of and interest on the Refunding Bonds.

Under the terms of the 2002 Bond Resolution and the 2002 Lease the statutory mortgage liens securing the Refunding Bonds which are created and granted pursuant to KRS 162.200 upon the school Projects are and shall be restricted in their application to the exact locations of said school buildings and to such easements and rights of way for ingress, egress and the rendering of services thereto as may be necessary for the proper use and maintenance of said school buildings; the right being reserved to erect or construct upon any land not occupied by the school Projects other independently financed school buildings, free and clear of said statutory mortgage liens, which other independently financed school buildings may or may not have a party wall with and adjoin said school buildings constituting the Projects, provided no part of the cost of said other independently financed school buildings is paid from the proceeds of the sale of the Refunding Bonds.

**BIDDING CONDITIONS AND RESTRICTIONS**

(A) Each bid shall be placed in a sealed envelope, addressed to the Secretary of the Corporation, and on the outside of the envelope should appear a legend identifying the same as being "Bid for Frankfort Independent School District Finance Corporation School Building Refunding Revenue Bonds". No bid will be considered unless it is actually received in the office of Dr. Robert E. Tarvin, Executive Director, the Kentucky School Facilities Construction Commission, 229 West Main St., Suite 102, Frankfort, Kentucky 40601, prior to the time set forth at the beginning of this instrument. Official Bid Forms, together with the Preliminary Official Statement for Bidders may be obtained from the Fiscal Agent, First Kentucky Securities Corporation, P.O. Box 554, Frankfort, Kentucky 40602-0554 or electronically at http://www.firstky.com.

(1) Bids are required to be submitted on the Official Bid Form, in order to provide for uniformity in submission of bids and ready determination of the best bid AND EACH BID MUST INDICATE THE INTENDED REOFFERING YIELD in order that yield calculations may be made at the time of sale.

(2) Bidders are required to bid for the entire issue at a minimum price of not less than $719,730 (99% of par), plus accrued interest from December 1, 2002 to the date of delivery, PAYABLE IN FEDERAL FUNDS.

(3) Bidders must name an interest rate or rates in a multiple of 1/8 or 1/20 of 1% or both AND MUST STATE THE REOFFERING PRICES TO THE FINANCIAL ADVISOR IMMEDIATELY UPON THE AWARD.

(4) Interest rates must be on an ascending scale, in that the rate for Refunding Bonds of any maturity may not be less than the rate stipulated for any preceding maturity.

(5) All Refunding Bonds of the same maturity shall bear the same and a single interest rate from the date thereof to maturity.

(B) The maximum permissible net interest cost for the Bonds shall not exceed "The Bond Buyer's" Index of 20 Municipal Bonds as established on the Thursday immediately preceding the sale of said Bonds plus 1.50%.

(C) The determination of the best purchase bid for said Refunding Bonds shall be made on the basis of all bids submitted for exactly $727,000 principal amount of Refunding Bonds offered for sale under the terms and conditions herein specified; provided, however, the Corporation reserves the right to increase or decrease the total principal amount of Refunding Bonds sold to such best bidder, in the amount of not exceeding $73,000, with such increase or decrease to be made in any maturity, and the total amount of Refunding Bonds awarded to such best bidder will be a minimum of $654,000 or a maximum of $800,000. In the event of any such adjustment, no rebidding or recalculation of a submitted bid will be required or permitted. The price at which such adjusted principal amount of Bonds will be sold will be at the same price per $1,000 of Refunding Bonds as the price per $1,000 for the $727,000 of Refunding Bonds bid.

(D) The successful bidder may elect to notify the Financial Advisor within twenty-four (24) hours of the award of the Bonds that certain serial maturities as awarded may be combined with immediately succeeding serial maturities as one or more Term Bonds; provided, however, (a) bids must be submitted to permit only a single interest rate for each term bond specified, and (b) Term Bonds will be subject to mandatory redemption by lot on October 1 in accordance with the maturity schedule setting the actual size of the issue.

(E) The successful purchaser shall be required (without further advice from the Corporation) to wire transfer an amount equal to 2% of the principal amount of Refunding Bonds awarded to Central Bank & Trust Co., Lexington, Kentucky, Attn: Mr. Douglas E. Fritz (859-253-6247)., by the close of business on the day following the award as a good faith deposit said amount will be applied (without interest) to the purchase price upon delivery. Said good faith amount which will be forfeited as liquidated damages in the event of a failure of the successful bidder to take delivery of such Bonds when ready. The good faith amount (without interest) will be applied to the purchase price upon delivery of the Bonds. The successful bidder shall not be required to take up and pay for said Bonds unless delivery is made within 45 days from the date the bid is accepted.

