OFFICIAL TERMS AND CONDITIONS OF BOND SALE

$10,180,000*
ELECTRIC AND WATER PLANT BOARD OF THE
CITY OF FRANKFORT, KENTUCKY,
ELECTRIC AND WATER REFUNDING REVENUE BONDS, SERIES 2009

As advertised in conformity with applicable legal requirements, electronic or sealed written bids will be received by the Electric and Water Plant Board of the City of Frankfort, Kentucky (the "Board"), until 11:30 a.m., EST, on November 19, 2009, for the purchase of its $10,180,000 Electric and Water Refunding Revenue Bonds, Series 2009 (the "Bonds"). In the case of written sealed bids for the Bonds, bids will be received in the office of the Finance Director of the Board at 317 West Second Street, Frankfort, Kentucky 40601. See "*General Bidding Instructions*" herein.

Description of Bonds. On their issuance, the Bonds will be issued in book-entry form, registered in the name of Cede & Co. as the nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds, as described in the Preliminary Official Statement. Purchases of beneficial interests in the Bonds may be made in book-entry form only, in the principal amount of $5,000 or any multiple of $5,000. The Bonds will be dated the date of issuance, and will bear interest payable on each June 1 and December 1, beginning June 1, 2010, until maturity, and will be scheduled to mature as to principal on December 1 in the years and in the respective principal amounts as follows:

Maturity Date	Principal Amount*	Maturity Date	Principal Amount*
Dec. 1, 2010	$ 860,000	Dec. 1, 2015	$ 1,025,000
Dec. 1, 2011	890,000	Dec. 1, 2016	1,070,000
Dec. 1, 2012	920,000	Dec. 1, 2017	1,110,000
Dec. 1, 2013	950,000	Dec. 1, 2018	1,160,000
Dec. 1, 2014	990,000	Dec. 1, 2019	1,205,000

The rates of interest on the Bonds will be established upon the basis of competitive bidding as herein provided.

The Bonds are not subject to optional redemption prior to maturity.

*Subject to adjustment as described herein

The authority, purpose, security and source of payment of the Bonds, the application of the proceeds thereof, the DTC book-entry system and other details are set out and described in the Preliminary Official Statement, which may be obtained from the Board's Financial Advisor, Morgan Keegan & Company, Inc., 489 East Main Street, Lexington, Kentucky 40507, Telephone: 859-232-8211 or from i-Deal Prospectus at www.i-DealProspectus.com. The Preliminary Official Statement is in a form "deemed final" by the Board for purposes of SEC Rule 15c2-12(b)(1), but is subject to revision, amendment and completion in a final Official Statement.

The Paying Agent and Bond Registrar is Farmers Bank & Capital Trust Co., Frankfort, Kentucky.

Term Bond Option; Mandatory Redemption. Bidders shall have the option to designate certain consecutive serial maturities of the Bonds as term bonds ("Term Bonds") bearing a single interest rate. If the successful bidder for the Bonds designates certain consecutive serial maturities of the Bonds to be combined as one or more Term Bonds as allowed herein, then each such Term Bond shall be subject to mandatory sinking fund redemption by the Board at a redemption price equal to one hundred percent (100%) of the principal amount thereof, together with accrued interest to the date fixed for redemption at the rate stated in the Term Bonds to be redeemed. Each such mandatory sinking fund redemption shall be made on the date on which a consecutive maturity included as part of a Term Bond is payable in accordance with the proposal of the successful bidder and in the amount of the maturing principal installment for the Bonds listed herein for such principal payment date. The Board will direct the Paying Agent and Bond Registrar that in the event less than all of any Term Bonds are to be redeemed by mandatory sinking fund redemption, any such redemption shall be on a *pro rata* basis in a principal amount equal to authorized denominations of $5,000 or any integral multiple thereof. The Board and the Paying Agent and Bond Registrar are not making any representation relating to, and do not have any responsibility or obligation with respect to, whether DTC will follow the direction to redeem Term Bonds on a *pro rata* basis in the event of a partial redemption as described above. If a Term Bond subject to redemption is in a denomination larger than $5,000, a portion of such Term Bond may be redeemed, but only in a principal amount equal to $5,000 or any integral multiple thereof, if the Term Bond is one of the maturities or amounts or part of the maturities or amounts called for redemption. Upon surrender of any Term Bond for redemption in part, the Paying Agent and Bond Registrar will authenticate and deliver an exchange Term Bond or Term Bonds in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

General Bidding Instructions. Electronic bids for the Bonds must be submitted through BIDCOMP/PARITY®, and no other provider of electronic bidding services will be accepted. Subscription to the i-Deal LLC Dalcomp Division's BIDCOMP Competitive Bidding System is required in order to submit an electronic bid. The Board 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 BIDCOMP/PARITY® 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 BIDCOMP/PARITY® conflict with the terms of this Official Terms and Conditions of Bond Sale, this Official Terms and Conditions of Bond Sale shall prevail. An electronic bid made through the facilities of BIDCOMP/PARITY® shall be deemed an offer to purchase in response to this Official Terms and Conditions of Bond Sale and shall be binding upon the bidder as if made by a signed, sealed written bid delivered to the Board. The Board, the Financial Advisor and Bond Counsel 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 BIDCOMP/PARITY®. The use of BIDCOMP/PARITY® facilities is at the sole risk of the prospective bidder. For further information regarding BIDCOMP/PARITY®, potential bidders may contact BIDCOMP/PARITY® at 40 West 23rd Street, New York, New York 10010, Telephone 800-850-7422.

In the event of a system malfunction in the electronic bidding process only, bidders may
submit bids prior to the established date and time by facsimile transmission sent to the Finance Director of the Board at (502) 223-3887. Any facsimile submissions are made at the sole risk of the prospective bidders. The Board, the Financial Advisor and Bond Counsel shall not be responsible for confirming receipt of any facsimile bids or for any malfunction relating to the transmission and receipt of such bids.

A written sealed bid for the Bonds should be submitted in a sealed envelope marked "Bid for Bonds" to Ms. Shannon Taylor, Finance Director, 317 West Second Street, Frankfort, Kentucky 40601. A written bid must be submitted on the appropriate Official Bid Form attached to this Official Terms and Conditions of Bond Sale.

The Board reserves the right to reject all bids for the Bonds and to waive formalities and irregularities in the separate bid accepted.

Rates/Yields, Discounts and Premiums. No bids for the Bonds shall be considered for a cash price of less than 98% (excluding original issue discount, if applicable) of par. Interest rates for the Bonds must be in multiples of 1/8th or 1/20th of one percent.

Adjustment of Amount and Maturities. The Board reserves the right, in its sole discretion, to accept a bid or bids for an aggregate principal amount of the Bonds as much as $11,180,000 or as little as $9,180,000 with the variation in such amount occurring in any one or more of the stipulated maturities (or mandatory sinking fund installments for Term Bonds), or to adjust the stipulated maturities (or mandatory sinking fund installments for Term Bonds) without changing the total amount of the bonds sold. In the event of any such adjustment, no rebidding will be permitted and no recalculation of bids will be made.

Among other factors the Board may (but shall be under no obligation to) consider, in sizing the issue of Bonds or in sizing individual maturities or mandatory sinking fund installments, are promoting level debt service and other preferences of the Board. The dollar amount bid for the Bonds by the successful bidder may be adjusted, if applicable, to reflect one or more of any adjustments made in the amortization schedule for the Bonds. Any bid price that is adjusted may reflect changes in the dollar amount of original issue discount or premium, if any, but will not change the per bond underwriter's discount.

The successful bidder for the Bonds will be notified by the Financial Advisor not later than 3:00 p.m., EST, on the sale date of the adjustments required, if any.

Award. Unless bids for the Bonds are rejected, the Bonds will be awarded on an all or none basis on the sale date by the Board to the bidder whose bid results in the lowest true interest rate on the Bonds to be calculated as that rate (or yield) which, when used in computing the present worth of all payments of principal and interest on the Bonds (compounded semiannually to the date of the Bonds), produces an amount equal to the purchase price of Bonds, exclusive of accrued interest. For purposes of calculating the true interest rate, the principal amount of any Term Bonds scheduled for mandatory sinking fund redemption as part of the Term Bond shall be treated as a serial maturity in such year. In the event that two or more bidders offer to purchase the Bonds at the same lowest true interest rate, the Board shall determine (in its sole discretion) which of the bidders shall be awarded the Bonds.

The successful bidder for the Bonds will be notified by the Financial Advisor not later than 3:00 p.m., EST, on the sale date; and such successful bidder's bid will be acted upon officially by the Board's Chairman, Vice Chairman or Secretary-Treasurer on the sale date.

Good Faith Deposit. No good faith check will be required to accompany any bid submitted. The successful bidder for the Bonds shall be required to deliver to the Paying Agent and Bond Registrar (Farmers Bank & Capital Trust Co, Frankfort, Kentucky) by wire transfer or certified check, the amount of 2% of the aggregate principal amount of the Bonds in order to secure the faithful performance of the terms of the bid. A certified check or wire transfer must be received by the Paying Agent and Bond Registrar no later than the close of business on the day following the competitive sale.

The good faith deposit shall be applied (without interest) to the purchase price of the Bonds. If a successful bidder should fail to accept or pay for the Bonds when tendered for delivery and payment, the good faith deposit will be retained by the Board as liquidated damages.

In the event of failure of the Board to deliver the Bonds to the purchaser in accordance with the terms of this Official Terms and Conditions of Bond Sale within forty-five (45) days after the date of the sale, the good-faith deposit will be promptly returned to the purchaser unless the purchaser directs otherwise.

Reoffering Prices; Other Information. By telephone or facsimile, the successful bidder for the Bonds must furnish the following information to the Board or its Financial Advisor within two (2) hours after receipt of the notification referred to above under the heading "*Award*":

1. The offering prices or yields for the Bonds, expressed as a price or yield per maturity, exclusive of any accrued interest;

2. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all of the Bonds will be sold at the prices or yields as provided above);

3. The identity of the other underwriters if the successful bidder is part of a group or syndicate; and

4. Any other material information necessary to prepare the Official Statement in final form but not known to the Board.

The successful bidder for the Bonds will be required to provide the Board, when applicable, a certificate acceptable to Bond Counsel setting forth the initial offering prices/yields of the Bonds to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) and certifying that the successful bidder has made a bona fide public offering of the Bonds to the public at the initial offering prices/yields and a substantial amount (at least 10%) of each maturity of the Bonds was sold to the public or final purchasers.

Legal Opinion. The approving legal opinion of Stoll Keenon Ogden PLLC, Louisville, Kentucky, Bond Counsel, will be furnished without cost to the purchaser of the Bonds. A summary description of the tax treatment of the Bonds is contained in the Preliminary Official Statement. The proposed form of the Bond Counsel opinion is included in the Preliminary Official Statement.

Closing Documents. In addition to the Continuing Disclosure Certificate described below, there will also be furnished the purchaser the usual closing documents, including certificates of the Board stating there is no litigation pending or, to the knowledge of the Board, threatened affecting the validity of the Bonds and as to the accuracy of the information contained in the Official Statement.

Continuing Disclosure. In order to assist bidders in complying with the requirements of subsection (5) of section (b) of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the “Rule”), the Board will, for the benefit of the holders of the Bonds, execute and deliver a Continuing Disclosure Certificate dated the date of original issuance of the Bonds setting forth the undertaking of the Board to provide certain annual financial reports, operating and revenue data and notices of the occurrence of certain events, if material. A description of this undertaking, including certain limitations thereon, is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

Delivery of Bonds. Delivery of the Bonds is expected on or about December 21, 2009. At least five (5) business days’ notice of the delivery will be given the successful bidder. Delivery will be made in book-entry form through the facilities of DTC. Payment for the Bonds must be made in Federal Funds or other immediately available funds. Any expense of providing immediately available funds shall be borne by the purchaser.

CUSIP Numbers. CUSIP numbers will be assigned to the Bonds at the expense of the successful bidder. The Board will assume no obligation for assignment of such numbers or the correctness of such numbers and neither failure to record such numbers on the Bonds nor any error with respect thereto shall constitute cause for failure or refusal by the purchaser thereof to accept delivery of and make payment for the Bonds.

Official Statement. The Board has deemed the Preliminary Official Statement to be final as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the "SEC") except for the omission of certain pricing and other information. The Board will furnish the successful bidder at the expense of the Board a reasonable number of copies of Official Statement in final form, containing the pricing and other information to be supplied by the successful bidder and to be dated the date of the sale, to be delivered by the successful bidder to the persons to whom such bidder and members of its bidding group initially sell the Bonds (including beneficial interests therein). Acceptance of the bid will constitute a contract between the Board and the successful bidder for the provision of such copies within seven (7) business days of the sale date.

Bond Insurance. The successful bidder for the Bonds may obtain insurance guaranteeing the payment of the principal of and interest the Bonds, but all of the expense and charges in connection therewith will be borne by the successful bidder and the Board will not be liable to any extent therefor.

/s/ Michael F. Dudgeon, Jr.
Secretary-Treasurer
Electric and Water Plant Board of the
City of Frankfort, Kentucky

OFFICIAL BID FORM
(Written Alternative)

November 19, 2009

Electric and Water Plant Board of the
City of Frankfort, Kentucky
317 West Second Street
Frankfort, Kentucky 40601

Ladies and Gentlemen:

Subject to the Official Terms and Conditions of Bond Sale in respect of the $10,180,000 Electric and Water Plant Board of the City of Frankfort, Kentucky, Electric and Water Refunding Revenue Bonds, Series 2009 (the "Bonds"), to all of which the undersigned agrees, the undersigned hereby submits the following offer to purchase the Bonds.

We hereby bid for the $___________ principal amount of Bonds the total sum of $___________ (not less than $9,976,400) at the following annual interest rates:

Maturity Date	Principal Amount	Interest Rate
December 1, 2010	$ 860,000	_______%
December 1, 2011	890,000	_______
December 1, 2012	920,000	_______
December 1, 2013	950,000	_______
December 1, 2014	990,000	_______
December 1, 2015	1,025,000	_______
December 1, 2016	1,070,000	_______
December 1, 2017	1,110,000	_______
December 1, 2018	1,160,000	_______
December 1, 2019	1,205,000	_______

We understand that the stipulated maturities may be adjusted without changing the total amount of Bonds sold, as determined by the Board at the time of acceptance of the best bid.

Special Bidder's Option: We hereby elect to specify that all the principal amount of Bonds stated to mature on the following two or more consecutive maturity dates shall be combined to comprise the maturities of Term Bonds indicated below:

Bonds Maturing	Term Bonds Maturing
December 1, _____, through December 1, _____	December 1, _____
December 1, _____, through December 1, _____	December 1, _____
December 1, _____, through December 1, _____	December 1, _____
December 1, _____, through December 1, _____	December 1, _____

No certified or bank cashier's check is required to accompany this bid; but the undersigned bidder, if awarded the Bonds, must and shall wire transfer to Farmers Bank & Capital Trust Co., Frankfort, Kentucky, for the credit of the Board, an amount equal to 2% of the principal amount of the Bonds awarded by the close of the business day following the day of award of the Bonds. Such good faith amount will be applied (without interest) to the purchase price upon delivery of the Bonds.

Respectfully submitted,

____

____

* * *

P.S. The foregoing is our purchase offer, and we submit our own computations thereof only for your information and convenience:

(a)	Total interest cost at interest rates from date of Bonds to final maturity	$_______________
(b)	Plus discount or less premium, if any	$_______________
(c)	Net interest cost amount	$_______________
(d)	True interest rate	_______________%

____

Accepted this November 19, 2009, with the amounts of annual maturities and/or mandatory sinking fund installments being established as set out below:

Maturity Date	Principal Amount
December 1, 2010	$________
December 1, 2011	________
December 1, 2012	________
December 1, 2013	________
December 1, 2014	________
December 1, 2015	________
December 1, 2016	________
December 1, 2017	________
December 1, 2018	________
December 1, 2019	________
Total	$________

ELECTRIC AND WATER PLANT BOARD OF
THE CITY OF FRANKFORT, KENTUCKY

By ___________________________________
Title:________________________________

432093.135088/599682.3

PRELIMINARY OFFICIAL STATEMENT
Dated November 10, 2009
(Bonds to be sold November 19, 2009, at 11:30 a.m., EST)

NEW ISSUE | **RATING: S&P " "**
Bank Qualified | **(See "Rating" herein)**

In the opinion of Bond Counsel, subject to the conditions set forth in "TAX MATTERS" herein, interest on the Bonds is excluded from gross income for federal and Kentucky income tax purposes and is not an item of tax preference for purposes of computing the federal alternative minimum tax. Bond Counsel is further of the opinion that the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and its political subdivisions.

$10,180,000*
ELECTRIC AND WATER PLANT BOARD
OF THE CITY OF FRANKFORT, KENTUCKY
ELECTRIC AND WATER REFUNDING REVENUE BONDS, SERIES 2009

Dated: Date of Issuance | Due: December 1, as described below

Interest on the above-identified bonds (the "Bonds") is payable semiannually on each June 1 and December 1, commencing June 1, 2010. The Bonds will initially be issued in book-entry form registered by the Paying Agent and Bond Registrar (Farmers Bank & Capital Trust Co., Frankfort, Kentucky) in the name of Cede & Co. as a nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Bonds. Individual purchases of Bonds may be made in book-entry form only, in the principal amount of $5,000 or any multiple of $5,000. Principal of and interest on the Bonds will be payable to DTC, which in turn will remit such principal and interest to the beneficial owners of the Bonds through DTC's participants as described herein. The Bonds will mature* on December 1 of the respective years as shown below.

Year (Dec. 1)	Amount*	Rate	Price	Yield	CUSIP#	Year (Dec. 1)	Amount*	Rate	Price	Yield	CUSIP#
2010	$ 860,000	%		%		2015	$ 1,025,000	%		%	
2011	890,000					2016	1,070,000				
2012	920,000					2017	1,110,000				
2013	950,000					2018	1,160,000				
2014	990,000					2019	1,205,000				

The Bonds are not subject to optional redemption prior to maturity.

The issuance of the Bonds and certain legal matters incident thereto are subject to the approving opinion of Stoll Keenon Ogden PLLC, Louisville, Kentucky, Bond Counsel. Certain legal matters will be passed upon for the Board by its Counsel, Liebman and Liebman, Frankfort, Kentucky. Delivery of the Bonds is expected on or about December 21, 2009.

Morgan Keegan & Company, Inc.
Financial Advisor

*Preliminary, subject to adjustment as provided in the Official Terms and Conditions of Bond Sale. Term Bonds may be stipulated by the successful bidder as provided in the Official Terms and Conditions of Bond Sale.

This Official Statement does not constitute an offer to sell the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman or any other person has been authorized to give any information or make any representation, other than those contained herein, in connection with the offering of the Bonds, and if given or made, such information or representation must not be relied upon. Neither the delivery of this Official Statement nor the sale of any Bonds implies that there has been no change in the matters described herein since the date hereof.

The price and other terms respecting the offering and sale of the Bonds may be changed from time to time by the underwriters after such Bonds are released for sale, and such Bonds may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Bonds into investment accounts.

All quotations from and summaries and explanations of provisions of laws and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. The information in this Official Statement has been obtained from sources which are considered reliable and which are customarily relied upon in preparation of similar official statements, but such information is not guaranteed as to accuracy or completeness.

The Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities laws and will not be listed on any stock or other securities exchange, and neither the Securities and Exchange Commission nor any federal, state, municipal or other governmental agency will pass upon the accuracy, completeness or adequacy of this Official Statement.

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$10,180,000*
ELECTRIC AND WATER PLANT BOARD OF THE
CITY OF FRANKFORT, KENTUCKY
ELECTRIC AND WATER REFUNDING REVENUE BONDS, SERIES 2009

INTRODUCTORY STATEMENT

This Official Statement of the Electric and Water Plant Board of the City of Frankfort, Kentucky (the "Board"), sets forth certain information with respect to the Board's Electric and Water Refunding Revenue Bonds, Series 2009, to be issued in the principal amount of $10,180,000* (the "Bonds"). The proceeds from the sale of the Bonds will be used (a) to currently refund certain Series 1999 bonds and to pay and discharge a bond anticipation note, which were issued to finance or refinance major additions and improvements to the Board's combined and consolidated municipal electric and water system (the "System"), as hereinafter described under the headings "PURPOSES" and "THE SYSTEM," respectively, (b) to fund a portion of a debt service reserve, if necessary, and (c) to pay costs of issuance of the Bonds, as hereinafter described under the heading "PURPOSES."

The Board is a statutory body politic and corporate providing electric and water service to the City of Frankfort, Kentucky, and its environs. The Bonds will be issued under authority of Sections 96.170 through 96.188 of the Kentucky Revised Statutes (the "Act") and a Resolution adopted by the Board (the "Resolution") and will be payable solely from the net revenues of the System.

Prior to the issuance of the Bonds, the Board will enter into a Continuing Disclosure Certificate regarding its obligation to make continuing annual disclosure of certain financial and operating information and disclosure of certain material events which might occur, all as described hereinafter under the heading "CONTINUING DISCLOSURE UNDERTAKING."

The Bonds will be issued initially only in book-entry form in the name of Cede & Co., a nominee of The Depository Trust Company ("DTC"), as securities depository. No physical delivery of the Bonds will be made to purchasers. SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE REGISTERED OWNER, REFERENCES TO BONDHOLDERS OR REGISTERED HOLDERS OR OWNERS SHALL MEAN CEDE & CO., AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS. SEE "THE BONDS–Book-Entry-Only System."

There follows a brief description of the Board, the purposes of the issue, the Bonds, the System, the Resolution and the Continuing Disclosure Certificate, together with the Appendices containing financial and other information with respect to the Board. All descriptions contained herein of the Bonds, the Resolution and the Continuing Disclosure Certificate do not purport to be comprehensive or definitive and are qualified in their entirety by reference to such documents, all of which are available for inspection at the office of the Board in Frankfort, Kentucky.

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*Subject to adjustment

THE BONDS

General

The Bonds will be dated the date of issuance, will be initially issued in book-entry form in the principal amount, will mature as to principal on each December 1 and will bear interest, all as set forth on the cover page of this Official Statement. Interest will be computed on the basis of a year of 360 days consisting of twelve 30-day months.

Interest accruing on the Bonds will be payable semiannually on June 1 and December 1 of each year (commencing June 1, 2010) from the later of the date of issuance or the most recent interest payment date (June 1 or December 1) to which interest has been paid or duly provided for. The interest installment on each Bond will be paid to the person who is the registered holder thereof as of the close of business on the Record Date for such interest installment, which Record Date shall be the 15th day (whether or not a business day) of the calendar month next preceding such interest payment date. Payment of interest shall be made by check or draft mailed to the person who is the registered holder on the applicable Record Date at the address of such holder as it appears on the books of the Paying Agent and Bond Registrar, Farmers Bank & Capital Trust Co., Frankfort, Kentucky. Principal shall be paid when due upon delivery of the Bond for payment at the principal office of the Paying Agent and Bond Registrar, in Frankfort, Kentucky. If the date for making any payment in respect of the Bonds is not a business day for the Paying Agent and Bond Registrar, such payment may be made or act performed or right exercised on the next succeeding business day with the same force and effect as if done on the date stipulated in the Bonds and no interest shall accrue for the period after such stipulated date.

