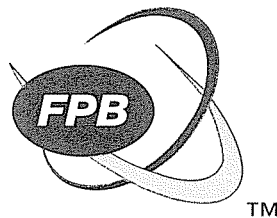


Jim Smith  
General Manager



Frankfort Plant Board

Water  
Cable  
Electric  
Security  
Local Phone  
Digital Cable  
Long Distance  
Community TV  
Ethernet/Internet  
Cable Modem/ISP  
Cable Advertising

January 7, 2011

RECEIVED

JAN 07 2011

PUBLIC SERVICE  
COMMISSION

Mr. Jeff Derouen  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, KY 40602-0615

Re: Case No. 2010-00485

Dear Mr. Derouen:

Enclosed for filing please find three bankers boxes containing an original and ten (10) copies of the FEWPB's Response to the Commission's Order dated December 17, 2010 in the above referenced matter.

I appreciate your assistance. If you have any questions or require additional information, please contact me at (502) 352-4541 or [hprice@fewpb.com](mailto:hprice@fewpb.com).

Sincerely,

Hance Price  
Staff Attorney

HP/mw  
encl.  
Cc: Thomas Marshall, Esq.  
Donald Prather, Esq.

*Equal Opportunity/Affirmative Action Employer*

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JAN 07 2011

PUBLIC SERVICE  
COMMISSION

In the Matter of:

THE PROPOSED ADJUSTMENT OF THE )  
WHOLESALE WATER SERVICE RATES OF )  
THE FRANKFORT ELECTRIC AND WATER )  
PLANT BOARD )

CASE NO. 2010-00485

**FEWPB'S RESPONSE TO ORDER OF DECEMBER 17, 2010**

1. Provide the direct testimony, in written verified form, of each witness that the Plant Board intends to call at the scheduled hearing in this matter.

Witness(es): Jim Smith, Paul Herbert

Response: Attached

2. a. Provide the three most recent independent auditor's reports that are available for the Plant Board's water operations.

b. If the independent auditor's report for the fiscal year ending June 30, 2010 is not available, state the anticipated date that it will be available.

Witness(es): Shannon Taylor

Response: Attached

3. a. State the 12-month test period upon which the Plant Board bases its proposed rate adjustment.

b. Explain why this test period was chosen.

Witness(es): Shannon Taylor, Paul Herbert

Response: Attached

4. Provide the general ledgers for the Plant Board's water operations for the proposed test period and the most recently concluded fiscal year. These general ledgers

shall include all check registers and spreadsheets used to record and track financial transactions.

Witness(es): Shannon Taylor

Response: Attached

5. For each outstanding revenue bond issuance related to the Plant Board's water operations, provide:

- a. The bond ordinance or resolution authorizing the issuance of revenue bonds;
- b. An amortization schedule;
- c. A detailed explanation of why the debt was incurred; and
- d. A calculation of the annual debt service payment, including all required

payments, to debt service reserve accounts or funds, for each of the next three years.

Witness(es): Shannon Taylor, Herbbie Bannister, David Billings

Response: Attached

6. List all persons on the Plant Board's payroll during the proposed test period. For each employee, state his or her job duties, total wages paid during the fiscal year, current salary or wage rate, and the percentage of work hours spent performing duties for each city division (e.g., water, sewer, police department, public works) during the fiscal year. If the Plant Board's records do not permit the allocation of an employee's work hours among city divisions, provide an estimate for each employee and explain how the Plant Board derived the estimate.

Witness(es): Shannon Taylor

Response: Attached

7. For each employee listed in Item 6, describe how the Plant Board allocated his or her payroll and payroll overhead charges to each city division for the proposed test period.

This response shall include a detailed explanation of all allocation procedures. Payroll overhead charges include payroll taxes, health insurance premiums, pension costs, and any other employee benefit cost.

Witness(es): Shannon Taylor

Response: Attached

8. a. List all joint or shared costs that the Plant Board incurred during the proposed test period. For each cost, list the vendor, total expense amount, amounts allocated per division, and the basis for allocation.

b. Describe the procedures to allocate joint and shared costs among the Plant Board's divisions for the proposed test period.

c. Provide all internal memoranda, policy statements, correspondence, and documents related to the allocation of joint and shared costs.

Witness(es): Shannon Taylor

Response: Attached

9. Provide a detailed depreciation schedule for the water division.

Witness(es): Shannon Taylor

Response: Attached

10. Provide an adjusted trial balance and audit adjustments for the proposed test period and the most recently completed fiscal year. The trial balance shall be traced and referenced directly to the general ledgers requested in Item 4.

Witness(es): Shannon Taylor

Response: Attached



11. Provide the "Enterprise Funds Uniform Financial Information report: that the Plant Board submitted to the Kentucky Department of Local Government for the fiscal years ending June 30, 2009 and June 30, 2010.

