

**PRELIMINARY OFFICIAL STATEMENT**  
**Dated June 21, 2004**  
**(Bonds to be sold June 29 2004, 2:00 p.m. E.D.S.T.)**

**BANK INTEREST DEDUCTION ELIGIBLE**

**Moody's Rating: "\_\_\_"**  
**(See "Rating" Herein)**

**ELECTRONIC BIDDING VIA PARITY**

**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".**

**\$559,000\***  
**GALLATIN COUNTY (KENTUCKY)**  
**SCHOOL DISTRICT FINANCE CORPORATION**  
**SCHOOL BUILDING REVENUE BONDS, SERIES OF 2004**

**Dated: June 1, 2004**

**Due: June 1, 2005-2024**

The Bonds will be issued and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds. Accordingly, principal, interest and premium, if any, on the Bonds will be paid by The Huntington National Bank, Cincinnati, Ohio, 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 December 1, 2004 and thereafter semiannually on each June 1 and December 1.

The Bonds maturing on and after June 1, 2015, shall be subject to prior redemption at the option of the Corporation on and after June 1, 2014, as discussed herein.

**SCHEDULE OF MATURITIES**

<u>Due</u>	<u>Cusip #</u>	<u>Amount*</u>	<u>Rate</u>	<u>Yield</u>	<u>Due</u>	<u>Cusip #</u>	<u>Amount*</u>	<u>Rate</u>	<u>Yield</u>
6/1/05	<u>363650</u>	\$ 23,000			6/1/15	<u>363650</u>	\$ 27,000		
6/1/06		23,000			6/1/16		31,000		
6/1/07		20,000			6/1/17		28,000		
6/1/08		26,000			6/1/18		29,000		
6/1/09		21,000			6/1/19		31,000		
6/1/10		23,000			6/1/20		32,000		
6/1/11		23,000			6/1/21		33,000		
6/1/12		25,000			6/1/22		35,000		
6/1/13		25,000			6/1/23		37,000		
6/1/14		29,000			6/1/24		38,000		

(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 162.300, 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 Gallatin County 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 July 13, 2004.

\*Preliminary, Subject to Permitted Adjustment.

**FIRST KENTUCKY SECURITIES CORPORATION**  
**Fiscal Agent**

**GALLATIN COUNTY (KENTUCKY) SCHOOL DISTRICT  
FINANCE CORPORATION**

Board of Directors

Becky Burgett, President  
Joanie Rogers, Vice President  
Sonya Giles, Director  
David Morris, Director  
Anita McFarland, Director

Dorothy Perkins, Secretary  
Connie Wainscott, Treasurer

**GALLATIN COUNTY (KENTUCKY) SCHOOL DISTRICT  
BOARD OF EDUCATION**

Board Members

Becky Burgett, Chairperson  
Joanie Rogers, Vice Chairperson  
Sonya Giles  
David Morris  
Anita McFarland

Dorothy Perkins, Secretary  
Connie Wainscott, Treasurer  
Dorothy Perkins, Superintendent

**BOND AND SPECIAL TAX COUNSEL**

Henry M. Reed III  
Louisville, Kentucky

**FISCAL AGENT**

First Kentucky Securities Corporation  
Frankfort, Kentucky

**PAYING AGENT/BOND REGISTRAR**

The Huntington National Bank  
Cincinnati, Ohio

**BOOK-ENTRY-ONLY-SYSTEM**

No dealer, broker, salesman, or other person has been authorized by the Gallatin County School District Finance Corporation, the Gallatin County 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 Gallatin County 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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Official Terms & Conditions of Bond Sale  
 Official Bid Form

## PRELIMINARY OFFICIAL STATEMENT

**\$559,000\***  
**GALLATIN COUNTY (KENTUCKY)**  
**SCHOOL DISTRICT FINANCE CORPORATION**  
**SCHOOL BUILDING REVENUE BONDS**  
**SERIES OF 2004**

**Dated Date: June 1, 2004**

This Official Statement, which includes the cover page, is being distributed by the Gallatin County School District Finance Corporation (the "Corporation") to furnish pertinent information to all who may become holders of its School Building Revenue Bonds, Series of 2004, dated June 1, 2004 (the "Bonds") being offered hereby pursuant to the provisions of Sections 162.120 through 162.300 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 162.300 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 \$559,000\* School Building 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 June 1, 2004 will bear interest payable December 1, 2004, and thereafter semiannually on each June 1 and December 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 maturing on and after June 1, 2015, are subject to redemption prior to their stated maturities on any date falling on or after June 1, 2014, in whole, or from time to time, in part, in any order of maturities (less than all of a single maturity to be selected by lot), at the option of the Corporation upon terms or the face amount, plus accrued interest, but without redemption premium.

#### ***Statutory Authority, Purpose of Issue and Security***

These Bonds are authorized pursuant to KRS 162.120 through 162.300, 162.385, and KRS 58.180 and are issued in accordance with a Resolution of the Corporation's Board of Directors. Said Bonds are revenue bonds and constitute a limited indebtedness of the Corporation payable from rental revenues derived by the Corporation from the Board under the Lease identified below. Said Bonds are being issued to finance construction of Phase V – construction of softball and baseball fields at the Gallatin County High School (the "Project") and are secured by a statutory mortgage lien upon and a pledge of the revenues from the rental of the school building to the Board under the Lease on a year to year basis; the first rental period ending June 30, 2005. The statutory mortgage lien securing the Bonds is limited in its application to the exact site of the Project constructed from the proceeds of the Bonds, real estate unoccupied by the Project is unencumbered; should the Board default in its obligations under the Lease or fail to renew the Lease, the Registered Owners of Bonds have the right to have a receiver appointed to administer the Project under KRS 162.220; foreclosure and sale are not available as remedies.

The rental of the Project from the Corporation to the Board is to be effected under a certain Contract, Lease and Option by and between the Corporation and the Board (the "Lease"), whereunder the Project is leased to the Board for the initial period ending June 30, 2005, with an option in the Board to renew the Lease each year at rentals sufficient to provide for the principal and interest requirements on the Bonds as they become due, plus the costs of insurance, maintenance, depreciation, and bond issuance and administration expenses; the Board being legally obligated only for the initial rental period and for one year at a time thereafter each time the Lease is renewed.