See "THE BONDS–Book-Entry-Only System" below regarding payment of principal and interest to the Beneficial Owners while the Bonds are in the Book-Entry-Only System.

Book-Entry-Only System

Only beneficial interests will be available to purchasers through a book-entry-only system maintained by DTC (the "Book-Entry-Only System"). The following discussion will not apply to Bonds if issued in physical form after the discontinuance of the Book-Entry-Only System.

DTC will act as securities depository for the Bonds upon their initial issuance. The Bonds will be registered in the name of Cede & Co. (DTC's partnership nominee). The Bonds will be originally issued as one fully-registered Bond for each maturity, in the aggregate principal amount of the issue, 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 bonds that its participants (the "Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of bond transactions, such as transfers and pledges, in deposited bonds through electronic computerized book-entry changes in

Direct Participants' accounts, thereby eliminating the need for physical movement of bond 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"). Direct Participants and Indirect Participants are collectively referred to as "Participants." The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the Book-Entry-Only 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 purchases, 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 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 interest in Bonds, except in the event that use of the Book-Entry-Only System for the Bonds 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, if any, 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, if any, shall be sent to Cede & Co. If less than all of the Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the maturity 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 Board 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 on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the 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 the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with bonds 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 Paying Agent and Bond Registrar or the Board, 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 Paying Agent and Bond Registrar, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The foregoing information concerning DTC and DTC's book-entry system has been obtained from DTC and contains statements that are believed to describe accurately DTC, the method of effecting book-entry transfers of securities distributed through DTC and certain related matters, but the Board takes no responsibility for the accuracy of such statements.

THE BOARD AND THE PAYING AGENT AND BOND REGISTRAR WILL HAVE NO 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 PAYING AGENT AND BOND REGISTRAR AS BEING A REGISTERED OWNER WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT OF ANY AMOUNT DUE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (3) THE DELIVERY OF ANY NOTICE BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED TO BE GIVEN TO REGISTERED OWNERS UNDER THE TERMS OF THE ORDINANCE; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER.

The Securities Depository may discontinue providing its services with respect to the Bonds at any time by giving 30 days' notice to the Board and the Paying Agent and Bond Registrar and discharging its responsibilities with respect thereto under applicable law. If no successor Securities Depository is appointed in accordance with the Ordinance, or if the Board decides to discontinue the Book-Entry System, Bond certificates shall be printed and delivered to and registered in the name of the Beneficial Owners.

In the event that the Book-Entry-Only System is discontinued, a Bondholder may transfer or exchange Bonds in accordance with the Ordinance. The Paying Agent and Bond Registrar may require a Bondholder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Ordinance. The Paying Agent and Bond Registrar shall not be required to transfer or exchange any Bond (a) during any period beginning five (5) days prior to the selection by the Paying Agent and Bond Registrar of

Bonds to be redeemed prior to maturity and ending on the date of mailing of notice of any such redemption or (b) if such Bond has been selected or called for redemption in whole or in part.

The Bonds are not subject to optional redemption prior to maturity.

PURPOSES

The Bonds are being issued for the following purposes, in addition to paying costs of issuance of the Bonds:

Current Refunding of Series 1999 Bonds

A portion of the proceeds of the Bonds will be applied to currently refund the Board's $8,275,000 outstanding principal amount of Electric and Water Revenue Bonds, Series 1999 (the "1999 Bonds"), maturing after December 1, 2009, which will be redeemed at 101% of par within ninety (90) days from the date of issuance of the Bonds. (The 1999 Bonds maturing on December 1, 2009, and interest due thereon will be paid from revenues of the System.) The 1999 Bonds were originally issued to finance and to refinance various water service improvements and additions to the System.

Payment of 2007 Bond Anticipation Note

A portion of the proceeds of the Bonds will be applied to pay and discharge the Board's $1,850,000 Electric and Water Revenue Bond Anticipation Note, Series 2007 (the "2007 BAN"), originally issued to finance costs of water treatment plant and water distribution system improvements, upgrades and additions (The water treatment plant improvements are also being financed by a $6,841,000 subordinate loan from the Kentucky Infrastructure Authority (the "KIA Loan")).

Debt Service Reserve

A portion of proceeds of the Bonds, together with reserve funds held under the resolution securing the 1999 Bonds and transferred to the Debt Service Reserve Account for the Bonds, may be used to complete funding of the Debt Service Reserve Account to the Reserve Amount (hereinafter defined) for the Bonds, but only if and to the extent funds released as a result of the refunding and defeasance of the 1999 Bonds are not sufficient for such purpose.

The estimated sources and uses of funds are shown in the following schedule:

Sources of Funds
(estimated)

Bond issue	$10,180,000
Reoffering premium	226,495
Transfer from 1999 Bond debt service reserve	1,078,380
Total	$11,484,875

Uses of Funds
(estimated)

Refund 1999 Bonds	$ 8,379,033
Pay 2007 Bond Anticipation Note	1,850,000
Fund Debt Service Reserve Account	1,018,000
Bond discount	101,800
Costs of issuance	136,042
Total	$11,484,875

AUTHORITY AND SECURITY

The Bonds are being issued under authority of the laws of the Commonwealth of Kentucky, particularly Section 96.171 through 96.188 of the Act, and pursuant to the Resolution adopted by the Board.

The Bonds, together with any parity bonds that may be issued in the future under the conditions set out in the Resolution, will be payable solely from, and are secured by a pledge of a fixed portion of, the income and revenues to be derived by the Board from the operation of the System after providing for operation and maintenance expenses, which fixed portion is provided to be sufficient to pay the principal of and interest on the Bonds, and any parity bonds, when due and which is to be set aside as a special fund for that purpose created by the Resolution and identified as the Board's "Electric and Water Revenue Bonds Sinking Fund of 2009" (the "Sinking Fund").

In and by the Resolution the Board has established a Debt Service Reserve Account in the Sinking Fund, which will be funded upon issuance of the Bonds, for the further security of the Bonds. See "THE RESOLUTION - Operation and Revenues of System; Funds and Accounts" hereinafter for a description of the Debt Service Reserve Account and the Reserve Amount to be deposited therein.

The Bonds are not general obligations of the Board, but are special and limited obligations of the Board payable solely from the Sinking Fund and the fixed portion of the income and revenues of the System deposited therein. The Board has no taxing power. The Bonds are not a debt or obligation of the City of Frankfort, Kentucky.

THE BOARD

Organization

In 1943 the City of Frankfort, Kentucky (the "City"), acquired a combined water and electric system as a result of its purchase of a private utility company. By ordinance adopted on August 27, 1946, the City elected, pursuant to Section 96.171 through 96.188 of the Kentucky Revised Statutes (the "Act"), to vest the operation, management and control of the municipal water and electric system in the Electric and Water Plant Board of the City of Frankfort, Kentucky (the "Board"), which constitutes a body politic and corporate and a political subdivision of the Commonwealth of Kentucky, independent of supervision by the City, with statutory powers to operate, manage and control its combined and consolidated municipal electric and water system (the "System"), to acquire property, to fix and determine classifications, rates and charges for electric and water service, to make contracts and to borrow money, including the issuance of revenue bonds under Section 96.184 of the Act, and to employ staff and fix and determine their duties and compensation.

The Board consists of five members appointed to four-year terms by the Mayor of the City, with the approval of the City Commission, who must be citizens and taxpayers of the City and are users of the electricity or water of the Board. The present members and officers of the Board are as follows:

Board Member and Office	Principal Occupation
Ann Wingrove, Chairperson	Business Owner
Sheila M. Burton, Vice Chairperson	Record Compiler/Intern Coordinator, Legislative Research Commission
Michael F. Dudgeon, Jr., Secretary-Treasurer	Vice President, Financial Services, Investors Heritage Life Insurance Company
Bennie Maffett	Engineer/Land Surveyor
Clyde P. Baldwin	Retired official of Ky. Dept. of Environmental Protection-Water Division

The Board's outside legal counsel is James D. Liebman of Liebman and Liebman, Frankfort, Kentucky. The Board's Staff Attorney is Hance Price.

Management of the Board is carried out by a General Manager, who is responsible for a staff of operating personnel for the System (excluding municipal cable network staff) consisting of 150 employees. Day-to-day operations of the System are divided into three departments, Electric, Water Treatment Plant and Water Distribution, each with a superintendent responsible for the department who reports directly to the Assistant General Manager of Operations. A Financial Director supervises all accounting and financial functions. The Board's offices are located at 317 West Second Street, Frankfort, Kentucky 40601.

The present holders of the above-described principal management/financial positions are as follows:

Position	Background Information
Herbbie Bannister, Interim General Manager*	B.S. and Masters Degree in Civil Engineering from University of Kentucky; 1988 to 1993, employed by GRW Engineers as Civil Engineer; 1993 to 2003, Chief Water Engineer of the Board; 2003 to present, Assistant General Manager – Operations; 9/30/09 to present, Interim General Manager
Shannon Taylor, Finance Director	B.A. degree in Accounting from Midway College, 1998; employed in private business 1998-2005; employed by Board as Finance Director from 2005 to present

*The Board is currently undertaking a search to fill the General Manager's position.

In addition to the System, the Board operates a fiber optic cable-based full service network (the "Cable Network") as a separate public project, apart from the System. The Cable Network furnishes cable television, telephone, Internet access and home security services to customers in the Frankfort area. The revenues and expenses of the Cable Network are accounted for separately, and no part of the Cable Network revenues and assets is pledged to the payment of the Bonds. Conversely, no System revenues and assets are pledged to the payment of the Board's obligations incurred for expansions of and improvements to the Cable Network, which obligations presently include a 1991 Note in the outstanding principal amount of $575,697 and lease financings in the outstanding principal amount of $29,262,506.

Outstanding System Debt

Upon issuance of the Bonds, and the resulting retirement of the 1999 Bonds and the 2007 BAN, the Board will have no outstanding debt obligations payable from the revenues of the System (other than routine obligations incurred in the ordinary course of business, including without limitation the pension plan obligations described in the notes of Appendix C), except the Bonds and subordinate loan repayment obligations under the KIA Loan. Debt service schedules showing the annual principal and interest requirements on the Bonds and the estimated annual debt service payments on the KIA Loans are included in Appendix A.

Financial and Operating Information

Selected financial and operating information and data of the Board with respect to the System, including its rate structure, are included in Appendix A, and the Board's most recent audited financial statements with respect to the System (and the separate municipal Cable Network, the revenues of which do not secure the Bonds) are included in Appendix C. The audited financial statements in Appendix C show the income and revenues of the electric and water operations (the System) and the Cable Network separately and on a combined basis together with a balance sheet split between System and Cable Network operations.

Investment Policy

The Board's investment policy requires the investment of System funds in a manner that will provide the best investment return with the maximum security of principal while meeting the daily cash flow demands of the System and conforming to all Kentucky Revised Statutes. Investment objectives include safety, liquidity and return on investment. Reference is made to the provisions of the Resolution summarized under "THE RESOLUTION - Investments" hereinafter for a description of authorized investments with respect to funds of the System.

Rates

The Board may establish electric and water rates and charges on its own initiative, without approval by the City, and its rate-setting authority is not subject to the jurisdiction of the Public Service Commission of Kentucky, except as to certain rates charged to wholesale water district customers that are regulated water utilities. Reference is made to Appendix A for a detailed description of the Board's water and electric service rates and charges.

THE SYSTEM

Service Area

The Board's combined and consolidated electric and water system (the "System") serves the City of Frankfort (the "City"), which is the capital of Kentucky and also the county seat of Franklin County, Kentucky, and the Board's environs. (See Appendix B for information regarding the City and its environs.) In addition to serving the City, the System serves parts of Franklin County and parts of Shelby and Woodford Counties. The City is located on the Kentucky River about 42 miles east of Louisville and 28 miles northwest of Lexington, is on Interstate 64 and US 60 and is served by the R.J. Corman Railroad. It is the home of Kentucky State University and a diversity of businesses, both large and small, which together with State Government make the City and its environs relatively stable economically and relatively free of violent cyclical fluctuation of employment. The System's service area serves approximately 48,000 people exclusive of the population served by wholesale water customers.

Electric System Operations

The Board purchases electric power from Kentucky Utilities Company under contract, cancelable by either party with five years prior written notice, approved by the Federal Energy Regulatory Commission ("FERC"). No such notice of cancellation has to date been given by either party. The Contract, which became effective May 1, 2009, provides for formulated rate increases. Under this regime, KU announces updated rates each year on May 1, which are to be based on company cost data for the preceding calendar year. The updated rates will go into effect on July 1 each year. The Board may present issues over proper implementation of the formulas to FERC. The Board purchases approximately 96% of its power from Kentucky Utilities Company; the remaining 4% is purchased under contract from the U. S. Department of Energy, Southeastern Power Administration ("SEPA"). The Board receives SEPA energy from Wolf Creek Dam. This dam is undergoing repairs and SEPA has declared "force majeure" conditions. Under the current interim arrangement, the Board pays SEPA's interim rate that includes a fixed charge to cover TVA's transmission, plus an energy charge. This energy is currently sold to East Kentucky Power Cooperative.

The electric system receives power from Kentucky Utilities Company at the Board's Myrick Substation, which has a capacity of 266 megawatts and transmits that power to 13 substations over 33 miles of transmission lines. The electric system serves the Board's customers over 443 miles of distribution lines (205 miles single phase and 238 miles 3 phase). The electric system serves (as of 6/30/09) 21,052 customers in the following classes:

1. Residential – 17,076 customers
2. Commercial – 2,745 customers
3. Large Power - 288 customers
4. Local Gov't & Schools - 155 services
5. Security Lighting - 788 security lights

The electric system provided approximately 705,000 megawatt hours of power last fiscal year with a peak demand of approximately 152 megawatts.

For the 12-month period ended June 30, 2009, the top six electric users in kilowatt hours (out of a total of approximately 705,369,786 kilowatt hours supplied for that period) were as follows:

Annual Sales	Total Kilowatt Hours
1. $783,901	27,409,140
2. $686,050	23,987,760
3. $595,172	20,810,220
4. $581,007	20,314,920
5. $534,534	18,690,000
6. $487,296	17,038,320

Water System Operations

In addition to providing water to the City and parts of Franklin and Woodford Counties, the water system portion of the System presently provides water to six water districts and one municipal water system. These seven wholesale water customers are:

1. North Shelby Water District - serving Franklin and Shelby Counties
2. U.S. 60 Water District - serving Franklin and Shelby Counties
3. Elkhorn Water District - serving Franklin and Scott Counties
4. Peaksmill Water District - serving Franklin and Owen Counties
5. Farmdale Water District - serving Franklin, Anderson, and Woodford Counties
6. South Anderson Water District – serving portions of Anderson County
7. Georgetown Municipal Water Service - serving Georgetown (Scott County) Kentucky

The Board recently secured KIA grants of approximately $2.3 million to extend its water system to unserved and underserved areas in Franklin and Woodford Counties. These extensions are to be completed in 2010 and total approximately 46,000 feet of line.

The water treatment plant draws water from the Kentucky River from pool number 4 between Locks 4 and 5. During the drought of 1999, this pool was able to provide the water needed by the Board to serve its customers, including its wholesale customers, without the necessity of imposing limitations or water use restrictions on the customers. The water treatment plant was placed in operation in 1974, financed by a $5,500,000 bond issue, which was retired in 1997. The water treatment plant's treatment processes have been significantly upgraded to comply with the Federal Clean Water Drinking Act. The treatment plant, as currently configured, can produce 18 million gallons of potable water per day and if necessary can be expanded to produce an additional 5 million gallons per day without significant cost. The treatment plant was sized to handle the 23 million gallons per day level; however, pumps would have to be upgraded or an additional pump added to reach that level.

The water treatment plant is presently being upgraded to include facilities for on-site chorine generation. These improvements to the plant's chemical fed system are financed with a low interest loan from KIA in the amount of $6 million.

The Board has its own leak detection equipment and an aggressive leak detection program, the result of which is a low line loss rate. The Board has replaced lines and employs equipment such as leak loggers and leak correlators to reduce losses.

The water system's transmission and distribution mains deliver on an annual basis (as of 6/30/09) approximately 2.4 billion gallons of water to the water customers over 330 miles of transmission and distribution lines. The water system serves 15,776 customers (with water districts and a municipal water system counted as 1 customer each) in the following classes:

1. Residential - 13,488 customers
2. Commercial - 2,029 customers
3. Local Government - 24 services
4. Water Districts - 6 districts, 11 services
5. Municipal Water Systems - 1 System (Georgetown)
6. Sprinkler (Fire Protection) - 223 services

The water system has one reservoir containing 9,455,000 gallons and 9 existing water tanks with a total capacity of 6,945,000 gallons. The water system has a total storage capacity of 16,400,000 gallons or approximately 2 days water supply at an average of 8,000,000 gallons per day. This amount exceeds the storage capacity recommended by the Kentucky Public Service Commission (to whose jurisdiction the Board is not subject).

For the 12-month period ended June 30, 2009, the top usage and sales for the five water users per 1,000 gallons (out of a total of approximately 2,436,046,400 gallons supplied for that period) were as follows:

Annual Sales	In 1,000 Gallons
1. $87,765	44,611
2. $47,369	22,044
3. $39,133	17,504
4. $35,782	17,451
5. $36,995	16,503

For the 12-month period ended June 30, 2009, the System's wholesale water sales to its seven wholesale water customers were as follows:

Wholesale User	Total Gal. in 1000's	Average Rate per 1000 gal.	Total Revenue
North Shelby Water District	164,511	1.704	$ 264,290
US 60 Water District	167,139	1.704	$ 270,446
Elkhorn Water District	70,549	1.704	$ 115,335
Farmdale Water District	217,798	1.704	$ 351,716
Peaks Mill Water District	83,935	1.704	$ 136,343
South Anderson Water District	25,399	1.704	$ 40,388
Georgetown Municipal Water**	202,709	1.919	$ 373,532
Total Wholesale Water Sales for Period			$1,552,050

** Georgetown is a water producer, is unregulated by the PSC and as such has a different wholesale rate.

Other Information

Reference is made to Appendix A for selected financial and operating information with respect to the System and to the Board's audited financial statements in Appendix C (also see "THE BOARD - Financial and Operating Information" herein).

THE RESOLUTION

The following paragraphs contain excerpts, summaries or descriptions of certain provisions of the Resolution.

Operation and Revenues of System; Funds and Accounts

From and after the delivery of the Bonds and any parity bonds issued under the provisions of the Resolution and so long as any of such bonds remain outstanding, the System shall be continuously operated by the Board as a revenue-producing and self-liquidating undertaking and the income and revenues from the System, together with all extensions, improvements or betterments thereto that may be made, shall be set aside, and are pledged daily as collected, into a special and separate fund designated the "Electric and Water Plant Board Electric and Water Revenue Fund" (the "Revenue Fund") to be used and apportioned, as follows:

(A) On or before the 20th day of each month there shall be withdrawn from the Revenue Fund and credited to a separate and special fund designated the "Operation and Maintenance Fund" a sum sufficient to pay the reasonably necessary costs of operating and maintaining the System during such month, including without limitation salaries, wages, cost of materials and supplies, power at wholesale and insurance for such month, and any deficit for the same arising in the preceding month.

(B) There shall be created a separate and special fund to be known as the "Electric and Water Plant Board Electric and Water Revenue Bonds Sinking Fund of 2009" (the "Sinking Fund"). The Sinking Fund shall comprise three accounts, the Interest Account, the Principal Account and the Debt Service Reserve Account, which are irrevocably pledged and shall be used and applied for the following purposes. Money in the Interest Account shall be used solely for the payment of interest falling due on the Bonds and any additional parity bonds. Money in the Principal Account shall be used solely for the purpose of paying the principal of the Bonds and any additional parity bonds when due at maturity or pursuant to any call for redemption. The Debt Service Reserve Account shall be held for the benefit of the holders of all of the Bonds and any additional parity bonds and shall be used solely for the purpose of paying principal of or interest on the Bonds and any parity bonds as to which there would otherwise be a default.

There shall be set aside into the Sinking Fund in equal monthly installments on or before the 20th day of each month, out of the Revenue Fund (subject to the priorities of the foregoing subsection (A) sufficient funds to pay when due the interest on and principal of any outstanding bonds (including the Bonds) which by their terms are payable from the Sinking Fund. Such monthly payments into the Sinking Fund shall be made in the minimum amounts each month as follows:

1. An amount which together with other funds available for such purpose will be equal to at least one-sixth (1/6th) of the interest falling due on the Bonds on the next succeeding interest payment date shall be deposited in the Interest Account.

2. An amount which together with other funds available for such purpose will be equal to at least one-twelfth (1/12th) of the principal amount of the Bonds coming due on the next December 1 shall be deposited in the Principal Account.

Upon issuance of the Bonds, the Debt Service Reserve Account shall be initially funded in the Reserve Amount from proceeds of the Bonds and transfers from other available funds held pursuant to the 1999 Resolution. Whenever any amount in the Debt Service Reserve Account is less than the Reserve Amount, such deficiency shall be made up (in any event within three (3) years from the date such deficiency occurs) from the first moneys thereafter available in the Revenue Fund (after the requirements of subparagraphs 1 and 2 above have been satisfied) or in the Depreciation Fund hereinafter identified. The term "Reserve Amount" as used in the Resolution is defined as an amount of money equal to the least of (i) the highest amount required to be paid into the Interest Account and the Principal Account for account of the Bonds and any additional parity bonds in any 12-month period ending December 1, (ii) an amount equal to 125% of the average amount required to be paid into the Interest Account and the Principal Account for account of the Bonds and any additional parity bonds in each 12-month period ending December 1, and (iii) an amount equal to 10% of the proceeds of the Bonds and any additional parity bonds within the meaning of Section 148(d) of the United States Internal Revenue Code of 1986, as amended.

As and when additional parity bonds are issued provision shall be made for additional payments into the Sinking Fund so as to pay the interest on and principal of such additional parity bonds as and when the same become due and for increasing the amount in the Debt Service Reserve Account on the date of issuance of the additional parity bonds to the then required Reserve Amount.

No further payments need be made into the Sinking Fund after and so long as the amount then held in the Sinking Fund, including the Debt Service Reserve Account, is equal to the entire amount required for retiring all bonds then outstanding which are payable from the Sinking Fund and paying all interest that will accrue at the time of such retirement.

If for any reason there should be a failure to pay into the Sinking Fund the full amount above stipulated, then an amount equivalent to such deficiency shall be set apart and paid into the Sinking Fund from the first available income and revenues of the System or from the Depreciation Fund hereinafter referred to.

