

This Preliminary Official Statement has been prepared for submission to prospective bidders for the Series 2016 Bonds herein described and is in a form "deemed final" by the City for purposes of SEC Rule 15c2-12(b)(1), but is subject to revision, amendment and completion in a final Official Statement. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of the Series 2016 Bonds in any jurisdiction in which such offer, solicitation, or sale would be unlawful before registration or qualification under the securities laws of any such jurisdiction.

**PRELIMINARY OFFICIAL STATEMENT**

**Dated September 21, 2016**

**(Bonds to be sold September 28, 2016, at 11:30 a.m., EDT)**

**NEW ISSUE  
Book-Entry**

**RATING: S&P: "AA"  
(See "Rating" herein)**

*In the opinion of Bond Counsel, subject to the conditions set forth in "TAX MATTERS" herein, interest on the Series 2016 Bonds is excluded from gross income for federal and Kentucky income tax purposes and is not an item of tax preference for purposes of computing the federal alternative minimum tax. Bond Counsel is further of the opinion that the Series 2016 Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and its political subdivisions.*

**\$5,270,000\* CITY OF FRANKFORT, KENTUCKY  
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016  
(Bank Qualified)**

**Dated: Date of Delivery**

**Due: June 1, - 2017 - 2022**

Interest on the above-identified bonds (the "Series 2016 Bonds") is payable semiannually on each June 1<sup>st</sup> and December 1<sup>st</sup>, commencing June 1, 2017. The Series 2016 Bonds will initially be issued in book-entry form registered by the Paying Agent and Bond Registrar (U.S. Bank National Association, 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 Series 2016 Bonds. Individual purchases of Series 2016 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 Series 2016 Bonds will be payable to DTC, which in turn will remit such principal and interest to the beneficial owners of the Series 2016 Bonds through DTC's participants as described herein. The Series 2016 Bonds will mature\* on June 1<sup>st</sup> of the respective years as shown below:

<b>Year</b>	<b>Amount*</b>	<b>Rate</b>	<b>Price</b>	<b>Yield</b>	<b>CUSIP†</b>
2017	\$865,000	___%			
2018	845,000				
2019	865,000				
2020	880,000				
2021	900,000				
2022	915,000				

The Series 2016 Bonds are not subject to optional redemption for before their final maturities.

The issuance of the Series 2016 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 Series 2016 Bonds is expected on or about October 13, 2016.

**RAYMOND JAMES**  
Financial Advisor

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

† Copyright, American Bankers Association. CUSIP data herein is provided by CUSIP Global Services managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP Numbers are provided for convenience of reference only. Neither the City, the Financial Advisor, the Underwriter, nor Bond Counsel take any responsibility for the accuracy of such numbers.

This Official Statement does not constitute an offer to sell the Series 2016 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 Series 2016 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 Series 2016 Bonds implies that there has been no change in the matters described herein since the date hereof.

The price and other terms respecting the offering and sale of the Series 2016 Bonds may be changed from time to time by the underwriter after such Series 2016 Bonds are released for sale, and such Series 2016 Bonds may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Series 2016 Bonds into investment accounts.

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

The Series 2016 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.

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future. Insofar as the statements contained in this Official Statement involve matters of opinion or estimates, even if not expressly stated as such, such statements are made as such and not as representations of fact or certainty, no representation is made that any of such statements have been or will be realized, and such statements should be regarded as suggesting independent investigation or consultation of other sources before the making of investment decisions. Certain information may not be current; however, attempts were made to date and document sources of information. Neither this Official Statement nor any oral or written representations by or on behalf of the City preliminary to sale of the Series 2016 Bonds should be regarded as part of the City's contract with the successful bidder or the holders from time to time of the Series 2016 Bonds.

References herein to provisions of Kentucky law, whether codified in the Kentucky Revised Statutes or uncodified, or to the provisions of the Kentucky Constitution or the City's ordinances, are references to such provisions as they presently exist. Any of these provisions may from time to time be amended, repealed, or supplemented.

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**\$5,270,000\* CITY OF FRANKFORT, KENTUCKY  
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016**

**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 \$5,270,000\* (the “**Series 2016 Bonds**”). The Series 2016 Bonds are being issued to refinance a portion of the costs of a public project of the City, as described under the heading “**THE REFUNDING PROJECT,**” and to pay cost of issuance of the Series 2016 Bonds. The City is a city and political subdivision of the Commonwealth of Kentucky situated in Franklin County, Kentucky. The Series 2016 Bonds will be issued under authority of Sections 158 and 159 of the Constitution of Kentucky, Sections 66.011 through 66.171 of the Kentucky Revised Statutes, and an ordinance of the City and official action of a designated City official (together the “**Series 2016 Bond Ordinance**”).

As described under the heading “**AUTHORITY AND SECURITY,**” the Series 2016 Bonds constitute general obligations of the City secured by an irrevocable pledge of the full faith, credit, and taxing power of the City.

Before the issuance of the Series 2016 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 events which might occur, all as described under the heading “**CONTINUING DISCLOSURE UNDERTAKING.**”

The Series 2016 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 Series 2016 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 SERIES 2016 BONDS.** See “**THE SERIES 2016 BONDS - Book-Entry-Only System.**”

There follows brief descriptions of the City, the Series 2016 Bonds, the Series 2016 Bond Ordinance, the Continuing Disclosure Certificate, the purpose 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 Series 2016 Bonds, the Series 2016 Bond 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 SERIES 2016 BONDS**

**General**

The Series 2016 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 June 1<sup>st</sup> and will bear interest, all as set forth on the cover page of this Official Statement. Interest will be computed on the basis of a year of 360 days consisting of twelve 30-day months.

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\* Preliminary, subject to adjustment as provided in the Notice and Official Terms and Conditions of Bond Sale.

Interest accruing on the Series 2016 Bonds will be payable semiannually on June 1<sup>st</sup> and December 1<sup>st</sup> of each year (commencing June 1, 2017) from the later of the date of the Series 2016 Bonds or the most recent interest payment date (June 1<sup>st</sup> or December 1<sup>st</sup>) to which interest has been paid or duly provided for. The interest installment on each Series 2016 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 15<sup>th</sup> 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, U.S. Bank National Association. Principal shall be paid when due upon delivery of the Series 2016 Bonds 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 Series 2016 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 Series 2016 Bonds and no interest shall accrue for the period after such stipulated date.

See “**THE SERIES 2016 BONDS - Book-Entry-Only System**” below regarding payment of principal and interest to the Beneficial Owners while the Series 2016 Bonds are in the Book-Entry-Only System (as defined below).

### **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 Series 2016 Bonds if issued in physical form after the discontinuance of the Book-Entry-Only System.

DTC will act as securities depository for the Series 2016 Bonds upon their initial issuance. The Series 2016 Bonds will be registered in the name of Cede & Co. (DTC’s partnership nominee). The Series 2016 Bonds will be originally issued as one fully-registered Series 2016 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 Series 2016 Bonds under the Book-Entry-Only System must be made by or through Direct Participants, which will receive a credit for the Series 2016 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2016 Bond (each, a "**Beneficial Owner**" and collectively, the "**Beneficial Owners**") is in turn to be recorded on the Direct and Indirect Participant's records. Each Beneficial Owner will not receive written confirmation from DTC of its purchases, but each Beneficial Owner is expected to receive written confirmations providing details of the transaction, as well as periodic statements of its holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016 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 Series 2016 Bonds, except in the event that use of the Book Entry-Only System for the Series 2016 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 2016 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 Series 2016 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016 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 Series 2016 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 Series 2016 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 Series 2016 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2016 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-Only 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 SERIES 2016 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 SERIES 2016 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 Series 2016 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 Series 2016 Bond Ordinance, or if the City decides to discontinue the Book-Entry-Only System, Series 2016 Bond certificates shall be printed and delivered to and registered in the name of the Beneficial Owners.

If the Book-Entry-Only System is discontinued, a Bondholder may transfer or exchange Series 2016 Bonds in accordance with the Series 2016 Bond 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 Series 2016 Bond Ordinance. The Paying Agent and Bond Registrar shall not be required to transfer or exchange any Series 2016 Bond (a) during any period beginning five days before the selection by the Paying Agent and Bond Registrar of Series 2016 Bonds to be redeemed before maturity and ending on the date of mailing of notice of any such redemption or (b) if such Series 2016 Bond has been selected or called for redemption in whole or in part.

### **Optional Redemption**

The Series 2016 Bonds are not subject to optional redemption before their respective maturities.

### **Other Redemption Provisions**

The Paying Agent and Bond Registrar will cause notice of the call for any redemption, identifying the Series 2016 Bonds or portions thereof (\$5,000 or any integral multiple thereof) to be redeemed, to be sent by first-class mail not less than 30 days nor more than 60 days before the date fixed for redemption to the registered holder of each Series 2016 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 Series 2016 Bond shall not affect the validity of any proceedings for the redemption of any other Series 2016 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 Series 2016 Bond may be redeemed, but Series 2016 Bonds shall be redeemed only in the principal amount of \$5,000 each or any integral multiple thereof. Upon surrender of any Series 2016 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 days from surrender of such Series 2016 Bond to the Paying Agent and Bond Registrar, at the expense of the City, a new Series 2016 Bond or Series 2016 Bonds of the same maturity, of authorized denominations, and in aggregate principal amount equal to the unredeemed portion of the Series 2016 Bond surrendered.

See “**THE SERIES 2016 BONDS - Book-Entry-Only System**” regarding redemption notices and related matters while the Series 2016 Bonds are in the Book-Entry-Only System.

## **THE CITY**

### **General**

The City of Frankfort, Kentucky, is the county seat of Franklin County and had an estimated population in 2015 (according to information obtained from the United States Census Bureau) of approximately 27,830. 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 law. 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’s 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:

William May, Mayor  
Tommy Z. Haynes, Mayor Pro Tem  
Robert E. Roach, Commissioner  
Lynn Bowers, Commissioner  
John R. Sower, Commissioner

Certain other City officials are: City Manager, Timothy Zisoff; Finance Director, Stephen R. Dawson; City Solicitor, Robert C. Moore; and City Clerk, Chermie Maxwell.

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

### **Pension Obligations**

#### **County Employees Retirement System**

All full-time employees of the City (including sanitary sewer employees) 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. All of the City’s employees participate in CERS.

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 five 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.

CERS issued a stand-alone financial report, which may be obtained from the Kentucky Retirements System, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by telephone at (502) 564-4646.

Kentucky Revised Statutes provide statutory authority for employee and employer contributions. The City and its employees have contributed 100% of the required contributions for the fiscal years ended June 30, 2016, June 30, 2015, and June 30, 2014.

Contribution rates for the fiscal year ended June 30, 2016 for individuals who became employees of the City before September 1, 2008 were as follows:

	<b>Employee</b>	<b>Employer</b>
Nonhazardous	5.00%	18.89%
Hazardous	8.00%	35.70%

The employees’ contribution rates for individuals who became employees of the City on or after September 1, 2008 are 1.0% higher than the rates above.

The City’s contributions for the fiscal years ending June 30<sup>th</sup> were as follows:

Year	Total
2016	\$4,871,984
2015	5,013,306
2014	5,125,452
2013	5,378,427
2012	5,184,682
2011	4,865,959

The City is obligated to make future contributions to CERS for the benefit of its employees. Future contribution rates may change given changes in benefits or the value of investments held by CERS. Please visit the following website <http://kyret.ky.gov/> for further details regarding CERS.

CERS also provides post-retirement health care coverage and contributions towards the costs of such coverage to the City's employees who satisfy certain eligibility requirements. A portion of each employer and employee's contribution to CERS is set aside for the funding of post-retirement health care. The Kentucky Revised Statutes provide statutory authority requiring public employees to fund post-retirement health care through their contributions to CERS.

Pages 38 - 42 of the City's Audited Financial Statements for the fiscal year ended June 30, 2015 attached hereto as **Appendix B** provides an additional discussion of the City's participation in CERS.

#### **Police and Firefighters Fund**

The City also sponsors a defined benefit plan named the Police and Firefighters Retirement Fund for the benefit of certain of the City's police and firefighters (the "PFRF"). The City established the PFRF to provide retirement and disability benefits for retiring, disabled or deceased personnel and their surviving spouses. The PFRF is administered by an independent Board of Directors pursuant to KRS 95.851 to 95.884. On August 1, 1998 the City closed the PFRF to new entrants and then currently active duty police and firefighters were given the choice to remain in the PFRF or transfer into CERS. No active duty police or firefighters remain in the PFRF.

The City obtains an actuarial report for the PFRF every three years. The most recent actuarial report for the PFRF dated January 1, 2013 states that the assets held therein were sufficient to meet projected liabilities for the participating retirees and their beneficiaries as of the date of the report:

Actuarial value of assets	\$5,338,199
Less: Actuarial accrued liability	<u>2,791,663</u>
Unfunded actuarial accrued liability	<u>\$ 0</u>

Pages 36 - 38 of the City's Audited Financial Statements for the fiscal year ended June 30, 2015 attached hereto as **Appendix B** discuss the significant actuarial assumptions used in determining these estimates.

#### **Deferred Compensation Plan**

The City sponsors a deferred compensation plan for the benefit of its employees pursuant to Section 457 of the United States Internal Revenue Code of 1986, as amended (the "Code"). Plan assets are

held in a separate trust for the exclusive benefit of plan participants and the City does not make matching contributions to the plan.

#### **Other Pension-Related Information**

Additional information regarding these plans and the City's obligations thereto can be found on Pages 36 - 42 of the City's Audited Financial Statements for the Fiscal Year Ended June 30, 2015 located in **Appendix B** attached hereto.

#### **Other Information**

For a summary description of the project being refinanced by the Series 2016 Bonds, see "**THE REFUNDING PROJECT**" herein. Reference is made to **Appendix A** for certain operating and financial information and data relating to the City. The City's estimated annual debt service requirements for the Series 2016 Bonds, unaudited General Fund financial statements for the Fiscal Year ended June 30, 2016 and related information are also contained in **Appendix A**, and the City's most recent audited financial statements, including those for its General Fund, appear in **Appendix B**.

#### **AUTHORITY AND SECURITY**

The Series 2016 Bonds are being issued by the City under authority of the Constitution of Kentucky, as amended, particularly Sections 158 and 159 thereof, Sections 66.011 through 66.171 of the Kentucky Revised Statutes, and applicable decisions of the appellate courts of the Commonwealth of Kentucky. Section 158 of the Kentucky Constitution and Section 66.041 of the Kentucky Revised Statutes restrict the City's general obligation debt to 10% of the value of the taxable property in the City. Reference is made to Page A-11 of **Appendix A** for a computation of the City's legal debt margin in accordance with those authorities.

The Series 2016 Bonds are being further being issued pursuant to an ordinance adopted by the City's Board of Commissioners and the official action of a designated City official (together the "**Series 2016 Bond Ordinance**").

Under the terms of the Series 2016 Bond Ordinance, the Series 2016 Bonds constitute general obligations of the City and the full faith, credit, and taxing power of the City are irrevocably pledged to the prompt payment of principal of and interest on the Series 2016 Bonds when due.

The City expects to pay debt service on the Series 2016 Bonds using available general fund revenues and further expects such general fund revenues to be sufficient to pay all debt service on the Series 2016 Bonds when due. The Series 2016 Bond Ordinance does not pledge the City's general fund revenues as security for the payment of debt service on the Series 2016 Bonds except to the extent such revenues are deposited into the Bond Fund as described below.

The City will deposit general fund revenues to the City's special account established pursuant to the Series 2016 Bond Ordinance and designated as the "General Obligation Refunding Bonds, Series 2016, Interest and Sinking Fund Account" (the "**Bond Fund**") shortly before each debt service payment date for the Series 2016 Bonds. The Series 2016 Bond Ordinance irrevocably pledges all monies, regardless of source, deposited into the Bond Fund as security for the payment of debt service on the Series 2016 Bonds and prohibits their use for any other purpose.

In order to ensure sufficient monies are available to pay debt service on the Series 2016 Bonds if general fund revenues are otherwise insufficient, the Series 2016 Bond Ordinance levies upon all of the taxable property in the City, beginning in 2017 and continuing in each year as long as any of the Series 2016 Bonds are outstanding, a direct annual tax sufficient to pay debt service on the Series 2016 Bonds to the extent other lawfully available moneys of the City are not provided. The special tax shall be unlimited as to rate or amount if necessary to pay such debt service. The Series 2016 Bond Ordinance requires the City to deposit the proceeds of the special tax into the Bond Fund and to use such proceeds to pay debt service on the Series 2016 Bonds when due. Once deposited into the Bond Fund, the proceeds of the special tax shall also be irrevocably pledged as security for the payment of debt service on the Series 2016 Bonds and cannot be used for any other purpose. The levying of the special tax and the establishment of the Bond Fund are required by Section 159 of the Constitution of Kentucky and the statutes cited above. The City covenants with the holders of the Series 2016 Bonds that it will collect the special annual tax in each year at whatever rates are necessary in order to produce funds sufficient to pay debt service on the Series 2016 Bonds for such year after taking into account general fund revenues available for the payment of debt service for such year.

The City has not pledged funds deposited to or held in the City's proprietary funds, such as the City's sewer fund, as security to pay debt service on the Series 2016 Bonds.

Chapter 66 of the Kentucky Revised Statutes does not place a statutory lien on the tax or other general fund revenues of the City with respect to the Series 2016 Bonds.

## GENERAL OBLIGATION REVENUE SOURCES

Section 159 of the Kentucky Constitution and Section 66.081 of the Kentucky Revised Statutes ("KRS") require the City, when contracting an indebtedness, to provide for the collection of an annual tax sufficient to pay interest and to create a sinking fund for the payment of principal borrowed. KRS 66.111(2)(a) authorizes the City to use *ad valorem* property taxes, occupational license fees, insurance premium taxes, excises, utility, and service revenues and other receipts from taxes, excises, permits, licenses, fines, or other sources of revenue for the repayment of general obligation debt, including the Series 2016 Bonds.

### ***Ad Valorem Taxes***

#### **Levy and Collection**

The City's *ad valorem* property tax rate for its January 1, 2016 assessment date was 20.9¢ per hundred dollars of assessed value on real estate and on personal property, including business furniture, fixtures and inventory. The City also levied an *ad valorem* property tax rate of 22.7¢ per hundred dollars of assessed value against motor vehicles and watercraft on January 1, 2016.

The City mails real and tangible property tax bills to taxpayers each October. Tax bills are due the following December 1<sup>st</sup>. Taxpayers receive a 2.0% discount from their tax bill if they pay the entire balance on or before each December 1<sup>st</sup> due date. Taxpayers who pay during the following December receive no discount and taxpayers who pay on or after the following January 1<sup>st</sup> must pay an additional 10% penalty. Past due property tax balances also accrue simple interest at 12% per annum.

The City Clerk collects the City's *ad valorem* tax on motor vehicles pursuant to state statute. Such taxes are due and payable on or before the last day of the month in which a vehicle's registration is renewed.

*Ad valorem* tax receipts are deposited by the City in its General Fund and are available to pay debt service for the Series 2016 Bonds.

Additional information regarding the amount of *ad valorem* taxes received by the City during the past 6 years and other related data is presented on Page A-4 of **Appendix A** attached hereto.

#### **Exemptions From *Ad Valorem* Taxation And Other Limitations**

Kentucky law requires the City to levy the same rate of taxation for properties within the same classification, but permits the City to set different rates for properties within different classes. The City's classification scheme, however, must be reasonable and not arbitrary. Section 172 of the Kentucky Constitution requires all property not exempted from *ad valorem* taxation to be assessed for taxation at its fair cash value, estimated at the price it would bring at a fair voluntary sale. Kentucky courts have interpreted the constitutional requirement of "fair cash value" to mean the price which would be agreed upon between a party who desired, but was not compelled, to buy the property and an owner who desired, but was not compelled, to sell it.

Section 170 of the Kentucky Constitution enumerates the classes of property exempt from taxation by all taxing entities within the Commonwealth. Such classes include:

- Public property used for public purposes;
- Places of burial not held for private or corporate profit;
- Real property owned and occupied by, and personal property both tangible and intangible owned by, institutions of religion;
- Institutions of purely public charity;
- Institutions of education not used or employed for gain by any person or corporation, and the income of which is devoted solely to the cause of education, public libraries, their endowments and the income of such property as is used exclusively for their maintenance;
- Household goods of a person used in his home; and
- Crops grown in the year of the assessment and in the hands of the producer.

Section 170 of the Kentucky Constitution also provides a "homestead exemption" from *ad valorem* taxation for real property maintained as the permanent residence of its owner who is at least sixty-five years old or is totally disabled. During 2016, the homestead exemption exempted tax on the first \$36,900 of assessed value of qualifying property within the City.

KRS 132.030 and 132.200 exempt certain classes of property from *ad valorem* taxation by the City even though the property remains taxable by Kentucky state government:

- Deposits in any financial institution;
- Farm implements and farm machinery owned by or leased to a person actually engaged in farming and used in his farm operation;
- Livestock, ratite birds and domestic fowl;
- Capital stock of savings and loan associations;

- Machinery actually engaged in manufacturing, products in the course of manufacture and raw material actually on hand at the plant for the purpose of manufacture. The printing, publication and distribution of a newspaper or operating a job printing plant shall be deemed to be manufacturing;
- Commercial radio and television equipment used to receive, capture, produce, edit, enhance, modify, process, store, convey or transmit audio or video content or electronic signals which are broadcast over the air to an antenna and equipment directly used or associated with the equipment identified, including radio and television towers used to transmit or facilitate the transmission of the signal broadcast, but excluding telephone and cellular communications towers;
- Equipment used to gather or transmit weather information;
- Unmanufactured agricultural products;
- All privately owned leasehold interest in industrial buildings owned and financed by a tax-exempt governmental unit, or tax-exempt statutory authority under the provisions of KRS Chapter 103, except the proportion of value of the leasehold interest created through any private financing;
- Tangible personal property which has been certified as a pollution control;
- Property which has been certified as an alcohol production facility;
- Tangible personal property located in an activated foreign trade zone established pursuant to 19 U.S.C. sec. 81;
- Motor vehicles qualifying for permanent registration as historic motor vehicles;
- Property which has been certified as a fluidized bed energy production facility;
- All motor vehicles (a) held for sale in the inventory of a licensed motor vehicle dealer which are not currently titled and registered in Kentucky and are held on an assignment; (b) that are in the possession of a licensed motor vehicle dealer for sale, although ownership has not been transferred to the dealer; and (c) with a salvage title held by an insurance company;
- Machinery or equipment owned by a business, industry or organization in order to collect, source separate, compress, bale, shred or otherwise handle waste materials if the machinery or equipment is primarily used for recycling purposes as defined in KRS 139.010;
- New farm machinery and other equipment held in the retailer's inventory for sale under a floor plan financing arrangement by a retailer, as defined under KRS 365.800;
- New boats and new marine equipment held for retail sale under a floor plan financing arrangement by a dealer registered under KRS 235.220;
- Aircraft not used in the business of transporting persons or property for compensation or hire if an exemption is approved by the county, city, school or other taxing district in which the aircraft has its taxable situs;
- Federally documented vessels not used in the business of transporting persons or property for compensation or hire or for other commercial purposes, if an exemption is approved by the county, city, school or other taxing district in which the federally documented vessel has its taxable situs;

- Any nonferrous metal that conforms to the quality, shape and weight specifications set by the New York Mercantile Exchange’s special contract rules for metals, and which is located or stored in a commodity warehouse and held on warrant, or for which a written request has been made to a commodity warehouse to place it on warrant, according to the rules and regulations of a trading facility;
- Qualifying voluntary environmental remediation property for a period of three years following the Energy and Environment Cabinet’s issuance of a “No Further Action Letter” or its equivalent, pursuant to the correction of the effect of all known releases of hazardous substances, pollutants, contaminants, petroleum or petroleum products located on the property consistent with a corrective action plan approved by the Energy and Environment Cabinet, and provided the cleanup was not financed through a public grant program of the petroleum storage tank environmental assurance fund;
- Biotechnology products held in a warehouse for distribution by the manufacturer or by an affiliate of the manufacturer; and
- Recreational vehicles held for sale in a retailer’s inventory.

Section 157 of the Kentucky Constitution provides that the City may not levy property taxes in excess of \$1.50 per \$100 of assessed value without the approval of the voters in the City. Calculation of the property tax rates is discussed below.

### **Setting Real Property Tax Rates**

Pursuant to KRS 132.027, the City is subject to restrictions in setting its *ad valorem* tax rate on real property. The City may impose the “compensating tax rate” which is defined as the rate which, rounded to the next higher one tenth of one cent per one hundred dollars of assessed value and applied to the current year’s assessment of the property subject to taxation by a taxing district, excluding new property and personal property, produces an amount of revenue approximately equal to that produced in the preceding year from real property. The “new property” to be excluded from the calculation is defined by statute as the net difference in taxable value between real property additions and deletions to the property tax roll for the current year. Real property additions consist of the following:

- Property annexed or incorporated by the City;
- Property, the ownership of which has been transferred from a tax-exempt entity to a nontax-exempt entity;
- The value of improvements to existing nonresidential property;
- The value of new residential improvements to property;
- The value of improvements to existing residential property when the improvement increases the assessed value of the property by fifty percent or more;
- Property created by the subdivision of unimproved property, provided, that when such property is reclassified from farm to subdivision by the property valuation administrator, the value of such property as a farm shall be a deletion from that category;
- Property exempt from taxation, as an inducement for industrial or business use, at the expiration of its tax exempt status;
- Property, the tax rate of which will change, according to the provisions of KRS 82.085, to reflect additional urban services to be provided by the City, provided, however, that such



property shall be considered “real property additions” only in proportion to the additional urban services to be provided to the property over the urban services previously provided; and

- The value of improvements to real property previously under assessment moratorium.

