

# PRELIMINARY OFFICIAL STATEMENT

Dated November 23, 2009

(Bonds to be sold December 2, 2009, 11:00 a.m. E.S.T.)

## BOOK-ENTRY-ONLY-SYSTEM

**BANK QUALIFIED**

**NO RATING REQUESTED**

In the opinion of Bond Counsel, under existing law (i) interest on the Bonds will be excludable from gross income of the holders thereof for purposes of federal income taxation and (ii) interest on the Bonds will not be a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, all subject to the qualifications described herein under the heading "TAX EXEMPTION." Interest on the Bonds is also exempt from income taxation and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and its political subdivisions.

## ELECTRONIC BIDDING VIA PARITY

**\$915,000\***

### **CITY OF JACKSON, KENTUCKY GENERAL OBLIGATION REFUNDING BONDS SERIES 2009**

Dated: Date of Delivery (expected December 16, 2009)

Due: December 1, as shown below

The Bonds will be issued and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds. Accordingly, principal, interest and premium, if any, on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky, as Paying Agent and Registrar, directly to DTC or Cede & Co., its nominee. DTC will in turn remit such principal, interest or premium to the DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners (as defined herein) of the Bonds. The Bonds will be issued in denominations of \$5,000 each or integral multiples thereof, and will bear interest payable on June 1, 2010 and thereafter semiannually on each December 1 and June 1.

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

### **SCHEDULE OF MATURITIES**

<u>Due</u>	<u>Cusip #</u>	<u>Amount*</u>	<u>Rate</u>	<u>Yield</u>	<u>Due</u>	<u>Cusip #</u>	<u>Amount*</u>	<u>Rate</u>	<u>Yield</u>
12/01/10		\$ 80,000			12/01/15		\$ 95,000		
12/01/11		80,000			12/01/16		95,000		
12/01/12		85,000			12/01/17		100,000		
12/01/13		85,000			12/01/18		100,000		
12/01/14		90,000			12/01/19		105,000		

(Plus accrued interest-when issued)

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

The City deems this Official Statement to be final for purposes of Security and Exchange Commission Rule 15c2-12.

The Bonds are offered when, as and if issued, subject to the approval of legality and tax exemption by Henry M. Reed III, Louisville, Kentucky, Bond Counsel. Certain legal matters have been passed upon for the City by Michael Stidham, Esq., City Attorney. The Bonds are expected to be available for delivery on or about December 16, 2009.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

\*Preliminary, Subject to Permitted Adjustment

**FIRST KENTUCKY SECURITIES CORPORATION**  
Financial Advisor

This Preliminary Official Statement and the information contained herein are subject to completion and revision in a final Official Statement. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these Series 2009 Bonds in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration, qualification, or exemption under the securities laws of such jurisdiction.

**CITY OF JACKSON, KENTUCKY**

**Mayor**

Michael Miller

**City Council**

Rose Wolfe, Vice Mayor  
Stephen Bowling  
Jason Hall  
Earl Chapman  
Wayne Morgan  
Alfred Turner

**City Clerk**

Angie Combs

**Treasurer**

Terri Halsey

**Attorney**

Michael Stidham

**BOND COUNSEL**

Henry M. Reed III  
Louisville, Kentucky

**FINANCIAL ADVISOR**

First Kentucky Securities Corporation  
Frankfort, Kentucky

**PAYING AGENT/BOND REGISTRAR**

The Bank of New York Mellon Trust Company, NA.  
Louisville, Kentucky

## REGARDING THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the original offering of the Bonds of the City. No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representation, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

Upon issuance, the Bonds will not be registered by the City under any federal or state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity or agency except the City will have, at the request of the City, passed upon the accuracy or adequacy of this Official Statement or approved the Bonds for sale.

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 from taxes 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 prior to 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 Bonds should be regarded as part of the City's contract with the successful bidder or the holders from time to time of the Bonds.

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

As used in this Official Statement, "debt service" means principal of, interest and any premium on, the obligations referred to; "City" means the City of Jackson; and "State" or "Kentucky" means the Commonwealth of Kentucky.

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Official Terms and Conditions of Bond Sale  
 Official Bid Form

**PRELIMINARY OFFICIAL STATEMENT**

**\$915,000\***  
**CITY OF JACKSON, KENTUCKY**  
**GENERAL OBLIGATION REFUNDING BONDS**  
**SERIES 2009**

**Dated Date: Date of Delivery**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to provide certain information with respect to the issuance of \$915,000\* aggregate principal amount of General Obligation Refunding Bonds, Series 2009 (the "Bonds") of the City of Jackson, Kentucky (the "City") as specified on the cover hereof.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Bonds to potential investors is made only by means of the entire Official Statement.

***The Issuer***

The Bonds are being issued by the City of Jackson, Kentucky, a political subdivision of the Commonwealth of Kentucky (the "State" or "Commonwealth").

***Sources of Payment for the Bonds***

The Bonds are general obligation debt of the City. The basic security for the Bonds is the City's ability to levy an annual tax to pay the interest on and principal of the Bonds as and when the same become due and payable. (See "Security and Source of Payment for the Bonds," herein).

***Purpose of the Bonds***

The Bonds are being issued for the purpose of (i) the current refunding of all of the outstanding City of Jackson, Kentucky General Obligation Bonds (City Park Project), Series of 1999, dated December 1, 1999 (the "Prior Bonds") (see "THE PROJECT" for more detail), and (ii) paying the associated costs of issuing the Bonds.

***Description of the Bonds***

The Bonds mature as indicated on the cover page hereof. The Bonds are being offered in fully registered form in denominations of \$5,000 or any integral multiple thereof (within the same maturity).

***Redemption***

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

***Book Entry***

Unless the successful purchaser notifies the City in writing within twenty-four hours of the award of the Bonds that it has elected (at such purchaser's expense) to take physical delivery of the Bonds, The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds and the Bonds initially will be issued solely in book-entry form to be held in the book-entry only system maintained by DTC. So long as such book-entry system used, only DTC will receive or have the right to receive physical delivery of Bonds and, except as otherwise provided herein with respect to Beneficial Owners (as defined below) of beneficial ownership interests, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Bonds under the Resolution.

The following information about the book-entry only system applicable to the Bonds has been supplied by DTC. Neither the City nor the Paying Agent and Registrar make any representations, warranties or guarantees with respect to its accuracy or completeness.

\*Preliminary, Subject to Permitted Adjustment

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for in the aggregate principal amount of the Bonds and will be deposited with DTC.

DTC, the world's largest depository, 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 and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and Registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Paying Agent and Registrar 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Paying Agent and Registrar, on payable date in accordance with their respective holdings shown on DTC's records. 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 or its nominee, the Paying Agent and Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent and Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Remarketing Agent and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Remarketing Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Remarketing Agent's DTC account.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable but neither the City nor the Paying Agent and Registrar take any responsibility for the accuracy thereof.

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

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

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

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

DTC may determine to discontinue providing its service as securities depository with respect to the Bonds at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law. In such event, the Resolution provides for issuance of fully registered Bonds ("Replacement Bonds") directly to the Beneficial Owners of Bonds, other than DTC or its nominee, only in the event that DTC resigns or is removed as the securities depository for the Bonds. Upon the occurrence of this event, the City and the Paying Agent and Registrar may appoint another qualified depository. If the City and the Paying Agent and Registrar fail to appoint a successor depository, the Bonds shall be withdrawn from DTC and issued in fully registered form, whereupon the City shall execute and the Paying Agent and Registrar, as authenticating agent, shall authenticate and deliver Replacement Bonds in the denomination of \$5,000 or integral multiples thereof. The City will pay for all costs and expenses of printing, executing and authenticating the Replacement Bonds. Transfer and exchange of such Replacement Bonds shall be made as provided in the Resolution.

### ***Tax Exemption; Bank Qualified***

Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest, including original issue discount, if any, on the Bonds is excludable from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Bonds will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, Bond Counsel has assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. Bond Counsel expresses no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Bonds. Interest on the Bonds is also exempt from income taxation and the bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

The City has designated the Bonds as "qualified tax-exempt obligations" with respect to certain financial institutions under Section 265 of the Code.

### ***Parties to the Issuance of the Bonds***

The Registrar and Paying Agent is The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky. Legal matters incident to the issuance of the Bonds and with regard to the tax-exempt status of the interest thereon are subject to the approving legal opinion of Henry M. Reed III, Louisville, Kentucky, Bond Counsel. The Financial Advisor to the City is First Kentucky Securities Corporation.

### ***Authority for Issuance***

Authority for the issuance of the Bonds is provided by Sections 66.011 through 66.171 of the Kentucky Revised Statutes ("KRS"), Sections 158 and 159 of the Constitution of the Commonwealth and an ordinance (the "Bond Ordinance") adopted by the City Council on November 19, 2009.

### ***Disclosure Information***

In the event the principal amount of Refunding Bonds actually issued does not exceed \$1,000,000 Bond Counsel has advised the City that it is exempt from Continuing Disclosure requirements of the SEC Rule hereinafter set forth. Should the principal amount of Refunding Bonds actually issued exceed \$1,000,000 then the City will enter into a written agreement with a fiduciary for the benefit of all parties who may become Registered or Beneficial Owners of the Bonds whereunder said City will agree to comply with the provisions of the Municipal Securities Disclosure Rules set forth in Securities and Exchange Commission Rule 15c2-12 by filing annual financial statements and material events notices with the Electronic Municipal Market Access (EMMA) System maintained by the Municipal Securities Rule Making Board.

Financial information regarding the City may be obtained from the City Treasurer, City Hall, 333 Broadway Street, Jackson, Kentucky 41339 Telephone 606-666-7069.

The City deems this Preliminary Official Statement to be final for the purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), except for certain information on the cover page hereof, and certain pages herein which have been omitted in accordance with the Rule and will be provided with the final Official Statement.

### ***Additional Information***

Additional information concerning this Official Statement, as well as copies of the basic documentation relating to the Bonds, is available from First Kentucky Securities Corporation, Financial Advisor to the City of Jackson, 305 Ann Street, Suite 400, Frankfort, Kentucky 40602, telephone (502) 875-4611 Attn: Stan Kramer.

## DESCRIPTION OF THE BONDS

The Bonds are dated the date of delivery (expected December 16, 2009) and bear interest from such date at the rates set forth on the cover page of this Official Statement. The Bonds are being issued as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof.

Interest on the Bonds is payable semi-annually on June 1 and December 1, commencing June 1, 2010.

### *Optional Redemption*

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

### *Security and Source of Payment for Bonds*

The Bonds have been authorized by an ordinance passed and adopted by the City Council (Bond Ordinance) pursuant to the authority of Sections 158 and 159 of the Constitution of the Commonwealth of Kentucky and Sections 66.011 through 66.171 of the Kentucky Revised Statutes.

The proceeds of the Bonds (together with other funds available for such purpose) will be applied to the complete redemption and retirement of all of the City's outstanding General Obligation Bonds, Series of 1999, dated December 1, 1999 (the "Prior Bonds") maturing December 1, 2010 and thereafter. Upon delivery of the Bonds sufficient proceeds shall be deposited in the Sinking Fund for the Prior Bonds and invested only in U.S. Government Obligations in order to provide for the refunding of the Prior Bonds on a current basis on or about January 5, 2010.

The Prior Bonds were issued for the purpose of financing improvements to Douthitt Park (the "Project"), a park and recreational area available to the general public.