All moneys held in the Sinking Fund, including the Debt Service Reserve Account, shall be deposited in a bank or banks which are members of the Federal Deposit Insurance Corporation ("FDIC") and all such deposits which cause the aggregate deposits of the Board in any one bank to be in excess of the amount insured by the FDIC or one of its agencies shall be continuously secured by a valid pledge of direct obligations of, or obligations the payment of principal of and interest on which is guaranteed by, the United States of America having an equivalent market value. All or any part of the Sinking Fund may, provided that the Debt Service Reserve Account therein shall, be invested in Investment Obligations, as defined below under the subheading "Investments," maturing or being subject to retirement at the option of the holder on such dates as the same may be needed for meeting interest and/or principal payments, and all such investments shall be carried to the credit of the particular account in the Sinking Fund which supplied the funds for such investments, but the income from such investments shall be credited to the Interest Account; provided, however, if the amount in the Debt Service Reserve Account is less than the Reserve Amount, income from investments in the Debt Service Reserve Account shall be credited to the Debt Service Reserve Account until the Reserve Amount is accumulated therein. Investment Obligations in the Debt Service Reserve Account shall be valued at the fair market value thereof or, for a plain par investment within the meaning of Treas. Reg. §1.148-5(d) or any successor provision, at the outstanding stated principal amount thereof plus any accrued unpaid interest.

The Sinking Fund shall be used solely and only and is pledged for the purpose of paying principal of and interest and premium, if any, on the Bonds and any additional bonds ranking on a parity therewith that may be outstanding from time to time in accordance with the terms and provisions of the Resolution.

Notwithstanding the foregoing provisions relating to the Debt Service Reserve Account, in lieu of the deposit of funds in the Debt Service Reserve Account, the Board may obtain a Debt Service Reserve Guaranty. Any Debt Service Reserve Guaranty shall be considered a deposit of funds in the Debt Service Reserve Account equal to the Debt Service Reserve Guaranty Coverage provided by the Debt Service Reserve Guaranty Agreement. As conditions precedent to delivery of a Debt Service Reserve Guaranty, the Board shall obtain (i) the Debt Service Reserve Guaranty, (ii) an opinion of counsel addressed to the Board stating that the delivery of such Debt Service Reserve Guaranty to the Board is authorized under the Resolution and complies with the terms hereof, and (iii) written evidence from a Rating Agency, if the Bonds and any additional parity bonds are then rated by such Rating Agency, that the Rating Agency has reviewed the proposed Debt Service Reserve Guaranty and that (a) the issuance of the Debt Service Reserve Guaranty to the Board and, (b) if a Debt Service Reserve Guaranty is then in effect with respect to the Debt Service Reserve Account, the substitution of the proposed Debt Service Reserve Guaranty for the Debt Service Reserve Guaranty then in effect, will not, by itself, result in a reduction or withdrawal of its rating on the Bonds and any additional parity bonds. If the Bonds and any additional parity bonds are insured by a bond insurer, the references to a Rating Agency in the preceding sentence shall be read to mean such bond insurer and the substitution of the proposed Debt Service Reserve Guaranty shall not result in the cancellation of the bond insurance provided by such bond insurer.

The capitalized terms used in the preceding paragraph shall have the following meanings:

"Debt Service Reserve Guarantor" means the issuer of a Debt Service Reserve Guaranty.

"Debt Service Reserve Guaranty" means a letter of credit, insurance policy, surety bond or similar arrangement representing the irrevocable obligation of the Debt Service Reserve Guarantor to pay to or for the account of the Board upon request made by the Board or its designee up to an amount stated therein for application as provided above with reference to the Debt Service Reserve Account.

"Debt Service Reserve Guaranty Agreement" means the reimbursement agreement, bond insurance agreement, loan agreement or similar agreement between the Board and a Debt Service

Reserve Guarantor with respect to repayment of amounts advanced under the Debt Service Reserve Guaranty.

"Debt Service Reserve Guaranty Coverage" means the amount available at any particular time to be paid to or for the account of the Board under the terms of the Debt Service Reserve Guaranty.

"Debt Service Reserve Guaranty Limit" means the maximum aggregate amount available to be paid to or for the account of the Board under the terms of a Debt Service Reserve Guaranty.

"Rating Agency" means either Standard & Poor's Ratings Services or Moody's Investors Service, Inc., and their successors and assigns.

(C) In order to provide moneys which will be available for improvements and major repairs to and replacements and extensions of the System, the special fund currently maintained by the Board, separate and apart from all other accounts and funds of the Board, designated the "Depreciation Fund," is continued and shall be maintained in accordance with the Act. Balances at any time on deposit in the Depreciation Fund may be expended for costs indicated in this paragraph. Monthly transfers and deposits from the Revenue Fund to the Depreciation Fund shall be made (after meeting the requirements of the foregoing subsections (A) and (B) until such time as a balance equal to six percent (6%) of the undepreciated book value of the System (based on the most recent audited financial statements of the System) shall have been accumulated therein, represented either by cash or the market value of investments, as hereinafter permitted. Upon the accumulation of a balance in such amount, the monthly transfers from the Revenue Fund may be suspended. To the extent amounts in the Depreciation Fund from time to time may exceed the foreseeable need for making disbursements therefrom, they may be invested and reinvested by the Board in Investment Obligations, as defined below under the subheading "Investments," which shall have a maturity date or be redeemable at the option of the holder within five years from the date of investment therein, and all income therefrom shall be credited to the Depreciation Fund (or to the Revenue Fund at the election of the Board if the aforesaid minimum balance is on deposit in the Depreciation Fund) and any expenses or loss in connection therewith shall be charged to the Depreciation Fund. In the event there would otherwise be a default in the payment of interest on or principal of any bond or bonds outstanding under authority of the Resolution, amounts in the Depreciation Fund shall be withdrawn and applied to such extent as may be necessary in order to prevent such default, and any investments held for the account of the Depreciation Fund shall be converted into cash if and to the extent required for such purpose; but such withdrawal shall be deemed to be advances from the Depreciation Fund and the amount thereof shall be restored as soon as moneys are available.

(D) The remaining moneys in the Revenue Fund shall be used and applied to the extent necessary (1) to maintain a cash working fund equal to one-twelfth (1/12) of the gross income and revenues of the System during the preceding fiscal year; (2) to pay all other obligations authorized and incurred by the Board in the operation and maintenance of the System and furnishing of services and facilities thereby; (3) to pay such taxes, if any, as the Board may elect to pay to the City under the provisions of Section 96.179 of the Act; and (4) for any other lawful corporate purpose as permitted and provided by Section 96.182 of the Act.

The Board reserves the right from time to time to purchase bonds herein authorized or permitted to be issued in advance of maturity and to redeem such bonds pursuant to the pertinent redemption terms through the use and application of surplus income and revenues from the System and from excess funds in the Sinking Fund, provided no such purchase shall be made from the Sinking Fund at a price exceeding the redemption terms on the next succeeding redemption date; and all bonds so purchased or redeemed shall be canceled.

Investments

As used in the Resolution, the term "Investment Obligations" shall mean any of the following, if and to the extent the following are legal investments for the moneys held in the funds and accounts established pursuant to the Resolution:

(A) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian, which investments may be accomplished through repurchase agreements reached with sources including, but not limited to, national or state banks chartered in Kentucky;

(B) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency, including but not limited to: (i) United States Treasury; (ii) Export-Import Bank of the United States; (iii) Government National Mortgage Corporation; and (iv) Merchant Marine;

(C) Obligations of any corporation of the United States government, including but not limited to: (i) Federal Home Loan Mortgage Corporation; (ii) Federal Farm Credit Banks; (iii) Bank for Cooperatives; (iv) Federal Intermediate Credit Banks; (v) Federal Land Banks; (vi) Federal Home Loan Banks; (vii) Federal National Mortgage Association; and (viii) Tennessee Valley Authority;

(D) Certificates of deposit issued by or other interest bearing accounts of any bank or savings and loan institution, including the Paying Agent and Bond Registrar or any of its affiliates, which are insured by FDIC or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by Section 41.240(4) of the Kentucky Revised Statutes;

(E) Uncollateralized certificates of deposit issued by any bank or savings and loan institution, including the Paying Agent and Bond Registrar or any of its affiliates, rated in one of the three highest categories by a nationally recognized rating agency;

(F) Bankers' acceptances for banks, including the Paying Agent and Bond Registrar or any of its affiliates, rated in one of the three highest categories by a nationally recognized rating agency;

(G) Commercial paper rated in the highest category by a nationally recognized rating agency, including commercial paper issued by the Paying Agent and Bond Registrar or any of its affiliates;

(H) Bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities;

(I) Securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency; and

(J) Shares of mutual funds, each of which shall have the following characteristics:

(i) The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;

(ii) The management company of the investment company shall have been in operation for at least five years;

(iii) All of the securities in the mutual fund shall be investments in any one or more of the investments described in (A) through (I) above;

(iv) The mutual funds may include, without limitation, any mutual fund for which the Paying Agent and Bond Registrar or any of its affiliates serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (1) the Paying Agent and Bond Registrar or any of its affiliates receives fees from such funds for services rendered, (2) the Paying Agent and Bond Registrar or any of its affiliates charges and collects fees for services rendered pursuant to this Resolution, which fees are separate from the fees received from such funds, and (3) services performed for such funds and pursuant to this Resolution may at times duplicate those provided to such funds by the Paying Agent and Bond Registrar or its affiliates; and

(K) Investment agreements with any financial institution the long-term debt, claims paying ability or financial program strength of which is rated not lower than the second highest category (without regard to gradations within such category) by at least one of the nationally recognized rating agencies; provided that if the investment agreement is guaranteed by a third-party, then the above rating requirement will apply to the guarantor only.

Covenants to Bondholders

(A) Rates and Charges. While the Bonds or any parity bonds remain outstanding and unpaid, the rates and charges for all services rendered by the System shall be reasonable and just, taking into account and consideration the cost and value of the System and the cost of maintaining and operating the same, and the amounts necessary for the retirement of all bonds and the accruing interest on all such bonds as may be issued or permitted to be issued under the provisions of this Resolution and the payments provided to be made into the Depreciation Fund. Such rates will be fixed, maintained and, if necessary, adjusted from time to time so as to produce after costs of normal maintenance and operation, net revenues (as defined below under the subheading "No Priority among Bonds; Issuance of Additional Bonds") sufficient (1) to provide for the payment of the principal and interest maturing in the next fiscal year of the System on the Bonds and parity bonds, if any are issued under the restrictions and conditions set forth below under the subheading "No

Priority among Bonds; Issuance of Additional Bonds"), and to accumulate and maintain the Reserve Amount in the Debt Service Reserve Account as provided above under the subheading "Operation and Revenues of the System; Fund and Accounts"; (2) to accumulate in the Depreciation Fund for account of the System up to an amount equal to six percent (6%) of the undepreciated book value of the System; (3) to maintain a cash working fund equal to one-twelfth (1/12) of the gross income and revenues of the System during the preceding fiscal year; (4) to pay all other obligations authorized and incurred by the Board in the operation and maintenance of the System and the furnishing of services and facilities thereby; (5) to pay such taxes, if any, as the Board may elect to pay to the City under the provisions of Section 96.179 of the Kentucky Revised Statutes; and (6) to satisfy any other obligations or commitments authorized or incurred by the Board for any lawful corporate purpose as permitted and provided by Section 96.182 of the Act. The rates prevailing at any time will not be reduced except upon the basis of a written statement of a consulting engineer or firm of consulting engineers of national reputation, after necessary investigation, expressing the opinion that the net earnings of the System will not thereby be reduced below the level prescribed in the preceding sentence; and there shall be charged against all users of electric and water services rendered by or though the System, including the City, such rates and amounts for such services as shall be adequate to meet the foregoing requirements. Compensation for services rendered to the City shall be charged against the City and payment for the same from the corporate funds shall be made and shall be apportioned as other income and revenues.

(B) Performance. The Board covenants and agrees with the holder or holders of the Bonds and any parity bonds permitted to be issued hereunder, or any of them, that it will faithfully and punctually perform all duties with reference to the System and the operation and maintenance thereof as required by the Constitution and laws of the Commonwealth of Kentucky.

(C) Disposal of Facilities. The Board further covenants, binds and obligates itself and the City not to sell, lease, mortgage or in any manner dispose of any integral part of the System, including any and all extensions, additions and appurtenances thereto that may be made or constructed, until all the Bonds and any parity bonds permitted to be issued hereunder shall have been paid in full, both principal and interest; provided, however, that this covenant shall not be construed to prevent disposal of property by exchange for other property on the basis of a finding by the Board, after necessary investigation, that the property to be obtained through such exchange is of equal or greater value and utility than the property so disposed of and such exchange will not adversely affect the operations of the System or the income and revenues to be derived therefrom; nor shall be construed to prevent the sale, lease or other disposal of properties of the System which are found by the Board to be no longer necessary or useful in the operations of the System, provided that the proceeds, if any, received from the lease, sale or other disposition of any such property shall be paid either into the Depreciation Fund or into the Sinking Fund, but such payments shall not operate to reduce the amounts otherwise required to be paid into said funds.

No Priority among Bonds; Issuance of Additional Bonds

The Bonds, together with any additional parity bonds issued under the restrictions and conditions hereinafter set forth, shall not be entitled to priority one over the other in the application of the income and revenues of the System regardless of the time or times of their issuance, it being the intention that there shall be no priority among such bonds, regardless of the fact that they may be actually issued and delivered at different times.

The Board reserves the right and privilege of issuing additional bonds from time to time payable from the income and revenues of the System ranking on a parity with the Bonds (herein sometimes referred to as "additional parity bonds") in order to pay the costs of extensions, additions and improvements to the System and related costs, including without limitation providing funds for deposit in the Debt Service Reserve Account, provided that (a) either of the conditions set forth in (i) or (ii) below is met and (b), if the KIA Loan, other subordinate KIA loans or similar subordinate obligations payable from the revenues of the System are in effect, the requirements, if any, for the issuance of additional parity bonds (on a parity with the Bonds) contained in the 2008 Assistance Agreement, in any other assistance agreements with KIA or in other similar agreements with respect to similar subordinate loan obligations are met.

(i) The net revenues of the System for the fiscal year preceding the year in which such parity bonds are to be issued were at least 120% of the maximum annual debt service requirements (for any year ending December 1) with respect to all Bonds and parity bonds which are then outstanding and the additional parity bonds then proposed to be issued. The term "net revenues" as herein used is defined as gross income and revenues of the System, which shall mean electric and water service sales and all operating revenues and non-operating income of the System as identified in the Board's financial statements prepared in accordance with generally accepted accounting principles ("GAAP"), less operating expenses of the System, which shall include salaries, wages, costs of maintenance and operation, materials and supplies, costs of electricity generation and purchases and costs of water treatment and purchases, pumping costs and insurance, as well as all other items that are normally and regularly so included under GAAP, but exclusive of capital costs, allowances for depreciation and amortization and payments into the Sinking Fund. Such showing of net revenues for such preceding fiscal year may be based on the report of the auditors.

(ii) A statement is filed with the Secretary-Treasurer by (a) an independent certified public accountant or firm of certified public accountants not in the regular employ of the Board on a monthly salary basis or (b) an independent professional engineer or firm or firms of professional engineers not in the employ of the Board on a monthly salary basis, and of recognized expertise and good reputation in the fields of electric and water engineering and licensed in Kentucky, reciting the opinion or determination based upon necessary investigation that the net revenues of the System as defined in (i) above for twelve (12) consecutive months out of the eighteen (18) months preceding the issuance of said additional parity bonds (with adjustments as hereinafter provided, if necessary) were equal to at least 120% of the maximum annual debt service (for any year ending December 1) on the Bonds and any parity bonds then outstanding and the proposed additional parity bonds. The net revenues may be adjusted for the purpose of the foregoing computations to reflect any revision in the schedule of rates or charges being imposed at the time of the issuance of any such additional parity bonds, and also to reflect any increase in such net revenues by reason of the extensions, additions and improvements to the System the cost of which (in whole or in part) is to be paid through the issuance of such additional parity bonds and by reason of the investment of any proceeds of such additional parity bonds that are deposited in the Debt Service Reserve Account; but such adjustments to reflect an increase in net revenues by reason of extensions, additions and improvements to the System shall only be made if contracts for the immediate construction or acquisition of such extensions, additions and improvements have been or will be entered into prior to the issuance of such additional parity bonds. All such adjustments to reflect any revision of rates and charges or an increase in net revenues by reason of extensions, additions and improvements to the System shall be based upon written certification by (a) a professional engineer not in the employ of the Board on a monthly salary basis, or a firm or firms of professional engineers of recognized expertise and good reputation in the fields of electric and water engineering and licensed in Kentucky or (b) a certified public accountant or firm of certified public accountants.

The Board further reserves the right and privilege of issuing additional parity bonds for the purpose of refunding the Bonds or any parity bonds, or any portion thereof, as may be outstanding, provided that before any additional parity bonds are issued for such purpose, there shall have been procured and filed with the Secretary-Treasurer a statement by an independent certified public accountant or firm of independent certified public accountants reciting the opinion or determination based upon necessary investigation that after the issuance of such additional parity bonds the net revenues, as adjusted and defined above, of the System for the fiscal year preceding the date of issuance of such additional parity bonds or for twelve (12) consecutive months out of eighteen (18) months preceding the issuance of such additional parity bonds, after taking into account the revised Reserve Amount resulting from the issuance of such additional parity bonds and from the elimination of the bonds being refunded thereby, are equal to not less than 120% of the maximum annual debt service (for any year ending December 1) on the Bonds and any parity bonds then outstanding and the proposed additional parity bonds and calculated in the manner specified above.

The interest payment dates for all such additional parity bonds shall be semiannually on June 1 and December 1 of each year, and the principal maturities thereof shall be on December 1 of the year in which any such principal is scheduled to become due.

The additional parity bonds, the issuance of which is restricted and conditioned as set out above, shall be understood to mean bonds payable from the income and revenues of the System on a parity with the Bonds, and shall not be deemed to include nor prohibit the issuance of other obligations, the security and source of payment of which is subordinate and subject to the priority of the payments into the Sinking Fund for account of the Bonds and any parity bonds.

Additional Covenants of Board

(A) Insurance. The Board covenants and agrees that so long as the Bonds or any parity bonds are outstanding it will keep its operations and all buildings and all machinery and equipment therein, constituting a part of the System, insured to the extent insurable under a policy or policies of a responsible insurance company or companies authorized and qualified under the laws of Kentucky to assume such risks and in amounts and of the character customarily carried by municipal utilities in similar operations. The proceeds of all such insurance shall be available for the repair, replacement and reconstruction of damaged or destroyed property. The Board further covenants and agrees in like manner to carry public liability and property damage insurance covering such risks and for such amounts as the Board determines from time to time to be necessary or advisable by reason of the character and extent of its operations. If the insurance proceeds are in excess of the amount required for making good the loss or damage in respect of which such proceeds are received by repairing, replacing and reconstructing the property damaged or destroyed, any balance remaining shall be paid into the Sinking Fund or the Depreciation Fund, and if for any reason the insurance proceeds are insufficient for the repair, replacement and reconstruction of the damaged or destroyed property, any deficiency may be supplied from any moneys legally available to the Board for such purposes.

(B) Financial Records. The Board covenants and agrees that it will keep and maintain proper books and accounts adapted to the System, which books and accounts will show the several items of receipts and disbursements and the same shall be audited annually by a recognized independent firm of certified public accountants; and in each annual audit report such accountants shall be instructed to comment on the performances of the Board during the audit period as compared with the requirements set forth in this Resolution. The balance sheet and the profit and loss statement of the System as certified by such accountants shall be generally available to the holder or holders of any Bonds upon their written request.

Tax Covenants and Representations

The Board certifies, covenants and agrees to and for the benefit of the Bondholders that so long as any of the Bonds remain outstanding, moneys on deposit in any fund or account in connection with the Bonds, whether or not such moneys were derived from the proceeds of the sale of the Bonds or from any other sources, will not be invested or used in a manner which will cause the Bonds to be "arbitrage bonds" within the meaning of Sections 103(b)(2) and 148 of the United States Internal Revenue Code of 1986, as amended (the "Code"), and any lawful income tax regulations issued or proposed thereunder. The Board will 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 Board on the Bonds shall, for the purposes of federal income taxation, be excludable from gross income.

Defeasance

If the Board shall pay or cause to be paid, or there shall otherwise be paid, to the holders of all Bonds the total principal and interest due or to become due thereon at the times and in the manner stipulated therein and in this Resolution, then the pledge of the Resolution, and all covenants, agreements and other obligations of the Board to the Bondholders, shall thereon cease, terminate and become void and be discharged and satisfied.

Whenever there shall be held irrevocably in the Sinking Fund or an escrow fund established for such purpose either (a) moneys in an amount which shall be sufficient or (b) direct obligations of or obligations fully guaranteed by the United States of America, including such obligations issued or held in book-entry form, the principal of and interest on which when due (without consideration of reinvestment income) will provide moneys which, together with other moneys, if any, then on deposit in the Sinking Fund or such escrow fund, shall be sufficient to pay when due the principal of and interest on the Bonds or any part thereof to and including the date on which the Bonds or any of them will be redeemed in accordance with this Resolution, or the maturity date or dates thereof, as the case may be, then and in any of such events all such Bonds shall be deemed to have been paid within the meaning and with the effect expressed above; and the Paying Agent and Bond Registrar shall be and is instructed to send in accordance with the Resolution irrevocable notice of redemption to the holders of any such Bonds that are to be redeemed. Thereafter the holders of such Bonds shall be entitled only to payment out of the cash and obligations deposited as aforesaid.

The provisions of the immediately foregoing paragraph are subject to the limitation that no discharge and release of the pledge of the Resolution shall be accomplished through the use of any funds or investments which would adversely affect the exclusion of interest on any such Bonds from gross income for federal income tax purposes.

Bondholders' Rights and Remedies

As provided in Section 96.184 of the Act, any holder or holders of Bonds shall have the right, in addition to all other rights:

(A) By action in court, to enforce his or their rights against the Board, and any other proper officer, agent or employee of the Board, including without limitation the right to require the Board, and any proper officer, agent or employee of the Board, to fix and collect rates and charges adequate to carry out any agreement as to, or pledge of, revenues from the System, and to require the Board, and any officer, agent or employee of the Board, to carry out any other covenants or agreements and to perform its and their duties under the Act.

(B) By action in equity, to enjoin any act or thing which may be unlawful or a violation of the rights of the holder of Bonds.

If there is a default in the payment of the principal or interest of any Bonds, any court having jurisdiction may, upon the petition of the holders of not less than twenty-five percent (25%) of the outstanding Bonds, appoint a receiver to administer the System on behalf of the Board, with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against the System and for the payment of the operating expenses and to apply the income and revenues in conformity with the Act.

Resolution as Contract

The provisions of the Resolution shall constitute a contract between the Board and the holders of the Bonds and any additional parity bonds, and after the issuance of any of said bonds no material change, variation or alteration of any kind in the provisions of the Resolution shall be made in any manner without the consent of such holders and except as otherwise herein provided, until such time as all of the bonds issued hereunder and interest thereon have been paid or provided for in full by defeasance as provided above under the subheading "Defeasance" or as otherwise provided in the Resolution.