Witness(es): Shannon Taylor

Response: Attached

12. a. Identify all person or entities to which the Plant Board provides wholesale water service.

b. For each customer listed above, provide its monthly water usage and the amount that the Plant Board charged it for service for each of the previous 24 months.

Witness(es): David Billings, Herbbie Bannister, Shannon Taylor

Response: Attached

13. a. For all water mains in the Plant Board's system, complete the table below. Add larger main sizes if necessary.

<b>Water Main Size</b>	<b>Total Miles of Line</b>	<b>Miles of Lines Used by the Plant Board to Serve its wholesale Customers</b>
48"	0.60	0.60
42"	0.10	0.10
36"	1.05	1.05
30"	0.65	0.64
24"	7.74	7.74
20"	9.09	9.03
16"	10.55	10.54
14"	2.88	2.84
12"	36.85	31.07
10"	1.21	1.18
8"	59.23	39.98
6"	130.68	60.46
4"	25.72	3.88

b. Identify the person or entity who paid for the water main(s) that the Plant Board uses to deliver water to the Plant Board's wholesale customer(s).

Witness(es): David Billings, Herbbie Bannister

Response: Attached

14. a. State the maximum capacity of the Plant Board's water treatment plant.

b. For each of the customers listed in response to Item 12(a), state:

(1) The amount of the Plant Board's total water treatment plant capacity currently reserved for that customer; and

(2) The minimum and maximum quantity of water (in gallons) that the customer may purchase in a month under the terms of its present water purchase contract with the Plant Board.

c. Describe the changes, if any, that the Plant Board expects within the next three years in the level of water treatment capacity reserved for each of the customers listed in Item 12(a) and state the reason(s) for the Plant Board's expectations.

Witness(es): Herbbie Bannister, David Billings

Response: Attached

15. a. Identify the owner of the master meter(s) through which the Plant Board provides water to the customers listed in Item 12(a).

b. State, for each customer listed in Item 12(a), the number of master meters that the Plant Board uses to provide water service to that customer.

c. Identify the party who is responsible for maintaining these master meters.

Witness(es): Herbbie Bannister, David Billings

Response: Attached

16. Provide a system map showing all the Plant Board's facilities that are used to serve the customers listed in Item 12(a). This map shall, at a minimum, show all master meters, pumping stations, storage tanks, water transmission mains, and water distribution mains used to serve the customers listed in Item 12(a). The size of all mains shall be clearly indicated on this map.

Witness(es): Herbbie Bannister, David Billings

Response: Attached

17. State the portion, if any, of the Plant Board's water main(s) that serves the customers listed in Item 12(a) that are gravity-fed.

Witness(es): Herbbie Bannister, David Billings

Response: Attached

18. a. List the Plant Board's water sales (in gallons) for each month of the previous 36 months for each of its wholesale customers and for its retail customers.

b. List the total amount billed by the Plant Board for water service for each month of the previous 36 months to each of its wholesale customers and to its retail customers.

Witness(es): Shannon Taylor

Response: Attached

19. Provide the Plant Board's current rate schedule for its retail customers and for each of its wholesale customers.

Witness(es): Shannon Taylor

Response: Attached

20. Complete the table below:

<b>The Plant Board</b>	<b>Gallons for Test Period (7/1/2008-6/30/2009)</b>	<b>Gallons For Fiscal Year Ending 6/30/10</b>
<b>Plant Use</b>	64,220,850	56,228,179
<b>Line Loss (Unaccounted for)</b>	477,175,800	400,016,800
<b>Sales to Retail</b>	941,141,263	786,795,800
<b>Sales to Each Wholesale Customer</b>		
ELKHORN WATER DIST (acct# 31429)	70,580,829	78,943,600
FARMDALE WATER DIST (acct# 28221)	61,107,521	45,423,800
FARMDALE WATER DIST (acct# 28222)	112,656,422	98,088,800
FARMDALE WATER DISTRICT (acct# 28378)	43,758,378	58,415,000
FARMDALE WATER DISTRICT (acct# 33036)	393,636	904,200
NORTH SHELBY WATER C (acct# 28808)	164,539,908	165,439,600
PEAKSMILL WATER DIST (acct# 28600)	81,988,500	83,704,200
PEAKSMILL WATER DIST (acct# 30329)	2,006,029	872,800
SOUTH ANDERSON WATER DIST (acct# 31379)	25,430,679	22,005,000
US 60 WATER DISTRICT (acct# 32489)	128,186,989	139,925,100
US 60 WATER DISTRICT (acct# 32715)	39,017,715	29,164,000
GEORGETOWN PUMP STATION (acct# 26680)	202,735,680	133,539,000
<b>Total Produced and Purchased</b>	2,963,914,735	2,682,482,800
<b>Total Sold</b>	2,429,627,400	2,206,935,200

Witness(es): Herbbie Bannister, David Billings, Shannon Taylor

Response: Attached

21. a. State whether the Plant Board provides unmetered water service to any entities (e.g., municipal buildings, fire departments, fire protection service).

b. If unmetered service is provided, estimate the percentage of the total unmetered amount for each entity or type of service.