Pursuant to the provisions of Section 91A.350 of the Kentucky Revised Statutes the City has established the Jackson Tourist and Convention Commission for the purpose of promoting convention and tourist activity. In September of 1997, the City adopted an Ordinance pursuant to the provisions of Sections 91A.390 and 91A.400 of the Kentucky Revised Statutes authorizing the imposition of a tax of 3% on gross retail sales of all restaurants and the imposition of a 3% transient hotel/motel room tax (the "Tourist Taxes"). Under the Bond Ordinance, the City has pledged the Tourist Taxes to the payment of the Bonds and it is not now anticipated that it will be necessary for the City to actually levy the Bond Tax, hereinafter identified, as it is believed that the Tourist Taxes will be sufficient to provide for the principal and interest requirements on the Bonds, the requirements of the Jackson Tourist and Convention Commission and the expenses incident to the operation and maintenance of the Project.

Under the Bond Ordinance and Section 159 of the Kentucky Constitution the City is required to levy and collect an annual tax on all property subject to City taxation sufficient to provide for the maturing principal and accruing interest requirements of the Bonds (the "Bond Tax").

The Bonds constitute general obligations of the City for the payment of the principal of and interest on which the full faith, credit and taxing power of the City are irrevocably pledged.

A portion of the proceeds of the Prior Bonds were utilized to establish a Debt Service Reserve Fund with a Required Minimum Balance equal to the maximum annual principal and interest requirements of the Bonds. The Bond Ordinance for the Refunding Bonds affirms the covenant and the Required Minimum Balance is currently being maintained.

## THE PROJECT

The proceeds of the Bonds will be applied to the complete redemption and retirement of all of the City's outstanding General Obligation Bonds, Series of 1999, dated December 1, 1999 (the "Prior Bonds") maturing December 1, 2010 and thereafter. Upon delivery of the Bonds sufficient proceeds shall be deposited in the Sinking Fund for the Prior Bonds and invested only in U.S. Government Obligations in order to provide for the refunding of the Prior Bonds on a current basis.

### *Estimated Sources and Uses of Funds*

#### **Sources of Funds**

Par Amount of Bonds

Total

**Uses of Funds**

Deposit for Refunding of Prior Bonds  
Underwriter's Discount  
Costs of Issuance  
Rounding Amount

Total

**INVESTMENT CONSIDERATIONS**

The Bonds, like all obligations of state and local government, are subject to changes in value due to changes in the condition of the tax-exempt bond market and/or changes in the financial condition of the City.

Prospective purchasers of the Bonds may need to consult their own tax advisors prior to any purchase of the Bonds as to the impact of the Internal Revenue Code of 1986, as amended, upon their acquisition, holding or disposition of the Bonds.

It is possible under certain market conditions, or if the financial condition of the City should change, that the market price of the Bonds could be adversely affected.

**PROFILE OF THE CITY AND SURROUNDING AREA**

Demographic, economic and financial information with respect to the City and the surrounding area is set forth in Appendix A hereto.

**CITY GOVERNMENT**

***Organization and Major Offices***

The City operates pursuant to the general statutes of the Commonwealth of Kentucky governing municipalities.

***Elected and Appointed Officials***

The City Council (the "Council") is made up of a Mayor, and six Councilmen elected at large by the citizens on a non-partisan ballot. The Mayor is elected for a four-year term and Councilmen for a two-year term. The Mayor and Councilmen have equal voting power. The Council sets the policies that govern the City. It appoints advisory citizen groups that help in the decision making process.

***Financial Management***

The City's fiscal year commences July 1 and ends the following June 30.

The administrative functions of the City are performed by or under the supervision of the following:

1. Establishment of overall financial policy: the Council.
2. Planning and development: the Council.
3. Assessment of real and personal property: the Breathitt County Property Valuation Administrator.
4. Financial control functions: the City Treasurer.
5. Inspection and supervision of the accounts and reports of the City as required by law: the Auditor of Public Accounts and by independent certified public accountants.
6. Supervision and control of the operation of the Jackson City Park: the Council.

The Council is responsible for appropriating the funds used to support the various City activities. The Council exercises its legislative powers by budgeting, appropriating, levying taxes, issuing bonds and notes, and letting contracts for public works and services to provide this financial management.

### ***Financial Reports and Examinations of Accounts***

Each City in the Commonwealth is required to record, keep and maintain its accounting records and render financial reports in such a way as to: (a) determine compliance with statutory provisions; and (b) determine fairly and with full disclosure the financial operations of consistent funds and account groups of the City in conformity with generally accepted governmental accounting principles.

As required by law, financial reports are prepared annually by the City and filed with the Kentucky Department of Local Government.

### ***Budgeting and Appropriations Procedures***

Detailed provisions for City budgeting, tax levies and appropriations are set forth and mandated by the Kentucky Revised Statutes. Cities are required to operate under an annual budget ordinance and no City may expend any moneys from a governmental or proprietary fund except in accordance with such budget. A budget proposal must be submitted to the City's legislative body no later than 30 days prior to the beginning of the fiscal year covered by the budget. Upon approval of the proposed budget, cities are required to submit the proposed budget to the State Local Debt Officer of the Commonwealth of Kentucky for approval. A proposed budget that has been approved by the State Local Debt Officer is required to be adopted by the Council no later than July 1 of each year or within ten days after receipt of the certified assessment from the Commonwealth of Kentucky, whichever is later. No budget ordinance may be adopted which provides for appropriations to exceed revenues in a fiscal year. The full amount estimated to be required for debt service during the budget year must be appropriated. The State Local Debt Officer is authorized to initiate proceedings to compel compliance by the City officials with the requirements imposed by Kentucky law on counties for the administration of their financial affairs.

### ***Investment Policies***

Section 66.480 of the Kentucky Revised Statutes sets forth the requirements and limitations for investments of the state's political subdivisions, including the City. Under that Section, the City must adopt an investment policy and may invest its funds only in the classifications of obligations which are eligible for investment, which are as follows:

- (a) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian. These investments may be accomplished through repurchase agreements reached with sources including, but not limited to, national or state banks chartered in Kentucky;
- (b) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States governmental agency, including but not limited to:
  - 1. United States Treasury;
  - 2. Export-Import Bank of the United States;
  - 3. Farmers Home Administration;
  - 4. Governmental National Mortgage corporation; and
  - 5. Merchant Marine bonds;
- (c) 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;

- (d) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by KRS 41.240(d);
- (e) Uncollateralized certificates of deposit issued by any bank or savings and loan institutions rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- (f) Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- (g) Commercial paper rated in the highest category by a nationally recognized rating agency;
- (h) Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
- (i) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one (1) of the three highest categories by a nationally recognized rating agency; and
- (j) Shares of mutual funds, each of which shall have the following characteristics;
  - 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 (5) years; and
  - 3. All of the securities in the mutual fund shall be eligible investments pursuant to this section.
- (i) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one (1) of the three highest categories by a nationally recognized rating agency; and
- (j) Shares of mutual funds, each of which shall have the following characteristics;
  - (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 (5) years; and
  - (3) All of the securities in the mutual fund shall be eligible investments pursuant to this section.

***Future Borrowings of the City***

At this time, the City does not anticipate any borrowings in the immediate future.

**LEGAL MATTERS**

***General Information Regarding Bond Counsel***

Legal matters incident to the issuance of the Bonds and with regard to the tax-exempt status thereof are subject to the approving legal opinion of Henry M. Reed III, Louisville, Kentucky, Bond Counsel. Upon delivery of the Bonds of the City to the successful bidder therefor, the Bonds will be accompanied by an approving opinion dated the date of such delivery, rendered by Bond Counsel. A draft of such legal opinion for the Bonds is attached as Appendix D.

Bond Counsel has performed certain functions to assist the City in the preparation by the City of its Official Statement. However, Bond Counsel assumes no responsibility for, and will express no opinion regarding the accuracy or completeness of this Official Statement or any other information relating to the City or the Bonds that may be made available by the City or others to the bidders or holders of the Bonds or others.

Bond Counsel has reviewed the information contained in this Official Statement describing the Bonds and the provisions of the Bond Ordinance and related proceedings authorizing the Bonds, but Bond Counsel has not reviewed any of the financial data, computations, tabulations, balance sheets, financial projections, and general information concerning Jackson City, and expresses no opinion thereon, assumes no responsibility for same and has not undertaken independently to verify any information contained herein.

### ***Litigation***

To the knowledge of the City, no litigation or administrative action or proceeding is pending or threatened directly affecting the Bonds, the security for the Bonds or the Project being refinanced from the proceeds of the Bonds. A No-Litigation Certificate to that effect will be delivered to the purchaser at the time of the delivery of the Bonds.

## **ADDITIONAL INFORMATION REGARDING INCOME TAXATION**

### ***Original Issue Premium***

"Acquisition Premium" is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Bonds that bear an interest rate that is higher than the yield (as shown on the cover page hereof), are being initially offered and sold to the public at an Acquisition Premium (the "Premium Bonds"). For federal income tax purposes, the amount of Acquisition Premium on each bond the interest on which is excludable from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the bondholder's adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining bondholder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the Bonds, that must be amortized during any period will be based on the "constant yield" method, using the original bondholder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of any Bonds, including any Premium Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

### ***Original Issue Discount***

The Bonds having a yield that is higher than the interest rate (as shown on the cover page hereof) are being offered and sold to the public at an original issue discount ("OID") from the amounts payable at maturity thereon (the "Discount Bonds"). OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond, and for the Discount Bonds, the amount of accretion will be based on a single rate of interest, compounded semiannually (the "yield to maturity"). The amount of OID that accrues during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues during the period that such purchaser owns the Discount Bond is added to such purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond and thus, in practical effect, is treated as stated interest, which is excludable from gross income for federal income tax purposes.

Holders of Discount Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

## **RATING**

As noted on the cover page of this Official Statement, the Bonds will not be submitted to either Moody's Investors Service or Standard and Poor's U.S. Public Finance Ratings, a division of the McGraw-Hill Companies, Inc. ("S&P") for a rating.

## **FINANCIAL ADVISOR**

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

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

## **MISCELLANEOUS**

To the extent any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, such statements are made as such and not as representations of fact or certainty, and no representation is made that any of such statements will be realized. Information herein has been derived by the City from official and other sources and is believed by the City to be reliable, but such information other than that obtained from official records of the City has not been independently confirmed or verified by the City and its accuracy is not guaranteed. 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 the Bonds.

This Official Statement has been duly executed and delivered for and on behalf of the City of Jackson, Kentucky, by its Judge/Executive.

CITY OF JACKSON, KENTUCKY

By: /s/ Michael Miller  
Mayor

***APPENDIX A***

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***City of Jackson Demographic, Economic and Financial Data***

**General Information**

Jackson, the seat of Breathitt County, is located in the beautiful mountains of Eastern Kentucky in the Fork of the Kentucky River. It was founded with the county in 1839 as Breathitt Town and renamed Jackson in 1845 to honor President Andrew Jackson, who died that year.

Jackson is home to the Honey Festival, Lees College, and Panbowl Lake. Though small in population, the City offers an abundance of friendly people and the quaintness of small town life.

The natural and scenic beauty of the Appalachian Mountains which surround Jackson and Breathitt County provides a down-home, stress-free feeling to all who choose to stay for any length of time.

**Total Population**

	2005	2006	2007	2008	2009
Labor Market Area	96,023	96,165	96,554	96,037	93,420
Breathitt County	15,664	15,881	15,957	15,874	15,522
Jackson	2,413	2,414	2,371	2,400	N/A

Source: Applied Geographic Solutions, Simi Valley, CA (Labor Market Area and County, 2005 and later);  
U.S. Department of Commerce, Bureau of the Census (all other).