The Board may specifically make any amendment or change in the Resolution (a) to evidence the succession of an institution as Paying Agent and Bond Registrar, (b) to cure any ambiguity or to cure, correct or supplement any defective or inconsistent provisions contained herein or in any resolution or other proceedings pertaining hereto, (c) to grant to or confer on the Paying Agent and Bond Registrar for the benefit of the holders of the Bonds any additional rights, remedies, powers, authority or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with the Resolution as theretofore in effect, (d) to permit the Paying Agent and Bond Registrar to comply with any obligations imposed on it by law, (e) to achieve compliance of the Resolution with any federal tax law, regulation or ruling, (f) to maintain or improve any rating on the Bonds or (g) for any other purpose not inconsistent with the terms of the Resolution which shall not impair the security of the Bondholders or otherwise materially adversely affect the rights of the Bondholders.

Additionally, and not in limitation of the foregoing, the holders of eighty percent (80%) in principal amount of the Bonds shall have the right to consent to and approve the adoption of resolutions or other proceedings modifying or amending any of the terms or provisions contained in this Resolution, subject to the condition that the Resolution shall not be so modified in any manner that may adversely affect the rights of any holders without similarly affecting the rights of all holders of the Bonds or to reduce the percentage of the number of holders whose consent is required to effect a further modification.

Holidays

If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Resolution, is not a business day for the Paying Agent and Bond Registrar, such payment may be made or act performed or right exercised on the next succeeding business day with the same force and effect as if done on the nominal date provided in the Resolution, and no interest shall accrue for the period after such nominal date.

RATING

The Bonds have been assigned a rating of "   " by Standard & Poor's Ratings Services. (the "Rating Agency"). An explanation of the significance of such rating may be obtained from the Rating Agency. The Board has furnished the Rating Agency with certain information and materials relating to the Bonds and the Board which have not been included in this Official Statement. Such rating reflects only the views of the Rating Agency at the time such rating is issued and is not a recommendation to buy, sell or hold the Bonds. The rating is subject to change or withdrawal by the Rating Agency at any time and any such change or withdrawal may affect the market price or marketability of the Bonds.

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 Board taken with respect to the issuance or sale thereof, or materially adversely affecting the pledge or application of any moneys or security provided for the payment of the Bonds or the due existence or powers of the Board.

TAX MATTERS

Tax Exemption

It is the opinion of Bond Counsel, Stoll Keenon Ogden PLLC, Louisville, Kentucky, assuming the correctness and accuracy of certain representations and warranties of the Board made in connection with the issuance of the Bonds, that under existing laws interest on the Bonds (a) is excluded from gross income for federal and Kentucky income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinions set forth in clauses (a) and (b) of the first sentence of this paragraph are subject to the conditions that the representation and warranties referred to above are accurate and that the Board complies with all requirements of the United States Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Board has covenanted to comply with such requirements. Failure to comply with certain of such requirements, or a determination that certain of such representations and warranties are inaccurate, could cause the interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. Bond Counsel expresses no opinion regarding other federal and Kentucky income tax consequences arising with respect to the Bonds. Reference is made to the form of opinion of Bond Counsel contained in Appendix D to this Official Statement.

Prospective purchasers of the Bonds should be aware that:

(i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution (within the meaning of Section 265(b)(5) of the Code), that portion of a holder’s interest expense allocated to interest on the Bonds, except to the extent described below. The Board has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Code, and, in the case of financial institutions (within the meaning of Section 265(b)(5) of the Code), including federal- or state-supervised commercial banks, a deduction is allowed for 80% of that portion of such a financial institution’s interest expenses allocable to interest on the Bonds.

(ii) With respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Bonds.

(iii) Interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code.

(iv) Passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income.

(v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Bonds.

Bond Counsel is further of the opinion that the Bonds are exempt from *ad valorem* taxation by the Commonwealth of Kentucky and its political subdivisions.

Tax Treatment of Original Issue Discount

The initial public offering prices to be paid for certain Bonds are less than the amounts payable on such Bonds at their respective stated maturities, as shown on the cover page of this Official Statement (the "Discount Bonds") .

An amount equal to the difference between the initial public offering price of a Discount Bond (assuming, without representing, that the underwriters have purchased the Discount Bonds for contemporaneous sale to the public and a substantial amount of the Discount Bonds of the stated maturity are sold to the public at such price) and the amount payable at stated maturity constitutes interest to the initial purchaser of such Discount Bond. A portion of such interest, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at stated maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes. Such interest is considered to be accrued over the term of a Discount Bond on the basis of a constant interest rate compounded at the end of each accrual period (with straight line interpolation between compounding dates) at the yield to stated maturity on such Discount Bond.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement Benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond prior to stated maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is treated as gain for federal income tax purposes.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under the applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

Tax Treatment of Original Issue Premium

The initial public offering prices to be paid for certain Bonds are greater than the amounts payable at maturity with respect to such Bonds, as shown on the cover page of this Official Statement (the "Premium Bonds"). The difference between (a) the amount payable at maturity of the Premium Bonds and (b) the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Premium Bonds of such maturities are sold will constitute "original issue premium" ("OIP"). Under certain circumstances, as a result of the tax cost reduction requirements of the Code relating to the amortization of bond premium, the owner of a Premium Bond may realize a taxable gain upon its disposition even though the Premium Bond is sold or redeemed for an amount not greater than the owner's original acquisition cost.

Owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal income tax purposes of the amount of OIP properly accruable with respect to such Premium Bonds, other tax consequences of owning Premium Bonds and the local tax consequences of holding such Premium Bonds.

LEGAL MATTERS

Certain legal matters incident to the issuance of the Bonds will be the subject of an approving opinion of Stoll Keenon Ogden PLLC, Louisville, Kentucky, Bond Counsel. A copy of such opinion is contained in Appendix D to this Official Statement. Certain legal matters will be passed upon for the Board by its counsel, Liebman and Liebman, Frankfort, Kentucky.

The information contained in this Official Statement under the headings "THE BONDS" and "AUTHORITY AND SECURITY," "THE RESOLUTION," "TAX MATTERS," and "CONTINUING ANNUAL DISCLOSURE" has been reviewed by Bond Counsel to determine that such information conforms in substance to the proceedings and laws relating to the issuance of the Bonds that are summarized in such information (see "REFERENCE TO DOCUMENTS" hereinafter); but Bond Counsel has not undertaken to review the accuracy or completeness of statements and data otherwise contained in this Official Statement, including the Appendices, and expresses no opinion thereon and assumes no responsibility in connection therewith.

FINANCIAL ADVISOR

Morgan Keegan & Company, Inc. ("Morgan Keegan"), Lexington, Kentucky, has been employed by the Board to serve as Financial Advisor. Certain information relative to the location, economy and finances of the Board is found in the Preliminary Official Statement, in final form, and the Official Statement, in final form. All such data, as is the case for other information herein contained, was prepared for and with the assistance of the Board under the direction of Morgan Keegan. While not guaranteed as to completeness or accuracy, the Preliminary Official Statement, in final form, and the Official Statement, in final form, are believed to be correct as of their respective dates. As the Financial Advisor for this transaction, Morgan Keegan has reviewed the information in the Preliminary Official Statement and the Official Statement, in final form, in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction; but Morgan Keegan does not guarantee the accuracy or completeness of such information.

Consistent with applicable rules of the Municipal Securities Rulemaking Board, Morgan Keegan has received written permission from the Board to bid on the Bonds.

CONTINUING DISCLOSURE UNDERTAKING

The Board will agree in a Continuing Disclosure Certificate dated as of the date of issuance of the Bonds (the "Continuing Disclosure Certificate"), to file or to cause to be filed, in accordance with the requirements of Rule 15c2-12 and official interpretation A thereof (the "Rule") promulgated by the Securities and Exchange Commission, the following:

(i) (a) with the Municipal Securities Rulemaking Board (the "MSRB"), or any successor thereto for purposes of the Rule, through the continuing disclosure service portal provided by the MSRB's Electronic Municipal Market Access ("EMMA") system as described in 1934 Act Release No. 59062, or any similar system that is acceptable to the Securities and Exchange Commission, and (b) with the appropriate state information depository ("SID"), if any, for the Commonwealth of Kentucky as designated by the Securities and Exchange Commission in accordance with the Rule, certain annual financial information and operating data, including audited financial statements, generally consistent with the financial information and operating data contained on pages A-3 through A-7 of Appendix A and the audited financial statements contained in Appendix C hereof. Such information will be provided on or before November 1 of each year for the fiscal year ending on the preceding June 30 and will also be provided, in addition to each NRMSIR and the SID, if any, to each holder of Bonds who makes written request for such information; provided that if audited financial statements for the prior fiscal year are not available on November 1, they will be so provided when available.

(ii) in a timely manner, with the MSRB through EMMA and the SID, if any, notice of the occurrence of any of the following events with respect to the Bonds if, in the judgment of the Board, such event is material: (a) principal and interest payment delinquencies, (b) non-payment related defaults, (c) unscheduled draws on debt service reserves reflecting financial difficulties, (d) unscheduled draws on credit enhancements reflecting financial difficulties, (e) substitution of credit or liquidity providers, or their failure to perform, (f) adverse tax opinions or events affecting the tax-exempt status of the Bonds, (g) modifications to rights of holders of Bonds, (h) Bond calls, (i) defeasances, (j) release, substitution or sale of property securing repayment of the Bonds and (k) rating changes.

The Board may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the Board, any such other event is material with respect to the Bonds; but the Board does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

(iii) in a timely manner, with the MSRB through EMMA and the SID, if any, notice of a failure by the Board to provide the required financial information on or before the date specified in its Continuing Disclosure Certificate.

The audited financial statements and other financial statements will be prepared in accordance with (a) generally accepted accounting principles (GAAP) as applied to governmental enterprise funds, as described in the notes to the Board's audited financial statements appearing in Appendix C to the Official Statement, (b) the standards of the Governmental Accounting Standards Board and (c) state law requirements, all as from time to time in effect. The Board uses "fund" accounting pursuant to state law to report on its financial position and the results of its operations, and the accrual basis of accounting is used by all governmental enterprise fund types, expendable trust funds and agency funds, all as described in the notes to the Board's audited financial statements.

The Board reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the Board; provided that the Board agrees that any such modification will be done in a manner consistent with the Rule. The Board reserves the right to terminate its obligation to provide annual financial information and notices of material events as set forth above, if and when the Board no longer remains an obligated person with respect to the Bonds within the meaning of the Rule. The Board acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders (including beneficial owners) of the Bonds and shall be enforceable by any holder of Bonds; provided that a Bondholder's right to enforce the provisions of this undertaking shall be limited to a right to obtain specific performance of the Board's obligations pursuant to the provisions of this undertaking, and any failure by the Board to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds under the Resolution.

The Board has been delinquent in filing the required financial information in accordance with a previous undertaking under the Rule to provide annual reports and notices of material events; however, as of September 8, 2009, the Board has made the necessary filings.

Purchase of the Bonds shall be conditioned upon the receipt by the initial purchaser of the Bonds, at or prior to the delivery of the Bonds, of evidence that the Board has made the continuing disclosure undertaking described above, in the form of the Continuing Disclosure Certificate, for the benefit of the holders of the Bonds.

REFERENCE TO DOCUMENTS

All foregoing summaries and descriptions of provisions set forth in the Bonds, the Resolution, the Continuing Disclosure Certificate and related documents, and all references to other documents and materials not purported to be quoted in full, are brief outlines of certain provisions of such documents, reference to which documents is hereby made and copies of which will be furnished by the Board upon written request.

MISCELLANEOUS

Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the holders of any of the Bonds.

This Official Statement, including the Appendices, has been duly approved, executed and delivered by the Board.

Dated as of November ___, 2009.

ELECTRIC AND WATER PLANT BOARD
OF THE CITY OF FRANKFORT,
KENTUCKY

By ______________________________
Chairman

APPENDICES

Appendix A - Selected Financial and Operating Information
Appendix B - Demographic and Related Data
Appendix C - Audited Financial Statements
Appendix D - Form of Bond Counsel Opinion

APPENDIX A

ELECTRIC AND WATER PLANT BOARD OF THE
CITY OF FRANKFORT, KENTUCKY
ELECTRIC AND WATER REFUNDING REVENUE BONDS, SERIES 2009

SELECTED FINANCIAL AND OPERATING INFORMATION

Electric and Water Plant Board
of the City of Frankfort, Kentucky
Electric and Water Refunding Revenue Bonds, Series 2009

Outstanding Debt Summary
Electric and Water

Debt Issue	Debt Type	Original Amount	Amount Outstanding	Maturity Date
Series 1999	Bond Issue (1)	13,160,000	8,275,000	12/1/2019
Series 2007	Note Issue (1)	1,850,000	1,850,000	12/21/2009
Total Parity Debt		**15,010,000**	**10,125,000**	
KY Infrastructure	Loan	6,841,000	6,841,000	12/1/2030
Total Subordinate Debt		**6,841,000**	**6,841,000**	
Total All Debt		**21,851,000**	**16,966,000**	

(1) The Series 1999 bonds and 2007 note will be refunded by the Series 2009 bonds.

Electric and Water Plant Board
of the City of Frankfort, Kentucky
Electric and Water Refunding Revenue Bonds, Series 2009

Estimated Debt Service Schedule (1)

Date	Principal	Interest	Total P+I	Fiscal Total
12/08/2009	-	-	-	-
06/01/2010	-	182,851.39	182,851.39	-
06/30/2010	-	-	-	182,851.39
12/01/2010	860,000.00	190,250.00	1,050,250.00	-
06/01/2011	-	177,350.00	177,350.00	-
06/30/2011	-	-	-	1,227,600.00
12/01/2011	890,000.00	177,350.00	1,067,350.00	-
06/01/2012	-	164,000.00	164,000.00	-
06/30/2012	-	-	-	1,231,350.00
12/01/2012	920,000.00	164,000.00	1,084,000.00	-
06/01/2013	-	150,200.00	150,200.00	-
06/30/2013	-	-	-	1,234,200.00
12/01/2013	950,000.00	150,200.00	1,100,200.00	-
06/01/2014	-	131,200.00	131,200.00	-
06/30/2014	-	-	-	1,231,400.00
12/01/2014	990,000.00	131,200.00	1,121,200.00	-
06/01/2015	-	111,400.00	111,400.00	-
06/30/2015	-	-	-	1,232,600.00
12/01/2015	1,025,000.00	111,400.00	1,136,400.00	-
06/01/2016	-	90,900.00	90,900.00	-
06/30/2016	-	-	-	1,227,300.00
12/01/2016	1,070,000.00	90,900.00	1,160,900.00	-
06/01/2017	-	69,500.00	69,500.00	-
06/30/2017	-	-	-	1,230,400.00
12/01/2017	1,110,000.00	69,500.00	1,179,500.00	-
06/01/2018	-	47,300.00	47,300.00	-
06/30/2018	-	-	-	1,226,800.00
12/01/2018	1,160,000.00	47,300.00	1,207,300.00	-
06/01/2019	-	24,100.00	24,100.00	-
06/30/2019	-	-	-	1,231,400.00
12/01/2019	1,205,000.00	24,100.00	1,229,100.00	-
06/30/2020	-	-	-	1,229,100.00
Total	**$10,180,000.00**	**$2,305,001.39**	**$12,485,001.39**	

(1) The Series 1999 bonds and 2007 note will be refunded by the Series 2009 bonds.

Electric and Water Plant Board
of the City of Frankfort, Kentucky
Kentucky Infrastructure Authority Loan

Estimated Debt Service Schedule

Payment Date	Principal Due	Interest Due	Interest Rate	Principal & Interest	Servicing Fee	Credit Due	Total Payment
06/01/11	154,917.99	34,205.00	1.00%	189,122.99	8,551.25	0.00	197,674.24
12/01/11	155,692.58	33,430.41	1.00%	189,122.99	8,357.60	0.00	197,480.60
06/01/12	156,471.05	32,651.95	1.00%	189,122.99	8,162.99	0.00	197,285.98
12/01/12	157,253.40	31,869.59	1.00%	189,122.99	7,967.40	0.00	197,090.39
06/01/13	158,039.67	31,083.32	1.00%	189,122.99	7,770.83	0.00	196,893.82
12/01/13	158,829.87	30,293.13	1.00%	189,122.99	7,573.28	0.00	196,696.27
06/01/14	159,624.02	29,498.98	1.00%	189,122.99	7,374.74	0.00	196,497.74
12/01/14	160,422.14	28,700.86	1.00%	189,122.99	7,175.21	0.00	196,298.21
06/01/15	161,224.25	27,898.75	1.00%	189,122.99	6,974.69	0.00	196,097.68
12/01/15	162,030.37	27,092.63	1.00%	189,122.99	6,773.16	0.00	195,896.15
06/01/16	162,840.52	26,282.47	1.00%	189,122.99	6,570.62	0.00	195,693.61
12/01/16	163,654.72	25,468.27	1.00%	189,122.99	6,367.07	0.00	195,490.06
06/01/17	164,473.00	24,650.00	1.00%	189,122.99	6,162.50	0.00	195,285.49
12/01/17	165,295.36	23,827.63	1.00%	189,122.99	5,956.91	0.00	195,079.90
06/01/18	166,121.84	23,001.16	1.00%	189,122.99	5,750.29	0.00	194,873.28
12/01/18	166,952.45	22,170.55	1.00%	189,122.99	5,542.64	0.00	194,665.63
06/01/19	167,787.21	21,335.78	1.00%	189,122.99	5,333.95	0.00	194,456.94
12/01/19	168,626.15	20,496.85	1.00%	189,122.99	5,124.21	0.00	194,247.21
06/01/20	169,469.28	19,653.72	1.00%	189,122.99	4,913.43	0.00	194,036.42
12/01/20	170,316.62	18,806.37	1.00%	189,122.99	4,701.59	0.00	193,824.59
06/01/21	171,168.21	17,954.79	1.00%	189,122.99	4,488.70	0.00	193,611.69
12/01/21	172,024.05	17,098.95	1.00%	189,122.99	4,274.74	0.00	193,397.73
06/01/22	172,884.17	16,238.83	1.00%	189,122.99	4,059.71	0.00	193,182.70
12/01/22	173,748.59	15,374.41	1.00%	189,122.99	3,843.60	0.00	192,966.59
06/01/23	174,617.33	14,505.66	1.00%	189,122.99	3,626.42	0.00	192,749.41
12/01/23	175,490.42	13,632.58	1.00%	189,122.99	3,408.14	0.00	192,531.14
06/01/24	176,367.87	12,755.12	1.00%	189,122.99	3,188.78	0.00	192,311.77
12/01/24	177,249.71	11,873.28	1.00%	189,122.99	2,968.32	0.00	192,091.31
06/01/25	178,135.96	10,987.04	1.00%	189,122.99	2,746.76	0.00	191,869.75
12/01/25	179,026.64	10,096.36	1.00%	189,122.99	2,524.09	0.00	191,647.08
06/01/26	179,921.77	9,201.22	1.00%	189,122.99	2,300.31	0.00	191,423.30
12/01/26	180,821.38	8,301.61	1.00%	189,122.99	2,075.40	0.00	191,198.40
06/01/27	181,725.49	7,397.51	1.00%	189,122.99	1,849.38	0.00	190,972.37
12/01/27	182,634.11	6,488.88	1.00%	189,122.99	1,622.22	0.00	190,745.21
06/01/28	183,547.28	5,575.71	1.00%	189,122.99	1,393.93	0.00	190,516.92
12/01/28	184,465.02	4,657.97	1.00%	189,122.99	1,164.49	0.00	190,287.49
06/01/29	185,387.35	3,735.65	1.00%	189,122.99	933.91	0.00	190,056.91
12/01/29	186,314.28	2,808.71	1.00%	189,122.99	702.18	0.00	189,825.17
06/01/30	187,245.85	1,877.14	1.00%	189,122.99	469.28	0.00	189,592.28
12/01/30	188,182.08	940.91	1.00%	189,122.99	235.23	0.00	189,358.22
Totals	**$6,841,000.00**	**$723,919.72**		**$7,564,919.72**	**$180,979.93**	**$0.00**	**$7,745,899.65**

Electric and Water Plant Board
of the City of Frankfort, Kentucky
Electric and Water Refunding Revenue Bonds, Series 2009

Historical Revenue & Expenses
Electric and Water

Fiscal Year Ending	6/30/2009 unaudited	6/30/2008	6/30/2007	6/30/2006	6/30/2005	6/30/2004
Combined Revenue						
Electric	40,201,360	41,060,752	40,795,896	39,853,473	32,573,117	31,454,323
Water	7,645,775	7,632,125	7,479,360	7,444,375	6,517,960	6,138,837
Total Operating Revenues	47,847,135	48,692,877	48,275,256	47,297,848	39,091,077	37,593,160
Expenses						
Electric Power Costs	34,185,776	34,746,820	33,286,574	32,410,802	27,216,136	25,150,119
Electric Operating Expenses	2,416,575	2,268,176	2,242,847	2,014,500	2,277,536	1,849,949
Water Operating Expenses	2,855,352	2,788,863	2,739,921	2,735,099	2,470,378	2,177,309
Office Expenses	1,390,672	1,447,575	1,588,697	1,520,355	1,583,727	1,424,437
Administrative Expenses	1,924,825	1,704,135	1,903,535	1,969,922	1,875,579	1,803,853
Employee Benefits Expenses	2,300,643	2,391,318	2,053,914	2,011,012	1,876,387	1,774,254
General Expenses	148,012	148,915	162,161	137,125	157,466	173,578
Depreciation	2,578,571	2,795,863	2,909,315	2,666,856	2,717,956	2,654,175
Support Service Expenses	1,259,790	854,215	833,084	814,660	750,284	708,964
Total Operating Expenses	49,060,216	49,145,880	47,720,048	46,280,331	40,925,449	37,716,638
Net Operating Revenues	(1,213,081)	(453,003)	555,208	1,017,517	(1,834,372)	(123,478)
Non Operating Revenue (Expense)						
Net Merchandise Sales	3,957	17,287	8,001	7,934	7,265	14,222
Rental Revenue	4,580	4,788	5,632	6,403	5,914	6,325
Interest Revenue	68,630	142,705	162,707	93,109	39,329	25,471
Other Non-Operating Revenues	386,974	297,308	303,465	471,027	285,308	436,581
Interest Expense	(671,394)	(698,237)	(724,923)	(715,524)	(698,264)	(715,738)
Retirement Plan Net Income/(Loss)	-	9,408	6,160	7,124	4,382	8,654
Capital Contributions	610,599	-				
Total Non Operating Revenue (Expense)	403,346	(226,741)	(238,958)	(129,927)	(356,066)	(224,485)
Net Revenue (Expense)	(809,735)	(679,744)	316,250	887,590	(2,190,438)	(347,963)
Net Revenues	(809,735)	(679,744)	316,250	887,590	(2,190,438)	(347,963)
Plus Depreciation	2,578,571	2,795,863	2,909,315	2,666,856	2,717,956	2,654,175
Plus Interest Expense	671,394	698,237	724,923	715,524	698,264	715,738
Funds Available for Debt Service	2,440,230	2,814,356	3,950,488	4,269,970	1,225,782	3,021,950
Maximum Annual Debt Service	1,078,380	1,078,380	1,078,380	1,078,380	1,078,380	1,078,380
Debt Service Coverage	2.263	2.610	3.663	3.960	1.137	2.802