Witness(es): Herbbie Bannister, David Billings

Response: Attached

22. Provide a copy of the cost-of-service study upon which the proposed rate is based.

Witness(es): Paul Herbert

Response: Attached

23. a. Identify the person who prepared the cost-of-service study upon which the proposed rate is based.

b. Provide the preparer's *curriculum vitae*.

c. List all cases before the Commission in which the preparer has submitted a cost-of-service study.

d. List all utilities (municipal or public) for which the preparer has prepared a cost-of-service study. For each utility, identify the type of utility service (e.g., water or sewer) for which the report was prepared.

Witness(es): Paul Herbert

Response: Attached

24. If the proposed rate is not based upon a cost-of-service study, describe how the Plant Board determined the proposed wholesale rate and state who participated in the determination.

Witness(es): Not Applicable

Response: Not Applicable

25. a. State whether the proposed rate increase includes an adjustment for rate case expenses incurred in this proceeding.

b. If the rate increase does not include an adjustment for rate case expenses, state whether the Plant Board will seek an adjustment to recover expenses incurred in litigating this proceeding.

c. If the Plant Board will seek an adjustment to recover expenses incurred in litigating this proceeding, provide all actual and estimated rate case expenses.

Witness(es): Paul Herbert, Shannon Taylor, Jim Smith

Response: Attached

26. Identify the section(s) of KRS Chapter 96 under which the Plant Board Municipal Utilities was formed and currently operates.

Witness(es): Jim Smith

Response: Attached

27. Provide the minutes of each meeting of the Plant Board since January 1, 2009 in which a proposed rate adjustment to the Plant Board's wholesale customers was discussed.

Witness(es): Jim Smith

Response: Attached

28. Provide a copy of all correspondence, electronic mail messages, or other written communications between the Plant Board and its wholesale customers since January 1, 2010 regarding revisions to the Plant Board's wholesale rate.

Witness(es): Jim Smith

Response: Attached

29. Provide all contracts for water service between the Plant Board and the entities listed in Item 12(a) that have not been filed with the Commission.

Witness(es): Jim Smith, Herbbie Bannister

Response: Attached

30. a. State the annual effect of the proposed rate adjustment on the Plant Board's revenues from wholesale water service to each of its wholesale water service customers.

b. Show all calculations made and state all assumptions used to derive the response to Item 30(a).

Witness(es): Shannon Taylor, Paul Herbert

Response: Attached

31. a. Identify and explain pro forma adjustments to water operations.

b. Provide the calculations for all pro forma adjustments to water operations.

Witness(es): Shannon Taylor, Paul Herbert

Response: Attached

32. a. Identify and explain pro forma adjustments to shared expenses that include the water operations.

b. Provide the calculations for all pro forma adjustments to shared expenses that include the water operations.

Witness(es): Shannon Taylor, Paul Herbert

Response: Attached

**CERTIFICATION**

I, Hance Price, certify that I am the attorney supervising the preparation of these Responses on behalf of the Frankfort Electric and Water Plant Board and that the Responses and attachments thereto are true and accurate to the best of my knowledge, information and belief formed after reasonable inquiry.

Respectfully Submitted,

Hance Price  
Hance Price  
317 West Second Street  
Frankfort, Kentucky 40601

Attorney for Frankfort Electric and  
Water Plant Board

This the 7<sup>th</sup> day of January, 2011.



**CERTIFICATE OF SERVICE**

I, Hance Price, certify that on the 7<sup>th</sup> day of January, 2011 a copy of this Response to the Commission's Order of December 17, 2010 was served by mail to Honorable Thomas A. Marshall, Attorney at Law, 212 Washington Street, P.O. Box 223, Frankfort, KY 40602, and by mail to Honorable Donald T. Prather, Mathis, Riggs & Prather, P.S.C. Attorneys at Law, 500 Main Street, Suite 5, Shelbyville, KY 40065 and by hand delivery of an original and ten copies to Jeff Derouen, Executive Director, Kentucky Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, KY 40602-0615.

Hance Price  
Hance Price

RESPONSE TO PSC

*PSC CASE NO. 2010-00485*

ITEM 1

Frankfort Electric and Water Plant Board  
Response to PSC Order Dated: 12/17/2010  
Case No. 2010-00485

ITEM 1: Provide the direct testimony, in written verified form, of each witness that the Plant Board intends to call at the scheduled hearing in this matter.