Although the Board is obligated to pay the Corporation annual rentals in the full amount of the principal and interest requirements for the Bonds for each year in which the Lease is renewed, the Board has entered into the Lease in reliance upon a certain Participation Agreement by and between the Board and the Kentucky School Facilities Construction Commission (the "Commission"). Under the

terms of the Participation Agreement, the Commission has agreed to pay annually directly to the Paying Agent for the Bonds a stated Agreed Participation equal to approximately 94% of the annual debt service requirements for the Bonds herein identified until their retirement, subject to the constitutional restrictions limiting the commitment to the biennium; said annual amount is to be applied only to the principal and interest requirements of the Bonds so long as the Board renews the Lease. Under the Lease, the Board has pledged and assigned all of its rights under the Participation Agreement in and to the Agreed Participation to the Corporation in order to secure the Bonds and has agreed to pay that portion of the rentals in excess of said Agreed Participation for each year in which the Lease is renewed.

### **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 repealed, amended, and reenacted (the "Act") for the purpose of assisting local school districts in meeting the school construction needs of the Commonwealth in a manner in which will ensure an equitable distribution of funds based upon unmet need.

Pursuant to the provisions of the Act, the Regulations of the Kentucky Board of Education and the Commission, the Commission has determined that the Board is eligible for participation from the Commission in meeting the costs of construction of the Project and has entered into a Participation Agreement with the Board whereunder the Commission agrees to pay an annual Agreed Participation equal to approximately 94% of the annual debt service requirements for the Bonds herein identified each year until their retirement; 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 on June 30, 2006; the right is reserved in the Commission to terminate its commitment to pay the Agreed Participation after the initial biennial period and 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 the retirement of all of the Bonds, but such execution does not obligate the Commission to do so.

The 2003 Regular Session of the General Assembly allocated the sum of \$9,500,000 to the Commission for new projects for the biennium ending June 30, 2004 in addition to the appropriation for existing obligations of the Commission.

Notwithstanding the stated Agreed Participation set forth above, in the event funding for the Commission's 2002 Offer of Assistance becomes available upon the adoption of the Biennial Budget of the Commonwealth for the biennium ending June 30, 2006, subsequent to the delivery of the Bonds, the Commission may at its discretion, elect to apply all or a portion of said Offer to an increase in the Agreed Participation for the then remaining term of the Bonds. Nothing herein should be construed as a commitment by the Commission or the Board to increase the Agreed Participation beyond that stated above.

### **ADDITIONAL PARITY BONDS FOR COMPLETION OF PROJECT**

The Corporation has reserved the right and privilege of issuing additional bonds from time to time payable from the income and revenues of said lands and school building Project and secured by the same statutory mortgage lien and pledge of revenues, but only if and to the extent the issuance of such additional parity bonds may be necessary to pay the costs, for which funds are not otherwise available, of completing the construction of said school building Project in accordance with the plans and specifications of the architect in charge of said Project, which plans have been completed, approved by the Board, Commissioner of Education, and filed in the office of the Secretary of the Corporation.

### **ABSENCE OF STATE BUDGET; LITIGATION**

On April 13, 2004, the Regular Session of the Kentucky General Assembly adjourned without adopting a State Budget for the biennium beginning July 1, 2004.

Informal discussions between the Governor and legislative leadership have taken place since the adjournment of the Regular Session. The Governor has indicated that if an informal agreement can be reached he would be willing to convene a Special Session of the General Assembly in an attempt to resolve the impasse. It is believed that beginning July 1, 2004 the Governor intends to authorize State expenditures by Executive Order if a Budget is not inactive. The Executive Order authorization was employed by a previous Governor in 2002 when confronted with a similar situation; however, serious constitutional questions may require test litigation.

The Attorney General of the Commonwealth filed a lawsuit on May 27, 2004 in Franklin County, Kentucky Circuit Court (Case No. 04-CI-00719) seeking a Declaration of Rights and determination of the Governor's authority, through an Executive Spending Plan implemented by Executive Order, to suspend statutory laws which have traditionally been suspended by enactment of a State Budget. The suit names the Governor, the Treasurer, the Secretary of the Finance and Administration Cabinet as well as the President of the Senate and the Speaker of the House of Representatives as defendants.

Kentucky courts have previously held that the executive branch has certain authority to expend funds where a legislative budget appropriation is inadequate. The nature and extent of a governor's power to authorize expenditures by executive order in lieu of an enacted State Budget has not been addressed by the Kentucky judicial system. Previous litigation concerning the absence of a State Budget in 2002 was dismissed without adjudication upon the enactment of a State Budget in 2003.

A separate suit filed in Franklin Circuit Court by sixteen students and their parents from eight South Central Kentucky School Districts as a class action naming the Governor, the President of the Senate, the Speaker of the House and the General Assembly of Kentucky as Defendants and seeking to have the Court (a) declare Kentucky's educational funding system unconstitutional; (b) mandate the adoption of a Budget by the General Assembly implementing school funding on an equal basis among school districts adequate to provide proper education; and (c) provide for monitoring the implementation of a new school funding system, remains subject to judicial determination.

It is not now anticipated that any reorganization of school funding at the State level will result in the diminution of security for these Bonds.

### **GALLATIN COUNTY (KENTUCKY) SCHOOL DISTRICT FINANCE CORPORATION**

The Corporation has been formed in accordance with the provisions of Section 162.120 through 162.300 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 Gallatin County 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 PROJECT**

The Project consists of the construction of softball and baseball fields at Gallatin County High School (Phase V).

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

#### **Sources of Funds**

Series of 2004 Bonds  
Total

#### **Uses of Funds**

Construction Fund  
Underwriter's Discount  
Issuance Costs  
Surplus  
Total

### **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 "Gallatin County School District Finance Corporation School Building Revenue Bond and Interest Redemption Fund of June 1, 2004" (the "Series 2004 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, until needed for construction purposes, with the Construction Depository (First Farmers Bank and Trust Company, Warsaw, Kentucky), into a special account called "Gallatin County School District Finance Corporation Series of 2004 School Construction Fund" (the "Construction Fund").

## 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 Gallatin County School District Finance Corporation School Building Revenue Bonds, Series of 2004, in an aggregate amount of \$559,000\*. The Bonds are fully registered and in denominations in multiples of \$1,000. The Bonds bear interest payable on December 1 and June 1 in each year, beginning December 1, 2004, 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***

The Huntington National Bank, Cincinnati, Ohio, 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:

**Gallatin County School District Finance Corporation School Building Revenue Bond and Interest Redemption Fund of June 1, 2004 (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 November 15 and May 15, the first such payment to be made on or before November 15, 2004.