“Real property deletions” is defined as the value of real property removed from, or reduced over the preceding year on, the property tax roll for the current year.

If the City attempts to levy a tax rate which exceeds the compensating tax rate, it must hold a public hearing to hear comments from the public regarding the proposed tax rate. That portion of the tax rate levied which will produce revenue from real property, exclusive of revenue from new property, more than four percent over the amount of revenue produced by the compensating tax rate is subject to a recall vote or reconsideration by the City. Although excluded from the rate calculations, new property is subject to the newly enacted rate generating additional revenue for the City in that tax year.

### **Setting Tangible Personal Property Tax Rates**

The City is not subject to the same restrictions in setting the tangible personal property tax rate as for real property tax rates. The City is, however, subject to the limitations imposed by KRS 132.029. As when setting real property tax rates, the City must perform a series of calculations to determine its personal property tax rates, exclusive of motor vehicles and watercraft. Those calculations can be summarized in four steps:

1. Determine the real property tax rate to be adopted (whether the compensating rate, the 4.0% rate, or a rate in excess of the 4.0% rate);
2. Apply the real property tax rate to the personal property tax roll;
3. Determine whether the revenue generated from applying the new real property tax rate to the new personal property tax roll exceeds the revenue from personal property obtained in the prior year. If so, determine the theoretical percentage increase in personal property tax revenue.
4. If the theoretical percentage increase in personal property tax revenue is less than the actual percentage increase in real property tax revenue to be obtained from the new real property tax rate, the City may increase the personal property tax rate to allow the same percentage increase in personal property tax revenue as the percentage increase in real property tax revenue. If the real property rate is reduced as a result of a voter recall or by act of the City before a vote on the tax rate, the personal property rate must be reduced such that the increase in revenue produced by the personal property tax rate does not exceed the increase in revenue for that year produced by the real property tax rate.

## **Occupational License Fee**

### **Wage Tax**

The City imposes an occupational license fee on the wages of employees working within the City. The City imposes the occupational license fee in an amount equal to 1.95% of all salaries, wages, commissions, deferred compensation and other compensation earned by employees within City limits in exchange for work or services performed. Kentucky law imposes no maximum rate on the City's occupational license fee nor prescribes its applicable tax base.

Employers must withhold and remit fees due on employee compensation to the City quarterly. Quarterly remittances are due on April 30<sup>st</sup>, July 31<sup>st</sup>, October 31<sup>st</sup>, and January 31<sup>st</sup>. Employers who fail to withhold or withhold but fail to remit occupational license fees on employee compensation remain liable to the City for the unpaid amounts.

Occupational license fees are deposited by the City in its General Fund and are available to pay debt service for the Series 2016 Bonds.

Additional information regarding the amount of occupational license fees received by the City during the past 6 years and other related data is presented on Page A-4 of **Appendix A** attached hereto.

### **Net Profit License Fee**

The City levies an annual net profit license fee on all persons, fiduciaries, corporations, and associations engaged in the occupation, trade, profession, or other business earned for work performed within the City. The rate is equal to the greater of 1.95% of the net profit earned or \$60.00. The Net Profit License Fee is assessed equally on both residents and non-residents performing work within the City. Kentucky law imposes no maximum rate on the City's net profit license fee. The tax base is prescribed in KRS 67.750(8) which defines "Net Profits" as gross income as defined in Section 61 of the Internal Revenue Code minus all the deductions from gross income allowed by Chapter 1 of the Internal Revenue Code, and adjusted as follows:

- (a) Include any amount claimed as a deduction for state tax or local tax which is computed, in whole or in part, by reference to gross or net income and which is paid or accrued to any state of the United States, local taxing authority in a state, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or any foreign country or political subdivision thereof;
- (b) Include any amount claimed as a deduction that directly or indirectly is allocable to income which is either exempt from taxation or otherwise not taxed;
- (c) Include any amount claimed as a net operating loss carryback or carryforward allowed under Code Section 172;
- (d) Include any amount of income and expenses passed through separately as required by the Internal Revenue Code to an owner of a business entity that is a pass-through entity for federal tax purposes; and
- (e) Exclude any amount of income that is exempt from state taxation by the Kentucky Constitution or the Constitution and statutory laws of the United States;

Every business entity subject to the City's net profit license fee other than a sole proprietorship must make quarterly estimated tax payments on or before the April 15<sup>th</sup>, June 15<sup>th</sup>, September 15<sup>th</sup> and December 15<sup>th</sup> of each taxable year if its annual net profit license fee liability exceeds \$5,000. The quarterly estimated tax payments are based on the lesser of (a) 22.5% of the current taxable year tax liability; (b) 25.0% of the preceding full year taxable year tax liability; or (c) 25.0% of the average tax liability for the three preceding full year taxable years' tax liabilities if the tax liability for any of the three preceding full taxable years exceeded \$20,000. Any business entity that fails to remit the minimum quarterly payment required by the due date accrues interest at a rate of 12.0% per annum simple interest.

Every person, fiduciary, or entity that earns \$4,000 or less per year in net profits on business conducted in the City and does not have an employee working in the City more than five eight-hour work days per year for which the employee earns more than \$4,000, may elect to pay a flat \$100 net profit license fee to the City in lieu of the fee described above.

### **Exemptions**

Certain occupations and activities are exempt from the occupational license fee/tax. The following is a list of statutory and case-law exemptions:

- **Public service companies:** Any company that pays both an *ad valorem* tax and a franchise tax is exempt from license fees or occupational taxes;
- **Election workers:** License fees or occupational taxes may not be imposed against or collected on income received by precinct workers for election training or work at election booths in state, county, and local primary, regular or special elections;
- **Kentucky Investment Fund Act funds:** License fees or occupational taxes may not be imposed against or collected on any profits, earnings, or distributions of an investment fund which would qualify under KRS 154.20-250 to 154.20-284 to the extent any profits, earnings, or distributions would not be taxable to an individual investor;
- **Cable/satellite and communications companies:** License fees or occupational taxes may not be imposed against any company providing "multichannel video programming services" or "communications services" as defined in KRS 136.602;
- **Businesses with alcoholic beverage licenses:** No license fee may be imposed on the net profit earned from the sale of alcoholic beverages in Kentucky;
- **Insurance companies:** Cities may only impose a license tax on tax insurance companies as a percentage of premiums under KRS 91A.080;
- **Racetracks:** KRS 137.190 exempts racetracks from local license fees or occupational taxes;
- **Temporary city tax exemption for manufacturers:** KRS 91.260(3) and 92.300(1) authorize cities to exempt manufacturing establishments from City taxation for up to five years as an inducement to their location within the City limits;
- **Elected state officers paid on a per diem basis:** Elected state officers who are paid on a per diem basis are not subject to the City's occupational license taxation;
- **Investments of individuals:** Investments of individuals are exempt from local license tax where the individual had merely invested some savings and devoted little or no time or effort to "managing" the investment.

The City may exempt a profession from the license tax on the basis of administrative feasibility of collections. Administrative convenience and expense in the collection or measurement of the tax have been held by Kentucky courts to be a sufficient justification for the difference between the treatment of small incomes or small taxpayers and the treatment of others.

Additional information regarding the amount of net profit license fees received by the City during the past six years and other related data is presented on Page A-4 of **Appendix A** attached hereto.

### **Insurance Premium License Tax**

The City imposes a license fee on each insurance company which issues a life insurance policy on the life of a person residing within the City's corporate limits. The fee is equal to 6.0% of the premium the insurer collects during each calendar quarter as a result of such insurance policies.

The City also imposes a license fee on each insurance company which issues insurance policies other than life insurance policies. The license fee is imposed at a rate of 6.0% of the premiums actually collected within each calendar quarter on policies on risks located within the City's corporate limits, less all premiums returned to policy holders. The City does not impose a license fee on premiums received for insuring employers against liability for personal injuries to their employees, or death caused thereby, or premiums received on group health insurance policies provided for state employees pursuant to state statute.

Additional information regarding the amount of insurance premium license taxes received by the City during the past six years and other related data is presented on Page A-4 of **Appendix A** attached hereto.

### **Transient Room License Tax**

The City imposes a transient room tax equal to 3.0% of the gross rent for every occupancy of a suite, room or rooms charged and collected by taxpayers. The receipts generated by the tax support the operation of the City's Tourist and Convention Commission and also help finance the cost of acquisition, construction, operation and maintenance of tourism and convention facilities. The City imposes an additional 1.0% transient room tax to fund its convention center operations.

The tax is imposed on every person, company, corporation or other like or similar persons, groups or organizations doing business as motor courts, motel courts, motels, hotels, inns, or like or similar accommodations businesses in the City, but does not apply to rentals involving occupancies of equal to or more than 90 days.

The City's transient room tax are restricted by ordinance to the uses described above and are not available for use by the City's General Fund or the payment of the Series 2016 Bonds.

### **Regulatory License Fees**

The City imposes a license fee on a variety of occupations within its jurisdiction. Taxpayers must pay the fees each May unless paid for a non-continuous business. Taxpayers who fail to obtain a license before engaging in a subject occupation may be fined between \$500 and \$100 for each offense. A list of the occupations and their annual fees follow:

<b>Occupation</b>	<b>Annual License Fee</b>
Amusements	\$100 (or \$50 per show)

<b>Occupation</b>	<b>Annual License Fee</b>
Massage parlors	\$25
Dance halls	\$50 (or \$10 per dance)
Pool and billiard tables	\$25 per table
Fortunetellers	\$1,500
Itinerant merchants	\$150
Ice cream vendors	\$10 for each vehicle employed
Taxicabs	\$25 for each taxicab
Collecting agencies	\$25
Loan companies	\$150
Pawnbrokers	\$250
Professional bondspersons	\$100 for each individual or each individual member of a firm or corporation
Theaters	\$300
Dealers in firearms	\$25
Junk dealers	\$50
Bowling alleys	\$15 for each bowling lane
Skating rinks	\$50
Circuses	\$25 per week or any part thereof that the business is in the City
Carnivals	\$25 per week or any part thereof that the business is in the City
Coin-operated machines for amusement	\$10 per machine
Furniture auctioneers	\$50
Modeling agencies	\$100
Alcoholic beverage license	
Distilled spirit licenses:	
Distiller's license	\$250
Rectifier's license	\$1,500
Wholesaler's distilled spirits and wine license	\$200
Quota retail package license	\$500
Quota retail drink license	\$500
Special temporary license	\$125 per event
Nonquota type 1 retail drink license	\$1,000
Nonquota type 2 retail drink license	\$575
Nonquota type 3 retail drink license	\$300
Special Sunday retail drink license	\$300
Caterer's license	\$250
Bottling house or bottling house storage license	\$500
Malt beverage licenses:	
Brewer's license	\$250
Microbrewery license	\$250
Malt beverage distributor's license	\$200
Nonquota retail malt beverage package license	\$75
Nonquota type 4 retail malt beverage drink license	\$75

Occupation	Annual License Fee
Malt beverage brew-on-premises license	\$50

Additional information regarding the amount of license fees received by the City during the past 6 years and other related data is presented on Page A-4 of **Appendix A** attached hereto.

### THE REFUNDING PROJECT

The Series 2016 Bonds are being issued for the purposes of currently refunding the City of Frankfort, Kentucky, General Obligation Bonds, Series 2006, dated December 1, 2006, being a single term bond maturing June 1, 2022 in the outstanding principal amount of \$5,190,000 and paying costs of issuance of the Series 2016 Bonds.

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

<b>Sources of Funds</b>	
(Estimated)	
Par amount of 2016 Bonds	\$5,270,000.00
Reoffering Premium	<u>165,664.60</u>
<b>Total Sources of Funds</b>	<b><u>\$5,435,664.60</u></b>
<b>Uses of Funds</b>	
(Estimated)	
Deposit to Bond Fund	\$5,271,483.00
Underwriter's discount (1.25%)	65,875.00
Issuance costs and miscellaneous expenses	<u>98,306.60</u>
<b>Total Uses of Funds</b>	<b><u>\$5,435,664.60</u></b>

### SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2016 BOND ORDINANCE

The following paragraphs under this general heading contain excerpts from and summaries and descriptions of certain provisions of the Series 2016 Bond Ordinance, which is on file in the office of the City Clerk and reference to which is made for a complete description of its terms.

#### **Investments**

All moneys held in the Construction Fund and the Bond Fund, to the extent not invested as provided below, shall be deposited in one or more banks designated by the City which are members of the Federal Deposit Insurance Corporation ("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 FDIC shall be continuously secured by a valid pledge of direct obligations of the United States of America having an equivalent market value. All or any part of the Construction Fund and the Bond Fund may be invested in Investment Obligations, as defined below. As used herein, 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 Series 2016 Bond Ordinance:

- (i) 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 the Commonwealth of Kentucky;
- (ii) 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: (1) United States Treasury; (2) Export-Import Bank of the United States; (3) Government National Mortgage Corporation; and (4) Merchant Marine;
- (iii) Obligations of any corporation of the United States government, including but not limited to: (1) Federal Home Loan Mortgage Corporation; (2) Federal Farm Credit Banks; (3) Bank for Cooperatives; (4) Federal Intermediate Credit Banks; (5) Federal Land Banks; (6) Federal Home Loan Banks; (7) Federal National Mortgage Association; and (8) Tennessee Valley Authority;
- (iv) 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 the Federal Deposit Insurance Corporation 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;
- (v) Uncollateralized certificates of deposit, time deposits, trust accounts, trust deposits and demand deposits, including interest bearing money market accounts, of 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;
- (vi) 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;
- (vii) 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, if so rated;
- (viii) Bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities;
- (ix) 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;

- (x) Shares of mutual funds, each of which shall have the following characteristics:
  - (1) The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
  - (2) The management company of the investment company shall have been in operation for at least five years;
  - (3) All of the securities in the mutual fund shall be investments in any one or more of the investments described in (i) through (ix) above; and
  - (4) 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 (a) the Paying Agent and Bond Registrar or any of its affiliates receives fees from such funds for services rendered, (b) the Paying Agent and Bond Registrar or any of its affiliates charges and collects fees for services rendered pursuant to the Series 2016 Bond Ordinance, which fees are separate from the fees received from such funds, and (c) services performed for such funds and pursuant to the Series 2016 Bond Ordinance may at times duplicate those provided to such funds by the Paying Agent and Bond Registrar or its affiliates;
- (xi) Investment agreements with any financial institution the long-term debt, claims and 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; and
- (xii) Such other investments as may be authorized by law, including without limitation those authorized KRS 66.480.

### **Contractual Nature of Series 2016 Bond Ordinance**

The provisions of the Series 2016 Bond Ordinance shall constitute a contract between the City and the holders of the Series 2016 Bonds; and after the issuance of the Series 2016 Bonds, no change or alteration of any kind in the provisions of the Series 2016 Bond Ordinance shall be made except as provided below until such time as all of the Series 2016 Bonds and the interest thereon have been paid or defeased; provided (a) that the Board of Commissioners of the City may adopt an ordinance to evidence the succession of another bank or trust company as Paying Agent and Bond Registrar or for any other purpose not inconsistent with the terms of the Series 2016 Bond Ordinance which shall not impair the security of the holders of the Series 2016 Bonds, or for the purpose of curing any ambiguity or of curing, correcting or supplementing any defective or inconsistent provisions contained in the Series 2016 Bond Ordinance; and (b) provided further, that the holders of 80% in principal amount of the Series 2016 Bonds shall have the right to consent to and approve the adoption of ordinances or other proceedings modifying or amending any of the terms or provisions contained in the Series 2016 Bond Ordinance, subject to the



condition that the Series 2016 Bond Ordinance shall not be so modified in any manner that may adversely affect the rights of any holders without similarly affecting the rights of all holders of the Series 2016 Bonds or to reduce the percentage of the number of holders whose consent is required to effect a further modification.

### **Events of Default; Bondholders' Remedies**

Each of the following items shall constitute an "event of default" on the part of the City:

- (i) The failure to pay principal of any Series 2016 Bonds when due and payable, either at maturity or by proceedings for redemption.
- (ii) The failure to pay any installment of interest on Series 2016 Bonds when the same shall become due and payable or within thirty days thereafter.
- (iii) The default by the City in the due or punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Series 2016 Bonds or in the Series 2016 Bond Ordinance.

Upon the occurrence of an "event of default" as defined above, any holder of Series 2016 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 imposed or required by law or by the Series 2016 Bond Ordinance, including the levying and collection of sufficient taxes and the application thereof in accordance with the provisions of the Series 2016 Bond Ordinance.

### **Tax Covenants and Representations**

In the Series 2016 Bond Ordinance the City certifies, covenants, and agrees that so long as any of the Series 2016 Bonds remain outstanding, moneys on deposit in any fund or account in connection with the Series 2016 Bonds will not be invested or used in a manner which will cause the Series 2016 Bonds to be "arbitrage bonds" within the meaning of Sections 103(b)(2) and 148 of the United States Internal Revenue Code of 1986, as amended (the "Code"), and any lawful regulations promulgated or proposed thereunder. The City makes further representations, warranties, and covenants with respect to, and to assure the continuance of, the exclusion from gross income for federal income tax purposes of interest on the Series 2016 Bonds.

### **Defeasance**

The City reserves the right at any time to cause the pledge of the Series 2016 Bond Ordinance securing any Series 2016 Bonds to be defeased and released by paying an amount into an escrow fund sufficient, when invested (or sufficient without such investment, as the case may be) in direct obligations of the United States Government to assure the availability in such escrow fund of an adequate amount (a) to call for redemption and to redeem and retire all of such Series 2016 Bonds, both as to principal and as to interest, on the next or any optional redemption date, including all costs and expenses in connection therewith, and to pay all principal and interest falling due on such Series 2016 Bonds to and on said date, or (b) to pay all principal and interest requirements on such Series 2016 Bonds as the same mature, without redemption in advance of maturity, the determination of whether to defease under (a) or (b) or both to be made by the Board of Commissioners. The United States Government obligations shall have such maturities as to assure that there will be sufficient funds for such purpose. If the defeasance is to be accomplished pursuant to clause (a) above, the City shall take all steps necessary to publish notice of the

redemption of such Series 2016 Bonds on the applicable redemption date. Upon the proper amount of United States Government obligations being placed in escrow and so pledged, the pledge of the Series 2016 Bond Ordinance securing such Series 2016 Bonds shall be automatically fully defeased and released without any further action being necessary. The immediately foregoing provisions are subject to the limitation that no such termination and release of the pledge of the Series 2016 Bond Ordinance shall be accomplished through the use of any funds or investments which, in the opinion of the City's Bond Counsel, would adversely affect the exclusion of interest on any such Series 2016 Bonds from gross income for federal income tax purposes.

### **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 Series 2016 Bond 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 Series 2016 Bond Ordinance and no interest shall accrue for the period after such stipulated date.

### **BONDHOLDERS' RISKS**

The following is a discussion of certain risks that could affect payments to be made with respect to the Series 2016 Bonds. Such discussion is not exhaustive and should be read in conjunction with all other parts of this Official Statement, and should not be considered as a complete description of all risks that could affect such payments. Prospective purchasers of the Series 2016 Bonds should analyze carefully the information contained in this Official Statement, including the Appendices hereto, and additional information in the form of the complete documents summarized herein, copies of which are available as described in this Official Statement.

### **Risk of Bankruptcy**

The obligations of the City under the Series 2016 Bonds and the Series 2016 Bond Ordinance are general obligations of the City and are secured only by the pledge to the bondholders of the City's full faith, credit, and taxing power and any monies held in the Bond Fund. Enforcement of the remedies mentioned under the headings "**SUMMARY OF CERTAIN PROVISIONS OF THE SERIES 2016 BOND ORDINANCE - Events of Default; Bondholders' Remedies**" may be limited or delayed in the event of application of federal bankruptcy laws or other laws affecting creditors' rights and may be substantially delayed and subject to judicial discretion in the event of litigation or the required use of statutory remedial procedures.

Section 66.400 of the Kentucky Revised Statutes permits the City to file a petition for relief under Chapter 9 of Title 11 of the United States Code (the "**Bankruptcy Code**") without the prior approval of any official or department of state government. If the City were to file such a petition, the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the City and any interest in monies contained in the Bond Fund, the City's general fund revenues or the City's taxing power. However, the petition does not stay the application of pledged special revenues as defined by the Bankruptcy Code.

During its bankruptcy, the City could use its property, including its tax receipts and proceeds thereof, but excluding pledged special revenues, for the benefit of the City's bankruptcy estate despite the claims of its creditors. Notwithstanding the foregoing, it is possible that pledged special revenues could also be used by the City post-petition to pay certain operating expenses.

In a Chapter 9 proceeding under the Bankruptcy Code, only the City, and not any other creditor or party in interest, could file a proposed plan of adjustment. The plan is the vehicle for satisfying, and provides for the comprehensive treatment of, all claims against the City, and could result in the modification of rights of any class of creditors, secured or unsecured, and which modification of rights could be contrary to state law. To confirm a plan of adjustment, with one exception discussed below, it must be approved by the vote of each class of impaired creditors. A class approves a plan if, of those who vote, those holding more than one-half in number and at least two-thirds in amount vote in favor of a plan. If fewer than all of the impaired classes accept the plan, the plan may nevertheless be confirmed by the bankruptcy court, and all claims and interests would be bound thereby regardless of whether or how they voted. For this “cramdown” to occur, at least one of the impaired classes must vote to accept the plan and the bankruptcy court must determine that the plan does not “discriminate unfairly” and is “fair and equitable” with respect to the non-consenting class or classes. To be confirmed, the bankruptcy court must also determine that the plan, among other requirements, is proposed in good faith and is in the best interest of creditors such that the plan represents a reasonable effort by the City to satisfy its debts that is a better alternative than dismissal of the bankruptcy case. Unlike in Chapter 11, in Chapter 9 this standard does not include use of a liquidation analysis.

Generally speaking, the City would likely receive a discharge after (1) the plan is confirmed; (2) the City deposits any consideration to be distributed under the plan with a disbursing agent appointed by the bankruptcy court; and (3) the bankruptcy court determines that the securities deposited with the disbursing agent will constitute valid and legal obligations of the City and that any provision made to pay or secure payment of such obligations is valid.

Prospective bondholders should consult their legal counsel regarding the impact of a bankruptcy filing by the City on the payment and security of the Series 2016 Bonds.

### **Bond Rating**

There can be no assurance that the rating assigned to the Series 2016 Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for and marketability of the Series 2016 Bonds. See the information under the heading “**RATING**” herein for more information.

### **ABSENCE OF MATERIAL LITIGATION**

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution, or delivery of the Series 2016 Bonds, or in any way contesting or affecting the validity of the Series 2016 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 Series 2016 Bonds or the due existence or powers of the City.

### **RATING**

The Series 2016 Bonds have been assigned a rating of “AA” 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 Series 2016 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 Series 2016 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 Series 2016 Bonds.

## TAX MATTERS

### Tax Exemption

It is the opinion of Bond Counsel, Stoll Keenon Ogden PLLC, Louisville, Kentucky, assuming the correctness and accuracy of certain representations and warranties of the City made in connection with the issuance of the Series 2016 Bonds, that under existing laws interest on the Series 2016 Bonds (a) is excluded from gross income for federal and Kentucky income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinions set forth in clauses (a) and (b) of the first sentence of this paragraph are subject to the conditions and qualifications described under this heading “**TAX MATTERS.**” Bond Counsel expresses no opinion regarding other federal and Kentucky income tax consequences arising with respect to the Series 2016 Bonds. Reference is made to the form of opinion of Bond Counsel contained in **Appendix C** to this Official Statement.

Prospective purchasers of the Series 2016 Bonds should be aware that:

- (a) Code Section 265 denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2016 Bonds or, in the case of a financial institution (within the meaning of Code Section 265(b)(5)), that portion of a holder’s interest expense allocated to interest on the Series 2016 Bonds, except to the extent described below. The City has designated the Series 2016 Bonds as “qualified tax-exempt obligations” within the meaning of Code Section 265(b)(3), and, in the case of financial institutions (within the meaning of Code Section 265(b)(5)), including federal- or state-supervised commercial banks, a deduction is allowed for 80% of that portion of such a financial institution’s interest expenses allocable to interest on the Series 2016 Bonds.
- (b) With respect to insurance companies subject to the tax imposed by Code Section 831, Code Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Series 2016 Bonds.
- (c) Interest on the Series 2016 Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Code Section 884.
- (d) Passive investment income, including interest on the Series 2016 Bonds, may be subject to federal income taxation under Code Section 1375 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.
- (e) Code Section 86 requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Series 2016 Bonds.

Bond Counsel is further of the opinion that the Series 2016 Bonds are exempt from *ad valorem* taxation by the Commonwealth of Kentucky and its political subdivisions.