Response: Ex. 1 – James W. Smith, General Manager

Ex. 2 – Paul Herbert, Gannett Fleming – Exhibit No. PRH - 1 referenced on page 4, line 112 of Mr. Herbert's testimony is the cost of service study produced in response to Item 22.

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE FRANKFORT )  
ELECTRIC AND WATER PLANT BOARD ) CASE NO. 2010-00485  
FOR AN ADJUSTMENT OF WHOLESALE RATES )

**TESTIMONY OF JAMES W. SMITH GENERAL MANAGER  
OF FRANKFORT ELECTRIC AND WATER PLANT BOARD**

Q 1 Please state your name.

A. James W. Smith

Q 2 Where are you employed?

A. I am employed as General Manager of the Frankfort Electric and Water Plant Board. My address is 317 W. Second Street, Frankfort, KY 40601. I have been employed as General Manager of the Plant Board since July, 2010 and have approximately 30 years' experience as a general manager. Prior to my employment with FEWPB, I was the General Manager of Middleborough Gas & Electric Department of Middleborough, Massachusetts and Utility Director of College Park Municipal Utilities near Atlanta, Georgia.

Q 3 Explain briefly the operation of the FEWPB.

A. The Board is an independent, municipally owned utility. There are three divisions- electric, cable/telecommunications and water. Each division is operated as a separate unit and the rates for each unit are based on its revenues and expenses.

32 Q 4 As part of your duties were you responsible for the determination that a rate  
34 increase for the wholesale water customers was necessary?

35 A. Yes. In an effort to determine whether the rates were generating sufficient  
36 revenue and whether the customer classes were paying the appropriate share of  
37 the revenue requirements, in February, 2010 the Plant Board had already  
38 authorized Gannett Fleming to conduct a cost-of-service study for the purpose of  
39 determining whether a rate adjustment was necessary and whether a modification  
40 of the rate design was appropriate. I reviewed the findings and agreed a  
41 modification was appropriate. In September, 2010 the cost-of-service study was  
42 presented to the Board indicating that a rate increase was necessary.

43 Q 5 What did the cost-of-service study indicate that the rate for the wholesale  
44 customers should be?

45 A. The wholesale rate according to the cost-of-service study should be \$2.000 per  
46 1,000 gallons. The present rate is \$1.704 per 1,000 gallons.

47 Q 6 How many wholesale water customers does the Plant Board have and who are  
48 they?

49 A. The Plant Board has seven (7) wholesale water customers: The City of  
50 Georgetown Municipal Water System, Elkhorn Water District, Peaks Mill Water  
51 District, Farmdale Water District, North Shelby Water District, U.S. 60 Water  
52 District and South Anderson Water District.

53

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56 Q 7 Has notice been given to the water districts affected by this rate increase?

57 A. Yes. On September 29, 2010 letters were sent to all of the water districts affected  
58 by the rate increase notifying them of a public hearing which was to be held on  
59 October 19, 2010. On October 19, 2010, a public hearing was held. On  
60 November 16, 2010, the Board authorized the proposed rate increase. On  
61 November 18, 2010, the proposed rates were submitted to the Public Service  
62 Commission and notice of the filing of those proposed rates was given to each of  
63 the water districts.

64 Q 8 What rate is the Plant Board proposing for the water districts?

65 A. \$2.000 per 1,000 gallons.

66 Q 9 In general terms, why is the additional revenue reflected in the water districts'  
67 increased rate needed by the Plant Board?

68 A. Several factors have prompted the need for a rate increase. Notably, the results of  
69 the cost of service allocation are consistent with the cost of providing service to each  
70 customer class. Using class cost of service as the guideline, the proposed rate  
71 design continues the move of each class to its relative cost of service.

72 Q 10 Are the costs discussed directly related to providing service to the wholesale  
73 customers?

74 A. Yes. The cost of service allocation distributes costs to the customer classifications  
75 in proportion to each classification's use of the facilities, commodities and  
76 services.

77 Q 11 Based upon your knowledge of the operations of the Plant Board, are water  
78 revenues used to offset expenses for the other divisions of the Plant Board, that is, the electric  
79 department and the cable department?

80 A. No.

81 Q 12 Are water rates ever increased to offset losses in the other divisions?

82 A. No. The rates of the water division are based solely upon the revenues and  
83 expenses of the water department and have no relationship whatsoever to the  
84 revenues and expenses of either the electric or the cable division.

85 Q 13 Based on your familiarity with the financial condition of the water department, is  
86 this rate increase necessary?