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.

**Gallatin County School District Finance Corporation Series of 2004 School Construction Fund (the "Construction 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 Construction Fund for the payment, exclusively, of the costs of the school construction projects described herein. The Construction Depository shall be First Farmers Bank and Trust Company, Warsaw, Kentucky. Payments from the Construction Fund shall be made by check signed by the Treasurer of the Corporation upon approval of the Board. Each check shall have attached a voucher, signed by the Architect having supervision of the construction, stating that the labor and/or materials for which the payment is being made have been, in fact, received and utilized on the site of the projects. Such a voucher is not required for checks which reimburse the Board for advance payments made prior to the receipt of bond proceeds.

### ***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 Project properties as will be sufficient to pay the principal of and interest on the Bonds when same become due.

### ***Statutory Mortgage Lien Created***

The Resolution recognizes the statutory mortgage lien upon the school Project 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 2. Said lien is and shall be restricted in its application 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 site 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 site described in the Resolution other structures and improvements free and clear of said statutory mortgage lien, even though the same are connected by using as party walls one or more walls of structures which are subject to said mortgage lien, 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 Project to the Board and the Board agrees to lease the Project from the Corporation from year to year commencing on June 1, 2004.

The initial term of the Lease shall expire on June 30, 2005; 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 June 1, together with the Bonds and interest which will be due on December 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 June, 2024, 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 Project and thereby terminate the Lease on any date by the payment of a sum sufficient to accomplish the retirement or defeasance of the outstanding Bonds issued by the Corporation

## ***Maintenance and Insurance***

The Board agrees that so long as the Board continues to lease the school Project it will, at its own expense, maintain the Project 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 Project 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; EXEMPT**

In accordance with the "Disclosure Rules" of the Securities and Exchange Commission, Rule 15c2-12(b)(5), as a result of the principal amount of this issue to be issued by the Corporation not exceeding \$1,000,000, the Board and the Corporation have been advised by Bond Counsel that the Bonds are exempt from the application of the SEC Disclosure Rules.

Financial information regarding the Board may be obtained from Superintendent, Gallatin County Board of Education, PO Box 147, 110 W. Main, Warsaw, Kentucky Telephone 859-567-2828.

#### **TAX EXEMPTION; BANK QUALIFIED**

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 the calendar year ending December 31, 2004, 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", "Adoption of State Budget; Litigation", "Certain Provisions of the Bond Resolution", "Certain Provisions of the Contract, Lease and Option", "State Support of Education", "Continuing Disclosure" 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 Project", "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.

**GALLATIN COUNTY SCHOOL DISTRICT FINANCE CORPORATION**

/s/ Becky Burgett  
President

**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  
GALLATIN COUNTY SCHOOL DISTRICT**

The Gallatin County School District represents the entire 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***

<b>School Year</b>	<b>Enrollment</b>
2004	1,498
2003	1,423
2002	1,408
2001	1,392
2000	1,426

***Assessment of Property for School Tax***

<b>School Year</b>	<b>Total Assessment</b>
2004	\$416,464,667
2003	394,864,056
2002	378,672,992
2001	330,012,180
2000	316,827,399

<b>School Year</b>	<b>Real Estate Tax Rate</b>	<b>Tangible Tax Rate</b>	<b>Motor Vehicle Tax Rate</b>	<b>Utility Tax Rate</b>
2004	51.7¢	51.7¢	55.7¢	3%
2003	50.6¢	51.1¢	55.7¢	3%
2002	51.1¢	51.1¢	55.7¢	3%
2001	52.0¢	52.0¢	55.7¢	3%
2000	45.2¢	45.2¢	55.7¢	3%

**GALLATIN COUNTY SCHOOL DISTRICT**  
**Comparative Statement of Receipts and Disbursements**  
**GENERAL FUND**

Fiscal Year Ending June 30

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Beginning Cash Balance	\$1,331,154	\$1,125,058	\$1,330,936	\$1,402,579	\$1,710,484
Adjustments in Beginning Balance	(20,296)	20,295	46,746	(20,294)	0
Adjusted Beginning Balance	1,310,858	1,145,353	1,377,682	1,382,285	1,710,484
<b>RECEIPTS:</b>					
Revenue from Local Sources	2,095,077	2,227,035	2,273,841	2,097,608	2,035,880
Revenue from State Sources	5,107,991	4,448,678	4,348,196	4,480,220	4,524,205
Other	<u>0</u>	<u>25,518</u>	<u>0</u>	<u>1,303</u>	<u>0</u>
Total Receipts	<u>7,203,068</u>	<u>6,701,231</u>	<u>6,622,037</u>	<u>6,579,131</u>	<u>6,560,085</u>
Total Funds Available	<u>8,513,926</u>	<u>7,846,584</u>	<u>7,999,719</u>	<u>7,961,416</u>	<u>8,270,569</u>
<b>DISBURSEMENTS:</b>					
Instruction	3,717,653	3,315,402	3,424,928	3,276,468	3,123,289
Student Support Services	397,172	378,356	423,046	353,352	324,131
Instruction Staff Support	527,949	292,486	260,050	195,576	208,100
District Administrative Support	1,239,862	491,820	494,152	467,465	484,925
School Administrative Support	542,097	498,457	441,490	517,943	424,968
Business Support Services	172,127	50,826	72,136	40,627	46,418
Plant Operation & Maintenance	1,068,338	771,325	863,065	1,088,887	694,979
Student Transportation	742,217	568,623	693,036	621,631	450,690
Central Office Support Service	105,011	18,528	20,622	20,264	19,600
Facilities Acquisition & Constr	0	0	85,477	25,186	108,416
Debt Services	1,500	129,607	1,160	1,296	114,189
Transfers	<u>0</u>	<u>0</u>	<u>95,498</u>	<u>21,785</u>	<u>868,285</u>
Total Disbursements	<u>8,513,926</u>	<u>6,515,430</u>	<u>6,874,661</u>	<u>6,630,480</u>	<u>6,867,990</u>
Ending Cash Balance	<u>\$ 0</u>	<u>\$1,331,154</u>	<u>\$1,125,058</u>	<u>\$1,330,936</u>	<u>\$1,402,579</u>

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Source: Amounts for fiscal year 2004 have been taken from the working budget. Amounts for fiscal years 2003-2000 have been taken from audit reports prepared by Raisor, Zapp & Woods, P.S.C., Certified Public Accountants, Carrollton, Kentucky.