## **Matters Impacting the Tax Exemption of the Series 2016 Bonds**

The Code imposes a number of requirements that must be satisfied for interest on state and local obligations to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and facilities financed or refinanced with the proceeds of such tax-exempt obligations, limitations on the investment earnings of proceeds of such tax-exempt obligations before expenditure, a requirement that certain investment earnings on proceeds of such tax-exempt obligations be paid periodically to the United States, and a requirement that the issuer of such tax-exempt obligations file an information report with the Internal Revenue Service (the “Service”). The City has covenanted to comply with such requirements as they relate to the Series 2016 Bonds. The failure of the City to comply with such requirements with respect to the Series 2016 Bonds could result in the loss of the eligibility of interest on such obligations for exclusion from gross income for federal income tax purposes, potentially retroactively to the date of issuance of such obligations, or in the imposition by the Service of significant penalties upon the City.

No assurance can be given that future legislation or clarifications or amendments to the Code will not cause the interest on the Series 2016 Bonds to be subject, directly or indirectly, to federal or state income taxation, or otherwise prevent the Beneficial Owners from realizing the full current benefit of the tax status of the interest on the Series 2016 Bonds. Prospective purchasers of the Series 2016 Bonds are encouraged to consult their own tax advisors regarding any pending federal or state legislation. Bond Counsel expresses no view whatsoever with respect to such matters.

From time to time, there are legislative proposals pending in the Congress of the United States that, if enacted, could alter or amend the federal tax matters referred to in this section or adversely affect the market price or liquidity of the Series 2016 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to the Series 2016 Bonds issued before enactment. It cannot be predicted whether or in what form any such proposal might be introduced in Congress or enacted or whether, if enacted, it would apply to bonds issued before enactment. Prospective purchasers of the Series 2016 Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel will express no opinion regarding any pending or proposed federal tax legislation.

## **Original Issue Discount and Bond Premium**

To the extent that the issue price of any Series 2016 Bonds is less than the amount to be paid at maturity of such Series 2016 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2016 Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to the Beneficial Owner thereof, is treated as interest on the Series 2016 Bonds. For this purpose, the issue price of a particular maturity of the Series 2016 Bonds is the first price at which a substantial amount of such maturity of the Series 2016 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2016 Bonds will accrue daily over the term to maturity of such Series 2016 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2016 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2016 Bonds. Beneficial Owners of the Series 2016 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2016 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2016 Bonds

in the original offering to the public at the first price at which a substantial amount of such Series 2016 Bonds is sold to the public.

Series 2016 Bonds purchased, whether at original issuance or otherwise, for an amount higher than the principal amount thereof payable at maturity (or, in some cases, at an earlier call date) (“**Premium Bonds**”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

### **Bond Examinations**

The Service has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includible in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Series 2016 Bonds. If an audit is commenced, under current procedures the Service may treat the City as a taxpayer and the holders of the Series 2016 Bonds may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Series 2016 Bonds until the audit is concluded, regardless of the ultimate outcome.

### **Other Federal Tax Matters**

The opinion of Bond Counsel will be based on current legal authorities and cover certain matters not directly addressed by such authorities, and represent the judgment of Bond Counsel concerning the proper treatment of the Series 2016 Bonds for federal income tax purposes. The opinion of Bond Counsel will not be binding on the Service, state taxing authorities, or the courts, and none will be a guarantee of federal tax treatment described. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, the effect of changes to the Code and applicable regulations, state or local law, the interpretation thereof or the enforcement thereof by the Service or state taxing authorities.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax-exempt obligations, including the Series 2016 Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Series 2016 Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Series 2016 Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

## **LEGAL MATTERS**

Certain legal matters incident to the authorization and validity of the Series 2016 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**”, “**THE SERIES 2016 BONDS**” (except for information furnished by DTC), “**CERTAIN PROVISIONS OF THE SERIES 2016 BOND 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 Series 2016 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 Series 2016 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:

- (a) with the Municipal Securities Rulemaking Board (the “**MSRB**”), or any successor thereto for purposes of the Rule, through the continuing disclosure service portal provided by the MSRB’s Electronic Municipal Market Access (“**EMMA**”) system as described in 1934 Act Release No. 59062, or any similar system that is acceptable to the Securities and Exchange Commission, certain annual financial information and operating data generally consistent with the financial information and operating data contained in **Appendix A** under the subheadings “**Tax Base Information,**” “**Tax Receipts,**” “**Five Year Summary of Revenues, Expenditures and Changes in Fund Balance - General Fund**” and “**Existing Bonded Debt Service Requirements - General Fund**” and the audited financial statements contained in **Appendix B** attached hereto. Such information will be provided on or before December 31<sup>st</sup> of each year for the fiscal year ending on the preceding June 30<sup>th</sup> and will also be provided, in addition to the MSRB through EMMA, to each holder of Series 2016 Bonds who makes written request for such information.
- (b) with the MSRB through EMMA, notice of the occurrence of any of the following events with respect to the Series 2016 Bonds in a timely manner not in excess of 10 business days after the occurrence of such event: (i) principal and interest payment delinquencies, (ii) non-payment related defaults, if material, (iii) unscheduled draws on debt service reserves reflecting financial difficulties, (iv) unscheduled draws on credit enhancements reflecting financial difficulties, (v) substitution of credit or liquidity providers, or their failure to perform, (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2016 Bonds, or other material events affecting the tax status of the Series 2016 Bonds, (vii) modifications to rights of holders of Series 2016 Bonds, if material, (viii) Series 2016 Bond calls, if material, and tender offers, (ix) defeasances, (x) release, substitution or sale of property securing repayment of the Series 2016 Bonds, if material, (xi) rating changes, (xii) bankruptcy, insolvency, receivership or similar event of the City, (xiii) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or

the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material, and (xiv) appointment of a successor or additional trustee or the change of a trustee, if material.

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 Series 2016 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.

- (c) in a timely manner, with the MSRB through EMMA, notice of a failure by the City to provide the required financial information on or before the date specified in its Continuing Disclosure Certificate.

With reference to subparagraph (a) above, the audited financial statements and other financial statements of the City are prepared in accordance with (i) 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; (ii) the standards of the Governmental Accounting Standards Board; and (iii) 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. All documents provided to the MSRB in accordance with the Rule shall be accompanied by identifying information as prescribed by the MSRB. 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 Series 2016 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 Series 2016 Bonds and shall be enforceable by any holder of Series 2016 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 Series 2016 Bonds under the Series 2016 Bond Ordinance.

During the past five years the City has failed to comply in certain respects with the requirements of the outstanding continuing disclosure certificates governing its previous bond issues. Such noncompliance includes, but may not be limited to, (a) the City filed audited financial statements for its fiscal years ended June 30, 2011, 2012, and 2015 after each applicable December 31<sup>st</sup> deadline (but the late filings for fiscal years ended June 30, 2011 and 2015 were permitted by the governing continuing disclosure certificates given that the audited financial statements were not provided to the City by its auditors by the respective December 31<sup>st</sup> deadlines); (b) the City failed to file certain financial information related to its municipal sewer system for fiscal years ended June 30, 2011 and 2012 until November 25, 2013; (c) the City failed to file certain financial information, operating data, and audited financial statements related to its fiscal year ended June 30, 2012 until April 8, 2013; (d) the City failed to timely file a notice of an increase in the ratings attributable to its sewer revenue bonds; and (e) the debt coverage



ratio filing and the audited financial statements of the City for fiscal year ended June 30, 2009 did not previously appear on EMMA even though the City's records indicate the statements were filed timely. To ensure that future filings are made on or before the deadlines contained in the applicable Continuing Disclosure Certificates, the City and its financial advisor have implemented procedures to ensure their respective personnel receive timely reminders to file such information on or before the due dates contained within the respective Continuing Disclosure Certificates.

The Underwriter conducted a review, which it believes was reasonable based on the facts and circumstances, to confirm that the City is, as of the date of this Official Statement, in compliance, in all material respects, with all of its obligations under its outstanding continuing disclosure certificates; however, the Underwriter cannot certify that the disclosures filed in connection with such continuing disclosure obligations are complete and/or timely filed.

Purchase of the Series 2016 Bonds shall be conditioned upon the receipt by the initial purchasers of the Series 2016 Bonds, at or before the delivery of the Series 2016 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 Series 2016 Bonds.

#### **FINANCIAL ADVISOR**

Raymond James & Associates, Inc. ("**Raymond James**"), 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 Raymond James. 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, Raymond James 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 Raymond James does not guarantee the accuracy or completeness of such information.

#### **REFERENCE TO DOCUMENTS**

All foregoing summaries and descriptions of provisions set forth in the Series 2016 Bond Ordinance, the Series 2016 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 Series 2016 Bonds.

Dated: September \_\_, 2016

**CITY OF FRANKFORT, KENTUCKY**

By: \_\_\_\_\_  
Mayor

**APPENDICES**

**APPENDIX A - SUPPLEMENTAL INFORMATION**

**APPENDIX B - AUDITED FINANCIAL STATEMENTS FOR  
THE FISCAL YEAR ENDED JUNE 30, 2015**

**APPENDIX C - FORM OF BOND COUNSEL OPINION**

**APPENDIX A**

**CITY OF FRANKFORT, KENTUCKY,  
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016**

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**Supplemental 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 2016 is 23,803. In 2013 (the most recent data available), State and local government accounts for the largest number of jobs in Franklin County, with a total of 11,069 people employed in that area. Manufacturing firms in the county reported 2,575 employees, and 8,973 people were employed in service occupations.

### Labor Supply

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

Firm	Type of Firm	# Employees
Montaplast of North America, Inc.	Plastic injection molding automotive supplier	760
Buffalo Trace Distillery, Inc.	Distiller of world class and award winning bourbons and American whiskeys	425
Beam Inc.	Production and value added packaging for spirits	305
Beam Suntory Inc.	Distilled liquor bottling	304
TOPY America, Inc.	Manufacturer of steel road wheels for passenger cars and light trucks	300
Greenheck Fan Corporation	Manufactures and distributes commercial and industrial air moving and control equipment	200
HP Enterprise Services, LLC	Call center, help desk, data center, mail room, print operations, programming, data analytics, application testing services, data entry	165
Meritor, Inc.	Manufactures axles for commercial vehicles	150
Harrod Concrete & Stone Co.	Supplier of ready-mixed concrete and crushed limestone	130
Capital City Tool, Inc.	Machining source and parts supplier to manufacturing industries	90
Centria	Manufacturer of steel building components	90
MBM, a subsidiary of McLane Company, Inc.	Distribution and warehousing center, and customized distributor of food products and related items	90
Washington Penn Plastic Co., Inc.	Compounder of custom thermoplastics	81
Investors Heritage Capital Corporation	Headquarters, corporate office	80
Nashville Wire Products Mfg. Co., Inc.	Material handling storage products. Specifically, wire mesh decking for pallet rack storage; wire mesh general purpose bulk storage containers; solid-steel walled heavy duty containers	75

Source: Kentucky Cabinet for Economic Development (8/26/16).

## Transportation

Frankfort is easily accessible from 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.

## 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. Natural 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 master's degree program in public administration. There are thirteen additional colleges and universities within a 60 mile radius of Frankfort. Vocational 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 provide vocational training.

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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	2011	2012	2013	2014	2015
Labor Market Area	1,560,708	1,573,788	1,586,864	1,600,571	1,612,557
Franklin County	49,357	49,804	49,648	49,992	50,375
Frankfort	27,357	27,590	27,413	27,557	27,830

Source: Kentucky Cabinet of Economic Development

### Population Projections

Year	2020	2025	2030	2035
Franklin County	50,777	51,185	51,323	51,198

Source: Kentucky Cabinet of Economic Development

### Employment and Income Statistics

Year	Per Capita Income	Median Family Income	Average Weekly Wage	Employment	Civilian Labor Force	Unemployment Rate
06/2016	(1)	(1)	(1)	23,803	24,861	4.30%
2015	(1)	(1)	(1)	22,760	23,796	4.40%
2014	\$37,875	\$46,818	(1)	22,794	24,092	5.40%
2013	(1)	\$46,309	\$769	23,216	24,943	6.90%
2012	\$38,653	\$49,946	\$774	23,126	24,646	6.20%
2011	\$36,091	\$44,241	\$771	22,733	24,803	8.10%
2010	\$35,235	\$47,062	\$768	23,089	25,131	8.90%
2009	\$ 35,273	\$45,619	\$760	22,537	24,777	9.00%

(1) Not available

In 2014, Franklin had a per capita personal income (PCPI) of \$37,875. This PCPI ranked 16th in the state and was 101 percent of the state average, \$37,396, and 82 percent of the national average, \$46,049. The 2014 PCPI reflected an increase of 4.2 percent from 2013. The 2013-2014 state change was 4.0 percent and the national change was 3.6 percent. In 2004, the PCPI of Franklin was \$29,906 and ranked 13th in the state. The 2004-2014 compound annual growth rate of PCPI was 2.4 percent. The compound annual growth rate for the state was 2.9 percent and for the nation was 3.0 percent.

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

**CITY OF FRANKFORT GOVERNMENT**

**Tax Base Information**

***Assessed Valuation & Property Tax Levies and Collections (excludes Motor Vehicles)***

<b>Fiscal Year</b>	<b>Total Assessed Value</b>	<b>Total Current Tax Levy</b>	<b>Taxes Collected</b>	<b>% Collection</b>	<b>Delinquent Tax Collected</b>
2015/16	1,512,123,296	4,964,172	4,864,889	98.00%	73,595
2014/15	1,490,660,764	4,839,191	4,689,176	96.90%	44,671
2013/14	1,508,206,974	4,806,536	4,643,326	96.60%	60,875
2012/13	1,510,889,557	4,826,899	4,648,304	96.30%	45,257
2011/12	1,518,032,814	4,836,483	4,598,487	95.10%	77,649
2010/11	1,493,430,906	4,610,240	4,416,440	95.80%	62,888

***Tax Rates (per \$100.00 assessed valuation)***

<b>Fiscal Year</b>	<b>City</b>	<b>County</b>	<b>School</b>	<b>State</b>	<b>Total</b>
2015/16	20.9	17.7	65.3	12.2	116.1
2014/15	20.9	17.4	65.3	12.2	115.8
2013/14	20.9	17.0	62.3	12.2	112.4
2012/13	20.9	16.5	76.4	12.2	126.0
2011/12	21.3	15.7	72.5	12.2	121.7
2010/11	20.7	15.5	69.0	12.2	117.4

**City Revenue Sources**

The City's major source of locally generated revenues are taxes, which contribute about 82.9% of total revenues; licenses and permits, which contribute approximately .16% of revenues; intergovernmental revenues, which provide approximately 6.40% of the revenue base; and charges for service and miscellaneous revenues, which provide the remaining 10.54%.

***Tax Receipts***

<b>Fiscal Year</b>	<b>Insurance Premium Tax</b>	<b>Payroll Tax Receipts</b>	<b>Occupational Withholding Fees</b>	<b>Regulatory Fees, Penalties and Interest</b>	<b>Total Occupational Tax Receipts</b>	<b>Licenses, Permits &amp; Fines</b>
2015/16	3,305,350	18,354,570	2,222,474	55,642	23,938,036	198,152
2014/15	3,493,801	18,174,345	2,036,752	57,248	23,704,898	213,971
2013/14	3,686,526	17,889,719	1,764,290	33,313	23,373,848	199,322
2012/13	3,713,877	16,590,546	1,545,287	42,635	21,892,345	235,970
2011/12	4,029,565	15,867,736	1,545,117	91,857	21,534,275	214,546
2010/11	3,653,090	15,812,195	1,548,148	58,637	21,072,070	195,681



**Largest Real Property Taxpayers**

<b>Name</b>	<b>FY 2016 (2015-16) Assessed Valuation</b>	<b>FY 2016 Taxes</b>
PARKSIDE DEVELOPMENT	\$55,482,000.00	\$115,957.38
FRANKFORT REGIONAL MEDICAL CENTER	40,845,363.00	85,366.81
WALMART/LOWES/RESTAURANTS	40,225,216.00	84,070.71
BUFFALO TRACE DISTILLERY, INC.	18,300,000.00	38,247.00
FRANKLIN SQUARE	16,500,000.00	34,485.00
BRIGHTON PARK/KROGER	15,446,030.00	32,282.20
ELDER-BEERMAN DEPARTMENT STORE	6,683,000.00	13,967.47
SEA HERO DRIVE-STATE OFFICE BLDG	5,180,000.00	10,826.20
CAPITAL PLAZA	4,500,025.00	9,405.05
WEST RIDGE PLAZA	4,500,000.00	9,405.00

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Source: City of Frankfort

**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

The pension trust fund may 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 2016. The City records all interest revenue related to investment activities in the respective funds.

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Source: City of Frankfort

**CITY OF FRANKFORT, KENTUCKY**

**Changes In Fund Balances - General Fund  
For the Fiscal Year Ended June 30,**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Revenues:</b>					
Taxes	\$ 3,593,496	\$ 3,676,494	\$ 3,693,181	\$ 3,723,042	\$ 3,623,456
Occupational Receipts	21,127,013	21,577,571	21,923,621	23,407,600	23,805,469
Licenses, Permits, Fines	72,798	79,180	73,315	68,248	78,550
Fines and Forfeitures	-	-	-	25,055	16,323
Charges for Services	834,525	871,998	3,015,783	3,027,649	3,122,154
Intergovernmental Rev.	2,788,280	1,795,354	2,334,012	1,647,845	1,746,440
Ambulance	1,758,887	1,610,460	-	-	-
Interest Income	352,257	331,935	152,287	152,109	115,055
Public Transit	646,467	658,570	-	-	-
Miscellaneous	56,389	53,723	79,897	47,704	55,102
Sale of Property	-	-	-	-	-
Rental Income	88,652	84,885	90,938	98,270	85,521
Recycling	142,227	168,338	137,480	74,713	68,186
Other	-	-	8,340	-	-
<b>Total Revenues</b>	<b>\$31,460,991</b>	<b>\$30,908,508</b>	<b>\$31,508,854</b>	<b>\$32,272,235</b>	<b>\$32,716,256</b>
<b>Expenditures:</b>					
General government	7,764,965	6,629,588	2,677,071	1,874,601	2,329,008
Public Safety	13,305,732	13,859,584	14,245,075	13,913,807	13,738,857
Public Works	5,136,383	5,712,011	5,215,923	6,106,744	5,866,356
Parks and Recreation	2,931,088	2,923,662	2,999,090	2,944,504	2,789,497
Planning and Building Codes	629,144	711,898	712,654	750,757	770,130
Reserve for Contingencies	12,484	-	-	-	-
Capital Outlay	61,154	48,930	40,275	224,286	2,064,260
Debt Service	1,131,470	1,366,660	1,316,041	1,316,382	1,606,231
Finance	-	-	450,293	457,825	461,581
Insurance	-	-	3,761,712	3,599,895	4,089,694
Special Projects	-	-	-	-	-
<b>Total Expenditures</b>	<b>\$30,972,420</b>	<b>\$31,252,333</b>	<b>\$31,418,134</b>	<b>\$31,188,801</b>	<b>\$33,715,614</b>
Excess of Revenues Over (Under) Expenditures	\$488,571	(\$343,825)	\$90,720	\$1,083,434	(\$999,358)
<b>Other Financing Sources (Uses):</b>					
Transfers In	600,032	600,000	525,000	475,000	350,000
Transfers Out	-	-	-	-	-
Sale of Property	-	71,288	-	2,095	7,879
Capital Lease Obligation Proceeds	-	-	-	-	-
<b>Total</b>	<b>\$600,032</b>	<b>\$671,288</b>	<b>525,000</b>	<b>477,095</b>	<b>357,879</b>
Excess of Revenues Over (Under) Expenditures & Other Uses	\$1,088,603	\$327,463	\$615,720	\$1,560,529	(\$641,479)
Fund Balance July 1	19,769,854	\$20,858,457	\$21,185,920	\$21,801,640	\$23,362,169
Adjustments	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Fund Balance June 30</b>	<b>\$20,858,457</b>	<b>\$21,185,920</b>	<b>\$21,801,640</b>	<b>\$23,362,169</b>	<b>\$22,720,690</b>

Source: Audited Financial Statements for City of Frankfort.

**CITY OF FRANKFORT, KENTUCKY**  
**EXISTING BONDED DEBT SERVICE REQUIREMENTS - General Fund**

F.Y. Ended 6/30	General Obligation Bonds, Series 2014 (1)(2)			General Obligation Bonds, Series 2016 Estimated (1)(2)			Total Bonded Debt Service Requirements - Payable from GF (2)		
	Principal	Interest	TOTAL	Principal	Interest	TOTAL	Principal	Interest	TOTAL
2017	130,000	144,325	274,325	875,000	66,569	941,569	1,005,000	418,650	1,215,894
2018	130,000	143,025	273,025	850,000	90,165	940,165	980,000	416,050	1,213,190
2019	130,000	141,725	271,725	865,000	74,015	939,015	995,000	413,450	1,210,740
2020	135,000	140,400	275,400	885,000	56,715	941,715	1,020,000	415,800	1,217,115
2021	135,000	138,375	273,375	900,000	38,573	938,573	1,035,000	411,750	1,211,948
2022	140,000	135,625	275,625	915,000	19,673	934,673	1,055,000	411,250	1,210,298
2023	140,000	132,825	272,825				140,000	405,650	272,825
2024	145,000	129,794	274,794				145,000	404,588	274,794
2025	150,000	125,913	275,913				150,000	401,825	275,913
2026	150,000	121,413	271,413				150,000	392,825	271,413
2027	155,000	116,838	271,838				155,000	388,675	271,838
2028	165,000	111,213	276,213				165,000	387,425	276,213
2029	170,000	104,513	274,513				170,000	379,025	274,513
2030	175,000	97,613	272,613				175,000	370,225	272,613
2031	185,000	90,413	275,413				185,000	365,825	275,413
2032	190,000	82,913	272,913				190,000	355,825	272,913
2033	200,000	75,113	275,113				200,000	350,225	275,113
2034	205,000	67,013	272,013				205,000	339,025	272,013
2035	215,000	58,613	273,613				215,000	332,225	273,613
2036	225,000	49,813	274,813				225,000	324,625	274,813
2037	230,000	41,144	271,144				230,000	312,288	271,144
2038	240,000	32,625	272,625				240,000	305,250	272,625
2039	250,000	23,744	273,744				250,000	297,488	273,744
2040	260,000	14,500	274,500				260,000	289,000	274,500
2041	270,000	4,894	274,894				270,000	279,788	274,894
	<u>\$ 4,520,000</u>	<u>\$ 2,324,375</u>	<u>\$6,844,375</u>	<u>\$ 5,290,000</u>	<u>\$ 345,709</u>	<u>\$5,635,709</u>	<u>9,810,000</u>	<u>9,168,750</u>	<u>12,480,084</u>

**NOTES:**

(1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Audited Financial Statements for the fiscal year ended June 30, 2015 provided in Appendix B herein.

(2) Totals may not sum due to rounding.

**CITY OF FRANKFORT, KENTUCKY  
INDEBTEDNESS**

The information set forth in the following table is based upon information derived in part from the Statement of Revenues Expenditures, and Changes in Fund Balance and the table should be read in conjunction with those statements. The table does not include future funding plans.

