

PRELIMINARY OFFICIAL STATEMENT
Dated February 24, 2010
(Bonds to be sold March 3, 2010, at 11:00 a.m., EST)

NEW ISSUE
Book-Entry

RATING: S&P: “ ”
(See “Rating” herein)

In the event the Bonds are issued on a taxable basis (the "Taxable Bonds"), the interest on such Taxable Bonds is not excludable from gross income for federal income tax purposes. In the event the Bonds is issued on a tax-exempt basis (the "Tax-Exempt Bonds"), in the opinion of Bond Counsel, subject to the conditions set forth in "Tax Matters" herein, under existing laws, interest on the Bonds is excluded from gross income for federal 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 interest on the Bonds is exempt from income taxation, and the Bonds are exempt from ad valorem taxation, by the Commonwealth of Kentucky and its political subdivisions. Any Tax-Exempt Bonds will be designated as "Qualified Tax-Exempt Obligations" for purposes of Section 265(b)(3) of the U.S. Internal Revenue Code of 1986, as amended. See "Tax Matters" herein.

\$13,810,000* CITY OF FRANKFORT, KENTUCKY
SEWER SYSTEM REVENUE BONDS, SERIES 2010
(Bank Qualified)

or

\$13,810,000* CITY OF FRANKFORT, KENTUCKY
SEWER SYSTEM REVENUE BONDS, TAXABLE SERIES 2010
(Build America Bonds – Direct Payment to Issuer)

Dated: Date of Delivery

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 (The Bank of New York Mellon Trust Company, N.A., Louisville, 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.

<u>Year</u> <u>(Dec. 1)</u>	<u>Amount*</u>	<u>Rate</u>	<u>Price/</u> <u>Yield</u>	<u>CUSIP#</u>	<u>Year</u> <u>(Dec. 1)</u>	<u>Amount*</u>	<u>Rate</u>	<u>Price/</u> <u>Yield</u>	<u>CUSIP#</u>
2011	\$ 770,000	%	%		2019	\$ 930,000	%	%	
2012	780,000				2020	960,000			
2013	790,000				2021	990,000			
2014	810,000				2022	1,025,000			
2015	830,000				2023	1,060,000			
2016	850,000				2024	1,100,000			
2017	875,000				2025	1,140,000			
2018	900,000								

The Bonds are subject to optional redemption as described herein, and may be subject to mandatory sinking fund redemption as described in the Official Terms and Conditions of Bond Sale.

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 City by its City Solicitor, Robert C. Moore, Frankfort, Kentucky. Delivery of the Bonds is expected on or about March 17, 2010.

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 Preliminary Official Statement has been prepared for submission to prospective bidders for the Bonds herein described and is in a form “deemed final” by Preliminary Official Statement has been prepared for submission to prospective bidders for the Bonds herein described and is in a form “deemed final” by Preliminary Official Statement has been prepared for submission to prospective bidders for the Bonds herein described and is in a form “deemed final” by the City for purposes of SEC Rule

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.

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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**\$13,810,000* CITY OF FRANKFORT, KENTUCKY
SEWER SYSTEM REVENUE BONDS, SERIES 2010
(Bank Qualified)**

or

**\$13,810,000* CITY OF FRANKFORT, KENTUCKY
SEWER SYSTEM REVENUE BONDS, TAXABLE SERIES 2010
(Build America Bonds – Direct Payment to Issuer)**

INTRODUCTORY STATEMENT

This Official Statement of the City of Frankfort, Kentucky (the “City”), sets forth certain information with respect to the above-identified bonds to be issued in the principal amount of \$13,810,000* (the “Bonds”). The Bonds are being issued to finance a portion of the costs of major sanitary sewer system improvements of the City, as described under the heading “THE PROJECT,” and, together with other available funds, to fund a debt service reserve and to pay costs of issuance of the Bonds. The City is a city and political subdivision of the Commonwealth of Kentucky situated in Franklin County, Kentucky. The Bonds will be issued under authority of Chapter 58 of the Kentucky Revised Statutes and an ordinance of the City and official action of a designated City official (together the “Ordinance”). As described under the heading “AUTHORITY AND SECURITY,” the Bonds will be payable only from the revenues of the City’s municipal sanitary sewer system (the “System”).

The American Recovery and Reinvestment Act of 2009 (the “Recovery Act”) authorizes the City to issue taxable bonds known as “Build America Bonds” to finance capital expenditures for which it could issue tax-exempt bonds and to elect to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on such taxable bonds. The City will determine whether to issue all of the Bonds as taxable Bonds or to issue all of the Bonds as tax-exempt Bonds, based on market conditions and bidding results on the date of sale (see the “Official Terms and Conditions of Bond Sale” for details). The available subsidy for the taxable Bonds will be paid directly to the City and will not constitute security for the payment of principal of or interest on any taxable Bonds.

Prior to the issuance of the Bonds, the City 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 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.”

* Subject to adjustment.

There follows brief descriptions of the City, the Bonds, the System, the Ordinance, the Continuing Disclosure Certificate, the purposes of the issue and other information and data, together with the Appendices, containing among other things financial and other information with respect to the City. All descriptions contained herein of the Bonds, the Ordinance 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 City Clerk.

THE BONDS

General

The Bonds will be dated the date of original issuance and delivery, 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, subject to possible prior redemption as herein provided. 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 the Bonds 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, The Bank of New York Mellon Trust Company, N.A. Principal shall be paid when due upon delivery of the Bond for payment at the designated corporate trust office of the Paying Agent and Bond Registrar, initially in Louisville, 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 and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds 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 City 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 City, 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 City takes no responsibility for the accuracy of such statements.

THE CITY 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 City 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 City 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.

Mandatory Sinking Fund Redemption

The Bonds may be subject to mandatory sinking fund redemption as a result of the bidding as described in the Official Terms and Conditions of Bond Sale.

Optional Redemption - Tax-Exempt Bonds

If the Bonds are issued as tax-exempt Bonds, the Bonds maturing on and after December 1, 2020, are subject to redemption by the City, at its option, prior to maturity on and after December 1, 2019, in whole at any time or in part at any time or times in any order of maturity (less than all of a single maturity to be selected on a *pro rata* basis in \$5,000 denominations in such manner as the Paying Agent and Bond Registrar may determine) at the redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

The City and the Paying Agent and Bond Registrar make no representation relating to, and do not have any responsibility or obligation with respect to, whether DTC will follow the direction to redeem Bonds on a pro rata basis in the event of a partial redemption as described above.

Optional Redemption - Taxable Bonds

If the Bonds are issued as taxable Bonds under the Recovery Act, such Bonds are subject to redemption by the City, at its option, prior to maturity in whole at any time or in part at any time or times (less than all of a single maturity to be selected on a *pro rata* basis in \$5,000 denominations in such manner as determined by the Paying Agent and Bond Registrar), at a redemption price equal to the Make-Whole Redemption Price (determined by an independent accounting, investment banking, or financial advisory firm retained by the City to calculate such redemption price), plus accrued interest to the redemption date.

“Make-Whole Redemption Price” means the greater of (i) 100% of the principal amount of the taxable Bonds to be redeemed or (ii) the sum of the present value of the remaining

scheduled payments of principal and interest to the maturity date of the taxable Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the taxable Bonds are to be redeemed, discounted to the date on which the taxable Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 25 basis points.

“Treasury Rate” means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15(519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the taxable Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

The City and the Paying Agent and Bond Registrar make no representation relating to, and do not have any responsibility or obligation with respect to, whether DTC will follow the direction to redeem Bonds on a pro rata basis in the event of a partial redemption as described above.

Extraordinary Redemption - Taxable Bonds

If the Bonds are issued as taxable Bonds under the Recovery Act, such Bonds are subject to redemption at the option of the City, in whole at any time or in part at any time or times (less than all of a single maturity to be selected on a *pro rata* basis in \$5,000 denominations in such manner as determined by the Paying Agent and Bond Registrar), at a redemption price equal to the Extraordinary Redemption Price (determined by an independent accounting, investment banking, or financial advisory firm retained by the City to calculate such redemption price), plus accrued interest to the redemption date, if Section 54AA or 6431 of the United States Internal Revenue Code of 1986, as amended, is modified, amended or interpreted in a manner pursuant to which the City’s 35% cash credit payments from the United States Treasury are reduced or eliminated.

“Extraordinary Redemption Price” means the greater of (i) the principal amount of the taxable Bonds to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the taxable Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such taxable Bonds are to be redeemed, discounted to the date on which such taxable Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 100 basis points.

Such taxable Bonds as described in the preceding paragraphs shall be called for redemption by the Payment Agent and Bond Registrar as herein provided upon receipt by the Paying Agent and Bond Registrar at least forty-five (45) days prior to the redemption date of a

certificate of the City specifying the principal amount and maturities of the taxable Bonds so to be called to redemption and the applicable redemption price or prices.

The City and the Paying Agent and Bond Registrar make no representation relating to, and do not have any responsibility or obligation with respect to, whether DTC will follow the direction to redeem Bonds on a pro rata basis in the event of a partial redemption as described above.

Other Redemption Provisions

The Paying Agent and Bond Registrar will cause notice of the call for any redemption, identifying the Bonds or portions thereof (\$5,000 or any integral multiple thereof) to be redeemed, to be sent by first-class mail not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption to the registered holder of each Bond to be redeemed at the address shown on the registration books. Failure to give such notice by mailing or any defect therein in respect of any Bond shall not affect the validity of any proceedings for the redemption of any other Bond. Any notice mailed as provided above shall be conclusively presumed to have been duly given, irrespective of whether the registered holder receives the notice.

A portion of any Bond may be redeemed, but Bonds shall be redeemed only in the principal amount of \$5,000 each or any integral multiple thereof. Upon surrender of any Bond for redemption in part only, the City shall execute and the Paying Agent and Bond Registrar shall register, authenticate and deliver to the holder thereof, within a period of three (3) days from surrender of such Bond to the Paying Agent and Bond Registrar, at the expense of the City, a new Bond or Bonds of the same maturity, of authorized denominations and in aggregate principal amount equal to the unredeemed portion of the Bond surrendered.

See “THE BONDS - Book-Entry-Only System” regarding redemption notices and related matters while the Bonds are in the Book-Entry-Only System.

THE CITY

General

The City of Frankfort, Kentucky, is the county seat of Franklin County and has a population (according to the year 2000 census) of approximately 27,509. Its executive offices are located at 315 West Second Street, Frankfort, Kentucky 40601. The City is located 53 miles east of Louisville, Kentucky, and 30 miles west by northwest of Lexington, Kentucky.

The City is governed under the city manager plan, one of the alternative forms of city government established under Kentucky laws. Under the city manager plan, the City is governed by a Mayor, who is elected by the voters of the City for a term of four years, and four legislative body members known as City Commissioners, who are elected at-large by the voters of the City for terms of two years each. The Mayor and the City Commissioners together comprise the Board of Commissioners of the City, in which is vested all legislative and executive authority of the City. The Mayor presides at and may vote at all meetings of the Board of Commissioners.

The Mayor is recognized as the head of the City government but has no regular administrative duties. The Board of Commissioners designates one of the City Commissioners to serve as Mayor Pro-Tem in the absence or disability of the Mayor.

The Board of Commissioners establishes by ordinance all appointive offices within the City government and the duties and responsibility of those offices and establishes rules and regulations for the public health, safety and welfare. The Board of Commissioners by ordinance establishes an annual City budget and appropriates funds for the operation of the City government.

The Board of Commissioners appoints a City Manager by a majority vote of all its members. The City Manager is the chief administrative officer of the City and exercises all executive powers and duties delegated to him by ordinance and statute. The City Manager enforces City ordinances and all applicable state statutes. The Board of Commissioners appoints and may remove the director, or chief executive, of each City administrative department, upon recommendation of the City Manager.

The incumbent Mayor and City Commissioners are identified below:

H. Gippy Graham, Mayor
Kathy Carter, Commissioner
William I. May, Jr., Commissioner
Sellus Wilder, Commissioner
Rodney S. Williams, Commissioner

Certain other City officials are: City Manager, Anthony R. Massey; Finance Director, Stephen R. Dawson; City Solicitor, Robert C. Moore; and City Clerk, Ramona Newman.

See Appendices A and B to this Official Statement, which contain further information and data regarding the City.

Sewer Department

The City's Board of Commissioners sets policy for the operation and improvement of the City's Sewer Department (the "Department") and the System, approves annual operating and capital budgets, approves all contracts and enacts rate and financing structures. The Director of the Department manages and oversees the daily administration, operation and maintenance of the System, implements policy and ensures regulatory compliance. The Director reports to the City Manager.

The current Department Director is William R. Scalf, Jr., P.E., who has served in that capacity since January 3, 2001. The Department currently has 44 full-time employees, consisting of clerical and administrative employees and field employees.

Sanitary Sewer Services and Rates

The City provides sanitary sewer (wastewater) services through the System to customers in the area of (and outside) the City at rates which, together with other data, are summarized in Appendix A. Rates for sanitary sewer services are established from time to time by the City's Board of Commissioners and are not subject to review or approval by the Public Service Commission of Kentucky.

Other Information

For a summary description of the facilities furnishing sanitary sewer services, see "THE SYSTEM" herein. Reference is made to Appendix A for certain operating and financial information and data relating to the System. The City's estimated annual debt service requirements for the Bonds and related information are also contained in Appendix A, and the City's most recent audited financial statements, including those for the System, appear in Appendix C.

THE PROJECT

The Bonds are being issued for the purposes of financing the costs (to the extent not otherwise provided to be paid) of acquisition, construction and installation of major new sanitary sewer (wastewater) improvements and facilities, which are described below and are referred to collectively herein as the "Project," and, together with other available funds, funding a debt service reserve for the Bonds and paying costs of issuance of the Bonds.

The Project consists of (i) replacement of the East Frankfort Pump Station, (ii) rehabilitation of collection system at the Two Creeks subdivision, (iii) rehabilitation of the West Frankfort Pump Station, (iv) rehabilitation of Myrtle Avenue sewer lines, (v) overhaul of the oxidation ditch at the wastewater treatment plant, and (vi) other major sanitary sewer related projects. The estimated total cost of which is \$16,000,000, including engineering and design costs. Construction and installation of the Project is estimated to be completed by March 15, 2011.

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

Uses of Funds (Estimated)

Project construction (including engineering)	\$ 16,000,000
Bond discount (2%)	276,200
Debt service reserve	1,373,166
Bond issuance costs and misc.	<u>160,634</u>
Total Costs	\$ 17,810,000

Sources of Funds
(Estimated)

Bond Issue	\$ 13,810,000
City funds on hand	<u>4,000,000</u>
Total Sources of Funds	\$ 17,810,000

AUTHORITY AND SECURITY

The Bonds are being issued under the laws of the Commonwealth of Kentucky, including among others Sections 58.010 through 58.140 and 58.410 through 58.430 of the Kentucky Revised Statutes and pursuant to the Ordinance adopted by the City's Board of Commissioners. The Bonds are not general obligations of the City or an indebtedness or pledge of the faith and credit of the City within the meaning of applicable provisions or limitations of the Constitution or statutes of the Commonwealth of Kentucky. Other than the Bonds, the City will have no outstanding bonds payable from the revenues of the System.

Pursuant to the Ordinance, interest on and principal of the Bonds will be payable solely from, and secured by a pledge of, a fixed portion of the gross income and revenues of the System to be set aside in the City's Sewer System Revenue Bond Fund (the "Bond Fund"), which fixed portion is provided to be sufficient to pay when due the principal of and interest on the Bonds, \$10,265,000 outstanding principal amount of the City's Sewer System Revenue Bonds, Series 2007 (the "2007 Bonds"), and any additional parity bonds. (The Bonds rank on a parity with the 2007 Bonds as to security and source of payment.) The Bond Fund includes a Reserve Account to secure payment of debt service on the Bonds, the 2007 Bonds and any additional parity bonds. See "CERTAIN PROVISIONS OF THE ORDINANCE - Collection and Application of Revenues of System; Funds and Accounts" herein. In the Ordinance, the City covenants that it will fix and charge such rates for the services and facilities of the System so that the revenues produced will be sufficient to pay such principal and interest when due from time to time and to pay the costs of operation and maintenance of the System and related obligations.

THE SYSTEM

The System is composed of the municipal sanitary sewer (wastewater) facilities of the City. The following subsections describe the System, and reference is further made to Appendices A and B for additional information and data regarding the System's operations and customers.

General

The System includes approximately 220 miles of pipe, 4,900 manholes and 55 pump stations. These facilities collect and transport sanitary sewage waste discharge from the City and certain adjacent areas to the City's wastewater treatment plant on the Kentucky River, which plant has a treatment capacity of 9.9 million gallons per day. The System also serves, in addition to the City, portions of southern Franklin County and a small portion of northern Franklin County. Major portions of the System presently consist of combined sanitary and storm water facilities. See "Consent Judgment" below.

Assets

The historical cost (undepreciated) value of the assets of the System is approximately \$35 million. The City maintains comprehensive insurance coverages including property, liability, machinery, vehicle, electronic equipment and flood.

Consent Judgment

In December of 2005, the City entered into negotiations with the Commonwealth of Kentucky, Environmental and Public Protection Cabinet (“EPPC”), concerning needed repairs to the City’s wastewater collection system, which consists of a separate sanitary sewer system and a combined sewer system. The repairs to the wastewater collection system are needed to address Sanitary Sewer Overflows (“SSO”), any other unauthorized discharges and discharges from Combined Sewer Overflow (“CSO”) outfalls. The negotiations also addressed the City’s requirement to continue to upgrade its sewer system and to maintain an approved Combined Sewer Operation Plan implementing CSO controls, including the 9 Minimum Controls delineated in the USEPA’s 1994 CSO Policy, as well as the development and implementation of a Long Term Control Plan.

The negotiations with the EPPC culminated with the City’s agreement to enter into a Consent Judgment providing a compliance schedule to remedy the City’s CSOs and SSOs. To insure the enforceability of the Consent Judgment, the EPPC filed a Complaint in the Franklin Circuit Court, Civil Action No. 07-CI-1243, against the City on August 6, 2007, and subsequent to duly filed motion, the Consent Judgment was entered by the Court on September 5, 2007.

The Consent Judgment provides, among other things:

- (1) The City is to provide the EPPC with a comprehensive map of its entire sewer system;
- (2) The City is to submit to the EPPC for review and comment the Sewer Use Ordinances (“SUO”) applicable to its wastewater collection system requiring parties to connect to the same and prohibiting illegal discharges to the sewer system, including discharges of storm water from roof drains, down spouts, sump pumps, yard drains, patio drains, leaks and private laterals and other illicit connections. The City is required to revise its SUO where deemed inadequate by the EPPC, and to take steps to enforce the same;
- (3) The City is required to implement utility rates or undertake other financing necessary to comply with the requirements of the Consent Judgment;
- (4) The City is required to submit an Early Action Plan addressing compliance with the 9 Minimum Controls, a Capital Projects List to be completed by certain dates, a Capacity, Management, Operation and Maintenance Programs Self Assessment and a Sewer Overflow Response Protocol;
- (5) The City is required to submit a Sanitary Sewer Overflow Plan providing for the elimination of identified SSOs by 2015;

- (6) The City is required to submit and implement a Long Term Control Plan addressing CSOs and insuring that CSOs are only the result of wet weather or are in compliance with applicable federal and state law and minimize impacts on water quality, aquatic biota and human health by 2023;
- (7) The City is required to submit annual reports to the EPPC on August 31 of each year;
- (8) With respect to penalties, the City is required to pay a penalty of \$50,000 and implement two supplemental environmental projects providing sewers to unsewered areas in existing subdivisions in the City; and
- (9) The City is required to pay stipulated penalties if applicable deadlines are not met, although provisions for dispute resolution and a *force majeure* clause are also provided.

On June 23, 2008, the United States Environmental Protection Agency, Region 4, issued an Administrative Order to the City concerning its wastewater collection system. The Administrative Order incorporated a number of the requirements and deadlines set forth in the Consent Judgment, including the requirement to submit an Interim Long Term Control Plan, a Final Long Term Control Plan, a Sanitary Sewer Overflow Plan and additional information concerning SSOs and CSOs. However, the Administrative Order required the Final Long Term Control Plan to include schedules, deadlines and timetables for remedial measures to achieve full compliance with the applicable water quality criteria within ten (10) years from the effective date of the Administrative Order in lieu of the deadline set forth in the Consent Judgment.

Funds obtained from the issuance of the Bonds will be used, in part, to pay for projects required to comply with the Consent Judgment and the Administrative Order.

Capital Improvements Plan

The City maintains and updates annually a capital improvements plan of at least five years for the System, which plan also projects for up to fifteen years the anticipated capital expenditures for the System. The capital improvements plan includes and prioritizes a number of projects designed to maintain an appropriate level of sanitary sewer service to existing customers, to accommodate the expected growth of the System and to assure compliance with the requirements of the Consent Judgment described above under the subheading “Consent Judgment.”

The capital improvements plan provides for System improvements consisting of (in addition to the Project being financed by the Bonds) inflow/infiltration elimination projects, SSO elimination projects, CSO mitigation projects, repair and replacement projects and System expansion projects. System improvements to be financed over the next three successive five-year periods are estimated to cost \$25,000,000, \$22,000,000 and \$25,000,000, respectively.

To finance the costs of these capital improvements while maintaining adequate reserves to cover costly emergencies and other unexpected needs, the City contemplates the use of System revenue bond issues coupled with expenditures of existing cash reserves and revenue

generated from System operations. Revenue derived from the sanitary sewer rate increases described in Appendix A is expected to enable the City to meet its revenue bond parity tests in the future.

In addition to the above-described System (sanitary sewer) improvements, necessary storm water improvement projects of the City over the next ten-year period are estimated to cost \$8,500,000, including projects currently under way. These storm water improvements, which cannot be financed by bonds secured by System revenues, are expected to be financed by application of existing available funds and other non-System revenues of the City.

CERTAIN PROVISIONS OF THE ORDINANCE

The following paragraphs under this general heading contain excerpts from and summaries and descriptions of certain consolidated provisions of the Ordinance. The Ordinance is on file in the office of the City Clerk and reference is made to them for a complete description of their terms.

Collection and Application of Revenues of System; Funds and Accounts

All provisions set forth in the Ordinance authorizing the 2007 Bonds (the “2007 Ordinance”) with reference to the creation of the funds and accounts therein established and the collection, segregation and distribution of revenues of the System are ratified and confirmed in all respects, and it is further provided that such funds and accounts will be continued for the benefit of the Bonds together with the 2007 Bonds. From and after the issuance and delivery of the Bonds, and so long as any thereof remain outstanding, the System will continue to be operated as a revenue-producing public project and the gross income and revenues of the System, as defined hereinafter under the subheading “Issuance of Additional Bonds,” will be set aside into a separate and special fund of the City, created by the 2007 Ordinance and continued by the Ordinance, designated the “Sewer System Revenue Fund” (the “Revenue Fund”). The Revenue Fund will be used and apportioned as follows:

(A) There was created by the 2007 Ordinance a special fund of the City known as the “Sewer System Revenue Bond Fund” (the “Bond Fund”), which is continued by the Ordinance. The Bond Fund comprises three accounts, the Interest Account, the Principal Account and the Debt Service Reserve Account, which are irrevocably pledged and will be used and applied for the following purposes. Moneys in the Interest Account will be used solely for the payment of interest coming due on the 2007 Bonds, the Bonds and any additional parity bonds. Moneys in the Principal Account will be used solely for the purpose of paying the principal of the 2007 Bonds, the Bonds and any additional parity bonds when due at maturity or pursuant to any call for redemption. The Debt Service Reserve Account will be held for the benefit of the holders of all of the 2007 Bonds, the Bonds and any additional parity bonds and will be used solely for the purpose of paying principal of or interest on the 2007 Bonds, the Bonds and any additional parity bonds as to which there would otherwise be a default.