Fiscal Year End June 30, 2004-09 summarized Income Statement provided by the Frankfort Electric and Water Plant Board

Electric and Water Plant Board
of the City of Frankfort, Kentucky
Electric and Water Refunding Revenue Bonds, Series 2009

Unaudited June 30, 2009 Balance Sheet

Assets	
Plant in Service	78,362,811
Property and Investment	4,610,412
Current and Accrued Assets	2,769,629
Accounts Receivable	8,591,521
Materials and Supplies	4,838,034
Prepayments	602,117
Interest Receivable	6,277
Other Assets	847,328
Total Assets	100,628,129
Liabilities	
Long Term Debt	
Bonds Outstanding	9,542,825
Other Long-Term Debt	27,024,865
Current and Accrued Liabilities	
Accounts Payable - Trade	5,486,312
Accounts Payable - Miscellaneous	1,401,975
Accounts Payable - Contracts	3,820,914
Accounts Payable - Sewer	900,732
Accounts Payable - Wintercare	157
Future Insurance Claims Payable	311,304
Accrued Payroll	402,181
Customer Deposits	1,536,488
Cable customer Deposits	27,129
Water Meter Deposits	6,150
Unclaimed Refunds	5,431
Property Tax Payable	23,002
Interest on Customer Deposits	692,070
Accrued Bond Interest	110,918
Tax Collection Payable	298,461
Accrued Vacation Payable	593,529
Total Liabilities	52,184,443
Equity	
Unearned Income	663,912
Retained Earnings	47,779,774
Total Equity	48,443,686
Total Liabilities and Net Assets	100,628,129

Fiscal Year End June 30, 2009 unaudited Balance Sheet provided by the Frankfort Electric and Water Plant Board

Electric and Water Plant Board
of the City of Frankfort, Kentucky
Electric and Water Refunding Revenue Bonds, Series 2009

Interim Financial Comparison
Electric and Water
for Periods July-September 2008 and 2009

	ELECTRIC		WATER		COMBINED	
	Jul-Sept 08	Jul-Sept 09	Jul-Sept 08	Jul-Sept 09	Jul-Sept 08	Jul-Sept 09
REVENUES	12,037,132	12,677,536	2,259,486	1,993,298	14,296,618	14,670,834
EXPENSES						
Electric Power Costs	10,788,316	9,997,611	0	0	10,788,316	9,997,611
Electric Operating Expenses	665,053	481,708	0	0	665,053	481,708
Water Operating Expenses			802,756	710,343	802,756	710,343
Office Expenses	193,276	180,910	132,079	118,120	325,355	299,030
Administrative Expenses	231,094	214,391	196,746	180,166	427,840	394,557
Employee Benefit Expenses	290,641	332,537	283,239	315,663	573,880	648,200
General Expenses	41,672	38,134	172,011	163,544	213,683	201,678
Depreciation Expenses	373,097	378,659	254,744	264,751	627,841	643,410
Support Service Expenses	116,129	96,881	94,199	72,627	210,328	169,508
Total Operating Expenses	12,699,278	11,720,831	1,935,774	1,825,214	14,635,052	13,546,045
Net Operating Revenues (Expenses)	-662,146	956,705	323,712	168,084	-338,434	1,124,789
Non Operating Revenue (Expense)	87,259	44,345	219,037	307,712	306,296	352,057
Net Revenue (Expense)	-574,887	1,001,050	542,749	475,796	-32,138	1,476,846

Electric and Water Plant Board
of the City of Frankfort, Kentucky
Electric and Water Refunding Revenue Bonds, Series 2009

Estimated Revenue & Expenses (Fiscal Years 2010-14)
Electric and Water

Fiscal Year Ending	6/30/2010	6/30/2011	6/30/2012	6/30/2013	6/30/2014
Combined Revenue					
Electric	49,278,500	49,278,500	49,278,500	49,278,500	49,278,500
Water	7,880,700	7,883,700	7,886,700	7,889,700	7,892,700
Increase in Water Rates 4/1/10	272,440	1,090,180	1,090,600	1,091,006	1,091,426
Increase in Water Rates 1/1/12	-	-	448,865	898,071	898,413
Capital Contributions	1,894,800	639,800	639,800	639,800	639,800
Other Income	307,770	319,135	326,071	333,189	340,618
Total Operating Revenues	59,634,210	59,211,315	59,670,536	60,130,266	60,141,457
Combined Expenses					
Electric Power & Operating Costs	42,697,800	42,785,400	42,844,200	42,919,100	43,012,600
Water Operating Expenses	2,771,400	3,226,500	3,352,400	3,408,000	3,528,600
Office Expenses	999,368	1,034,530	1,097,776	1,144,881	1,195,619
Administrative Expenses	1,902,553	1,898,595	1,989,491	2,024,117	2,174,221
Employee Benefits Expenses	2,462,352	2,622,126	2,784,012	2,961,017	3,160,568
General Expenses	4,188,234	4,501,580	4,697,507	4,852,591	5,127,589
Support Service Expenses	834,164	862,991	892,758	923,538	955,400
Total Operating Expenses	55,855,871	56,931,722	57,658,144	58,233,244	59,154,597
Net Income	3,778,339	2,279,593	2,012,392	1,897,022	986,860
Debt Service Coverage					
Net Operating Revenues	3,778,339	2,279,593	2,012,392	1,897,022	986,860
Less Capital Contributions	(1,894,800)	(639,800)	(639,800)	(639,800)	(639,800)
Plus: Depreciation	2,789,621	3,065,300	3,242,600	3,382,800	3,640,700
Plus: Amortization	16,100	16,100	16,100	16,100	16,100
Plus: Interest Expense (Parity Bonds)	549,200	516,300	481,600	444,800	405,200
Funds Available for Debt Service	5,238,460	5,237,493	5,112,892	5,100,922	4,409,060
Annual Debt Service	1,234,200	1,234,200	1,234,200	1,234,200	1,234,200
Debt Service Coverage	4.244	4.244	4.143	4.133	3.572

The above information provided from FEWPB - five year budget.

Electric and Water Plant Board
of the City of Frankfort, Kentucky
Electric and Water Refunding Revenue Bonds, Series 2009

Electric Rates

RESIDENTIAL (SVC CODE 10)			
	CUSTOMER CHARGE		$5.00
	ENERGY		
		0 - 400 KWH	$0.06195
		OVER 400 KWH	$0.06195
GENERAL SERVICE (SVC CODE 15)			
	CUSTOMER CHARGE		$10.00
	ENERGY		
		0 - 500 KWH	$0.07015
		501 - 2,000 KWH	$0.07015
		OVER 2,000 KWH	$0.07015
GENERAL SERVICE (SVC CODE 18 & 18A)			
	CUSTOMER CHARGE		$10.00
	ENERGY		
		0 - 500 KWH	$0.07015
		501 - 2,000 KWH	$0.07015
		OVER 2,000 KWH	$0.07015
LARGE POWER (SVC CODE LP20 & LP20KV)			
	CUSTOMER CHARGE		$30.00
	KW		$4.75
	ENERGY CHARGE		
		0 - 500,000 KWH	$0.04721
		OVER 500,000 KWH	$0.04721
LARGE POWER (SVC CODE LP21)			
	CUSTOMER CHARGE		$75.00
	KW		$6.00
	ENERGY CHARGE		
		ALL KWH	$0.04050
GOVERNMENT/SCHOOL RATE (SVC CODE M2 & M19)			
	CUSTOMER CHARGE		$10.00
	ENERGY CHARGE		
		ALL KWH	$0.06437
SECURITY LIGHTS			
	175 WATT (MERCURY VAPOR) (SVC CODE SL1 & SL2)		$7.87
	400 WATT (MERCURY VAPOR) (SVC CODE SL3 & SL4)		$10.15
	250 WATT (MERCURY VAPOR) (SVC CODE SL7 & SL8)		$9.12
	100 WATT (MERCURY VAPOR) (SVC CODE SL9 & SL10)		$6.56
	175 WATT (METAL HALIDE) (SVC CODE SL11 & SL12)		$7.87
AREA LIGHTING			
	DIRECTIONAL FIXTURE ONLY, 250 WATT MH (SVC CODE AL7)		$7.66
	250 WATT, MH WITH 35' WOOD POLE (SVC CODE AL1)		$9.35
	250 WATT, MH WITH 35' METAL POLE (SVC CODE AL2)		$11.52
	DIRECTIONAL FIXTURE ONLY, 400 WATT MH (SVC CODE AL5)		$10.80
	400 WATT, MH WITH 35' WOOD POLE (SVC CODE AL3)		$12.49
	400 WATT, MH WITH 35' METAL POLE (SVC CODE AL9)		$14.65
	DIRECTIONAL FIXTURE ONLY, 400 WATT HPS (SVC CODE AL10)		$10.80
	400 WATT, HPS WITH 35' WOOD POLE (SVC CODE AL11)		$12.49
	400 WATT, HPS WITH 35' METAL POLE (SVC CODE AL12)		$14.65
	DIRECTIONAL FIXTURE ONLY, 1,000 WATT HPS (SVC CODE AL13)		$22.17
	1,000 WATT, MH WITH 35' WOOD POLE (SVC CODE AL6)		$23.86
	1,000 WATT, MH WITH 35' METAL POLE (SVC CODE AL8)		$26.02
	1,000 WATT, MH WITH 45' METAL POLE (SVC CODE AL4)		$29.50
MUNICIPAL STREET LIGHTING (SVC CODE M1)			
	CUSTOMER CHARGE		$4.00
	ENERGY		
		ALL KWH	$0.06517
GRATIS (SVC CODE G3, G3A, G17, & G17A)			
	ENERGY		
		ALL KWH	$0.06517

Electric and Water Plant Board
of the City of Frankfort, Kentucky
Electric and Water Refunding Revenue Bonds, Series 2009

Water Rates

RESIDENTIAL/COMMERCIAL/MUNICIPAL/AG CITY
(SVC CODE 30, 30C, 30M, 30N, AG1, AG3, AG5, AG7)

MINIMUM 2,000 GLS	$8.94
NEXT 3,000 GLS	$4.47
NEXT 20,000 GLS	$3.66
NEXT 175,000 GLS	$3.02
NEXT 800,000 GLS	$2.27
OVER 1,000,000 GLS	$1.79

RESIDENTIAL/COMMERCIAL/MUNICIPAL/AG COUNTY
(SVC CODE 35, 35C, 35M, 35N, AG2, AG4, AG6, AG8)

MINIMUM 2,000 GLS	$12.60
NEXT 3,000 GLS	$6.29
NEXT 20,000 GLS	$3.66
NEXT 175,000 GLS	$3.02
NEXT 800,000 GLS	$2.27
OVER 1,000,000 GLS	$1.79

FIRE SERVICE

ALL FIRE HYDRANTS (SVC CODE 31, 31A, 31B)	$12.11
SPRINKLER SYSTEMS	
2" LINE (SVC CODE FS1)	$6.06
3" LINE (SVC CODE FS2)	$12.11
4" LINE (SVC CODE FS3)	$22.66
6" LINE (SVC CODE FS4)	$45.31
8" LINE (SVC CODE FS5)	$60.40
10" LINE (SVC CODE FS6)	$75.52
FIRE HYDRANT SALES	$4.53
RESALE - NON WATER PRODUCERS (SVC CODE 39)	$1.822
RESALE - OTHER WATER PRODUCERS (SVC CODE 37)	$1.919
WATER LOADING STATIONS (SVC CODE 36)	$4.47
GRATIS (SVC CODE 38 & 38A)	$0.63

SYSTEM OPERATING INFORMATION

Customers

The electric system receives power from the Kentucky Utilities Company at the Board's Myrick Substation, which has a capacity of 266 megawatts and transmits that power to 13 substations over 33 miles of transmission lines. The electric system serves the Board's customers of 443 miles of distribution lines (205 single phase and 238 miles 3 phase). Listed below is the total number of customers of the electric system for each of the last five years:

Fiscal Year	Residential	Commercial	Large Power	Local Govt & Schools	Security Lighting
2009	17,076	2,745	288	155	788
2008	17,016	2,775	291	149	777
2007	16,942	2,819	287	143	759
2006	16,846	2,882	274	135	751
2005	16,822	2,787	281	141	746
2004	16,756	2,716	279	142	736

The water system's transmission and distribution mains deliver on an annual basis (as of 6/30/09) approximately 2.4 billion gallons of water to the water customers over 330 miles of transmission and distribution lines. The water system serves 15,776 customers (with water districts and a municipal water system counted as 1 customer each. Listed below is the total number of customers of the water system for each of the last five years:

Fiscal Year	Residential	Commercial	Wholesale	Municipal	Sprinklers
2009	13,488	2,029	12	24	223
2008	13,380	2,089	12	25	218
2007	13,230	2,136	12	23	205
2006	13,109	2,161	12	22	177
2005	13,026	2,130	12	25	168
2004	12,936	2,097	12	24	164

Largest Customers

For the 12 month period ended June 30, 2009, the top ten electric users in kilowatt hours
(out of a total of approximately 705,369,786 kilowatt hours supplied for that period) were as follows:

Customer	Total Kilowatt Hours	Annual Sales
Topy Corp	27,409,140	$783,901
Montaplast Corporation	23,987,760	$686,050
Commonwealth of KY - Facilities Management	20,810,220	$595,172
Commonwealth of KY - Facilities Management	20,314,920	$581,007
Washington Penn Plastics	18,690,000	$534,534
Commonwealth of KY - Facilities Management	17,038,320	$487,296
Kentucky State University	16,268,700	$465,285
Commonwealth of KY - Facilities Management	13,399,770	$383,233
Montaplast Corporation	12,923,520	$369,613
Commonwealth of KY - Facilities Management	12,607,290	$360,568
Total	183,449,640	$5,246,660

Electric and Water Plant Board
Of the City of Frankfort, Kentucky
Electric and Water Refunding Revenue Bonds, Series 2009

SYSTEM OPERATING INFORMATION

For the 12 month period ended June 30, 2009, the System's top ten customers per 1,000 gallons sold (out of a total of approximately 2,436,046,400 gallons supplied for that period) were as follows:

Customer	Annual Usage (in 1k gallons)	Annual Sales
Buffalo Trace Distillery	44,611.8	$87,765
Jim Beam Brands	22,044.0	$47,369
Leestown Terrace	17,504.2	$39,133
City of Frankfort	17,451.0	$35,782
Topy Corporation	16,503.0	$36,995
Commonwealth of KY - Facilities Management	15,234.0	$34,223
Kings Daughters Hospital	10,902.4	$26,454
Commonwealth of KY - Facilities Management	10,448.0	$24,123
Kentucky State University	10,404.5	$25,403
Kentucky State University	10,064.5	$24,514
Total	175,167.4	$381,761

For the 12 month period ended June 30, 2009, the System's wholesale water sales to its seven wholesale customers were as follows:

Customer	Annual Usage (in 1k gallons)	Annual Sales
Georgetown Pump Station	202,709.0	$373,532
North Shelby Water District	164,511.1	$264,290
US 60 Water District	167,139.5	$270,446
Farmdale Water District	217,798.1	$351,716
Peaksmill Water District	83,935.6	$136,343
Elkhorn Water District	70,549.4	$115,335
South Anderson Water District	25,399.3	$40,388
Total	932,042.0	$1,552,051

APPENDIX B

ELECTRIC AND WATER PLANT BOARD OF THE
CITY OF FRANKFORT, KENTUCKY
ELECTRIC AND WATER REFUNDING REVENUE BONDS, SERIES 2009

DEMOGRAPHIC AND RELATED DATA

FRANKLIN COUNTY, KENTUCKY

Frankfort, Kentucky is considered one of the most picturesque state capitals in the United States. Situated on a double curve in the Kentucky River, Frankfort has served as the capital of the Commonwealth of Kentucky since December 8, 1792, and as the seat of government for Franklin County since 1795. Franklin County is located in north-central Kentucky, lies within the Bluegrass Region, with a land area of 210 square miles.

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

Within a century the population of Frankfort grew from 9,487 in 1900, to 27,322 in 2008. The commission-manager form of government governs the city. The members of the city commission and the mayor are elected. Frankfort remains one of the most unique state capitals. Steeped in a rich history, nestled in one of the most beautiful river valleys in the nation, Frankfort is the epitome of southern charm and grace.

The Economic Framework

The total number employed by Major Industry in 2009 averaged 32,219. Public Administrations in the county reported 12,593 employees; 7,189 people were employed in service occupations; trade, transportation and utilities provided 3,370 jobs; 3,091 were employed in manufacturing; and information, financial activities and other businesses accounted for 2,414 employees.

Transportation

Franklin County is served by Interstate 64, U.S.60, U.S.127, and U.S.421. The Bluegrass Parkway is accessible 16 miles south of Frankfort. CSX Transportation provides main line rail service to Franklin County. The nearest scheduled commercial airline service is available at Lexington, 23 miles east of Frankfort, and at Louisville International Airport, 40 miles west.

Labor Supply

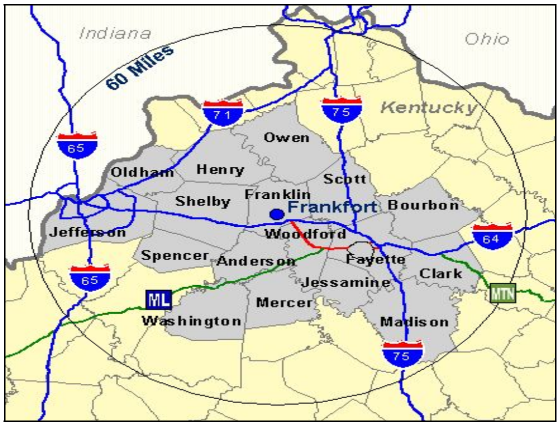
There is a current estimated labor supply of 49,151 persons available for industrial jobs in the labor market area. In addition, from 2009 through 2012, 78,112 young persons in the area will become 18 years of age and potentially available for industrial jobs.

The following represents the largest employers in Franklin County as of January 2009:

Firm	Product	Avg. Employment
Montaplast of North America	Plastic injection molding automotive	552
Buffalo Trace Distillery	Distiller of world class bourbons	318
TOPY America, Inc.	Steel road wheels	250
Jim Beam Brands	Distilled liquor bottling	226
EDS	Call center, help desk, data center	200
GECOM Corp	Automotive parts & metal stampings	200
Greenheck Fan Corp	Commercial Air Control	146
ArvinMeritor, Inc.	Truck Axles	120
AWP Industries	Material handling storage products	106
CENTRIA	Steel building components	100

Source: Kentucky Cabinet for Economic Development, (October 17, 2009) Division of Research and Planning.

Labor Market Area



Total Population

	2005	2006	2007	2008	2009
Labor Market Area	1,444,166	1,452,837	1,462,086	1,477,808	1,518,602
Franklin County	48,023	48,437	48,588	48,286	48,087
Frankfort	27,210	27,077	27,098	27,322	N/A

Source: Applied Geographic Solutions, Simi Valley, CA; U.S. Department of Commerce, Bureau of the Census

Personal Income

	2002	2007	Pct. Change
Franklin County	$28,359	$33,366	17.7%
Kentucky	$25,777	$30,824	19.6%
U.S.	$30,804	$38,615	25.4%
Labor Market Area Range	$18,375-$35,068	$20,592-$46,240	

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

Civilian Labor Force – Franklin County Labor Market

	2008	Aug. 2009	2008	Aug. 2009
Civilian Labor Force	24,840	24,868	761,101	768,574
Employed	23,390	22,531	716,328	692,362
Unemployed	1,450	2,337	44,773	76,212
Unemployment Rate	5.8%	9.4%	5.9%	9.9%

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

Unemployment Rate (%)

Year	Franklin County	Labor Market Area	Kentucky	U.S.
2004	4.2	4.9	5.5	5.5
2005	4.7	5.4	6.0	5.1
2006	4.7	5.2	5.7	4.6
2007	4.5	4.9	5.5	4.6
2008	5.8	5.9	6.4	5.8

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

APPENDIX C

ELECTRIC AND WATER PLANT BOARD OF THE
CITY OF FRANKFORT, KENTUCKY
ELECTRIC AND WATER REFUNDING REVENUE BONDS, SERIES 2009

AUDITED FINANCIAL STATEMENTS

Note: As set out in the forepart of this Official Statement, (i) the following audited financial statements show income and revenues of the electric and water operations (the System) and the cable network operations separately and on a combined basis together with a balance sheet split between the System and cable network operations, and (ii) only System revenues (not cable network revenues) are pledged to secure payment of the Bonds.

Electric & Water Plant Board
Of The City Of Frankfort, Kentucky

Financial Statements

Together With Independent Auditor's Report
June 30, 2008 and 2007

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Charles T. Mitchell Co. LLP
Certified Public Accountants

William G. Johnson, Jr., C.P.A.
James Clouse, C.P.A.
Bernadette Smith, C.P.A.
Kim Field, C.P.A.
Greg Miklavcic, C.P.A.
Don C. Giles, C.P.A., Consultant

Chairman
Members of the Electric & Water Plant Board
Frankfort, Kentucky

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit
Of Financial Statements Performed In Accordance
With *Government Auditing Standards*

We have audited the financial statements of Electric & Water Plant Board, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the Standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Electric & Water Plant Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Electric & Water Plant Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Electric & Water Plant Board's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Electric & Water Plant Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Electric & Water Plant Board's financial statements that is more than inconsequential will not be prevented or detected by the Electric & Water Plant Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Electric & Water Plant Board 's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Electric & Water Plant Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Electric & Water Plant Board, in a separate letter dated November 14, 2008.

This report is intended solely for the information and use of management and the board of directors and is not intended to be, and should not be, used by anyone other than these specified parties.

Charles T. Mitchell Co.

November 14, 2008

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FRANKFORT ELECTRIC & WATER PLANT BOARD
Management's Discussion and Analysis

INTRODUCTION

The following discussion and analysis of the Frankfort Electric and Water Plant Board's financial performance provides an overview of the Board's financial activities for the fiscal years ended June 30, 2008 and 2007.

This discussion and analysis should be read in conjunction with the Board's financial statements and accompanying notes, which follow this section.

The Board was established under Kentucky Revised Statues (KRS 96-176) as a combined Electric and Water System to operate, maintain, improve, and expand the respective facilities and began operations in 1943. In 1954 the Board created Community Television and appointed a separate Cable Board to provide Cable TV service to Frankfort and the surrounding area. In 1988, the Board took direct control of the Cable TV operation in order to provide additional services over a fiber optic network, as a public project (the Full Service Network). All three operations are combined together and presented on pages 7 to 9 of the Audit Report. Cable Telecommunications operations are separated from the Electric and Water operations on the audit report under "Supplemental Information" on pages 17 to 28. The Board has completed the upgrade of the cable system to fiber optics and is now able to provide a Full Service Network (FSN) with few exceptions, throughout the Cable Service Area. The Full Service Network includes Digital TV, HDTV, DVR, Broadband Service, Point to Point Fiber service, Security Service, and Local and Long Distance Telephone Service.