INDEBTEDNESS	For Fiscal Years Ended June 30				
	2012	2013	2014	2015	2016
<b>TAX SUPPORTED</b>					
General Obligation Bonds & Notes	\$8,080,000	\$7,395,000	\$11,335,000	\$10,600,000	\$9,710,000
<b>TOTAL TAX SUPPORTED</b>	<b>\$8,080,000</b>	<b>\$7,395,000</b>	<b>\$11,335,000</b>	<b>\$10,600,000</b>	<b>\$9,710,000</b>
<b>REVENUE SUPPORTED</b>					
Sewer System Revenue Bonds	\$8,400,000	\$7,830,000	\$17,235,000	\$16,340,000	\$15,420,000
Build America Bonds	\$12,730,000	\$11,265,000	\$11,265,000	\$10,510,000	\$9,735,000
<b>TOTAL REVENUE SUPPORTED</b>	<b>\$21,130,000</b>	<b>\$19,095,000</b>	<b>\$28,500,000</b>	<b>\$26,850,000</b>	<b>\$25,155,000</b>
<b>TOTAL DEBT</b>	<b>\$29,210,000</b>	<b>\$26,490,000</b>	<b>\$39,835,000</b>	<b>\$37,450,000</b>	<b>\$34,865,000</b>
Less: Revenue Supported Debt	(21,130,000)	(19,095,000)	(28,500,000)	(26,850,000)	(25,155,000)
Less: Debt Service Funds	\$0	\$0	\$0	\$0	\$0
<b>NET DIRECT DEBT</b>	<b>\$8,080,000</b>	<b>\$7,395,000</b>	<b>\$11,335,000</b>	<b>\$26,850,000</b>	<b>\$25,155,000</b>
<b>TAX SUPPORTED OVERLAPPING DEBT</b>	<b>\$55,189,434</b>	<b>\$66,949,433</b>	<b>\$79,239,651</b>	<b>\$76,776,186</b>	<b>\$71,077,695</b>
<b>NET DIRECT AND TAX SUPPORTED OVERLAPPING DEBT</b>	<b>\$63,269,434</b>	<b>\$74,344,433</b>	<b>\$90,574,651</b>	<b>\$103,626,186</b>	<b>\$96,232,695</b>

<b>PROPERTY TAX BASE</b>					
Estimated Actual Value	1,493,430,906	1,518,032,814	1,510,889,557	1,508,206,974	1,490,660,764
Appraised Value	1,518,032,814	1,518,032,814	1,510,889,557	1,508,206,974	1,490,660,764
Assessed Value	1,518,032,814	1,510,889,557	1,508,206,974	1,490,660,764	1,512,123,296

**CITY OF FRANKFORT, KENTUCKY  
DEBT RATIOS**

For Fiscal Years Ended June 30

<b>DEBT RATIOS</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
TOTAL DEBT to Estimated Actual Value	1.96%	1.75%	2.64%	2.48%	2.34%
TOTAL DEBT to Appraised Value	1.92%	1.75%	2.64%	2.48%	2.34%
TOTAL DEBT to Assessed Value	1.92%	1.75%	2.64%	2.51%	2.31%
NET DIRECT DEBT to Estimated Actual Value	0.54%	0.49%	0.75%	1.78%	1.69%
NET DIRECT DEBT to Appraised Value	0.53%	0.49%	0.75%	1.78%	1.69%
NET DIRECT DEBT to Assessed Value	0.53%	0.49%	0.75%	1.80%	1.66%
OVERLAPPING DEBT to Assessed Value	3.64%	4.43%	5.25%	5.15%	4.70%
NET DIRECT AND OVERLAPPING DEBT to Assessed Value	4.17%	4.92%	6.01%	6.95%	6.36%
<b>PER CAPITA RATIOS</b>					
POPULATION (1)	27,357	27,413	27,557	27,830	27,830
PER CAPITA PERSONAL INCOME (2)	\$36,091	\$38,653	\$38,653	\$37,875	\$37,875
Estimated Actual Value to POPULATION	\$54,590	\$55,376	\$54,828	\$54,194	\$53,563
Assessed Value to POPULATION	\$55,490	\$55,116	\$54,730	\$53,563	\$54,334
Total Debt to POPULATION	\$1,068	\$966	\$1,446	\$1,346	\$1,253
Net Direct Debt to POPULATION	\$295	\$270	\$411	\$965	\$904
Overlapping Debt to POPULATION	\$2,017	\$2,442	\$2,875	\$2,759	\$2,554
Net Direct Debt and Overlapping Debt to POPULATION	\$2,313	\$2,712	\$3,287	\$3,724	\$3,458
Total Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	2.96%	2.51%	3.75%	3.55%	3.31%
Net Direct Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	0.82%	0.70%	1.07%	2.55%	2.39%
Overlapping Debt as a percent of PER CAPITA PERSONAL INCOME	2.84%	3.59%	3.88%	7.28%	6.74%
Net Direct Debt and Overlapping Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	3.66%	4.29%	4.95%	9.83%	9.13%

(1) Population figure is based upon the most current data available (currently 2015)

(2) Per Capita and population computations are based upon the most current data available (currently 2014).

**Estimated Overlapping Debt (principal) <sup>(1)</sup>**

<u>Governmental Unit</u>	<u>Overlapping Debt</u>	<u>% Applicable to City</u>	<u>Overlapping Debt</u>
Frankfort Independent School District	\$1,799,176 <sup>(2)</sup>	100%	\$1,799,176
Franklin County School District	\$48,012,131 <sup>(2)</sup>	48.45%	\$23,261,877
Frankfort Electric and Water Plant Board - Cable	\$22,863,391	100.00%	\$22,863,391
Frankfort Electric and Water Plant Board - Water & Elec	\$18,085,000	100.00%	\$18,085,000
Franklin County Jail Revenue Bonds, Series 1987	\$416,776 <sup>(3)</sup>	57.48%	\$239,571
Franklin County Industrial Facility Revenue, Series 2003	\$113,000 <sup>(3)</sup>	57.48%	\$64,954
Franklin County Industrial Facility Revenue, Series 1998	\$1,790,000 <sup>(3)</sup>	57.48%	\$1,028,925
Franklin County Refunding Revenue Bonds, Series 2009	\$1,731,000 <sup>(3)</sup>	57.48%	\$995,011
Franklin County Land Acquisition Revenue, Series 2003	\$590,000 <sup>(3)</sup>	57.48%	\$339,143
Franklin County YMCA Revenue, Series 2006	\$1,715,000 <sup>(3)</sup>	57.48%	\$985,814
Franklin County Edu. Development Revenue, Series 2003	\$1,220,000 <sup>(3)</sup>	57.48%	\$701,279
Franklin County General Obligation, Series 2003	\$590,000 <sup>(3)</sup>	57.48%	\$339,143
Franklin County Soil Conservation Series 1999	\$102,000 <sup>(3)</sup>	57.48%	\$58,631
Franklin County IDA, Series 2002	\$150,000 <sup>(3)</sup>	57.48%	\$86,223
Franklin County Public Health Taxing Dist.	\$399,355 <sup>(3)</sup>	57.48%	\$229,557

<sup>(1)</sup> These figures do not include short term notes and bank loans.

<sup>(2)</sup> Does not include debt attributable to the Kentucky School Facilities Construction Commission

<sup>(3)</sup> Information from the 2013 KY Debt Report (most recent available)

**CITY OF FRANKFORT, KENTUCKY  
SUMMARY OF BONDED INDEBTEDNESS**

<b>AMOUNT ISSUED</b>	<b>PURPOSE</b>	<b>DUE DATE</b>	<b>INTEREST RATE(S)</b>	<b>OUTSTANDING</b>
\$ 9,995,000	Sewer System Revenue Bonds, Series 2007	December 1, 2023	Fixed	\$ 6,000,000
\$ 13,445,000	Build America Bonds, Series 2010	June 1, 2026	Fixed	\$ 9,735,000
\$ 9,995,000	Sewer System Revenue Bonds, Series 2013	December 1, 2038	Fixed	\$ 9,420,000
\$ 4,650,000	General Obligation Bonds, Series 2014	December 1, 2040	Fixed	\$ 4,520,000
EST. \$ 5,290,000	General Obligation Refunding Bonds, Series 2016	June 1, 2026	Fixed	\$ 5,270,000
<b>\$ 43,375,000</b>				<b>\$ 34,945,000</b>
<b>TOTAL EXISTING BONDED DEBT</b>				

**NOTES:**

<sup>(1)</sup> The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the GENERAL PURPOSE FINANCIAL STATEMENTS herein.

CITY OF FRANKFORT, KENTUCKY  
CALCULATION OF CONSTITUTIONAL AND STATUTORY LIMITATION ON INDEBTEDNESS

Calculation of Constitutional and Statutory Limitation on Indebtedness of Issuer:

The value of all taxable property within the jurisdictional bounds of the Issuer pursuant to the most recent certified assessment dated as of January 1, 2016:	\$ 1,679,366,907
x The percentage limitation applicable to such property pursuant to Section 158 of the Kentucky Constitution and Section 66.041 of the Kentucky Revised Statutes (the "KRS"):	<u>10.00%</u>
= The maximum indebtedness that may be incurred by the Issuer as of the date hereof:	<u>\$ 167,936,691</u>

Calculation of Net Indebtedness of the Issuer Subject to the Constitutional and Statutory Limit:

Outstanding principal balance of all bonds, notes, commercial paper, and other instruments in writing evidencing the obligation of the Issuer to repay or guarantee the repayment of money borrowed, or to pay interest by, or to pay at any future time, other money obligations as of the date hereof:

(b)	General Obligation Bonds, Series 2014 (" <u>Series 2014 Bonds</u> ")	4,520,000
(c)	Sewer System Revenue Bonds, Series 2007 (" <u>Series 2007 Bonds</u> ")	6,000,000
(d)	2009 Kentucky Infrastructure Authority Loan (" <u>2009 KIA Loan</u> ")	291,112
(e)	Sewer System Revenue Build America Bonds, Series 2010 (" <u>2010 BABs</u> ")	9,735,000
(f)	Sewer System Revenue Bonds, Series 2013 (" <u>Series 2013 Bonds</u> ")	9,420,000
(g)	2013 Kentucky Infrastructure Authority Loan (" <u>2013 KIA Loan</u> ")	7,832,098
EST. (h)	General Obligation Refunding Bonds, Series 2016 (" <u>Series 2016 Bonds</u> ")	5,270,000
(i)	Leases	<u>492,698</u>
Total outstanding principal balance of all bonds, notes, commercial paper and other instruments:		<u>\$ 43,560,908</u>

Less: Indebtedness Not Subject to the Limitation Pursuant to KRS 66.031:

(a)	Obligations issued in anticipation of the levy or collection of special assessments which are payable solely from those assessments or are otherwise self-supporting obligations:	\$ -
(b)	Obligations issued in anticipation of the collection of current taxes or revenues for the fiscal year which are payable within that fiscal year:	-
(c)	Obligations, which are not self-supporting obligations, issued after July 15, 1996, by any instrumentality of the issuer created for the purpose of financing public projects for which there has been no pledge to the payment of debt charges of any tax of the issuer or for which there is no covenant by the issuer to collect or levy a tax to pay debt charges:	-
(d)	Self-supporting obligations and other obligations for which there has been no pledge to the payment of debt charges of any tax of the issuer or for which there is no covenant by the issuer to collect or levy a tax to pay debt charges:	-
(i)	Series 2007 Bonds	\$ (6,000,000)
(ii)	2009 KIA Loan	(291,112)
(iii)	Series 2013 Bonds	(9,420,000)
(iv)	2010 BABs	(9,735,000)
(v)	2013 KIA Loan	(7,832,098)
Subtotal		(33,278,210)
(e)	Obligations issued to pay costs of public projects to the extent they are issued in anticipation of the receipt of, and are payable as to principal from, federal or state grants within that fiscal year:	-
(f)	Leases entered into under KRS 65.940 to 65.956 which are not tax-supported leases:	-
(g)	Bonds issued in the case of an emergency, when the public health or safety should so require:	-
(h)	Bonds issued to fund a floating indebtedness:	<u>-</u>

Net Indebtedness subject to Constitutional Limit Pursuant to Section 158 of the Kentucky Constitution and KRS 66.041: \$ 10,282,698

Legal Debt Margin (Maximum Permitted Indebtedness Less Net Indebtedness Subject to Constitutional Limit) \$ 157,653,993

**APPENDIX B**

**CITY OF FRANKFORT, KENTUCKY,  
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016**

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**Audited Financial Statements for the  
Fiscal Year Ended June 30, 2015**

**Important Note:** The entire fiscal year 2015 audited financial statements for the City are included in **Appendix B**. Potential purchasers of the Series 2016 Bonds are reminded that the Series 2016 Bonds are secured solely by, and payable solely from, the tax revenues of the City as described in the forepart of this Official Statement. Accordingly, reference is made to the following pages that pertain to the General Fund revenues and expenses, particularly pages 11 and 13 and 45 - 48.



City of Frankfort  
Financial Statements  
Ended June 30, 2015

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## Independent Auditor's Report

To the Honorable Mayor and City Commissioners  
City of Frankfort, Kentucky

### Report on the Financial Statements

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 the City of Frankfort, Kentucky (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## 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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of a Matter – Implementation of New GASB Accounting Standard

As discussed in Note O in the financial statements, the City adopted Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, effective as of July 1, 2014. The implementation of this new accounting standard resulted in a restatement of prior year net position. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages 3 through 7 and pages 44 through 47 in addition to the pension schedules on page 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The combining nonmajor fund financial statements on pages 48 through 55 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards on pages 60 and 61 is presented for purposes of additional analysis as required by the 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.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2016 on our consideration of the City’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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Charles T. Mitchell Co.*

Charles T. Mitchell Company PLLC  
Frankfort, Kentucky  
January 5, 2016

**City of Frankfort, Kentucky**  
**Management Discussion and Analysis**  
**Year Ended June 30, 2015**

As management of the City of Frankfort, Kentucky, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Frankfort, Kentucky for the fiscal year ending June 30, 2015. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

**Government-Wide Statements**

The Government -Wide Statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government -Wide statements (Statement of Net Position & Statement of Activities) report the City's net position and how they have changed. Net position, the difference between the City's assets and liabilities, is one way to measure the City's financial health or position.

The Government -Wide financial statements of the City are divided into two categories:

Governmental activities – Most of the City's basic services are included here, such as the police, fire, public works, streets, parks, recreation and historic sites, landfill, public transit, golf, planning and building codes, disaster and emergency services and general administration. Property taxes, occupational taxes, charges for services and other charges provide most of the funding.

Business-type activities – The City charges fees to customers to help it cover the costs of sewer services.

**Fund Financial Statements**

The Fund Financial Statements provide detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has three kinds of Funds –

Governmental Funds – Most of the City's basic services are included in Governmental Funds, which focus on how cash and other financial assets can readily be converted to cash flow in & out, and the balances left at year-end that are available for spending. The Governmental Funds Statements provide a detailed short-term view that helps you determine whether there are more or fewer resources that can be spent in the near future to finance the City's programs.

Proprietary Funds – Services for which the City charges customers a fee are generally reported in Proprietary Funds. Proprietary funds like Government -Wide Statements provide both long-term and short-term financial information.

**City of Frankfort, Kentucky**  
**Management Discussion and Analysis (Continued)**  
**Year Ended June 30, 2015**  
**Fund Financial Statements (Continued)**

Fiduciary Fund – The City is responsible for ensuring that the assets reported in this fund are used for their intended purpose. These funds are excluded from the City’s government-wide financial statements because the City cannot use these assets to finance its operations. Fiduciary funds are used to account for resources held for the benefit of parties outside the government.

**Financial Highlights**

The total net position of the City of Frankfort, Kentucky at the close of fiscal year 2015 was \$95,851,337.

The General Fund – Total Reserves and Fund balances at the end of the fiscal year was \$22,720,690.

Total unrestricted net assets of the City at the end of the year were \$(15,004,419). This was caused mainly due to the unfunded liability of CERS.

The Total Long Term Debt of the governmental activities is discussed in other parts of this letter.

The actual revenues of the General Fund of the City were approximately \$670,000 less than budgeted revenues. Expenditures were approximately \$1,740,000 less than budgeted amounts.

**Financial Overview**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Capital Assets	\$ 49,796,666	\$ 43,995,889	\$ 65,500,910	\$ 55,645,636	\$ 115,297,576	\$ 99,641,525
Other Assets	28,670,893	30,993,704	32,886,748	40,303,542	61,557,641	71,297,246
<b>Total Assets</b>	<b>78,467,559</b>	<b>74,989,593</b>	<b>98,387,658</b>	<b>95,949,178</b>	<b>176,855,217</b>	<b>170,938,771</b>
Deferred Outflows of Resources	4,000,670	-	-	-	\$ 4,000,670	-
Long-term Liabilities	38,509,475	6,164,192	32,564,946	31,528,346	71,074,421	37,692,538
Other Liabilities	7,776,305	8,828,733	3,219,824	2,690,023	10,996,129	11,518,756
<b>Total Liabilities</b>	<b>46,285,780</b>	<b>14,992,925</b>	<b>35,784,770</b>	<b>34,218,369</b>	<b>82,070,550</b>	<b>49,211,294</b>
Deferred Inflows of Resources	2,934,000	-	-	-	\$ 2,934,000	-
Invested in Capital Assets, Net of Related Debt	38,464,753	36,792,080	30,803,822	22,246,054	69,268,575	59,038,134
Restricted	9,788,115	10,063,207	7,072,836	6,881,682	16,860,951	16,944,889
Unrestricted	(15,004,419)	13,141,381	24,726,230	32,603,073	9,721,811	45,744,454
<b>Total Net Position</b>	<b>\$ 33,248,449</b>	<b>\$ 59,996,668</b>	<b>\$ 62,602,888</b>	<b>\$ 61,730,809</b>	<b>\$ 95,851,337</b>	<b>\$ 121,727,477</b>



**City of Frankfort, Kentucky**  
**Management Discussion and Analysis (Continued)**  
**Year Ended June 30, 2015**  
**Financial Overview (Continued)**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program Revenue						
Charges for Services	\$ 6,112,703	\$ 6,506,755	\$ 11,311,132	\$ 11,748,023	\$ 17,423,835	\$ 18,254,778
Operating Grants & Contributions	-	-	143,120	1,518	143,120	1,518
Capital Grants & Contributions	302,710	143,637	-	-	302,710	143,637
General Revenue						
Taxes						
Property Taxes	3,623,456	3,723,042	-	-	3,623,456	3,723,042
Occupational Taxes	23,805,469	23,407,600	-	-	23,805,469	23,407,600
Interest & Investment Earnings	127,877	169,115	142,448	179,723	270,325	348,838
Gain(Loss) on Sale of Capital Assets	7,879	(2,662)	5,750	30,376	13,629	27,714
Transfers	325,000	325,000	(325,000)	(325,000)	-	-
Total Revenues	<u>34,305,094</u>	<u>34,272,487</u>	<u>11,277,450</u>	<u>11,634,640</u>	<u>45,582,544</u>	<u>45,907,127</u>
Expenditures						
General Government	1,899,171	2,385,619			1,899,171	2,385,619
Finance	483,749	455,039			483,749	455,039
Insurance	3,999,831	3,599,895			3,999,831	3,599,895
Public Safety	15,624,563	14,523,306			15,624,563	14,523,306
Public Works	8,158,042	7,122,975			8,158,042	7,122,975
Parks & Recreation	1,614,713	2,859,499			1,614,713	2,859,499
Planning & Building Codes	785,907	752,002			785,907	752,002
Special Projects	31,260	216,658			31,260	216,658
Capital Outlay	-	-			-	-
Interest on Long-Term Debt	366,493	337,146			366,493	337,146
Sewer	-	-	10,405,371	9,003,528	10,405,371	9,003,528
Total Expenditures	<u>32,963,729</u>	<u>32,252,139</u>	<u>10,405,371</u>	<u>9,003,528</u>	<u>43,369,100</u>	<u>41,255,667</u>
Change in Net Position	1,341,365	2,020,348	872,079	2,631,112	2,213,444	4,651,460
Net Position Beginning	<u>31,907,084</u>	<u>57,976,320</u>	<u>61,730,809</u>	<u>59,099,697</u>	<u>93,637,893</u>	<u>117,076,017</u>
Net Position Ending	<u>\$ 33,248,449</u>	<u>\$ 59,996,668</u>	<u>\$ 62,602,888</u>	<u>\$ 61,730,809</u>	<u>\$ 95,851,337</u>	<u>\$ 121,727,477</u>

The City has continued to provide a high level and quality of services to the Citizens of Frankfort while maintaining a structurally balanced budget. Additionally, the City's Sewer division has continued to move forward with consent judgment projects in order to meet the deadlines established by the State. The Sewer Division will continue to monitor cash flow and funding capabilities to ensure that the projects are properly funded while continuing to keep a strong bond rating.

**City of Frankfort, Kentucky**  
**Management Discussion and Analysis (Continued)**  
**Year Ended June 30, 2015**  
**Financial Overview (Continued)**

The City, as a whole, experienced 2.71% decrease in revenues primarily due to the decrease in sewer fees. Expenditures decreased by 4.34% due to the decrease in wages, benefits, and overhead costs.

**Capital Assets and Debt Administration**

Capital Assets

The City had some significant activity in capital assets during the year ended June 30, 2015. Total capital assets as of year-end were \$115,297,576.

Sewer fund plant and equipment make up all of the business-type capital assets. The total cost of all depreciable sewer capital assets at June 30, 2015 is \$56,758,214.

At June 30, 2015, there was \$18,498,059 of construction in progress. These construction costs consist primarily of Sewer Consent Projects.

Debt Administration

The governmental activities of the City include two bonds with an estimated yearly debt service of approximately \$1,250,000. The bond will be paid off in 2041. The lease obligations of the City will be paid off over the next several years. The City's average annual debt payment for leases is approximately \$339,000.

Business-type activities had \$35.3 million in bonds, notes and capitalized lease obligations outstanding at June 30, 2015 compared to \$34.0 million the previous year.

The following long-term liabilities are currently outstanding and payable:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Bonds Payable	\$ 10,467,780	\$ 26,720,541
Capitalized Lease Obligations	864,133	
KIA Notes Payable		7,979,547
Compensated Absences	5,891,003	625,027
Unfunded Pension Liability	28,439,000	-
	<u>\$ 45,661,916</u>	<u>\$ 35,325,115</u>

**City of Frankfort, Kentucky  
Management Discussion and Analysis (Continued)  
Year Ended June 30, 2015**

**Analysis of Individual Funds**

The City's governmental funds for the year ended June 30, 2015 reflect a combined ending fund balance of \$28,197,892, a decrease of \$957,770 from the prior year. The decrease is due to the increase in occupational tax and management's control of overhead expenditures.

The total fund balance in the General Fund as of June 30, 2015 was \$22,720,690, which represents a decrease of \$641,479 over the prior year. The decrease is due to additional capital outlays.

**Analysis of Budget**

**Economic Factors and Next Year's Budget**

The City of Frankfort, Kentucky's budget for the year ending June 30, 2016 has increased approximately \$3,750,000 due to the increase in estimated sewer project costs. The budget is conservative but is adequate to continue delivering quality services to its citizenry.

**Contacting the City of Frankfort, Kentucky Financial Management**

This financial report is designed to provide citizens, creditors or other users with an overview of the City of Frankfort's finances, fiscal practices and responsibility. If you have questions or need additional information, please contact the City of Frankfort, Kentucky at P.O. Box 697, Frankfort, KY 40602.

City of Frankfort  
Statement of Net Position  
June 30, 2015

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and Cash Equivalents	\$ 6,250,661	\$ 14,248,609	\$ 20,499,270
Investments	17,310,000	11,561,921	28,871,921
Receivables			
Accounts Receivable	200,000		200,000
Due from Other Government Agencies	274,936		274,936
Accrued Interest	6,043	3,382	9,425
Prepaid Expenses	49,005		49,005
Restricted Assets			
Cash and Cash Equivalents	500,531	2,365,838	2,866,369
Investments	4,069,868	4,630,167	8,700,035
Accrued Interest	9,849	76,831	86,680
Capital Assets			
Nondepreciable Capital Assets, Net	12,589,759	18,973,583	31,563,342
Depreciable Capital Assets, Net	37,206,907	46,527,327	83,734,234
<b>Total Assets</b>	<b>78,467,559</b>	<b>98,387,658</b>	<b>176,855,217</b>
<b>Deferred Outflows of Resources</b>			
Differences Between Projected and Actual Earnings			
on Pension Plan			
Contributions Subsequent to Measurement Date	4,000,670	-	4,000,670
<b>Total Deferred Outflows of Resources</b>	<b>4,000,670</b>	-	<b>4,000,670</b>
<b>Liabilities</b>			
Accounts Payable	33,528	421,899	455,427
Workers Compensation Reserve Liability	240,726	15,366	256,092
Deferred Revenue	125,000		125,000
Health Care Liability	224,610	25,390	250,000
Compensated Absences	5,891,003	625,027	6,516,030
Capitalized Lease Obligations			
Due Within One Year	371,438	-	371,438
Due in More Than One Year	492,695	-	492,695
KIA Loans Payable			
Due Within One Year	-	437,142	437,142
Due in More Than One Year	-	7,539,405	7,539,405
Bonds Payable			
Due Within One Year	890,000	1,695,000	2,585,000
Due in More Than One Year	9,577,780	25,025,541	34,603,321
Unfunded Pension Liability	28,439,000	-	28,439,000
<b>Total Liabilities</b>	<b>46,285,780</b>	<b>35,784,770</b>	<b>82,070,550</b>
<b>Deferred Inflows of Resources</b>			
Differences Between Projected and Actual Earnings			
on Pension Plan			
	2,934,000	-	2,934,000
<b>Total Deferred Inflows of Resources</b>	<b>2,934,000</b>	-	<b>2,934,000</b>
<b>Net Position</b>			
Invested in Capital Assets, Net of Related Debt	38,464,753	30,803,822	69,268,575
Restricted	9,788,115	7,072,836	16,860,951
Unrestricted(Deficit)	(15,004,419)	24,726,230	9,721,811
<b>Total Net Position</b>	<b>\$ 33,248,449</b>	<b>\$ 62,602,888</b>	<b>\$ 95,851,337</b>

See accompanying notes.