From and after the issuance and delivery of the Bonds there will be set aside into the Bond Fund in monthly installments on or before the 20th day of each month, out of the Revenue Fund, sufficient funds to accumulate for the payment when due of the interest on and the

principal of any outstanding bonds (including the 2007 Bonds and the Bonds) which by their terms are payable from the Bond Fund. Such monthly payments into the Bond Fund will 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 coming due on the 2007 Bonds, the Bonds and any additional parity bonds on the next succeeding interest payment date will be deposited in the Interest Account; provided that no later than the twentieth (20th) day of the month prior to the first interest payment date following the issuance of the Bonds, there will be paid into the Interest Account the amount of any deficiency in the amount of interest to be due on the Bonds on such interest payment date.

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 2007 Bonds, the Bonds and any additional parity bonds coming due on the next succeeding December 1 will be deposited in the Principal Account.

Upon issuance of the Bonds, the Debt Service Reserve Account will be funded in the Reserve Amount. Whenever any amount in the Debt Service Reserve Account is less than the Reserve Amount, such deficiency will 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 Ordinance is defined as an amount equal to the lesser of (i) the highest amount required to be paid into the Interest Account and the Principal Account for account of the 2007 Bonds, 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 2007 Bonds, 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 2007 Bonds, 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 will be made for additional payments into the Bond Fund sufficient 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 Bond Fund after and so long as the amount then held in the Bond 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 Bond 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 Bond Fund the full amount above stipulated, then an amount equivalent to such deficiency will be set apart and paid into the Bond Fund from the first available income and revenues of the System or from the Depreciation Fund hereinafter created.

All moneys held in the Bond Fund, including the Debt Service Reserve Account, will be deposited in a bank or banks which are members of FDIC, and all such deposits which cause the aggregate deposits of the City in any one bank to be in excess of the amount insured by the FDIC or one of its agencies will 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 Bond Fund may, provided that the Debt Service Reserve Account therein will, be invested in Investment Obligations, as hereinafter defined 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 will be carried to the credit of the particular account in the Bond Fund which supplied the funds for such investments, but the income from such investments will 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 will be credited to the Debt Service Reserve Account until the Reserve Amount is accumulated therein. Investment Obligations in the Debt Service Reserve Account will be valued at least annually and each such Investment Obligation will 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 Bond Fund will be used solely and only and is pledged for the purpose of paying principal of and interest on the 2007 Bonds, 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 Ordinance.

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 City 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 City will obtain (i) the Debt Service Reserve Guaranty, (ii) an opinion of counsel addressed to the City stating that the delivery of such Debt Service Reserve Guaranty to the City is authorized under the Ordinance and complies with the terms hereof, and (iii) written evidence from a Rating Agency, if the 2007 Bonds, 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 City 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 2007 Bonds, the Bonds and any additional parity bonds. If the 2007 Bonds, 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 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 City upon request made by the City or its designee up to an amount stated therein for application as provided above.

“Debt Service Reserve Guaranty Agreement” means the reimbursement agreement, bond insurance agreement, loan agreement or similar agreement between the City 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 City 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 City under the terms of a Debt Service Reserve Guaranty.

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

(B) There was created by the 2007 Ordinance a fund to be known as the “Sewer System Operation and Maintenance Fund” (the “Operation and Maintenance Fund”), which is continued by the Ordinance. There will continue to be transferred to the Operation and Maintenance Fund, from the Revenue Fund and any other existing and available funds of the City dedicated to the System, a sum sufficient to pay operating and maintenance expenses of the System for the then current month and the next ensuing month. From the balance of the income and revenues remaining in the Revenue Fund after the aforesaid payments into the Bond Fund there will be set aside on or before the 20th day of each month into the Operation and Maintenance Fund such amount as may be determined, pursuant to an annual budget for the System which will be adopted annually by the Board of Commissioners (and which the Board of Commissioners may amend from time to time), to be necessary and sufficient to pay the reasonable and current expenses of operating, maintaining and insuring the System for the current month and the next ensuing month. After the 20th day of each month further transfers may be made in like manner only if and to the extent it may be found to be necessary to pay such expenses actually accrued and payable. All funds in the Operation and Maintenance Fund shall be kept apart from all other funds and shall be deposited and secured in the same manner as herein provided for the deposit and security of the Bond Fund, or all or any part of the Operation and Maintenance Fund may be invested in the same manner as herein provided for the investment of moneys in the Bond Fund, and all such investments shall be carried to the credit of the Operation and Maintenance Fund and the income from such investments shall be credited to the Operation and Maintenance Fund.

(C) There was created by the 2007 Ordinance a fund to be known as the “Sewer System Depreciation Fund” (the “Depreciation Fund”), which is continued by the Ordinance.

After the aforesaid payments into the Bond Fund and the Operation and Maintenance Fund and after providing for payments next due on any outstanding subordinate obligations payable from the revenues of the System, there will be set aside on or before the 20th day of each month into the Depreciation Fund the balance remaining in the Revenue Fund until the amount on deposit in the Depreciation Fund (including investments) is at least \$2,500,000. The Depreciation Fund will be used to provide reasonable reserves for renewals, replacements, improvements, extensions, extraordinary major repairs and contingencies in the operation of the System, provided also that withdrawals may be made from the Depreciation Fund to fund any deficiency in the Bond Fund, including the Debt Service Reserve Account, and any deficiency in the Operation and Maintenance Fund.

(D) When all the required transfers and payments into the special funds hereinbefore provided have been made and there is a balance of income and revenues remaining in the Revenue Fund in excess of estimated amounts to be so transferred and paid into these special funds during the succeeding three (3) months, such excess will be deemed and considered surplus revenues and may be used or held, so long as the amounts on deposit in the Debt Service Reserve Account and the Depreciation Fund are not less than the amounts hereinabove required to be on deposit therein:

1. To retire or redeem bonds (including notes) payable from the Bond Fund, to purchase such bonds in the open market or to purchase such bonds through advertisement for and receipt of tenders of such bonds, at not exceeding the terms for redemption thereof (if such bonds are then redeemable), as may be determined by the Board of Commissioners;

2. To pay principal and interest requirements of any outstanding subordinate obligations payable from the income and revenues of the System; or

3. For any other lawful purpose of the System.

Investments

As used in the Ordinance, the term "Investment Obligations" means 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 Ordinance:

(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 the Ordinance, which fees are separate from the fees received from such funds, and (3)

services performed for such funds and pursuant to the Ordinance 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.

Rate Covenants

While the 2007 Bonds, the Bonds and additional parity bonds, if any, or any of them, remain outstanding and unpaid the rates and charges for all services rendered by the System to its customers shall be reasonable and just, taking into account and consideration the cost and value of the properties constituting the System and the cost of maintaining and operating the same, and the proper and necessary allowances for depreciation thereof, and the amounts necessary for the retirement of all bonds and other obligations, and the accruing interest thereon, which by their terms are payable from the income and revenues of the System. There will be charged against all users of the services and facilities of the System such rates and amounts as shall be adequate to meet the requirements of this and the preceding sections hereof.

The City covenants that it will not reduce the rates and charges for services rendered by the System without first filing with the City Clerk a certification of an independent certified public accountant or firm of certified public accountants or an independent consulting engineer or firm of consulting engineers, in each case as described hereinafter under the subheading "Issuance of Additional Bonds," to the effect that the net income and revenues (as defined under such subheading) of the then existing System for the fiscal year preceding the date on which such reduction is proposed, as such annual revenues are adjusted after taking into account the projected reduction in revenues anticipated to result from such proposed rate decrease, are equal to not less than 120% of the maximum amount of principal and interest payable from the Bond Fund in any year ending December 1 (the "Maximum Annual Debt Service").

The City also covenants to cause a report to be filed with the City Clerk within four months after the end of each fiscal year by a firm of certified public accountants and/or a firm of independent consulting engineers setting forth the percentage ("coverage") of the Maximum Annual Debt Service produced by the net income and revenues of the System in that prior fiscal year, calculated in the manner set out hereinafter under the subheading "Issuance of Additional Bonds"; and the City covenants that if and whenever such report shall establish that the coverage for such fiscal year was less than 120% of the Maximum Annual Debt Service, the City will within sixty (60) days from the filing of the report increase the rates charged the users of the System by an amount sufficient, in the opinion of such engineers and/or accountants, to accomplish the minimum 120% coverage.

Other Operating Covenants

The City covenants and agrees with the holder or holders of the 2007 Bonds, the Bonds and any additional parity bonds, and any of them, that:

(A) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky, including the making and collecting of reasonable and sufficient rates for services rendered thereby, and will segregate the income and revenues and make application thereof into the respective funds, as provided by the Ordinance; and the City further covenants and agrees with the holders of said bonds that so long as any of them are outstanding and unpaid to maintain in good condition and continuously operate the System as a public project, and that such rates and charges for services rendered thereby will be imposed and collected so that the gross income and revenues will be sufficient at all times to make the prescribed payments into the several special funds as hereinbefore provided.

(B) It will not to sell, lease, mortgage or in any manner dispose of any integral part of the System, including any and all extensions and additions that may be made thereto, until payment in full of principal of and interest on all of the Bonds and any parity bonds shall have been provided for; provided, however, that this covenant will not be construed to prevent disposal of property by exchange for other property on the basis of a finding by the Board of Commissioners, 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 it be construed to prevent the sale, lease or other disposal of properties of the System which are found by the Board of Commissioners 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 Bond Fund, but such payments shall not operate to reduce the amounts otherwise required to be paid into said funds.

(C) It will carry for the benefit of the holders of said bonds adequate fire and windstorm insurance on all buildings and above-ground structures of the System which are subject to loss through fire or windstorm and will carry adequate public liability insurance, and will carry for the benefit of the holders of said bonds insurance of the kinds and in the amounts normally carried by other public utilities in the operation of similar properties in Kentucky. Any such insurance may be a part of a self-insurance program approved by the City's Board of Commissioners. All moneys received for losses under any of such insurance policies, except public liability, will be paid into the Depreciation Fund and such payments will not reduce the amounts otherwise required to be paid into the Depreciation Fund. Disbursement of such proceeds shall be made in the same manner and for the same purposes as are other disbursements made from the Depreciation Fund.

(D) It will cause each officer or other person (other than depository banks) having custody of any moneys administered under the provisions of the Ordinance to be bonded at all times in amounts determined by the Board of Commissioners from time to time to be reasonable

and appropriate, each such bond to have surety given by a surety corporation qualified to do business in Kentucky and approved by the Board of Commissioners.

(E) It will cause proper books and accounts adapted to the System to be kept and will cause the books and accounts to be audited annually by an independent certified public accountant or firm of certified public accountants and will furnish to the holders of any of the 2007 Bonds, the Bonds and of any additional parity bonds who request the same in writing the balance sheet and the profit and loss statement of the System as certified by such accountants. The holders of any of said bonds shall have at all reasonable times the right to inspect the System and the records, accounts and data of the City relating thereto.

(F) It will take all such steps as may be necessary to cause the owners of all properties abutting upon any sewer lines of the City to connect thereto and to keep connected thereto all sanitary sewage drain pipes on such properties, and will maintain in effect an ordinance imposing such requirements. The foregoing covenant shall be in favor of and enforceable by the holders of the 2007 Bonds, the Bonds and any additional parity bonds in accordance with the provisions herein contained. If the City fails to take such steps it may be required to do so by such bondholders.

Enforcement of Bondholders' Rights

Any holder of the 2007 Bonds, the Bonds or any additional parity bonds may either at law or in equity, by suit, action, mandamus or other proceedings, enforce and compel performance by the City and its officers and agents of all duties and obligations imposed or required by law or the Ordinance in connection with the operation of the System, including the making and collecting of sufficient rates and segregation of the income and revenues and the application thereof. If there be any default in the payment of the principal of or interest on any of said bonds, then, upon the filing of suit by any holder of said bonds, any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the City 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 Ordinance and the provisions of Sections 58.010 to 58.140, inclusive, of the Kentucky Revised Statutes. Any such suit, action, mandamus or other proceeding shall be brought in the Franklin (Kentucky) Circuit Court.

Issuance of Additional Bonds

Subject to the provisions of the Ordinance, the 2007 Bonds and the Bonds, together with any additional parity bonds issued under the restrictions and conditions hereinafter set forth, will 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 will be no priority among such bonds, regardless of the fact that they may be actually issued and delivered at different times.

The City 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 2007 Bonds and the Bonds (herein sometimes referred to as "additional parity bonds") in order to pay the

costs of extensions, additions and improvements to the System; provided that before any such additional parity bonds are issued there will have been procured and filed with the City Clerk a statement by an independent certified public accountant, or firm of certified public accountants, not in the regular employ of the City on a monthly salary basis reciting the opinion based upon necessary investigation that the net income and revenues of the System for twelve (12) consecutive months out of the eighteen (18) months preceding the issuance of said additional parity bonds (with adjustments as hereinafter provided) were equal to at least 120% of the maximum amount of principal and interest payable in any year ending December 1 on the Bonds and any parity bonds then outstanding and the proposed additional parity bonds. The term "net income and revenues" as herein used is defined as gross income and revenues of the System, which shall mean sanitary sewer service sales and all operating revenues and non-operating income as identified in the City's financial statements prepared in accordance with generally accepted accounting principles ("GAAP"), less operating expenses, which shall mean salaries, wages, costs of maintenance and operation, materials and supplies, cost of wastewater treatment, pumping costs and insurance, as well as all other items that are normally and regularly so included under GAAP, but exclusive of allowances for depreciation and amortization and payments into the Bond Fund. The "net income and revenues" may be adjusted for the purpose of the foregoing computations to reflect any revision in the 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 income and 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 the additional parity bonds; but such latter adjustments shall only be made if contracts for the immediate construction or acquisition of the extensions, additions and improvements have been or will be entered into prior to the issuance of the additional parity bonds. All such adjustments shall be based upon written certification by an independent consulting engineer or firm of consulting engineers of recognized excellent reputation in the fields of water and sewer system engineering and licensed in Kentucky.

The City further reserves the right and privilege of issuing additional parity bonds for the purpose of refunding the Bonds authorized or any additional parity bonds, or any portion thereof, as may be outstanding, provided that before any additional parity bonds are issued for such purpose, there will have been procured and filed with the City Clerk a statement by an independent certified public accountant, or firm of certified public accountants, not in the regular employ of the City on a monthly salary basis reciting the opinion based upon necessary investigation that after the issuance of such additional parity bonds, the net income and revenues, as adjusted and defined above, of the System for the fiscal year preceding the date of issuance of such additional parity bonds, after taking into account the revised maximum amount of principal and interest payable in any year ending December 1 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 such maximum amount of principal and interest payable in any year ending December 1 from the Bond Fund with respect to such additional parity bonds and all parity bonds then outstanding, and calculated in the manner specified above.

The interest payment dates for all such additional parity bonds will be semiannually on June 1 and December 1 of each year, and the principal maturities thereof will 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 by the above paragraphs shall be understood to mean bonds payable from the income and revenues of the System on a parity with the Bonds and will 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 (a) the Bond Fund for account of the Bonds and any additional parity bonds and (b) the Operation and Maintenance Fund as set out above under the subheading "Collection and Application of Revenues of System; Funds and Accounts."

Tax Covenants and Representations

The City covenants 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, if the Bonds are issued as taxable Bonds under the Recovery Act, Section 54AA of the Code, and any regulations issued or proposed thereunder, and notices issued thereunder. Further covenants and representations are made to assure compliance with the tax-exempt bond requirements of the Code.

Defeasance

If the City 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 the Ordinance, then the pledge of the Ordinance, and all covenants, agreements and other obligations of the City to the Bondholders, shall thereon cease, terminate and become void and be discharged and satisfied.

Whenever there shall be held irrevocably in the Bond 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 Bond 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 the Ordinance, or the maturity date or dates thereof, as the case may be, then and in any of said events all such Bonds shall be deemed to have been paid within the meaning and with the effect expressed above in this Section, and the Paying Agent and Bond Registrar shall and is hereby instructed to mail, via first class mail, irrevocable notice thereof to the holders of such Bonds, such notice to contain a statement that the cash and obligations as provided above are held in the Bond Fund or such escrow fund, that such Bonds are deemed to have been paid in accordance with this Section, and a statement of the maturities or redemption date or dates on which the moneys are or will become available for the payment of the amounts due. Thereafter the holders of such Bonds shall be entitled only to payment out of the cash and obligations deposited as aforesaid.

Ordinance as Contract

The provisions of the Ordinance will constitute a contract between the City and the holders of the Bonds, and after the issuance of the Bonds no material change of any kind in the provisions of the Ordinance shall be made in any manner except as herein provided, until such time as all of the Bonds 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 Ordinance.

The City may specifically make any amendment or change herein (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 ordinance 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 Ordinance 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 Ordinance 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 Ordinance which shall not impair the security of the Bondholders or otherwise materially adversely affect the rights of the Bondholders.

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 Ordinance, 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 Ordinance and no interest shall accrue for the period after such stipulated date.

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

RATING

The Bonds have been assigned a rating of "___" by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies ("S&P"). An explanation of the significance of such rating may be obtained from S&P. The City has furnished S&P with certain information and materials relating to the Bonds and the City which have not been included in this Official Statement. Such rating reflects only the view of S&P 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 S&P at any time and any such change or withdrawal may affect the market price or marketability of the Bonds.

TAX MATTERS

In the event the Bonds are issued as taxable Bonds under the Recovery Act (the “Taxable Bonds”), the information under the following subheading “Taxable Bonds” shall apply to such Taxable Bonds. In the event the Bonds are issued as tax-exempt Bonds (the “Tax-Exempt Bonds”), the information under the following subheading “Tax-Exempt Bonds” shall apply to such Tax-Exempt Bonds.

Taxable Bonds

General. Interest on the Taxable Bonds is not excludable from gross income for federal income tax purposes. Owners of the Taxable Bonds should consult their tax advisors regarding any other federal tax consequences with respect to the Taxable Bonds.

In the opinion of Bond Counsel, Stoll, Keenon Ogden PLLC, under the Constitution and laws of the Commonwealth of Kentucky and official interpretations thereof, interest on the Taxable Bonds is exempt from income taxation by the Commonwealth of Kentucky and its political subdivisions.

Original Issue Discount. Certain of the Bonds (Discount Bonds) may be offered and sold to the public at an original issue discount (OID). OID is the excess of the stated redemption price at maturity (the principal amount) over the “issue price” of such Bonds, provided that excess equals or exceeds a statutory *de minimis* amount (one-quarter of one percent of the Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity). The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity are sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the time a U.S. owner owns a Discount Bond (i) constitutes interest includable in the U.S. owner's gross income for federal income tax purposes and (ii) is added to the U.S. owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale, or other disposition of the Discount Bond. The effect of OID is to accelerate the recognition of taxable income during the term of the Discount Bond.

Owners of Discount Bonds (or book entry interests in them) should consult their own tax advisers as to the determination for federal tax purposes of the amount of OID properly accruable in any period with respect to the Discount Bonds and as to other federal tax consequences and the treatment of OID for purposes of state or local taxes on (or based on) income.

Backup Withholding. General information reporting requirements will apply to payments of principal and interest made on a Bond and the proceeds of the sale of a Bond to non-corporate holders of the Bonds, and "backup withholding" at a rate of 28% will apply to such payments if the owner fails to provide an accurate taxpayer identification number in the manner required or fails to report all interest required to be shown on its federal income tax returns. A beneficial owner of a Bond that is a U.S. owner can obtain complete exemption from backup withholding by providing a properly completed IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

Nonresident Owners. Under the Code, interest and OID on any Bond whose beneficial owner is a nonresident alien, foreign corporation or other non-United States person (Nonresident) are generally not subject to United States income tax or withholding tax (including backup withholding) if the Nonresident provides the payor of interest on the Bonds with an appropriate statement as to its status as a Nonresident. This statement can be made on IRS Form W-8BEN or a successor form. If, however, the Nonresident conducts a trade or business in the United States and the interest or OID on the Bonds held by the Nonresident is effectively connected with such trade or business, that interest or OID will be subject to United States income tax but will generally not be subject to United States withholding tax (including backup withholding).

Circular 230. THE FOREGOING DISCUSSION OF TAX MATTERS WAS NOT INTENDED OR WRITTEN BY BOND COUNSEL TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON AN OWNER OF THE BONDS. THE FOREGOING DISCUSSION OF TAX MATTERS WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE BONDS. EACH PROSPECTIVE PURCHASER OF THE BONDS SHOULD SEEK ADVICE BASED ON THE PROSPECTIVE PURCHASER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

Tax-Exempt Bonds

It is the opinion of Bond Counsel, assuming the correctness and accuracy of certain representations and warranties of the City made in connection with the issuance of the Tax-Exempt Bonds, that under existing laws interest on the Tax-Exempt 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. The opinions set forth in the first sentence of this paragraph are subject to the conditions, among others (as set out in the proposed form of opinion of Bond Counsel with respect to the Tax-Exempt Bonds contained in Appendix C to this Official Statement, reference to which is made), that the representations and warranties of the City referred to above are accurate and that the City comply with all requirements of the United States Internal Revenue Code of 1986, as amended (the "Code"), which must be satisfied subsequent to the issuance of the Tax-Exempt Bonds in order that interest thereon be excluded from gross income for federal income tax purposes. The City 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 Tax-Exempt Bonds to be so included in gross income retroactive to the date of issuance of the Tax-Exempt Bonds. Bond

Counsel expresses no opinion regarding other federal and Kentucky income tax consequences arising with respect to the Tax-Exempt Bonds. Reference is made to the proposed form of Bond Counsel opinion with respect to the Tax-Exempt Bonds contained in Appendix C hereto and to “LEGAL MATTERS” herein.

Prospective purchasers of the Tax-Exempt Bonds should consult their own tax advisors and be aware that:

(i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Tax-Exempt 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 Tax-Exempt Bonds, except to the extent described below. The Corporation has designated the Tax-Exempt 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 that is allocable to interest on the Tax-Exempt Bonds.

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

(iii) Interest on the Tax-Exempt 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 Tax-Exempt 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 and accruals of interest of the Tax-Exempt Bonds.

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

LEGAL MATTERS

Certain legal matters incident to the authorization and validity of the Bonds will be the subject of approving opinion of Stoll Keenon Ogden PLLC, Louisville, Kentucky, Bond Counsel. The proposed form of Bond Counsel’s opinion appears in Appendix C to this Official Statement. Certain legal matters will be passed upon for the City by its City Solicitor, Robert C. Moore.