**Population by Selected Age Groups, 2009**

	Breathitt County		Labor Market Area	
	Number	Percent	Number	Percent
Under 15	2,689	17.3	17,071	18.3
15-24	2,152	13.9	12,259	13.1
25-34	2,141	13.8	12,408	13.3
35-44	2,021	13.0	12,609	13.5
45-54	2,351	15.1	14,098	15.1
55-64	1,995	12.9	11,871	12.7
65-74	1,267	8.2	7,552	8.1
75 and older	906	5.8	5,552	5.9
Median Age	39.1		39.1	

Source: Applied Geographic Solutions, Simi Valley, CA

## Population by Race and Hispanic Origin, 2009

	Breathitt County		Labor Market Area	
	Number	Percent	Number	Percent
White	15,231	98.1	91,225	97.7
Black	87	0.6	1,174	1.3
Am. Indian & Alaska Native	8	0.1	61	0.1
Asian	85	0.5	360	0.4
Native Hawaiian & other Pacific Islander	4	0.0	13	0.0
Other/Multirace	107	0.7	587	0.6
Hispanic Origin	118	0.8	593	0.6

Note: Hispanic is not a race category. A person can be white, black, etc. and be of hispanic origin.

Source: Applied Geographic Solutions, Semi Valley, CA

## Population Projections

	2014			
Labor Market Area	91,033			
	2010	2015	2020	2025
Breathitt County	16,099	16,364	16,528	16,626

Source: Applied Geographic Solutions, Simi Valley, CA (Labor Market Area);

Kentucky State Data Center, University of Louisville (Counties).

## Personal Income

	2002	2007	Pct. Change
Breathitt County	\$17,276	\$21,197	22.7 %
Kentucky	\$25,777	\$30,824	19.6 %
U.S.	\$30,804	\$38,615	25.4 %
Labor Market Area Range	\$16,165- \$20,826	\$19,312- \$26,175	

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

## Households

	2009		2009
	Number of Households	Persons Per Household	Median Household Income
Breathitt County	6,248	2.42	\$23,321

Source: Applied Geographic Solutions, Simi Valley, CA

## Total Available Labor

	Available Labor, 2008			Future Labor: Becoming 18 Years of Age (2009-2012)
	Total	Unemployed	Potential Labor Supply	
Labor Market Area	7,650	2,632	5,018	5,208
Breathitt County	1,262	412	850	998

Source: U.S. Department of Labor, Bureau of Labor Statistics; Kentucky Cabinet for Economic Development (KCED); U.S. Department of Commerce, Bureau of the Census.

Note: Total Available Labor = Unemployed + Potential Labor Supply.

Unemployed - people currently not employed, but actively seeking work.

Potential Labor Supply: Determined by the national labor force participation rate minus each county's labor force participation rate. Labor force participation rates are calculated by dividing the labor force by the population. NA (Not Applicable) applies to counties with a labor force participation rate greater than the national average.

Future Labor - people becoming 18 years of age (not part of the total available labor statistics).

## Civilian Labor Force

	Breathitt County		Labor Market Area	
	2008	Aug. 2009	2008	Aug. 2009
Civilian Labor Force	5,643	5,646	33,883	34,911
Employed	5,231	5,041	31,251	30,207
Unemployed	412	605	2,632	4,704
Unemployment Rate (%)	7.3	10.7	7.8	13.5

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

## Unemployment Rate (%)

Year	Breathitt County	Labor Market Area	Kentucky	U.S.
2004	7.5	8.3	5.5	5.5
2005	7.5	8.1	6	5.1
2006	7.4	7.7	5.7	4.6
2007	7.4	7.8	5.5	4.6
2008	7.3	7.8	6.4	5.8

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

## Employment by Major Industry by Place of Work, 2008

	Breathitt County		Labor Market Area	
	Employment	Percent	Employment	Percent
All Industries	3,407	100.0	26,474	100.0
Agriculture, Forestry, Fishing and Hunting	N/A	N/A	N/A	N/A
Mining	212	6.2	2,485	9.4
Construction	36	1.1	355	1.3
Manufacturing	73	2.1	648	2.4
Trade, Transportation, and Utilities	754	22.1	4,575	17.3
Information	29	0.9	283	1.1
Financial Activities	143	4.2	555	2.1
Services	811	23.8	4,194	15.8
Public Administration	334	9.8	1,535	5.8
Other	N/A	N/A	N/A	N/A

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

## Major Business & Industry (Manufacturing & Supportive Service Firms Only)

Firm	Product(s)/Service(s)	Emp.	Year Established
<i>Jackson</i>			
Appalachian Regional Manufacturing	Packaging, subassembly service, and full assembly product testing	67	1991
Combs Custom Manufacturing	Truck bumpers & accessories, push bars, grilles & grille guards; equipment parts - loaders, dozers, handrails, custom off road and ATV parts	2	1979
Dotweld	Metal manufacturing and fabrication	4	2002
Jackson Times	Weekly newspaper publishing	6	1965
Kentucky Explorer	Monthly magazine publishing	2	1969
Wells Group LLC, The	Ready-mixed concrete	4	2001

Source: Kentucky Cabinet for Economic Development (10/17/2009).

***Tax Base Information***

<u>Year</u>	<u>Real Estate</u>	<u>Tangible Personal</u>	<u>Real Estate/ Tangible Franchise</u>	<u>Motor Vehicle/ Watercraft Franchise</u>	<u>Total Assessed Value</u>
08/09	\$88,188,598	\$23,032,982	\$5,826,478	\$ 9,618,450	\$126,666,508
07/08	82,396,293	21,971,116	2,524,459	11,295,617	118,187,485
06/07	84,561,653	24,297,991	4,956,917	11,503,603	125,320,164
05/06	79,943,128	24,404,256	4,956,917	12,899,288	122,203,589
04/05	76,096,868	22,940,543	4,887,865	14,396,959	118,322,195
03/04	77,828,028	19,928,159	2,564,825	16,116,684	116,437,696

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

<u>Year</u>	<u>Real Estate</u>	<u>Tangible Personal</u>	<u>Real Estate Franchise</u>	<u>Tangible Franchise</u>	<u>Motor Vehicles</u>
08/09	.2140	.2650	.2140	.2650	.0020
07/08	.2240	.2750	.2240	.2750	.0020
06/07	.2170	.2480	.2170	.2480	.0020
05/06	.2080	.2300	.2080	.2300	.0020
04/05	.2050	.2300	.2050	.2300	.0020
03/04	.1950	.2640	.1950	.2640	.0020

***Largest City Principal Taxpayers***

<u>Name</u>	<u>Assessment</u>
Jackson Jet	
Jackson Hospital Corp (KY River Medical Center)	\$3,345,000
North Jackson Plaza	1,480,000
V. M. Ent	1,475,000
Dr. Pablo Mereed	1,085,000
North Point Apartments	744,200
Clair Enterprises	632,000

***APPENDIX B***

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***Estimated Debt Service Requirements for the Series 2009 Bonds***

**CITY OF JACKSON, KENTUCKY  
GENERAL OBLIGATION REFUNDING BONDS  
SERIES 2009**

*Estimated Debt Service Requirements*

<b>Maturity Date</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal and Interest Total</b>	<b>Fiscal Year Total</b>
06/01/2010		\$12,470.10	\$12,470.10	\$12,470.10
12/01/2010	\$80,000	13,603.75	93,603.75	
06/01/2011		12,763.75	12,763.75	106,367.50
12/01/2011	80,000	12,763.75	92,763.75	
06/01/2012		11,883.75	11,883.75	104,647.50
12/01/2012	85,000	11,883.75	96,883.75	
06/01/2013		10,906.25	10,906.25	107,790.00
12/01/2013	85,000	10,906.25	95,906.25	
06/01/2014		9,843.75	9,843.75	105,750.00
12/01/2014	90,000	9,843.75	99,843.75	
06/01/2015		8,561.25	8,561.25	108,405.00
12/01/2015	95,000	8,561.25	103,561.25	
06/01/2016		7,088.75	7,088.75	110,650.00
12/01/2016	95,000	7,088.75	102,088.75	
06/01/2017		5,545.00	5,545.00	107,633.75
12/01/2017	100,000	5,545.00	105,545.00	
06/01/2018		3,820.00	3,820.00	109,365.00
12/01/2018	100,000	3,820.00	103,820.00	
06/01/2019		1,995.00	1,995.00	105,815.00
12/01/2019	105,000	1,995.00	106,995.00	106,995.00
<b>Totals</b>	<b>\$915,000</b>	<b>\$170,888.85</b>	<b>\$1,085,888.85</b>	

Source: Fiscal Agent

*APPENDIX C*

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*Audited Financial Report for the Year Ended June 30, 2008*

**CITY OF JACKSON, KENTUCKY**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2008**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**



**Kelley,  
Galloway &  
Company, PSC**

**CERTIFIED PUBLIC ACCOUNTANTS**

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Kelley,  
Galloway &  
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and PKF North American Network

## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor  
and Members of City Council  
City of Jackson  
Jackson, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Jackson, Kentucky as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the City of Jackson's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Jackson, Kentucky, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2009 on our consideration of the City of Jackson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the

internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis information on pages 4 through 7 is not a required part of the basic financial statements but is supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

*Kelley, Dalloway & Company, PSC*

March 17, 2009

## **Management's Discussion and Analysis Year Ended June 30, 2008**

The discussion and analysis of the City of Jackson, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. This information is presented in conjunction with the audited financial statements that follow this section.

### **FINANCIAL HIGHLIGHTS**

- The assets of the Governmental Activities exceeded its liabilities at the end of the fiscal year by \$453,816 (net assets). Governmental activities' unrestricted net assets were \$804,244 and are used to meet the Government's ongoing obligations. The assets of the Business-type activities' exceeded its liabilities at the end of the fiscal year by \$9,393,505 (net assets). Business-type activities' unrestricted net assets were (\$869,052).
- The Government's total net assets decreased by \$100,410. Net assets of governmental activities increased by \$163,993 and net assets of business-type activities decreased by \$264,403.
- At June 30, 2008, the governmental activities had \$5,854,547 in assets and \$5,400,731 in liabilities. Business-type activities had \$14,634,873 in assets and \$5,241,368 in liabilities.

### **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private - sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include public safety, public works, recreation, and community development. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8 - 9 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The basic governmental and proprietary fund financial statements can be found on pages 10 - 17 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18 - 25 of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$9,847,321 at the close of the most recent fiscal year.

#### City of Jackson, Kentucky's Net Assets

	<u>Government- type Activities</u> 2008	<u>Business-type Activities</u> 2008	<u>Government- type Activities</u> 2007	<u>Business-type Activities</u> 2007
Current assets	\$ 1,546,179	\$ 403,887	\$ 1,941,196	\$ 252,990
Capital assets	4,308,368	15,092,476	3,902,067	15,149,179
Total assets	<u>5,854,547</u>	<u>15,496,363</u>	<u>5,843,263</u>	<u>15,402,169</u>
Current liabilities	416,610	1,855,258	155,028	1,233,638
Long-term liabilities	4,984,121	4,247,600	5,398,412	4,510,623
Total liabilities	<u>5,400,731</u>	<u>6,102,858</u>	<u>5,553,440</u>	<u>5,744,261</u>
Net assets:				
Investment in capital assets, net of related debt	(523,840)	10,229,053	(695,047)	10,638,556
Restricted	173,412	33,504	182,221	48,462
Unrestricted	804,244	(869,052)	802,649	(1,029,110)
- Total net assets	<u>\$ 453,816</u>	<u>\$ 9,393,505</u>	<u>\$ 289,823</u>	<u>\$ 9,657,908</u>

By far the largest portion of the City net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets still outstanding. The City uses these capital assets to provide services to citizens and consumers; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate those liabilities.