87 A. Yes. The cost of service allocation demonstrates that the rate increase is  
88 necessary.

89 Q 14 What steps did you take to communicate with the water districts?

90 A. I regard FPB's water district customers as our business partners. While I have  
91 been General Manager of FPB for just 7 months, I have attempted to speak with  
92 our customers in order to understand their concerns. For example, on December  
93 7, 2010 I met with Intervenors' counsel to discuss this matter. Moreover, I have  
94 instructed my Staff to work with Intervenors' counsel and answer as many  
95 questions as possible informally.

96 However, I would not expect many points of contention. The cost study in this  
97 matter was prepared in accordance with the methodology established in FPB's last  
98 rate case (Case No. 2008-00250). That is, the study was prepared the same way  
99 and the \$2.000 per 1,000 gallon rate was derived in the same fashion. There are

100 no differences between this cost study and the one submitted in Case No. 2008-  
101 00250.

102 As good business partners, I expect the Intervenors to identify how the  
103 calculations, allocations, or methodology differ from that used in the previous  
104 cases such that any legitimate objections may be resolved prior to a hearing.  
105 However, to date, this has not been done and as such FPB asks that it be  
106 awarded the \$2.000 per 1,000 gallons rate since it was derived using sound cost  
107 of service principles.

108 Q 15 Does this conclude your testimony?

109 A. Yes.

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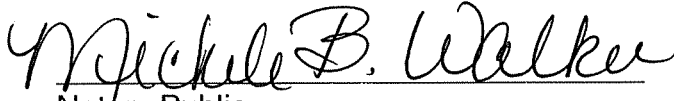
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The Affiant, James W. Smith, after being duly sworn, states that the foregoing answers  
are true and accurate to the best of his abilities.

FURTHER THE AFFIANT SAITH NOT.

  
James W. Smith

Subscribed and sworn to before me by James W. Smith this 3<sup>rd</sup> day  
of JANUARY, 2011.

  
Michelle B. Walker  
Notary Public

My commission expires: May 20, 2014

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BEFORE THE  
KENTUCKY PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY OF  
PAUL R. HERBERT  
ON BEHALF OF FRANKFORT ELECTRIC AND WATER PLANT BOARD  
CASE NO. 2010- 00485

CONCERNING  
WATER UTILITY OPERATOINS  
COST OF SERVICE ALLOCATION  
AND  
CUSTOMER RATE DESIGN

DECEMBER 2010

43 BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

44 RE: FRANKFORT ELECTRIC AND WATER PLANT BOARD

45 CASE NO. 2010-00485

46 DIRECT TESTIMONY OF PAUL R. HERBERT

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Q. Please state your name and address.

54

A. My name is Paul R. Herbert. My business address is 207 Senate Avenue,  
55 Camp Hill, Pennsylvania.

56

Q. By whom are you employed?

57

A. I am employed by Gannett Fleming, Inc.

58

Q. Please describe your position with Gannett Fleming, Inc. and briefly state  
59 your general duties and responsibilities.

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A. I am President of the Valuation and Rate Division. My duties and  
responsibilities include the preparation of accounting and financial data for  
revenue requirement and cash working capital claims, the allocation of cost of  
service to customer classifications, and the design of customer rates in  
support of public utility rate filings.

65

Q. Have you presented testimony in rate proceedings before a regulatory  
66 agency?

67

68

A. Yes. I have testified before the Pennsylvania Public Utility Commission, the  
New Jersey Board of Public Utilities, the Public Utilities Commission of Ohio,

69 the Public Service Commission of West Virginia, the Kentucky Public Service  
70 Commission, the Iowa State Utilities Board, the Virginia State Corporation  
71 Commission, the Tennessee Regulatory Authority, the California Public  
72 Utilities Commission, New Mexico Public Regulation, the Illinois Commerce  
73 Commission, the Arizona Corporation Commission, the Delaware Public  
74 Service Commission, the State of Connecticut Department of Public Utility  
75 Control, and the Missouri Public Service Commission concerning revenue  
76 requirements, cost of service allocation, rate design and cash working capital  
77 claims. A list of the cases in which I have testified is provided at the end of  
78 my direct testimony.

79 Q. What is your educational background?

80 A. I have a Bachelor of Science Degree in Finance from the Pennsylvania State  
81 University, University Park, Pennsylvania.

82 Q. Would you please describe your professional affiliations?

83 A. I am a member of the American Water Works Association and served as a  
84 member of the Management Committee for the Pennsylvania Section. I am  
85 also a member of the Pennsylvania Municipal Authorities Association. In  
86 1998, I became a member of the National Association of Water Companies  
87 as well as a member of its Rates and Revenue Committee.