The information contained in this Official Statement under the headings “INTRODUCTORY STATEMENT,” “AUTHORITY AND SECURITY” (except for the computation referred to in the last paragraph), “THE BONDS” (except for information furnished by DTC), “CERTAIN PROVISIONS OF THE ORDINANCE,” “TAX MATTERS,” “RATING” and “CONTINUING DISCLOSURE UNDERTAKING” 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 Appendices A and B, and expresses no opinion thereon and assumes no responsibility in connection therewith.

CONTINUING DISCLOSURE UNDERTAKING

The City will agree in a Continuing Disclosure Certificate dated as of the date of issuance of the Bonds (the “Continuing Disclosure Certificate”), to provide or to cause to be provided, in accordance with the requirements of Rule 15c2-12, as amended, and official interpretations thereof (the “Rule”) promulgated by the Securities and Exchange Commission, the following:

(i) 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 and audited financial statements contained in Appendix A under the subheading “Sewer System Operating Information,” except for the unaudited balance sheet therein, and in Appendix B. Such information, including audited financial statements, is expected to be available on or before December 31 of each year, for the fiscal year ending on the preceding June 30 and will be made available, 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 the audited financial statements for the prior fiscal year are not available from the auditors on December 31, it 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 City, 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; provided that the City 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 City, any such other event is material with respect to the Bonds, but the City does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above; and

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

With reference to subparagraph (i) above, the audited financial statements and other financial statements of the City are prepared in accordance with (a) generally accepted accounting principles (GAAP) as applied to governmental units, as described in the notes to the City's audited financial statements appearing in Appendix B 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 City uses "fund" accounting to report on its financial position and the results of its operations, and the modified accrual basis of accounting is used by all governmental fund types, expendable trust funds and agency funds, all as described in the notes to the City's audited financial statements.

The City 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 its judgment; provided that it agrees any such modification will be done in a manner consistent with the Rule. The City reserves the right to terminate its obligations to provide annual financial information and notices of material events as set forth above, if and when it no longer remains an obligated person with respect to the Bonds within the meaning of the Rule. The City 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 the Bondholder's right to enforce the provisions of such undertaking shall be limited to a right to obtain specific performance of the obligations of the City pursuant to the provisions of its undertaking, and any failure by the City to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds under the Ordinance.

The City has not failed to comply in all material respects with its previous undertakings under the Rule to provide annual reports upon request and notices of material events

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

FINANCIAL ADVISOR

Morgan Keegan & Company, Inc. ("Morgan Keegan"), Lexington, Kentucky, has been employed by the City to serve as Financial Advisor. Certain information relative to the location,

economy and finances of the City 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 City 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 City to bid on the Bonds.

REFERENCE TO DOCUMENTS

All foregoing summaries and descriptions of provisions set forth in the Ordinance, the Bonds, 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 City 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 City.

Dated March __, 2010.

CITY OF FRANKFORT, KENTUCKY

By _____
Mayor

APPENDICES

- Appendix A - City of Frankfort - Supplemental Information**
- Appendix B - City of Frankfort - Audited Financial Statements**
- Appendix C - Forms of Bond Counsel Opinions**

APPENDIX A
CITY OF FRANKFORT, KENTUCKY,
SEWER SYSTEM REVENUE BONDS, SERIES 2010

Supplemental Information

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SEWER SYSTEM OPERATING INFORMATION

Customers

Listed below is the total number of customers of the sewer system for each of the last five years:

Fiscal Year	Residential	Commercial	Industrial	Total	Rate of Increase
2009	12,200	1,711	9	13,920	.14%
2008	12,176	1,713	11	13,900	.38%
2007	12,076	1,760	11	13,847	.18%
2006	12,139	1,668	14	13,821	1.93%
2005	11,768	1,777	14	13,559	.91%
2004	11,668	1,757	13	13,437	1.27%

Schedule of Sewer Rates

The current schedule for monthly wastewater (sanitary sewer) service rates, shown below, became effective for bills rendered on July 1, 2009. A further monthly rate increase is to be implemented in January of 2012 (15%). In addition, the City plans an inflationary increase on July 1 of each year. The inflationary increase is based on CPI and will be no less than 2.5% and no more than 9.9%.

Charges for services are billed monthly and are based on water usage. The Frankfort Electric and Water Plant Board handles, by agreement, nearly all of the billing. Farmdale Water District also bills 350 of its customers for the City's sanitary sewer services. Billing is for 100% of water usage and is per 1,000 gallons (minimum bill is 2,000 gallons).

Residential and Commercial

Current	11/2009	11/2008	11/2007	11/2006	11/2005	7/2005	11/2004	11/2003
	\$8.27	\$7.97	\$6.92	\$6.71	\$6.10	\$5.54	\$4.62	\$4.20

Industrial

Current	11/2009	11/2008	11/2007	11/2006	11/2005	7/2005	11/2004	11/2003
	8.47	\$8.17	\$7.12	\$6.91	\$6.30	\$5.74	\$4.82	\$4.40

Sewer Use Regulations

The City's Code of Ordinances contains comprehensive rules and regulations governing new connection requirements and charges, prohibition of privies and septic tanks, special charges, discontinuance of water service for failure to pay sewer bills and sewer line extensions. Rules also cover private sanitary sewer mini-projects and an industrial wastewater treatment program.

Largest Customers

Set forth below is a list of the ten largest customers of the sewer system during calendar year 2009.

Customer	Annual Usage (gallons)	Annual Sales
Buffalo Trace Distillery	63,582,501	\$521,836
Leestown Terrace	14,482,600	115,726
Frankfort Regional Hospital	12,086,400	96,329
Topy	9,500,700	78,287
Kentucky State University	9,694,000	77,261
Franklin County Regional Jail	9,173,500	73,113
Montaplast	8,524,500	70,536
BFI	2,945,700	37,116
Washington Penn Plastics	4,244,000	35,029
Centralized Labs	2,040,600	16,817
Total	136,274,501	\$ 1,122,050

Investment and Cash Management Practices

The Board of Commissioners has adopted an investment policy recommendation by the Director of Finance. This policy requires the investment of the public funds in a manner that will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the City and fully conforming to all Kentucky Revised Statutes and City regulations. Investment objectives include safety, liquidity and return on investment. Authorized investments include the following:

- Obligations of the United States and of its agencies and instrumentalities
- Obligations and contracts for future delivery of purchase of obligations backed by the full faith and credit of the United States government agency
- Obligations of any corporation of the United States government
- Certificates of deposit or other interest bearing accounts of bank or savings and loan institution which are insured by the FDIC or which are collateralized, to the extent uninsured, by obligations permitted under Section 41.240(4) of the Kentucky Revised Statutes. The deposits in excess of insurance coverage must be fully collateralized.
- Bonds or certificates of indebtedness of the Commonwealth of Kentucky

With reference to sewer system revenues and funds, see "CERTAIN PROVISIONS OF THE ORDINANCE - Investments" in the forepart hereof.

The pension trust fund is allowed to be invested in a broader range of investments. With the exception of the pension trust fund, the City invested only in certificates of deposit and money market funds in fiscal year 2007. The City records all interest revenue related to investment activities in the respective funds, unless bond ordinances provide otherwise.

Source: City of Frankfort

**City of Frankfort Sewer Fund
Statement of Revenues and Expenses**

Coverage Analysis

As of June 30,

	<u>Proforma</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Revenues							
User Fees	\$9,423,393	\$9,423,393	\$9,644,935	\$7,893,115	\$7,191,647	\$5,362,227	\$5,168,195
Tap Fees	224,894	224,894	250,581	301,110	318,930	676,615	248,267
Dump Fees	621,847	621,847	572,919	412,054	429,702	343,646	295,415
Inspection Fees	7,342	7,342	8,656	43,621	9,914	0	0
Grants and Aid		642,237	2,744,787	2,475,006	0	0	0
Other Fees	13,259	13,259		0	640,801	638,554	98,254
Total Operating Revenues	<u>\$10,290,735</u>	<u>\$10,932,972</u>	<u>\$13,221,878</u>	<u>\$11,124,906</u>	<u>\$8,590,994</u>	<u>\$7,021,042</u>	<u>\$5,810,131</u>
Operating Expenses							
Personnel	\$1,865,426	\$1,865,426	\$1,857,611	\$1,638,752	\$1,561,889	\$1,382,924	\$1,582,918
Contracted Services	827,157	807,044	523,281	697,478	151,980	326,975	121,044
Materials and Supplies	576,274	883,480	918,895	491,306	400,231	268,691	109,725
Office Expense	0	0	0	0	11,449	10,711	7,291
Repairs, Maintenance & Improvements	753,690	776,452	677,404	534,120	302,550	327,875	305,769
Emp. Pensions, Medicare, Comp. Absences, Social Sec.	663,940	640,416	599,203	485,869	511,789	465,999	0
Utilities and Telephone	436,717	436,717	492,675	494,015	581,145	462,805	421,906
Equipment/Subsidy Expense	0	0	0	0	2,219,889	1,629,052	0
Insurance	215,443	213,523	207,148	233,502	197,882	173,540	158,766
Gasoline and Travel	0	0	0	0	43,542	52,470	45,205
Depreciation Expense	810,575	810,575	777,346	732,278	872,588	652,843	630,557
Other Operating Expenses	320,523	23,524	86,843	100,124	93,112	46,418	99,775
Education and Training	0	0	19,108	0	4,936	40,609	52,925
Drug and Lab Expense	307,206	0	0	0	0	0	0
Total Operating Expenses	<u>\$6,776,951</u>	<u>\$6,457,157</u>	<u>\$6,159,514</u>	<u>\$5,407,444</u>	<u>\$6,952,982</u>	<u>\$5,840,912</u>	<u>\$3,535,881</u>
Net Operating Income	<u>\$3,513,784</u>	<u>\$4,475,815</u>	<u>\$7,062,364</u>	<u>\$5,717,462</u>	<u>\$1,638,012</u>	<u>\$1,180,130</u>	<u>\$2,274,250</u>
Adjustments							
Add Back Depreciation	\$810,575	\$810,575	\$1,038,402	\$732,278	\$872,588	\$652,843	\$630,557
Add Investment Income	838,663	838,663	(193,604)	791,932	466,145	166,007	71,721
Subtract Grants and Aid	0	(642,237)	(2,744,787)	(2,475,006)	0	0	0
Total Adjustments	<u>\$1,649,238</u>	<u>\$1,007,001</u>	<u>(\$1,899,989)</u>	<u>(\$950,796)</u>	<u>\$1,338,733</u>	<u>\$818,850</u>	<u>\$630,557</u>
Revenue Available for Debt Service	<u>\$5,163,022</u>	<u>\$5,482,816</u>	<u>\$5,162,375</u>	<u>\$4,766,666</u>	<u>\$2,976,745</u>	<u>\$1,998,980</u>	<u>\$2,904,807</u>
Debt Service							
Existing Maximum Debt Service	\$873,988	\$875,228	\$875,228	\$875,228	\$875,228	\$875,228	\$875,228
Estimated Maximum Debt Service - Series 2010 (1)	1,366,699	0	0	0	0	0	0
Total Debt Service	<u>\$2,240,687</u>	<u>\$875,228</u>	<u>\$875,228</u>	<u>\$875,228</u>	<u>\$875,228</u>	<u>\$875,228</u>	<u>\$875,228</u>
Balance	<u>\$2,922,336</u>	<u>\$4,607,588</u>	<u>\$4,287,147</u>	<u>\$3,891,438</u>	<u>\$2,101,517</u>	<u>\$1,123,752</u>	<u>\$2,029,579</u>
Total & Parity Debt Service Coverage	2.304	6.264	5.898	5.446	3.401	2.284	3.319

(1) Estimated Maximum Debt Service does not include BAB Subsidy

Information taken from the City's audited financial statements (unless otherwise stated) and summarized by the Financial Advisor.

**City of Frankfort
Sewer Fund
Balance Sheet**

30-Jun-09

	<u>2009</u>
Assets	
Current Assets	
Cash and Cash Equivalents	\$9,343,989
Investments	16,950,000
Receivables	
Accounts Receivable	-
Due from other Government Agencies	202,576
Accrued Interest and Interest Receivable	101,712
Inventory	178,687
Total Current Assets	<u>\$26,776,964</u>
Noncurrent Assets	
Restricted Assets	
Cash and Cash Equivalents	\$1,778,838
Investments	2,641,384
Accrued Interest	2,021
Bond Issuance Costs and Discount	198,512
Capital Assets, net	<u>23,232,556</u>
Total Noncurrent Assets	<u>\$27,853,311</u>
Total Assets	<u>\$54,630,275</u>
Liabilities	
Current Liabilities	
Accounts Payable	\$127,019
Leases Payable	36,195
Bonds Payable	515,000
Due To Other Funds	-
Claim Loss Reserve Liability	1,920
Total Current Liabilities	<u>\$680,134</u>
Noncurrent Liabilities	
Bonds Payable	\$9,480,000
Leases Payable	77,641
Accrued Compensated Absences	471,773
Total Noncurrent Liabilities	<u>\$10,029,414</u>
Total Liabilities	<u>\$10,709,548</u>
Net Assets	
Invested in Capital Assets	\$13,123,720
Restricted	
Health Insurance Claims	28,030
Workers Compensation Claims	131,691
Fixed Asset Replacement	3,500,000
Sewer Bond Project and Reserves	4,260,502
Unrestricted	22,876,784
Total Net Assets	<u>\$43,920,727</u>
Total Liabilities and Net Assets	<u>\$54,630,275</u>

Information taken from the City's unaudited financial statements and summarized by the Financial Advisor.

**CITY OF FRANKFORT (KENTUCKY)
SEWER SYSTEM REVENUE BONDS**

ESTIMATED TOTAL ANNUAL DEBT SERVICE

Fiscal Year	Existing Debt Service	Estimated Series 2010 Bonds			Est. Total Debt Service	Estimated BAB Subsidy	Est. Total Debt Service
		Principal	Interest	Total			
2010	\$874,719	\$0	\$123,984	\$123,984	\$998,703	(\$43,394)	\$955,309
2011	872,215	0	603,167	603,167	1,475,382	(211,108)	1,264,273
2012	873,988	770,000	596,699	1,366,699	2,240,686	(208,844)	2,031,842
2013	874,948	780,000	581,729	1,361,729	2,236,676	(203,605)	2,033,071
2014	875,228	790,000	562,641	1,352,641	2,227,868	(196,924)	2,030,944
2015	874,523	810,000	537,961	1,347,961	2,222,483	(188,286)	2,034,197
2016	872,508	830,000	507,350	1,337,350	2,209,857	(177,572)	2,032,285
2017	874,378	850,000	472,558	1,322,558	2,196,935	(165,395)	2,031,540
2018	875,008	875,000	434,595	1,309,595	2,184,603	(152,108)	2,032,494
2019	874,209	900,000	393,758	1,293,758	2,167,966	(137,815)	2,030,151
2020	872,120	930,000	350,055	1,280,055	2,152,175	(122,519)	2,029,656
2021	873,525	960,000	303,743	1,263,743	2,137,268	(106,310)	2,030,958
2022	873,000	990,000	254,985	1,244,985	2,117,985	(89,245)	2,028,740
2023	875,700	1,025,000	203,594	1,228,594	2,104,294	(71,258)	2,033,036
2024	872,100	1,060,000	149,375	1,209,375	2,081,475	(52,281)	2,029,194
2025	-	1,100,000	92,125	1,192,125	1,192,125	(32,244)	1,159,881
2026	-	1,140,000	31,350	1,171,350	1,171,350	(10,973)	1,160,378
Totals	\$13,108,165	\$13,810,000	\$6,199,664	\$20,009,664	\$33,117,829	(\$2,169,882)	\$30,947,947

ECONOMIC AND DEMOGRAPHIC INFORMATION CITY OF FRANKFORT AND FRANKLIN COUNTY, KENTUCKY

General

Frankfort, Kentucky, one of the most picturesque state capitals in the United States, is located on the Kentucky River, and has served as the capital of the Commonwealth of Kentucky since December 8, 1792. Frankfort, the county seat of Franklin County since 1795, is located in the Bluegrass Region of Central Kentucky. Frankfort is located 53 miles east of Louisville, Kentucky; 30 miles west of Lexington, Kentucky; and 208 miles northeast of Nashville, Tennessee.

Economic Framework

The total number of Franklin County residents employed as of September 2009 is 22,534. State and local government accounts for the largest number of jobs in Franklin County, with a total of 11,635 people employed in that area. Manufacturing firms in the county reported 2,725 employees, and 7,968 people were employed in service occupations.

Labor Supply

There is a current estimated labor supply of 49,151 persons available for jobs in the labor market area. In addition, from 2007 through 2010, 78,112 young persons in the area will become 18 years of age and potentially available for employment.

The largest manufacturing and supportive service employers in Franklin County, Kentucky are as follows:

Firm	Type of Product	# of Emp.
Montaplast of North America	Plastic injection molding automotive parts	552
Buffalo Trace Distillery	Distilled liquor bottling	318
Jim Beam Brands Co	Distilled liquor bottling	259
TOPY America Inc	Steel road wheels for passenger cars and light trucks	250
EDS an HP Company	Call center, help desk, data center	200
GECOM Corp	Automotive parts & metal stampings, headquarters	200
Greenheck Fan Corp	Commercial and industrial air moving and control equipment	152
ArvinMeritor Inc	Truck axles	120
CENTRIA	Steel building components	100
Frankfort Habilitation Inc	Sheltered workshop: packaging and assembly for industries.	100
Harrod Concrete & Stone Co	Ready-mixed concrete & crushed limestone	100
MBM	Distribution and warehousing center	100
Washington Penn Plastic Co Inc	Compounder of thermoplastic	63

Transportation

Frankfort is easily accessible Interstate 64 and Interstate 75, and other major highways serving Frankfort are U.S. 60, U.S. 421, U.S. 127, U.S. 460, and Kentucky Highway 676, all of which are AAA rated trucking highways. Thirty-three trucking companies provide interstate and/or intrastate service to Frankfort, while two trucking firms maintain terminals in Frankfort. Main line rail service is provided by CSX Transportation. The City's centralized location positions Frankfort between three major airports: Lexington Bluegrass Airport, which is 25 miles east of Frankfort; Louisville International Airport, which is 54 miles west of Frankfort; and Cincinnati/Northern Kentucky International Airport, which is 84 miles northeast of Frankfort. The Capitol City Airport, located in Frankfort, is a public use airport that is owned and operated by the Commonwealth of Kentucky. Along with a 5,005-foot single runway, the airport covers 355 acres and adjoins the Boone National Guard Center. Frankfort is also located on the Kentucky River where a six-foot navigation channel is maintained.

Power and Fuel

The Frankfort Electric & Water Plant Board provides electric power, supplied by the Kentucky Utilities Company, to Frankfort and portion of Franklin County. Franklin County is also served directly by Kentucky Utilities and by the Fox Creek Rural Electric Cooperative, which is supplied by East Kentucky Power. National gas is supplied to Frankfort by Columbia Gas of Kentucky, Inc.

Education

Primary and secondary education is provided by the Frankfort Independent School System and the Franklin County School System. Both school systems are accredited by the Southern Association of Colleges and Schools. There are also three non-public schools in Franklin County. In Frankfort, Kentucky State University, a small liberal studies oriented institution of higher learning, offers programs leading to two-year associate degrees, four-year baccalaureate degrees, and a masters degree program in public administration. There are thirteen additional colleges and universities within a 60 mile radius of Frankfort. Vocation training is provided locally by the Franklin County Area Vocational Education Center. The Central Kentucky Regional Technology Center in Lexington, 28 miles east of Frankfort, and the Anderson County Regional Technology Center, 9 miles south, also provides vocational training.

Sources: Kentucky Cabinet for Economic Development, U.S. Department of Commerce, Bureau of Economic Analysis, and the City of Frankfort

FRANKLIN COUNTY ECONOMIC AND DEMOGRAPHIC STATISTICS

Population

Year	2004	2005	2006	2007	2008	2009
Labor Market Area	1,433,111	1,444,166	1,452,837	1,462,086	1,477,808	1,518,602
Franklin County	48,142	48,023	48,437	48,588	48,286	48,087
Frankfort	27,300	27,210	27,077	27,098	27,322	N/A

Source: Kentucky Cabinet of Economic Development

Population Projections

Year	2010	2015	2020	2025
Franklin County	49,040	50,180	51,175	52,011

Employment and Income Statistics

Year	Per Capita Income	Median Family Income	Average Weekly Wage	Employment	Civilian Labor Force	Unemployment Rate
2009*	(1)	\$50,296	(1)	22,537	24,777	9.10%
2008	(1)	\$49,615	\$751	24,047	25,531	5.80%
2007	\$ 33,366	\$48,751	\$742	24,858	26,118	4.80%
2006	\$ 32,272	(1)	(1)	24,462	25,660	4.70%
2005	\$ 30,944	\$43,699	\$691	24,008	25,237	4.90%
2004	\$ 29,442	\$42,766	\$677	24,027	25,110	4.30%
2003	\$ 28,732	\$42,161	(1)	24,003	25,184	4.70%

*As of September 2009

(1) Not available

In 2007 Franklin had a per capita personal income of \$33,366. This ranked 10th in the state and was 108 percent of the state average, \$30,824, and 86 percent of the national average, \$38,615. This reflected an increase of 4.2 percent from 2006. The 2006-2007 state change was 4.3 percent and the national change was 4.9 percent. The 1997-2007 average annual growth rate of PCPI was 3.4 percent. The average annual growth rate for the state was 4.0 percent and for the nation was 4.3 percent.

Sources: Kentucky Cabinet of Economic Development, Kentucky Office of Employment and Training, and the U.S. Department of Commerce, Bureau of Economic Analysis

APPENDIX B

**CITY OF FRANKFORT, KENTUCKY,
SEWER SYSTEM REVENUE BONDS, SERIES 2010**

**City of Frankfort – Audited Financial Statements
June 30, 2009**

Important Notice: The following comprehensive financial statements relate to the City Government in general, and reference should be made to pages 10-12, 57-66, and the accompanying Notes to the Financial Statements, for information relating to the System. Bondholders are advised that the Bonds are secured only by System revenues.

City of Frankfort
Audited Financial Statements
For The Year Ended June 30, 2009

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FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Mayor H. Gippy Graham
Members of the City Commission
Frankfort, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Frankfort, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the city's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Frankfort Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frankfort, Kentucky, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2010, on our consideration of the City of Frankfort, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City has not presented the management's discussion and analysis that the Governmental Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information on pages 28 through 31 are not a required part of the basic financial statements but are supplementary 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 the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Frankfort, Kentucky's basic financial statements. The combining and individual nonmajor fund financial statements on pages 32 through 68 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of City of Frankfort, Kentucky. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Charles T. Mitchell Co.