**GALLATIN COUNTY SCHOOL DISTRICT**  
**Comparative Statement of**  
**Receipts and Disbursements**  
**CAPITAL OUTLAY FUND**

Fiscal Years Ending June 30

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Beginning Cash Balance	\$ 0	\$ 0	\$ 0	\$ 11,007	\$ 0
<b>RECEIPTS:</b>					
Investment Earnings	0	0	0	111	3,261
Capital Outlay Allotment	<u>140,240</u>	<u>127,130</u>	<u>129,540</u>	<u>128,330</u>	<u>135,140</u>
Total Receipts	<u>140,240</u>	<u>127,130</u>	<u>129,540</u>	<u>128,441</u>	<u>138,401</u>
Total Receipts and Balance	<u>140,240</u>	<u>127,130</u>	<u>129,540</u>	<u>139,448</u>	<u>138,401</u>
<b>DISBURSEMENTS:</b>					
Transfer to Debt Service	<u>140,240</u>	<u>127,130</u>	<u>129,540</u>	<u>139,448</u>	<u>127,394</u>
Total Disbursements	<u>140,240</u>	<u>127,130</u>	<u>129,540</u>	<u>139,448</u>	<u>127,394</u>
Ending Cash Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,007</u>

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Source: Amounts for fiscal year 2004 have been taken from the working budget. Amounts for fiscal years 2003-2000 have been taken from audit reports prepared by Raisor, Zapp & Woods, P.S.C., Certified Public Accountants, Carrollton, Kentucky.

***Utilities Gross Receipts Tax For Schools***

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

<u>2004 (est.)</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
\$500,000	\$612,471	\$589,839	\$555,770	\$537,088

***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.

<b><u>School Year</u></b>	<b><u>Average Daily Attendance</u></b>	<b><u>Capital Outlay Allotment</u></b>
2004	1,402.4	\$140,240
2003	1,271.3	127,130
2002	1,295.4	129,540
2001	1,283.3	128,330
2000	1,351.4	135,140

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*Outstanding School Building Revenue Bonds*

**Local Participation:**

<b><u>Date of Issue</u></b>	<b><u>Final Maturity</u></b>	<b><u>Original Amount Issued</u></b>	<b><u>Bonds Outstanding as of June 1, 2004</u></b>
April 1, 1997	6/1/2007	\$ 5,183	\$ 3,264
December 1, 1997	12/1/2017	904,848	862,363
February 1, 1998	12/1/2010	931,266	653,563
August 1, 1999	8/1/2019	731,380	713,762
October 1, 2001	10/1/2001	3,710,000	3,540,000
July 1, 2003	12/1/2015	<u>2,570,896</u>	<u>2,434,541</u>
Subtotal		<u>\$8,853,573</u>	<u>\$8,207,493</u>

**SFCC Participation (1):**

<b><u>Date of Issue</u></b>	<b><u>Final Maturity</u></b>	<b><u>Original Amount Issued</u></b>	<b><u>Bonds Outstanding as of June 1, 2004</u></b>
April 1, 1997	6/1/2009	\$1,104,817	\$ 411,736
December 1, 1997	12/1/2017	535,152	417,637
February 1, 1998	12/1/2010	288,734	201,437
August 1, 1999	8/1/2019	1,448,620	1,256,535
July 1, 2003	12/1/2013	<u>159,104</u>	<u>145,459</u>
Subtotal		<u>\$3,536,427</u>	<u>\$2,432,804</u>
Total		<u>\$12,390,000</u>	<u>\$10,640,297</u>

(1) These bonds are payable by the Commission.

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## **APPENDIX B**

### ***General Information***

## General Information

Gallatin County, located in north-central Kentucky, has a land area of 99 square miles. The Ohio River forms the entire northern boundary of the county.

Warsaw, the county seat of Gallatin County, is located 39 miles southwest of Cincinnati, Ohio; 66 miles northeast of Louisville, Kentucky; and 80 miles northwest of Lexington, Kentucky.

## Total Population

	1998	1999	2000	2001	2002
Labor Market Area	282,692	287,973	297,476	303,326	307,479
Gallatin County	7,182	7,437	7,870	7,961	7,836
Warsaw	1,743	1,746	1,811	1,805	1,776
Glencoe	311	323	251	248	245

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

## Population Projections

	2005	2010	2015	2020
Labor Market Area	329,939	364,425	402,672	446,090
Gallatin County	9,618	11,638	14,063	16,911

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

## Personal Income

	1996	2001	Pct. Change
Gallatin County	\$15,507	\$17,492	12.8%
Kentucky	\$19,957	\$24,878	24.7%
U.S.	\$24,270	\$30,413	25.3%
Labor Market Area Range	\$14,881 - \$23,537	\$17,492 - \$30,004	

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

## Households

	2000		1999
	Number of Households	Persons Per Household	Median Household Income
Gallatin County	2,902	2.7	\$36,422

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

## Employment by Major Industry by Place of Work, 2002

	Gallatin County		Labor Market Area	
	Employment	Percent	Employment	Percent
All Industries	1,953	100.0	145,758	100.0
Agriculture, Forestry, Fishing and Hunting	0	0.0	N/A	N/A
Mining	0	0.0	N/A	N/A
Construction	0	0.0	N/A	N/A
Manufacturing	472	24.2	18,874	12.9
Trade, Transportation, and Utilities	515	26.4	41,106	28.2
Information	0	0.0	2,483	1.7
Financial Activities	35	1.8	8,729	6.0
Services	378	19.4	46,378	31.8
Public Administration	86	4.4	8,919	6.1
Other	0	0.0	N/A	N/A

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

## Major Manufacturers

Firm	Product(s)	Emp.	Year Established
<i>Warsaw</i>			
Home Market Foods	Barbecue sauce; barbecued beef, pork & chicken packaging & processing	39	1982
Sailrex Metal Components	Electropolishing of stainless, electroless nickel, zinc, and tin plating, phosphate coating service; anodizing on aluminum; hard chrome plating, zinc plating.	17	1976
Trenwa Inc	Precast concrete vaults, trenches, tunnels & transformer pads	17	1974

Source: Kentucky Cabinet for Economic Development (05/20/2004).