#### City of Jackson, Kentucky's Changes in Net Assets

	<u>Government- type Activities</u> 2008	<u>Business-type Activities</u> 2008	<u>Government- type Activities</u> 2007	<u>Business-type Activities</u> 2007
Revenues:				
Charges for services	\$ 442,192	\$ 1,232,847	\$ 417,970	\$ 1,142,824
Capital grants and contributions	-	163,648	-	79,155
Tax levies	296,298	-	279,313	-
Occupational licenses fees	733,650	-	729,524	-
Insurance premiums	365,874	-	390,770	-
Tourism tax	464,336	-	527,203	-
Coal/mineral severance & LGEA	108,327	-	73,430	-
Grants/contributions	806,968	-	56,231	-
Interest income	18,386	1,428	32,328	2,169
Other income	111,935	-	114,999	-
Total revenues	<u>3,347,966</u>	<u>1,397,923</u>	<u>2,621,768</u>	<u>1,224,148</u>

Expenses:				
General government	1,110,170	-	960,876	-
Police	525,432	-	513,260	-
Fire	311,920	-	300,147	-
Streets	332,163	-	306,054	-
Sanitation	301,298	-	230,128	-
Park	518,803	-	426,747	-
Social service	14,400	-	14,400	-
Infrastructure	11,041	-	8,066	-
Debt service	58,746	-	62,146	-
Water	-	1,132,285	-	1,255,334
Sewer	-	530,041	-	537,682
Total expenses	<u>3,183,973</u>	<u>1,662,326</u>	<u>2,821,824</u>	<u>1,793,016</u>
Change in net assets	<u>163,993</u>	<u>(264,403)</u>	<u>(200,056)</u>	<u>(568,868)</u>
Net assets, beginning of year	<u>289,823</u>	<u>9,657,908</u>	<u>489,879</u>	<u>10,226,776</u>
Net assets, ending of year	<u>\$ 453,816</u>	<u>\$ 9,393,505</u>	<u>\$ 289,823</u>	<u>\$ 9,657,908</u>

**Government-type activity.** Government-type activity net assets increased by \$163,993 or 56.6%. Key elements of this increase are as follows:

- Due to additional grant monies received in the current year.

**Business-type activity.** Business-type activity net assets decreased by \$264,403 or 2.7%.

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the Government's operations in more detail than the government-wide statements by providing information about the Government's most significant funds. Two types of funds are presented in the fund financial statements: governmental funds and proprietary funds.

**Governmental funds.** Most of the Government's basic services are reported in the governmental funds. These statements provide a short-term view of general government operations and how these services are financed as well as the balances left at year end that are available for future spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash.

**Proprietary funds.** The City's proprietary fund provides the same type of information found in government-wide financial statements, but in more detail.

**Enterprise fund.** The Utility Enterprise Fund accounts for operations in a manner similar to a private business enterprise. Operations are accounted for in such a manner as to show net income or loss and the funds are intended to be predominately self supported from user charges.

### Capital Assets

The City's investment in capital assets for governmental and business-type activities as of June 30, 2008, amounts to \$19,400,844 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment. The increase in the City's investment in capital assets for the current year was 4.0% percent, before current depreciation.

Major capital asset events during the current fiscal year included the city hall renovations finalized, park renovations, water treatment plant expansion and water line extension.

Additional information on the City's capital assets can be found in Note (5) of the financial statements.

### **Debt Administration**

At the end of the current fiscal year, the City had total debt outstanding of \$10,055,057. The City's debt increased 1.5%. Additional information on the City's long-term debt can be found in Note (6) of the financial statements.

### **Budget Comparisons**

- General fund revenues were \$815,966 more than budgeted primarily the result of additional tourism tax monies being received. General fund expenditures were \$1,243,052 more than budgeted, primarily the result of park renovations and streetscape.

### **ECONOMIC FACTORS AND NEXT YEAR'S RATES**

In considering the City budget for the fiscal year 2009, the City expects no significant changes.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide citizens, customers, investors, and creditors, with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Mike Miller, Mayor or Angie Combs, City Clerk at 333 Broadway, Jackson, Kentucky 41139 or phone (606) 666-7069.

**CITY OF JACKSON, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 81,697	\$ 83,593	\$ 165,290
Accounts receivable	33,841	286,790	320,631
Taxes receivable	9,920	-	9,920
Grants receivable	26,393	-	26,393
Due from (to) other funds	861,490	(861,490)	-
Restricted assets -			
Cash and cash equivalents	24,003	33,504	57,507
Investments-debt service of 1999	149,409	-	149,409
Investments-debt proceeds	79	-	79
Investments-debt reserve - KADD	359,347	-	359,347
Nondepreciable capital assets	539,234	536,862	1,076,096
Depreciable capital assets	6,591,268	21,478,632	28,069,900
Accumulated depreciation	(2,822,134)	(6,923,018)	(9,745,152)
<b>Total assets</b>	<b>5,854,547</b>	<b>14,634,873</b>	<b>20,489,420</b>
<b>LIABILITIES</b>			
Accounts payable	139,114	94,120	233,234
Other accrued liabilities	69,983	58,487	128,470
Current portion of long-term debt	207,513	615,823	823,336
Accrued interest payable	-	108,668	108,668
Customer deposits	-	116,670	116,670
Long-term debt, net of current portion	4,984,121	4,247,600	9,231,721
<b>Total liabilities</b>	<b>5,400,731</b>	<b>5,241,368</b>	<b>10,642,099</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	(523,840)	10,229,053	9,705,213
Restricted	173,412	33,504	206,916
Unrestricted	804,244	(869,052)	(64,808)
<b>Total net assets</b>	<b>\$ 453,816</b>	<b>\$ 9,393,505</b>	<b>\$ 9,847,321</b>

The accompanying notes to financial statements are  
an integral part of this statement.

**CITY OF JACKSON, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**JUNE 30, 2008**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General government	\$ 1,110,170	\$ -	\$ 769,600	\$ -	\$ (340,570)	\$ -	\$ (340,570)
Police	525,432	28,259	-	-	(497,173)	-	(497,173)
Fire	311,920	-	-	-	(311,920)	-	(311,920)
Streets	332,163	-	37,368	-	(294,795)	-	(294,795)
Sanitation	301,298	379,633	-	-	78,335	-	78,335
Parks	518,803	34,300	-	-	(484,503)	-	(484,503)
Social service	14,400	-	-	-	(14,400)	-	(14,400)
Infrastructure depreciation	11,041	-	-	-	(11,041)	-	(11,041)
Debt service	58,746	-	-	-	(58,746)	-	(58,746)
Total governmental activities	<u>3,183,973</u>	<u>442,192</u>	<u>806,968</u>	<u>-</u>	<u>(1,934,813)</u>	<u>-</u>	<u>(1,934,813)</u>
<b>Business-Type Activities</b>							
Water	1,132,285	777,403	-	163,648	-	(191,234)	(191,234)
Sewer	530,041	455,444	-	-	-	(74,597)	(74,597)
Total business-type activities	<u>1,662,326</u>	<u>1,232,847</u>	<u>-</u>	<u>163,648</u>	<u>-</u>	<u>(265,831)</u>	<u>(265,831)</u>
Total primary government	<u>\$ 4,846,299</u>	<u>\$ 1,675,039</u>	<u>\$ 806,968</u>	<u>\$ 163,648</u>	<u>\$ (1,934,813)</u>	<u>\$ (265,831)</u>	<u>\$ (2,200,644)</u>
<b>General Revenues:</b>							
Property and other local taxes					\$ 296,298	\$ -	\$ 296,298
Occupational license fees					733,650	-	733,650
Insurance premiums					365,874	-	365,874
Tourism tax					464,336	-	464,336
Coal/mineral severance & LGEA					108,327	-	108,327
Interest income					18,386	1,428	19,814
Other income					111,935	-	111,935
Total general revenues					<u>2,098,806</u>	<u>1,428</u>	<u>2,100,234</u>
Change in net assets					<u>163,993</u>	<u>(264,403)</u>	<u>(100,410)</u>
Net assets, June 30, 2007					<u>289,823</u>	<u>9,657,908</u>	<u>9,947,731</u>
Net assets, June 30, 2008					<u>\$ 453,816</u>	<u>\$ 9,393,505</u>	<u>\$ 9,847,321</u>

The accompanying notes to financial statements are  
an integral part of this statement.

**CITY OF JACKSON, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008**

	General	Total Governmental Funds
<b>Assets</b>		
Cash	\$ 81,697	\$ 81,697
Fee receivable	33,841	33,841
Taxes receivable	9,920	9,920
Grants receivable	26,393	26,393
Restricted assets-cash	24,003	24,003
Investments-debt service of 1999	149,409	149,409
Investments-debt proceeds	79	79
Investments-debt service - KADD	359,347	359,347
Due from other funds	861,490	861,490
<b>Total assets</b>	<b>\$ 1,546,179</b>	<b>\$ 1,546,179</b>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 139,114	\$ 139,114
Accrued expenses	69,983	69,983
<b>Total liabilities</b>	<b>209,097</b>	<b>209,097</b>
<b>Fund Balances:</b>		
Reserved for construction	359,426	359,426
Reserved for debt service	173,412	173,412
Unreserved	804,244	804,244
<b>Total fund balances</b>	<b>1,337,082</b>	<b>1,337,082</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,546,179</b>	<b>\$ 1,546,179</b>

The accompanying notes to financial statements are  
an integral part of this statement.

**CITY OF JACKSON, KENTUCKY**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF**  
**NET ASSETS**  
**JUNE 30, 2008**

Total fund balance - total governmental funds \$ 1,337,082

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets of \$7,130,502, net of accumulated depreciation of \$2,822,134  
used in governmental activities are not financial resources and therefore  
are not reported in the governmental funds. 4,308,368

Long-term liabilities, including bonds payable, are not due and payable in the  
current period and therefore are not reported in the governmental funds. (5,191,634)

Net assets, end of year - Governmental Activities \$ 453,816

The accompanying notes to financial statements are  
an integral part of this statement.

**CITY OF JACKSON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	General	Total Governmental Funds
<b>Revenues</b>		
Property taxes	\$ 214,706	\$ 214,706
Delinquent property taxes	33,294	33,294
Franchise taxes	48,298	48,298
Occupational license fees	733,650	733,650
Arrest fees, fines and forfeitures	28,259	28,259
Garbage collections	379,633	379,633
Tourism tax	464,336	464,336
Insurance premiums	365,874	365,874
Parks and recreation	34,300	34,300
Grant income	769,600	769,600
Coal/mineral severance & LGEA	108,327	108,327
Municipal road aid	37,368	37,368
Interest income	18,386	18,386
Other income	111,935	111,935
Total revenues	3,347,966	3,347,966
<b>Expenditures</b>		
General government	1,081,542	1,081,542
Police	518,551	518,551
Fire	287,718	287,718
Streets	325,952	325,952
Sanitation	283,878	283,878
Parks	359,907	359,907
Social service	14,400	14,400
Capital outlay	659,580	659,580
Debt service	265,524	265,524
Total expenditures	3,797,052	3,797,052
Excess (deficiency) of revenues over (under) expenditures	(449,086)	(449,086)
<b>Other financing sources (uses):</b>		
Proceeds from capital lease obligations	-	-
Total other financing sources (uses)	-	-
Net change in fund balances	(449,086)	(449,086)
Fund balance, beginning of year	1,786,168	1,786,168
Fund balance, end of year	\$ 1,337,082	\$ 1,337,082

The accompanying notes to financial statements are  
an integral part of this statement.