February 1, 2010

BASIC FINANCIAL STATEMENTS

City of Frankfort
Statement of Net Assets
June 30, 2009

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Cash Equivalents	\$ 4,628,592	\$ 9,343,989	\$ 13,972,581
Investments	15,810,000	16,950,000	32,760,000
Receivables			
Accounts Receivable	24,002		24,002
Due from Other Government Agencies	354,054	202,576	556,630
Accrued Interest	47,004	101,712	148,716
Prepaid Expenses	42,404		42,404
Inventory		178,687	178,687
Restricted Assets			
Cash and Cash Equivalents	416,061	1,778,838	2,194,899
Investments	2,531,513	2,641,384	5,172,897
Accrued Interest	35,813	2,021	37,834
Bond Issuance Costs and Discount	185,777	198,512	384,289
Capital Assets			
Land and Construction in Progress	8,907,686	8,338,288	17,245,974
Depreciable Capital Assets, Net	39,361,887	14,894,268	54,256,155
Total Assets	<u>72,344,793</u>	<u>54,630,275</u>	<u>126,975,068</u>
Liabilities			
Accounts Payable	343,045	127,019	470,064
Capitalized Lease Obligations			-
Due Within One Year	92,615	36,195	128,810
Due in More Than One Year	285,626	77,641	363,267
Claim Loss Reserve Liability	85,842	1,920	87,762
Interest Expense Payable			-
Accrued Compensated Absences	5,204,115	471,773	5,675,888
Sewer Revenue Bond Debt			
Due Within One Year		515,000	515,000
Due in More Than One Year		9,480,000	9,480,000
General Obligation Bond Debt			
Due Within One Year	615,000		615,000
Due in More Than One Year	9,380,000	-	9,380,000
Total Liabilities	<u>16,006,243</u>	<u>10,709,548</u>	<u>26,715,791</u>
Net Assets			
Invested in Capital Assets, Net of Related De	37,896,332	13,123,720	51,020,052
Restricted			
Capital Projects	459,433		459,433
Health Insurance Claims	884,481	28,030	912,511
Workers Compensation Claims	2,090,640	131,691	2,222,331
Special Revenue	5,838,047		5,838,047
Sewer Bond Project and Reserves		4,260,502	4,260,502
Fixed Asset Replacement		3,500,000	3,500,000
Unrestricted	9,169,617	22,876,784	32,046,401
Total Net Assets	<u>\$ 56,338,550</u>	<u>\$ 43,920,727</u>	<u>\$ 100,259,277</u>

The accompanying notes are an integral part of these financial statements

City of Frankfort
Statement of Activities
For The Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Total	Net (Expense) Revenue And Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities	Business-Type Activities	Total
Governmental Activities								
General Government	\$ 1,769,851	\$ 126,390	\$ -	\$ -	\$ 126,390	\$ (1,643,461)	\$ -	\$ (1,643,461)
Finance	540,185				-	(540,185)		(540,185)
Insurance	3,546,140				-	(3,546,140)		(3,546,140)
Public Safety	14,909,045	2,167,629	1,303,460	124,303	3,595,392	(11,313,653)		(11,313,653)
Public Works	6,515,805	127,331	589,604	935,785	1,652,720	(4,863,085)		(4,863,085)
Parks and Recreation	3,345,569	631,654		214,989	846,643	(2,498,926)		(2,498,926)
Planning and Building Codes	721,108	88,312			88,312	(632,796)		(632,796)
Special Projects	848,503	12,214		518,104	530,318	(318,185)		(318,185)
Interest on Long Term Debt	442,391	-	-	-	-	(442,391)	(188,555)	(630,946)
Total Governmental Activities	32,638,597	3,153,530	1,893,064	1,793,181	6,839,775	(25,798,822)	(188,555)	(25,987,377)
Business-Type Activities								
Sewer	6,776,951	10,290,735	-	666,348	10,957,083		4,180,132	4,180,132
Total Business-Type Activities	6,776,951	10,290,735	-	666,348	10,957,083		4,180,132	4,180,132
Totals	\$ 39,415,548	\$ 13,444,265	\$ 1,893,064	\$ 2,459,529	\$ 17,796,858	(25,798,822)	3,991,577	(21,807,245)
General Revenues								
Taxes								
Property Tax						3,390,337		3,390,337
Occupational Tax						20,434,738		20,434,738
Intergovernmental Revenues						439,080		439,080
Interest and Investment Earnings						817,229	838,663	1,655,892
Surplus Property Sale						176,158	3,405	179,563
Donations						100,690	-	100,690
Gain (Loss) on Disposal of Fixed Assets						(742,044)	(465,372)	(1,207,416)
Total General Revenues						24,616,188	376,696	24,992,884
Transfers						300,000	(300,000)	-
Total General Revenues(after transfers)						24,916,188	76,696	24,992,884
Change in Net Assets						(882,634)	4,068,273	3,185,639
Net Assets - Beginning as Originally Stated						55,441,513	39,852,454	95,293,967
Prior Period Adjustment						1,779,671	-	1,779,671
Net Assets - Beginning as Restated						57,221,184	39,852,454	97,073,638
Net Assets - Ending						\$ 56,338,550	\$ 43,920,727	\$ 100,259,277

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

City of Frankfort
Balance Sheet-Governmental Funds
June 30, 2009

	General Fund	Municipal Aid	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 1,041,246	\$ 1,671,735	\$ 1,915,611	\$ 4,628,592
Investments	13,050,000	1,500,000	1,260,000	15,810,000
Receivables				
Accounts Receivable	22,500		1,502	24,002
Due from Other Government Agencies	305,212		48,842	354,054
Accrued Interest	39,320	3,204	4,480	47,004
Due From Other Funds	0		107,418	107,418
Prepaid Expenses	42,404			42,404
Restricted Assets				
Cash and Cash Equivalents	407,795		8,266	416,061
Investments	2,531,513			2,531,513
Accrued Interest	35,813	-	-	35,813
Total Assets	<u>\$ 17,475,803</u>	<u>\$ 3,174,939</u>	<u>\$ 3,346,119</u>	<u>\$ 23,996,861</u>
Liabilities and Fund Balances				
Liabilities				
Due To Other Funds	\$ 107,418	\$ -	\$ -	\$ 107,418
Accounts Payable	119,467	174,595	48,983	343,045
Total Liabilities	<u>226,885</u>	<u>174,595</u>	<u>48,983</u>	<u>450,463</u>
Fund Balances				
Reserved				
Encumbrances	395,797	376,743	844,575	1,617,115
Inventory/Prepaid Items	42,404			42,404
Holmes Street Sewer			118,115	118,115
Street Resurfacing and Other Municipal Aid Programs		2,623,601		2,623,601
Health Insurance Claims	884,481			884,481
Workers Comp Claims	2,090,640			2,090,640
Safe Place			3,619	3,619
Low Income Housing Projects			13,757	13,757
Public Safety Building			6,874	6,874
Unreserved				
Designations				
Vacation and Sick Leave	5,204,115			5,204,115
Contingencies	1,500,000			1,500,000
Capital Project Funds			77,004	77,004
Special Revenue Funds			2,233,192	2,233,192
Undesignated, Reported in General Fund	7,131,481	-	-	7,131,481
Total Fund Balance	<u>17,248,918</u>	<u>3,000,344</u>	<u>3,297,136</u>	<u>23,546,398</u>
Total Liabilities and Fund Balances	<u>\$ 17,475,803</u>	<u>\$ 3,174,939</u>	<u>\$ 3,346,119</u>	<u>\$ 23,996,861</u>

The accompanying notes are an integral part of these financial statements

City of Frankfort
Reconciliation of Governmental Funds Balance Sheet to
Statement of Net Assets
June 30, 2009

Total Fund Balances- Governmental Funds	\$ 23,546,398
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$28,697,532.	48,269,573
Bond issuance costs and discounts are not financial resources and therefore are not reported in the funds	185,777
Certain liabilities are not due and payable in current period and therefore are not reported in the funds:	
Lease obligations payable	(378,241)
Claims loss reserve liability	(85,842)
Accrued compensated absences	(5,204,115)
General obligation bond debt	<u>(9,995,000)</u>
Net assets of governmental activities	<u>\$ 56,338,550</u>

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

City of Frankfort
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Funds
For The Year Ended June 30, 2009

	General Fund	Municipal Aid	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 3,390,337	\$ -	\$ -	\$ 3,390,337
Occupational Receipts	20,434,738			20,434,738
Licenses, Permits & Fines	89,412			89,412
Fines and Forfeitures	14,806		103,222	118,028
Charges for Services	2,211,146		456,201	2,667,347
Intergovernmental	2,875,988	557,785	691,553	4,125,326
Interest Income	686,619	64,715	65,895	817,229
Miscellaneous	17,379		27,460	44,839
Rental Income	94,594		26,787	121,381
Recycling	112,524	-	-	112,524
Total Revenues	<u>29,927,543</u>	<u>622,500</u>	<u>1,371,118</u>	<u>31,921,161</u>
Expenditures				
Current				
General Government	2,431,972		839	2,432,811
Public Safety	13,750,299		2,378,621	16,128,920
Finance	525,735			525,735
Insurance	3,597,421			3,597,421
Public Works	5,282,965	587,382	801,677	6,672,024
Parks and Recreation	3,199,668		44,554	3,244,222
Planning and Building Codes	708,789			708,789
Special Projects	0		64,020	64,020
Reserve for Contingencies	110,845			110,845
Capital Outlay	305,272			305,272
Debt Service				
Principal Retirement	1,299,906			1,299,906
Interest and Fiscal Charges	427,529	-	-	427,529
Total Expenditures	<u>31,640,401</u>	<u>587,382</u>	<u>3,289,711</u>	<u>35,517,494</u>
Excess (Deficiency) of Revenues Over/(Under) Expenditures	<u>(1,712,858)</u>	<u>35,118</u>	<u>(1,918,593)</u>	<u>(3,596,333)</u>
Other Financing Sources (Uses)				
Capitalized Lease Obligation Proceeds	266,574			266,574
Sale of Property	176,158			176,158
Transfers In	500,000		5,707	505,707
Transfers Out	(1,300)	(4,407)	(200,000)	(205,707)
Total Other Financing Sources (Uses)	<u>941,432</u>	<u>(4,407)</u>	<u>(194,293)</u>	<u>742,732</u>
Net Changes in Fund Balance	(771,426)	30,711	(2,112,886)	(2,853,601)
Fund Balances, Beginning of Year	18,020,344	2,969,633	5,410,022	26,399,999
Residual Equity Transfer	-	-	-	-
Fund Balances, End of Year	<u>\$ 17,248,918</u>	<u>\$ 3,000,344</u>	<u>\$ 3,297,136</u>	<u>\$ 23,546,398</u>

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

City of Frankfort
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds
To The Statement of Activities
June 30, 2009

Net Changes in Fund Balances - Total Governmental Funds \$ (2,853,601)

Amounts reported for governmental activities in the Statement
of Activities are different because:

Governmental funds report capital outlays as expenditures;
while governmental activities report depreciation expense to allocate
these expenditures over the life of the assets.

Capital outlay	4,398,356
Depreciation expense	(2,267,606)
Loss on disposal of capital outlays	(742,044)

The issuance of long term debt (bonds, leases) provides current financial resources
to governmental funds while capitalized lease obligations payments are expensed
in the Governmental Funds. These transactions, however, have no effect on net
assets.

Proceeds from capitalized lease obligations	(266,574)
Capitalized lease obligation principal payments	84,906
Payment of principal on general obligation debt	1,215,000
Amortization of issuance costs of general obligation debt	(14,862)

Some expenses reported in the Statement of Activities do not
require the use of current financial resources and, therefore, are not
reported as expenditures in governmental funds.

Claims loss reserve liability	51,281
Compensated absences	(487,490)

Change in Net Assets of Governmental Activities \$ (882,634)

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

City of Frankfort
Statement of Net Assets-
Proprietary Funds - Sewer Fund
June 30, 2009

Assets	
Current Assets	
Cash and Cash Equivalents	\$ 9,343,989
Investments	16,950,000
Receivables	
Accrued Interest and Interest Receivable	101,712
Intergovernment Receivables	202,576
Inventory	178,687
Total Current Assets	<u>26,776,964</u>
Noncurrent Assets	
Restricted Assets	
Cash and Cash Equivalents	1,778,838
Investments	2,641,384
Accrued Interest	2,021
Bond Issuance Costs and Discount	198,512
Capital Assets, Net	14,894,268
Total Noncurrent Assets	<u>19,515,023</u>
Total Assets	<u>46,291,987</u>
Liabilities	
Current Liabilities	
Accounts Payable	127,019
Leases Payable	36,195
Claim Loss Reserve Liability	1,920
Bonds Payable	515,000
Total Current Liabilities	<u>680,134</u>
Noncurrent Liabilities	
Bonds Payable	9,480,000
Leases Payable	77,641
Accrued Compensated Absences	471,773
Total Noncurrent Liabilities	<u>10,029,414</u>
Total Liabilities	<u>10,709,548</u>
Net Assets	
Invested in Capital Assets	4,785,432
Restricted	
Health Insurance Claims	28,030
Workers Compensation Claims	131,691
Fixed Asset Replacement	3,500,000
Sewer Bond Project and Reserves	4,260,502
Unrestricted	22,876,784
Total Net Assets	<u>\$ 35,582,439</u>

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

City of Frankfort
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds - Sewer Fund
For The Year Ended June 30, 2009

Operating Revenues	
User Fees	\$ 9,423,393
Back Billing Revenues	13,259
Tap Fees	224,894
Inspection Fees	7,342
Dump Fees	<u>621,847</u>
Total Operating Revenues	<u>10,290,735</u>
Operating Expenses	
Personnel Services	1,865,426
Employee Benefits	640,416
Heat, Light and Power	436,717
Insurance	215,443
Other Contracted Services	827,157
Drug and Lab Supplies	307,206
Shop Supplies	161,441
Other Materials and Supplies	414,833
Other Expenses	320,523
Repairs and Maintenance and Other Non-Capitalizable Fixed Assets	753,690
Depreciation Expense	810,575
Compensated Absence Expense	<u>23,524</u>
Total Operating Expenses	<u>6,776,951</u>
Operating Income/(Loss)	3,513,784
Non-Operating Revenues/(Expenses)	
Grants and Aid	666,348
Bond and Lease Interest Expense	(174,865)
Bond Discount and Issuance Amortization	(13,690)
Investment Income	838,663
Loss on Disposal of Fixed Assets	<u>(461,967)</u>
Total Non-Operating Revenues/(Expenses)	<u>854,489</u>
Transfers Out	<u>(300,000)</u>
Change in Net Assets	4,068,273
Net Assets, Beginning of Year	<u>39,852,454</u>
Net Assets, End of Year	<u><u>\$ 43,920,727</u></u>

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

City of Frankfort
Statement of Cash Flows
Proprietary Funds - Sewer Fund
For The Year Ended June 30, 2009

Cash Flows from Operating Activities	
Receipts from Customers and Users	\$ 10,290,735
Payments to Employees	(1,865,426)
Payments to Suppliers	(3,405,850)
Payments of Staff Benefits and Administrative Expenses	<u>(640,416)</u>
Net Cash Provided by Operating Activities	<u>4,379,043</u>
Cash Flows from Noncapital Financing Activities	
Transfers- Out	<u>(300,000)</u>
Net Cash Used in Noncapital Financing Activities	<u>(300,000)</u>
Cash Flows from Capital and Related Financing Activities	
Grants and Aid	685,730
Payment of Interest on Bonds and Leases	(191,236)
Payment on Lease	(34,550)
Disposal of Fixed Assets	3,405
Acquisition and Construction of Capital Assets	<u>(5,812,129)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(5,348,780)</u>
Cash Flows from Investing Activities	
Investment Income Received	875,066
Net Purchase of Investments	<u>(2,724)</u>
Net Cash Provided By Investing Activities	<u>872,342</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(397,395)
Cash and Cash Equivalents, Beginning of Year	<u>11,520,222</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 11,122,827</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 3,513,784
Adjustment to Reconcile Operating Income (Loss) to	
Net Cash Provided (Used) in Operating Activities:	
Cash Flows Reported in Other Categories:	
Depreciation Expense	810,575
Change in Assets and Liabilities:	
Inventories	(42,419)
Accounts Payable	71,659
Claim Loss Reserve Liability	1,920
Accrued Compensated Absences	<u>23,524</u>
Net Cash Provided (Used)) by Operating Activities	<u><u>\$ 4,379,043</u></u>
Cash and Cash Equivalents	
Unrestricted	\$ 9,343,989
Restricted	<u>1,778,838</u>
	<u><u>\$ 11,122,827</u></u>

The accompanying notes are an integral part of these financial statements

City of Frankfort
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009

	Police and Fire Retirement Fund	Agency Funds
	<u> </u>	<u> </u>
Assets		
Cash and Cash Equivalents	\$ 641,243	\$ 16,040
Investments	5,061,812	
Accrued Interest	<u>51,598</u>	<u> </u>
Total Assets	<u><u>\$ 5,754,653</u></u>	<u><u>\$ 16,040</u></u>
Liabilities		
Due to Other Governments	\$ -	\$ 4
Due to Depositors	<u> -</u>	<u>16,036</u>
Total Liabilities	<u> -</u>	<u>16,040</u>
Net Assets		
Held in Trust for Pension Benefits	<u><u>\$ 5,754,653</u></u>	<u><u>\$ </u></u>

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

City of Frankfort
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For The Year Ended June 30, 2009

	<u>Police and Fire Retirement Fund</u>
Additions	
Investment Earnings	
Interest and Dividends	\$259,507
Realized Gain on Sale of Investments	24,886
Net Increase in the Fair Value of Investments	<u>56,071</u>
Total Additions	<u>340,464</u>
Deductions	
Retirement Claims Paid	337,039
Trustee's Commission	<u>13,569</u>
Total Deductions	<u>350,608</u>
Change in Net Assets	(10,144)
Net Assets - Beginning of Year	<u>5,764,797</u>
Net Assets - End of Year	<u><u>\$ 5,754,653</u></u>

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

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The City of Frankfort, Kentucky (The "City") was incorporated in 1786 under the provisions of the Commonwealth of Kentucky. The City operates under a mayor and commission-manager form of government. The governing body consists of the Mayor and four elected commission members. The Mayor is elected to serve a four year term, and commissioners are each elected to serve a two year term. The City Manager administers policies and coordinates the activities of the City. The heads of the various departments, formed to provide various services, are under the direct supervision of the City Manager.

The accompanying financial statements present the City and its component units (traditionally separate reporting entities) for which the City is considered to be financially accountable. The City, (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit or to impose specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units.

Blended Component Unit – The City has included the financial operations of the City of Frankfort Policemen's and Firemen's Retirement Fund as a blended component unit. The entity is listed separately as a fiduciary fund. Policemen and Firemen retired prior to August 1, 1988 participate in this plan. The City does not select the pension board nor does it have the ability to significantly influence operations. However, there would be financial interdependency because the City would be responsible for funding any deficit and any surplus in the fund would be returned to the City.

B. BASIC FINANCIAL STATEMENTS

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Government-wide financial statements display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary, or fiduciary. Fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the supplemental information.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements, the proprietary fund financial statements, and the fiduciary fund financial statements are all reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this focus and basis, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the cash is received or expended.

All governmental funds are accounted for using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. The City considers revenues to be *available* if they are collected within 60 days of the end of the current fiscal period; the major sources of accrued revenue are property taxes and grant revenues. Expenditures are recorded when the liability is incurred, consistent with accrual accounting. Debt service expenditures, claims and judgments, as well as expenditures related to compensated absences are recorded only when payment is due.

The City of Frankfort reports the following major governmental funds:

General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Municipal Aid Fund is a special revenue fund that accounts for Municipal Aid and Local Government Economic Assistance funds to be used for street resurfacing and similar projects.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

The City reports its only proprietary fund as a *major* proprietary fund:

Sewer Fund accounts for revenues received for sewer services for the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing, and related debt service, billing and collection.

Additionally, the City reports the following fund types:

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. The City has the following two types of fiduciary funds:

Pension Trust Funds are used to report resources that are held in trust for the members and beneficiaries of the Police and Fire Retirement Benefit Plan.

Agency Funds are used to report resources held by the City in a purely custodial capacity (assets equal liabilities). Agency funds typically involve the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

The accompanying financial statements reflect the elimination of interfund activity with the exception of the charges to the City's proprietary fund. These amounts are shown on the statement of net assets as *interfund balances*.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund-based financial statements into the governmental column of the government-wide presentation. This reconciliation is a part of the financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

The operating revenues of the proprietary fund include charges to customers for the use of the sewer system. Nonoperating revenues include investment earnings. The operating expenses of the proprietary fund are those expenses incurred in the normal operations of providing the sewer services as well as depreciation of the capital assets.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

- 1. Deposits and Investments** – Cash and cash equivalents include cash on hand, demand deposits, short-term investments with original maturities of three months or less when purchased. The city's certificates of deposit are reported at cost since the redemption terms do not consider market rates. Other investments in the trust accounts are stated at fair value.
- 2. Restricted Assets** – The City has certain assets that are restricted by terms of federal or state grants and programs, debt service, or other agreements and are segregated on the Government-Wide Statement of Net Assets and the Proprietary Fund Statement of Net Assets. These include:

Funds restricted in trust accounts for the payment of health and workers compensation claims as needed.

Capital Project Account for the remaining proceeds of the 1999 bond issue that were used for the West Frankfort Tunnel, Holmes Street, and Jones Run Pump Station projects.

The 2006 Bond Construction account represents the remaining proceeds of the 2006 General Obligation bond issue that are to be used for the construction of the public safety building.

The Sewer's Bond Depreciation and Reserve accounts are funds that are required to be held in reserve until all outstanding bonds are retired.

The 2007 Bond Construction account represents proceeds of sewer revenue bond issue that are restricted for the construction and installation major new sanitary sewer improvements and facilities.

- 3. Receivables and Payables** – Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are report in the government-wide financial statements as "internal balances."

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

3. Receivables and Payables (continued)

Recorded property taxes receivables collected within 60 days after year-end are considered measurable and available and, therefore, are recognized as revenue. The due date for payment of taxes is upon receipt. There is a 2% discount if you pay by November 30, face value through December 31, and they are delinquent as of January 1.

4. Inventories and Prepaid Items – Inventories are valued on the average cost basis. Inventory consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are used (consumption method). Payments made to vendors for services that will benefit periods beyond June 30, 2009 are recorded as prepaid items.

5. Capital Assets – Capital assets which include property, buildings, and infrastructure assets (e.g. roads, bridges, streetlights, etc.) are reported in the applicable governmental or business-type activities columns in the Government-wide financial statements. Capital assets are charged to expenditures as purchased in the governmental fund statements, and capitalized in the proprietary fund statements. Capital assets are recorded at historical cost or estimated historical cost. Donated assets are recorded at estimated fair market value as of the date of the donation.

Capital assets are defined by the City as assets with an initial, individual cost of \$1,500 or more, and an estimated useful life of greater than one year. Additions or improvements and other capital outlays that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Other costs for repairs and maintenance are expensed as incurred. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Net Assets and is provided on the straight-line basis over the following estimated useful lives:

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Net Assets and is provided on the straight-line basis over the following estimated useful lives:

A s s e t	Y e a r s
Buildings and Improvements	20-40
Computers and Electronic Equipment	3-5
Machinery and Equipment	3-10
Vehicles	3-7
Furniture and Fixtures	3-10
Infrastructure	20-100

6. Accrued Compensated Absences and Sick Pay – Vacation and sick pay are accrued when incurred in the government-wide financial statements. Any employee whose employment with the City ends in retirement or with the employee giving proper notice and being in good standing, shall be compensated for all unused vacation. Liabilities are calculated using the employee's current rate of pay and the total hours of accumulated leave. In governmental funds, such amounts are not accrued using the modified accrual basis of accounting but are reported as a liability in the government-wide financial statements.

7. Long-term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds Payable are reported net of the applicable premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources while discounts and issuance costs on bond issuances are reported as other financing uses.