(F) CUSIP identification numbers will be printed on the Bonds at the expense of the Corporation. The purchaser shall pay the CUSIP Service Bureau Charge and the cost of printing the Final Official Statement. Improper imprintation or the failure to imprint CUSIP numbers shall not constitute cause for a failure or refusal by the purchaser to accept delivery of and pay for said Bonds in accordance with the terms of any accepted proposal for the purchase of said Bonds.

(G) The Corporation shall provide to the successful purchaser a Final Official Statement in accordance with SEC Rule 15c2-12. Arrangements have been made with the printer of the Preliminary Official Statement, upon submission of completion text, to print a reasonable quantity of Final Official Statements in sufficient time to meet the delivery requirements of the successful bidder under SEC or Municipal Securities Rulemaking Board Delivery Requirements. The successful bidder shall be required to pay for the printing of the Final Official Statement.

(H) Delivery will be made in Louisville or Lexington, Kentucky, or Nashville, Tennessee, or Cincinnati, Ohio, at no expense to the purchaser or at any other place in the Continental United States desired by the purchaser at his expense; PROVIDED, HOWEVER, the purchaser shall bear any bank service charge for processing the delivery of the Bonds and closing the transaction if delivery is made at a location other than the principal office of the Bond Registrar. Payment shall be in FEDERAL FUNDS.

The purchaser shall be required to supply the Bond Registrar with the name, address, Social Security or Taxpayer Identification number, principal amount and principal maturities for each person or entity in whose name Bonds are to be registered. Failure of a purchaser to fully designate the Registered Owners of Bonds shall result in the issuance of Bond Certificates by the Registrar in the purchaser's "street name" (to the extent a purchaser fails to designate).

(I) The Corporation reserves the right to reject any and all bids or to waive any informality in any bid. The Bonds are offered for sale subject to the principal and interest not being subject to Federal or Kentucky income taxation or Kentucky ad valorem taxation on the date of their delivery to the successful bidder, in accordance with the Final Approving Legal Opinion of Henry M. Reed III, Bond Counsel, Louisville, Kentucky, which Opinion will be qualified in accordance with the section hereof on TAX EXEMPTION.

(J) The Corporation and the Board agree to cooperate with the successful bidder in the event said purchaser desires to purchase municipal bond insurance regarding the Refunding Bonds; provided, however, that any and all expenses incurred in obtaining said insurance shall be solely the obligation of the successful bidder should the successful bidder so elect to purchase such insurance.

## STATE SUPPORT OF EDUCATION

The 1990 Regular Session of the General Assembly of the Commonwealth enacted a comprehensive legislative package known as the Kentucky Education Reform Act ("KERA") designed to comply with the mandate of the Kentucky Supreme Court that the General Assembly provide for as efficient and equitable system of schools throughout the State.

KERA became fully effective on July 13, 1990. Elementary and Secondary Education in the Commonwealth is supervised by the Commissioner of Education as the Chief Executive Officer of the State Department of Education ("DOE"), an appointee of the reconstituted Kentucky Board of Education (the "State Board"). Some salient features of KERA are as follows:

KRS 157.330 establishes the fund to Support Education Excellence in Kentucky ("SEEK") funded from biennial appropriations from the General Assembly for distribution to school districts. The base funding guaranteed to each school district by SEEK for operating and capital expenditures is determined in each fiscal year by dividing the total annual SEEK appropriation by the state-wide total of pupils in average daily attendance ("ADA") in the preceding fiscal year; the ADA for each district is subject to adjustment to reflect the number of at risk students (approved for free lunch programs under state and federal guidelines), number and types of exceptional children, and transportation costs.

KRS 157.420 establishes a formula which results in the allocation of funds for capital expenditures in school districts at $100 per ADA pupil of the SEEK allotment for the current biennium which is required to be segregated into a Capital Outlay Allotment Fund which may be used only for (1) direct payment of construction costs; (2) debt service on voted and funding bonds; (3) lease rental payments in support of bond issues; (4) reduction of deficits resulting from overexpenditures for emergency capital construction; and (5) a reserve for each of the categories enumerated in 1 through 4 above.

KRS 160.470(12)(2) requires that effective for fiscal years beginning July 1, 1990 each school district <u>shall</u> levy a minimum equivalent tax rate of $.30 for general school purposes. The equivalent tax rate is defined as the rate which results when the income collected during the prior year from all taxes levied by the district (including utilities gross receipts license and special voted) for school purposes is divided by the total assessed value of property, plus the assessment for motor vehicles certified by the Revenue Cabinet of the Commonwealth. Any school district board of education which fails to comply with the minimum equivalent tax rate levy shall be subject to removal from office.