*Ten Largest Corporate Taxpayers*

<u>Name</u>	<u>Assessment</u>
Kentucky Speedway	\$8,743,146
R&B	8,000,000
Steel Technologies	4,160,000
Ghent Steel	3,570,000
Gallatin Terminal	3,055,000
Speedway Hotel, LLC	2,400,000
Law-Wal, LLC	1,593,009
Sparta Station, LLC	450,000
Complete Warehousing	422,500
Gallatin Steel	18,400

**APPENDIX C**

*Estimated District and SFCC Debt Service Requirements on Series of 2004 Bonds*  
*Estimated Total Annual District Debt Service Requirements*

**GALLATIN COUNTY SCHOOL DISTRICT FINANCE CORPORATION**  
**SCHOOL BUILDING REVENUE BONDS**  
**SERIES OF 2004**

**ESTIMATED DISTRICT AND SFCC DEBT SERVICE REQUIREMENTS**

Date	District Participation			SFCC Participation			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
12/01/2004		\$657.33	\$657.33		\$10,720.94	\$10,720.94		\$11,378.27	\$11,378.27
06/01/2005	\$4,534	657.33	5,191.33	\$18,466	10,720.94	29,186.94	\$23,000	11,378.27	34,378.27
12/01/2005	-	611.99	611.99	-	10,536.28	10,536.28	-	11,148.27	11,148.27
06/01/2006	4,166	611.99	4,777.99	18,834	10,536.28	29,370.28	23,000	11,148.27	34,148.27
12/01/2006	-	565.12	565.12	-	10,324.40	10,324.40	-	10,889.52	10,889.52
06/01/2007	743	565.12	1,308.12	19,257	10,324.40	29,581.40	20,000	10,889.52	30,889.52
12/01/2007	-	555.83	555.83	-	10,083.68	10,083.68	-	10,639.51	10,639.51
06/01/2008	6,262	555.83	6,817.83	19,738	10,083.68	29,821.68	26,000	10,639.51	36,639.51
12/01/2008	-	458.77	458.77	-	9,777.74	9,777.74	-	10,236.51	10,236.51
06/01/2009	649	458.77	1,107.77	20,351	9,777.74	30,128.74	21,000	10,236.51	31,236.51
12/01/2009	-	448.23	448.23	-	9,447.04	9,447.04	-	9,895.27	9,895.27
06/01/2010	1,990	448.23	2,438.23	21,010	9,447.04	30,457.04	23,000	9,895.27	32,895.27
12/01/2010	-	413.40	413.40	-	9,079.36	9,079.36	-	9,492.76	9,492.76
06/01/2011	1,251	413.40	1,664.40	21,749	9,079.36	30,828.36	23,000	9,492.76	32,942.76
12/01/2011	-	389.95	389.95	-	8,671.57	8,671.57	-	9,061.52	9,061.52
06/01/2012	2,439	389.95	2,828.95	22,561	8,671.57	31,232.57	25,000	9,061.52	34,061.52
12/01/2012	-	343.00	343.00	-	8,237.27	8,237.27	-	8,580.27	8,580.27
06/01/2013	1,568	343.00	1,911.00	23,432	8,237.27	31,669.27	25,000	8,580.27	33,580.27
12/01/2013	-	311.64	311.64	-	7,768.63	7,768.63	-	8,080.27	8,080.27
06/01/2014	4,631	311.64	4,942.64	24,369	7,768.63	32,137.63	29,000	8,080.27	37,080.27
12/01/2014	-	216.70	216.70	-	7,269.06	7,269.06	-	7,485.76	7,485.76
06/01/2015	1,632	216.70	1,848.70	25,368	7,269.06	32,637.06	27,000	7,485.76	34,485.76
12/01/2015	-	182.43	182.43	-	6,736.33	6,736.33	-	6,918.76	6,918.76
06/01/2016	4,567	182.43	4,749.43	26,433	6,736.33	33,169.33	31,000	6,918.76	37,918.76
12/01/2016	-	84.24	84.24	-	6,168.02	6,168.02	-	6,252.26	6,252.26
06/01/2017	429	84.24	513.24	27,571	6,168.02	33,739.02	28,000	6,252.26	34,252.26
12/01/2017	-	74.80	74.80	-	5,561.46	5,561.46	-	5,636.26	5,636.26
06/01/2018	217	74.80	291.80	28,783	5,561.46	34,344.46	29,000	5,636.26	34,636.26
12/01/2018	-	69.92	69.92	-	4,913.84	4,913.84	-	4,983.76	4,983.76
06/01/2019	921	69.92	990.92	30,079	4,913.84	34,992.84	31,000	4,983.76	35,983.76
12/01/2019	-	48.73	48.73	-	4,222.03	4,222.03	-	4,270.76	4,270.76
06/01/2020	539	48.73	587.73	31,461	4,222.03	35,683.03	32,000	4,270.76	36,270.76
12/01/2020	-	36.20	36.20	-	3,490.56	3,490.56	-	3,526.76	3,526.76
06/01/2021	74	36.20	110.20	32,926	3,490.56	36,416.56	33,000	3,526.76	36,526.76
12/01/2021	-	34.44	34.44	-	2,708.56	2,708.56	-	2,743.00	2,743.00
06/01/2022	512	34.44	546.44	34,488	2,708.56	37,196.56	35,000	2,743.00	37,743.00
12/01/2022	-	22.03	22.03	-	1,872.23	1,872.23	-	1,894.26	1,894.26
06/01/2023	839	22.03	861.03	36,161	1,872.23	38,033.23	37,000	1,894.26	38,894.26
12/01/2023	-	1.26	1.26	-	977.24	977.24	-	978.50	978.50
06/01/2024	49	1.26	50.26	37,951	977.24	38,928.24	38,000	978.50	38,978.50
<b>Total</b>	<b>\$38,012</b>	<b>\$11,052.02</b>	<b>\$49,064.02</b>	<b>\$520,988</b>	<b>\$277,132.48</b>	<b>\$798,120.48</b>	<b>\$559,000</b>	<b>\$288,184.50</b>	<b>\$847,184.50</b>