8. Fund Balances – In the fund financial statements, reservations of governmental funds are used to indicate that a portion of the fund balance is not appropriated for expenditure or is legally segregated for a specific use. Tentative plans for utilization of fund balances in future periods are recorded as designations of fund balance.

9. Net Assets -- Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors, grantors or laws or regulations of other governments.

10. Use of Estimates – In preparing the City's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

- 11. Reconciliation of Government-Wide and Fund Financial Statements --** The governmental fund balance sheet includes reconciliation between fund balances in the governmental funds and net assets reported in the government-wide statements. These adjustments reflect the changes necessary to report the governmental fund balances on the economic resources measurement focus and accrual basis of accounting. In addition, capital assets, and long-term debt are added to the governmental funds to compile the long-term view of the governmental activities column. A similar reconciliation is included on the statement of revenues, expenditures, and changes in fund balances for the governmental funds. These adjustments reflect the transition from the modified accrual accounting for governmental funds to the accrual basis of accounting for the statement of activities. Capital outlay is replaced with depreciation expense.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

The City Commission approves, by ordinance, total budget appropriations only. The City Manager is authorized to transfer budget amounts between departments within any fund, however, any revisions that alter the total appropriations of any fund must be approved by the City commission. Therefore, the level of budgetary responsibility is by total appropriations, however, for report purposes, this level has been expended to a departmental basis. The General Fund includes an appropriation for contingencies. Expenditures may be made from this appropriation only with City Commission approval.

Detailed annual budgets are adopted for the general fund, the enterprise fund, and the grant funds. The annual budget for those funds is prepared in accordance with the basis of accounting utilized by those funds. The City has adopted budgets for its special revenue and capital projects funds. However, these budgets are not detailed using only total revenues and total expenditures.

The General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual presents comparisons of legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of resultant entity and timing differences in excess(deficiency) of revenues over (under) expenditures is shown.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Encumbrances do not lapse at the close of the fiscal year but are carried forward as reserved fund balance until liquidated.

B. DEFICIT FUND EQUITY

The City has no instances whereby any of its funds had a deficit in fund equity as of June 30, 2009.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

The Government's bank balances at June 30, 2009 are entirely insured or collateralized with securities held by the City's agent in the City's name. In accordance with Kentucky Revised Statutes (KRS) 66.480, the Government is allowed to invest in obligations of the U.S. Treasury and U.S. agencies and instruments, repurchase agreements, bankers' acceptances, commercial paper, obligations of the Commonwealth of Kentucky and its agencies and instrumentalities, shares of mutual funds or interest bearing deposits of insured national or state banks. In addition, the Fiduciary Funds are allowed to invest in equity securities and corporate bonds. The City has written agreements with all depository institutions that held the City's deposits.

The City's Policemen's and Firemen's investments are all categorized as either insured or registered. The securities are held by the retirement fund, or by its agent, in the name of the Policemen's and Firemen's Retirement Fund.

The purpose of the City's investment policy specifies various goals and procedures that enhance opportunities for a prudent and systematic approach to investment-related activities. The City has delegated investment responsibilities to the Finance Director, who is primarily responsible for implementing the investment policy. The funds in the Workers Compensation, Health Insurance, and Policemen's and Firemen's Retirement Trusts are managed by the trustee.

Investments of the City as of June 30, 2009 are summarized and categorized below in the following table:

NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Type	% of Portfolio	Fair Value	Investment Maturities in Years		
			< 1 Year	1-5 Years	> 5 Years
Certificates of Deposit	84%	\$ 35,810,761	\$ 32,905,000	\$ 2,905,761	\$ -
Corporate Bonds & Notes	11%	3,794,712	291,650	1,924,723	1,578,339
U.S. Government Agencies	1%	321,468		321,468	-
U.S. Treasury Notes	4%	3,067,767	50,828	2,004,953	1,011,986
Total		<u>\$ 42,994,708</u>	<u>\$ 33,247,478</u>	<u>\$ 7,156,905</u>	<u>\$ 2,590,325</u>

Custodial Credit Risk – Deposits - Custodial credit risk is the risk that in the event of a depository institution's failure, the City's deposits may not be returned. The City does not have a formal deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4).

With the exception of the trust funds, the City invested only in certificates of deposit. The City records all interest revenue related to investment activities in the respective funds.

Interest Rate Risk – The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – State law limits the type of investments in which the City may invest its funds. The City has no investment policy that would further limit its investment choices.

Concentration of Credit Risk – The City places no limit on the amount it may invest on any one investment.

B. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

As of June 30, 2009, interfund receivables and payables shown on the Statement of Net Assets consist of the following:

Governmental Activities	Due From Other Funds	Due To Other Funds
General Fund	\$ 107,418	\$ 107,418
Total	<u>\$ 107,418</u>	<u>\$ 107,418</u>

- 1) \$107,418 is due from the General Fund to Transportation Improvements for golf carts.

As of June 30, 2009, interfund transfers consist of the following:

	Transfer In	Transfer Out
General Fund	\$ 500,000	\$ 1,300
E-911		200,000
Parking Facilities		136,063
Transportation Improvements	140,470	
Municipal Aid		4,407
Fort Hill	34,040	
Cove Spring		32,740
Sewer Fund	-	300,000
	<u>\$ 674,510</u>	<u>\$ 674,510</u>

NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

- 1) The \$200,000 transfer from E-911 to the General Fund was to subsidize General Fund operations.
- 2) \$300,000 was transferred from the Sewer Fund to the General Fund to reimburse them for activities paid from the General Fund that also affect the Sewer Fund.
- 3) \$136,063 was transferred from Parking Facilities to Transportation Improvements and \$32,740 was transferred from Cove Spring to close out accounts.
- 4) \$4,407 was transferred from Municipal Aid to Transportation Improvements because the amount was deposited in wrong account.
- 5) \$1,300 was transferred from General Fund to Fort Hill for grant funds.

C. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2009 was as follows:

	Beginning Balance	Adjustments to Beginning Balances	Increases	Decreases	Ending Balance
Land	\$ 6,782,437	\$ 958,615	\$ 393,801	\$	\$ 8,134,853
Construction in Progress	10,139,543	(9,389,684)	22,974		772,833
Total non-depreciable	16,921,980	(8,431,069)	416,775	-	8,907,686
 Furniture & Fixtures	960,075	(236,190)	106,210	(19,475)	810,620
Vehicles	9,684,656	132,657	1,109,890	(385,880)	10,541,323
Computers & Electronic Equipment	768,683		251,951	-	1,020,634
Machinery and Equipment	2,128,830	39,856	400,212	(51,765)	2,517,133
Buildings & Building Improvements	13,284,716	9,505,667	2,012,628	(981,169)	23,821,842
Infrastructure	28,507,736	774,406	100,690	(34,965)	29,347,867
Total depreciable	55,334,696	10,216,396	3,981,581	(1,473,254)	68,059,419
Accumulated Depreciation					
Furniture & Fixtures	(852,296)	222,079	(38,179)	19,475	(648,921)
Vehicles	(6,636,214)	(132,657)	(1,015,443)	379,360	(7,404,954)
Computers & Electronic Equipment	(478,971)	-	(116,021)	-	(594,992)
Machinery and Equipment	(1,681,746)	863	(143,084)	39,122	(1,784,845)
Buildings & Building Improvements	(6,140,779)	(93,154)	(451,111)	262,111	(6,422,933)
Infrastructure	(11,365,474)	(2,787)	(503,768)	31,142	(11,840,887)
Total Accumulated Depreciation	(27,155,480)	(5,656)	(2,267,606)	731,210	(28,697,532)
Governmental Activities, Capital Assets, Net	\$ 45,101,196	\$ 1,779,671	\$ 2,130,750	\$ (742,044)	\$ 48,269,573

Depreciation expense for governmental activities is charged to functions as follows:

General Government	21,335
Public Safety	1,000,801
Finance Department	595
Public Works	945,075
Planning & Zoning	16,474
Parks & Recreation	283,326
Total	<u>\$ 2,267,606</u>

NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. CAPITAL ASSETS (CONTINUED)

Capital asset activity for business-type activities for the year ended June 30, 2009 was as follows:

	Beginning	Adjustments to			Ending
	Balance	Beginning Balances	Increases	Decreases	Balance
Land	\$ 332,200	\$	\$	\$ (65,000)	\$ 267,200
Construction in Progress	2,676,918	(162,620)	5,556,790		8,071,088
Total non-depreciable	3,009,118	(162,620)	5,556,790	(65,000)	8,338,288
Buildings	11,202,464	1,770			11,204,234
Machinery and Equipment	1,319,208		14,484	(352,008)	981,684
Furniture & Fixtures	56,730	(1,770)		(23,084)	31,876
Computer & Electronic Equipment	266,068		10,275	(23,909)	252,434
Vehicles	1,565,655		37,749		1,603,404
Pump Stations	4,524,694	162,620	79,255	(8,400)	4,758,169
Infrastructure	6,363,600	-	113,576	(175,711)	6,301,465
Total depreciable	25,298,419	162,620	255,339	(583,112)	25,133,266
Accumulated Depreciation					
Buildings	(3,910,733)	(885)	(308,340)		(4,219,958)
Machinery and Equipment	(771,325)		(62,693)	107,200	(726,818)
Furniture & Fixtures	(46,596)	885	(4,245)	23,084	(26,872)
Computer & Electronic Equipment	(148,953)		(30,269)	17,699	(161,523)
Vehicles	(1,069,746)		(104,763)		(1,174,509)
Pump Stations	(3,203,708)		(105,557)	8,400	(3,300,865)
Infrastructure	(460,102)		(194,708)	26,357	(628,453)
Total accumulated depreciation	(9,611,163)	-	(810,575)	182,740	(10,238,998)
Business type activities net	\$ 18,696,374	\$ -	\$ 5,001,554	\$ (465,372)	\$ 23,232,556

Depreciation expense for business-type activities is charged to functions as follows: Sewer \$810,575
Adjustments to the beginning balances include transfers between different categories of fixed assets.

D. LONG-TERM DEBT

The following is a summary of long-term debt activity for the City for the fiscal year ended June 30, 2009:

	Beginning			Ending	Due in
Governmental Activities	Balance	Increase	Decrease	Balance	One Year
General Obligation Public Project Bonds	\$ 1,215,000	\$ -	\$ 1,215,000	\$ -	\$ -
General Obligation Bonds- Series 2006	9,995,000	-	-	9,995,000	615,000
Capitalized Lease Obligations	196,573	266,574	84,906	378,241	92,615
Compensated Absences	4,716,625	487,490	-	5,204,115	-
Total Governmental Activities	\$ 16,123,198	\$ 754,064	\$ 1,299,906	\$ 15,577,356	\$ 707,615
Proprietary Activities					
Sewer Revenue Bonds 2007	\$ 9,995,000	\$ -	\$ -	\$ 9,995,000	\$ 515,000
Capitalized Lease Obligations	148,386		34,550	113,836	36,195
Compensated Absences	448,249	23,524	-	471,773	-
Total Proprietary Activities	\$ 10,591,635	\$ 23,524	\$ 34,550	\$ 10,580,609	\$ 551,195

NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. LONG-TERM DEBT (CONTINUED)

The following is a general description of the government's bond and notes payable:

On July 1, 1999, the City of Frankfort issued City of Frankfort, Kentucky General Obligation Public Project Bonds Series 1999 in the amount of \$10,000,000 dated July 1, 1999. The bonds mature on August 1, 2009. The bonds bear interest at a rate from 4.0% to 4.6%. The bonds were issued for the purpose of financing the acquisition, construction and improvement of the West Frankfort Tunnel Project, sanitary sewer operation and storm drainage system repairs on Holmes Street, and the Jones Run Pump Station. The city received \$9,865,097 deposited into the Capital Projects Fund where payments for the Capital Projects will be made. Funds are transferred from the City's general fund to the debt service account to make debt principal and interest payments. As of June 30, 2009, the bond has been paid off.

On December 5, 2006, the City of Frankfort issued the City of Frankfort, Kentucky General Obligation Bonds, Series 2006 in the amount of \$9,995,000, dated December 1, 2006. The bonds mature on June 1, 2022. The bonds bear interest at a rate of 3.6%. The bonds were issued for the purpose of providing funds to pay costs of a new public safety building and related facilities. The City received \$9,772,068 deposited into the Bond Construction account and \$19,990 deposited into the Debt Service Fund. Funds are transferred from the City's General Fund to the Debt Service account to make debt principal and interest payments.

The annual requirements to retire bonded debt as of June 30, 2009 are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 615,000	\$ 359,820	\$ 974,820
2011	640,000	337,680	977,680
2012	660,000	314,640	974,640
2013	685,000	290,880	975,880
2014	710,000	266,220	976,220
2015	735,000	240,660	975,660
2016	760,000	214,200	974,200
2017	790,000	186,840	976,840
2018	820,000	158,400	978,400
2019	850,000	128,880	978,880
2020	880,000	98,280	978,280
2021	910,000	66,600	976,600
2022	940,000	33,840	973,840
Total	<u>\$ 9,995,000</u>	<u>\$2,696,940</u>	<u>\$ 12,691,940</u>

On November 29, 2007, the City of Frankfort issued the City of Frankfort, Kentucky Sewer System Revenue Bonds, Series 2007 in the amount of \$9,995,000, dated November 15, 2007. The bonds mature on December 1, 2023. The bonds bear interest at a rate of 3.35% to 4%. The bonds were issued for the purpose of financing a portion of the costs of major sanitary sewer system improvements of the City, to fund a debt service reserve and to pay costs of issuance of the Bonds. The City received \$9,890,598, deposited \$8,873,573 into the Sewer Construction account, \$892,200 into Debt Service Reserve Account, \$110,500 into a temporary account to pay costs of issuance, and \$14,325 deposited into the City's Sewer System Revenue Bond Fund- Interest Account. Funds are transferred from the sewer funds to the debt service account on a monthly basis to make debt principal and interest payments.

The annual requirements to retire bonded debt as of June 30, 2009 are as follows:

NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)
D. LONG-TERM DEBT (CONTINUED)

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 515,000	\$ 359,719	\$ 874,719
2011	530,000	342,215	872,215
2012	550,000	323,988	873,988
2013	570,000	304,947	874,947
2014	590,000	285,228	875,228
2015	610,000	264,522	874,522
2016	630,000	242,508	872,508
2017	655,000	219,377	874,377
2018	680,000	195,007	875,007
2019	705,000	169,209	874,209
2020	730,000	142,120	872,120
2021	760,000	113,525	873,525
2022	790,000	83,000	873,000
2023	825,000	50,700	875,700
2024	855,000	17,100	872,100
Total	<u>\$ 9,995,000</u>	<u>\$ 3,113,165</u>	<u>\$ 13,108,165</u>

The City of Frankfort entered into a lease/purchase agreement with Republic First National Corporation to purchase an ambulance. The amount of the lease was \$117,775 financed for three years at 4.38% with three annual payments beginning November 1, 2008. The maturity date is November 1, 2010. The balance due at June 30, 2009 is \$80,695. Future debt service requirements follow:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 38,710	\$ 4,280	\$ 42,990
2011	41,985	2,196	44,181
Total	<u>\$ 80,695</u>	<u>\$ 6,476</u>	<u>\$ 87,171</u>

The City of Frankfort entered into a lease/purchase agreement with Tymco International, Ltd. to purchase a street sweeper. The amount of the lease was \$101,200 financed for five years at 5.35% with five annual payments beginning November 1, 2008. The maturity date is December 15, 2011. The balance due at June 30, 2009 is \$60,610. Future debt service requirements follow:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 19,160	\$ 3,243	\$ 22,403
2011	20,185	2,217	22,402
2012	21,265	1,138	22,403
Total	<u>\$ 60,610</u>	<u>\$ 6,598</u>	<u>\$ 67,208</u>

The City of Frankfort entered into a lease/purchase agreement with Midwest Golf & Turf. to purchase two Jacobsen rotary mowers. The amount of the lease was \$54,780 financed for five years at 5.54% with sixty monthly payments beginning December, 2008. The maturity date is November, 2013. The balance due at June 30, 2009 is \$49,141. Future debt service requirements follow:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 10,099	\$ 2,470	\$ 12,569
2011	10,674	1,895	12,569
2012	11,281	1,289	12,570
2013	11,922	647	12,569
2014	5,165	72	5,237
Total	<u>\$ 49,141</u>	<u>\$ 6,373</u>	<u>\$ 55,514</u>

NOTE 3 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. LONG-TERM DEBT (CONTINUED)

The City of Frankfort entered into a lease/purchase agreement with Republic First National Corporation to purchase an 2009 rescue truck. The amount of the lease was \$187,794 financed for seven years at 4.61% with seven annual payments beginning September 1, 2009. The maturity date is September 1, 2015. The balance due at June 30, 2009 is \$187,794. Future debt service requirements follow:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 24,645	\$ 7,117	\$ 31,762
2011	23,850	7,913	31,763
2012	25,016	6,746	31,762
2013	26,240	5,523	31,763
2014	27,523	4,239	31,762
2015	28,869	2,893	31,762
2016	<u>31,651</u>	<u>1,481</u>	<u>33,132</u>
Total	<u>\$ 187,794</u>	<u>\$ 35,912</u>	<u>\$ 223,706</u>

The City of Frankfort entered into a lease/purchase agreement with Jack Doheny Supplies to purchase a sewer vacuum truck. The amount of the lease was \$190,000 financed for five years at 4.76% with five annual payments beginning August 8, 2007. The maturity date is August 8, 2011. The balance due at June 30, 2009 is \$113,836. Future debt service requirements follow:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2010	\$ 36,195	\$ 5,418	\$ 41,613
2011	37,918	3,696	41,614
2012	<u>39,723</u>	<u>1,891</u>	<u>41,614</u>
Total	<u>\$ 113,836</u>	<u>\$ 11,005</u>	<u>\$ 124,841</u>

E. PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property, plus tangible personal property that is located within the city and the annexed portion of the county limits. All property taxes are based on the assessment values as of the previous January 1. Property taxes are due by November 30 with a 2% discount. The face amount is due by December 31. After that date a 10% penalty plus interest is imposed. Assessed values are established by the County Property Valuation Administrator at 100% of appraised market value. The City's tax rate applicable to the 2009 fiscal year was \$.201 for annex and \$.84 for old city per \$100 of assessed valuation for real estate.

NOTE 4 – OTHER INFORMATION

A. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees, and natural disasters for which the City carries commercial insurance. Settled claims, relating to these exposures, have not exceeded insurance coverage in any of the past three years. In addition, the City has effectively managed risk through various employee education and prevention programs through the efforts and cooperation of its risk manager and department heads. All risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated. The City Attorney estimates that the amount of actual or potential claims against the City as of June 30, 2009, will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims.

The City has elected to retain risk related to employees' health insurance and workers' compensation insurance. The City does maintain insurance coverage for health insurance claims in excess of \$75,000 per person per year up to a maximum of \$1,000,000 per person per lifetime in anticipated claims and for workers' compensation claims in excess of \$325,000 per person per occurrence with employer's maximum liability per occurrence of \$2,000,000. Workers' compensation insurance claims have been accrued as a liability in the General Fund.

The City pays Wells Fargo a fee to administer the plans. The City has set up trust funds to use for workers' compensation and health insurance to use for claims as needed. These funds are restricted for use for only those purposes. All claims for health insurance coverage and workers' compensation are paid out of the general fund and the proprietary fund. The separate trust accounts are additional assets that have been provided if the general fund and proprietary fund appropriations are not sufficient to cover claims filed. Even though management believes there are sufficient assets to cover any claims filed, there is no guarantee that the assets available are adequate to cover all liabilities.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. COMMITMENTS AND CONTINGENT LIABILITIES

Litigation – The City of Frankfort is party to numerous legal proceedings, many of which normally occur in government operations and will not involve any potential liability to the City.

Contingencies – The City participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the City complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2009 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Other Debt – On August 27, 2003, the Franklin County Fiscal Court entered into a lease agreement with KACO Leasing Trust through Capital Community Economic /Industrial Development Authority (CCEIDA) for the development of an industrial park. CCEIDA received the proceeds. CCEIDA makes the payments to KACO Leasing Trust. Because of the cooperative interlocal agreement between CCEIDA, the City of Frankfort, and Franklin County, the City and the County are each required to reimburse CCEIDA for 50% of the payments. The project is under the authority of CCEIDA, therefore, no liability was shown on the City's financial statements.

C. RETIREMENT PLANS

1. County Employees' Retirement System - Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by the City Commission beginning August 1, 1988. All full-time employees of the City belong to the state operated cost-sharing multiple-employer pension plan, the County Employees Retirement System (CERS). Police and firefighters are members of the hazardous-duty benefit plan, while all other employees participate in the non-hazardous duty benefits.

CERS is a defined benefit plan created by the Kentucky General Assembly. CERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits fully vest upon reaching 5 years of service and are established by state statute. Benefits of CERS members are calculated on the basis of age, final average salary, and service credit. CERS also provides survivor, disability and health care coverage. Authority to establish and amend benefits is provided by Kentucky Revised Statutes Section 61.645.

The KRS issues a publicly available financial report that includes financial statements and required supplementary information for the CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

Funding Policy - Kentucky Revised Statutes provides statutory authority for employee and employer contributions. Employees and the City have contributed 100% of the required contributions for fiscal year ended June 30, 2009. Plan members are required to contribute 5% of their annual creditable compensation and the City is required to contribute 13.5% of covered payroll. Employees classified as hazardous contribute 8% of creditable compensation, while the City is required to contribute 29.5%.

The contribution for the year ended June 30, 2009 was \$4,532,262. The contributions for the year consisted of \$3,480,866 from the Government and \$1,051,396 from the employees. The City's contribution represents about 1% of CERS' total annual contributions.

Contributions to CERS for the years ended June 30, 2002 through 2009 were equal to the required contributions for each year and were as follows:

Year	Required Contribution
06/30/2009	\$ 4,532,262
06/30/2008	5,078,703
06/30/2007	4,151,403
06/30/2006	3,619,328
06/30/2005	3,001,361
06/30/2004	2,502,985
06/30/2003	2,257,844
06/30/2002	2,067,517

CERS also provides post retirement health care coverage to age and service retirees with 20 or more years of qualifying CERS service credit. A portion of each employer and employee's contribution to CERS is set aside for the funding of post retirement health care. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standards Board Statement Number 12. KRS provides statutory authority requiring public employers to fund post retirement health care through their contributions to CERS.

NOTE 4 – OTHER INFORMATION (CONTINUED)

C. RETIREMENT PLANS (CONTINUED)

2. ICMA Trust – The City Manager does not participate in the County Employees' Retirement System. He is a participant in a retirement plan for City Managers. The City contributes 13.5% on his behalf and the employee contributes 5%. The contribution to the plan for the year consisted of \$13,539 from the Government and \$5,014 from the employee. Total payroll covered under the ICMA retirement system was \$100,286, with total payroll of \$119,633.

3. Police and Firefighters Retirement Fund – The Police and Firefighters Retirement Fund is a single-employer defined benefit plan administered by its own Board of Directors in accordance with KRS 95.851 to KRS 95.884. The Fund was established to provide retirement and disability benefits for retiring, disabled, or deceased personnel and their surviving spouse. On August 1, 1988 the plan was closed to new entrants and current active duty police and firemen of the city were given the choice of remaining in this plan or transferring into the County Employees Retirement System (CERS). This Fund is included as a pension trust fund in this report.