The Full Service Network upgrade is being financed by a Master Credit Agreement with a credit line of $29.5 million dollars. Security for this financing is the Cable Plant exclusively and repayment will be from Cable revenues only. The Board began repaying funds borrowed under the Master Credit Agreement in Fiscal Year 2005-06 in accordance with the agreement. The Electric and Water facilities and finances are specifically excluded as security in the Master Credit Agreement. In Fiscal Year 2007, the Board decided to refinance the five FSN notes to extend maturities in order to reduce principal payments and increase short-term cash flow. This was in response to increasing interest rates and pension expenses. These changes will enable the Cable Department to maintain the required minimum reserve as established by the Board while still funding the Capital Additions necessary to maintain and improve the Cable System. In addition to changing the maturities, the amendments on the FSN notes included an interest rate floor of 4.00% and a ceiling of 6.25%.

FINANCIAL HIGHLIGHTS

The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by $54,223,591 (equity). Of this amount, $46,215,207 is invested in Capital Assets, $1,316,121 is restricted for Debt Retirement, $407,901 is restricted for Retirement Plans, and $6,284,362 is unrestricted.

The Board's equity (net assets) increased $2,796,277 during the current fiscal year. The major changes from the prior year included: Sales to customers increased $1,988,492, Capital Contributions increased $1,871,785, and Electric Fuel Adjustment Expense increased $1,297,775.

Revenues
Gross income from sales, and other sources, was $70,875,474 for FY08. This represents an increase of $3,871,830, or 5.78% from FY07. The major increases were attributable to Electric Revenue $264,863, Basic Cable Revenue $489,151, Digital Basic Revenue $279,998, HSDS Revenue $652,915, Local Phone Revenue $375,213, and Capital Contributions $1,871,786. All three divisions of FPB performed work on the state US 421 road project, bringing in more than $1m for Capital Contributions.

Expenses
Total expenses were $68,079,197 for FY08. This represents an increase of $3,499,095, or 5.42% from FY07. The major increases were attributable to Station Expenses $700,000, Power Costs $1,460,246, Water Treatment Expenses $229,830, Employee Welfare Expense $203,699, and Pension Expense $354,779.

Operating Expenses generally refer to the ordinary and necessary business expenses incurred in the day-to-day operation of the Utility. Broad categories of these expenses are classified as "Operations and Maintenance", "Engineering", "Support Services", "Office", "Administrative", "General", and "Employee Benefits". They include such things as system maintenance, fleet maintenance, office supplies, customer service, fringe benefits, billing and accounting. These are current period expenses, which are not otherwise capitalized as part of a construction project having a service life greater than one year. The term Operating Expense does not include Interest Expense, which relates to financing decisions.

OVERVIEW OF THE FINANCIAL STATEMENTS

FPB's Financial Statements are comprised of two components:

- Financial Statements; and
- "Notes" to the Financial Statements.

Included as part of the Financial Statements are three different types (and names) of statements and their respective Notes.

The Three Financial Statement Types:

1. The "Balance Sheet" presents information on FPB's assets and liabilities, with the difference between the two reported as Equity (which is also known in the Accounting profession as "Net Assets"). Over time, increases and decreases in Equity may serve as a useful indicator of whether the financial condition of FPB is improving or deteriorating.

2. The "Statement of Revenues, Expenses, and Changes in Net Assets" presents information showing how FPB's Equity changed between FY07 and FY08. Results of FPB's "operations are reported as the underlying events occur, regardless of the timing of cash flows." This means that FPB's revenues and its expenses are reported in the Financial Statements for some items that will result in cash flows (positive or negative) in some future year, but not this one. For example, take Accounts Payable and Accounts Receivable. Customers owed FPB money as of June 30, 2008. This was reported as income in FY08 but the cash will not be realized until the next fiscal year. On a similar note, FPB owed money to Kentucky Utilities as of June 30, 2008. This was reported as expense in FY08 but the cash will not be expended until the next fiscal year. This is called the "accrual" basis if accounting and is further explained in Note A.

   In contrast, most of us personally use the "cash" basis of accounting for our tax returns and our own personal finances. We include and deduct the money as we actually receive or disburse it.

3. The "Statement of Cash Flows" presents the cash flow changes occurring during the FY08 and FY07 in "highly liquid" cash and investments, including certain restricted cash accounts or cash-like assets. "Highly liquid" means it is, or can quickly be, turned into useable cash.

Notes to the Financial Statements:

The "Notes to the Financial Statements" provide additional information that is essential for a full and complete understanding of the information provided in the Financial Statements. The Notes to these Financial Statements can be found on pages 10 to 16 of this report.

FINANCIAL ANALYSIS

Assets
FPB's Total Assets increased $891,972 over FY07. The major changes in Assets, as reported on the Audit, were in "Cash", "Investments", "Inventory", "Insurance Escrow Account" and "Property, Plant, and Equipment" net of Accumulated Depreciation. Maintaining the inventory needed for the ongoing demand for our various Cable Services resulted in a higher Inventory balance at the end of FY08. Fully funding the Self-Insurance Fund accounted for a higher balance in this account. Property, Plant, and Equipment increased due to the ongoing subdivision growth and continued investment in our systems.

Liabilities
FPB's Total Liabilities decreased $1,904,305 from FY07. The Audit Report indicates that the major change was in "Bonds Payable". The decrease in Bonds Payable is due to no additional borrowing, increased principal payments on the FSN notes, and the continued repayment of the existing Water Bonds. The $1.85 million water BAN was renewed in FY07 for a term of 18 months, with the Board's intention being to roll this BAN into a new water bond issue in FY08 for the planned Water Treatment Facility upgrade. The Board has since secured alternate financing for the Water Treatment Facility and will reevaluate the status of the water BAN in FY09.

Net Assets
As noted earlier, FPB's assets exceeded its liabilities by $54,223,591 at the end of FY08. This represents an increase from FY07 of $2,796,277, and as noted earlier, increases or decreases in equity may, over time, serve as a useful indicator of FPB's financial position. The disclaimer comes from the fact that being "land rich and cash poor" is not beneficial if the company needs liquidity for cash flow. On the other hand, if you have sufficient cash flow, "investing" in your electric, water, and cable systems (maintaining, expanding, replacing, upgrading, etc.) or land, is a good and prudent business practice.

A portion of FPB's Net Assets, $46,215,207, or 85%, reflect it's investment in "Capital Assets", such as transmission and distribution facilities, less any related debt used to acquire such assets that remained outstanding as of the end of FY08. FPB uses these Capital Assets to provided services to its owners/customers; consequently, these assets are not available for spending. Resources needed to repay the outstanding debt shown on the Balance Sheet must come from other sources, such as sales of water and cable services, since, obviously, the Capital Assets themselves cannot be used to pay such "long-term" liabilities.

The “unrestricted” portion of FPB’s net assets is $6,284,362, or 12% of total Net Assets. This portion may be used to meet FPB’s ongoing obligations to creditors and owners/customers.

An additional portion of FPB’s Equity, $1,724,022, or 3%, represents resources that are subject to external restrictions on how they are used. $1,316,121 is reserved for debt repayment and $407,901 is reserved for retirement benefits for those few employees whom opted out of the CERS retirement plan.

CAPITAL ASSETS

FPB’s investments in capital assets as of June 30, 2008 amounted to $85,387,318 (net of accumulated depreciation). This includes investment in transmission and distribution related infrastructure, as well as general items such as office equipment, vehicles, etc. Major capital assets events during the current fiscal year included:

Electric
*SCADA addition and two breaker replacements at Ridgeview Substation
*Overall general distribution system improvements

Water
*US 421
*Wet Well Project @ WTP
*Hoist Replacement @ WTP
*New Subdivision development

Cable
*Completion of two Dark Fiber rings for use by State Government
*DCTs for Digital Cable/HD/DVR
*Headend Equipment improvements for transition to Digital Simulcast

General
*Savin 8065 Digital Copier/Printer (Downtown)
*John Deere Z-Track Mower
*Outsource programmers to develop new Customer Service and Billing System
*Fleet replacement (1 utility truck w/ crane & 1 pickup truck in the Electric Dept, 1 pickup truck in Electric Eng Dept, 1 pickup & 1 van in the Cable Dept, 2 pickups in the Meter Reading Dept, 1 pickup in Support Services Dept)

LONG-TERM DEBT

As of 6/30/08, FPB had long term bonded water debt outstanding of $9,465,000. This is debt backed by the electric and water revenues of FPB (revenue bonds). No changes occurred in this bonded debt other than the regularly scheduled principal payment of $550,000.

As of 6/30/08, FPB had a long term bond outstanding for the Consolidated acquisition of $894,622. This is debt backed by the cable system. No changes occurred in this bonded debt other than the regularly scheduled principal payments totaling $223,000.

As of 6/30/08, FPB had long term notes outstanding with Farmers Bank of $26,962,489. This is debt backed by the cable system. FPB made regularly scheduled principal payments totaling $1,500,000. The Board refinanced one of the five FSN notes in FY07 in order to extend the maturity from 2016 to 2022 and to establish a new floor of 4.00% and a new ceiling of 6.25%. The remaining three notes are scheduled to be refinanced during the next fiscal year.

As of 6/30/08, FPB had a long term bond anticipation note (BAN) outstanding for the Water Department of $1,850,000. This is debt backed by the electric and water revenues of FPB. The Board currently makes interest payments only on this BAN. The original BAN matured in February 2007 but, the Board decided to refinance this BAN for another 18 months with the intention of rolling this debt into a future bond issue for the Water Department.

BUDGET

Every year, the Board approves a 5-year budget for all operations of FPB. Revenues and Expenses are based on a five-year historical calculation (with some exceptions primarily in Cable) and current inflationary trends. There are major impacts to the Electric and Water operations due mainly to weather conditions, which cannot be accurately anticipated. The use of a 5-year historical period tends to result in an “average” year in growth, inflation, and prevailing weather conditions. It is a rare occurrence when “average” and actual coincide. Additionally, expenditures are divided between capital and expense items. When workflow calls for more expenditure on capital items than what was budgeted, expenses will typically be lower and net income will be higher but with no impact on reserves. The opposite is also true.

Increasing Fuel Adjustments passed through from KU resulted in higher than budgeted Electric Operating Revenues of $724,759. Capital Contributions came in at $331,463, or 12.76%, lower than the FY08 budget. Power Costs were $1,537,320 higher than budgeted due to higher Fuel Adjustments (.61% actual vs. .35% budget). Overall, the Electric Department had a net loss $1,576,374 unfavorable to what was budgeted.

Decreased sales resulted in lower than budgeted Water Operating Revenues of $400,275. The Water Distribution Department worked more time on maintenance projects than what was budgeted resulting in more charges to expense and lower charges to capital. Overall, the Water Department had net income $556,544 unfavorable to what was budgeted.

For the most part, weather conditions have little impact on the Cable operations. Cable Operating Revenues were $16,734 higher than budgeted. Basic Service Revenue was $240,497 favorable to budget due to an unbudgeted rate increase of $1.50 for the addition of the Disney and FSN channels to the lineup. Digital Basic Revenue was $240,343 favorable to budget due to higher than anticipated subscribers and the success of the HD service. Local Phone Revenue was unfavorable to budget $220,493 due to slower growth than anticipated. Dark Fiber Revenue was $203,460 under budget due to a delayed fiber ring project with the State. Total Cable expenses were $345,494 more than budgeted, primarily due to a shift in labor expenditures from capital to expense and due to the cost increase for Basic cable as a result of adding two unbudgeted channels. Total expenses that were allocated to the Cable department were favorable $457,276 as a result of lower spending in computer expenses, consulting fees, and FSN interest expense. Overall, the Cable Department had net income $51,702 favorable to what was budgeted.

THE FUTURE

Electric

Due to the rising costs of materials and pension expenses, reduced SEPA credit, general inflation, and maintaining minimum reserves as established by the Board, the Board anticipates the need for rate adjustments in the near future. The first increase is scheduled for the 08-09 fiscal year, one year sooner than what was anticipated in the last five-year plan.

The primary goals of the Electric Department for FY09 are to continue strengthening the transmission/distribution system for load-growth capacity, improved power quality and reliability. During FY09, the Electric Department will continue to perform upgrades of transmission lines and facilities, specifically breaker replacement at the receiving station and various KWH meter change outs and meeting new arc flash safety requirements. The Department will continue to add to and expand the distribution substations including SCADA functionality. This will give our system greater flexibility and redundancy. In FY09, voltage conversions from 8.3kV to 13.2 kV will continue to improve voltage quality and load capacity. A continuation of the combined 25% increase in spending on tree trimming and spray programs over the next two fiscal years is projected to reduce tree related outages by as much as 20%. Higher costs are expected to continue in material due to the large increases in steel, copper, aluminum and oil prices. The Electric Department does not forecast the addition of any employees over the next five years.

Water

Due to the rising costs of materials and pension expenses, general inflation, increased interest, principal, and debt service payments for a new KIA loan, and maintaining minimum reserves as established by the Board, the Board anticipates the need for rate adjustments in the very near future. The first rate increase is scheduled for May 09 for Wholesale customers (this rate was passed by the Board in FY08 but delayed by the rate case filed by the Wholesale water customers). This is a rate increase that was anticipated to generate revenues in FY07 and FY08 but did not materialize. A rate increase is also planned for all customers in Jan 10, with the county rate increase anticipated to be at a lower figure in an effort to balance city and county water rates. The final rate increase anticipated in the current five-year budget is Jan 12 for all water customers. The Water department will undergo a cost of service study in FY09 for FY08 and the plan is to conduct these studies every two years in order to maintain rates necessary for the operations of the department while trying to minimize the need for large increases at any one time. The January 10 increase to City customers is 6 months later than what was budgeted in the prior five-year plan while the January 12 increase was not included in the FY08 budget. The construction of a new Chemical Feed Facility will necessitate additional borrowing, as mentioned above, beginning in the next fiscal year with a 1.0% loan through the KIA. The Reservoir Lining Project may also require additional borrowing beginning in the next fiscal year. The Board does not anticipate any problems with implementing rate increases or borrowing.

The Water department will be focusing on developing a plan for the Reservoir, construction of the Chemical Feed Facility, and secondary water connection options in the upcoming year. Engineering for the Chemical Feed Facility is complete and construction of the project is slated to start in FY09 with the majority of construction taking place in FY10, and reaching completion in FY11. The Board will continue to evaluate options for a secondary potable water connection in order to address emergency and/or drought conditions. The Water Department does not anticipate any personnel changes over the next five years.

Cable Telecommunications

The Cable Telecommunications Department expects to complete several projects over the next fiscal year. Those projects include: the purchase of a soft-switch in the Telephone Division, the planning and execution of a digital simulcast of analog cable channels for the future "all-digital" cable television solution, the continuation of the node division project, the implementation of a limited rollout of a fiber-to-the-home extension in the Lewis Ferry Road area, begin the construction of a new Headend facility on the east side of the Kentucky River and to comply with Federal, State, and Company regulations.

The Board will add full-time installer in the Cable Division in FY09. The funds for this position will come from the reduction of overtime throughout the division. The goal is to not increase payroll expense but to better utilize staff in keeping pace with customer growth and demand for services.

New service offerings this fiscal year include the addition of digital and high definition programming to the cable lineup. The completion of the premium channel migration to digital receivers is expected to be completed by the end of 2008. This step will assist the department in freeing up valuable bandwidth as part of the digital simulcast requirement when digitizing analog channels. New broadband speeds of 12, 16 and 20 megabit will be introduced on a limited basis to those areas in the community where the node division project has been completed.

Rate increases are planned for expanded cable and premium channel programming to keep pace with the rising programming expenses. Broadband rates for the older 128, 256 and 512K speeds will increase for the first time since 2005 by $1 per month. The newer broadband speeds of 1, 2, 4 and 8 megabit will increase by $2 per month. These increases are needed to make improvements in the broadband network and to pay for increases in bandwidth expenses to third party carriers.

Administrative and General

Expenses for the Board's Self-Insurance plan have remained relatively stable over the last three fiscal years. In FY09, the Board has maintained the same budget for Self-Insurance as the previous two fiscal years, with a 3% increase each year thereafter, understanding that one illness and/or accident could result in significant increases. In order to provide somewhat of a "cushion" for fluctuating claims, the Board has decided to fund the Self-Insurance fund at the full budgeted amount each fiscal year, even if actual claims come in lower than anticipated. This is an attempt to keep unexpected high claims from taking a devastating toll on the Board's reserves.

The Board has experienced large increases in the employer contribution rate to KERS for employee pension. The rate went from 16.17% in FY08 to 15.58% in FY09, a .59% decrease. An amendment was later passed and the rate was reduced to 13.50%. Based on actuarial studies, rates are still expected to climb to 20.97% in five years. The increase is lower than what was calculated last year by 6.52%. This increase has been incorporated in the Board's current five-year plan.

Overall

The Board has decided to move in the direction of becoming a "greener" company. As a result, $50,000 has been earmarked for green projects in FY09. FPB will incorporate this directive into our constant mission of providing superior, reliable services to the community at the most reasonable prices possible.

Frankfort Electric & Water Plant Board
Comparative Statement of Net Assets
June 30, 2008 and 2007

Assets	2008	2007
Cash & Cash Equivalents	$ 4,530,267	$ 5,951,267
Investments	3,882,489	3,209,871
Accrued Interest Receivable	11,943	32,909
Receivables		
Billed user fees	7,326,728	7,514,479
Unbilled user fees	1,201,800	1,253,900
Advertising	171,984	236,492
Other	229,358	363,776
Inventory	4,986,454	4,509,868
Prepaid Expenses	592,682	611,048
Property, Plant, and Equipment	161,352,080	153,854,604
Less: Accumulated Depreciation	(75,964,762)	(70,068,702)
Cable Acquisition Cost	491,400	631,800
Unamortized Bond Discount	183,201	199,248
Insurance Escrow Account	224,294	36,789
Retirement Plan Assets:		
Cash and Cash Equivalents	33,867	27,966
Investments	374,005	370,503
Total Assets	$ 109,627,790	$ 108,735,818
Liabilities & Net Assets		
Liabilities		
Accounts and Other Payables	$ 12,409,063	$ 12,283,898
Accrued Expenses	1,002,761	970,381
Customer Deposits	2,162,677	2,012,113
Unearned Revenues	657,587	596,977
Bonds Payable Due in One Year	3,137,763	4,123,022
Long Term Debt:		
Bonds & Bond Anticipation Note Payable	36,034,348	37,322,113
Total Liabilities	55,404,199	57,308,504
Net Assets		
Investment in Capital Assets	46,215,207	42,340,767
Restricted for Debt Retirement	1,316,121	1,190,081
Restricted for Retirement Plans	407,901	398,493
Unrestricted	6,284,362	7,497,973
Total Net Assets	54,223,591	51,427,314
Total Liabilities & Net Assets	$ 109,627,790	$ 108,735,818

The accompanying notes are an integral part of these financial statements.

Frankfort Electric & Water Plant Board
Comparative Statement of Revenues, Expenses, and
Changes in Net Assets
For The Years Ended June 30, 2008 and 2007

Operating Revenues	2008	2007
Fees		
Electric	$ 41,060,752	$ 40,795,896
Water	7,632,125	7,479,360
Telecommunication	18,571,734	17,000,863
Total Operating Revenues	67,264,611	65,276,119
Operating Expenses		
Electric	42,232,269	40,800,193
Water	6,913,611	6,919,855
Telecommunication	16,641,565	14,471,319
Total Operating Expenses	65,787,445	62,191,367
Net Income From Operations	1,477,166	3,084,752
Non-Operating Revenues(Expenses)		
Net Merchandise Sale	35,900	12,784
Rental Revenue	9,951	9,000
Interest Revenue	189,805	214,148
Other Non-Operating Revenue	439,408	430,827
Interest Expense	(2,291,752)	(2,388,734)
Retirement Plan Net Income/(Loss)	9,408	6,160
Total Non-Operating Revenues (Expenses)	(1,607,280)	(1,715,815)
Income (Loss) Before Contributions	(130,114)	1,368,937
Capital Contributions	2,926,391	1,054,606
Change in Net Assets	2,796,277	2,423,543
Net Assets - Beginning of Year	51,427,314	49,003,771
Net Assets - End of Year	$ 54,223,591	$ 51,427,314

The accompanying notes are an integral part of these financial statements.

Frankfort Electric & Water Plant Board
Comparative Statement of Cash Flows
For The Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities:		
Cash Received from Users and Customers	$ 67,935,528	$ 65,444,839
Cash Received from Other Non-Operating Revenues	3,601,455	1,721,365
Cash Payments for Employee Services and Benefits	(12,922,642)	(12,148,012)
Cash Payments to Suppliers for Goods and Services	(47,090,625)	(43,970,381)
Cash Payments for Other Non-Operating Expenses	(2,282,344)	(2,382,574)
Cash Provided/(Used) by Operating Activities	9,241,372	8,665,237
Cash Flows from Investing Activities		
Purchases of Property, Plant & Equipment	(7,519,822)	(7,273,081)
Purchase of Securities	(676,120)	(879,033)
Cash Provided/(Used) by Capital and Related Financing Activities	(8,195,942)	(8,152,114)
Cash Flows from Financing Activities		
Long-Term Debt Proceeds		151,454
Payments on Bond/Note Indebtedness	(2,273,024)	(1,753,172)
Cash Provided/(Used) by Financing Activities	(2,273,024)	(1,601,718)
Increase/(Decrease) in Cash and Cash Equivalents	(1,227,594)	(1,088,595)
Cash and Cash Equivalents, Beginning of Year	6,016,022	7,104,617
Cash and Cash Equivalents, End of Year	$ 4,788,428	$ 6,016,022
Reconciliation of Operating Income/(Loss) to Net Cash Used by Operating Activities		
Operating Income/(Loss)	2,796,277	2,423,543
Adjustment to Reconcile Operating Income/(Loss) to Cash Provided/(Used) in Operating Activities		
Depreciation	5,918,407	5,626,955
Amortization	156,446	156,446
(Increase)/Decrease in Receivables	459,743	(996,778)
(Increase)/Decrease in Inventory	(476,586)	(703,216)
(Increase)/Decrease in Prepaid Expenses	18,366	(2,575)
Increase/(Decrease) in Accounts and Other Payables	125,165	1,961,078
Increase/(Decrease) in Accrued Expenses	32,380	31,064
Increase/(Decrease) in Customer Deposits	150,564	155,080
Increase/(Decrease) in Unearned Revenues	60,610	13,640
Cash Provided/(Used) by Operating Activities	$ 9,241,372	$ 8,665,237

The accompanying notes are an integral part of these financial statements.