Source: Fiscal Agent

**GALLATIN COUNTY SCHOOL DISTRICT FINANCE CORPORATION  
SCHOOL BUILDING REVENUE BONDS  
SERIES OF 2004**

**Estimated Total Annual District Debt Service Requirements**

FY 6/30	Existing Debt Service	Series of 2004 Bonds			Total
		Principal	Interest	Total	
2005	\$653,071	\$4,534	\$1,315	\$5,849	\$658,920
2006	653,497	4,166	1,224	5,390	658,887
2007	657,543	743	1,130	1,873	659,416
2008	651,324	6,262	1,112	7,374	658,698
2009	654,597	649	918	1,567	656,164
2010	653,676	1,990	896	2,886	656,562
2011	654,686	1,251	827	2,078	656,764
2012	653,344	2,439	780	3,219	656,563
2013	654,466	1,568	686	2,254	656,720
2014	651,058	4,631	623	5,254	656,312
2015	653,901	1,632	433	2,065	655,966
2016	651,881	4,567	365	4,932	656,813
2017	673,090	429	168	597	673,687
2018	669,273	217	150	367	669,640
2019	671,862	921	140	1,061	672,923
2020	669,278	539	97	636	669,914
2021	673,650	74	72	146	673,796
2022	669,738	512	69	581	670,319
2023	0	839	44	883	883
2024	0	49	3	52	52
<b>Totals</b>	<b>\$11,869,935</b>	<b>\$38,012</b>	<b>\$11,052</b>	<b>\$49,064</b>	<b>\$11,918,999</b>

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

**OFFICIAL  
TERMS AND CONDITIONS OF BOND SALE**

**\$559,000\***

**Gallatin County School District Finance Corporation  
School Building Revenue Bonds, Series of 2004  
Dated June 1, 2004**

**SALE: June 29, 2004 AT 2:00 P.M., E.D.S.T.**

As advertised in The Courier-Journal, published in Louisville, Kentucky, the Secretary of the Gallatin County (Kentucky) School District Finance Corporation ("Corporation") will until June 29, 2004, at the hour of 2:00 P.M., E.D.S.T., in the office of Dr. Robert E. Tarvin, Executive Director of the Kentucky School Facilities Construction Commission, 229 West Main Street, Suite 102, Frankfort, Kentucky 40601-1879, receive competitive bids for the revenue bonds herein described. To be considered bids must be submitted on an Official Bid Form and must be delivered to the Secretary at the address indicated on the date of sale no later than the hour indicated. Bids will be considered by the Secretary and may be accepted without further action by the Corporation's Board of Directors.

Subject to a Permitted Adjustment\* increasing or decreasing the issue by \$55,000.

**GALLATIN COUNTY (KENTUCKY)  
SCHOOL DISTRICT FINANCE CORPORATION**

The Corporation has been formed in accordance with the provisions of Sections 162.120 through 162.300 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 Gallatin County, Kentucky (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.

**STATUTORY AUTHORITY, PURPOSE OF ISSUE AND SECURITY**

These Bonds are authorized pursuant to KRS 162.120 through 162.300, 162.385, and KRS 58.180 and are issued in accordance with a Resolution of the Corporation's Board of Directors. Said Bonds are revenue bonds and constitute a limited indebtedness of the Corporation payable from rental revenues derived by the Corporation from the Board under the Lease identified below. Said Bonds are being issued to finance improvements to Gallatin County High School and adjoining athletic field (the "Project") and are secured by a statutory mortgage lien upon and a pledge of the revenues from the rental of the school building to the Board under the Lease on a year to year basis; the first rental period ending June 30, 2005. The statutory mortgage lien securing the Bonds is limited in its application to the exact site of the Project constructed from the proceeds of the Bonds, real estate unoccupied by the Project is unencumbered; Should the Board default in its obligations under the Lease or fail to renew the Lease, the Registered Owners of Bonds have the right to have a receiver appointed to administer the Project under KRS 162.220; foreclosure and sale are not available as remedies.

The rental of the Project from the Corporation to the Board is to be effected under a certain Contract, Lease and Option by and between the Corporation and the Board (the "Lease"), whereunder the Project is leased to the Board for the initial period ending June 30, 2005, with an option in the Board to renew the Lease each year at rentals sufficient to provide for the principal and interest requirements on the Bonds as they become due, plus the costs of insurance, maintenance, depreciation, and bond issuance and administration expenses; the Board being legally obligated only for the initial rental period and for one year at a time thereafter each time the Lease is renewed.

Although the Board is obligated to pay the Corporation annual rentals in the full amount of the principal and interest requirements for the Bonds for each year in which the Lease is renewed, the Board has entered into the Lease in reliance upon a certain Participation Agreement by and between the Board and the Kentucky School Facilities Construction Commission (the "Commission"). Under the terms of the Participation Agreement, the Commission has agreed to pay annually directly to the Paying Agent for the Bonds a stated Agreed Participation equal to approximately 94% of the annual debt service requirements for the Bonds herein identified until their retirement, subject to the constitutional restrictions limiting the commitment to the biennium; said annual amount is to be applied only to the principal and interest requirements of the Bonds so long as the Board renews the Lease. Under the Lease, the Board has pledged and assigned all of its rights under the Participation Agreement in and to the Agreed Participation to the Corporation in order to secure the Bonds and has agreed to pay that portion of the rentals in excess of said Agreed Participation for each year in which the Lease is renewed.

## 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 repealed, amended, and reenacted (the "Act") for the purpose of assisting local school districts in meeting the school construction needs of the Commonwealth in a manner in which will ensure an equitable distribution of funds based upon unmet need.

Pursuant to the provisions of the Act, the Regulations of the Kentucky Board of Education and the Commission, the Commission has determined that the Board is eligible for participation from the Commission in meeting the costs of construction of the Project and has entered into a Participation Agreement with the Board whereunder the Commission agrees to pay an annual Agreed Participation equal to approximately 94% of the annual debt service requirements for the Bonds herein identified each year until their retirement; 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 on June 30, 2006; the right is reserved in the Commission to terminate its commitment to pay the Agreed Participation after the initial biennial period and 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 the retirement of all of the Bonds, but such execution does not obligate the Commission to do so.

The 2003 Regular Session of the General Assembly allocated the sum of \$9,500,000 to the Commission for new projects for the biennium ending June 30, 2004 in addition to the appropriation for existing obligations of the Commission.

### ADDITIONAL PARITY BONDS FOR COMPLETION OF PROJECT

The Corporation has reserved the right and privilege of issuing additional bonds from time to time payable from the income and revenues of said lands and school building Project and secured by the same statutory mortgage lien and pledge of revenues, but only if and to the extent the issuance of such additional parity bonds may be necessary to pay the costs, for which funds are not otherwise available, of completing the construction of said school building Project in accordance with the plans and specifications of the architect in charge of said Project, which plans have been completed, approved by the Board, Commissioner of Education, and filed in the office of the Secretary of the Corporation.