**CITY OF JACKSON, KENTUCKY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

Net change in fund balances - total governmental funds	\$ (449,086)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	406,301
The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and interest consumes current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>206,778</u>
Change in net assets of governmental activities	<u>\$ 163,993</u>

The accompanying notes to financial statements are  
an integral part of this statement.

**CITY OF JACKSON, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2008**

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 82,196	\$ 1,397	\$ 83,593
Accounts receivable - utilities	178,755	108,035	286,790
Due from other funds	-	-	-
<b>Total current assets</b>	<b>260,951</b>	<b>109,432</b>	<b>370,383</b>
Restricted Assets:			
Cash and cash equivalents	33,433	71	33,504
<b>Total restricted assets</b>	<b>33,433</b>	<b>71</b>	<b>33,504</b>
Capital Assets:			
Property, plant and equipment	14,638,217	7,377,277	22,015,494
Less: Accumulated depreciation	(3,985,591)	(2,937,427)	(6,923,018)
<b>Total capital assets - net</b>	<b>10,652,626</b>	<b>4,439,850</b>	<b>15,092,476</b>
<b>Total assets</b>	<b>\$ 10,947,010</b>	<b>\$ 4,549,353</b>	<b>\$ 15,496,363</b>
<b>LIABILITIES</b>			
Current liabilities (payable from current assets):			
Accounts payable	\$ 43,955	\$ 50,165	\$ 94,120
Due to other funds	425,332	436,158	861,490
Accrued liabilities	45,801	12,686	58,487
Accrued interest payable	80,566	28,102	108,668
Current portion of debt	93,943	521,880	615,823
<b>Total current liabilities (payable from current assets)</b>	<b>689,597</b>	<b>1,048,991</b>	<b>1,738,588</b>
Current liabilities (payable from restricted assets):			
Customer deposits	116,670	-	116,670
<b>Total current liabilities (payable from restricted assets)</b>	<b>116,670</b>	<b>-</b>	<b>116,670</b>
Long-term debt, net of current portion	3,649,570	598,030	4,247,600
<b>Total liabilities</b>	<b>4,455,837</b>	<b>1,647,021</b>	<b>6,102,858</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	6,909,113	3,319,940	10,229,053
Restricted	33,433	71	33,504
Unrestricted	(451,373)	(417,679)	(869,052)
<b>Total net assets</b>	<b>\$ 6,491,173</b>	<b>\$ 2,902,332</b>	<b>\$ 9,393,505</b>

The accompanying notes to financial statements are  
an integral part of this statement.

**CITY OF JACKSON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
<b>OPERATING REVENUES</b>			
Water sales	\$ 775,254	\$ -	\$ 775,254
Sewer service	-	448,680	448,680
Miscellaneous	2,149	6,764	8,913
Total operating revenues	<u>777,403</u>	<u>455,444</u>	<u>1,232,847</u>
<b>OPERATING EXPENSES</b>			
Salaries	315,614	138,019	453,633
Depreciation	353,435	152,525	505,960
Taxes and retirement	83,370	47,319	130,689
Utilities	93,493	54,608	148,101
Supplies	101,897	47,039	148,936
Insurance	79,283	58,246	137,529
Contract labor	17,106	14,548	31,654
Sludge hauling	-	784	784
Miscellaneous	5,002	1,950	6,952
Total operating expenses	<u>1,049,200</u>	<u>515,038</u>	<u>1,564,238</u>
OPERATING INCOME (LOSS)	<u>(271,797)</u>	<u>(59,594)</u>	<u>(331,391)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest income	1,200	228	1,428
Grant income	160,198	-	160,198
Interest expense	(83,085)	(15,003)	(98,088)
Total non-operating revenues (expenses)	<u>78,313</u>	<u>(14,775)</u>	<u>63,538</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>(193,484)</u>	<u>(74,369)</u>	<u>(267,853)</u>
CAPITAL CONTRIBUTIONS (TAPS)	<u>3,450</u>	<u>-</u>	<u>3,450</u>
INCREASE (DECREASE) IN NET ASSETS	(190,034)	(74,369)	(264,403)
NET ASSETS, JUNE 30, 2007	<u>6,681,207</u>	<u>2,976,701</u>	<u>9,657,908</u>
NET ASSETS, JUNE 30, 2008	<u>\$ 6,491,173</u>	<u>\$ 2,902,332</u>	<u>\$ 9,393,505</u>

The accompanying notes to financial statements are  
an integral part of this statement.

**CITY OF JACKSON, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 698,858	\$ 394,839	\$ 1,093,697
Cash payments to suppliers for goods and services	(356,858)	(160,397)	(517,255)
Cash payments to employees	(369,752)	(181,842)	(551,594)
Other operating revenues	2,149	6,764	8,913
Net cash provided by (used for) operating activities	<u>(25,603)</u>	<u>59,364</u>	<u>33,761</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>			
Change in due to other funds	74,357	(74,357)	-
Change in customer deposits	(2,000)	-	(2,000)
Net cash provided by (used for) non-capital financing activities	<u>72,357</u>	<u>(74,357)</u>	<u>(2,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(449,256)	-	(449,256)
Proceeds from debt	450,000	-	450,000
Principal paid on long-term debt	(97,200)	-	(97,200)
Interest paid on long-term debt	(79,583)	(138)	(79,721)
Capital contributions	3,450	-	3,450
Capital grants received	160,198	-	160,198
Net cash used for capital and related financing activities	<u>(12,391)</u>	<u>(138)</u>	<u>(12,529)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	1,200	228	1,428
Net cash provided by investing activities	<u>1,200</u>	<u>228</u>	<u>1,428</u>
Net increase (decrease) in cash and cash equivalents	35,563	(14,903)	20,660
Cash and cash equivalents, June 30, 2007	80,066	16,371	96,437
Cash and cash equivalents, June 30, 2008	<u>\$ 115,629</u>	<u>\$ 1,468</u>	<u>\$ 117,097</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>			
Operating loss	\$ (271,797)	\$ (59,594)	\$ (331,391)
Adjustments:			
Depreciation	353,435	152,525	505,960
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(76,396)	(53,841)	(130,237)
Increase (decrease) in accounts payable	(60,077)	16,778	(43,299)
Increase in other accrued liabilities	29,232	3,496	32,728
Net cash provided by (used for) operating activities	<u>\$ (25,603)</u>	<u>\$ 59,364</u>	<u>\$ 33,761</u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF JACKSON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>					
Property taxes	\$ 225,000	\$ -	\$ 225,000	\$ 214,706	\$ (10,294)
Delinquent taxes	10,000	-	10,000	33,294	23,294
Franchise taxes	50,000	-	50,000	48,298	(1,702)
Intergovernmental revenues	15,000	-	15,000	-	(15,000)
Occupational license fee	750,000	-	750,000	733,650	(16,350)
Arrest fees, fines and forfeitures	10,000	-	10,000	28,259	18,259
Garbage collections	375,000	-	375,000	379,633	4,633
Tourism tax	230,000	-	230,000	464,336	234,336
Insurance premium tax	371,000	-	371,000	365,874	(5,126)
Parks and recreation	45,000	-	45,000	34,300	(10,700)
Grant income	14,000	-	14,000	769,600	755,600
Coal severance & LGEA	80,000	-	80,000	108,327	28,327
Municipal road aid	32,000	-	32,000	37,368	5,368
Interest income	-	-	-	18,386	18,386
Other income	325,000	-	325,000	111,935	(213,065)
<b>Total revenues</b>	<b>2,532,000</b>	<b>-</b>	<b>2,532,000</b>	<b>3,347,966</b>	<b>815,966</b>
<b>Expenditures</b>					
General government	394,000	-	394,000	1,081,542	(687,542)
Police	625,000	-	625,000	518,551	106,449
Fire	280,000	-	280,000	287,718	(7,718)
Park	200,000	-	200,000	325,952	(125,952)
Street	238,000	-	238,000	283,878	(45,878)
Sanitation	320,000	-	320,000	359,907	(39,907)
Social service	15,000	-	15,000	14,400	600
Capital outlay	-	-	-	659,580	(659,580)
Debt service	482,000	-	482,000	265,524	216,476
<b>Total expenditures</b>	<b>2,554,000</b>	<b>-</b>	<b>2,554,000</b>	<b>3,797,052</b>	<b>(1,243,052)</b>
Excess (deficiency) of revenues over (under) expenditures	(22,000)	-	(22,000)	(449,086)	(427,086)
<b>Other financing sources (uses):</b>					
Proceeds from bond anticipation notes	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balances	(22,000)	-	(22,000)	(449,086)	(427,086)
Fund balance, beginning of year	22,000	-	22,000	1,786,168	1,764,168
Fund balance, end of year	\$ -	\$ -	\$ -	\$ 1,337,082	\$ 1,337,082

The accompanying notes to financial statements are  
an integral part of this statement.

**CITY OF JACKSON, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting methods and procedures adopted by the City of Jackson, Kentucky (the "City") conform to U.S. generally accepted accounting principles. The following notes are an integral part of the City of Jackson, Kentucky's financial statements.

The City of Jackson, Kentucky was created by the Acts of the Kentucky General Assembly and operates under an elected Mayor and City Council form of government and provides such services as police, fire, streets, sanitation, parks and recreation, and social service.

**a. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and proprietary funds. The City considers all governmental and proprietary funds to be major funds, due to their belief that all of these funds present financial information which is important to the financial statement users. Thus, individual governmental funds and individual proprietary funds are reported as separate columns in the fund financial statements.

**b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded 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.

Property taxes, franchise taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major Governmental Fund:

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

The City reports the following major Proprietary Fund:

Utility Fund - The Utility Fund is used to account for water and sewer services for the City and surrounding communities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City Utility Fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's Enterprise Funds, are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

#### c. Budgeting

Prior to June 30, the Mayor submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes proposed operating and capital expenditures and the means of financing them. The Mayor is authorized to transfer budgeted amounts within departments of any fund; however, any revisions that alter the total expenditures of any department or fund must be approved by the City Council. Therefore, the level of control on budgetary items is maintained at the department level. Management is of the opinion that its method of adopting the budget is in compliance with applicable regulations.

#### d. Investments

The City has adopted GASB No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", whereby all investments are reported at fair value in the balance sheet. Unrealized gains and losses are included in other revenues in the combined statement of revenues, expenditures, and changes in fund balances - all governmental funds.

e. Capital Assets and Depreciation

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 assets 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 assets 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 asset or materially extend an assets life are not.

All reported capital assets are depreciated with the exception of land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Water and Sewer Systems	40-50 years
Equipment & Vehicles	3-10 years
Buildings	40 years

The City is required by GASB 34 to prospectively report general infrastructure assets in the statement of net assets. During the 2008 fiscal year, there were no additions considered to be infrastructure assets.

f. Statement of Cash Flows

For the purpose of the Statement of Cash Flows, the Proprietary Funds consider all highly liquid investments (including restricted cash) with a maturity of three months or less when purchased to be cash equivalents.