City of Frankfort  
Statement of Activities

For The Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net(Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Primary Government</b>							
<b>Governmental Activities</b>							
General Government	\$ 1,899,171	\$ 175,079	\$ -	\$ -	\$ (1,724,092)	\$ -	\$ (1,724,092)
Finance	483,749	-	-	-	(483,749)	-	(483,749)
Insurance	3,999,831	-	-	-	(3,999,831)	-	(3,999,831)
Public Safety	15,624,563	2,632,361	-	-	(12,992,202)	-	(12,992,202)
Public Works	8,158,042	2,585,458	-	302,710	(5,269,874)	-	(5,269,874)
Parks and Recreation	1,614,713	578,042	-	-	(1,036,671)	-	(1,036,671)
Planning and Building Codes	785,907	48,971	-	-	(736,936)	-	(736,936)
Special Projects	31,260	92,792	-	-	61,532	-	61,532
Interest on Long Term Debt	366,493	-	-	-	(366,493)	-	(366,493)
<b>Total Governmental Activities</b>	<b>32,963,729</b>	<b>6,112,703</b>	<b>-</b>	<b>302,710</b>	<b>(26,548,316)</b>	<b>-</b>	<b>(26,548,316)</b>
<b>Business-Type Activities</b>							
Sewer	10,405,371	11,311,132	143,120	-	-	1,048,881	1,048,881
<b>Total Business-Type Activities</b>	<b>10,405,371</b>	<b>11,311,132</b>	<b>143,120</b>	<b>-</b>	<b>-</b>	<b>1,048,881</b>	<b>1,048,881</b>
<b>Total Primary Government</b>	<b>\$ 43,369,100</b>	<b>\$ 17,423,835</b>	<b>\$ 143,120</b>	<b>\$ 302,710</b>	<b>(26,548,316)</b>	<b>1,048,881</b>	<b>(25,499,435)</b>
<b>General Revenues</b>							
<b>Taxes</b>							
Property Tax							
					\$ 3,623,456	\$ -	\$ 3,623,456
Occupational Tax							
					23,805,469	-	23,805,469
Interest and Investment Earnings							
					127,877	142,448	270,325
Gain (Loss) on Sale of Assets							
					7,879	5,750	13,629
<b>Total General Revenues</b>					<b>27,564,681</b>	<b>148,198</b>	<b>27,712,879</b>
Transfers							
					325,000	(325,000)	-
<b>Total General Revenues</b>					<b>27,889,681</b>	<b>(176,802)</b>	<b>27,712,879</b>
Change in Net Position					1,341,365	872,079	2,213,444
Net Assets - Beginning, Restated					31,907,084	61,730,809	93,637,893
Net Assets - Ending					\$ 33,248,449	\$ 62,602,888	\$ 95,851,337

See accompanying notes.

City of Frankfort  
Balance Sheet-Governmental Funds  
June 30, 2015

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and Cash Equivalents	\$ 3,033,859	\$ 3,216,802	\$ 6,250,661
Investments	15,050,000	2,260,000	17,310,000
Accounts Receivable	200,000	-	200,000
Due from Other Governmental Agencies	274,936		274,936
Accrued Interest	5,643	400	6,043
Prepaid Expenses	49,005		49,005
<b>Restricted Assets</b>			
Cash and Cash Equivalents	500,531		500,531
Investments	4,069,868		4,069,868
Accrued Interest	9,849	-	9,849
<b>Total Assets</b>	<b>\$ 23,193,691</b>	<b>\$ 5,477,202</b>	<b>\$ 28,670,893</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 33,528	\$ -	\$ 33,528
Deferred Revenue	125,000		125,000
Health Care Liability	314,473	-	314,473
<b>Total Liabilities</b>	473,001	-	473,001
<b>Fund Balances</b>			
Unassigned Funds	12,268,186	\$ 269,335	\$ 12,537,521
Restricted Funds	4,580,248	5,207,867	9,788,115
Assigned Funds	5,872,256	-	5,872,256
<b>Total Fund Balance</b>	22,720,690	5,477,202	28,197,892
<b>Total Liabilities and Fund Balances</b>	<b>\$ 23,193,691</b>	<b>\$ 5,477,202</b>	<b>\$ 28,670,893</b>

See accompanying notes.

City of Frankfort  
 Reconciliation of Governmental Funds Balance Sheet to  
 Statement of Net Position  
 June 30, 2015

Total Fund Balances- Governmental Funds	\$	28,197,892
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$38,777,653</p>		
		49,796,666
<p>Certain liabilities are not due and payable in the current period and therefore are not reported in the funds:</p>		
Capitalized Lease Obligations		(864,133)
Workers Compensation Reserve Liability		(240,726)
Health Care Liability		89,863
Accrued Compensated Absences		(5,891,003)
General Obligation Bond Debt		(10,467,780)
Unfunded Pension Liability		(28,439,000)
Contributions to the Pension Plan Have Been Deferred in the Statement of Net Position		4,000,670
Investment Earnings on Pension Plan Assets Have Been Deferred in the Statement of Net Position		<u>(2,934,000)</u>
Net Position for Governmental Activities	\$	<u><u>33,248,449</u></u>

See accompanying notes.

City of Frankfort  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Governmental Funds  
For The Year Ended June 30, 2015

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$ 3,623,456	\$ -	\$ 3,623,456
Occupational Receipts	23,805,469	-	23,805,469
Licenses, Permits & Fines	78,550	-	78,550
Contributions	-	-	-
Fines and Forfeitures	16,323	65,016	81,339
Charges for Services	3,122,154	463,642	3,585,796
Intergovernmental	1,746,440	616,033	2,362,473
Interest Income	115,055	12,822	127,877
Recycling	68,186	-	68,186
Rental Income	85,521	29,603	115,124
Miscellaneous	55,102	68,843	123,945
<b>Total Revenues</b>	<u>32,716,256</u>	<u>1,255,959</u>	<u>33,972,215</u>
<b>Expenditures</b>			
<b>Current</b>			
General Government	2,329,008	-	2,329,008
Public Safety	13,738,857	401,949	14,140,806
Finance	461,581	-	461,581
Insurance	4,089,694	-	4,089,694
Public Works	5,866,356	833,981	6,700,337
Parks and Recreation	2,789,497	4,899,973	7,689,470
Planning and Building Codes	770,130	-	770,130
Special Projects	-	31,260	31,260
Reserve for Contingencies	-	-	-
Capital Outlay & Other Services	2,064,260	-	2,064,260
<b>Debt Service</b>			
Principal Retirement	1,239,738	-	1,239,738
Interest and Fiscal Charges	366,493	-	366,493
<b>Total Expenditures</b>	<u>33,715,614</u>	<u>6,167,163</u>	<u>39,882,777</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(999,358)</u>	<u>(4,911,204)</u>	<u>(5,910,562)</u>
<b>Other Financing Sources (Uses)</b>			
Bond Principal Proceeds	-	4,619,913	4,619,913
Transfers In	350,000	200,000	550,000
Transfers Out	-	(225,000)	(225,000)
Proceeds from sales of capital assets	7,879	-	7,879
<b>Total Other Financing Sources (Uses)</b>	<u>357,879</u>	<u>4,594,913</u>	<u>4,952,792</u>
<b>Net Change in Fund Balances</b>	(641,479)	(316,291)	(957,770)
<b>Fund Balances, Beginning of Year</b>	<u>23,362,169</u>	<u>5,793,493</u>	<u>29,155,662</u>
<b>Fund Balances, End of Year</b>	<u>\$ 22,720,690</u>	<u>\$ 5,477,202</u>	<u>\$ 28,197,892</u>

See accompanying notes.



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, 2015

Net Change in Fund Balances - Total Governmental Funds \$ (957,770)

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.

Purchases of Capital Assets	7,975,568
Depreciation expense	(2,509,162)

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.

General Obligation Debt Proceeds	(4,650,000)
Capitalized Lease Obligation Principal Payments	504,738
General Obligation Debt Principal Payments	735,000
Amortization of Bond Discounts	(8,996)

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.

Pension Expense	539,000
Change in Deferred Outflows from Prior Year	(103,248)
Workers Compensation Reserve Liability	(43,586)
Health Care Liability	89,863
Compensated Absences	(230,042)

Change in Net Position of Governmental Activities \$ 1,341,365

See accompanying notes.

City of Frankfort  
Statement of Net Position  
Proprietary Funds - Sewer Fund  
June 30, 2015

Assets	
Current Assets	
Cash and Cash Equivalents	\$ 14,248,609
Investments	11,561,921
Accrued Interest	<u>3,382</u>
Total Current Assets	<u>25,813,912</u>
Noncurrent Assets	
Restricted Assets	
Cash and Cash Equivalents	2,365,838
Investments	4,630,167
Accrued Interest	76,831
Capital Assets	
Nondepreciable capital assets	18,973,583
Depreciable Capital Assets, Net	<u>46,527,327</u>
Total Noncurrent Assets	<u>72,573,746</u>
Total Assets	<u>\$ 98,387,658</u>
Liabilities	
Current Liabilities	
Accounts Payable	\$ 421,899
Workers Compensation Reserve Liability	15,366
Health Care Liability	25,390
KIA Loans Payable	437,142
Bonds Payable	<u>1,695,000</u>
Total Current Liabilities	<u>2,594,797</u>
Noncurrent Liabilities	
Bonds Payable	25,025,541
KIA Loans Payable	7,539,405
Accrued Compensated Absences	<u>625,027</u>
Total Noncurrent Liabilities	<u>33,189,973</u>
Total Liabilities	<u>35,784,770</u>
Net Position	
Invested in Capital Assets	30,803,822
Restricted	7,072,836
Unrestricted	<u>24,726,230</u>
Total Net Position	<u>\$ 62,602,888</u>

See accompanying notes.

City of Frankfort  
Statement of Revenues, Expenses, and Changes in Net Position  
Proprietary Funds - Sewer Fund  
For The Year Ended June 30, 2015

Operating Revenues	
User Fees	\$ 9,573,059
Dump Fees	1,568,209
Tap Fees	7,206
Inspection Fees	162,170
Back Billing Revenues	<u>488</u>
Total Operating Revenues	<u>11,311,132</u>
Operating Expenses	
Personnel Services	2,056,347
Employee Benefits	892,740
Heat, Light and Power	619,702
Insurance	152,840
Other Contracted Services	633,105
Drug and Lab Supplies	489,965
Shop Supplies	2,077,309
Other Expenses	27,009
Repairs and Maintenance and Other Non-Capitalizable Fixed Assets	219,828
Depreciation Expense	<u>2,168,200</u>
Total Operating Expenses	<u>9,337,045</u>
Operating Income/(Loss)	<u>1,974,087</u>
Non-Operating Revenues/(Expenses)	
Grants and Aid	143,120
Interest Expense	(1,056,296)
Bond Discount and Amortization	(12,030)
Investment Income	142,448
Gain/(Loss) on Disposal of Capital Assets	<u>5,750</u>
Total Non-Operating Revenues/(Expenses)	<u>(777,008)</u>
Transfers Out	<u>(325,000)</u>
Change in Net Position	872,079
Net Assets, Beginning of Year, Restated	<u>61,730,809</u>
Net Assets, End of Year	<u>\$ 62,602,888</u>

See accompanying notes.

City of Frankfort  
Statement of Cash Flows  
Proprietary Funds - Sewer Fund  
For The Year Ended June 30, 2015

Cash Flows from Operating Activities	
Receipts from Customers and Users	\$ 11,311,132
Payments to Employees	(2,056,347)
Payments to Suppliers	<u>(4,843,602)</u>
Net Cash Provided by Operating Activities	<u>4,411,183</u>
Cash Flows from Noncapital Financing Activities	
Transfers Out	<u>(325,000)</u>
Net Cash Used By Noncapital Financing Activities	<u>(325,000)</u>
Cash Flows from Capital and Related Financing Activities	
Grants and Aid	143,120
Purchase and Construction of Capital Assets	(12,035,504)
Proceeds from Sale of Capital Assets	5,750
Interest Expense	(1,056,296)
Principal Paid on Bonds	(1,637,970)
Proceeds from KIA Loan	2,951,960
Principal Paid on KIA Loan	<u>(16,484)</u>
Net Cash Provided By Capital and Related Financing Activities	<u>(11,645,424)</u>
Cash Flows from Investing Activities	
Investment Income Received	142,448
Purchase of Investments	(2,446,688)
Proceeds from Sale of Investments	<u>3,500,000</u>
Net Cash Provided By Investing Activities	<u>1,195,760</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(6,363,481)
Cash and Cash Equivalents, Beginning of Year	<u>22,977,928</u>
Cash and Cash Equivalents, End of Year	<u>\$ 16,614,447</u>

See accompanying notes.

City of Frankfort  
Statement of Cash Flows  
Proprietary Funds - Sewer Fund  
For The Year Ended June 30, 2015

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating Income	\$ 1,974,087
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) in Operating Activities:	
Cash Flows Reported in Other Categories:	
Depreciation Expense	2,168,200
Change in Assets and Liabilities:	
Accounts Payable	275,242
Workers Compensation and Health Care Liability	(9,150)
Accrued Compensated Absences	2,804
Net Cash Provided (Used) by Operating Activities	<u>\$ 4,411,183</u>
Cash and Cash Equivalents	
Unrestricted	\$ 14,248,609
Restricted	2,365,838
	<u>\$ 16,614,447</u>

See accompanying notes.

City of Frankfort  
Statement of Fiduciary Net Position  
June 30, 2015

	Police and Fire Retirement Fund	Agency Funds
Additions		
Cash and Cash Equivalents	\$ 133,733	\$ 435,364
Investments	4,601,069	-
Total Additions	<u>\$ 4,734,802</u>	<u>\$ 435,364</u>
Deductions		
Due to Other Governments	\$ -	\$ 2,158
Due to Retirement Systems		381,839
Due to Depositors	-	51,367
Total Deductions	-	<u>\$ 435,364</u>
Net Position		
Held in Trust for Pension Benefits	<u>\$ 4,734,802</u>	

See accompanying notes.

City of Frankfort  
Statement of Changes in Fiduciary Net Position  
For The Year Ended June 30, 2015

	<u>Police and  Fire  Retirement  Fund</u>
Additions	
Investment Earnings	
Interest and Dividends	\$ 138,626
Decrease in Investments	<u>(59,173)</u>
Total Additions	<u>79,453</u>
Deductions	
Retirement Claims Paid	337,235
Administrative Fees	<u>14,716</u>
Total Deductions	<u>351,951</u>
Change in Net Position	(272,498)
Net Position - Beginning of Year	<u>5,007,300</u>
Net Position - End of Year	<u><u>\$ 4,734,802</u></u>

See accompanying notes.

## Note A – Summary of Significant Accounting Policies

The financial statements of the City of Frankfort, Kentucky (the City) have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for government accounting and financial reporting. The City applies all relevant GASB pronouncements. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

### Reporting Entity

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, Kentucky Police and Firefighters' Retirement Fund as a blended component unit. The entity is listed separately as a fiduciary fund. Policemen and Firefighters 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.

### 1. Government -Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the primary government (the City) including its blended component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double accounting of internal activities. These statements distinguish between the governmental and business-type activities of the City.



## Note A – Summary of Significant Accounting Policies (Continued)

Governmental activities normally are supported through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses (including depreciation) are those that are clearly identifiable with a specific function. Program revenues are directly associated with the function and include charges for services and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Operating grants include operating-specific and discretionary (either operating or capital) grants while capital grants are capital-specific. Occupational license fees applied to gross wages and net profits, property taxes, interest and investment income and other revenues not properly included in program revenues are reported as general revenues.

### 2. Fund Financial Statements

The fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

The City has the following major funds:

#### Governmental Fund Types

- A. The General Fund is the primary operating fund of the City. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use.

#### Proprietary Fund Types

- A. The 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.

#### Fiduciary 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.

- A. Pension Trust Funds are used to report resources that are held in trust for the members and beneficiaries of the Police and Firefighters' Retirement Benefit Plan.
- B. Agency Funds are used to report resources held by the City in a purely custodial capacity. Agency funds typically involve the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

## Note A – Summary of Significant Accounting Policies (Continued)

### 3. Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due (matured).

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services. Operating expenses for proprietary funds include the cost of operations and maintenance, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### 4. Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Legal requirements and the City's policies governing investments are discussed in Note C.

### 5. 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 Position and the Proprietary Fund Statement of Net Position. They include:

- A. Funds restricted in trust accounts for the payment of health and workers compensation claims as needed.
- B. The 2010 Bond Construction account represents proceeds of sewer revenue bond issue that are restricted for the construction and installation of major new sanitary sewer improvements and facilities.
- C. The Sewer's Bond Depreciation and Reserve accounts funds that are required to be held in reserve until all outstanding bonds are retired.

**Note A – Summary of Significant Accounting Policies (Continued)**

6. Interfund Receivables and Payables

Interfund transactions that would be treated as revenues or expenditures/expenses, if they involved organizations external to the City, are similarly treated when involving funds of the City. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the reimbursed fund. Transfers from funds receiving revenues to funds through which the resources are to be expended and operating subsidies are classified as interfund transfers. Transfers between governmental and proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

7. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trend and the periodic aging of accounts receivable. The City’s management considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible accounts receivable is required. Major receivable balances for the governmental funds consist of grant and interest receivables. Business-type activities report interest receivables as their major receivables.

8. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied in the month of November and are due and payable at that time. All unpaid taxes levied in the month of November become delinquent January 1 of the following year.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Delinquent taxes are at least six months delinquent at June 30 and are not considered collectible. Therefore, an allowance for doubtful accounts has been established for the entire amount.

Property taxes for the fiscal year ended June 30, 2015 were levied on September 2014, on the assessed valuation of property located in the City as of the preceding January 1. The due date and collection periods for property taxes are as follows:

<u>Description</u>	<u>Per KRS 134.020</u>
1. Due date for payment of taxes	Upon receipt
2. 2% discount period	By November 30
3. Face value amount payment dates	December 1 through December 31
4. 10% penalty after	December 31
5. 6% interest per annum after	December 31

The City’s tax rate applicable to the 2015 fiscal year was \$.209 for annex and \$.973 for old city per \$100 of assessed valuation for real estate.

**Note A – Summary of Significant Accounting Policies (Continued)**

9. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the assets or materially extend an asset's life are not capitalized. Depreciation is computed using the straight-line method.

Capitalization thresholds and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

<u>Asset</u>	<u>Threshold</u>	<u>Years</u>
Buildings & Improvements	\$ 25,000	5-40
Computers & Electronics	1,500	3-10
Machinery & Equipment	1,500	3-10
Vehicles	1,500	3-10
Furniture & Fixtures	1,500	3-10
Infrastructure	25,000	20-100
Inland/Marine	1,500	3-10
Pump Stations	1,500	20

10. 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.

11. 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 position. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the straight-line method.

**Note A – Summary of Significant Accounting Policies (Continued)**

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 financing sources” while discounts and issuance costs on bond issuances are reported as “other financing uses.”

12. Fund Reserves and Designations

The Board of Commissioners is the City’s highest level of decision-making authority. Commitments of fund balance must be approved by the Commission in an open meeting by formal vote. Per the City’s policy, assigned fund balances are proposed by the City Manager or the Finance Director and approved by the Board of Commissioners and may include the following: (1) vital projects requiring use of current resources in future periods, (2) capital projects, (3) interim funding for operating costs during shortfalls or (4) contractual obligations including compensated absences and amounts encumbered for a specific purpose if the resources are not already reported as restricted. The City has not adopted a policy to govern the order of priority on use of fund balance when restricted or unrestricted amounts are both available. In the current year there are no committed fund balances. Assigned fund balances in the governmental funds consist of the following:

Encumbrances	\$ 1,794,103
Sewer Infrastructure	500,000
Compensated Absences	<u>3,578,153</u>
	<u><u>\$ 5,872,256</u></u>

13. 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 to 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 expanded to a departmental basis.

Detailed annual budgets are adopted for the general fund and the sewer fund. 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 prepared 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.

## **Note A – Summary of Significant Accounting Policies (Continued)**

Encumbrance accounting is utilized during the year to facilitate effective budgetary control. Encumbrances are treated as budgeted expenditures in the year of incurrence of the commitment to purchase. Budgetary comparisons presented in this report are on this budgetary basis of accounting. Adjustments necessary to convert from budgetary basis to GAAP are provided on the face of the budgetary comparison statements. In governmental funds, encumbrances outstanding at year end are reported as assignments 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 assigned fund balance until liquidated.

### 14. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the County Employers' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### 15. Deferred Inflows of Resources and Deferred Outflows of Resources

With the implementation of GASB Statements 65 and 68, the Government's Statement of Net Position includes deferred inflows (or deferred outflows) of resources when appropriate. Deferred outflows of resources represent consumption of net position that applies to a future period(s). Deferred inflows of resources represent an acquisition of net position that applies to a future period(s). These amounts will not be recognized as expense or revenue until the applicable period.

Deferred Outflows – include contributions to pension plans made subsequent to the City's measurement date of June 30, 2014.

Deferred Inflows – include differences between projected and actual earnings on investments in pension plans.

## **Note B – Deposits**

The City maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which together with FDIC insurance equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the City and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution.

**Note B – Deposits (Continued)**

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a depository institution failure, the City’s deposits may not be returned. The City does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**Note C – Investments**

The City follows state statutes pertaining to investments permitted by law. Governmental investments include assets held by fiscal agents for health care and workers compensation claims which are maintained in trust accounts and subject to different investment criteria than the general assets of the City.

Investments of the City as of June 30, 2015 are summarized and categorized in the following tables.

The City’s Police and Firefighters’ Retirement Fund is not subject to the same investment laws as the City. The City’s Police and Firefighters’ 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 Police and Firefighters’ Retirement Fund.

Government Investments

Investment Type	Investment Maturities(In Years)			
	Fair Value	< 1 Year	1-5 Years	> 5 Years
Certificates of Deposit	\$ 35,854,431	\$ 29,027,021	\$ 5,812,946	\$ 1,014,464
Corporate Bonds and Notes	152,873	152,873	-	-
US Treasury Notes	416,832	-	416,832	-
GNMA Bond Funds	367,479	-	-	367,479
Money Markets	780,341	-	-	-
	<u>\$ 37,571,956</u>	<u>\$ 29,179,894</u>	<u>\$ 6,229,778</u>	<u>\$ 1,381,943</u>

Fiduciary

Investment Type	Investment Maturities(In Years)			
	Fair Value	< 1 Year	1-5 Years	> 5 Years
Cash Equivalents	\$ 490,115	\$	\$ 490,115	\$
Corporate Bonds and Notes	1,861,553		1,264,473	597,080
US Government Agencies	906,173		276,934	629,239
US Treasury Notes	198,984		198,984	
Equities	236,081			
Fixed Income Funds	537,104			
Municipals	371,060	-	-	371,060
	<u>\$ 4,601,070</u>	<u>\$ -</u>	<u>\$ 2,230,506</u>	<u>\$ 1,597,379</u>

**Note C – Investments (Continued)**

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 types of investments in which the City may invest its funds. The City’s investment policy specifies that governmental funds will be invested in obligations of the U.S. government and its agencies or certificates of deposit.

Concentration of Credit Risk – The City places no limit on the amount it may invest in any one investment. The City does have a policy whereby no financial institution shall be selected as a depository of City funds if the funds exceed 5% of the institution’s capital and surplus.

**Note D – Receivables**

Receivables – The primary receivables for the City include \$200,000 for the sale of the Paul Sawyer Public Library building(due from Kentucky State University) and \$274,936 in receivables from federal agencies for various grants.