An actuarial valuation is done every third year. The benefits obligation was computed as part of an actuarial valuation as of January 1, 2007 performed in October, 2007. Significant actuarial assumptions used are as follows:

Investment Rate of Return	5 %
COLA Increase	0 %
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	20 Years

The assets in the retiree's account are not sufficient to meet projected future liabilities of the 18 retirees and beneficiaries as shown below:

Assets Available for Benefits Market Value 6/30/09	\$ 1,889,648
Less: Total Pension Benefit Obligation	<u>3,098,661</u>
Unfunded Pension Benefit Obligation	<u><u>\$ 1,209,013</u></u>

	6/30/2008	Increase/ (Decrease)	6/30/2009
Net Pension Obligation	\$ 1,477,787	\$ (268,774)	\$ 1,209,013

4. Deferred Compensation Plan – The City has a deferred compensation trust plan created in accordance with Internal Revenue Code Section 457 for its employees who elect to participate. The trust holds the assets for the exclusive benefit of plan participants and their beneficiaries. The City does not match any portion of the contributions.

NOTE 5 – PRIOR PERIOD ADJUSTMENTS

Prior period adjustments are summarized as follows:

	Governmental Activities
Beginning Balance	\$ 55,441,513
Capital Assets from Previous Years Added	<u>1,779,671</u>
Total Restated Beginning Balance	<u><u>\$ 57,221,184</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison – General Fund

Municipal Aid

City of Frankfort
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Final Budget
	Original	Final	Budgetary Basis	Positive (Negative)
Taxes				
Prior Year Taxes	\$ 30,000	\$ 30,000	\$ 31,795	\$ 1,795
Current Year Taxes	2,860,000	2,860,000	2,881,641	21,641
Bank Shares	165,516	165,516	162,739	(2,777)
Franchises, etc.	50,000	50,000	34,958	(15,042)
Pen. Int & Disc	(20,000)	(20,000)	(25,489)	(5,489)
Collection Fee - MVT	10,000	10,000	12,495	2,495
Motor Vehicle Tax	310,000	310,000	279,812	(30,188)
Total Taxes	3,405,516	3,405,516	3,377,951	(27,565)
Occupational Tax Receipts				
Insurance Company	3,450,000	3,450,000	3,128,880	(321,120)
1.75% Withholding	16,075,100	16,075,100	15,803,677	(271,423)
1.75% Business	1,200,000	1,200,000	1,366,699	166,699
Regulatory Fees	65,000	65,000	75,965	10,965
Penalty	30,000	30,000	59,517	29,517
Total Occupational Tax Receipts	20,820,100	20,820,100	20,434,738	(385,362)
Licenses, Permits & Fines				
Electrical Inspections	46,000	46,000	37,423	(8,577)
Parade Permits	-	-	1,100	1,100
Building Permits	30,000	30,000	39,804	9,804
Housing Inspections	12,000	12,000	11,115	(885)
Total Licenses, Permits & Fines	88,000	88,000	89,442	1,442
Parking Violations	12,000	12,000	14,806	2,806
Charges for Services				
Recreation Fee	84,400	84,400	88,845	4,445
Golf Course Receipts	200,100	200,100	222,592	22,492
Swimming Pool Receipts	52,900	52,900	62,377	9,477
Swimming Pool Concessions	36,100	36,100	33,884	(2,216)
Parking Garages	8,000	8,000	(18,892)	(26,892)
Ball Field Concessions	44,000	44,000	45,544	1,544
Golf Cart Rentals	175,000	175,000	179,036	4,036
Total Charges for Services	600,500	600,500	613,386	12,886
Intergovernmental				
Base Court Revenue	90,000	90,000	63,490	(26,510)
Plant Board Contributions	134,000	134,000	134,007	7
City and County Projects	640,000	640,000	734,382	94,382
State Participation	195,000	195,000	195,000	-
Grants and Aid	8,000	634,935	665,908	30,973
Police/Fire Incentive	621,000	621,000	619,303	(1,697)
Total Intergovernmental	1,688,000	2,314,935	2,412,090	97,155
Ambulance	1,445,000	1,445,000	1,564,861	119,861
Interest	400,000	400,000	575,863	175,863
Public Transit				
Public Transit	14,700	14,700	33,481	18,781
Public Transit- Aid	165,000	165,000	193,321	28,321
Public Transit Charter	2,100	2,100		(2,100)
Paratransit	12,100	12,100	60	(12,040)
Total Public Transit	193,900	193,900	226,862	32,962
Miscellaneous	36,000	36,000	79,903	43,903
Surplus Property	50,000	50,000	176,158	126,158
Recycling	76,800	76,800	112,524	35,724
Tower Rental	59,800	59,800	74,140	14,340
Building Rentals	8,600	8,600	20,454	11,854
Sewer Allocation	300,000	300,000	300,000	-
E-911 Communications	400,000	400,000	200,000	(200,000)
Total Revenues	\$ 29,584,216	\$ 30,211,151	\$ 30,273,178	\$ 62,027

See accompanying independent auditor's report

City of Frankfort
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Final Budget
	Original	Final	Budgetary Basis	Positive (Negative)
General Government				
City Commission	\$ 496,485	\$ 496,485	\$ 479,295	\$ 17,190
City Manager	717,181	1,344,116	1,302,924	41,192
IT	484,543	484,543	473,756	10,787
Total General Government	1,698,209	2,325,144	2,255,975	69,169
Finance	541,552	541,552	515,018	26,534
Insurance	3,803,000	3,803,000	3,591,045	211,955
Public Safety				
Disaster & Emergency Management	153,188	153,188	150,456	2,732
Emergency Medical Services	2,751,695	3,003,695	3,038,130	(34,435)
Fire Department	4,768,918	5,202,918	4,942,065	260,853
Police Department	5,687,837	5,701,837	5,236,140	465,697
Police Traffic	16,414	16,414	9,095	7,319
Communications	926,238	926,238	892,893	33,345
Total Public Safety	14,304,290	15,004,290	14,268,779	735,511
Public Works				
Public Works Director	301,200	301,200	259,216	41,984
Street Department	966,408	966,408	1,010,897	(44,489)
Garage	534,971	534,971	477,718	57,253
Buildings	440,632	440,632	352,501	88,131
Sanitation	1,517,032	1,517,032	1,479,166	37,866
Floodwall	768,286	768,286	770,261	(1,975)
Public Transit	798,100	798,100	805,912	(7,812)
Total Public Works	5,326,629	5,326,629	5,155,671	170,958
Parks and Recreation				
Parks and Recreation	1,317,132	1,317,132	1,238,747	78,385
Juniper Hills Golf Course	799,170	799,170	752,937	46,233
Swimming Pools	345,171	345,171	305,978	39,193
Riverview Park	161,174	161,174	154,004	7,170
Lakeview Park	34,321	34,321	24,431	9,890
Fort Hill Park	294,834	294,834	304,669	(9,835)
Forestry	79,486	79,486	71,561	7,925
Sports	308,153	308,153	302,689	5,464
Cove Spring	52,068	52,068	50,297	1,771
Total Parks and Recreation	3,391,509	3,391,509	3,205,313	186,196
Planning and Building Codes	760,317	760,317	685,707	74,610
Reserve for Contingencies	100,000	100,000	38,075	61,925
Capital Outlay	1,658,710	1,983,710	1,940,082	43,628
Total Expenditures	31,584,216	33,236,151	31,655,665	1,580,486
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,000,000)	(3,025,000)	(1,382,487)	1,642,513
Adjustments to Conform with Generally Accepted Accounting Principles				
To record prior year encumbrances in current year			(774,525)	(774,525)
To reverse outstanding encumbrances as of June 30, 2009			395,797	395,797
Accounts payable adjustments			(16,705)	(16,705)
Receivable adjustments			(50,898)	(50,898)
Grant receivable and payable adjustments			69,569	69,569
Workers comp and health insurance adjustments			125,104	125,104
Interest adjustment			(24,281)	(24,281)
Amount due to or from other funds adjustments			49,114	49,114
Reversal of prior year state incentive payable	-	-	837,886	837,886
Excess of Revenues Over/(Under) Expenditures (GAAP Governmental Fund Basis)	(2,000,000)	(3,025,000)	(771,426)	2,253,574
Fund Balances, Beginning of Year	1,114,396	1,834,396	18,020,344	16,185,948
Fund Balances, End of Year	\$ (885,604)	\$ (1,190,604)	\$ 17,248,918	\$ 18,439,522

See accompanying independent auditor's report

City of Frankfort
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Municipal Aid
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final	Budgetary Basis	
Revenues				
Interest income	\$ -	\$ -	\$ 65,774	\$ -
Intergovernmental revenues	-	-	572,385	-
Total Revenues	2,885,000	2,885,000	638,159	(2,246,841)
Expenditures				
Street Resurfacing			808,157	-
Total Expenditures	2,885,000	2,885,000	808,157	2,076,843
Excess (deficiency) of revenues over (under) expenditures before other financing uses			(169,998)	(169,998)
Other Financing Uses				
Transfers out	-	-	(48,789)	(48,789)
Total Other Financing Uses	-	-	(48,789)	(48,789)
Excess (deficiency) of revenues over (under) expenditures- budgetary basis	-	-	(218,787)	(218,787)
Adjustment from budgetary basis to GAAP basis:				
Interest adjustments			(1,058)	(1,058)
To correct payment of amount owed to other fund from prior year			44,382	44,382
Accounts payable adjustment			(170,569)	(170,569)
Encumbrance adjustments			376,743	376,743
Excess (deficiency) of revenues over (under) expenditures- GAAP basis			30,711	(236,865)
Fund balance- beginning			2,969,633	2,969,633
Fund balance- ending	\$	\$	\$ 3,000,344	\$ 2,732,768

Combining Statements
Non-Major Governmental Funds

Special Revenue Funds

The Special Revenue Funds account for the proceeds of specific revenue, sources (other than major funds) that are restricted by law, to be expended for specific purposes. Individual funds included in this fund type are as follows:

Transportation Improvements

The Transportation Improvement Fund accounts for funds deposited to be used for capital expenditures and other miscellaneous expenses of the Public Transit System not budgeted in the General Fund, or for any other purpose so designated.

Frankfort Housing Corporation

The Frankfort Housing Corporation account accounts for funds to be used for low and moderate income housing projects.

Rental Rehab

The Rental Rehab Fund accounts for funds to be used for low and moderate income housing projects.

E-911 Telephone

The E-911 Telephone System Fund accounts for the 911 fees collected and received from the telephone company to be used for E-911 telephone system expenses.

Tourism Center Building

The Tourism Center Building Fund accounts for rent collected from tenants of the Tourism Center Building to be used for expenses related to the building or for other projects so designated.

Revolving Loan Fund

The Revolving Loan Fund accounts for funds to be used for low and moderate income housing projects.

Asset Forfeiture Fund (U.S. Justice)

The Asset Forfeiture Fund (U.S. Justice) is to be used for funds received from the federal government for forfeited assets. These funds are to be used for police department activities.

Lost and Found

Lost and Found is to account for funds received for items turned into the police department as lost and found.

Asset Forfeiture Fund (State)

The Asset Forfeiture Fund (State) is to be used for funds received from the state government for forfeited assets. These funds are to be used for police department activities.

Safe Place

The Safe Place account accounts for funds received from Safe Place to be used for Safe Place activities.

Capital Projects Funds

Capital Projects Funds are used to account for the purchase or construction of major capital facilities which are not financed by proprietary funds or trust funds.

Municipal Parking Facilities Construction Fund

The Municipal Parking Facilities Construction Fund accounts for accumulated interest to be expended for construction or repair of parking facilities.

Fort Hill Park Fund

The Fort Hill Park Fund is used to account for accumulated funds used to construct and maintain the Fort Hill Park.

Capital Project Fund

The Capital Project Fund accounts for funds received to be used for the Holmes Street Drainage Project and other capital projects.

Holmes Street Drainage Project

The Holmes Street Drainage Project Fund accounts for funds received from a state grant to be used for Holmes Street Project.

Cove Spring Park

The Cove Spring Park Fund accounts for funds received for the Cove Spring Project.

Bond Construction Fund

The Bond Construction Fund is a capital project fund that is used to account for the bond proceeds to be used for the construction of the public safety building.

City of Frankfort
Combining Balance Sheets
Nonmajor Governmental Funds
June 30, 2009

	Combined Nonmajor Special Revenue Funds	Combined Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and Cash Equivalents	\$ 1,468,619	\$ 446,992	\$ 1,915,611
Investments	1,260,000		1,260,000
Receivables			
Accounts			
Accrued Interest	4,480		4,480
Accounts Receivable		1,502	1,502
Due From Other Funds	107,418		107,418
Due From Other Governments	46,169	2,673	48,842
Restricted Assets			
Cash	<u>-</u>	<u>8,266</u>	<u>8,266</u>
Total Assets	<u>\$ 2,886,686</u>	<u>\$ 459,433</u>	<u>\$ 3,346,119</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 48,983	\$ -	\$ 48,983
Due to Other Funds	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>48,983</u>	<u>-</u>	<u>48,983</u>
Fund Balances			
Reserved for			
Encumbrances	587,135	257,440	844,575
Housing Projects	13,757		13,757
Safe Place	3,619		3,619
Holmes Street Sewer		118,115	118,115
Public Safety Building		6,874	6,874
Unreserved			
Designated:			
Public Transit & Other			
Capital Expenditures	1,295,112		1,295,112
E-911 Telephone System	467,101		467,101
Rental Bldg- Maint & Imp.	44,166		44,166
Police Department Activities	426,813		426,813
Capital Projects		77,004	77,004
Undesignated	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>2,837,703</u>	<u>459,433</u>	<u>3,297,136</u>
Total Liabilities and Fund Balance	<u>\$ 2,886,686</u>	<u>\$ 459,433</u>	<u>\$ 3,346,119</u>

City of Frankfort
Combining Balance Sheets
Nonmajor Special Revenue Funds
June 30, 3009

	Transportation Improvements	Frankfort Housing	Rental Rehab	E-911	Tourism Building	Revolving Loan Fund	Asset Forfeiture- U.S. Justice	Lost and Found	Asset Forfeiture- State	Safe Place	Total June 30, 2009
Assets											
Cash and Cash Equivalents	\$ 588,495	\$ 15,464	\$ 1,496	\$ 355,738	\$ 44,166	\$ 13,345	\$ 402,335	\$ 29,220	\$ 14,741	\$ 3,619	\$ 1,468,619
Investments	1,160,000			100,000							1,260,000
Receivables											-
Accounts											-
Accrued Interest	3,809			671							4,480
Due From Other Funds	107,418										107,418
Due From Other Governments	35,477			10,692							46,169
Total Assets	<u>\$ 1,895,199</u>	<u>\$ 15,464</u>	<u>\$ 1,496</u>	<u>\$ 467,101</u>	<u>\$ 44,166</u>	<u>\$ 13,345</u>	<u>\$ 402,335</u>	<u>\$ 29,220</u>	<u>\$ 14,741</u>	<u>\$ 3,619</u>	<u>\$ 2,886,686</u>
Liabilities and Fund Balances											
Liabilities											
Accounts Payable	\$ 32,435	\$ 12,048	\$	\$ -	\$	\$ 4,500	\$	\$	\$	\$	\$ 48,983
Due to Other Funds		-		-	-	-	-	-	-	-	-
Total Liabilities	<u>32,435</u>	<u>12,048</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,983</u>
Fund Balances											
Reserved for											
Encumbrances	567,652						19,483				587,135
Housing Projects		3,416	1,496			8,845					13,757
Safe Place										3,619	3,619
Unreserved											
Public Transit & Other											
Capital Expenditures	1,295,112										1,295,112
E-911 Telephone System				467,101							467,101
Rental Bldg- Maint & Imp.					44,166						44,166
Police Department Activities							382,852	29,220	14,741		426,813
Undesignated											-
Total Fund Balance	<u>1,862,764</u>	<u>3,416</u>	<u>1,496</u>	<u>467,101</u>	<u>44,166</u>	<u>8,845</u>	<u>402,335</u>	<u>29,220</u>	<u>14,741</u>	<u>3,619</u>	<u>2,837,703</u>
Total Liabilities and Fund Balance	<u>\$ 1,895,199</u>	<u>\$ 15,464</u>	<u>\$ 1,496</u>	<u>\$ 467,101</u>	<u>\$ 44,166</u>	<u>\$ 13,345</u>	<u>\$ 402,335</u>	<u>\$ 29,220</u>	<u>\$ 14,741</u>	<u>\$ 3,619</u>	<u>\$ 2,886,686</u>

City of Frankfort
Combining Balance Sheets
Nonmajor Capital Projects Funds
June 30, 2009

	Parking Construction	Fort Hill Park	Capital Project Fund	Holmes Street Drainage	Cove Spring Park	Bond Construction	Total
Assets							
Cash and Cash Equivalents	\$	\$ 72,829	\$	\$ 374,163	\$ -	\$ -	\$ 446,992
Investments							-
Accrued Interest							-
Accounts Receivable		1,502					1,502
Intergovernmental Receivables		2,673					2,673
Restricted Assets- Cash	-	-	1,392	-	-	6,874	8,266
Total Assets	<u>\$ -</u>	<u>\$ 77,004</u>	<u>\$ 1,392</u>	<u>\$ 374,163</u>	<u>\$ -</u>	<u>\$ 6,874</u>	<u>\$ 459,433</u>
Liabilities and Fund Balances							
Liabilities							
Accounts Payable	\$	\$	\$	\$ -	\$	\$	\$ -
Due to Other Funds							-
Total Liabilities	-	-		-		-	-
Fund Balances							
Reserved for							
Encumbrances				257,440			257,440
Public Safety Building						6,874	6,874
Holmes Street Sewer			1,392	116,723			118,115
Unreserved							-
Designated for Capital Projects		77,004			-		77,004
Undesignated							
Total Fund Balance	<u>-</u>	<u>77,004</u>	<u>1,392</u>	<u>374,163</u>	<u>-</u>	<u>6,874</u>	<u>459,433</u>
Total Liabilities and Fund Balance	<u>\$ -</u>	<u>\$ 77,004</u>	<u>\$ 1,392</u>	<u>\$ 374,163</u>	<u>\$ -</u>	<u>\$ 6,874</u>	<u>\$ 459,433</u>

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

City of Frankfort
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For The Year Ended June 30, 2009

	Combined Nonmajor Special Revenue Funds	Combined Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
Revenues			
Intergovernmental Revenues	\$ 680,679	\$ 10,874	\$ 691,553
Interest Income	52,116	13,779	65,895
Charges for Services	456,201		456,201
Fines and Forfeitures	103,222		103,222
Miscellaneous	27,460	-	27,460
Rental Income	8,766	18,021	26,787
Total Revenues	<u>1,328,444</u>	<u>42,674</u>	<u>1,371,118</u>
Other Financing Sources			
Operating Transfers In	<u>4,407</u>	<u>1,300</u>	<u>5,707</u>
Total Revenues and Other Financing Sources	<u>1,332,851</u>	<u>43,974</u>	<u>1,376,825</u>
Expenditures			
General Government	839		839
Special Projects	64,020		64,020
Public Works	801,677	-	801,677
Public Safety	665,377	1,713,244	2,378,621
Parks and Recreation	-	44,554	44,554
Total Expenditures	<u>1,531,913</u>	<u>1,757,798</u>	<u>3,289,711</u>
Other Financing Uses			
Operating Transfers Out	<u>200,000</u>		<u>200,000</u>
Total Expenditures and Other Financing Uses	<u>1,731,913</u>	<u>1,757,798</u>	<u>3,489,711</u>
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	(399,062)	(1,713,824)	(2,112,886)
Fund Balances, July 1	3,100,702	2,309,320	5,410,022
Residual Equity Transfer	<u>136,063</u>	<u>(136,063)</u>	<u>-</u>
Fund Balances, June 30	<u>\$ 2,837,703</u>	<u>\$ 459,433</u>	<u>\$ 3,297,136</u>

City of Frankfort
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For The Year Ended June 30, 2009

	Transportation Improvements	Frankfort Housing	Rental Rehab	E-911	Tourism Building	Revolving Loan Fund	Asset Forfeiture- U.S. Justice	Lost and Found	Asset Forfeiture- State	Safe Place	Total June 30, 2009
Revenues											
Intergovernmental Revenues	\$ 680,679	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 680,679
Interest Income	39,568	351	119	8,095	355	122	3,409	14	78	5	52,116
Charges for Services				456,201							456,201
Fines and Forfeitures							89,825		13,397		103,222
Miscellaneous	21							27,439			27,460
Rental Income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,766</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,766</u>
Total Revenues	<u>720,268</u>	<u>351</u>	<u>119</u>	<u>464,296</u>	<u>9,121</u>	<u>122</u>	<u>93,234</u>	<u>27,453</u>	<u>13,475</u>	<u>5</u>	<u>1,328,444</u>
Other Financing Sources											
Operating Transfers In	<u>4,407</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,407</u>
Total Revenues and Other Financing Sources	<u>724,675</u>	<u>351</u>	<u>119</u>	<u>464,296</u>	<u>9,121</u>	<u>122</u>	<u>93,234</u>	<u>27,453</u>	<u>13,475</u>	<u>5</u>	<u>1,332,851</u>
Expenditures											
General Government					839						839
Special Projects		43,609	14,197			4,500				1,714	64,020
Public Works	801,677										801,677
Public Safety				568,976			77,520	1,023	17,858		665,377
Parks and Recreation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>801,677</u>	<u>43,609</u>	<u>14,197</u>	<u>568,976</u>	<u>839</u>	<u>4,500</u>	<u>77,520</u>	<u>1,023</u>	<u>17,858</u>	<u>1,714</u>	<u>1,531,913</u>
Other Financing Uses											
Operating Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
Total Expenditures and Other Financing Uses	<u>801,677</u>	<u>43,609</u>	<u>14,197</u>	<u>768,976</u>	<u>839</u>	<u>4,500</u>	<u>77,520</u>	<u>1,023</u>	<u>17,858</u>	<u>1,714</u>	<u>1,731,913</u>
Excess of Revenues and Other Financing Sources											
Financing Sources Over/(Under) Expenditures and Other Financing Uses	(77,002)	(43,258)	(14,078)	(304,680)	8,282	(4,378)	15,714	26,430	(4,383)	(1,709)	(399,062)
Fund Balances, July 1	1,803,703	46,674	15,574	771,781	35,884	13,223	386,621	2,790	19,124	5,328	3,100,702
Residual Equity Transfer	<u>136,063</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>136,063</u>
Fund Balances, June 30	<u>\$ 1,862,764</u>	<u>\$ 3,416</u>	<u>\$ 1,496</u>	<u>\$ 467,101</u>	<u>\$ 44,166</u>	<u>\$ 8,845</u>	<u>\$ 402,335</u>	<u>\$ 29,220</u>	<u>\$ 14,741</u>	<u>\$ 3,619</u>	<u>\$ 2,837,703</u>

City of Frankfort
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Projects Funds
For The Year Ended June 30, 2009

	Parking Construction	Fort Hill Park	Capital Project Fund	Holmes Street Drainage	Cove Spring Park	Bond Construction	Total
Revenues							
Intergovernmental Revenues	\$	\$ 10,874	\$	\$	\$	\$	\$ 10,874
Interest Income	403	738	12	3,421	92	9,113	13,779
Miscellaneous Income							-
Rental Income		18,021					18,021
Total Revenues	403	29,633	12	3,421	92	9,113	42,674
Other Financing Sources							
Operating Transfers In	-	1,300					1,300
Total Revenues and Other Financing Sources	403	30,933	12	3,421	92	9,113	43,974
Expenditures							
Public Works				-			-
Public Safety						1,713,244	1,713,244
Parks and Recreation		44,554			-	-	44,554
Total Expenditures		44,554	-	-	-	1,713,244	1,757,798
Other Financing Uses							
Operating Transfers Out		-			-	-	-
Total Expenditures and Other Financing Uses		44,554	-	-	-	1,713,244	1,757,798
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	403	(13,621)	12	3,421	92	(1,704,131)	(1,713,824)
Fund Balances, July 1	135,660	57,885	1,380	370,742	32,648	1,711,005	2,309,320
Residual Equity Transfer	(136,063)	32,740			(32,740)	-	(136,063)
Fund Balances, June 30	\$ -	\$ 77,004	\$ 1,392	\$ 374,163	\$ -	\$ 6,874	\$ 459,433

Budgetary Comparison Schedules

In accordance with GASB Statement #34, the City's General Fund and any major governmental funds are presented as required supplementary information. All other fund budgetary comparisons are displayed in the following pages.