Note A – Summary of Significant Accounting Policies

The Frankfort Electric and Water Plant Board was formed in April, 1943 through the acquisition by the City of Frankfort, of the entire capital stock of the Tri-City Utilities Company. The company was dissolved immediately after the acquisition of the capital stock. The properties and the operation of the combined electric and water system purchased were placed under the control of the Electric and Water Plant Board, which consists of five members appointed by the Mayor and approved by the City Commissioners. Since 1946 the Electric and Water Plant Board operates as an independent entity under the provisions of the Kentucky Revised Statutes 96.172 through 96.188. The Electric and Water Plant Board produces its own water supply and purchases electricity from the Kentucky Utilities Company. On January 1, 1988, the Electric and Water Plant Board acquired the assets and interests of Community Cable Services, Inc. Previously, the cable system was operated as an independent subsidiary of the Electric and Water Plant Board, and controlled by a separate Board of Directors. On January 1, 1989, the Electric and Water Plant Board assumed the ownership of the North Woodford Water District facilities in consideration for the assumption of its obligations and liabilities. The Kentucky Public Service Commission approved the acquisition on October 6, 1988. The Electric and Water Plant Board bills and collects sewer charges for the City of Frankfort and school tax for the local city and county school boards.

The financial statements of the Electric & Water Plant Board of the City of Frankfort have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Board are described below:

<u>The Reporting Entity</u>

The Electric and Water Plant Board is not considered a component unit of the City of Frankfort. The Electric and Water Plant Board operates under the provisions of the Kentucky Revised Statutes mentioned above. Additionally, the City of Frankfort does not exercise financial, budgetary, accounting or administrative controls over the Electric and Water Plant Board. Therefore, the financial statements of the Electric and Water Plant Board are not included in the financial statements of the City of Frankfort.

On July 1, 2002, the Board adopted the provisions of Governmental Accounting Standards Board Statement No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments."* Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

- *Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted net assets* – The component of net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

On July 1, 2002, the Board also adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* This statement requires that capital contributions to the Board be presented as a change in net assets.

The adoption of Statement No. 34 and Statement No. 33 affected the classification of net assets in accordance with the statements and the presentation of capital contributions as a change in net assets. The financial statements for the year ended June 30, 2002 were restated to reflect the adoption of Statement No. 34 and Statement No. 33.

<u>Fund Accounting</u>

The Electric and Water Plant Board is accounted for as an enterprise fund. Enterprise funds are used to account for operations (A) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (B) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Note A – Summary of Significant Accounting Policies (continued)

Property, Plant, Equipment, and Long-Term Liabilities

The accounting treatment applied to property, plant, equipment and long-term liabilities associated with a fund are determined by its measurement focus. Enterprise funds are accounted for on a cost of services or "Capital Maintenance" measurement focus. This means that all assets and liabilities associated with their activity are included on their balance sheets. All property, plant and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Depreciation is provided in the enterprise fund in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis. The service lives by type of assets are as follows:

Structure and Improvements	30 years
Electric Distribution Systems	30 years
Water Distribution Systems	50 years
Cable Distribution System	10 years
Furniture and Equipment	4-10 years

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

Enterprise funds are accounted for using the accrual basis of accounting. Revenues and the related assets are recognized when earned rather than when received. Expenses and the related liabilities are recognized when the obligation is incurred rather than when paid.

Electric and water fees are recorded as revenues when the customers are billed. Telecommunications fees are billed one month in advance, and therefore are recorded as unearned revenues when billed.

Budgets and Budgetary Accounting

The Electric and Water Plant Board follows these procedures in establishing budgetary data reflected in the financial statements:

1. Formal budgetary integration is employed as a management control device during the year for all funds
2. A statement of revenues, expenses and changes in retained earnings – budget and actual – is presented for analytical purposes in the supplemental information section of this report, and is not intended to be a financial statement presented in conformity with generally accepted accounting principles.
3. The Board of Directors of the Electric and Water Plant Board approves the budget of the Electric and Water Plant Board.
4. Unused appropriations of the annual budget lapse at the end of the years.
5. The budgeted amounts shown in the financial statements are the final authorized amounts as revised during the year.

Revenue Requirements

The Electric and Water Plant Board is regulated by Kentucky Revised Statute 96.182 concerning the application of revenues earned by the Board. The provisions of Kentucky Revised Statute 96.182 are as follows:

Subject to the provisions of outstanding bonds and contracts, the Board shall apply all funds derived from operations (1) to the payment of operating expenses, (2) to the payment of bond interest and retirement, (3) to sinking fund requirements, (4) to the maintenance of a fund to meet depreciation and the improvements and extension of the plant in an amount equal to six percent (6%) of the undepreciated book value of its property, (5) to the maintenance of a cash working fund equal to one (1) month's revenue, (6) to the payment of other obligations incurred in the operations and maintenance of the plant and the furnishings of service.

Purpose of Various Internal Funds

Operating Funds

(1) Water and Electric Revenue Fund
Chapter 96 of the Kentucky Revised Statutes provides that all revenues of the system shall be placed in this fund as collected. Distributions to other funds are made upon approval of the Electric and Water Plant Board in accordance with the requirements of each fund.

(2) Operations and Maintenance Fund
This fund was created for the purpose of paying expenses of operating and maintaining the combined water works, electric power, cable, and full service network systems. The amount necessary to meet these expenses is transferred to this fund as needed from the Revenue Fund accounts. Approval of expenditures from this fund is made by the Board upon presentation of request for reimbursement to this fund.

Restricted Funds

(1) Electric and Water Revenue Bonds and Interest Sinking Fund
This fund was established in accordance with Kentucky Revised Statute 96.182. It provides that a reserve is to be accumulated over a ten year period to equal the average annual interest and principal requirements for such then outstanding.

Note A – Summary of Significant Accounting Policies (continued)

Cash, Cash Equivalents and Investments
The Electric and Water Plant Board maintains a cash account for each of the internal funds described in Note A above. Additionally, some of these internal funds hold investments which are stated at cost. For the purpose of these financial statements, the Board considers all highly liquid investment vehicles with an original maturity of three months or less to be cash equivalents. Statutes require that financial institutions pledge approved securities to secure those funds on deposit in an amount equal to the amount of those funds. At the end of the fiscal year, the carrying amount of the Board's deposits and investments were $8,412,756. All deposits and investments were covered by federal depository insurance or by collateral held in the pledging institution's trust department in the Board's name.

The following is a chart categorizing the investments in order to give an indication of the level of risk assumed by the Board at June 30, 2008 and 2007. Category 1 includes investments that are insured or registered or for which the securities are held by the Board's custodial agent in the Board's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Board's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its department or agent, but not in the Board's name.

	2008 Category				
	1	2	3	Carrying Amount	Market Value
U.S. Government Securities	$ 3,780,081	$	$	$ 3,780,081	$ 3,780,081
Certificates of Deposit	102,408			102,408	102,408
	$ 3,882,489	$	$	$ 3,882,489	$ 3,882,489

	2007 Category				
	1	2	3	Carrying Amount	Market Value
U.S. Government Securities	$ 3,134,871	$	$	$ 3,134,871	$ 3,134,871
Certificates of Deposit	75,000			75,000	75,000
	$ 3,209,871	$	$	$ 3,209,871	$ 3,209,871

The Frankfort Electric and Water Plant Board Revised Retirement Plan records as cash and cash equivalents all highly liquid investment vehicles with an original maturity of three months or less.

Marketable securities are carried at cost including premiums and discounts on corporate bonds. The premiums and discounts are not material in relation to the investment taken as a whole. Therefore, premiums and discounts have not been amortized. All securities are held in trust by Farmers Bank & Capital Trust Company, Frankfort, Kentucky. Under the terms of the retirement plan, the trustee has the power to hold, invest, reinvest, purchase insurance on the lives of members, control, and disburse funds as at that time shall be set forth in the Trust Agreement.

The following is a chart categorizing the Retirement Plan's investment in order to give an indication of level of risk assumed by the Plan at June 30, 2008 and 2007. Category 1 includes investments that are insured or registered or for which the securities are held by the Plan's custodial agent in the Plan's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Plan's name. Shown in this category are investments with Farmers Bank & Capital Trust Co. which were acquired by the merger of Community Service's plan into the Plant Board plan. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Plan's Name.

	2008 Category				
	1	2	3	Carrying Amount	Market Value
U.S. Government Securities	$ 148,225	$	$	$ 148,225	$ 152,496
Corporate Bonds	150,020			150,020	136,273
Mutual Funds	75,760			75,760	74,554
	$ 374,005	$	$	$ 374,005	$ 363,323

	2007 Category				
	1	2	3	Carrying Amount	Market Value
U.S. Government Securities	$ 148,225	$	$	$ 148,225	$ 145,451
Corporate Bonds	150,020			150,020	143,415
Mutual Funds	72,258			72,258	69,587
	$ 370,503	$	$	$ 370,503	$ 358,453

Note A – Summary of Significant Accounting Policies (continued)

Inventory

Materials and supplies inventory are stated at lower of cost or market using average cost to determine unit cost on all items with the exception of chemicals.

Accumulated Compensated Absences

It is the Board's policy to permit employees to accumulate limited amounts of earned but unused vacation pay which will be paid to employees upon separation from the Board's service. In enterprise funds, the cost of vacation pay is accrued in the period in which it is earned.

Pension Plans

The Board became a member of the County Employees' Retirement System (CERS) on July 1, 1988. Eligible employees were enrolled in CERS on that date. Both employer and the employee contribute to this plan. The total estimated cost of entering the system as of July 1, 1988 was $2,989,322. The original plan for entering the system required annual payments for 24 years from funds available in the Electric and Water Plant Board Retirement Plan as follows:

$264,318 X 24 annual payments = $6,343,632

The Board made the required annual payments for the first nineteen years, and paid the remaining balance owed in 2007.

The retirees currently being paid benefits by the previously funded Electric and Water Plant Board Retirement Plan will continue to receive their monthly benefits from this retirement plan. The Board does not make any payments from the operating accounts.

Restrictions of Net Assets

	2008	2007
1) Revenue Bond Sinking Reserve	$ 1,136,121	$ 1,190,081
2) Retirement Plan Assets	407,901	398,493
Total Restricted Net Assets	$ 1,544,022	$ 1,588,574

Projects and Funding

Schedules of the bond principal and interest maturities of these bond issues are presented as supplemental information to this report.

General Obligation Bonded Debt Service

The Board maintains a bond interest redemption reserve fund for the retirement of bonded indebtedness. The transfer and reserve requirements of these funds have been described previously.

Comparative

Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Board's financial position and operations.

Allowance for Uncollectible Amounts

The Board records an allowance for doubtful accounts in the financial statements. The allowance for doubtful accounts at June 30, 2008 and 2007 was $23,100 and $25,300, respectively.

Note B – Property, Plant and Equipment

The following is a summary of the property, plant and equipment as of June 30, 2008 and 2007:

	2008		
	Cost	Accumulated Depreciation	Book Value
Water Distribution System	$ 36,752,831	$ 11,355,364	$ 25,397,467
Water Treatment Plant	11,551,407	5,370,138	6,181,269
Electric Distribution System	52,635,604	27,419,670	25,215,934
Structures and Improvements	2,423,035	1,457,064	965,971
Transportation Equipment	4,146,936	2,975,901	1,171,035
Office Furniture and Equipment	6,773,307	5,242,141	1,531,166
Tools, Shop Garage and Store Equipment	419,794	388,622	31,172
Laboratory Equipment	52,192	51,628	564
Power Operated Equipment	2,010,567	1,755,185	255,382
Communication Equipment	347,292	238,073	109,219
Miscellaneous Equipment	705,310	648,117	57,193
Cable Division Assets	41,792,240	18,878,258	22,913,982
Land and Land Rights	585,848		585,848
Computer Equipment	1,155,717	184,601	971,116
Total Property, Plant and Equipment	$ 161,352,080	$ 75,964,762	$ 85,387,318

	2007		
	Cost	Accumulated Depreciation	Book Value
Water Distribution System	$ 34,717,954	$ 10,661,411	$ 24,056,543
Water Treatment Plant	11,144,426	5,142,660	6,001,766
Electric Distribution System	51,176,530	26,123,318	25,053,212
Structures and Improvements	2,492,411	1,345,046	1,147,365
Transportation Equipment	3,985,276	2,732,564	1,252,712
Office Furniture and Equipment	6,736,812	4,808,600	1,928,212
Tools, Shop Garage and Store Equipment	416,803	380,383	36,420
Laboratory Equipment	52,192	51,113	1,079
Power Operated Equipment	1,992,407	1,649,027	343,380
Communication Equipment	347,292	215,151	132,141
Miscellaneous Equipment	670,229	508,443	161,786
Cable Division Assets	39,150,864	16,405,715	22,745,149
Land and Land Rights	458,881		458,881
Computer Equipment	512,527	45,271	467,256
Total Property, Plant and Equipment	$ 153,854,604	$ 70,068,702	$ 83,785,902

Note C – Bonds Payable

The annual requirements to retire bonded debt as of June 30, 2008 and 2007 are as follows:

June 30,	2008 Principal
2009	$ 4,987,763
2010	3,842,239
2011	3,854,607
2012	3,854,202
2013	3,736,374
Thereafter	18,896,926
Total	$ 39,172,111

June 30,	2007 Principal
2008	$ 4,123,022
2009	3,316,778
2010	4,086,382
2011	4,256,887
2012	4,339,575
Thereafter	21,322,491
Total	$ 41,445,135

From July 1, 1998 to June 30, 2007 the Plant Board entered into bond anticipation notes with Farmers Bank and Capital Trust Company. The purpose of these notes was to enable the Plant Board to work on capital additions for the Full Service Network. The balance of the bond anticipation notes at June 30, 2008 totaled $26,962,491 and at June 30, 2007, the notes totaled $29,061,064. This amount is included in long-term debt.

In 2006, the Plant Board entered into a bond anticipation note with the Republic Bank for a water project in the amount of $1,850,000. All funds were drawn and used in the project and the Plant Board is currently making interest-only payments on the debt.

Note D – Insurance Escrow Account

The insurance escrow account is a liability set up to account for the possibility of future insurance claims.

Note E – Frankfort Plant Board Municipal Projects Corporation

In October of 1999, the Board of Directors of the Electric and Water Plant Board formed the Frankfort Plant Board Municipal Projects Corporation with the purpose of authorizing and approving the initial financing of the costs of the new improvements to and expansions of the Municipal Cable Television of the Plant Board. The initial financing amounted to $4,130,000 by means of a lease between the Corporation, as lessor, and the Plant Board, as lessee. The Corporation will provide the lease for the cable system, as improved and expended, to the Plant Board, and authorize the assignment of the Corporation's rights and interests under the lease to the Farmers Bank & Capital Trust Company.

This authorization is accomplished by means of an instrument of assignment from the Corporation to the bank as assignee in consideration of the bank's advance of assignment proceeds sufficient to pay the costs of improving and financing the system. All accounting for capital costs, lease costs, and bank indebtedness are shown as a part of these financial statements.

Note F – Retirement Plans

All employees are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers' retirement system established under the provisions of Kentucky Revised Statute Section 61.645. Funding for the plan is provided through payroll withholdings of 5.00% and a Board contribution of 16.17% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was $10,067,080. The contribution requirement for CERS for the year ended June 30, 2008 was $2,106,963 which consisted of $1,598,848 from the Board and $508,115 from the employees. Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

Note F – Retirement Plans (continued)

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Note G – Deferred Compensation

Eligible employees can participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax-sheltered supplemental retirement plans for all state employees, public school and university employees, and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plan is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. A copy of this report may be requested by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 100, Frankfort, Kentucky 40601-8862, or by telephone at (502) 573-7925.

Electric & Water Plant Board
Of The City Of Frankfort, Kentucky

Supplemental Information

Assets	Electric & Water	Telecommunication	Total
Cash & Cash Equivalents	$ 7,426,103	$ 986,653	$ 8,412,756
Accrued Interest Receivable	8,949	2,994	11,943
Receivables			
Billed user fees	5,491,736	1,834,992	7,326,728
Unbilled user fees	1,201,800		1,201,800
Advertising		171,984	171,984
Other	215,998	13,360	229,358
Inventory	4,081,204	905,250	4,986,454
Prepaid Expenses	412,418	180,264	592,682
Property, Plant, and Equipment	113,729,786	47,622,294	161,352,080
Less: Accumulated Depreciation	(53,010,744)	(22,954,018)	(75,964,762)
Cable Acquisition Cost		491,400	491,400
Unamortized Bond Discount	183,201		183,201
Insurance Escrow Account	117,487	106,807	224,294
Retirement Plan Assets:			
Cash and Cash Equivalents	33,867		33,867
Investments	374,005		374,005
Total Assets	$ 80,265,810	$ 29,361,980	$ 109,627,790
Liabilities & Net Assets			
Liabilities			
Accounts and Other Payables	$ 11,044,640	$ 1,364,423	$ 12,409,063
Accrued Expenses	588,699	414,062	1,002,761
Customer Deposits	2,131,909	30,768	2,162,677
Unearned Revenues		657,587	657,587
Bonds Payable Due in One Year	580,000	2,557,763	3,137,763
Long Term Debt:			
Bonds & Bond Anticipation Note Payable	10,735,000	25,299,348	36,034,348
Total Liabilities	25,080,248	30,323,951	55,404,199
Ne Assets			
Net Assets	55,185,562	(961,971)	54,223,591
Total Net Assets	55,185,562	(961,971)	54,223,591
Total Liabilities & Net Assets	$ 80,265,810	$ 29,361,980	$ 109,627,790

The accompanying notes are an integral part of these financial statements.

Frankfort Electric and Water Plant Board
Statement of Revenues, Expenses and Changes In
Net Assets - Budget and Actual
For The Year Ended June 30, 2008

Operating Revenues	Budgeted	Actual	Variable Favorable (Unfavorable)
Fees			
Electric	$ 40,336,000	$ 41,060,752	$ 724,752
Water	8,032,400	7,632,125	(400,275)
Telecommunication	18,555,000	18,571,734	16,734
Total Operating Revenues	66,923,400	67,264,611	341,211
Operating Expenses			
Electric	40,280,064	42,232,269	(1,952,205)
Water	6,735,608	6,913,611	(178,003)
Telecommunication	16,516,028	16,641,565	(125,537)
Total Operating Expenses	63,531,700	65,787,445	(2,255,745)
Operating Income	3,391,700	1,477,166	(1,914,534)
Non-Operating Revenues(Expenses)			
Net Merchandise Sale	15,800	35,900	20,100
Rental Revenue	9,500	9,951	451
Interest Revenue	183,700	189,805	6,105
Other Non-Operating Revenue	400,000	439,408	39,408
Interest Expense	(2,477,500)	(2,291,752)	185,748
Retirement Plan Net Income/(Loss)		9,408	9,408
Total Non-Operating Revenues (Expenses)	(1,868,500)	(1,607,280)	261,220
Income (Loss) Before Contributions	1,523,200	(130,114)	(1,653,314)
Capital Contributions	3,354,300	2,926,391	(427,909)
Change in Net Assets	4,877,500	2,796,277	(2,081,223)
Net Assets - Beginning of Year	51,427,314	51,427,314	
Net Assets - End of Year	$ 56,304,814	$ 54,223,591	$ (2,081,223)

The accompanying notes are an integral part of these financial statements.

Frankfort Electric and Water Plant Board
Statement of Revenues and Expenses
Electric, Water, and Telecommunications Divisions
For The Year Ended June 30, 2008

Operating Income	Electric Division	Water Division	Telecommunication Division
User Fees	$ 41,060,752	$ 7,632,125	$ 17,799,655
Advertising Revenue			772,079
Total Operating Revenues	41,060,752	7,632,125	18,571,734
Operating Expenses	42,232,269	6,913,611	16,641,565
Net Operating Income	(1,171,517)	718,514	1,930,169
Non-Operating Revenues (Expenses)			
Net Merchandise Sales	9,914	7,373	18,613
Rental Revenues	2,744	2,044	5,163
Interest Revenues	62,154	80,551	47,100
Other Non-Operating Revenues	143,311	153,997	142,100
Interest Expense	(71,821)	(626,416)	(1,593,515)
Retirement Plan Net Income/(Loss)	4,704	4,704	
Total Non-Operating Revenues (Expenses)	151,006	(377,747)	(1,380,539)
Change in Net Assets	$ (1,020,511)	$ 340,767	$ 549,630

The accompanying notes are an integral part of these financial statements.

Frankfort Electric and Water Plant Board
Detail Schedule of Budgeted and Actual Operating Expenses
Electric, Water, and Telecommunication Divisions
For The Year Ended June 30, 2008

Electric Division	Budgeted	Actual	Variance Favorable (Unfavorable)
Electricity Purchased	$ 33,209,500	$ 34,746,820	$ (1,537,320)
Transmission and Distribution	1,789,600	2,046,915	(257,315)
Engineering	245,500	221,261	24,239
Total Electric Expense	35,244,600	37,014,996	(1,770,396)
Meter Reading	221,702	224,831	(3,129)
Customer Records and Collection	245,086	230,214	14,872
Postage and Printing	51,019	45,538	5,481
Over and Short	28	79	(51)
Office Supplies	10,728	11,905	(1,177)
Bad Debts	76,913	144,147	(67,234)
GIS Expenses	15,168	12,692	2,476
CIS Expenses	74,736	35,345	39,391
Computer Expenses	35,851	42,907	(7,056)
Information Technologies Payroll	145,778	127,994	17,784
Total Office Expenses	877,009	875,652	1,357
Advertising	6,895	5,892	1,003
Administrative Expenses	269,052	266,159	2,893
Clearing Account		291	(291)
Dues & Subscriptions	19,045	40,077	(21,032)
Safety	9,164	9,651	(487)
Travel and Training	65,523	46,899	18,624
Board Expenses	1,682	1,558	124
Social Security Expense	208,729	205,087	3,642
Legal and Consulting Fees	75,525	82,333	(6,808)
Insurance	286,075	284,960	1,115
Total Administrative Expenses	941,690	942,907	(1,217)
Vacation Benefits	138,175	158,052	(19,877)
Sick Benefits	73,724	75,303	(1,579)
Employees Welfare	485,378	482,393	2,985
Clubhouse Expense	1,932	4,445	(2,513)
Employee Activity	10,765	8,299	2,466
Employee Assistance	1,270	681	589
Pension Expense	462,552	454,917	7,635
Total Employee Benefits Expenses	1,173,796	1,184,090	(10,294)
General Expenses	3,447	6,622	(3,175)
Maintenance	6,895	9,548	(2,653)
Depreciation	1,484,573	1,639,346	(154,773)
In-lieu of Tax City	47,800	38,210	9,590
In-lieu of Tax County	23,326	17,590	5,736
Cash Contributions to City	16,023	16,022	1
Total General Expenses	1,582,064	1,727,338	(145,274)
Support Services	151,542	144,637	6,905
Inventory Adjustments		24,011	(24,011)
Cost of Sales Clearing		6,134	(6,134)
Auto and Truck Repair	170,872	150,375	20,497
Gas and Oil	138,491	162,129	(23,638)
Total Support Services	460,905	487,286	(26,381)
Total Operating Expenses - Electric Division	$ 40,280,064	$ 42,232,269	$ (1,952,205)

The accompanying notes are an integral part of these financial statements.