KRS 157.440(2) provides that for fiscal years beginning July 1, 1990 each school district <u>may</u> levy an equivalent tax rate which will produce up to 15% of those revenues guaranteed by the SEEK program. Any increase beyond the 4% annual limitation imposed by KRS 132.017 is not subject to the recall provisions of that Section. Revenue generated by the 15% levy is to be equalized at 150% of the state-wide average per pupil equalized assessment.

KRS 157.440(2) permits school districts to levy up to 30% of the revenue guaranteed by the SEEK program, plus the revenue produced by the 15% levy, but said additional tax will not be equalized with state funds and will be subject to recall by a simple majority of those voting on the question.

KRS 157.620(1) also provides that in order to be eligible for participation from the Kentucky School Facilities Construction Commission for debt service on bond issues the district must levy a tax which will produce revenues equivalent to $.05 per $100 of the total assessed value of all property in the district (including tangible and intangible property and motor vehicles) in addition to the minimum $.30 levy required by KRS 160.470(12). A district having a special voted tax which is equal to or higher than the required $.05 tax, must commit and segregate for capital purposes at least an amount equal to the required $.05 tax. Those districts which levy the additional $.05 tax are also eligible for participation in the Kentucky Facilities Support ("KFS") program for which funds are appropriated separately from SEEK funds and are distributed to districts in accordance with a formula taking into account outstanding debt and funds available for payment from both local and state sources under KRS 157.440(1)(b).

KRS 160.460 provides that as of July 1, 1994 all real property located in the Commonwealth subject to local taxation shall be assessed at 100% of fair cash value.

## ABSENCE OF STATE BUDGET; LITIGATION

The General Assembly is required by the Kentucky Constitution to adopt measures providing for the State's revenues and appropriations for each fiscal year. The Governor is required by law to submit a biennial State Budget (the "State Budget") to the General Assembly of the Commonwealth during the legislative session held in each even numbered year. State Budgets have generally been adopted by the General Assembly during those legislative sessions, which end in mid-April, to be effective for a two-year period commencing on the following July 1.

The Governor submitted a proposed State Budget, for the two-year period that begins July 1, 2002, during the regularly scheduled legislative session that began in January 2002. The regular legislative session of the General Assembly adjourned on April 15, 2002 without adoption of a State Budget. Upon conclusion of the Regular Session, the Governor called a Special Session for the sole purpose of adopting a State Budget. This special legislative session also adjourned without adoption of a State Budget.

Since a State Budget was not enacted by July 1, 2002, based upon advice received from the Attorney General of Kentucky, the Governor intends to authorize expenditures by executive order.

The Governor has advised all Kentucky School Superintendents by letter that it is his intention to implement a spending plan for the fiscal year ending June 30, 2003 by executive order, utilizing the same budget proposal he submitted to the Special Session and which, with few exceptions, was passed by both the House and the Senate.

The Governor's letter states further that the Commonwealth "is expecting an additional revenue shortfall for the current fiscal year that we will accommodate through our normal budget reduction plan as set forth in the statute, without affecting education."

The Kentucky Revised Statutes do not appear to anticipate or provide for an impasse of this nature, although the Section 183 of the Kentucky Constitution clearly directs that the General Assembly provide for a system of common schools.

Moody's Investors Service has indicated that the absence of a State Budget is one of the reasons for placing School Building Revenue Bonds (as well as certain other State financings) on its Watchlist for possible downgrade and changing its Outlook from "Stable" to "Negative".

While the extent of stress on the State Budget stemming from general economic conditions cannot be predicted with accuracy, Bond Counsel is confident that the Governor's proposals for education as implemented by executive order would be upheld by Kentucky's courts, if questioned in litigation, and that the ultimate approval of a State Budget by the General Assembly would not alter education spending to any meaningful degree with regard to these Bonds.

The Kentucky State Treasurer has initiated litigation in Franklin Circuit Court against the Governor "testing" the legality of the Governor's plan of operating State government on his proposed budget. The President of the Senate has intervened in the action. It is anticipated that regardless of the determination of the Circuit Court the ruling will be appealed directly to the Kentucky Supreme Court.

On September 3, 2002 a private citizen filed pleadings pro se in the litigation seeking to intervene and alleging the Kentucky Constitution mandates only emergency spending in the absence of a legislatively approved budget.

## CONTINUING DISCLOSURE; EXEMPTION

As a result of the principal amount of Bonds offered being less than $1,000,000, the Corporation and Board have been advised by Bond Counsel that those Bonds are exempt from application of Securities and Exchange Commission Rule 15c2-12.