**Note E – Capital Assets**

Capital asset activity for governmental activities for the year ended June 30, 2015 was as follows:

	Balance <u>June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2015</u>
<b>Governmental activities:</b>				
Nondepreciable Capital Assets				
Land	\$ 7,021,578	\$ -	\$ -	\$ 7,021,578
Construction in Progress	<u>264,105</u>	<u>5,304,076</u>	<u>-</u>	<u>5,568,181</u>
Total Nondepreciable Capital Assets	<u>7,285,683</u>	<u>5,304,076</u>	<u>-</u>	<u>12,589,759</u>
Depreciable Capital Assets				
Buildings and Improvements	23,606,738	55,239	-	23,661,977
Infrastructure	31,796,957	923,185	-	32,720,142
Inland Marine	3,812,210	742,610	(249,211)	4,305,609
Computers and Electronic Equipment	782,843	46,892	-	829,735
Machinery and Equipment	739,258	26,619	(21,147)	744,730
Furniture and Fixtures	705,420	25,319	(1,662)	729,077
Vehicles	<u>12,200,290</u>	<u>1,248,728</u>	<u>(455,729)</u>	<u>12,993,289</u>
Total Depreciable Capital Assets	<u>73,643,716</u>	<u>3,068,592</u>	<u>(727,749)</u>	<u>75,984,559</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(9,276,348)	(620,541)	-	(9,896,889)
Infrastructure	(14,455,674)	(546,242)	-	(15,001,916)
Inland Marine	(2,689,133)	(403,662)	236,765	(2,856,030)
Computers and Electronic Equipment	(615,283)	(35,931)	-	(651,214)
Machinery and Equipment	(486,554)	(72,888)	15,549	(543,893)
Furniture and Fixtures	(594,429)	(32,463)	1,662	(625,230)
Vehicles	<u>(8,816,089)</u>	<u>(797,434)</u>	<u>411,044</u>	<u>(9,202,479)</u>
Total Accumulated Depreciation	<u>(36,933,510)</u>	<u>(2,509,161)</u>	<u>665,020</u>	<u>(38,777,651)</u>
Total Depreciable Assets, Net	<u>36,710,206</u>	<u>559,431</u>	<u>(62,729)</u>	<u>37,206,908</u>
Total Capital Assets, Net	<u>\$ 43,995,889</u>	<u>\$ 5,863,507</u>	<u>\$ (62,729)</u>	<u>\$ 49,796,667</u>



**Note E – Capital Assets (Continued)**

Capital asset activity for business-type activities for the year ended June 30, 2015 was as follows:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2015</u>
<b>Business-Type Activities:</b>				
Nondepreciable Capital Assets				
Land	\$ 320,200	\$ 135,000	\$ -	\$ 455,200
Construction in Progress	<u>14,137,022</u>	<u>9,558,099</u>	<u>(5,176,738)</u>	<u>18,518,383</u>
Total Nondepreciable Capital Assets	<u>14,457,222</u>	<u>9,693,099</u>	<u>(5,176,738)</u>	<u>18,973,583</u>
Capital assets, being depreciated:				
Buildings	14,713,284	-	-	14,713,284
Machinery and Equipment	2,008,619	46,898	-	2,055,517
Furniture and Fixtures	64,111	-	-	64,111
Computers and Electronic Equipment	118,117	73,522	-	191,639
Inland Marine	766,633	2,555	-	769,188
Vehicles	2,011,098	116,529	(92,307)	2,035,320
Pump Stations	9,760,637	2,144,387	-	11,905,024
Infrastructure	<u>27,408,022</u>	<u>5,123,223</u>	<u>-</u>	<u>32,531,245</u>
Total Depreciable Capital Assets	<u>56,850,521</u>	<u>7,507,114</u>	<u>(92,307)</u>	<u>64,265,328</u>
Less Accumulated Depreciation:				
Buildings	(6,339,147)	(426,560)	-	(6,765,707)
Infrastructure	(2,559,856)	(750,429)	-	(3,310,285)
Inland Marine	(521,985)	(58,000)	-	(579,985)
Pump Stations	(4,032,346)	(580,019)	-	(4,612,365)
Computers and Electronic Equipment	(73,266)	(10,024)	-	(83,290)
Machinery and Equipment	(885,371)	(171,180)	-	(1,056,551)
Furniture and Fixtures	(20,943)	(12,200)	-	(33,143)
Vehicles	<u>(1,229,193)</u>	<u>(159,788)</u>	<u>92,307</u>	<u>(1,296,674)</u>
Total Accumulated Depreciation	<u>(15,662,107)</u>	<u>(2,168,200)</u>	<u>92,307</u>	<u>(17,738,000)</u>
Total Depreciable Assets, Net	<u>41,188,414</u>	<u>5,338,914</u>	<u>-</u>	<u>46,527,328</u>
Total Capital Assets, Net	<u>\$ 55,645,636</u>	<u>\$ 15,032,013</u>	<u>\$ (5,176,738)</u>	<u>\$ 65,500,911</u>

**Note E – Capital Assets (Continued)**

Depreciation expense was charged to the functions/programs of the primary government as follows:

Governmental activities	Business-Type Activities			
General Government	\$	33,110	Sewer	\$ <u>2,168,200</u>
Public Safety		912,587		
Public Works		1,356,686		
Planning & Zoning		3,157		
Parks & Recreation		<u>203,620</u>		
	\$	<u>2,509,160</u>		

**Note F – Interfund Receivables, Payables and Transfers**

As of June 30, 2015, there are no interfund receivables and payable balances.

During the year ended June 30, 2015, transfers between funds were as follows:

- a. \$225,000 was transferred from the E-911 to the General Fund.
- b. \$325,000 was transferred from the Sewer to the General Fund.
- c. \$200,000 was transferred from the General Fund to the Capital Projects Fund for the Aquatic Center

**Note G – Long-Term Liabilities**

The following is a summary of long-term liability activity for the City for the fiscal year ended June 30, 2015:

	Beginning Balance	Additions	Reductions	Discounts	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>						
Bonds Payable	\$ 6,685,000	\$ 4,650,000	\$ (735,000)	\$ 123,224	\$ 10,723,224	\$ 890,000
Leases Payable	871,458	497,415	(504,738)		864,135	371,438
Compensated Absences	<u>5,660,961</u>	<u>522,844</u>	<u>(292,802)</u>	-	<u>5,891,003</u>	-
<b>Total</b>	<u>\$ 13,217,419</u>	<u>\$ 5,670,259</u>	<u>\$ (1,532,540)</u>	<u>\$ 123,224</u>	<u>\$ 17,478,362</u>	<u>\$ 1,261,438</u>
<b>Business Type-Activities:</b>						
Bonds Payable	\$ 28,358,511	\$ -	\$ (1,650,000)	\$ 12,031	\$ 26,720,542	\$ 1,695,000
KIA Payable	5,041,071	2,935,476	(7,955)	-	7,968,592	226,824
Compensated Absences	<u>622,223</u>	<u>44,154</u>	<u>(41,350)</u>	-	<u>625,027</u>	-
<b>Total</b>	<u>\$ 34,021,805</u>	<u>\$ 2,979,630</u>	<u>\$ (1,699,305)</u>	<u>\$ 12,031</u>	<u>\$ 35,314,161</u>	<u>\$ 1,921,824</u>

**Note G – Long-Term Liabilities (Continued)**

For governmental activities, compensated absences are liquidated by the general fund.

1. Bonds Payable

General obligation and revenue bond issues reported as liabilities in the Statement of Net Position are as follows:

Governmental Activities	<u>Purpose of Issue</u>	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Amount Outstanding</u>
General Obligation Bonds					
2006 General Obligation	Public Safety Building & Related Facilities	\$9,995,000	3.60%	06/01/22	\$ 5,950,000
2014 General Obligation	Aquatic Center	4,650,000	1%-4%	12/1/2040	<u>4,650,000</u>
Total General Obligation Bonds					<u>\$ 10,600,000</u>
Business-Type Activities	<u>Purpose of Issue</u>	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Amount Outstanding</u>
Revenue Bonds					
2007 Revenue Bonds	Sewer System Improvements	\$ 9,995,000	3.35%-4.00%	12/01/23	\$ 6,630,000
2010 Revenue Bonds	Sewer System Improvements	13,445,000	1.20%-4.55%	12/01/25	\$ 10,510,000
2013 Revenue Bonds	Sewer System Improvements	9,995,000	1.00%-4.50%	06/30/39	<u>\$ 9,710,000</u>
Total Revenue Bonds					<u>\$ 26,850,000</u>

**Note G – Long-Term Liabilities (Continued)**

2. Capitalized Lease Obligations

Capitalized lease obligations reported as liabilities in the Statement of Net Position are as follows:

Governmental Activities	Purpose of Issue	Original Issue	Interest Rate	Final Maturity	Amount Outstanding
Capitalized Lease Obligations					
Republic First National Corp	Purchase 2009 Rescue Truck	\$ 187,794	4.61%	09/01/15	\$ 30,281
TCF Equipment Finance	Purchase of Garbage/Recycling Cans	927,830	2.95%	12/16/15	198,111
Public Finance.com	Purchase of Two 2012 Ambuances	274,894	3.89%	08/01/17	187,257
Magnolia Bank thru KACO	E911 Lease Upgrade	497,415	3.90%	06/20/21	432,766
Sirens	Purchase of Sirens	97,961	5.78%	12/01/15	15,718
Total Capitalized Lease Obligations					<u>\$ 864,133</u>

3. KIA Notes Payable

On December 31, 2009, the City entered into an assistance agreement with the Kentucky Infrastructure Authority (KIA) and received a federally assisted wastewater revolving fund loan of \$800,000 funded by the American Recovery and Reinvestment Act (ARRA). \$416,800 of the loan was forgiven. \$383,200 is being repaid with interest of 3% in semi-annual payments. The balance as of June 30, 2015 is \$315,698. The maturity date is June 30, 2030. The KIA loan is secured on a subordinated basis to the City's 2007 and 2010 sewer revenue bond issues. On August 1, 2013, the City entered into an assistance agreement with the Kentucky Infrastructure Authority (KIA) and received a federally assisted wastewater revolving fund loan to construct a 10 million gallon equalization basin for the City's sanitary sewer system. The loan will be \$8,000,000 upon completion of the project and will be repaid with interest of 1.75%. Interest payments will begin within six months of the first draw and full interest and principal payments will commence within one year of initiation of operation which is estimated as June 1, 2015. The balance is to be repaid over 20 years. None of the current year advances were federally funded. The balance as of June 30, 2015 is \$7,652,894. For disclosure purposes, maturities were estimated based on anticipated completion dates.

**Note G – Long-Term Liabilities (Continued)**

4. Long-Term Debt Maturities

Debt service requirements (principal and interest) to maturity for the City’s bonds, leases and notes payable are as follows:

Fiscal Year	Governmental Activities			
	General Obligation Bonds		Capitalized Lease Obligations	
	Interest	Principal	Interest	Principal
2016	\$ 359,825	\$ 890,000	\$ 29,421	\$ 371,437
2017	331,165	920,000	16,937	131,170
2018	301,425	950,000	12,421	135,130
2019	270,605	980,000	7,767	73,148
2020	238,680	1,015,000	4,881	75,442
2021-2025	762,971	2,560,000	1,904	77,806
2026-2030	551,587	815,000	-	-
2031-2035	374,062	995,000	-	-
2036-2040	161,825	1,205,000	-	-
2041-2042	4,893	270,000	-	-
	\$ 3,357,038	\$ 10,600,000	\$ 73,330	\$ 864,133

  

Fiscal Year	Business-Type Activities			
	Revenue Bonds		KIA Notes Payable	
	Interest	Principal	Interest	Principal
2016	\$ 1,009,936	\$ 1,695,000	\$ 171,647	\$ 437,142
2017	958,850	1,750,000	84,031	222,790
2018	902,220	1,805,000	79,915	226,906
2019	839,686	1,870,000	75,722	231,100
2020	771,547	1,935,000	71,448	235,374
2021-2025	2,726,807	11,205,000	286,179	1,222,312
2026-2030	1,202,287	1,935,000	172,540	1,335,951
2031-2035	772,946	2,360,000	58,404	4,064,972
2036-2039	212,178	2,295,000	-	-
	\$ 9,396,457	\$ 26,850,000	\$ 999,886	\$ 7,976,547

## **Note H – Conduit Debt**

In December 2009, the City authorized the Kentucky Economic Development Finance Authority to issue Industrial Revenue Bonds to finance an industrial building project within the City for Goodwill Industries.

The City is not obligated in any manner for repayment of the above debt. Accordingly, the debt is not reported as a liability in the accompanying financial statements.

## **Note I – 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 general liability risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Management estimates that the amount of actual or potential claims against the City as of June 30, 2015 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 (with specific exceptions for three participants layered at \$75,000, \$100,000 and \$250,000 separate individual specific deductibles, respectively) with an unlimited maximum per person per lifetime in anticipated claims. Claims expected to be paid using current resources are accrued in the modified accrual statements. Liabilities reported in the proprietary fund and in the government-wide statements include claims that have been incurred but not reported based on historical experience.

The City has elected to retain risk in its workers' compensation and employers' liability coverage and maintains insurance coverage for workers' compensation occurrences in excess of \$500,000 to statutory limits. An occurrence may involve one or more employees. For Employers' Liability, the City maintains coverage in excess of \$550,000 per occurrence to a limit of \$1,000,000. Workers' compensation insurance claims reserve balance has been accrued as a liability in the governmental activities in the Statement of Net Position and the Sewer Fund.

The City pays the HealthSmart TPA (Health Plan) and HealthSmart Casualty Claims (Work Comp) a fee to administer the plans. The City has set up trust funds to use for workers' compensation and health insurance 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 sewer 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 I – Risk Management (Continued)**

Changes in the balances of claims liabilities on the accrual basis during the past two years are as follows:

	Workers <u>Compensation</u>	<u>Health Care</u>
Liability at June 30, 2013	\$ 69,329	\$ 500,001
Claims and Changes in Estimates in FY 2014	342,353	3,250,858
Claims Paid in FY 2014	<u>(201,958)</u>	<u>(3,275,859)</u>
Liability at June 30, 2014	209,724	475,000
Claims and Changes in Estimates in FY 2015	271,380	3,527,594
Claims Paid in FY 2015	<u>(225,012)</u>	<u>(3,752,594)</u>
Liability at June 30, 2015	<u>\$ 256,092</u>	<u>\$ 250,000</u>

**Note J – Retirement Plans**

1. 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).

Summary of Significant Accounting Policies

Basis of Accounting

The preparation of the financial statements of the Police and Firefighters’ Retirement Fund(PFRF) conform to the provisions of GASB Statement No. 68. For purposes of measuring the net pension liability/(asset) deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the PFRF and additions to/deductions from the PFRF fiduciary net position have been determined on the same basis as they are reported by the PFRF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are stated at fair value.

**Note J – Retirement Plans (Continued)**

Funding Status and Progress

The present value of benefits on the actuarial report dated January 1, 2013 is a measure of the present value of pension benefits estimated to be payable in the future as a result of employee service to date. An actuarial valuation is performed every three years. Significant actuarial assumptions used in determining the estimated benefits with no future cost-of-living adjustments include:

1. Present Value of Benefits - Active Employees	\$ -
2. Present Value of Benefits - Inactive Employees	
a. Retiree's Benefits and Contingent Survivor Benefits	1,809,508
b. Current Beneficiaries	982,155
c. Vested Terminations	-
d. Total - Inactive Employees	2,791,663
3. Present Value of Benefits (1) + (2d)	2,791,663
4. Present Value of Future Annual Service Costs	-
5. Accrued Liabilities	2,791,663
6. Assets	5,338,199
7. Unfunded Accrued Liability (5) - (6)	-
8. Investment Rate of Return	3.50%

Actuarially Determined Contribution Requirements and Contributions Made

The method of valuation employed is the “entry age normal” cost method. Under this method, an annual service cost is established for each employee. This annual service cost is the level annual percent of pay which should have been contributed each year from the date of a member’s employment until his retirement date in order to fully fund his benefits at retirement. The accrued liability represents the sum of money which would have been accumulated had these annual service costs been contributed for each year in the past for each employee currently with the City, and for all retired employees and beneficiaries. The remainder of the liabilities is for future contribution of annual service cost, which is zero for this plan since only inactive members remain in the plan.

Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>		<u>Unfunded AAL</u>	<u>Funding Ratio</u>	<u>UAAL as of Covered Payroll</u>	<u>Percentage of Covered Payroll</u>
January 1, 2010	1,784,402	2,800,356	(1)	1,015,954	63.70%	n/a	n/a
January 1, 2013	5,338,199	2,791,663	(1)	-	191.20%	n/a	n/a

Contributions

The City did not have any required contributions for the year ended June 30, 2015 and for the previous three years.



**Note J – Retirement Plans (Continued)**

Net Pension Liability

The Government’s net pension liability/(asset) was measured as of June 30, 2013, and the total pension liability used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of that date. Additional information as of the latest actuarial valuation is presented in the following table.

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/ (Asset)
Balances at June 30, 2013	\$2,791,663	\$ 5,146,651	\$ (2,354,988)
Net Investment Income		214,312	(214,312)
Benefit payments	(336,007)	(336,007)	
Administrative Expenses	-	(17,656)	17,656
Balances at June 30, 2014	<u>\$2,455,656</u>	<u>\$ 5,007,300</u>	<u>\$ (2,551,644)</u>

2. County Employees Retirement System

Plan Description

The City contributes to the Commonwealth of Kentucky's County Employees' Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement System(KRS). CERS is a cost-sharing multiple-employer defined benefit pension plan which covers substantially all regular full-time employees of each county and school board and any additional eligible local agencies electing to participate in the System. At June 30, 2014, there were over 1,400 local government agencies participating in CERS, which provides for retirement, disability and death benefits.

Contributions

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The City’s contribution rate for nonhazardous employees was 17.67 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member’s account and 1 percent will go to the KRS insurance fund. The City’s contribution rate for hazardous employees was 34.31 percent. The contribution requirements and the amounts contributed to CERS were \$5,013,306, \$5,125,452, and \$5,378,427 respectively for the years ended June 30, 2015, 2014 and 2013.

## Note J – Retirement Plans (Continued)

### Benefits Provided

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 2, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands.

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, were issued in June 2012. The Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet those criteria.

At June 30, 2015, the City reported a liability of \$28,439,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long term share of contributions to the pension plan relative to the projected contributions of all participating governmental agencies, actuarially determined. At June 30, 2014, the City's portion of nonhazardous and hazardous was .319 percent and 1.50 percent, respectively.

**Note J – Retirement Plans (Continued)**

At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Resources	Deferred Inflows Of Resources
Net Difference Between Projected and Actual Earnings On Pension Plan Investments	\$	\$ 2,934,000
Government Contributions Subsequent to the Measurement Date	4,000,670	
Total	\$ 4,000,670	\$ 2,934,000

\$4,000,670 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reductions of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:		
2016	\$	733,500
2017		733,500
2018		733,500
2019		733,500

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for change in the City’s proportionate share of contributions or contributions made subsequent to the measurement date. The net pension liability as of June 30, 2015, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumption subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed four year period.

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Projected salary increases	4.5%, average, including inflation
Inflation	3.5%

**Note J – Retirement Plans (Continued)**

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement. The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (See chart below). These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30%	8%
International Equity	22%	9%
Emerging Market Equity	5%	11%
Private Equity	7%	11%
Real Estate	5%	7%
Core US Fixed Income	10%	5%
High Yield US Fixed Income	5%	7%
Non US Fixed Income	5%	6%
Commodities	5%	8%
TIPS	5%	5%
Cash	<u>1%</u>	3%
	<u>100%</u>	

**Note J – Retirement Plans (Continued)**

The long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 7.75 percent based on a blending of the factors described above. The following presents the net pension liability of the City’s CERS pension plan, calculated using the discount rate of 7.75 percent, as well as what the CERS’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Nonhazardous	\$13,636,281	\$ 10,362,000	\$ 7,469,929
Hazardous	23,647,680	18,077,000	13,347,168
CERS's Net Pension Liability	\$37,283,961	\$ 28,439,000	\$20,817,097

The City of Frankfort has reported the unfunded liability in governmental activities. No amount has been reported in the business-type activities(sewer).

Detailed information about the pension plan’s fiduciary net position is available in the CERS financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at (502) 696-8800.

**3. Deferred Compensation Plan**

The City has a deferred compensation trust plan created in accordance with the 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 K – Concentrations**

Approximately 40% of the revenue generated from the occupational tax is attributable to one entity as of June 30, 2015. Approximately 10% of the revenue generated from the insurance premiums is attributable to one entity as of June 30, 2015.

**Note L – Commitments and Contingent Liabilities**

Litigation

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

## **Note L – Commitments and Contingent Liabilities (Continued)**

### 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 collectability of any related receivable at June 30, 2015 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.

### Commitments

The Commonwealth of Kentucky filed suit against the City of Frankfort, Kentucky for alleged violations of certain provisions of the Clean Water Act, including the provisions applicable to combined sewers and unpermitted sanitary sewer outfalls. The City entered into a Consent Judgment with the Commonwealth. The City agreed to pay a fine of \$50,000 and to undertake substantial repairs to its sewer system to achieve compliance with the Clean Water Act and the applicable federal and state statutes and regulations. The City is proceeding to comply with the Consent Judgment. The improvements will take in excess of 10 years to complete.

The cost to implement the current projects necessary to remain in compliance with the Consent Judgment is anticipated to be \$50-\$70 million.

## **Note M – Recent GASB Pronouncements**

The GASB has issued several reporting standards that will become effective for FY 2016 and later year financial statements. Statement No. 72, *Fair Value Measurement and Application*, provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements.

Statement No. 73 includes amendments to certain provisions of a previously issued Statement related to disclosures for defined contribution retirement plans.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, provides guidance for measuring the present value of the projected benefits to be provided to employees that is attributed to those employees' past periods of service.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles ("GAAP") for State and Local Governments*, addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The Government has not yet determined the effect, if any, that the adoption of these Statements may have on its financial statements.

**Note N – The Single Audit Act**

The U.S. Office of Management and Budget's Circular No. A-133 for Audits of States, Local Governments and Non-Profit Organizations (the Circular) requires non-federal entities that expend \$500,000 or more a year in Federal awards to have an audit performed in accordance with the provisions of the Circular. A separate supplemental report will be issued on active grant programs of the City in accordance with applicable provisions of the Single Audit Act of 1984, P.L. 98-502 and the Single Audit Act Amendments of 1996, P.L. 104-156.

**Note O – Restatement**

The restatement of net position for the governmental activities on the Statement of Net position included the following:

Net Position, June 30, 2014, Prior to Restatement	\$ 59,996,668
Capitalized Lease Obligations excluded in prior year	(281,502)
GASB 68 Recognition of CERS Unfunded Liability	<u>(27,808,082)</u>
	<u>\$ 31,907,084</u>

Required Supplementary Information



City of Frankfort, Kentucky  
Statement of Revenues, Expenditures and Changes in Fund Balance –  
Budget and Actual – General Fund  
Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget-
	Original	Final		Positive (Negative)
Taxes				
Prior Year Taxes	\$ 60,000	\$ 60,000	\$ 44,671	\$ (15,329)
Current Year Taxes	3,100,000	3,100,000	3,095,289	(4,711)
Bank Shares	165,000	165,000	151,667	(13,333)
Franchises, etc.	112,000	112,000	34,962	(77,038)
Pen. Int & Disc	30,000	30,000	29,740	(260)
Collection Fee - MVT	20,000	20,000	20,643	643
Motor Vehicle Tax	290,000	290,000	303,498	13,498
Discount for Taxes	(59,500)	(59,500)	(57,014)	2,486
Total Taxes	3,717,500	3,717,500	3,623,456	(94,044)
Occupational Tax Receipts				
Insurance Company	4,000,000	4,000,000	3,493,801	(506,199)
1.95% Withholding	17,965,000	17,965,000	18,174,345	209,345
1.95% Business	1,660,000	1,660,000	2,036,752	376,752
Regulatory Fees	50,000	50,000	57,248	7,248
Penalty, Interest, Attorne	53,000	53,000	43,323	(9,677)
Total Occupational Tax Recei:	23,728,000	23,728,000	23,805,469	77,469
Licenses, Permits & Fines				
Electrical Inspections	25,000	25,000	28,575	3,575
Parade Permits	1,000	1,000	1,907	907
Building Permits	15,000	15,000	20,396	5,396
Housing Inspections	11,000	11,000	27,672	16,672
Total Licenses, Permits & Fin	52,000	52,000	78,550	26,550
Parking Violations	13,000	13,000	16,323	3,323
Charges for Services				
Recreation Fee	90,000	90,000	100,820	10,820
Golf Course Receipts	215,000	215,000	201,904	(13,096)
Swimming Pool Receipts	60,000	60,000	14,473	(45,527)
Swimming Pool Concessi	25,000	25,000	7,266	(17,734)
Parking Garages	-	-	(5,663)	(5,663)
Ball Field Concessions	42,000	42,000	22,439	(19,561)
Golf Cart Rentals	165,000	165,000	158,418	(6,582)
Garbage Collection Fee	225,000	225,000	268,934	43,934
Total Charges for Services	822,000	822,000	768,591	(53,409)

See Independent Auditor's Report

City of Frankfort, Kentucky  
Statement of Revenues, Expenditures and Changes in Fund Balance –  
Budget and Actual – General Fund  
Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget- Positive (Negative)
Intergovernmental				
Base Court Revenue	50,000	50,000	34,601	(15,399)
Plant Board Contribution	25,000	25,000	25,000	-
City and County Projects	500,000	500,000	629,429	129,429
State Participation	195,000	195,000	195,000	-
Grants and Aid	101,250	751,400	774,089	22,689
Police/Fire Incentive	600,000	600,000	559,700	(40,300)
Total Intergovernmental	1,471,250	2,121,400	2,217,819	96,419
Ambulance	1,650,000	1,650,000	1,569,583	(80,417)
Interest	100,000	100,000	84,775	(15,225)
Public Transit				
Public Transit	700,000	700,000	736,699	36,699
Total Public Transit	700,000	700,000	736,699	36,699
Miscellaneous	50,000	50,000	55,102	5,102
Surplus Property	75,000	75,000	57,879	(17,121)
Recycling	125,000	125,000	68,186	(56,814)
Tower Rental	70,000	70,000	73,441	3,441
Building Rentals	-	-	12,080	12,080
Sewer Allocation	325,000	325,000	325,000.00	-
E-911 Communications	225,000	225,000	225,000	-
Fund Balance	-	616,208	-	(616,208)
Total Revenues	<u>\$ 33,123,750</u>	<u>\$ 34,390,108</u>	<u>\$ 33,717,953</u>	<u>\$ (672,155)</u>

City of Frankfort, Kentucky  
Statement of Revenues, Expenditures and Changes in Fund Balance –  
Budget and Actual – General Fund  
Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts Budgetary Basis	Final Budget
	Original	Final		Positive (Negative)
Expenditures:				
General Government				
City Commission	\$ 545,150	\$ 560,150	\$ 551,028	\$ 9,122
City Manager	969,048	1,619,201	1,847,569	(228,368)
IT	430,369	430,369	386,698	43,671
Total General Government	<u>1,944,567</u>	<u>2,609,720</u>	<u>2,785,295</u>	<u>(175,575)</u>
Finance	<u>496,941</u>	<u>496,941</u>	<u>461,581</u>	<u>35,360</u>
Insurance	<u>4,117,000</u>	<u>4,117,000</u>	<u>4,076,028</u>	<u>40,972</u>
Public Safety				
Disaster & Emergency Mgt	221,760	221,760	181,712	40,048
Emergency Medical Serv	3,065,207	3,065,207	2,971,110	94,097
Fire Department	4,663,127	4,663,127	4,507,215	155,912
Police Department	5,769,220	5,779,220	5,375,518	403,702
Police Traffic	4,844	4,844	4,557	287
Communications	1,005,840	1,005,840	1,018,577	(12,737)
Total Public Safety	<u>14,729,998</u>	<u>14,739,998</u>	<u>14,058,689</u>	<u>681,309</u>
Public Works				
Public Works Director	257,883	257,883	250,735	7,148
Street Department	1,233,399	1,301,672	1,284,536	17,136
Garage	470,290	470,290	420,938	49,352
Buildings	595,806	595,806	523,738	72,068
Sanitation	2,049,053	2,070,208	1,823,775	246,433
Floodwall	917,456	917,456	840,556	76,900
Public Transit	1,111,492	1,111,492	1,125,451	(13,959)
Total Public Works	<u>6,635,379</u>	<u>6,724,807</u>	<u>6,269,729</u>	<u>455,078</u>