**(2) CASH AND INVESTMENTS**

Deposits - The funds of the City must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At June 30, 2008, the carrying amount of the City's deposits (including amounts in restricted asset accounts) was \$222,797 and the bank balances totaled \$304,175. The difference between the carrying amounts and the bank balances was due to items in transit. Of the bank balances, \$155,810 was covered by the Bank Insurance Fund and \$148,365 was collateralized by securities pledged by the bank in the City's name as of June 30, 2008.

a. Restricted Cash

The Jackson Municipal Waterworks System is required to maintain restricted bank accounts in accordance with ordinances established in connection with the sale of the Waterworks Revenue Bond issues of 1979, 1980, 1983, 1999, and 2005. Specified amounts of current operating receipts are to be deposited to the restricted bank accounts monthly. Disbursements from the accounts are restricted as specified to the retirement of outstanding bonds, semiannual interest payments, and utility plant additions or replacements.

The City of Jackson, Kentucky maintains certain restricted bank accounts in accordance with the ordinances established for the Public Properties Bond Issue of 1999. In 1999 the City issued \$1,475,000 of bonds for park renovations and the purchase of a garbage truck. Funds earmarked for this purpose are revenues from a tourism tax.

**(3) PROPERTY TAXES**

Property is assessed at its value on January 1 of each year. Taxes are payable in one installment on or before January 31 of the next year. The City bills and collects its own property taxes.

The 2008 assessed value for real property was \$82,251,353. The tax rate adopted was \$.217 per \$100 valuation.

**(4) INVESTMENTS**

Investments are administered utilizing the services of the trust department of a bank. A summary of investments at June 30, 2008 is as follows:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gain (Loss)</u>
General Fund -			
Fixed income bond funds	\$ 508,835	\$ 508,835	\$ -
	<u>\$ 508,835</u>	<u>\$ 508,835</u>	<u>\$ -</u>

**(5) CAPITAL ASSETS**

A summary of changes in the City's capital assets is as follows:

	<u>June 30, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2008</u>
<b><u>Governmental Activities</u></b>				
<b>Capital Assets, Not Depreciated:</b>				
Land	\$ 329,000	\$ -	\$ -	\$ 329,000
Construction in progress	-	210,324	-	210,324
<b>Capital Assets, Depreciated:</b>				
City Hall	1,169,527	-	-	1,169,527
Administrative office & equipment	25,360	-	-	25,360
Infrastructure	220,822	-	-	220,822
Street equipment	93,670	-	-	93,670
Fire equipment & vehicles	805,629	-	-	805,629
Fire department buildings	525,000	-	-	525,000
Parks and recreation	3,113,639	449,256	-	3,562,895
Sanitation equipment	122,600	-	-	122,600
Police equipment & vehicles	65,675	-	-	65,675
Totals	<u>6,470,922</u>	<u>659,580</u>	<u>-</u>	<u>7,130,502</u>
Less: Accumulated Depreciation	<u>(2,568,855)</u>	<u>(253,279)</u>	<u>-</u>	<u>(2,822,134)</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 3,902,067</u>	<u>\$ 406,301</u>	<u>\$ -</u>	<u>\$ 4,308,368</u>
<b><u>Business-type Activities</u></b>				
<b>Capital Assets, Not Depreciated:</b>				
Land	\$ 536,862	\$ -	\$ -	\$ 536,862
<b>Capital Assets, Depreciated:</b>				
Distribution plant and equipment	20,319,118	-	-	20,319,118
Machinery and equipment	710,258	449,256	-	1,159,514
Totals	<u>21,566,238</u>	<u>449,256</u>	<u>-</u>	<u>22,015,494</u>
Less: Accumulated Depreciation	<u>(6,417,059)</u>	<u>(505,959)</u>	<u>-</u>	<u>(6,923,018)</u>
<b>Business-type Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 15,149,179</u>	<u>\$ (56,703)</u>	<u>\$ -</u>	<u>\$ 15,092,476</u>

Depreciation expense was allocated to functions/programs of the primary government as

follows:

Governmental activities:	
General government	\$ 28,628
Police	6,881
Fire	24,202
Street	6,211
Sanitation	17,420
Park	158,896
Infrastructure	11,041
	<u>\$ 253,279</u>
Business-type activities:	
Utilities	<u>\$ 505,959</u>

**(6) LONG-TERM DEBT**

**Business-Type Activities**

Long-term debt of Proprietary Funds at June 30, 2008 consists of the following:

**Bonds Payable:**

\$57,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 1979, Series B, payable in annual installments ranging from \$2,000 to \$3,000 through 2009, with interest paid semi-annually at 4.75%	\$ 3,000
\$184,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 1979, Series C, payable in annual installments ranging from \$6,000 to \$11,000 through 2015, with interest paid semi-annually at 5.00%	66,000
\$750,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 1980, payable in annual installments ranging from \$18,000 to \$42,000 through 2020, with interest paid semi-annually at 5.00%	395,000
\$60,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 1983, payable in annual installments ranging from \$2,000 to \$3,000 through 2022, with interest paid semi-annually at 5.00%	35,000
\$2,217,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 2006, payable in annual installments ranging from \$60,000 to \$120,000 through 2044, with interest paid semi-annually at 4.5%	2,145,000
\$550,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 2006B, payable in annual installments ranging from \$10,000 to \$30,000 through 2044, with interest paid semi-annually at 4.5%	532,500

\$140,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 1999, payable in annual installments ranging from \$1,500 to \$7,100 through 2039, with interest paid semi-annually at 4.50%

128,300  
3,304,800

**Capital Lease Obligation:**

\$450,000 capital lease obligation with the Kentucky League of Cities, payable in monthly installments of \$3,514 through November, 2022, with interest at 3.82%

438,713  
438,713

**Installment Notes Payable:**

\$1,606,068 subordinated assistance agreement to the Kentucky Infrastructure Authority ("KIA"), payable in annual installments ranging from \$50,390 to \$51,199 through 2011 with interest paid semi-annually at 2.2%

633,383

\$681,983 subordinated assistance agreement to the Kentucky Infrastructure Authority ("KIA"), payable in annual installments ranging from \$20,398 to \$20,958 through 2018 with interest paid semi-annually at 1.8%

486,527  
1,119,910

Total long-term debt - proprietary funds 4,863,423

Less - current portion (615,823)  
\$ 4,247,600

The debt service requirements on the above proprietary fund indebtedness are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 615,823	\$ 207,988	\$ 823,811
2010	222,129	176,401	398,530
2011	228,383	169,248	397,631
2012	185,334	161,859	347,193
2013	141,066	155,778	296,844
2014-2018	760,817	691,500	1,452,317
2019-2023	625,005	549,366	1,174,371
2024-2028	303,246	441,952	745,198
2029-2033	378,815	366,381	745,196
2034-2038	473,217	271,981	745,198
2039-2043	591,143	154,056	745,199
2044-2046	338,445	23,887	362,333
	<u>\$ 4,863,423</u>	<u>\$3,370,397</u>	<u>\$ 8,233,820</u>

The revenue bonds require monthly deposits to the reserve account of approximately \$780 to attain a balance of \$90,940 as of June 30, 2008. The City had revenue bond reserve funds of \$6,106 at June 30, 2008. The Kentucky Infrastructure Authority installment notes payable also require annual deposits to the reserve account of \$24,137 to attain a balance of \$124,373 as of June 30, 2008. However, the City had \$11,037 of KIA reserve funds at June 30, 2008.

The following is a summary of changes in long-term debt (including current portions) of the City for the year ended June 30, 2008:

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
<b><u>Governmental Activities</u></b>				
General obligation bonds - \$1,475,000 originally issued with interest rates ranging from 4.50% to 5.90%	\$ 1,070,000	\$ -	\$ 70,000	\$ 1,000,000
Capital lease obligation, KADD, \$4,260,000 with interest rates ranging from 4.0% to 5.5%, with semi-annual payments through May, 2027, secured by buildings and equipment	4,260,000	-	120,000	4,140,000
4.29% Capital lease obligation with a bank, \$87,100 with monthly payments of \$1,616 through April, 2011, secured by a sanitation truck	68,412	-	16,778	51,634
	<u>\$ 5,398,412</u>	<u>\$ -</u>	<u>\$ 206,778</u>	<u>\$ 5,191,634</u>
<b><u>Business-type Activities</u></b>				
Notes payable	\$ 1,119,910	\$ -	\$ -	\$ 1,119,910
Capital lease obligation	-	450,000	11,287	438,713
Bonds payable	3,390,713	-	85,913	3,304,800
Total Business-type Activities	<u>\$ 4,510,623</u>	<u>\$ 450,000</u>	<u>\$ 97,200</u>	<u>\$ 4,863,423</u>

**Governmental Activities**

The annual requirements to amortize the City's indebtedness as of June 30, 2008 (including interest payments) are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 207,513	\$ 255,560	\$ 463,073
2010	218,279	246,163	464,442
2011	225,842	236,188	462,030
2012	220,000	226,064	446,064
2013	235,000	215,476	450,476
2014-2018	1,395,000	882,580	2,277,580
2019-2023	1,440,000	479,892	1,919,892
2024-2027	1,250,000	108,053	1,358,053
	<u>\$ 5,191,634</u>	<u>\$ 2,649,976</u>	<u>\$ 7,841,610</u>

**(7) LEGAL CONTINGENCIES**

The City is a defendant in various legal actions arising from normal business operations. The City's legal counsel believes these actions are without merit, adequately covered by insurance, or that the ultimate liability, if any, will not materially effect the City's financial position.

**(8) RISK MANAGEMENT**

Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**(9) RETIREMENT**

The City contributes to the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. It covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

The CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646.

Plan members are required to contribute 5% of their annual creditable compensation, and the City is required to contribute 16.17% of the employee's total compensation. Plan members in hazardous positions are required to contribute 8% of their annual creditable compensation, and the City is required to contribute 33.87% of the employees' compensation. The contribution requirements of CERS members and the City are established and may be amended by the CERS Board of Trustees. The contribution requirements of CERS members and the City are established and may be amended by the CERS Board of Trustees. The City's contributions to CERS for the year ending June 30, 2008, were \$182,139, equal to the required contributions for the year.



Kelley,  
Galloway &  
Company, PSC

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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***

The Honorable Mayor  
and Members of City Council  
City of Jackson  
Jackson, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Jackson, Kentucky (the "City") as of and for the year ended June 30, 2008 and have issued our report thereon dated March 17, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described in the accompanying schedule of findings and responses are material weaknesses.

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

#### Compliance and Other Matters

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

This report is intended solely for the information of the Mayor, members of the City Council and management of the City of Jackson and is not intended to be and should not be used by anyone other than these specified parties.

*Kelley, Galloway & Company, PSC*

March 17, 2009

**CITY OF JACKSON  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2008**

**Finding 08-01**

**Accounting Records**

The City currently does not maintain its accounting records on a modified accrual or accrual basis. Therefore, numerous year end adjustments are required to record accounts receivable, accounts payable, prepaid expenses, accrued liabilities, etc. Modified accrual or accrual (for Proprietary Fund Types) basis of accounting is recommended by the American Institute of Certified Public Accountants in its industry audit guide, "Audits of State and Local Governmental Units".

**Management's Response**

The City is currently evaluating this recommendation and the available alternatives.

**Finding 08-02**

**Budgeting**

The City had revenues and expenditures in excess of budgeted amounts. We recommend that when the City anticipates additional revenues and/or expenditures that the budget be amended to incorporate those amounts.

**Management's Response**

The City will amend the budget for significant changes in expectations in future years.