88 Q. Briefly describe your work experience.

89 A. I joined the Valuation Division of Gannett Fleming Corddry and Carpenter,  
90 Inc., predecessor to Gannett Fleming, Inc., in September 1977, as a Junior  
91 Rate Analyst. Since then, I advanced through several positions and was  
92 assigned the position of Manager of Rate Studies on July 1, 1990. On June

93 1, 1994, I was promoted to Vice President of the Valuation and Rate Division  
94 and on July 1, 2007, I was promoted to my current position as President.

95 While attending Penn State, I was employed during the summers of  
96 1972, 1973 and 1974 by the United Telephone System - Eastern Group in its  
97 accounting department. Upon graduation from college in 1975, I was  
98 employed by Herbert Associates, Inc., Consulting Engineers (now Herbert  
99 Rowland and Grubic, Inc.), as a field office manager until September 1977.

100 Q. Have you previously prepared a cost of service study for a case before the  
101 Commission?

102 A. Yes, I have. I have prepared cost of service studies for Kentucky American  
103 Water Company in Case Nos. 2000-120, 2007-00143 and 2010-00036,  
104 Frankfort Electric and Water Plant Board, Case No. 2008-00250 and  
105 Northern Kentucky Water District in Case No. 2010-00094 . I have also  
106 included a list of cost of service studies that I have prepared for other utilities,  
107 located at the end of my direct testimony.

108 Q. What is the purpose of your testimony in this proceeding?

109 A. The purpose of my testimony is to explain Frankfort Electric and Water Plant  
110 Board's (FEWPB) cost of service allocation study for the regulated  
111 wholesale water utility operations and proposed regulated wholesale rate  
112 design set forth in Exhibit No. PRH-1.

113 COST OF SERVICE ALLOCATION

114 Q. Briefly describe the purpose of your cost allocation study.

115 A. The purpose of the study was to allocate the total water cost of service,  
116 which is the total revenue requirement, to the several customer classifica-

117 tions. In the study, the total costs were allocated to the residential,  
118 commercial, public authorities, sales for resale non-water producers and  
119 sales for resale water producers, private fire protection and public fire  
120 protection classifications in accordance with generally accepted principles  
121 and procedures. The cost of service allocation results in indications of the  
122 relative cost responsibilities of each class of customers. The allocated cost  
123 of service is one of several criteria appropriate for consideration in designing  
124 customer rates to produce the required revenues. The results of my  
125 allocation of the pro forma cost of service as of June 30, 2009, and  
126 proposed customer rates to produce the pro forma revenue requirement as  
127 of that date are presented in the study.

128 Q. Please describe the method of cost allocation that was used in your study.

129 A. The base-extra capacity method, as described in 2000 and prior Water  
130 Rates Manuals published by the American Water Works Association  
131 (AWWA), was used to allocate the pro forma costs. Base-extra capacity is a  
132 recognized method for allocating the cost of providing water service to  
133 customer classifications in proportion to the classifications' use of the  
134 commodity, facilities, and services. It is generally accepted as a sound  
135 method for allocating the cost of water service and was used by the  
136 Company in the Company's previous studies.

137 Q. Please describe the procedure followed in the cost allocation study.

138 A. Each identified classification of cost in the pro forma cost of service was  
139 allocated to the customer classifications through the use of appropriate  
140 factors. These allocations are presented in Schedule B on pages 8 through

141 11. The items of cost, which include operation and maintenance expenses,  
142 taxes, debt service and capital projects, are identified in column 1 of  
143 Schedule B. The cost of each item, shown in column 3, is allocated to the  
144 several customer classifications based on allocation factors referenced in  
145 column 2. The development of the allocation factors is presented in  
146 Schedule C. I will use some of the larger cost items to illustrate the princi-  
147 ples and considerations used in the cost allocation methodology. Purchased  
148 electric power and treatment chemicals are examples of costs that tend to  
149 vary with the amount of water consumed and are thus considered base  
150 costs. They are allocated to the several customer classifications in direct  
151 proportion to the average daily consumption of those classifications through  
152 the use of Factor 1. The development of Factor 1 is shown in Schedule C  
153 on page 12.

154 Other source of supply, water treatment and transmission costs are  
155 associated with meeting usage requirements in excess of the average,  
156 generally to meet maximum day requirements. Costs of this nature were  
157 allocated to customer classifications partially as base costs, proportional to  
158 average daily consumption, partially as maximum day extra capacity costs,  
159 in proportion to maximum day extra capacity, and, in the case of certain  
160 pumping stations and transmission mains, partially as fire protection costs,  
161 through the use of Factors 2 and 3. The development of the allocation  
162 factors, referenced as Factors 2 and 3, is shown in Schedule C, on pages 12  
163 through 15.