City of Frankfort, Kentucky  
Statement of Revenues, Expenditures and Changes in Fund Balance –  
Budget and Actual – General Fund  
Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts Budgetary Basis	Final Budget Positive
	Original	Final		(Negative)
Parks and Recreation				
Parks and Recreation	1,239,918	1,239,918	1,209,867	30,051
Juniper Hills Golf Course	594,688	594,688	570,987	23,701
Swimming Pools	255,295	255,295	222,656	32,639
Riverview Park	163,857	163,857	146,855	17,002
Lakeview Park	41,458	41,458	38,465	2,993
Fort Hill Park	263,551	263,551	239,248	24,303
Forestry	84,159	84,159	78,971	5,188
Sports	314,095	314,095	334,584	(20,489)
Cove Spring	46,659	46,659	46,042	617
Total Parks and Recreation	<u>3,003,680</u>	<u>3,003,680</u>	<u>2,887,675</u>	<u>116,005</u>
Planning and Building Codes	<u>842,302</u>	<u>822,302</u>	<u>753,064</u>	<u>69,238</u>
	-			-
Capital Outlay & Prior Year Exp	<u>1,125,660</u>	<u>1,875,660</u>	<u>4,837,790</u>	<u>(2,962,130)</u>
Total Expenditures	<u>\$ 32,895,527</u>	<u>\$ 34,390,108</u>	<u>\$ 36,129,851</u>	<u>\$ (1,739,743)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	228,223	-	(2,411,898)	(2,411,898)
Adjustments to Conform with Generally Accepted Accounting Principles				
Prior Year Encumbrances			(652,047)	
Current Year Encumbrances			2,305,698	
Accounts Payable Adjustments			197,000	
Accounts Receivable Adjustments			(50,000)	
Workers Compensation & Health Insurance			<u>(30,232)</u>	
Excess of Revenues Over/(Under) Expenditures (GAAP Governmental Fund Basis)			(641,479)	
Fund Balances, Beginning of Year			<u>23,362,169</u>	
Fund Balances, End of Year			<u>\$ 22,720,690</u>	

See Independent Auditor's Report

City of Frankfort, Kentucky  
 Schedule of Proportionate Share of Net Pension Liability & Schedule of Contributions  
 Year Ended June 30, 2015

Schedule of Proportionate Share of Net Pension Liability

	2015
Government's proportion of the net pension liability	1.504135%
Government's proportionate share of the net pension liability	\$ 2,719,758
Government's covered-employee payroll	\$ 16,904,275
Government's proportionate share of the net pension liability as a percentage of its covered-employee payroll	16.0892%
Plan Fiduciary net position as a percentage of the total pension liability	65.96%

Schedule of Contributions

	2015
Contractually required contribution	\$ 4,103,918
Contribution in relation to the contractually required contribution	\$ (4,000,670)
Contribution deficiency (excess)	\$ 103,248
Government's covered-employee payroll	\$ 16,904,275
Contributions as a percentage of covered- employee payroll	24.2774%

## Supplementary Information

### **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:

Municipal Aid Fund – accounts for Municipal Aid and Local Government Economic Assistance funds to be used for street resurfacing and similar projects.

Transportation Improvements – 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.

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

Tourism Center Building – 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.

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

Lost and Found – accounts for funds received for items turned into the police department as lost and found.  
Asset Forfeiture Fund (State) – accounts for funds received from the state government for forfeited assets. These funds are to be used for police department activities.

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

Frankfort/Franklin Co. LEPC – accounts for the Frankfort/Franklin Co. LEPC committee.

### **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.

Fort Hill Park Fund – accounts for accumulated funds used to construct and maintain the Fort Hill Park.

City of Frankfort, Kentucky  
Combining Balance Sheet –  
Nonmajor Governmental Funds  
June 30, 2015

	<u>Combined Nonmajor Special Revenue Funds</u>	<u>Combined Nonmajor Capital Project Funds</u>	<u>Total Nonmajor Governmental Funds</u>
Assets			
Cash and Cash Equivalents	\$ 3,196,206	\$ 20,596	\$ 3,216,802
Investments	2,260,000		2,260,000
Receivables			
Accrued Interest	<u>400</u>	<u>-</u>	<u>400</u>
 Total Assets	 <u>\$ 5,456,606</u>	 <u>\$ 20,596</u>	 <u>\$ 5,477,202</u>
 Liabilities and Fund Balances			
Liabilities			
Accounts Payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
 Fund Balances			
Fund Balance, Unassigned	\$ 269,335	\$ -	\$ 269,335
Fund Balance, Assigned	-	-	-
Fund Balance, Restricted	<u>5,187,271</u>	<u>20,596</u>	<u>5,207,867</u>
Total Fund Balance	<u>5,456,606</u>	<u>20,596</u>	<u>5,477,202</u>
 Total Liabilities and Fund Balance	 <u>\$ 5,456,606</u>	 <u>\$ 20,596</u>	 <u>\$ 5,477,202</u>

See Independent Auditor's Report



City of Frankfort, Kentucky  
Combining Balance Sheet –  
Nonmajor Special Revenue Funds  
June 30, 2015

	Municipal Aid	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	Frankfort/ Franklin Co LEPC	Total
<b>Assets</b>													
Cash and Cash Equivalents	\$ 2,107,486	\$ 454,225	\$	\$	\$ 1,971	\$63,216	\$	\$ 318,324	\$206,119	\$ 39,643	\$ 3,223	\$ 1,999	\$ 3,196,206
Investments	1,500,000	660,000			100,000								2,260,000
Receivables													
Accrued Interest	<u>251</u>	<u>99</u>	<u>-</u>	<u>-</u>	<u>50</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>400</u>
<b>Total Assets</b>	<b><u>\$ 3,607,737</u></b>	<b><u>\$ 1,114,324</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$102,021</u></b>	<b><u>\$63,216</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 318,324</u></b>	<b><u>\$206,119</u></b>	<b><u>\$ 39,643</u></b>	<b><u>\$ 3,223</u></b>	<b><u>\$ 1,999</u></b>	<b><u>\$ 5,456,606</u></b>
<b>Liabilities and Fund Balances</b>													
<b>Liabilities</b>													
Accounts Payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Liabilities</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Fund Balances</b>													
Fund Balance, Unassigned	\$	\$	\$	\$		\$63,216	\$		\$206,119	\$	\$	\$	\$ 269,335
Fund Balance, Assigned													-
Fund Balance, Restricted	<u>3,607,737</u>	<u>1,114,324</u>	<u>-</u>	<u>-</u>	<u>102,021</u>	<u>-</u>	<u>-</u>	<u>318,324</u>	<u>-</u>	<u>39,643</u>	<u>3,223</u>	<u>1,999</u>	<u>5,187,271</u>
<b>Total Fund Balances</b>	<b><u>3,607,737</u></b>	<b><u>1,114,324</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>102,021</u></b>	<b><u>63,216</u></b>	<b><u>-</u></b>	<b><u>318,324</u></b>	<b><u>206,119</u></b>	<b><u>39,643</u></b>	<b><u>3,223</u></b>	<b><u>1,999</u></b>	<b><u>5,456,606</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 3,607,737</u></b>	<b><u>\$ 1,114,324</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$102,021</u></b>	<b><u>\$63,216</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 318,324</u></b>	<b><u>\$206,119</u></b>	<b><u>\$ 39,643</u></b>	<b><u>\$ 3,223</u></b>	<b><u>\$ 1,999</u></b>	<b><u>\$ 5,456,606</u></b>

See Independent Auditor's Report

City of Frankfort, Kentucky  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance –  
Nonmajor Governmental Funds  
Year Ended June 30, 2015

	Combined Nonmajor Special Revenue Funds	Combined Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
Revenues			
Intergovernmental Revenues	\$ 616,033	\$ -	\$ 616,033
Interest Income	11,571	1,251	12,822
Charges for Services	463,642		463,642
Contributions	-		-
Fines and Forfeitures	65,016		65,016
Rental Income	9,555	20,048	29,603
Miscellaneous	<u>27,776</u>	<u>41,067</u>	<u>68,843</u>
Total Revenues	<u>1,193,593</u>	<u>62,366</u>	<u>1,255,959</u>
Expenditures			
General Government	-		-
Public Works	833,981		833,981
Public Safety	401,949		401,949
Special Projects	31,260	-	31,260
Parks and Recreation	<u>-</u>	<u>4,899,973</u>	<u>4,899,973</u>
Total Expenditures	<u>1,267,190</u>	<u>4,899,973</u>	<u>6,167,163</u>
Excess(Deficiency) of Revenues over Expenditures	<u>(73,597)</u>	<u>(4,837,607)</u>	<u>(4,911,204)</u>
Other Financing Sources/(Uses)			
Bond Principal Proceeds		4,619,913	4,619,913
Operating Transfers In		200,000	200,000
Operating Transfers Out	<u>(225,000)</u>	<u>-</u>	<u>(225,000)</u>
Total Other Financing Sources/(Uses)	<u>(225,000)</u>	<u>4,819,913</u>	<u>4,594,913</u>
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing	(298,597)	(17,694)	(316,291)
Fund Balances, Beginning of Year	<u>5,755,203</u>	<u>38,290</u>	<u>5,793,493</u>
Fund Balances, End of Year	<u>\$ 5,456,606</u>	<u>\$ 20,596</u>	<u>\$ 5,477,202</u>

See Independent Auditor's Report

City of Frankfort, Kentucky  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance –  
Nonmajor Special Revenue Funds  
Year Ended June 30, 2015

	Municipal Aid	Transportation Improvements	E-911	Tourism Building	Asset Forfeiture- U.S. Justice	Lost and Found	Asset Forfeiture- State	Safe Place	Frankfort/ Franklin Co LEPC	Total
<b>Revenues</b>										
Intergovernmental Revenues	\$ 616,033	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		\$ 616,033
Interest Income	7,082	3,674	327	62	350	21	53	2		11,571
Charges for Services			463,642							463,642
Contributions		-						-		-
Fines and Forfeitures					39,453		25,563			65,016
Rental Income				9,555						9,555
Miscellaneous	-	-	-	-	-	26,377	-	-	1,399	27,776
<b>Total Revenues</b>	<b>623,115</b>	<b>3,674</b>	<b>463,969</b>	<b>9,617</b>	<b>39,803</b>	<b>26,398</b>	<b>25,616</b>	<b>2</b>	<b>1,399</b>	<b>1,193,593</b>
<b>Other Financing Sources</b>										
Surplus Sales										-
Operating Transfers In	-	-	-	-	-	-	-	-	-	-
<b>Total Other Financing Sources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Rev &amp; Other Financing Sources</b>	<b>623,115</b>	<b>3,674</b>	<b>463,969</b>	<b>9,617</b>	<b>39,803</b>	<b>26,398</b>	<b>25,616</b>	<b>2</b>	<b>1,399</b>	<b>1,193,593</b>
<b>Expenditures</b>										
General Government										-
Public Works	608,758	209,992		14,100				-	1,131	833,981
Public Safety			306,784		64,333		30,832			401,949
Special Projects	-	-	-	-	-	31,260	-	-	-	31,260
<b>Total Expenditures</b>	<b>608,758</b>	<b>209,992</b>	<b>306,784</b>	<b>14,100</b>	<b>64,333</b>	<b>31,260</b>	<b>30,832</b>	<b>-</b>	<b>1,131</b>	<b>1,267,190</b>
<b>Other Financing Uses</b>										
Operating Transfers Out	-	-	225,000	-	-	-	-	-	-	225,000
<b>Total Expenditures and Other Financing Uses</b>	<b>608,758</b>	<b>209,992</b>	<b>531,784</b>	<b>14,100</b>	<b>64,333</b>	<b>31,260</b>	<b>30,832</b>	<b>-</b>	<b>1,131</b>	<b>1,492,190</b>
<b>Excess of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses</b>	<b>14,357</b>	<b>(206,318)</b>	<b>(67,815)</b>	<b>(4,483)</b>	<b>(24,530)</b>	<b>(4,862)</b>	<b>(5,216)</b>	<b>2</b>	<b>268</b>	<b>(298,597)</b>
<b>Fund Balances, July 1</b>	<b>3,593,380</b>	<b>1,320,642</b>	<b>169,836</b>	<b>67,699</b>	<b>342,854</b>	<b>210,981</b>	<b>44,859</b>	<b>3,221</b>	<b>1,731</b>	<b>5,755,203</b>
<b>Fund Balances, June 30</b>	<b>\$ 3,607,737</b>	<b>\$ 1,114,324</b>	<b>\$ 102,021</b>	<b>\$ 63,216</b>	<b>\$ 318,324</b>	<b>\$ 206,119</b>	<b>\$ 39,643</b>	<b>\$ 3,223</b>	<b>\$ 1,999</b>	<b>\$ 5,456,606</b>

See Independent Auditor's Report

City of Frankfort  
Combining Balance Sheet  
Nonmajor Capital Projects Funds  
June 30, 2015

	Fort Hill Park	Bond Construction	Total
<b>Assets</b>			
Cash and Cash Equivalents	\$ 20,596	\$ -	\$ 20,596
Accounts Receivable	-	-	-
<b>Total Assets</b>	<b>\$ 20,596</b>	<b>\$ -</b>	<b>\$ 20,596</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-
<b>Total Liabilities</b>	-	-	-
<b>Fund Balances</b>			
Fund Balance, Unassigned			-
Fund Balance, Assigned			-
Fund Balance, Restricted	20,596	-	20,596
<b>Total Fund Balance</b>	20,596	-	20,596
<b>Total Liabilities and Fund Balance</b>	<b>\$ 20,596</b>	<b>\$ -</b>	<b>\$ 20,596</b>

City of Frankfort  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Capital Projects Funds  
For The Year Ended June 30, 2015

	Fort Hill Park	Bond Construction	Total
Revenues			
Intergovernmental Revenues	\$	\$	\$ -
Interest Income	56	1,195	1,251
Rental Income	20,048		20,048
Miscellaneous Income	41,067		41,067
	<u>61,171</u>	<u>1,195</u>	<u>62,366</u>
Total Revenues			
Expenditures			
Public Safety			-
Parks and Recreation	78,865	4,821,108	4,899,973
	<u>78,865</u>	<u>4,821,108</u>	<u>4,899,973</u>
Total Expenditures			
Other Financing Sources/(Uses)			
Bond Principal Proceeds		4,619,913	4,619,913
Operating Transfers In		200,000	200,000
Operating Transfers Out	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures and Other Financing Sources/(Uses)	<u>-</u>	<u>4,819,913</u>	<u>4,819,913</u>
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	(17,694)	-	(17,694)
Fund Balances, Beginning of Year	<u>38,290</u>	<u>-</u>	<u>38,290</u>
Fund Balances, End of Year	<u>\$ 20,596</u>	<u>\$ -</u>	<u>\$ 20,596</u>

See Independent Auditor's Report

City of Frankfort, Kentucky  
Combining Statement of Changes in Assets and Liabilities –  
Agency Funds  
Year Ended June 30, 2015

		Balance			Balance
		June 30, 2014	Additions	Deductions	June 30, 2015
<u>TAX COLLECTION FUND</u>					
Assets					
	Cash	\$ -	\$ 5,377,398	\$ 5,377,398	\$ -
Liabilities					
	Due to Other Taxing Districts	\$ -	5,377,398	5,377,398	\$ -
<u>RETIREMENT REVOLVING FUND</u>					
Assets					
	Cash	\$ 394,386	\$ 4,600,302	\$ 4,612,849	\$ 381,839
Liabilities					
	Due to Retirement Systems	\$ 394,386	\$ 4,600,302	\$ 4,612,849	\$ 381,839
<u>LETTER OF CREDIT</u>					
Assets					
	Cash	\$ 51,315	\$ 52	\$ -	\$ 51,367
Liabilities					
	Due to Depositors	\$ 51,315	\$ 52	\$ -	\$ 51,367
<u>TRANSIENT ROOM TAX</u>					
Assets					
	Cash	\$ 2,156	\$ 342,536	\$ 342,534	\$ 2,158
Liabilities					
	Due to Other Government Agencies	\$ 2,156	\$ 342,536	\$ 342,534	\$ 2,158
<u>TOTALS - ALL AGENCY FUNDS</u>					
Assets					
	Cash	\$ 447,857	\$ 10,320,288	\$ 10,332,781	\$ 435,364
Liabilities					
	Due to Other Taxing Districts	\$ -	\$ 5,377,398	\$ 5,377,398	\$ -
	Due to Retirement Systems	394,386	4,600,302	4,612,849	381,839
	Due to Other Government Agencies	2,156	342,536	342,534	2,158
	Due to Depositors	51,315	52	-	51,367
	Total Liabilities	\$ 447,857	\$ 10,320,288	\$ 10,332,781	\$ 435,364

See Independent Auditor's Report



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Independent Auditor's 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*

To the Honorable Mayor and City Commissioners  
City of Frankfort, Kentucky

We have audited, in accordance with the 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, the financial statements 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 and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Frankfort, Kentucky's basic financial statements, and have issued our report thereon dated January 5, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Frankfort, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Frankfort, Kentucky's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Frankfort, Kentucky's financial statements are free from 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*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Charles T. Mitchell Co.*

Charles T. Mitchell Company PLLC  
Frankfort, Kentucky  
January 5, 2016





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## Independent Auditor's Report On Compliance For Each Major Program And On Internal Control Over Compliance Required By OMB Circular A-133

To the Honorable Mayor and City Commissioners  
City of Frankfort, Kentucky

### **Report on Compliance for Each Major Federal Program**

We have audited the City of Frankfort, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Frankfort, Kentucky's major federal programs for the year ended June 30, 2015. The City of Frankfort, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City of Frankfort, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Frankfort, Kentucky's compliance.

## Opinion on Each Major Federal Program

In our opinion, the City of Frankfort, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

## Report on Internal Control Over Compliance

Management of the City of Frankfort, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Frankfort, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A133, 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 the City of Frankfort, Kentucky's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Charles T. Mitchell Co.*

Charles T. Mitchell Company PLLC  
Frankfort, Kentucky  
January 5, 2016

City of Frankfort, Kentucky  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Passed Through Kentucky Transportation Cabinet			
Formula Grants for Rural Areas-Operating	20.509	G710529Z	469,202
Formula Grants for Rural Areas-Administration	20.509	G710529Z	93,846
Formula Grants for Rural Areas-Job Access	20.509	G310429Z	72,678
Formula Grants for Rural Areas-RTAPP Training	20.509	G801429Z	9,866
			<u>645,592</u>
Transit Capital Investment Grant-Direct Appropriations	20.500	G30F209Z	12,805
<b>Highway Planning and Construction Cluster</b>			
Highway Planning & Construction-Safe Routes to Schools	20.205	PO-628-1200004470	3,535
Highway Planning & Construction-Safe Routes to Schools	20.205	PO2-628-11000004552	37,089
Highway Planning & Construction-No Text Enforcement	20.205	DD-15-09	10,718
Total Highway Planning and Construction Cluster			<u>51,342</u>
2011 Recreational Trails-Pinsley Trail	20.219	RTP Program #441-11	1,500
2013 Recreational Trails-Cove Springs Connectivity	20.219	RTP Program #466-12	16,438
			<u>17,938</u>
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>			<u>727,677</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Passed Through Kentucky Department for Local Government			
Community Development Block Grant-Holmes Street	14.228	11D-044	136,894
<b>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			<u>136,894</u>
<b>NATIONAL PARK SERVICE</b>			
Passed Through Kentucky Heritage Council			
Historic Preservation Grants-In-Aid Preservation Conference	15.904	1300003112	6,600
Historic Preservation Grants-In-Aid Preservation Conference	15.904	1400003694	8,486
<b>TOTAL NATIONAL PARK SERVICE</b>			<u>15,086</u>

City of Frankfort, Kentucky  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2015

	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements
FEDERAL HIGHWAY ADMINISTRATION			
Passed Through Kentucky Office of Highway Safety			
Highway Safety Cluster			
2014 State and Community Highway Safety-DUI Overtime	20.600	PT 14-18	22,097
2015 State and Community Highway Safety-DUI Overtime	20.600	PT 15-18	<u>20,200</u>
TOTAL FEDERAL HIGHWAY ADMINISTRATION			<u>42,297</u>
U.S. DEPARTMENT OF JUSTICE			
Direct Program			
2011 Edward Byrne Memorial Justice Assistance Grant Program- Mobile Data Computers	20.600	2011-DJ-BX-0891	1,475
2011 Edward Byrne Memorial Justice Assistance Grant Program- Mobile Data Computers	20.600	2013-DJ-BX-0623	<u>12,433</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>13,908</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed Through Kentucky Office of Homeland Security			
Homeland Security Grant Program	97.067	P02 094 1400002862 1	10,000
Homeland Security Grant Program	97.067	P02 094 1500002324 1	<u>6,000</u>
			<u>16,000</u>
Passed Through Kentucky Division of Emergency Management			
2014 Emergency Management Performance Grants - Emergency Management Performance	97.042	PRC 095 1500237014	27,265
Disaster Funding	97036	DR4216-FRBEM01	<u>80,651</u>
			<u>107,916</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>123,916</u>
U.S ENVIRONMENTAL PROTECTION AGENCY			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-00D24814	<u>12,908</u>
TOTAL U.S ENVIRONMENTAL PROTECTION AGENCY			<u>12,908</u>
TOTAL			<u>\$ 1,072,686</u>

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City. The City's reporting is defined in Note A to the basic financial statements. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is 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. OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

Section I-Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued Unmodified

Internal Control over Financial Reporting

Material weakness(es) identified?      Yes   X   No

Significant deficiencies that identified that are not considered to be material weaknesses?      Yes   X   No

Noncompliance material to financial statements      Yes   X   No

Federal Awards

Internal Control over Major Programs

Material weakness(es) identified?      Yes   X   No

Significant deficiencies that identified that are not considered to be material weaknesses?      Yes   X   No

Type of Auditor's Report Issued on Compliance Over Major Programs Unmodified

Any Audit Findings Disclosed That Are Required To Be Reported In Accordance With Section 510(a) of Circular A-133      Yes   X   No

Identification of Major Programs

CFDA Number(s)	Name of Federal Program or Cluster
20.509	Formula Grants for Other Than Urbanized Areas

Dollar Threshold Used To Distinguish Between Type A and TypeB Programs      \$   300,000  

Auditee Qualified As Low-Risk Auditee   X   Yes      No

Section II – Financial Statement Findings

None.

City of Frankfort, Kentucky  
Schedule of Prior Year Findings and Questioned Costs  
Year Ended June 30, 2015

None.

**APPENDIX C**

**CITY OF FRANKFORT, KENTUCKY,  
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2016**

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**Form of Bond Counsel Opinion**



Upon delivery of the Series 2016 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

[Dated date of delivery]

Re: \$\_\_\_\_\_ City of Frankfort, Kentucky, General Obligation Refunding Bonds, Series 2016

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, General Obligation Refunding Bonds, Series 2016, dated the date of issuance (the "Series 2016 Bonds"), consisting of fully registered bonds in the denominations of \$5,000 or integral multiples thereof, maturing on June 1, 2017 and each June 1<sup>st</sup> thereafter until June 1, 2022 and bearing interest to maturity payable on each June 1<sup>st</sup> and December 1<sup>st</sup>, beginning June 1, 2017, as shown in the following schedule:

	Principal Amount	Interest Rate
June 1 <sup>st</sup>		
2017	\$_____	____%
2018	_____	___
2019	_____	___
2020	_____	___
2021	_____	___
2022	_____	___

In expressing the opinions set forth below, we have relied on such proceedings, including without limitation the duly adopted ordinance of the City authorizing and providing for the sale and issuance of the Series 2016 Bonds (the "Series 2016 Bond 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 Series 2016 Bond) acknowledging authentication by the Paying Agent and Bond Registrar of the Series 2016 Bonds and have examined the form of the Series 2016 Bond and find it to be in due form of law.

Based on our examination of such proceedings and on applicable provisions of the Constitution and Statutes of the Commonwealth of Kentucky, as amended, and decisions of the appellate courts of the Commonwealth of Kentucky, it is our opinion that:

(1) The Series 2016 Bonds constitute valid and binding general obligations of the City according to their terms and applicable provisions of Kentucky law, and the full faith, credit, and taxing power of the City are irrevocably pledged for the payment of principal of and interest on the Series 2016 Bonds. The City is mandatorily required by Section 159 of the Constitution of Kentucky to levy annually such special tax, separate and apart from all other taxes, as may be necessary to provide for the payment

Re:        \$\_\_\_\_\_ City of Frankfort, Kentucky,  
          General Obligation Refunding Bonds, Series 2016

Page 2 of 3

of the Series 2016 Bonds and the interest thereon when due and payable, such tax to be applicable to all property which is subject to taxation for City purposes from time to time and being unlimited as to rate or amount. The indebtedness evidenced by the Series 2016 Bonds, together with all other general obligation indebtedness of the City existing at the time of the delivery of the Series 2016 Bonds, does not exceed the limitation of indebtedness prescribed by Section 158 of the Constitution of Kentucky and by Section 66.041 of the Kentucky Revised Statutes.