**Finding 08-03**

**Payment of Invoices**

We noted several invoices that did not contain the signature of the Mayor or the Superintendent indicating proper approval. In addition, dual signature checks are required; however, a signature stamp is utilized for the Mayor and Superintendent's signature when one of the signers is absent. We noted instances where the signature stamp was used for both signatures on the check. Thus, proper approval of disbursements is not evident on either the check or the invoice in these instances. This creates improper segregation of duties, since one person writes the checks, signs the checks with a signature stamp, and posts the entry to the general ledger. We recommend that all invoices be approved by the Mayor or Superintendent, as applicable, and such approval be indicated with their initials. We also recommend that only one signature stamp be utilized on each check and that all bank reconciliations be reviewed by an independent person and indicated as such on the reconciliation with the reviewer's initials and date.

**Management's Response**

Every effort is made to ensure that at least one signature is an original on all checks; however, at certain times this is not possible. The Mayor or Superintendent will indicate their approval on all invoices.

**CITY OF JACKSON  
SCHEDULE OF FINDINGS AND RESPONSES (CONCLUDED)  
FOR THE YEAR ENDED JUNE 30, 2008**

**Finding 08-04**

**Utility Account Adjustments**

We noted that there were several utility adjustments made during the year. These adjustments are approved by the Mayor. We recommend that the council adopt a formal policy for the procedures related to utility adjustments to customer accounts.

**Management's Response**

Management will provide a summary of utility adjustments to City Council on a periodic basis for their review.

***APPENDIX D***

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***Form of Final Approving Legal Opinion of Bond Counsel***

REED LAW OFFICE

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**In re: \$915,000 City of Jackson, (Kentucky) General Obligation Refunding Bonds,  
Series of 2009, dated December 16, 2009**

I have examined the transcript of proceedings had in connection with the issuance of \$915,000 City of Jackson (Kentucky) General Obligation Refunding Bonds, Series of 2009, dated December 16, 2009 (the "Bonds"). Said Bonds have been issued in fully registered form, both principal and interest, accrue interest from their date at the rates indicated below, payable June 1, 2010, and semi-annually thereafter, and mature as to principal on December 1 as follows:

<u>Year</u>	<u>Principal</u>	<u>Rate</u>	<u>CUSIP</u> <u>468216</u>	<u>Year</u>	<u>Principal</u>	<u>Rate</u>	<u>CUSIP</u> <u>468216</u>
2010	\$ 80,000	%		2015	\$ 95,000	%	
2011	80,000			2016	95,000		
2012	85,000			2017	100,000		
2013	85,000			2018	100,000		
2014	90,000			2019	105,000		

The Bonds are not subject to redemption at the option of the City prior to their stated maturities

Said Bonds shall be in denominations in multiples of \$5,000 within the same maturity. The City has delivered Bond Certificates to The Bank of New York Mellon Trust Company N.A., Louisville, Kentucky, the Bond Registrar and Paying Agent, fully registered in the name of Cede & Co., New York, New York, as the designee of The Depository Trust Company ("DTC"). The payment of all interest, principal and redemption premium, if any, as well as all transfers of ownership of the Bonds shall be effected through the Book-Entry-Only-System facilitated through DTC utilizing the fifteenth day of the month preceding a due date as the record date for Ownership.

Based on my examination of such proceedings and on applicable provisions of the Constitution and Statutes of the Commonwealth of Kentucky, as amended, decisions of the appellate courts of the Commonwealth of Kentucky, and the Bond Ordinance passed and adopted by the City Council authorizing the issuance of the Bonds and the levy of a special Bond Tax, it is my opinion that the Bonds constitute valid and binding general obligations of the City according to their terms and applicable provisions of Kentucky law; that the full faith and credit of the City are irrevocably pledged for the payment of principal of and interest on the Bonds; that the City is mandatorily required by Section 159 of the Constitution of Kentucky to levy annually such special Bond Tax, separate and apart from all other taxes, as may be necessary to provide for the payment of the 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; that the indebtedness evidenced by the Bonds, together with all other general obligation indebtedness of the City existing at the time of the delivery of the 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; and that the Bonds have been authorized, sold and delivered 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 of the Kentucky Revised Statutes, now in full force and effect.

Such Bonds are issued for the purpose of refunding all of the City's outstanding General Obligation Bonds, Series of 1999, dated December 1, 1999, (the "Series 1999 Bonds" or "Prior Issue") maturing December 1, 2010 and thereafter, prior to their stated maturities. The Prior Bonds were issued to finance the acquisition and improvement of Douthitt Park.

Pursuant to the provisions of Section 91A.350 of the Kentucky Revised Statutes, the City has established the Jackson Tourist and Convention Commission for the purpose of promoting convention and tourist activities. In September of 1997, the City adopted an Ordinance pursuant to the provisions of Sections 91A.390 and 91A.400 of the Kentucky Revised Statutes authorizing the imposition of a tax of 3% on gross retail sales of all restaurants and the imposition of a 3% transient hotel/motel room tax (the "Tourist Taxes"). Under the Bond Ordinance, the City has pledged the Tourist Taxes to the payment of the Bonds and it is not now anticipated that it will be necessary for the City to actually levy the Bond Tax as it is believed that the Tourist Taxes will be sufficient to provide for the principal and interest requirements on the Bonds, the requirements of the Jackson Tourist and Convention Commission and the expenses incident to the operation and maintenance of Douthitt Park.

Based upon existing statutes, regulations and official rulings as construed and applied as of the date the Bonds herein referred to are delivered, it is my further opinion that the receipt of interest on said Bonds is at present excludable from the gross income of the recipients thereof for present Commonwealth of Kentucky and Federal income tax purposes, and that said Bonds are exempt from present ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions. Notwithstanding the foregoing with regard to the exclusion from gross income for Federal income tax purposes, Registered Owners are advised as follows: (i) in the computation of the corporate minimum tax, earnings and profits may include otherwise tax-exempt interest on the Bonds; (ii) property and casualty insurance companies may be denied certain loss reserve deductions to the extent of otherwise tax-exempt interest on the Bonds; (iii) individuals must include interest income on the Bonds in the calculation of "modified adjusted gross income" in the determination of whether and to what extent Social Security benefits are subject to Federal income taxation; and (iv) financial institutions may treat the Bonds as "qualified tax-exempt obligations" under the provisions of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

With respect to the opinions expressed herein, (a) the rights and obligations under the Bonds and the Bond 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) I am passing on only those matters set forth in such opinions and am not passing on the investment quality of the Bonds or the accuracy or completeness of any statements made or data furnished in connection with any sale of the Bonds.

HENRY M. REED III

**OFFICIAL TERMS AND CONDITIONS OF BOND SALE**

**\$915,000\***

**City of Jackson, Kentucky  
General Obligation Refunding Bonds,  
Series of 2009  
Dated December 16, 2009**

**SALE: 11:00 A.M. E.S.T. December 2, 2009**

The City of Jackson, Kentucky ("City"), will until the 2<sup>nd</sup> day of December 2009, at 11:00 A.M., E.S.T., receive in office of the Mayor, City Hall, 333 Broadway Street, Jackson, Kentucky, 41339 (FAX: 606-666-7046 and PHONE: 606-666-7069) competitive bids for the purchase of the Bonds herein described, subject to the following terms and conditions. To be considered bids must be submitted on an Official Bid Form and must be delivered to the City at the address indicated on the date of sale no later than the hour indicated submitted manually, by facsimile or electronically via PARITY. Bids will be considered by the Mayor and may be accepted without further action by the City Council.

**THE BONDS**

Description of Bonds - The Bonds offered for sale are \$915,000 of General Obligation Refunding Bonds, Series of 2009, dated as of delivery (the "Bonds") being fully registered Bonds of the denominations of \$5,000 and any integral multiple of \$5,000. Said Bonds will mature on December 1 in each of the years 2010 through 2019.

Subject to Permitted Adjustment\* increasing or decreasing the principal amount of the Bonds to be sold as set forth in Bidding Terms and Conditions.

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

Principal on the Bonds will be payable at the principal office of The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky. Interest on the Bonds will be paid at rates to be established upon the basis of competitive bidding as hereinafter set forth, such interest to be payable on December 1 and June 1 of each year, beginning June 1, 2010 utilizing the Book-Entry-Only-System to Registered Owners as of the 15<sup>th</sup> day of the month preceding a due date.

**AUTHORITY, PURPOSE AND SECURITY**

The Bonds have been authorized by an ordinance passed and adopted by the City Council (Bond Ordinance) pursuant to the authority of Sections 158 and 159 of the Constitution of the Commonwealth of Kentucky and Sections 66.011 through 66.171 of the Kentucky Revised Statutes.

The proceeds of the Bonds (together with other funds available for such purpose) will be applied to the complete redemption and retirement of all of the City's outstanding General Obligation Bonds, Series of 1999, dated December 1, 1999 (the "Prior Bonds") maturing December 1, 2010 and thereafter. Upon delivery of the Bonds sufficient proceeds shall be deposited in the Sinking Fund for the Prior Bonds and invested only in U.S. Government Obligations in order to provide for the refunding of the Prior Bonds on a current basis on or about January 5, 2010.

The Prior Bonds were issued for the purpose of financing improvements to Douthitt Park (the "Project"), a park and recreational area available to the general public.

Pursuant to the provisions of Section 91A.350 of the Kentucky Revised Statutes the City has established the Jackson Tourist and Convention Commission for the purpose of promoting convention and tourist activity. In September of 1997, the City adopted an Ordinance pursuant to the provisions of Sections 91A.390 and 91A.400 of the Kentucky Revised Statutes authorizing the imposition of a tax of 3% on gross retail sales of all restaurants and the imposition of a 3% transient hotel/motel room tax (the "Tourist Taxes"). Under the Bond Ordinance, the City has pledged the Tourist Taxes to the payment of the Bonds and it is not now anticipated that it will be necessary for the City to actually levy the Bond Tax, hereinafter identified, as it is believed that the Tourist Taxes will be sufficient to provide for the principal and interest requirements on the Bonds, the requirements of the Jackson Tourist and Convention Commission and the expenses incident to the operation and maintenance of the Project.

Under the Bond Ordinance and Section 159 of the Kentucky Constitution the City is required to levy and collect an annual tax on all property subject to City taxation sufficient to provide for the maturing principal and accruing interest requirements of the Bonds (the "Bond Tax").

The Bonds constitute general obligations of the City for the payment of the principal of and interest on which the full faith, credit and taxing power of the City are irrevocably pledged.

A portion of the proceeds of the Prior Bonds were utilized to establish a Debt Service Reserve Fund with a Required Minimum Balance equal to the maximum annual principal and interest requirements of the Bonds. The Bond Ordinance for the Refunding Bonds affirms the covenant and the Required Minimum Balance is currently being maintained.