Schedule of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual
NonMajor Governmental Funds

Special Revenue Funds

Transportation Improvements
Frankfort Housing
Rental Rehab
E-911
Tourism Building
Revolving Loan Fund
Asset Forfeiture (U.S. Justice)
Lost and Found
Asset Forfeiture (State)
Safe Place

Capital Projects Funds

Parking Construction
Fort Hill Park
Capital Project Fund
Holmes Street Drainage
Cove Spring Park
Bond Construction Fund

City of Frankfort
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Transportation Improvements
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final	Budgetary Basis	
Revenues				
Interest income	\$ -	\$ -	\$ 40,950	\$ -
Intergovernmental revenues	-	-	645,222	-
Total Revenues	1,930,000	1,930,000	686,172	(1,243,828)
Expenditures				
Public Works	-	-	1,292,495	-
Total Expenditures	1,930,000	1,930,000	1,292,495	637,505
Excess (deficiency) of revenues over (under) expenditures before other financing sources	-	-	(606,323)	(606,323)
Other Financing Sources				
Transfers in	-	-	184,852	184,852
Total Other Financing Sources	-	-	184,852	184,852
Excess (deficiency) of revenues over (under) expenditures - budgetary basis	-	-	(421,471)	(421,471)
Adjustment from budgetary basis to GAAP basis:				
Interest adjustment			(1,382)	(1,382)
Amount due from general fund for golf carts			(51,504)	(51,504)
To reclassify amount due from other funds from prior year			(44,382)	(44,382)
Grants receivable adjustments			35,477	35,477
Accounts payable adjustments			(25,329)	(25,329)
Encumbrance adjustments			567,652	567,652
Excess (deficiency) of revenues over (under) expenditures - GAAP basis			59,061	59,061
Fund balance- beginning			1,803,703	1,803,703
Fund balance- ending	\$	\$	\$ 1,862,764	\$ 1,862,764

City of Frankfort
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Frankfort Housing
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final	Budgetary Basis	Positive (Negative)
Revenues				
Interest income	\$	\$	\$ 351	\$
Revenues				
Total Revenues	47,000	47,000	351	(46,649)
Expenditures				
Special Projects			31,561	
Total Expenditures	47,000	47,000	31,561	15,439
Excess (deficiency) of revenues over (under) expenditures- budgetary basis			(31,210)	(31,210)
Adjustment from budgetary basis to GAAP basis:				
Accounts payable adjustment	-	-	(12,048)	(12,048)
Excess (deficiency) of revenues over (under) expenditures - GAAP basis			(43,258)	(43,258)
Fund balance- beginning			46,674	46,674
Fund balance- ending	\$	\$	\$ 3,416	\$ 3,416

City of Frankfort
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Rental Rehab
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final	Budgetary Basis	
Revenues				
Interest income	\$	\$	\$ 119	\$
Revenues				
Total Revenues	<u>15,500</u>	<u>15,500</u>	<u>119</u>	<u>(15,381)</u>
Expenditures				
Expenditures			14,197	
Total Expenditures	<u>15,500</u>	<u>15,500</u>	<u>14,197</u>	<u>1,303</u>
Excess (deficiency) of revenues over (under) expenditures			(14,078)	(14,078)
Fund balance- beginning			<u>15,574</u>	<u>15,574</u>
Fund balance- ending	<u>\$</u>	<u>\$</u>	<u>\$ 1,496</u>	<u>\$ 1,496</u>

City of Frankfort
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
E-911
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Revenues				
Interest income	\$	\$	\$ 8,546	\$
E-911 Fees			445,509	
Total Revenues	772,000	772,000	454,055	(317,945)
Expenditures				
Public safety			591,400	
Total Expenditures	572,000	572,000	591,400	(19,400)
Excess (deficiency) of revenues over (under) expenditures	200,000	200,000	(137,345)	(337,345)
Other Financing Uses				
Transfers out	(200,000)	(200,000)	(200,000)	-
Total other financing uses	(200,000)	(200,000)	(200,000)	-
Excess (deficiency) of revenues over (under) expenditures- budgetary basis	-	-	(337,345)	(337,345)
Adjustment from budgetary basis to GAAP basis:				
Interest adjustment			(57)	(57)
Receivable adjustment			10,692	10,692
Accounts payable adjustment			16,580	16,580
Encumbrance adjustments			5,450	5,450
Excess (deficiency) of revenues over (under) expenditures- GAAP basis			(304,680)	(304,680)
Fund balance- beginning			771,781	771,781
Fund balance- ending	\$	\$	\$ 467,101	\$ 467,101

City of Frankfort
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Tourism Building
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Revenues				
Interest income	\$	\$	\$ 749	\$
Rental income			8,766	
Total Revenues	33,000	33,000	9,515	(23,485)
Expenditures				
Tourism building maintenance expenditures			839	
Total Expenditures	33,000	33,000	839	32,161
Excess (deficiency) of revenues over (under) expenditures- budgetary basis			8,676	8,676
Adjustment from budgetary basis to GAAP basis				
Revenue deposited in wrong account in prior year	-	-	(394)	(394)
Excess (deficiency) of revenues over (under) expenditures- GAAP basis			8,282	8,282
Fund balance- beginning			35,884	35,884
Fund balance- ending	\$	\$	\$ 44,166	\$ 44,166

City of Frankfort
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Revolving Loan Fund
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final	Budgetary Basis	
Revenues				
Interest income	\$ 13,200	13,200	\$ 122	(13,078)
Revenues				
Total Revenues	<u>13,200</u>	<u>13,200</u>	<u>122</u>	<u>(13,078)</u>
Expenditures				
Expenditures			-	
Total Expenditures	<u>13,200</u>	<u>13,200</u>	<u>-</u>	<u>13,200</u>
Excess (deficiency) of revenues over (under) expenditures- budgetary basis			<u>122</u>	<u>122</u>
Adjustment from budgetary basis to GAAP basis				
Revenue deposited in wrong account in prior year			<u>(4,500)</u>	<u>(4,500)</u>
Excess (deficiency) of revenues over (under) expenditures- GAAP basis			<u>(4,378)</u>	<u>(4,378)</u>
Fund balance- beginning			<u>13,223</u>	<u>13,223</u>
Fund balance- ending	<u>\$</u>	<u>\$</u>	<u>\$ 8,845</u>	<u>\$ 8,845</u>

City of Frankfort
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
Asset Forfeiture (US Justice)
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Revenues				
Interest income	\$	\$	\$ 3,409	\$
Fines and forfeitures			89,825	
Total Revenues	382,000	382,000	93,234	(288,766)
Expenditures				
Public safety			95,676	
Total Expenditures	382,000	382,000	95,676	286,324
Excess (deficiency) of revenues over (under) expenditures- budgetary basis			(2,442)	(2,442)
Adjustment from budgetary basis to GAAP basis:				
Encumbrance adjustments			18,156	18,156
Excess (deficiency) of revenues over (under) expenditures- GAAP basis			15,714	15,714
Fund balance- beginning			386,621	386,621
Fund balance- ending	\$	\$	\$ 402,335	\$ 402,335

City of Frankfort
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Lost and Found
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final	Budgetary Basis	Positive (Negative)
Revenues				
Interest income	\$	\$	\$ 14	\$
Miscellaneous			27,439	
Total Revenues	1,150	1,150	27,453	26,303
Expenditures				
Public safety			1,023	
Total Expenditures	1,150	1,150	1,023	127
Excess (deficiency) of revenues over (under) expenditures			26,430	26,430
Fund balance- beginning			2,790	2,790
Fund balance- ending	\$	\$	\$ 29,220	\$ 29,220

City of Frankfort
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Safe Place
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Revenues				
Interest income	\$ 6,800	\$ 6,800	\$ 5	\$ (6,795)
Revenues	-	-	-	-
Total Revenues	6,800	6,800	5	(6,795)
Expenditures				
Special Projects	6,800	6,800	1,714	5,086
Total Expenditures	6,800	6,800	1,714	5,086
Excess (deficiency) of revenues over (under) expenditures	-	-	(1,709)	(1,709)
Fund balance- beginning	-		5,328	5,328
Fund balance- ending	\$ -	\$	\$ 3,619	\$ 3,619

City of Frankfort
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Safe Place
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Revenues				
Interest income	\$ 6,800	\$ 6,800	\$ 5	\$ (6,795)
Revenues	-	-	-	-
Total Revenues	6,800	6,800	5	(6,795)
Expenditures				
Special Projects	6,800	6,800	1,714	5,086
Total Expenditures	6,800	6,800	1,714	5,086
Excess (deficiency) of revenues over (under) expenditures	-	-	(1,709)	(1,709)
Fund balance- beginning	-		5,328	5,328
Fund balance- ending	<u>\$ -</u>	<u>\$</u>	<u>\$ 3,619</u>	<u>\$ 3,619</u>

City of Frankfort
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Municipal Parking Facilities Construction Fund
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Revenues				
Interest income	\$	\$	\$ 403	\$
Revenues				
Total Revenues	<u>134,000</u>	<u>134,000</u>	<u>403</u>	<u>(133,597)</u>
Expenditures				
Expenditures-Public Works				
Total Expenditures	<u>134,000</u>	<u>134,000</u>	<u>-</u>	<u>134,000</u>
Excess (deficiency) of revenues over (under) expenditures			403	403
Fund balance- beginning			135,660	135,660
Residual Equity Transfer	<u>-</u>	<u>-</u>	<u>(136,063)</u>	<u>(136,063)</u>
Fund balance- ending	<u>\$</u>	<u>\$</u>	<u>\$ -</u>	<u>\$ -</u>

City of Frankfort
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Fort Hill Park
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final	Budgetary Basis	
Revenues				
Interest income	\$	\$	\$ 738	\$
Grant income			9,703	
Rental income			16,317	
Total Revenues	<u>56,000</u>	<u>56,000</u>	<u>26,758</u>	<u>(29,242)</u>
Expenditures				
Parks projects			51,209	
Total Expenditures	<u>56,000</u>	<u>56,000</u>	<u>51,209</u>	<u>4,791</u>
Excess (deficiency) of revenues over (under) expenditures - before other financing sources	<u>-</u>	<u>-</u>	<u>(24,451)</u>	<u>(24,451)</u>
Other financing sources				
Transfers in	<u>-</u>	<u>-</u>	<u>32,740</u>	<u>32,740</u>
Excess (deficiency) of revenues over (under) expenditures - budgetary basis	<u>56,000</u>	<u>56,000</u>	<u>8,289</u>	<u>8,289</u>
Adjustment from budgetary basis to GAAP basis:				
Transfer reclassified as residual equity transfer			(32,740)	(32,740)
Accounts receivable adjustment			1,502	1,502
Grants receivable adjustment			2,673	2,673
Encumbrance adjustments			6,655	6,655
Excess (deficiency) of revenues over (under) expenditures- GAAP basis			(13,621)	(13,621)
Fund balance- beginning			57,885	57,885
Residual Equity Transfer			32,740	32,740
Fund balance- ending	<u>\$</u>	<u>\$</u>	<u>\$ 77,004</u>	<u>\$ 77,004</u>

City of Frankfort
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Capital Project Fund
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final	Budgetary Basis	
Revenues				
Interest income	\$ 1,350	\$ 1,350	\$ 12	\$ (1,338)
Revenues				
Total Revenues	<u>1,350</u>	<u>1,350</u>	<u>12</u>	<u>(1,338)</u>
Expenditures				
Holmes Street Sewer Separation & Drainage	<u>1,350</u>	<u>1,350</u>	<u>-</u>	<u>1,350</u>
Total Expenditures	<u>1,350</u>	<u>1,350</u>	<u>-</u>	<u>1,350</u>
Excess (deficiency) of revenues over (under) expenditures			12	12
Fund balance- beginning			<u>1,380</u>	<u>1,380</u>
Fund balance- ending	<u>\$</u>	<u>\$</u>	<u>\$ 1,392</u>	<u>\$ 1,392</u>

City of Frankfort
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Holmes Street Drainage Project
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final	Budgetary Basis	
Revenues				
Interest income	\$	\$	\$ 3,421	\$
Intergovernmental revenues			-	
Total Revenues	<u>419,000</u>	<u>419,000</u>	<u>3,421</u>	<u>(415,579)</u>
Expenditures				
Holmes Street Drainage project	<u>419,000</u>	<u>419,000</u>	<u>217,652</u>	<u>201,348</u>
Total Expenditures	<u>419,000</u>	<u>419,000</u>	<u>217,652</u>	<u>201,348</u>
Excess (deficiency) of revenues over (under) expenditures- budgetary basis			<u>(214,231)</u>	<u>(214,231)</u>
Adjustment from budgetary basis to GAAP basis:				
Encumbrance adjustments			217,050	217,050
Accounts payable adjustments			<u>602</u>	<u>602</u>
Excess (deficiency) of revenues over (under) expenditures- GAAP basis			3,421	3,421
Fund balance- beginning			<u>370,742</u>	<u>370,742</u>
Fund balance- ending	<u>\$</u>	<u>\$</u>	<u>\$ 374,163</u>	<u>\$ 374,163</u>

City of Frankfort
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Cove Spring Park Project
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final	Budgetary Basis	
Revenues				
Interest income	\$	\$	\$ 92	\$
Miscellaneous	-	-	-	-
Total Revenues	33,500	33,500	92	(33,408)
Expenditures				
Cove Spring Park expenses	33,500	33,500	-	33,500
Total Expenditures	33,500	33,500	-	33,500
Excess (deficiency) of revenues over (under) expenditures			92	92
Fund balance- beginning			32,648	32,648
Residual Equity Transfer			(32,740)	(32,740)
Fund balance- ending	\$	\$	\$ -	\$ -

City of Frankfort
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Sewer Bond Construction
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final	Budgetary Basis	
Revenues				
Interest income	3,780,600	3,780,600	9,797	(3,770,803)
Revenues		-	-	-
Total Revenues	<u>3,780,600</u>	<u>3,780,600</u>	<u>9,797</u>	<u>(3,770,803)</u>
Expenditures				
Public safety	<u>3,780,600</u>	<u>3,780,600</u>	<u>1,741,432</u>	<u>2,039,168</u>
Total Expenditures	<u>3,780,600</u>	<u>3,780,600</u>	<u>1,741,432</u>	<u>2,039,168</u>
Excess (deficiency) revenues amd other financing sources over (under) expenditures budgetary basis	-	-	<u>(1,731,635)</u>	<u>(1,731,635)</u>
Adjustment from budgetary basis to GAAP basis:				
Encumbrance adjustment			1,842	1,842
Interest adjustment			(683)	(683)
Accounts payable adjustments			<u>26,345</u>	<u>26,345</u>
Excess (deficiency) revenues over (under) expenditues-GAAP basis		-	<u>(1,704,131)</u>	<u>(1,704,131)</u>
Fund balance- beginning		-	<u>1,711,005</u>	<u>1,711,005</u>
Fund balance- ending	<u>\$</u>	<u>\$-</u>	<u>\$ 6,874</u>	<u>\$ 6,874</u>

Schedule of Revenues, Expenditures, and Changes in Fund Balances –
Budget and Actual
Individual Funds within the Sewer Proprietary Fund

Operation and Maintenance Fund
Reserve for Replacement
Lateral Program
Capital Improvements
Tap Fee
Sewer Pollution Abatement
Sewer Bond Depreciation
Sewer Reserve
Sewer Bond Construction

City of Frankfort
Statement of Revenues, Expenses and Changes in Fund Balance
Budget and Actual
Sewer Operations and Maintenance
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final	Budgetary Basis	
Revenues				
User fees	\$ 3,950,000	\$ 3,950,000	\$ 3,900,000	\$ (50,000)
Dump fees	500,000	500,000	621,847	121,847
Inspection fees	8,000	8,000	7,342	(658)
Surplus Sale	8,000	8,000	3,405	(4,595)
Interest	54,000	54,000	26,202	(27,798)
Total Revenues	<u>4,520,000</u>	<u>4,520,000</u>	<u>4,558,796</u>	<u>38,796</u>
Expenses				
Salaries and wages	1,850,000	1,850,000	1,717,253	132,747
Other personnel services	565,960	565,960	609,031	(43,071)
Other services	1,588,500	1,588,500	1,459,042	129,458
Materials	439,150	439,150	378,331	60,819
Other	74,000	74,000	29,108	44,892
Equipment			56	(56)
Total Expenses	<u>4,517,610</u>	<u>4,517,610</u>	<u>4,192,821</u>	<u>324,789</u>
Excess (deficiency) revenues over (under) expenses- budgetary basis	<u>2,390</u>	<u>2,390</u>	<u>365,975</u>	<u>363,585</u>
Other Financing Sources				
Transfers in			234,639	234,639
Total transfers in			<u>234,639</u>	<u>234,639</u>
Excess (deficiency) revenues over (under) expenses and other financing sources	<u>2,390</u>	<u>2,390</u>	<u>600,614</u>	<u>598,224</u>
Adjustment from budgetary basis to GAAP basis:				
Compensated absence expense			(23,524)	(23,524)
Claim loss reserve expense			(1,920)	(1,920)
Accounts payable adjustments			(24,449)	(24,449)
Encumbrance adjustments			2,444	2,444
Health and workers comp adjustments			7,115	7,115
Interest adjustments			1,273	1,273
Excess (deficiency) revenues over (under) expenses-GAAP basis	<u>2,390</u>	<u>2,390</u>	<u>561,553</u>	<u>559,163</u>
Fund balance- beginning	<u>(2,390)</u>	<u>(2,390)</u>	<u>1,281,317</u>	<u>1,283,707</u>
Fund balance- ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,842,870</u>	<u>\$ 1,842,870</u>

City of Frankfort
Statement of Revenues, Expenses and Changes in Fund Balance
Budget and Actual
Sewer Operations and Maintenance
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final	Budgetary Basis	
Revenues				
User fees	\$ 3,950,000	\$ 3,950,000	\$ 3,900,000	\$ (50,000)
Dump fees	500,000	500,000	621,847	121,847
Inspection fees	8,000	8,000	7,342	(658)
Surplus Sale	8,000	8,000	3,405	(4,595)
Interest	54,000	54,000	26,202	(27,798)
Total Revenues	<u>4,520,000</u>	<u>4,520,000</u>	<u>4,558,796</u>	<u>38,796</u>
Expenses				
Salaries and wages	1,850,000	1,850,000	1,717,253	132,747
Other personnel services	565,960	565,960	609,031	(43,071)
Other services	1,588,500	1,588,500	1,459,042	129,458
Materials	439,150	439,150	378,331	60,819
Other	74,000	74,000	29,108	44,892
Equipment			56	(56)
Total Expenses	<u>4,517,610</u>	<u>4,517,610</u>	<u>4,192,821</u>	<u>324,789</u>
Excess (deficiency) revenues over (under) expenses- budgetary basis	<u>2,390</u>	<u>2,390</u>	<u>365,975</u>	<u>363,585</u>
Other Financing Sources				
Transfers in			234,639	234,639
Total transfers in			<u>234,639</u>	<u>234,639</u>
Excess (deficiency) revenues over (under) expenses and other financing sources	<u>2,390</u>	<u>2,390</u>	<u>600,614</u>	<u>598,224</u>
Adjustment from budgetary basis to GAAP basis:				
Compensated absence expense			(23,524)	(23,524)
Claim loss reserve expense			(1,920)	(1,920)
Accounts payable adjustments			(24,449)	(24,449)
Encumbrance adjustments			2,444	2,444
Health and workers comp adjustments			7,115	7,115
Interest adjustments			<u>1,273</u>	<u>1,273</u>
Excess (deficiency) revenues over (under) expenses-GAAP basis	<u>2,390</u>	<u>2,390</u>	<u>561,553</u>	<u>559,163</u>
Fund balance- beginning	<u>(2,390)</u>	<u>(2,390)</u>	<u>1,281,317</u>	<u>1,283,707</u>
Fund balance- ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,842,870</u>	<u>\$ 1,842,870</u>

City of Frankfort
Statement of Revenues, Expenses and Changes in Fund Balance
Budget and Actual
Sewer Lateral
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final	Budgetary Basis	
Revenues				
Grants and aid	\$ -	\$ -	\$ -	\$ -
Revenue	650,000	650,000	670,553	20,553
Back Billing Revenues			1,143	1,143
Interest	30,000	30,000	58,300	28,300
Total Revenues	680,000	680,000	729,996	49,996
Expenses				
Salaries and wages	140,000	140,000	148,173	(8,173)
Other personnel services	48,522	48,522	31,386	17,136
Other services	508,500	508,500	29,331	479,169
Materials	8,500	8,500	7,719	781
Miscellaneous	0	0	29	(29)
Equipment	75,000	75,000	37,779	37,221
Total Expenses	780,522	780,522	254,417	526,105
Excess (deficiency) revenues over (under) expenses- budgetary basis	(100,522)	(100,522)	475,579	576,101
Adjustment from budgetary basis to GAAP basis:				
Transfer adjustment			(208)	(208)
Accrued interest adjustment			(2,642)	(2,642)
To reverse outstanding encumbrances			(53,011)	(53,011)
To capitalize fixed assets			7,484	7,484
To adjust accounts payable			3,498	3,498
Excess (deficiency) revenues over (under) expenses-GAAP basis	(100,522)	(100,522)	430,700	531,222
Fund balance- beginning	100,522	100,522	1,942,764	1,842,242
Fund balance- ending	\$ -	\$ -	\$ 2,373,464	\$ 2,373,464