(2)       The Series 2016 Bonds have been authorized and issued under and in conformity with the applicable provisions of the Constitution and Statutes of the Commonwealth of Kentucky, as amended, particular reference being made to Sections 158 and 159 of the Constitution of Kentucky and Sections 66.011 through 66.171 and Chapter 58 of the Kentucky Revised Statutes, now in full force and effect.

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 Series 2016 Bonds, it is our opinion that interest on the Series 2016 Bonds (a) is excluded from gross income for federal and Kentucky income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinions set forth in the preceding sentence are subject to the conditions that the representations and warranties of the City referred to above are accurate and that the City complies with all requirements of the United States Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied after the issuance of the Series 2016 Bonds in order that interest thereon be excluded from gross income for federal income tax purposes. The City has agreed 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 Series 2016 Bonds to be so included in gross income retroactive to the date of issuance of the Series 2016 Bonds. We express no opinion regarding other federal and Kentucky income tax consequences arising with respect to the Series 2016 Bonds.

The Series 2016 Bonds have been designated and/or are deemed designated as "qualified tax-exempt obligations" within the meaning of Code Section 265(b)(3). In the case of certain financial institutions (within the meaning of Code Section 265(b)(5)), a deduction is presently allowed for 80% of that portion of such a financial institution's interest expense that is allocable to interest on such "qualified tax-exempt obligations."

It is also our opinion that the Series 2016 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 Series 2016 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 Series 2016 Bonds or the accuracy or completeness of any statements made or data furnished in connection with any sale of the Series 2016 Bonds.

Respectfully Submitted,

Re: \$\_\_\_\_\_ City of Frankfort, Kentucky,  
General Obligation Refunding Bonds, Series 2016

Page 3 of 3

**STOLL KEENON OGDEN PLLC**

**NOTICE AND OFFICIAL  
TERMS AND CONDITIONS OF BOND SALE**

Bidding for:

\$5,270,000\* City of Frankfort, Kentucky,  
General Obligation Refunding Bonds, Series 2016  
(Bank Qualified)

As advertised in conformity with applicable legal requirements, electronic or sealed written bids will be received by the City of Frankfort, Kentucky (the “City”), until 11:30 a.m., EDT, on September 28, 2016, for the purchase of the above-described bond issue, to be dated the date of original issuance and delivery (the “Series 2016 Bonds”). In the case of written sealed bids for the Series 2016 Bonds, bids will be received in the office of the Finance Director of the City at 315 West Second Street, Frankfort, Kentucky 40601. See “General Bidding Instructions” herein.

**Description Of Series 2016 Bonds.** Upon their issuance, the Series 2016 Bonds will be issued in book-entry form, registered in the name of Cede & Co. as the nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Series 2016 Bonds, as described in the Preliminary Official Statement. Purchases of beneficial interests in the Series 2016 Bonds may be made in book-entry form only, in the principal amount of \$5,000 or any multiple of \$5,000. The Series 2016 Bonds will be dated the date of original issuance and delivery, and will bear interest payable on each June 1<sup>st</sup> and December 1<sup>st</sup>, beginning June 1, 2017, until maturity, and will be scheduled to mature as to principal on June 1<sup>st</sup> in the years and in the respective principal amounts as follows:

<b>Maturity Date</b>	<b>Principal Amount*</b>
June 1, 2017	\$865,000
June 1, 2018	845,000
June 1, 2019	865,000
June 1, 2020	880,000
June 1, 2021	900,000
June 1, 2022	915,000

The Series 2016 Bonds are subject to optional redemption as described in the Preliminary Official Statement, to which reference is made.

The rates of interest on the Series 2016 Bonds will be established upon the basis of competitive bidding as herein provided.

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\* Subject to adjustment as described herein.

The authority, purpose, security, and source of payment of the Series 2016 Bonds, the application of the proceeds thereof, optional redemption provisions, the DTC book-entry system, and other details are set out and described in the Preliminary Official Statement, which may be obtained from the City's Financial Advisor, Raymond James & Associates, Inc., 489 East Main Street, Lexington, Kentucky 40507, Telephone: (859) 232-8249 or from i-Deal Prospectus at [www.i-DealProspectus.com](http://www.i-DealProspectus.com). The Preliminary Official Statement is in a form "deemed final" by the City for purposes of SEC Rule 15c2-12(b)(1), but is subject to revision, amendment, and completion in a final Official Statement.

The Paying Agent and Bond Registrar is U.S. Bank National Association, Louisville, Kentucky.

**Term Bond Option; Mandatory Redemption.** Bidders shall have the option to designate certain consecutive serial maturities of the Series 2016 Bonds as term bonds ("**Term Bonds**") bearing a single interest rate. If the successful bidder for the Series 2016 Bonds designates certain consecutive serial maturities of the Series 2016 Bonds to be combined as one or more Term Bonds as allowed herein, then each such Term Bond shall be subject to mandatory sinking fund redemption by the City at a redemption price equal to one hundred percent (100%) of the principal amount thereof, together with accrued interest to the date fixed for redemption at the rate stated in the Term Bonds to be redeemed. Each such mandatory sinking fund redemption shall be made on the date on which a consecutive maturity included as part of a Term Bond is payable in accordance with the proposal of the successful bidder and in the amount of the maturing principal installment for the Series 2016 Bonds listed herein for such principal payment date. The City will direct the Paying Agent and Bond Registrar that in the event less than all of any Term Bonds are to be redeemed by mandatory sinking fund redemption, any such redemption shall be on a pro rata basis in a principal amount equal to authorized denominations of \$5,000 or any integral multiple thereof. The City and the Paying Agent and Bond Registrar are not making any representation relating to, and do not have any responsibility or obligation with respect to, whether DTC will follow the direction to redeem Term Bonds on a pro rata basis upon a partial redemption as described above. If a Term Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Term Bond may be redeemed, but only in a principal amount equal to \$5,000 or any integral multiple thereof, if the Term Bond is one of the maturities or amounts or part of the maturities or amounts called for redemption. Upon surrender of any Term Bond for redemption in part, the Paying Agent and Bond Registrar will authenticate and deliver an exchange Term Bond or Term Bonds in an aggregate principal amount equal to the unredeemed portion of the 2016 Bond so surrendered.

**General Bidding Instructions.** Electronic bids for the Series 2016 Bonds must be submitted through BIDCOMP/PARITY®, and no other provider of electronic bidding services will be accepted. Subscription to the i-Deal LLC Dalcomp Division's BIDCOMP Competitive Bidding System is required in order to submit an electronic bid. The City will neither confirm any subscription nor be responsible for the failure of any prospective bidders to subscribe. For the purposes of the bidding process, the time as maintained by BIDCOMP/PARITY® shall constitute the official time with respect to all bids whether in electronic or written form. To the

extent any instructions or directions set forth in BIDCOMP/PARITY® conflict with the terms of this Notice and Official Terms and Conditions of Bond Sale, this Notice and Official Terms and Conditions of Bond Sale shall prevail. An electronic bid made through the facilities of BIDCOMP/PARITY® shall be deemed an offer to purchase in response to this Notice and Official Terms and Conditions of Bond Sale and shall be binding upon the bidder as if made by a signed, sealed, written bid delivered to the City. The City, the Financial Advisor, and Bond Counsel shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by BIDCOMP/PARITY®. The use of BIDCOMP/PARITY® facilities is at the sole risk of the prospective bidder. For further information regarding BIDCOMP/PARITY®, potential bidders may contact BIDCOMP/PARITY® at 40 West 23rd Street, New York, New York 10010, Telephone (800) 850-7422.

In the event of a system malfunction in the electronic bidding process only, bidders may submit bids before the established date and time by facsimile transmission sent to the Finance Director of the City at (502) 875-8502. Any facsimile submissions are made at the sole risk of the prospective bidders. The City, the Financial Advisor, and Bond Counsel shall not be responsible for confirming receipt of any facsimile bids or for any malfunction relating to the transmission and receipt of such bids.

A written sealed bid or bids for the Series 2016 Bonds should be submitted in an envelope marked "Bid for Bonds" to Mr. Stephen R. Dawson, Finance Director, 315 West Second Street, Frankfort, Kentucky 40601. A written bid must be submitted on the appropriate Official Bid Form attached to this Notice and Official Terms and Conditions of Bond Sale.

The City reserves the right to reject all bids for the Series 2016 Bonds and to waive formalities and irregularities in the separate bid accepted.

**Rates/Yields, Discounts And Premiums.** Bidders are required to bid a cash price of not less than 98.5% of the aggregate principal amount of the Series 2016 Bonds for which a bid is submitted, excluding original issue discount, if applicable (no accrued interest). Bidders shall specify the annual rate or rates of interest to be borne by the Series 2016 Bonds for which a bid is submitted, which shall be in multiples of 1/8 or 1/20 of 1%. All Series 2016 Bonds of the same maturity must bear interest at a single rate to maturity. No bid will be accepted for the purchase of less than all of the Series 2016 Bonds. On delivery of the Series 2016 Bonds, payment of the amount due must be made by the successful bidder to the order of the City in immediately available federal funds or by such other means as may be acceptable to the City. Any expense of providing immediately available funds shall be borne by the bidder.

**Award of the Series 2016 Bonds; Adjustment of Amount and Maturities.** Subject to the provisions of the next following paragraph, the Series 2016 Bonds will be awarded to the bidder offering to purchase the Series 2016 Bonds, or a portion thereof as herein provided, at the lowest true interest rate to the City based on the preliminary maturity schedules set out above. The true interest rate is calculated as that rate (or yield) which, when used in computing the present worth of all payments of principal and interest on the Series 2016 Bonds (compounded

semiannually to the date of the Series 2016 Bonds), produces an amount equal to the purchase price of the Series 2016 Bonds. For the purpose only of determining the true interest rate of Term Bonds, if any, specified by bidders as described above, such Series 2016 Bonds will be deemed to mature on June 1<sup>st</sup> in each of the years as set forth in the preliminary schedule of principal amounts contained herein. If two or more bidders offer bids at the same lowest true interest rate and the City wishes to award the Series 2016 Bonds, the City shall determine by lot which bidder will be awarded such Series 2016 Bonds.

Bids will be acted on following the tabulation and verification of the bids received. The City intends to notify the successful bidder, through the Financial Advisor, of any increases or decreases in the principal amounts of the Series 2016 Bonds bid for in the aggregate, or in the amounts of the Series 2016 Bonds bid for maturing or subject to mandatory sinking fund redemption on any one or more dates, pursuant to this Notice and Official Terms and Conditions of Bond Sale, promptly and not later than 4:00 p.m., EDT, on the sale date (unless waived by the successful bidder). Bids will be opened by the Finance Director of the City or his designated representative at the time stated above and verbal confirmation of any successful bid or bids will be given as soon as possible thereafter. Formal award and approval of the successful bid or bids will be made by the City by 4:00 p.m., EDT, on the sale date. The decision of the City as to the award of the Series 2016 Bonds will be final.

The City reserves the right, in its sole discretion, to accept a bid or bids for an aggregate principal amount of the Series 2016 Bonds as much as \$5,795,000 or as little as \$4,745,000, with the variation in such amount occurring in any one or more of the stipulated maturities (or mandatory sinking fund installments for Term Bonds), or to adjust the stipulated maturities (or mandatory sinking fund installments for Term Bonds) without changing the total amount of the Series 2016 Bonds sold. In the event of any such adjustment, no rebidding will be permitted and no recalculation of bids will be made.

Among other factors the City may (but shall be under no obligation to) consider, in sizing the issue of Series 2016 Bonds or in sizing individual maturities or mandatory sinking fund installments, are promoting level debt service and other preferences of the City. The dollar amount bid for the Series 2016 Bonds by the successful bidder or bidders may be adjusted, if applicable, to reflect one or more of any adjustments made in the amortization schedule for the Series 2016 Bonds. Any bid price that is adjusted may reflect changes in the dollar amount of original issue discount or premium, if any, but will not change the per bond underwriter's discount.

**THE RIGHT IS RESERVED TO REJECT ANY AND ALL BIDS OR TO WAIVE IRREGULARITIES IN ANY BID.**

All charges of DTC and all other expenses of the successful bidder will be the responsibility of the successful bidder for the Series 2016 Bonds.

**Good Faith Deposit.** No good faith check will be required to accompany any bid submitted. The successful bidder for the Series 2016 Bonds shall be required to deliver to the

Paying Agent and Bond Registrar (U.S. Bank National Association) by wire transfer or certified check, the amount of 2.0% of the aggregate principal amount of the Series 2016 Bonds in order to secure the faithful performance of the terms of the bid. A certified check or wire transfer must be received by the Paying Agent and Bond Registrar no later than the close of business on the day following the competitive sale.

The good faith deposit shall be applied (without interest) to the purchase price of the Series 2016 Bonds. If a successful bidder should fail to accept or pay for the Series 2016 Bonds when tendered for delivery and payment, the good faith deposit will be retained by the City as liquidated damages.

If the City fails to deliver the Series 2016 Bonds to the purchaser in accordance with the terms of this Notice and Official Terms and Conditions of Bond Sale within 45 days after the date of the sale, the good-faith deposit will be promptly returned to the purchaser unless the purchaser directs otherwise.

**Reoffering Prices; Other Information.** By telephone or facsimile, the successful bidder for the Series 2016 Bonds must furnish the following information to the City or its Financial Advisor within two hours after receipt of the notification referred to above under the heading “**Award Of The Series 2016 Bonds; Adjustment Of Amounts And Maturities**”:

1. The offering prices or yields for the Series 2016 Bonds, expressed as a price or yield per maturity, exclusive of any accrued interest;
2. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all of the Series 2016 Bonds will be sold at the prices or yields as provided above);
3. The identity of the other underwriters if the successful bidder is part of a group or syndicate; and
4. Any other material information necessary to prepare the Official Statement in final form but not known to the City.

As a term of the bid and a condition to the award of the Series 2016 Bonds, the successful bidder agrees: (a) to certify to the City, on behalf of the successful bidder and its syndicate or selling group, at the time of the acceptance of the bid; (i) the bona fide initial offering or reoffering prices of the Series 2016 Bonds to the public (excluding bond houses, brokers, and other intermediaries) at which prices a substantial amount (at least 10%) of each maturity of the Series 2016 Bonds is reasonably expected to be sold; and (ii) the amounts of the premium and taxes related to any municipal bond insurance policy purchased by the successful bidder in respect of the Series 2016 Bonds; (b) that the City may rely on such certifications in complying with the arbitrage provisions of the Internal Revenue Code of 1986, as amended (the “**Code**”); and (c) at closing to affirm the foregoing certifications and provide any information (within the



successful bidder's knowledge) required by the City to comply with the arbitrage provisions of the Code.

**Legal Opinion.** The approving legal opinion of Stoll Keenon Ogden PLLC, Louisville, Kentucky, Bond Counsel, will be furnished without cost to the purchaser of the Series 2016 Bonds. A summary description of the tax treatment of the Series 2016 Bonds is contained in the Preliminary Official Statement. The proposed form of the Bond Counsel opinion is included in the Preliminary Official Statement.

**Closing Documents.** In addition to the Continuing Disclosure Certificate described below, there will also be furnished the purchaser the usual closing documents, including certificates of the City stating there is no litigation pending or, to the knowledge of the City, threatened affecting the validity of the Series 2016 Bonds and as to the accuracy of the information contained in the Official Statement.

**Continuing Disclosure.** In order to assist bidders in complying with the requirements of subsection (5) of section (b) of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "**Rule**"), the City will, for the benefit of the holders of the Series 2016 Bonds, execute and deliver a Continuing Disclosure Certificate dated the date of original issuance of the Series 2016 Bonds setting forth the undertaking of the City to provide certain annual financial reports, operating and revenue data, and notices of the occurrence of certain events. A description of this undertaking, including certain limitations thereon, is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

**Delivery Of Series 2016 Bonds.** Delivery of the Series 2016 Bonds is expected on or about October 7, 2016. At least five business days' notice of the delivery will be given the successful bidder. Delivery will be made in book-entry form through the facilities of DTC. Payment for the Series 2016 Bonds must be made in Federal Funds or other immediately available funds. Any expense of providing immediately available funds shall be borne by the purchaser.

**CUSIP Numbers.** CUSIP numbers will be assigned to the Series 2016 Bonds at the expense of the successful bidder. The City will assume no obligation for assignment of such numbers or the correctness of such numbers and neither failure to record such numbers on the Series 2016 Bonds nor any error with respect thereto shall constitute cause for failure or refusal by the purchaser thereof to accept delivery of and make payment for the Series 2016 Bonds.

**Bond Insurance.** If the successful bidder for the Series 2016 Bonds desires to purchase a municipal bond insurance policy insuring payment of all or a portion of the debt service payable on the Series 2016 Bonds, the successful bidder does so at its own risk and expense and the obligation of the successful bidder to pay for the Series 2016 Bonds shall not be conditioned on the issuance of a municipal bond insurance policy. The City will cooperate with the successful bidder in obtaining such insurance but the City will not enter into any additional agreements with a bond insurer. Without limiting the generality of the foregoing, the successful bidder will be responsible for all costs, expenses, and charges associated with the issuance of

such insurance, including but not limited to the premium for the insurance policy and any taxes related thereto, and excluding only the fees of Standard & Poor's Ratings Services.

**Additional Information.** This Notice and Official Terms and Conditions of Bond Sale is not a summary of the terms of the Series 2016 Bonds. Reference is hereby made to the Preliminary Official Statement for a further description of the Series 2016 Bonds and the City. Investors must read the entire Preliminary Official Statement to obtain information essential to making an informed investment decision.

**Official Bid Forms; Official Statement.** The Official Bid Form for the Series 2016 Bonds is attached hereto and a copy of the Preliminary Official Statement relating to the Series 2016 Bonds may be obtained from the City's Financial Advisor, identified above.

The City deems, for purposes of Securities and Exchange Commission Rule 15c2-12, its Preliminary Official Statement relating to the Series 2016 Bonds to be final as of its date, except for information permitted by that Rule to be omitted from the Preliminary Official Statement including the following information relating to the Series 2016 Bonds: the offering prices, interest rates, selling compensation, principal amount per maturity, delivery date, any other terms or provisions to be determined by competitive bidding, ratings, other terms depending on such matters, and the identity of the underwriters. The Preliminary Official Statement is subject to amendment or modification as deemed necessary by the City. The Preliminary Official Statement is subject to revision and completion in a final Official Statement.

The City will provide an electronic copy of a final Official Statement, which will be complete in all material respects up to the date of delivery of the Series 2016 Bonds, without cost to the successful bidder for the Series 2016 Bonds, within seven business days of the award of the Series 2016 Bonds, such copy to be in a sufficient format for the successful bidder to comply with Rule 15c2-12 of the Securities and Exchange Commission and the rules of the Municipal Securities Rulemaking Board, provided that the successful bidder cooperates in providing information required to complete the final Official Statement.

By making a bid for the Series 2016 Bonds, any successful bidder agrees (i) to disseminate to all members of the underwriting syndicate copies of the Official Statement, including any supplements prepared by the City, (ii) to promptly file a copy of the final Official Statement, including any supplements prepared by the City, with the Municipal Securities Rulemaking Board, and (iii) to take any and all other actions necessary to comply with applicable rules of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board governing the offering, sale, and delivery of the Series 2016 Bonds to ultimate purchasers.

Dated: September 21, 2016.

/s/ Stephen R. Dawson  
Finance Director  
City of Frankfort, Kentucky

**OFFICIAL BID FORM**

(Written Alternative)

September 28, 2016  
(Sale time:  
11:30 a.m. EDT)

City of Frankfort, Kentucky  
315 West Second Street  
Frankfort, Kentucky 40601

Ladies and Gentlemen:

The undersigned submits the following offer to purchase the \$5,270,000\* General Obligation Refunding Bonds, Series 2016 (the “**Series 2016 Bonds**”), to be dated the date of original issuance and delivery, of the City of Frankfort, Kentucky (the “**City**”). This bid is made subject to the Official Terms and Conditions of Bond Sale for the Series 2016 Bonds, which is incorporated herein by reference as though fully set forth herein, and to all of the terms and conditions of which the undersigned, on behalf of the undersigned and our syndicate or selling group, agrees.

The undersigned hereby offers to purchase the entire aggregate principal amount of the Series 2016 Bonds to be issued and will pay you therefore a price equal to \$\_\_\_\_\_, which is equal to \_\_\_\_\_% (may not be less than \$5,190,950 or 98.5% of par), provided the Series 2016 Bonds bear interest at the following annual rates (each rate specified must be in a multiple of 1/8 or 1/20 of 1%):

<u>Maturity</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>
June 1, 2017	\$865,000	____%
June 1, 2018	845,000	____%
June 1, 2019	865,000	____%
June 1, 2020	880,000	____%
June 1, 2021	900,000	____%
June 1, 2022	915,000	____%

We understand that this bid may be accepted for as much as \$5,795,000 or as little as \$4,745,000 of Series 2016 Bonds with the variation in such amount occurring in any one or more of the stipulated maturities (or mandatory sinking fund installments for Term Bonds), or that the stipulated maturities (or mandatory sinking fund installments for Term Bonds) may be

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\* Preliminary, subject to change as provided in the Notice and Official Terms and Conditions of Bond Sale.

adjusted without changing the total amount of Series 2016 Bonds sold, all as shall be determined by the City in its sole discretion at the time of acceptance of the best bid.

**SPECIAL BIDDER’S OPTION:** The undersigned hereby elects to specify that all the Series 2016 Bonds stated to be due in the following two or more consecutive years (as the principal amounts thereof may be adjusted in accordance herewith) shall be combined to compose the maturities of Term Bonds indicated below:

**Principal Amounts Due**

Year		Year
_____	through	_____
_____	through	_____
_____	through	_____
_____	through	_____

In accordance with the Notice and Official Terms and Conditions of Bond Sale we agree that, if we are the successful bidder for the Series 2016 Bonds, we will wire transfer, by the close of business on September 29, 2016, to U.S. Bank National Association, for the credit of the City, an amount equal to 2.0% of the amount of Series 2016 Bonds awarded. We understand that such amount shall be applied (without interest) to the purchase price of the Series 2016 Bonds. If the undersigned should fail to accept and pay for the Series 2016 Bonds when tendered for delivery, such amount will be retained by the City as agreed liquidated damages.

If this bid is accepted and the Series 2016 Bonds are awarded to us, we will (a) at the time of such acceptance certify to the City, on behalf of the undersigned and our syndicate or selling group, (i) the bona fide initial offering or reoffering prices of the Series 2016 Bonds to the public (excluding bond houses, brokers and other intermediaries) at which prices a substantial amount (at least 10%) of each maturity of the Series 2016 Bonds is reasonably expected to be sold; (ii) the amounts of the premium and taxes related to any municipal bond insurance policy purchased by the successful bidder in respect of the Series 2016 Bonds; and (iii) that the City may rely on such certifications in complying with the arbitrage provisions of the Internal Revenue Code of 1986 as amended (the “**Code**”); and (b) at closing to affirm the foregoing certifications and provide any information (within the successful bidder’s knowledge) required by the City to comply with the arbitrage provisions of the Code.

This bid is made with the understanding that the City intends to notify the successful bidder of any increases or decreases in the principal amounts of the Series 2016 Bonds in the aggregate, or in the amounts of the Series 2016 Bonds maturing or subject to mandatory sinking fund redemption on any one or more dates, pursuant to the Notice and Official Terms and Conditions of Bond Sale, promptly and not later than 24 hours after the bid opening (unless waived by the successful bidder).

The above is our purchase offer. We submit our own computations thereof only for your information and convenience:

- [a] Total interest cost amount at stipulated rates from date of Series 2016 Bonds to final maturity \$ \_\_\_\_\_
- [b] Less premium or plus discount (if any), less underwriter's discount \$ \_\_\_\_\_
- [c] Net interest cost \$ \_\_\_\_\_
- [d] Net interest rate \_\_\_\_\_%

Respectfully submitted,

\_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Name of Bidder or Representative of Bidding Syndicate

\_\_\_\_\_  
Address

**ACCEPTED** by the City for the final aggregate principal amount of \$\_\_\_\_\_, with maturities and/or mandatory sinking fund installments set out below, at a [an adjusted] purchase price of \$\_\_\_\_\_, this September 28, 2016.

<b>Maturity Date</b>	<b>Final Amount</b>
June 1, 2017	\$ _____
June 1, 2018	_____
June 1, 2019	_____
June 1, 2020	_____
June 1, 2021	_____
June 1, 2022	_____

\_\_\_\_\_  
\*Term Bond (if applicable)

**CITY OF FRANKFORT, KENTUCKY**

By: \_\_\_\_\_

Title: \_\_\_\_\_