### **BIDDING TERMS AND CONDITIONS**

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

1. Time of Sale - Bids for the Bonds must be received by the Mayor of the City on the date and no later than the time above set out. The Mayor has been authorized by the City Council, to accept the lowest evaluated bid upon the advice of the Financial Advisor.
2. Sale Conditions -
  - (a) Bids will be considered and must be made on the Official Bid Form in order to provide for uniformity in submission of bids and ready determination of the lowest and best bid.
  - (b) Bids will be for cash and for the entire issue at not less than \$905,850 (99% of par) for the \$915,000 principal amount of Bonds plus accrued interest, (if any) from the date of the Bonds (December 16, 2009) to the date of delivery, PAYABLE IN FEDERAL FUNDS.
  - (c) The determination of the best purchase bid for the Bonds will be made on the basis of all bids submitted for exactly the principal amount offered for the Bonds under the terms and conditions herein specified; provided, however, the City reserves the right to increase or decrease the total principal amount of the Bonds sold to such best bidder ("Permitted Adjustment") in an amount not exceed \$90,000, with such increase or decrease made in any or all maturities.
  - (d) The successful purchaser of the Bonds (without further advice from the City) is required to deposit with the Paying Agent bank for the Bonds, 2% of the principal amount of Bonds awarded, by the close of business of the first banking business day following the award of the Bonds. The purchaser shall wire transfer the good faith deposit to the Paying Agent, The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky; Attention: Mr. Michael Hanks, (502-566-6922). The good faith deposit will be applied (without interest) to the purchase price of the Bonds. The good faith deposit will be forfeited to the City if the purchaser fails to take delivery.
  - (e) Bidders must stipulate an interest rate or rates in multiples of 1/8, 1/10 or 1/20 of 1% on an ascending scale, in that the interest rate stipulated in any year may not be less than that stipulated for any preceding maturity.
  - (f) Only one interest rate shall be permitted per Bond, and all Bonds of the same maturity shall bear the same rate. There is no limit on the number of different interest rates.
  - (g) The successful bidder may elect to notify the Financial Advisor within twenty-four (24) hours of the award of the Bonds that certain serial maturities as awarded may be combined with immediately succeeding serial maturities as one or more Term Bonds; provided, however, (a) bids must be submitted to permit only a single interest rate for each term bond specified, and (b) Term Bonds will be subject to mandatory redemption by lot on December 1 in accordance with the maturity schedule setting the actual size of the issue.
  - (h) The right to reject bids for any reason deemed advisable by the City and the right to waive any possible informalities or irregularities in any bid which in the judgment of the City will be minor or immaterial is expressly reserved.
3. Additional Sale Provisions -
  - (a) The Bonds are being offered and are to be issued subject to, and the City will furnish to the purchaser upon Bond delivery, the approving legal opinions of Bond and Special Tax Counsel, Henry M. Reed III, Louisville, Kentucky, as to the due and proper authorization, validity and tax-exempt status of the Bonds and interest thereon as more particularly described in the Official Statement, to which reference is made. The City will also furnish, at its own expense, the printed Bonds, together with customary closing documents, including a no-litigation certificate.

- (b) The Bonds are offered for sale on the basis of the principal not being subject to Kentucky ad valorem taxation and on the basis of the interest on the Bonds being excludable from gross income for Federal and Kentucky income taxation on the date of their delivery to the successful bidder, subject to the further exceptions, assumptions and provisions of the Official Statement. The Bonds have been designated by the City as an issue of "qualified tax-exempt obligations" under Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, and are eligible for such treatment when held by commercial banks and certain other financial institutions. If, prior to the delivery of the Bonds, any event should occur which alters such tax-exempt and other status, the purchaser will have the privilege of avoiding the purchase contract by giving immediate written notice to the Mayor of the City, whereupon the good faith deposit of the purchaser will be returned to the purchaser, and all respective obligations of the parties will be terminated.
- (c) The successful bidder for the Bonds shall be required to certify the re-offering prices of the Bonds purchased to the Financial Advisor immediately upon award of the Bonds.
- (d) Electronic bids for the Bonds must be submitted through PARITY<sup>®</sup> and no other provider of electronic bidding services will be accepted. Subscription to the PARITY<sup>®</sup> Competitive Bidding System is required in order to submit an electronic bid. The 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 PARITY<sup>®</sup> shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in PARITY<sup>®</sup> conflict with the terms of the Official Terms and Conditions of Bond Sale, this Official Terms and Conditions of Sale of Bonds shall prevail. Electronic bids made through the facilities of PARITY<sup>®</sup> shall be deemed an offer to purchase in response to the Notice of Bond Sale and shall be binding upon the bidders as if made by signed, sealed written bids delivered to the City. The City shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by PARITY<sup>®</sup>. The use of PARITY<sup>®</sup> facilities are at the sole risk of the prospective bidders. For further information regarding PARITY<sup>®</sup>, potential bidders may contact PARITY<sup>®</sup>, telephone (212) 404-8102. Notwithstanding the foregoing non-electronic bids may be submitted via facsimile or by hand delivery utilizing the Official Bid Form.
- (e) The purchaser will be required to take delivery of and pay for the Bonds on a date to be designated by the City; NOW ANTICIPATED TO BE December 16, 2009 and upon notice being given by the City or its Financial Advisor at least seven (7) business days prior to the designated delivery date.
- (f) Prospective bidders are advised that First Kentucky Securities Corporation, Frankfort, Kentucky ("First Kentucky") has been employed as Financial Advisor in connection with the issuance of the Bonds. First Kentucky's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery thereof. Bidders, including First Kentucky may submit a bid for the purchase of the Bonds at the time of the advertised public sale, either individually or as a member of a syndicate organized to submit a bid for the purchase of the Bonds.
- (g) The City will provide to the successful purchaser a Final Official Statement in accordance with SEC Rule 15c2-12. A Final Official Statement will be provided in Electronic Form to the successful bidder, in sufficient time to meet the delivery requirements of the successful bidder under SEC and Municipal Securities Rulemaking Board Delivery Requirements. The successful bidder will be required to pay for the printing of Final Official Statements.

#### TAX EXEMPTION; BANK QUALIFIED

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

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

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

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

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

(C) As a result of designations and certifications by the City, indicating the issuance of less than \$30,000,000 of qualified tax-exempt obligations during the calendar year ending December 31, 2009, the Bonds may be treated by financial institutions as if they were acquired before August 8, 1986.

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

### **CONTINUING DISCLOSURE; ANTICIPATED EXEMPTION**

In the event the principal amount of Refunding Bonds actually issued does not exceed \$1,000,000 Bond Counsel has advised the City that it is exempt from Continuing Disclosure requirements of the SEC Rule hereinafter set forth. Should the principal amount of Refunding Bonds actually issued exceed \$1,000,000 then the City will enter into a written agreement with a fiduciary for the benefit of all parties who may become Registered or Beneficial Owners of the Bonds whereunder said City will agree to comply with the provisions of the Municipal Securities Disclosure Rules set forth in Securities and Exchange Commission Rule 15c2-12 by filing annual financial statements and material events notices with the Electronic Municipal Market Access (EMMA) System maintained by the Municipal Securities Rule Making Board.

Financial information regarding the City may be obtained from the City Treasurer, City Hall, 333 Broadway Street, Jackson, Kentucky 41339 Telephone 606-666-7069.

### **BOOK-ENTRY-ONLY-SYSTEM**

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

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

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

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

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

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

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

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

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

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

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

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

**By /s/ Michael Miller**

**Mayor, City of Jackson, Kentucky**

**OFFICIAL BID FORM**  
(Bond Purchase Agreement)

Subject to the terms and conditions set forth in the Official Terms and Conditions of Bond Sale for \$915,000 City of Jackson (Kentucky) General Obligation Refunding Bonds, Series of 2009, dated December 16, 2009 (Date of Delivery), and in accordance with the Notice of Bond Sale, as advertised, to all of which the undersigned agrees, the undersigned hereby submits the following offer to purchase said Bonds.

We hereby bid for said \$915,000\* principal amount of Bonds, the total sum of \$\_\_\_\_\_ (not less than \$905,850) plus accrued interest from December 16, 2009, at the following annual rate(s), payable June 1, 2010 and semiannually thereafter (rates on ascending scale) and maturing as to principal on December 1 in each of the years as follows:

<u>Year</u>	<u>Amount*</u>	<u>Rate</u>	<u>Year</u>	<u>Amount*</u>	<u>Rate</u>
2010	80,000	_____%	2015	95,000	_____%
2011	80,000	_____	2016	95,000	_____
2012	85,000	_____	2017	100,000	_____
2013	85,000	_____	2018	100,000	_____
2014	90,000	_____	2019	105,000	_____

\*Subject to Permitted Adjustment

We understand this bid may be accepted for as much as \$1,005,000 of Bonds or as little as \$825,000 of Bonds, at the same price per \$5,000 Bond, with the variation in such amount occurring in any maturity or all maturities, which will be determined by the City at the time of acceptance of the best bid.

Electronic bids for the Bonds must be submitted through PARITY<sup>®</sup> and no other provider of electronic bidding services will be accepted. Subscription to the PARITY<sup>®</sup> Competitive Bidding System is required in order to submit an electronic bid. The 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 PARITY<sup>®</sup> shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in PARITY<sup>®</sup> conflict with the terms of the Official Terms and Conditions of Sale of Bonds, this Official Terms and Conditions of Sale of Bonds shall prevail. Electronic bids made through the facilities of PARITY<sup>®</sup> shall be deemed an offer to purchase in response to the Notice of Bond Sale and shall be binding upon the bidders as if made by signed, sealed written bids delivered to the City. The City shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by PARITY<sup>®</sup>. The use of PARITY<sup>®</sup> facilities are at the sole risk of the prospective bidders. For further information regarding PARITY<sup>®</sup>, potential bidders may contact PARITY<sup>®</sup>, telephone (212) 404-8102. Notwithstanding the foregoing non-electronic bids may be submitted via facsimile or by hand delivery utilizing the Official Bid Form.

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

It is understood that the City will furnish the final approving Legal Opinion of Henry M. Reed III, Bond Counsel, Louisville, Kentucky.

The DTC Book-Entry-Only-System will be utilized on delivery of this issue.

No certified or bank cashier's check will be required to accompany a bid, but the successful bidder shall be required to wire transfer an amount equal to 2% of the principal amount of Bonds awarded by the close of business on the date following the award. Said good faith amount will be applied (without interest) to the purchase price on delivery. Wire transfer procedures should be arranged through The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky, Attn: Mr. Mike Hanks (502-566-6922).

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

If we are the successful bidder, we agree to accept and make payment for the Bonds in Federal Funds on or about December 16, 2009 and upon acceptance by the Issuer's Financial Advisor this Official Bid Form shall become the Bond Purchase Agreement. We have read footnote 1 below regarding Final Official Statement.

Respectfully submitted,

\_\_\_\_\_  
Bidder

By \_\_\_\_\_  
Authorized Officer

\_\_\_\_\_  
Address

Total interest cost from December 16, 2009 to final maturity \$ \_\_\_\_\_

Plus discount or less any premium \$ \_\_\_\_\_

Average interest rate or cost (i.e. NIC) \_\_\_\_\_%

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

Accepted by the Mayor of the City of Jackson, Kentucky for \$ \_\_\_\_\_ amount of Bonds at a price of \$ \_\_\_\_\_ as follows:

<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Year</u>	<u>Amount</u>	<u>Rate</u>
2010	_____,000	_____%	2015	_____,000	_____%
2011	_____,000	_____	2016	_____,000	_____
2012	_____,000	_____	2017	_____,000	_____
2013	_____,000	_____	2018	_____,000	_____
2014	_____,000	_____	2019	_____,000	_____

Dated: December 2, 2009.

CITY OF JACKSON, KENTUCKY

\_\_\_\_\_  
Mayor

<sup>1</sup>The Issuer will provide to the successful purchaser a Final Official Statement in accordance with SEC Rule 15c2-12. A Final Official Statement will be provided in Electronic Form to the successful bidder, in sufficient time to meet the delivery requirements of the successful bidder under SEC and Municipal Securities Rulemaking Board Delivery Requirements. The successful bidder will be required to pay for the printing of Final Official Statements.