City of Frankfort
Statement of Revenues, Expenses and Changes in Fund Balance
Budget and Actual
Sewer Capital Improvements
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Revenues				
Grants and aid	\$ -	\$ -	\$ 1,110	\$ 1,110
Interest		-	57,180	57,180
Total Revenues	-	-	58,290	58,290
Other Financing Sources				
Transfers in		-	-	-
Total other financing sources			-	-
Total revenues and other financing sources	-	-	58,290	58,290
Expenses				
Capital and repair projects	-	-	3,140	(3,140)
Total Expenses	-	-	3,140	(3,140)
Excess (deficiency) revenues and other financing sources over (under) expenses		-	55,150	55,150
Other Financing Uses				
Transfers out		-	8,984,073	(8,984,073)
Total other financing uses		-	8,984,073	(8,984,073)
Excess (deficiency) revenues over (under) expenses- budgetary basis		-	(8,928,923)	(8,928,923)
Adjustment from budgetary basis to GAAP basis:				
Adjustment to transfers			(432,132)	(432,132)
To adjust accrued interest			(56,264)	(56,264)
Encumbrance adjustments			(480,182)	(480,182)
Capitalize fixed assets			1,440	1,440
Accounts payable adjustments			14,332	14,332
Excess (deficiency) revenues over (under) expenses-GAAP basis		-	(9,881,729)	(9,881,729)
Fund balance- beginning		-	9,881,729	9,881,729
Fund balance- ending	\$	\$ -	\$ -	\$ -

City of Frankfort
Statement of Revenues, Expenses and Changes in Fund Balance
Budget and Actual
Sewer Tap Fees
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Revenues				
Interest income	\$	\$	\$ 109,338	\$
Tap fees			224,894	
Total Revenues	3,460,000	3,460,000	334,232	(3,125,768)
Expenses				
Expenses			-	
Total Expenses	3,460,000	3,460,000	-	3,460,000
Excess (deficiency) revenues over (under) expenses- budgetary basis			334,232	334,232
Adjustment from budgetary basis to GAAP basis:				
Interest adjustment	-	-	(1,504)	(1,504)
Excess (deficiency) revenues over (under) expenses-GAAP basis			332,728	332,728
Fund balance- beginning			3,589,079	3,589,079
Fund balance- ending	\$	\$	\$ 3,921,807	\$ 3,921,807

City of Frankfort
Statement of Revenues, Expenses and Changes in Fund Balance
Budget and Actual
Sewer Pollution Abatement
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final	Budgetary Basis	
Revenues				
Interest income	\$	\$	\$ 4,533	\$
Total Revenues	523,000	523,000	4,533	(518,467)
Expenses				
Transfers-out	523,000	523,000	532,322	(9,322)
Total Expenses	523,000	523,000	532,322	(9,322)
Excess (deficiency) revenues over (under) expenses- budgetary basis	-	-	(527,789)	(527,789)
Adjustment from budgetary basis to GAAP basis:				
Interest adjustment	-	-	(3,400)	(3,400)
Excess (deficiency) revenues over (under) expenses-GAAP basis	-	-	(531,189)	(531,189)
Fund balance- beginning			531,189	531,189
Fund balance- ending	\$	\$	\$ -	\$ -

City of Frankfort
Statement of Revenues, Expenses and Changes in Fund Balance
Budget and Actual
Sewer Bond Depreciation Fund
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final	Budgetary Basis	
Revenues				
Interest income	\$	\$	\$ 61,360	\$
Revenues			-	
Total Revenues	-	-	61,360	-
Other Financing Sources				
Transfers in	-	-	532,322	-
Total other financing sources	-	-	532,322	-
Total revenues and other financing sources	1,284,000	1,284,000	593,682	(690,318)
Expenses				
Expenses	1,284,000	1,284,000	-	1,284,000
Total Expenses	1,284,000	1,284,000	-	1,284,000
Excess (deficiency) revenues over (under) expenses- budgetary basis	-	-	593,682	593,682
Adjustment from budgetary basis to GAAP basis:				
To adjust accrued interest	-	-	(744)	(744)
Excess (deficiency) revenues over (under) expenses-GAAP basis	-	-	592,938	592,938
Fund balance- beginning			1,307,268	1,307,268
Fund balance- ending	\$	\$	\$ 1,900,206	\$ 1,900,206

City of Frankfort
Statement of Revenues, Expenses and Changes in Fund Balance
Budget and Actual
Sewer Reserve Fund
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final	Budgetary Basis	
Revenues				
Interest income	\$	\$	\$ 31,722	\$
Revenues			-	
Total Revenues	892,000	892,000	31,722	(860,278)
Expenses				
Expenses	892,000	892,000	-	892,000
Total Expenses	892,000	892,000	-	892,000
Excess (deficiency) revenues over (under) expenses	-	-	31,722	31,722
Other Financing Uses				
Transfers out	-	-	31,722	(31,722)
Total other financing uses	-	-	31,722	(31,722)
Excess (deficiency) revenues over (under) expenses- budgetary basis	-	-	-	-
Adjustment from budgetary basis to GAAP basis:				
Transfer adjustment			(21,193)	(21,193)
To adjust investments for capitalized interest			(10,644)	(10,644)
To adjust accrued interest	-	-	21,308	21,308
Excess (deficiency) revenues over (under) expenses-GAAP basis	-	-	(10,529)	(10,529)
Fund balance- beginning			909,622	909,622
Fund balance- ending	\$	\$	\$ 899,093	\$ 899,093

City of Frankfort
Statement of Revenues, Expenses and Changes in Fund Balance
Budget and Actual
Sewer Bond Construction
For The Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final	Budgetary Basis	
Revenues				
Revenues	\$ 6,390,600	\$ 6,390,600	\$ 20,864	\$ (6,369,736)
Interest		-	58,756	58,756
Total Revenues	<u>6,390,600</u>	<u>6,390,600</u>	<u>79,620</u>	<u>(6,310,980)</u>
Other Financing Sources				
Transfers in		-	657,567	657,567
Total other financing sources			<u>657,567</u>	<u>657,567</u>
Total revenues and other financing sources	<u>6,390,600</u>	<u>6,390,600</u>	<u>737,187</u>	<u>(5,653,413)</u>
Expenses				
Capital and repair projects	<u>6,390,600</u>	<u>6,390,600</u>	<u>8,722,679</u>	<u>(2,332,079)</u>
Total Expenses	<u>6,390,600</u>	<u>6,390,600</u>	<u>8,722,679</u>	<u>(2,332,079)</u>
Excess (deficiency) revenues and other financing sources over (under) expenses- budgetary basis		<u>-</u>	<u>(7,985,492)</u>	<u>(7,985,492)</u>
Adjustment from budgetary basis to GAAP basis:				
Transfer adjustment			4,137,040	4,137,040
Bond discount amortization			(13,690)	(13,690)
To adjust interest income			47	47
Encumbrance adjustments			2,981,016	2,981,016
Capitalize fixed assets			5,364,153	5,364,153
Adjustment of interest expense			16,371	16,371
Accounts payable adjustments			(97,961)	(97,961)
Excess (deficiency) revenues over (under) expenses-GAAP basis		<u>-</u>	<u>4,401,484</u>	<u>4,401,484</u>
Fund balance- beginning		<u>-</u>	<u>(3,341,900)</u>	<u>(3,341,900)</u>
Fund balance- ending	<u>\$</u>	<u>\$ -</u>	<u>\$ 1,059,584</u>	<u>\$ 1,059,584</u>

Agency Funds

Tax Collection Agency Fund

The Tax Collection Agency Fund accounts for property taxes collected and then disbursed to the General Fund and the Frankfort School Board.

Retirement Revolving Fund

The Retirement Revolving Fund accounts for retirement payments transferred from the General Fund and disbursed to County Employees Retirement System.

Transient Room Tax

The Transient Room Tax Fund accounts for hotel and motel taxes collected and disbursed to the Frankfort Tourist Center.

Letter of Credit Account

The Letter of Credit Account accounts for deposits made by persons who have not complied with zoning requirements. Once the requirements are met, the deposit plus interest is refunded.

City of Frankfort
Combining Statements of Changes in Assets and Liabilities
All Agency Funds
For The Year Ended June 30, 2009

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
<u>TAX COLLECTION FUND</u>				
Assets				
Cash	\$	\$ 4,551,207	\$ 4,551,207	\$
Liabilities				
Due to Other Taxing Districts		4,551,207	4,551,207	
Total Liabilities	\$	\$ 4,551,207	\$ 4,551,207	\$
<u>RETIREMENT REVOLVING FUND</u>				
Assets				
Cash	\$ 5,795	\$ 4,628,408	\$ 4,634,203	\$ -
Liabilities				
Due to Retirement Systems	\$ 3,951	\$ 4,627,595	\$ 4,631,546	\$ -
Due to Other Funds	1,844	813	2,657	-
Total Liabilities	\$ 5,795	\$ 4,628,408	\$ 4,634,203	\$ -
<u>LETTER OF CREDIT</u>				
Assets				
Cash	\$ 15,889	\$ 147	\$ -	\$ 16,036
Liabilities				
Due to Depositors	\$ 15,889	\$ 147	\$ -	\$ 16,036
<u>TRANSIENT ROOM TAX</u>				
Assets				
Cash	\$ 26	\$ 328,212	\$ 328,234	\$ 4
Liabilities				
Due to Other Government Agencies	\$ 26	\$ 328,212	\$ 328,234	\$ 4
<u>TOTALS - ALL AGENCY FUNDS</u>				
Assets				
Cash	\$ 21,710	\$ 9,507,974	\$ 9,513,644	\$ 16,040
Liabilities				
Due to Other Taxing Districts	\$	\$ 4,551,207	\$ 4,551,207	\$ -
Due to Retirement Systems	3,951	4,627,595	4,631,546	-
Due to Other Government Agencies	26	328,212	328,234	4
Due to Depositors	15,889	147	-	16,036
Due to Other Funds	1,844	813	2,657	-
Total Liabilities	\$ 21,710	\$ 9,507,974	\$ 9,513,644	\$ 16,040

ADDITIONAL AUDITOR’S REPORTS AND SCHEDULES



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

**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**

Mayor H. Gippy Graham
Members of the City Commission
Frankfort, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Frankfort, Kentucky as of and for the year ended June 30, 2009, which collectively comprise City of Frankfort's basic financial statements, and have issued our report thereon dated February 1, 2010. 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 City of Frankfort'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 City of Frankfort's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Frankfort's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 City of Frankfort, Kentucky'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 City of Frankfort's financial statements that is more than inconsequential will not be prevented or detected by City of Frankfort's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting (2009-1).

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 City of Frankfort's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all significant deficiencies in the internal control that might be significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

However, we noted certain other matters that we reported to management of City of Frankfort in a separate letter dated February 1, 2010.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Frankfort's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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.

However, we noted certain other matters that we reported to management of City of Frankfort in a separate letter dated February 1, 2010.

City of Frankfort, Kentucky's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Commission, others within the entity, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Charles T. Mitchell Co.

February 1, 2010



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

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mayor H. Gippy Graham
Members of the City Commission
Frankfort, Kentucky

Compliance

We have audited the compliance of City of Frankfort, Kentucky with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. City of Frankfort's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Frankfort, Kentucky's management. Our responsibility is to express an opinion on City of Frankfort, Kentucky's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Frankfort, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Frankfort, Kentucky's compliance with those requirements.

In our opinion, City of Frankfort, Kentucky complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of City of Frankfort, Kentucky is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Frankfort's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Frankfort, Kentucky's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-2 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

City of Frankfort, Kentucky's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of Frankfort's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, of the City of Frankfort, Kentucky, others within the entity, city commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Charles T. Mitchell Co.

February 1, 2010

City of Frankfort
Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2009

(Deferred) Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program/ Award Amount	Disbursements/ Expenditures
U.S ENVIRONMENTAL PROTECTION AGENCY				
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-964850407 0	\$ 200,000	\$ 84,025
Congressionally Mandated Projects	66.202	XP-96466206	482,100	<u>482,100</u>
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY				<u>566,125</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed Through Kentucky Housing Corporation				
Home Investment Partnerships Program	14.239	FC07-0364-01	725,500	<u>396,580</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				<u>396,580</u>
U.S. DEPARTMENT OF TRANSPORTATION				
Passed Through Governors Office for Local Development				
Recreational Trails Program	20.219	RTP#304-06	16,000	<u>16,000</u>
Passed Through Kentucky Transportation Cabinet				
Federal Transit- Capital Investment Grants	20.500		32,400	<u>32,400</u>
Formula Grants for Other Than Urbanized Areas	20.509	G710926Z	470,000	<u>470,000</u>
		G910F26Z, G910S26Z	240,000	<u>240,000</u>
		G801926Z	6,000	<u>6,000</u>
				<u>716,000</u>
Job Access- Reverse Commute	20.516	GJF0737Z	10,000	<u>10,000</u>
		GJS0737Z	20,000	<u>20,000</u>
				<u>30,000</u>
New Freedom Program	20.521	GNF0457Z	10,000	<u>10,000</u>
		GNS0457Z	40,000	<u>44,000</u>
				<u>54,000</u>
Passed Through Kentucky State Police				
State and Community Highway Safety	20.600	PT-09-20	65,000	<u>61,438</u>
		K8-08-04		<u>18,274</u>
				<u>79,712</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION				<u>928,112</u>
U.S NATIONAL PARK SERVICE				
Passed Through Kentucky Heritage Council				
Historic Preservation Fund Grants In Aid	15.904	21-07-21621	5,500	<u>3,520</u>
		21-08-21722	8,100	<u>8,100</u>
				<u>11,620</u>
U.S Geological Survey- Research and Data Acquisition	15.808	08ERAG0009	15,000	<u>15,000</u>
TOTAL U.S. NATIONAL PARK SERVICE				<u>26,620</u>
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed Through Kentucky Office of Homeland Security				
Disaster Grants- Public Assistance	97.036	FEMA-1818 DR KY	517,137	<u>517,137</u>
Homeland Security Grant Program	97.067	2008-GE-T6-0070	40,000	<u>37,627</u>
		2008-GE-T8-0047	92,000	<u>86,677</u>
				<u>124,304</u>
Passed Through Kentucky Department of Military Affairs				
Flood Mitigation Assistance Program	97.029	FMA-PL-04-KY-2008-001	24,765	<u>5,248</u>
Emergency Management Performance Grant	97.042			<u>21,725</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY				<u>668,414</u>
See accompanying auditor's report and notes to schedule of expenditures of federal awards				

City of Frankfort
Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2009

(Deferred) Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program/ Award Amount	Disbursements/ Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
Forest Service, Department of Agriculture				
Passed Through Kentucky Natural Resources				
and Environmental Protection Cabinet.				
Cooperative Forestry Assistance	10.664	PON2 128 0800009963	11,000	<u>2,673</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE				<u>2,673</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 2,588,524</u>

See accompanying auditor's report and notes to schedule of expenditures of federal awards

City of Frankfort
Schedule of Expenditures of Federal Awards
For The Year Ended June 30, 2009

1. **General**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Frankfort, Kentucky. The City's reporting is defined in Note 1 to the basic financial statements. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies are included on the schedule.

2. **Basis of Presentation and Relationship to Basic Financial Statements**

The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (*OMB*) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

3. **Sub recipients**

\$275,325 of the Disaster Assistance grant (97.036) was passed through to the Frankfort Plant Board.

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? ☐ Yes ☒ No

Significant deficiencies identified not considered to be material weaknesses? ☒ Yes ☐ None Reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weaknesses identified? ☐ Yes ☒ No

Significant deficiencies identified not considered to be material weaknesses? ☒ Yes ☐ None

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal</u>
14.239	Home Investment Partnerships Program
66.202	Congressionally Mandated Projects
20.509	Formula Grants for Other Than Urbanized Areas
97.036	Disaster Grants- Public Assistance

Dollar threshold used to distinguish between Type A and type B programs: \$300,000

Auditee qualified as a low risk auditee? ☐ Yes ☒ No

SECTION II - FINANCIAL STATEMENT FINDINGS

2009-1 Grants Management

Criteria:

The City should have a listing of all federal assistance received and expended so that an accurate Schedule of Expenditures of Federal Awards can be prepared. It is imperative that an accurate listing be kept so you will know whether a Single Audit needs to be performed.

Condition:

During our review of the Schedule of Expenditures of Federal Awards prepared by the grants manager, we found two major grants and another small one that were not included on the Schedule. These grants were not managed or under the control of the grants manager.

Cause:

There are several grants that the grants manager does not manage or coordinate. Other personnel in the City were responsible for maintaining documentation and coordinating these grants. Maintaining documentation and coordinating these grants was not a duty that these personnel normally performed.

Effect:

The Schedule of Expenditures of Federal Awards was not accurate.

Recommendation:

We recommend that when a grant is not administered or coordinated by the grants manager, that the personnel who do maintain these grants provide sufficient information on these grants so that a complete and accurate listing of all federal assistance can be prepared by the grants manager.

Management Response:

All grants will flow through the grant manager to maintain timely and accurate reporting.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2009-2 Accurate Schedule of Federal Expenditures

Criteria:

The City should have a listing of all federal assistance received and expended so that an accurate Schedule of Expenditures of Federal Awards can be prepared. It is imperative that an accurate listing be kept so you will know whether a Single Audit needs to be performed.

Condition:

During our review of the Schedule of Expenditures of Federal Awards prepared by the grants manager, we found two major grants (66.202, 97.029) and another small one that were not included on the Schedule. These grants were not managed or under the control of the grants manager.

Amount of Questioned Costs:

We were unable to determine a dollar amount, if any, associated with this finding.

Cause:

There are several grants that the grants manager does not manage or coordinate. Other personnel in the City were responsible for maintaining documentation and coordinating these grants. Maintaining documentation and coordinating these grants was not a duty that these personnel normally performed.

Effect:

If the grants that were omitted from the Schedule had not been found by other means,, the major programs that should have been tested as a major program may not have been.

Recommendation:

We recommend that when a grant is not administered or coordinated by the grants manager, that the personnel who do maintain these grants provide sufficient information on these grants so that a complete and accurate listing of all federal assistance can be prepared by the grants manager.

Management Response:

All federal grants will flow through the grant manager. A complete listing of the grant money received will be maintained by the grant manager.

PRIOR YEAR

FINDINGS- FINANCIAL STATEMENT AUDIT

There were no findings in prior year.

FINDINGS- FEDERAL AWARDS

On the original report, a Single Audit was not performed. However, there was found after that date that a non-major federal program was omitted from the Schedule of Expenditures of Federal Awards. If this program had been known at the time, it would have caused a Single Audit to have been performed. Therefore, this situation in the current year had not been solved.

APPENDIX C

**CITY OF FRANKFORT, KENTUCKY,
SEWER SYSTEM REVENUE BONDS, SERIES 2010**

Forms of Bond Counsel Opinions

Upon delivery of the Bonds as Tax-Exempt Bonds, Stoll Keenon Ogden PLLC, Bond Counsel to the City, 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

Re: \$_____ City of Frankfort, Kentucky, Sewer System Revenue Bonds,
Series 2010

We have examined executed, certified or otherwise authenticated copies of the proceedings of the City of Frankfort, Kentucky (the "City"), in respect of the authorization and issuance of \$_____ City of Frankfort, Kentucky, Sewer System Revenue Bonds, Series 2010, dated the date of delivery (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:

<u>Maturity December 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2011	\$	%
2012		
2013		
2014		
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		
2025		

provided, however, that the Bonds maturing on and after December 1, 2020, are subject to redemption prior to stated maturity at the option of the City on March 1, 2020, and on any date thereafter, as set forth in the text of each Bond. In expressing the opinions set forth below, we have relied on such proceedings, including without limitation the duly adopted ordinance and official action of the City authorizing and providing for the sale and issuance of the Bonds

(collectively the “Ordinance”), certifications and representations of officials of the City as to certain facts and expectations and the opinion of counsel for the City 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 Ordinance, show proper authority for the issuance of the Bonds under the laws of the Commonwealth of Kentucky, particular reference being made to Sections 58.010 through 58.140 and 58.410 through 58.430 of the Kentucky Revised Statutes. The Bonds are being issued to finance certain improvements and additions to the City’s sanitary sewer 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 City according to their terms and applicable provisions of Kentucky law and that the Bonds, together with previously issued and outstanding parity bonds and additional bonds ranking on a parity therewith that may be subsequently issued and outstanding under the conditions and restrictions set out in the Ordinance, 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 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 City 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. The opinions set forth in the first sentence of this paragraph are subject to the conditions that the representations and warranties of the City described above are accurate and that the City complies with all requirements of the United States Internal Revenue Code of 1986, as amended, 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 City 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 City 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.”

Re: \$_____ City of Frankfort, Kentucky,
Sewer System Revenue Bonds, Series 2010
Page 3

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 Ordinance 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

Upon delivery of the Bonds as Taxable Bonds, Stoll Keenon Ogden PLLC, Bond Counsel to the City, 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

Re: \$_____ City of Frankfort, Kentucky, Sewer System Revenue Bonds,
Taxable Series 2010 (Build America Bonds – Direct Payment to Issuer)

We have examined executed, certified or otherwise authenticated copies of the proceedings of the City of Frankfort, Kentucky (the “City”), in respect of the authorization and issuance of \$_____ City of Frankfort, Kentucky, Sewer System Revenue Bonds, Taxable Series 2010 (Build America Bonds – Direct Payment to Issuer), dated the date of delivery (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:

<u>Maturity December 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2011	\$	%
2012		
2013		
2014		
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		
2025		

provided, however, that the Bonds maturing on and after December 1, 2020, are subject to redemption prior to stated maturity at the option of the City on March 1, 2020, and on any date thereafter, as set forth in the text of each Bond. In expressing the opinions set forth below, we have relied on such proceedings, including without limitation the duly adopted ordinance and official action of the City authorizing and providing for the sale and issuance of the Bonds

Re: \$_____ City of Frankfort, Kentucky,
Sewer System Revenue Bonds, Series 2010
Page 2

(collectively the “Ordinance”), certifications and representations of officials of the City as to certain facts and expectations and the opinion of counsel for the City 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 Ordinance, show proper authority for the issuance of the Bonds under the laws of the Commonwealth of Kentucky, particular reference being made to Sections 58.010 through 58.140 and 58.410 through 58.430 of the Kentucky Revised Statutes. The Bonds are being issued to finance certain improvements and additions to the City’s sanitary sewer 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 City according to their terms and applicable provisions of Kentucky law and that the Bonds, together with previously issued and outstanding parity bonds and additional bonds ranking on a parity therewith that may be subsequently issued and outstanding under the conditions and restrictions set out in the Ordinance, 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 such parity bonds when due.

Further, it is our opinion that (a) interest on the Bonds is includable in gross income for federal income tax purposes, (b) under the Constitution and laws of the Commonwealth of Kentucky and official interpretations thereof, interest on the Bonds is exempt from income taxation by the Commonwealth of Kentucky and its political subdivisions, and (c) the Bonds are exempt from *ad valorem* taxation by the Commonwealth of Kentucky and its political subdivisions.

THE FOREGOING FEDERAL TAX ADVICE WAS NOT INTENDED OR WRITTEN BY THE UNDERSIGNED TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON AN OWNER OF THE BONDS. SUCH ADVICE WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE BONDS. EACH PROSPECTIVE PURCHASER OF THE BONDS SHOULD SEEK ADVICE BASED ON THE PROSPECTIVE PURCHASER’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

With respect to the opinions expressed herein, (a) the rights and obligations under the Bonds and the Ordinance 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

Re: \$_____ City of Frankfort, Kentucky,
Sewer System Revenue Bonds, Series 2010
Page 2

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