164           Costs associated with storage facilities and the capital costs of  
165 distribution mains were allocated partly on the basis of average consumption  
166 and partly on the basis of maximum hour extra demand, including the  
167 demand for fire protection service, because these facilities are designed to  
168 meet maximum hour and fire demand requirements. The development of  
169 the factors, referenced as Factors 4 and 5, used for these allocations is  
170 shown in Schedule C, on pages 16 through 19.

171           Factor 4, used to allocate distribution mains, is based on the same  
172 volumes used in Factors 1 through 3. Factor 5, Allocation of Storage  
173 Facilities, uses the same basic methodology as Factor 4, although the fire  
174 demand weighting is based on the storage capacity for fire service as  
175 compared to the total storage capacity.

176           Fire demand costs were allocated to public and private fire protection  
177 service in proportion to the relative potential demands on the system by  
178 public fire hydrants and private service lines as presented in Schedule C on  
179 page 32.

180           Costs associated with pumping facilities and the operation and  
181 maintenance of mains were allocated on combined bases of maximum day  
182 and maximum hour extra capacity because these facilities serve both  
183 functions. For these costs, the relative weightings of Factor 3 (maximum day  
184 and fire) and Factor 4 (maximum hour) were based on the footage of  
185 transmission and distribution mains. For cost allocation purposes, mains  
186 larger than 10-inch were classified as serving a transmission function and  
187 mains 10-inch and smaller were classified as serving a distribution function.



188 The development of this weighted factor, referenced as Factor 6, is  
189 presented on page 20.

190 Costs associated with meters were allocated to customer  
191 classifications in proportion to the capacity requirements of the sizes and  
192 quantities of meters serving each classification. The development of the  
193 factor for meters, referenced as Factor 8, is presented on page 21. Factor 9,  
194 Allocation of Services, was developed in a similar manner as Factor 8,  
195 except that the relative unit cost per foot by service size was used in order to  
196 weight the number of services by classification. Costs associated with public  
197 fire hydrants were assigned directly to the public fire protection class (Factor  
198 7), and costs associated with sales for resale non-water producers were  
199 assigned directly to the sales for resale non-water producers class (Factor  
200 11).

201 Costs for customer accounting, billing and collecting were allocated  
202 on the basis of the number of customers for each classification, and costs  
203 for meter reading were allocated on the basis of metered customers. The  
204 development of these factors, referenced as Factor 12 and Factor 13, is  
205 presented on page 26.

206 Administrative and general costs were allocated on the basis of  
207 allocated direct costs, excluding those costs such as purchased power and  
208 chemicals and waste disposal which require little administrative and general  
209 expense. The development of factors for this allocation, referenced as  
210 Factor 14, is presented on page 27.

211           The original cost less depreciation of utility plant in service was  
212 allocated on the basis of the function of the facilities for the purpose of  
213 developing Factor 17. Factor 17 was used to allocate items such as taxes,  
214 debt service and capital projects. The development of Factor 17 is  
215 presented on pages 29 through 30.

216           Factors 10, 14, 15 and 18, are composite allocation factors. These  
217 factors are based on the result of allocating other costs and are computed  
218 internally in the cost allocation program. Refer to Schedule C for a  
219 description of the bases for each composite allocation factor.

220 Q.    What was the source of the total cost of service data set forth in column 3 of  
221 Schedule B?

222 A.    The pro forma costs of service were furnished by the FEWPB, and are set  
223 forth in various FEWPB exhibits.

224 Q.    Refer to Schedule B, pages 13 and 17, and explain the source of the system  
225 maximum day and maximum hour ratios used in the development of factors  
226 referenced as Factors 2, 3 and 4.

227 A.    The ratios were based on a review of historic FEWPB data. The maximum  
228 day ratio of 1.80 times the average day approximates the ratio of maximum  
229 daily send-out experienced by the FEWPB in the last nine years. The  
230 maximum hour ratio of 2.5 times the average hour was estimated based on  
231 the relationship of system maximum hour ratios compared to system  
232 maximum day ratios for other similar systems.

233 Q. What factors were considered in estimating the maximum day extra capacity  
234 and maximum hour extra capacity demands used for the customer  
235 classifications in the development of Factors 2, 3 and 4?

236 A. The estimated demands were based on judgment which considered field  
237 studies of actual customer class demands conducted for other utilities, field  
238 studies of similar service areas, and generally-accepted customer class  
239 maximum day and maximum hour demand ratios.

240 Q. Have you summarized the results of your cost allocation study?

241 A. Yes. The results are summarized in columns 1, 2 and 3 of Schedule A on  
242 page 6. Column 2 sets forth the total allocated pro forma cost of service as  
243 of June 30, 2009, for each customer classification identified in column 1.  
244 Column 3 presents each customer classification's cost responsibility as a  
245 percent of the total cost.

246 Q. Have you compared these cost responsibilities with the proportionate  
247 revenue under existing rates for each customer classification?