### BOND MATURITIES, PRIOR REDEMPTION PROVISIONS AND PAYING AGENT

All such Bonds shall be in denominations in multiples of \$1,000 within the same maturity, bear interest from June 1, 2004, payable on December 1, 2004, and semi-annually thereafter and shall mature as to principal on June 1 in each of the years thereafter as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2005	\$ 23,000	2015	\$ 27,000
2006	23,000	2016	31,000
2007	20,000	2017	28,000
2008	26,000	2018	29,000
2009	21,000	2019	31,000
2010	23,000	2020	32,000
2011	23,000	2021	33,000
2012	25,000	2022	35,000
2013	25,000	2023	37,000
2014	29,000	2024	38,000

\* Subject to a Permitted Adjustment of the amount of Bonds awarded of up to \$55,000 which may be applied in any or all maturities.

The Bonds maturing on or after June 1, 2015 are subject to redemption at the option of the Corporation prior to their stated maturities on any date falling on or after June 1, 2014, in any order of maturities (less than all of a single maturity to be selected by lot), in whole or in part, upon notice of such prior redemption being given by the Paying Agent by regular United States Mail to the Registered Owners of the Bonds so selected not less than thirty (30) days prior to the date of redemption, upon terms of the face amount, plus accrued interest, but without redemption premium.

The Bonds are to be issued in fully registered form (both principal and interest). The Huntington National Bank, Cincinnati, Ohio, the Bond Registrar and Paying Agent, shall remit interest on each semiannual due date to Cede & Co. Principal and interest will be payable through the Book-Entry-Only-System administered by The Depository Trust Company. Please see "BOOK-ENTRY-ONLY-SYSTEM" below. Interest on the Bonds will be paid at rates to be established upon the basis of competitive bidding as hereinafter set forth, such interest to be payable on November 1 and June 1 of each year, beginning November 1, 2004.

### **BIDDING CONDITIONS AND RESTRICTIONS**

(A) Bids must be made on Official Bid Form, contained in Information for Bidders available from the undersigned or First Kentucky Securities Corporation, Frankfort, Kentucky, or by visiting [www.firstky.com](http://www.firstky.com) submitted manually, by facsimile or electronically via PARITY<sup>®</sup> *INFRA*.

(B) Electronic bids for the Bonds must be submitted through PARITY<sup>®</sup> and no other provider of electronic bidding services will be accepted. Subscription to the PARITY<sup>®</sup> Competitive Bidding System is required in order to submit an electronic bid. The Corporation will neither confirm any subscription nor be responsible for the failure of any prospective bidders to subscribe. For the purposes of the bidding process, the time as maintained by PARITY<sup>®</sup> shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in PARITY<sup>®</sup> conflict with the terms of the Official Terms and Conditions of Bond Sale, this Official Terms and Conditions of Sale of Bonds shall prevail. Electronic bids made through the facilities of PARITY<sup>®</sup> shall be deemed an offer to purchase in response to the Notice of Bond Sale and shall be binding upon the bidders as if made by signed, sealed written bids delivered to the Corporation. The Corporation shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by PARITY<sup>®</sup>. The use of PARITY<sup>®</sup> facilities are at the sole risk of the prospective bidders. For further information regarding PARITY<sup>®</sup>, potential bidders may contact PARITY<sup>®</sup>, telephone (212) 404-8102. Notwithstanding the foregoing non-electronic bids may be submitted via facsimile or by hand delivery utilizing the Official Bid Form.

(C) The minimum bid shall be not less than \$547,820 (98% of par) plus accrued interest. Interest rates shall be in multiples of 1/8 or 1/20 of 1% or both. Only one interest rate shall be permitted per Bond, and all Bonds of the same maturity shall bear the same rate. Interest rates must be on an ascending scale, in that the interest rate stipulated in any year may not be less than that stipulated for any preceding maturity. There is no limit on the number of different interest rates.

(D) 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%.

(E) The determination of the best purchase bid for said Bonds shall be made on the basis of all bids submitted for exactly \$559,000 principal amount of Bonds offered for sale hereunder, but the Corporation may adjust the principal amount of Bonds upward or downward by \$55,000 (the "Permitted Adjustment") which may be awarded to such best bidder may be a minimum of \$504,000 or a maximum of \$614,000. In the event of such Permitted Adjustment, no rebidding or recalculation of a submitted bid will be required or permitted. The price of which such adjusted principal amount of Bonds will be sold will be the same price per \$1,000 of Bonds as the price per \$1,000 for the \$559,000 of Bonds bid.

(F) 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 June 1 in accordance with the maturity schedule setting the actual size of the issue.

(G) 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.

(H) 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.

(I) Bids need not be accompanied by a certified or bank cashier's good faith check, BUT the successful bidder will be required to wire transfer an amount equal to 2% of the amount of the principal amount of Bonds awarded to the order of the Corporation by the close of business on the day following the award. 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.

(J) 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.

It is intended that delivery will be effected through the Book-Entry-Only-System administered by The Depository Trust Company.

(K) 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.

### 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 State Board for Elementary and Secondary 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 which is included in the SEEK allotment (\$3,066) 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 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 \$.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 160.470(12)(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 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**

On April 13, 2004, the Regular Session of the Kentucky General Assembly adjourned without adopting a State Budget for the biennium beginning July 1, 2004.

Informal discussions between the Governor and legislative leadership have taken place since the adjournment of the Regular Session. The Governor has indicated that if an informal agreement can be reached he would be willing to convene a Special Session of the General Assembly in an attempt to resolve the impasse. It is believed that beginning July 1, 2004 the Governor intends to authorize State expenditures by Executive Order if a Budget is not inactive. The Executive Order authorization was employed by a previous Governor in 2002 when confronted with a similar situation; however, serious constitutional questions may require test litigation.

A separate suit filed in Franklin Circuit Court by sixteen students and their parents from eight South Central Kentucky School Districts as a class action naming the Governor, the President of the Senate, the Speaker of the House and the General Assembly of Kentucky as Defendants and seeking to have the Court (a) declare Kentucky's educational funding system unconstitutional; (b) mandate the adoption of a Budget by the General Assembly implementing school funding on an equal basis among school districts adequate to provide proper education; and (c) provide for monitoring the implementation of a new school funding system, remains subject to judicial determination.

It is not now anticipated that any reorganization of school funding at the State level will result in the diminution of security for these Bonds.