Water Division	Budgeted	Actual	Variance Favorable (Unfavorable)
Distributions and Treatment	$ 2,404,500	$ 2,562,095	$ (157,595)
Engineering	228,900	226,768	2,132
Total Water Department Expense	2,633,400	2,788,863	(155,463)
Meter Reading	165,198	166,967	(1,769)
Customer Records and Collection	182,622	171,534	11,088
Postage and Printing	38,016	34,800	3,216
Over and Short	21	59	(38)
Office Supplies	7,994	8,613	(619)
Bad Debts	14,367	26,922	(12,555)
GIS Expenses	11,302	9,457	1,845
CIS Expenses	55,689	26,336	29,353
Computer Expenses	26,714	31,866	(5,152)
Information Technologies Payroll	108,624	95,369	13,255
Total Office Expenses	610,547	571,923	38,624
Advertising	5,137	2,401	2,736
Administrative Expenses	200,479	197,600	2,879
Clearing Account		217	(217)
Dues & Subscriptions	19,982	11,259	8,723
Safety	9,614	10,075	(461)
Travel and Training	59,008	41,911	17,097
Board Expenses	1,254	1,160	94
Social Security Expense	209,959	207,798	2,161
Legal and Consulting Fees	61,687	41,501	20,186
Insurance	248,273	247,306	967
Total Administrative Expenses	815,393	761,228	54,165
Vacation Benefits	144,970	168,434	(23,464)
Sick Benefits	77,350	59,748	17,602
Employees Welfare	509,249	502,926	6,323
Clubhouse Expense	2,027	4,664	(2,637)
Employee Activity	11,294	8,461	2,833
Employee Assistance	1,332	714	618
Pension Expense	467,282	462,281	5,001
Total Employee Benefits Expenses	1,213,504	1,207,228	6,276
General Expenses	2,569	4,875	(2,306)
Maintenance	5,137	7,310	(2,173)
Depreciation & Amortization	1,073,072	1,156,517	(83,445)
In-lieu of Tax City	39,188	31,326	7,862
In-lieu of Tax County	19,124	14,420	4,704
Cash Contributions to City	2,993	2,992	1
Total General Expenses	1,142,083	1,217,440	(75,357)
Support Services	112,919	107,770	5,149
Inventory Adjustments		11,876	(11,876)
Cost of Sales Clearing		4,570	(4,570)
Auto and Truck Repair	114,754	133,775	(19,021)
Gas and Oil	93,008	108,938	(15,930)
Total Support Services	320,681	366,929	(46,248)
Total Operating Expenses - Water Division	$ 6,735,608	$ 6,913,611	$ (178,003)

The accompanying notes are an integral part of these financial statements.

Telecommunication Division	Budgeted	Actual	Variable Favorable (Unfavorable)
Operations & Maintenance	$ 642,300	$ 811,615	$ (169,315)
Distribution	310,000	314,320	(4,320)
HBO Expense	453,700	437,902	15,798
TMC Expense	30,700	31,137	(437)
Showtime Expense	80,400	80,246	154
Cinemax Expense	54,000	52,484	1,516
Encore Expense	2,700	3,385	(685)
Starz/Encore Expense	96,000	78,187	17,813
Digital Music Expense	3,900	3,302	598
Satellite Station Expense	3,120,200	3,373,577	(253,377)
Pole Rental Expense	56,000	28,828	27,172
Digital Station Expense	447,500	400,923	46,577
High Definition TV Expense	70,900	95,533	(24,633)
Pay per View Expense	8,400	35,571	(27,171)
Royalty Copyright Expense	65,000	75,440	(10,440)
Total Operations & Maintenance	5,441,700	5,822,450	(380,750)
Cable 10 Payroll	455,000	441,780	13,220
Cable 10 Expense	55,000	42,268	12,732
Ad Insertion Expenses	87,000	55,757	31,243
Marketing Expenses	75,000	68,560	6,440
Total Cable 10 Expenses	672,000	608,365	63,635
FSN Payroll	765,200	762,087	3,113
FSN Expense	1,250,000	1,292,403	(42,403)
Access Billing Expense	40,000	24,309	15,691
Security Expense	63,000	67,771	(4,771)
Total Cable FSN Expenses	2,118,200	2,146,570	(28,370)
Engineering Expense	2,000	1,287	713
Engineering Payroll	150,000	117,865	32,135
Total Cable Engineering Expense	152,000	119,152	32,848
Total Cable Expenses	8,383,900	8,696,537	(312,637)
Customer Records and Collection Expense	460,993	433,061	27,932
Postage and Printing	95,964	91,794	4,170
Over and Short	52	149	(97)
Office Supplies	20,178	23,314	(3,136)
Bad Debts	28,721	53,844	(25,123)
GIS Expenses	28,530	23,870	4,660
CIS Expenses	140,575	66,475	74,100
Computer Expenses	67,434	81,411	(13,977)
Information Technologies Payroll	274,199	240,721	33,478
Total Office Expenses	1,116,646	1,014,639	102,007

Telecommunication Division (continued)			
Advertising	12,968	8,551	4,417
Administrative Expense	506,070	499,282	6,788
Clearing Account		549	(549)
Dues & Subscriptions	29,973	6,868	23,105
Safety	14,422	16,315	(1,893)
Travel and Training	109,769	68,866	40,903
Board Expenses	3,164	2,930	234
Social Security Expense	313,713	305,585	8,128
Legal and Consulting Fees	138,188	48,465	89,723
Insurance	334,652	333,348	1,304
Total Administrative Expenses	1,462,919	1,290,759	172,160
Vacation Benefits	217,455	205,608	11,847
Sick Benefits	116,025	102,290	13,735
Employees Welfare	763,874	752,776	11,098
Clubhouse Expense	3,041	6,996	(3,955)
Employee Activity	16,941	12,078	4,863
Employee Assistance	1,998	1,072	926
Pension Expense	698,365	682,293	16,072
Total Employee Benefits Expenses	1,817,699	1,763,113	54,586
General Expenses	6,484	15,222	(8,738)
Maintenance	12,968	19,687	(6,719)
Amortization of Goodwill	140,400	140,400	
Depreciation	3,024,155	3,138,590	(114,435)
In-lieu of Tax City	38,013	39,470	(1,457)
In-lieu of Tax County	18,550	13,988	4,562
Cash Contributions to City	5,983	5,985	(2)
Total General Expenses	3,246,553	3,373,342	(126,789)
Support Services Expense	48,242	42,606	5,636
Support Services Payroll	236,799	229,416	7,383
Inventory Adjustments		13,825	(13,825)
Cost of Sales Clearing		11,536	(11,536)
Auto and Truck Repair Expense	55,869	43,290	12,579
Auto and Truck Repair Payroll	56,405	56,660	(255)
Gas and Oil	90,996	105,842	(14,846)
Total Support Services Expense	488,311	503,175	(14,864)
Total Operating Expenses - Telecommunication Division	$ 16,516,028	$ 16,641,565	$ (125,537)

The accompanying notes are an integral part of these financial statements.

Frankfort Electric and Water Plant Board
Comparative Operating Expenses
Electric, Water and Telecommunication Divisions
For The Years Ended June 30, 2008 and 2007

Electric Division	2008	2007
Electricity Purchased	$ 34,746,820	$ 33,286,574
Transmission and Distribution	2,046,915	1,985,928
Engineering	221,261	256,919
Total Electric Expense	37,014,996	35,529,421
Meter Reading	224,831	220,118
Customer Records and Collection	230,214	285,302
Postage and Printing	45,538	53,868
Over and Short	79	(129)
Office Supplies	11,905	14,693
Bad Debts	144,147	112,117
GIS Expenses	12,692	10,347
CIS Expenses	35,345	55,736
Computer Expenses	42,907	27,095
Information Technologies Payroll	127,994	170,055
Total Office Expenses	875,652	949,202
Advertising	5,892	4,172
Administrative Expenses	266,159	337,985
Clearing Account	291	954
Dues & Subscriptions	40,077	39,017
Safety	9,651	8,430
Travel and Training	46,899	72,404
Board Expenses	1,558	2,018
Social Security Expense	205,087	218,893
Legal and Consulting Fees	82,333	75,876
Insurance	284,960	310,136
Total Administrative Expenses	942,907	1,069,885
Vacation Benefits	158,052	150,227
Sick Benefits	75,303	92,559
Employees Welfare	482,393	403,732
Clubhouse Expense	4,445	2,380
Employee Activity	8,299	11,199
Employee Assistance	681	648
Pension Expense	454,917	326,986
Total Employee Benefits Expenses	1,184,090	987,731
General Expenses	6,622	5,704
Maintenance	9,548	13,948
Depreciation	1,639,346	1,681,608
In-lieu of Tax City	38,210	42,283
In-lieu of Tax County	17,590	17,843
Cash Contributions to City	16,022	15,749
Total General Expenses	1,727,338	1,777,135
Support Services	144,637	189,931
Inventory Adjustments	24,011	(11,812)
Cost of Sales Clearing	6,134	1,391
Auto and Truck Repair	150,375	160,488
Gas and Oil	162,129	146,821
Total Support Services	487,286	486,819
Total Operating Expenses - Electric Division	$ 42,232,269	$ 40,800,193

The accompanying notes are an integral part of these financial statements.

Frankfort Electric and Water Plant Board
Comparative Operating Expenses
Electric, Water and Telecommunication Divisions
For The Years Ended June 30, 2008 and 2007

Water Division	2008	2007
Distributions and Treatment	$ 2,562,095	$ 2,545,270
Engineering	226,768	194,651
Total Water Department Expense	2,788,863	2,739,921
Meter Reading	166,967	162,230
Customer Records and Collection	171,534	209,906
Postage and Printing	34,800	39,959
Over and Short	59	(95)
Office Supplies	8,613	11,027
Bad Debts	26,922	22,423
GIS Expenses	9,457	7,628
CIS Expenses	26,336	41,086
Computer Expenses	31,866	19,973
Information Technologies Payroll	95,369	125,358
Total Office Expenses	571,923	639,495
Advertising	2,401	6,883
Administrative Expenses	197,600	250,270
Clearing Account	217	648
Dues & Subscriptions	11,259	11,578
Safety	10,075	9,316
Travel and Training	41,911	40,861
Board Expenses	1,160	1,488
Social Security Expense	207,798	199,873
Legal and Consulting Fees	41,501	43,293
Insurance	247,306	269,440
Total Administrative Expenses	761,228	833,650
Vacation Benefits	168,434	148,510
Sick Benefits	59,748	95,731
Employees Welfare	502,926	446,150
Clubhouse Expense	4,664	2,630
Employee Activity	8,461	11,106
Employee Assistance	714	716
Pension Expense	462,281	361,340
Total Employee Benefits Expenses	1,207,228	1,066,183
General Expenses	4,875	4,205
Maintenance	7,310	10,282
Depreciation & Amortization	1,156,517	1,227,707
In-lieu of Tax City	31,326	34,457
In-lieu of Tax County	14,420	14,540
Cash Contributions to City	2,992	3,150
Total General Expenses	1,217,440	1,294,341
Support Services	107,770	139,770
Inventory Adjustments	11,876	(3,864)
Cost of Sales Clearing	4,570	1,025
Auto and Truck Repair	133,775	109,005
Gas and Oil	108,938	100,329
Total Support Services	366,929	346,265
Total Operating Expenses - Water Division	$ 6,913,611	$ 6,919,855

The accompanying notes are an integral part of these financial statements.

Telecommunication Division	2008	2007
Operations & Maintenance	$ 811,615	$ 740,398
Distribution	314,320	372,937
HBO Expense	437,902	443,626
TMC Expense	31,137	31,349
Showtime Expense	80,246	79,295
Cinemax Expense	52,484	51,931
Encore Expense	3,385	3,806
Starz/Encore Expense	78,187	47,669
Digital Music Expense	3,302	3,809
Satellite Station Expense	3,373,577	2,865,377
Pole Rental Expense	28,828	28,731
Digital Station Expense	400,923	288,517
High Definition TV Expense	95,533	43,616
Pay per View Expense	35,571	33,252
Royalty Copyright Expense	75,440	60,694
Total Operations & Maintenance	5,822,450	5,095,007
Cable 10 Payroll	441,780	435,645
Cable 10 Expense	42,268	49,532
Ad Insertion Expenses	55,757	52,261
Marketing Expenses	68,560	57,477
Total Cable 10 Expenses	608,365	594,915
FSN Payroll	762,087	752,848
FSN Expense	1,292,403	1,152,677
Access Billing Expense	24,309	38,820
Security Expense	67,771	58,916
Total Cable FSN Expenses	2,146,570	2,003,261
Engineering Expense	1,287	221
Engineering Payroll	117,865	123,850
Total Cable Engineering Expense	119,152	124,071
Total Cable Expenses	8,696,537	7,817,254
Customer Records and Collection Expense	433,061	295,664
Postage and Printing	91,794	57,792
Over and Short	149	(134)
Office Supplies	23,314	15,210
Bad Debts	53,844	43,423
GIS Expenses	23,870	10,744
CIS Expenses	66,475	57,871
Computer Expenses	81,411	28,133
Information Technologies Payroll	240,721	176,569
Total Office Expenses	1,014,639	685,272

Frankfort Electric and Water Plant Board
Comparative Operating Expenses
Electric, Water and Telecommunication Divisions
For The Years Ended June 30, 2008 and 2007

Telecommunication Division (continued)	2008	2007
Advertising	8,551	5,300
Administrative Expense	499,282	351,460
Clearing Account	549	913
Dues & Subscriptions	6,868	6,842
Safety	16,315	14,345
Travel and Training	68,866	62,737
Board Expenses	2,930	2,096
Social Security Expense	305,585	272,838
Legal and Consulting Fees	48,465	57,490
Insurance	333,348	322,769
Total Administrative Expenses	1,290,759	1,096,790
Vacation Benefits	205,608	200,960
Sick Benefits	102,290	97,648
Employees Welfare	752,776	686,976
Clubhouse Expense	6,996	4,050
Employee Activity	12,078	16,049
Employee Assistance	1,072	1,103
Pension Expense	682,293	556,387
Total Employee Benefits Expenses	1,763,113	1,563,173
General Expenses	15,222	6,307
Maintenance	19,687	14,634
Amortization of Goodwill	140,400	140,400
Depreciation	3,138,590	2,733,685
In-lieu of Tax City	39,470	32,266
In-lieu of Tax County	13,988	13,616
Cash Contributions to City	5,985	6,100
Total General Expenses	3,373,342	2,947,008
Support Services Expense	42,606	32,254
Support Services Payroll	229,416	151,110
Inventory Adjustments	13,825	(8,220)
Cost of Sales Clearing	11,536	1,445
Auto and Truck Repair Expense	43,290	45,104
Auto and Truck Repair Payroll	56,660	50,772
Gas and Oil	105,842	89,357
Total Support Services Expense	503,175	361,822
Total Operating Expenses - Telecommunication Division	$ 16,641,565	$ 14,471,319

The accompanying notes are an integral part of these financial statements.

Consolidated Note

	Principal Maturities	Interest	Total
Fiscal Year Ended June 30, 2009	$ 236,778	$ 47,236	$ 284,014
Fiscal Year Ended June 30, 2010	251,382	32,632	284,014
Fiscal Year Ended June 30, 2011	266,887	17,127	284,014
Fiscal Year Ended June 30, 2012	139,575	2,454	142,029
Total	$ 894,622	$ 99,449	$ 994,071

1999 Bond Issue

	Principal Maturities	Interest	Total
Fiscal Year Ended June 30, 2009	$ 580,000	$ 497,948	$ 1,077,948
Fiscal Year Ended June 30, 2010	610,000	466,710	1,076,710
Fiscal Year Ended June 30, 2011	640,000	433,898	1,073,898
Fiscal Year Ended June 30, 2012	675,000	399,379	1,074,379
Fiscal Year Ended June 30, 2013	715,000	362,713	1,077,713
Fiscal Year Ended June 30, 2014	755,000	323,380	1,078,380
Fiscal Year Ended June 30, 2015	795,000	281,133	1,076,133
Fiscal Year Ended June 30, 2016	840,000	236,170	1,076,170
Fiscal Year Ended June 30, 2017	885,000	188,733	1,073,733
Fiscal Year Ended June 30, 2018	935,000	138,683	1,073,683
Fiscal Year Ended June 30, 2019	990,000	85,745	1,075,745
Fiscal Year Ended June 30, 2020	1,045,000	29,255	1,074,255
Total	$ 9,465,000	$ 3,443,747	$ 12,908,747

Full Service Network Notes

	Total
Fiscal Year Ended June 30, 2009	$ 2,320,985
Fiscal Year Ended June 30, 2010	2,980,857
Fiscal Year Ended June 30, 2011	2,947,720
Fiscal Year Ended June 30, 2012	3,039,627
Fiscal Year Ended June 30, 2013	3,021,374
Fiscal Year Ended June 30, 2014	2,975,073
Fiscal Year Ended June 30, 2015	3,044,786
Fiscal Year Ended June 30, 2016	3,718,640
Fiscal Year Ended June 30, 2017	506,134
Fiscal Year Ended June 30, 2018	506,134
Fiscal Year Ended June 30, 2019	506,134
Fiscal Year Ended June 30, 2020	506,134
Fiscal Year Ended June 30, 2021	506,134
Fiscal Year Ended June 30, 2022	382,757
Total	$ 26,962,489

Water Bond Anticipation Note

	Principal
Fiscal Year ended June 30, 2008	$ 1,850,000

The accompanying notes are an integral part of these financial statements.

CTM
Charles T. Mitchell Co. LLP
Certified Public Accountants

William G. Johnson, Jr., C.P.A.
James Clouse, C.P.A.
Bernadette Smith, C.P.A.
Kim Field, C.P.A.
Greg Miklavcic, C.P.A.
Don C. Giles, C.P.A., Consultant

Independent Auditor's Report

Chairman
Members of the Electric and Water Plant Board
Frankfort, Kentucky

We have audited the comparative statement of net assets of the Electric and Water Plant Board of the City of Frankfort, Kentucky, as of June 30, 2008 and 2007 and the related comparative statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric and Water Plant Board of the City of Frankfort, Kentucky, as of June 30, 2008 and 2007 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 17 through 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Charles T. Mitchell Co.

November 14, 2008

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APPENDIX D

ELECTRIC AND WATER PLANT BOARD OF THE
CITY OF FRANKFORT, KENTUCKY
ELECTRIC AND WATER REFUNDING REVENUE BONDS, SERIES 2009

FORM OF BOND COUNSEL OPINION

Upon delivery of the Bonds, Stoll Keenon Ogden PLLC, Bond Counsel to the Board, proposes to issue its approving opinion in substantially the following form, dated the date of such delivery.

STOLL KEENON OGDEN PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202

December __, 2009

Re: $____________ Electric and Water Plant Board of the City of Frankfort, Kentucky, Electric and Water Refunding Revenue Bonds, Series 2009

We have examined executed, certified or otherwise authenticated copies of proceedings of the Electric and Water Plant Board of the City of Frankfort, Kentucky (the "Board"), in respect of the authorization and issuance of $_____________ Electric and Water Plant Board of the City of Frankfort, Kentucky, Electric and Water Refunding Revenue Bonds, Series 2009, dated the date of issuance (the "Bonds"), consisting of fully registered bonds in the denominations of $5,000 or integral multiples thereof, maturing on December 1 of the respective years and bearing interest to maturity payable on each June 1 and December 1, beginning June 1, 2010, as shown in the following schedule:

Year	Principal Amount	Interest Rate
2010	$	%
2011		
2012		
2013		
2014		
2015		
2016		
2017		
2018		
2019		

In expressing the opinions set forth below, we have relied on such proceedings, including without limitation the duly adopted resolution and official action of the Board authorizing and providing for the sale and issuance of the Bonds (collectively, the "Resolution"), certifications and representations of officials of the Board as to proper provision having been made for the redemption of the bonds and the payment of the note being refunded by the Bonds within ninety (90) days from the date of issuance of the Bonds and as to certain facts and expectations and the opinion of counsel for the Board as to certain legal matters. We have been furnished a certificate of an authorized officer of the Paying Agent and Bond Registrar identified in the text of each Bond) acknowledging authentication by the Paying Agent and Bond Registrar of the Bonds and have examined the form of Bond and find it to be in due form of law.

The described proceedings, including the Resolution, show proper authority for the issuance of the Bonds under the laws of the Commonwealth of Kentucky, particular reference being made to Sections 96.171 through 96.188 of the Kentucky Revised Statutes. The Bonds are being issued to refund certain bonds and a note of the Board issued to finance and refinance major improvements and additions to the Board's combined and consolidated municipal electric and water system (the "System") and to fund related costs.

Based upon our examination of the proceedings described above, it is our opinion that the Bonds constitute valid special and limited obligations of the Board according to their terms and applicable provisions of Kentucky law and that the Bonds, together with any additional bonds ranking on a parity therewith that may be subsequently issued and outstanding under the conditions and restrictions set out in the Resolution, will be payable as to both principal and interest solely from, and secured by a pledge of, a fixed portion of the gross revenues of the System, which fixed portion is provided to be sufficient to pay when due the principal of and interest on the Bonds and any such parity bonds when due.

Further, based on existing laws as construed and applied at the date hereof, and assuming the accuracy of certain representations and warranties of the Board made in connection with the issuance of the Bonds, it is our opinion that interest on the Bonds (a) is excluded from gross income for federal and Kentucky income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations under the United States Internal Revenue Code of 1986, as amended (the "Code"). The opinions set forth in the first sentence of this paragraph are subject to the conditions that the representations and warranties of the Board described above are accurate and that the Board complies with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be excluded from gross income for federal income tax purposes. The Board has covenanted to comply with such requirements. Failure to comply with certain of such requirements, or a determination that certain of such representations and warranties are inaccurate, could cause the interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal and Kentucky income tax consequences arising with respect to the Bonds.

The Bonds have been designated by the Board as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code. In the case of certain financial institutions (within the meaning of Section 265(b)(5) of the Code), a deduction is presently allowed for 80% of that portion of such a financial institution's interest expense that is allocable to interest on such "qualified tax-exempt obligations."

It is also our opinion that the Bonds are exempt from *ad valorem* taxation by the Commonwealth of Kentucky and its political subdivisions.

With respect to the opinions expressed herein, (a) the rights and obligations under the Bonds and the Resolution are subject to bankruptcy, insolvency and other laws affecting the enforcement of creditors' rights generally and to the application of equitable principles if equitable remedies are sought, and (b) we are passing on only those matters set forth in such opinions and are not passing on the investment quality of the Bonds or the accuracy or completeness of any statements made in connection with any sale of the Bonds.

Respectfully submitted,

STOLL KEENON OGDEN PLLC

By______________________________
William W. Davis