Financial information regarding the Board may be obtained from the Superintendent, Frankfort Independent Schools, 315 Steele St., Frankfort, Kentucky 40601, Telephone: (502) 875-8661.

## TAX EXEMPTION; BANK ELIGIBLE

Bond Counsel is of the opinion that the Refunding Bonds are "qualified tax-exempt obligations" within the meaning of the Internal Revenue Code of 1986, as amended, and therefore advises as follows:

(A) The Refunding Bonds and the interest thereon are exempt from income and ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions.

(B) The interest income from the Refunding Bonds is excludable from the gross income of the recipient thereof for Federal income tax purposes under existing law; provided, that the corporate entities noted below are advised of certain tax consequences as follows:

(1) In the computation of the corporate minimum tax, earnings and profits may include otherwise tax-exempt interest on the Refunding Bonds; this provision applies to corporations only.

(2) Property and casualty insurance companies may be denied certain loss reserve deductions to the extent of otherwise tax-exempt interest on the Refunding Bonds.

(C) As a result of designations and certifications by the Board and the Corporation, indicating the issuance of not more than $10,000,000 of qualified tax-exempt obligations during either the calendar year ending December 31, 2002 or 2003, the Bonds may be treated by financial institutions as if they were acquired before August 8, 1986.

(D) The interest income from the Refunding Bonds is excludable from the gross income of the recipient thereof for Federal income tax purposes under existing law for individuals; however, said income must be included in the calculation of "modified adjusted gross income" in the determination of whether and to what extent Social Security benefits are subject to Federal income taxation.

The Corporation will provide the purchaser the customary no-litigation certificate, and the final approving Legal Opinion of Henry M. Reed III, Bond Counsel, Louisville, Kentucky approving the legality of the Bonds and separate legal opinion as Special Tax Counsel, with respect to compliance with the requirements for tax-exempt bonds (including the "arbitrage rules") of the Internal Revenue Code of 1986, as amended. These opinions will accompany the Bonds when delivered, without expense to the purchaser.

## BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC") will act as securities depository for the Bonds. The Bonds initially will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond Certificate will be issued, in the aggregate principal amount of the Bonds, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. "Direct Participants" include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds ("Beneficial Ownership Interest") are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their Beneficial Ownership interests in Bonds, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co., effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments of the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' account on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Issuer, or the Bond Registrar/Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer or the Bond Registrar/Paying Agent, disbursements of such payments to Direct Participants shall be the responsibility of DTC, and disbursements of such payment to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Bond Registrar/Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

NEITHER THE ISSUER, THE BOARD NOR THE BOND REGISTRAR/PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE BOND REGISTRAR/PAYING AGENT AS BEING AN OWNER WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PURCHASE PRICE OF TENDERED BONDS OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND RESOLUTION TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption, elections to tender Bonds or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

Beneficial Owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Bonds.

The Issuer cannot and does not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Bonds made to DTC or its nominee as the registered owner. or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in the Official Statement.

SO LONG AS, THE BONDS ARE HELD BY DTC OR ITS NOMINEE, CEDE & CO., IN BOOK-ENTRY ONLY FORM, THE PAYING AGENT WILL RECOGNIZE AND TREAT DTC OR ITS NOMINEE, CEDE & CO., AS THE HOLDER OF THE BONDS FOR ALL PURPOSES UNDER THE BOND RESOLUTION, PROVIDED THAT THE PAYING AGENT WILL RECOGNIZE BENEFICIAL OWNERS FOR PURPOSES OF THE PURCHASE OF BENEFICIAL OWNERSHIP INTERESTS. CONSEQUENTLY, EACH BENEFICIAL OWNER OF A BOND IS RESPONSIBLE FOR OBSERVING THE PROCEDURES OF THE DIRECT PARTICIPANT OR INDIRECT PARTICIPANT WHICH MAINTAINS A RECORD OF SUCH INTEREST IN THE BONDS IN ORDER TO PERMIT THE TIMELY OBSERVANCE OF THE TENDER PROCESS WITH RESPECT TO AN INTEREST IN THE BONDS OTHER THAN A BENEFICIAL OWNERSHIP INTEREST ABOVE. EACH BENEFICIAL OWNER IS RESPONSIBLE FOR OBSERVING THE PROCEDURES OF THE DIRECT PARTICIPANT, INDIRECT PARTICIPANT AND THE BOND REGISTRAR/PAYING AGENT, AS SET FORTH IN THE BOND RESOLUTION, IN ORDER TO PERMIT THE TIMELY OBSERVANCE OF THE TENDER PROCESS WITH RESPECT TO BENEFICIAL OWNERSHIP INTERESTS.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT FINANCE CORPORATION**

**By s/ Mike Oder**
**Secretary**