The Attorney General of the Commonwealth filed a lawsuit on May 27, 2004 in Franklin County, Kentucky Circuit Court (Case No. 04-CI-00719) seeking a Declaration of Rights and determination of the Governor's authority, through an Executive Spending Plan implemented by Executive Order, to suspend statutory laws which have traditionally been suspended by enactment of a State Budget. The suit names the Governor, the Treasurer, the Secretary of the Finance and Administration Cabinet as well as the President of the Senate and the Speaker of the House of Representatives as defendants.

Kentucky courts have previously held that the executive branch has certain authority to expend funds where a legislative budget appropriation is inadequate. The nature and extent of a governor's power to authorize expenditures by executive order in lieu of an enacted State Budget has not been addressed by the Kentucky judicial system. Previous litigation concerning the absence of a State Budget in 2002 was dismissed without adjudication upon the enactment of a State Budget in 2003.

### **CONTINUING DISCLOSURE**

In accordance with the "Disclosure Rules" of the Securities and Exchange Commission, Rule 15c2-12(b)(5), as a result of the principal amount of this issue to be issued by the Corporation not exceeding \$1,000,000, the Board and the Corporation have been advised by Bond Counsel that the Bonds are exempt from the application of the SEC Disclosure Rules.

Financial information regarding the Board may be obtained from Superintendent, Gallatin County Board of Education, PO Box 147, 110 W. Main, Warsaw, Kentucky Telephone 859-567-2828.

## TAX EXEMPTION; BANK QUALIFIED

Bond Counsel is of the opinion that the 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 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 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 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 the calendar year ending December 31, 2004, 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 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.

## BOOK-ENTRY-ONLY-SYSTEM

The Bonds shall utilize the Book-Entry-Only-System administered by The Depository Trust Company ("DTC").

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. Transfers of ownership interest in the Securities 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 ownership interests in Securities, 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 District 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 Trustee, 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 Trustee, 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 Trustee, 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 Trustee, 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. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered by the Bond Registrar.

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.

**GALLATIN COUNTY (KENTUCKY)  
SCHOOL DISTRICT FINANCE CORPORATION**

**by s/ Dorothy Perkins  
Secretary**

**OFFICIAL BID FORM**

The Gallatin County (Kentucky) School District Finance Corporation, will until 2:00 P.M., E.D.S.T., on June 29, 2004, receive in the office of Dr. Robert E. Tarvin, Executive Director of the Kentucky Schools Facilities Construction Commission, Suite 102, 229 W. Main Street, Frankfort, Kentucky 40601, (telephone 502-564-5582; Fax 502-564-3412) competitive bids for its \$559,000 School Building Revenue Bonds, Series of 2004, dated June 1, 2004; maturing June 1, 2005 through 2024.

We hereby bid for said \$559,000\* principal amount of Bonds, the total sum of \$\_\_\_\_\_ (not less than \$547,820) plus accrued interest from June 1, 2004, at the following annual rate(s), payable semiannually (rates on ascending scale in multiples of 1/8 or 1/20 of 1%; number of interest rates unlimited; denominations in multiples of \$1,000) and maturing as to principal on June 1 in the years as follows:

<u>Year</u>	<u>Amount*</u>	<u>Rate</u>	<u>Year</u>	<u>Amount*</u>	<u>Rate</u>
2005	\$23,000	_____ %	2015	\$27,000	_____ %
2006	23,000	_____ %	2016	31,000	_____ %
2007	20,000	_____ %	2017	28,000	_____ %
2008	26,000	_____ %	2018	29,000	_____ %
2009	21,000	_____ %	2019	31,000	_____ %
2010	23,000	_____ %	2020	32,000	_____ %
2011	23,000	_____ %	2021	33,000	_____ %
2012	25,000	_____ %	2022	35,000	_____ %
2013	25,000	_____ %	2023	37,000	_____ %
2014	29,000	_____ %	2024	38,000	_____ %

\*Subject to Permitted Adjustment

We understand this bid may be accepted for as much as \$614,000 of Bonds or as little as \$504,000 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. The right is reserved to adjust principal maturities to promote level debt service without change in the issue size.

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 June 1 in accordance with the maturity schedule setting the actual size of the issue.

The Bonds will be delivered utilizing the Book-Entry-Only-System administered by The Depository Trust Company.

Electronic bids for the Bonds must be submitted through PARITY<sup>®</sup> and no other provider of electronic bidding services will be accepted. Subscription to the PARITY<sup>®</sup> Competitive Bidding System is required in order to submit an electronic bid. The Corporation will neither confirm any subscription nor be responsible for the failure of any prospective bidders to subscribe. For the purposes of the bidding process, the time as maintained by PARITY<sup>®</sup> shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in PARITY<sup>®</sup> conflict with the terms of the Official Terms and Conditions of Sale of Bonds, the Official Terms and Conditions of Bond Sale shall prevail. Electronic bids made through the facilities of PARITY<sup>®</sup> shall be deemed an offer to purchase in response to the Notice of Bond Sale and shall be binding upon the bidders as if made by signed, sealed written bids delivered to the Corporation. The Corporation shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by PARITY<sup>®</sup>. The use of PARITY<sup>®</sup> facilities are at the sole risk of the prospective bidders. For further information regarding PARITY<sup>®</sup>, potential bidders may contact PARITY<sup>®</sup>, telephone (212) 404-8102. Notwithstanding the foregoing non-electronic bids may be submitted via facsimile or by hand delivery utilizing the Official Bid Form.

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 date 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 The Huntington National Bank, Cincinnati, Ohio.

Bids must be submitted only on this form and must be fully executed.

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 June 1, 2004 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 Gallatin County School District Finance Corporation for \$ \_\_\_\_\_ amount of Bonds at a price of \$ \_\_\_\_\_ as follows:

<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Year</u>	<u>Amount</u>	<u>Rate</u>
2005	\$ _____,000	_____ %	2015	\$ _____,000	_____ %
2006	_____,000	_____ %	2016	_____,000	_____ %
2007	_____,000	_____ %	2017	_____,000	_____ %
2008	_____,000	_____ %	2018	_____,000	_____ %
2009	_____,000	_____ %	2019	_____,000	_____ %
2010	_____,000	_____ %	2020	_____,000	_____ %
2011	_____,000	_____ %	2021	_____,000	_____ %
2012	_____,000	_____ %	2022	_____,000	_____ %
2013	_____,000	_____ %	2023	_____,000	_____ %
2014	_____,000	_____ %	2024	_____,000	_____ %

Dated: June 29, 2004

\_\_\_\_\_  
Secretary, Gallatin County School  
District Finance Corporation