248 A. Yes. A comparison of the allocated cost responsibilities and the percentage  
249 revenue under existing rates can be made by comparing columns 3 and 5 of  
250 Schedule A. A similar comparison of the percentage cost responsibilities  
251 (relative cost of service) and the percentage of pro forma revenues (relative  
252 revenues) under proposed rates can be made by comparing columns 3 and  
253 7 of Schedule A .

254 CUSTOMER RATE DESIGN

255 Q. What are the appropriate factors to be considered in the design of the rate  
256 structure?

257 A. In preparing a rate structure, one should consider the allocated costs of  
258 service, the impact of radical changes from the present rate structure, the  
259 understandability and ease of application of the rate structure, community  
260 and social influences, and the value of service. General guidelines should  
261 be developed with management to determine the extent to which each of  
262 these criteria is to be incorporated in the rate structure to be designed,  
263 inasmuch as the pricing of a commodity or service is a function of  
264 management.

265 Q. Did management discuss rate design guidelines with you?

266 A. Yes, they did. The guidelines were to increase rates to move toward the  
267 cost of service for each customer classification.

268 Q. Does the proposed rate design follow these guidelines?

269 A. Yes, it does. The revenues under proposed rates reflect increases by class  
270 moving toward the cost of service, without creating radical changes in the  
271 rate structure.

272 Q. Have you prepared comparisons of present and proposed rates for each  
273 classification?

274 A. Yes. Schedule D on page 33 of the cost allocation study presents  
275 comparisons of the present and proposed rates.

276 Q. What rate does your study indicate should be charged to the wholesale  
277 customers?

278 A. \$2.000 per 1000 gallons for purchases.

279 Q. Does this rate take into account facilities used to serve the wholesale  
280 customer class?

281 A. Yes.

282 Q. Based upon your experience, is the method used in preparing the cost-of-  
283 service study for the FEWPB a generally-accepted method in the utility  
284 industry?

285 A. Yes.

286 Q. Is it your opinion that the rate produced by this study is reasonable?

287 A. Yes.

288 Q. Does this conclude your direct testimony?

289 A. Yes, it does.

290 The Affiant, Paul R. Herbert after being duly sworn, states that  
291 the foregoing answers are true and accurate to the best of his abilities.

292 FURTHER THE AFFIANT SAITH NOT.

293 Paul R. Herbert  
294 Paul R. Herbert  
295

296  
297 Subscribed and sworn to before me by Paul R. Herbert this  
298 29<sup>th</sup> day of December, 2010.  
299

300  
301  
302  
303

Jill E. Gilbert  
Notary Public

9-13-2012  
My commission expires:

COMMONWEALTH OF PENNSYLVANIA  
Notarial Seal  
Jill E. Gilbert, Notary Public  
East Pennsboro Twp., Cumberland County  
My Commission Expires Sept. 13, 2012  
Member, Pennsylvania Association of Notaries

LIST OF CASES IN WHICH PAUL R. HERBERT TESTIFIED

	<u>Year</u>	<u>Jurisdiction</u>	<u>Docket No.</u>	<u>Client/Utility</u>	<u>Subject</u>
1.	1983	Pa. PUC	R-832399	T. W. Phillips Gas and Oil Co.	Pro Forma Revenues
2.	1989	Pa. PUC	R-891208	Pennsylvania-American Water Company	Bill Analysis and Rate Application
3.	1991	PSC of W. Va.	91-106-W-MA	Clarksburg Water Board	Revenue Requirements (Rule 42)
4.	1992	Pa. PUC	R-922276	North Penn Gas Company	Cash Working Capital
5.	1992	NJ BPU	WR92050532J	The Atlantic City Sewerage Company	Cost Allocation and Rate Design
6.	1994	Pa. PUC	R-943053	The York Water Company	Cost Allocation and Rate Design
7.	1994	Pa. PUC	R-943124	City of Bethlehem	Revenue Requirements, Cost Allocation, Rate Design and Cash Working Capital
8.	1994	Pa. PUC	R-943177	Roaring Creek Water Company	Cash Working Capital
9.	1994	Pa. PUC	R-943245	North Penn Gas Company	Cash Working Capital
10.	1994	NJ BPU	WR94070325	The Atlantic City Sewerage Company	Cost Allocation and Rate Design
11.	1995	Pa. PUC	R-953300	Citizens Utilities Water Company of Pennsylvania	Cost Allocation and Rate Design
12.	1995	Pa. PUC	R-953378	Apollo Gas Company	Revenue Requirements and Rate Design
13.	1995	Pa. PUC	R-953379	Carnegie Natural Gas Company	Revenue Requirements and Rate Design
14.	1996	Pa. PUC	R-963619	The York Water Company	Cost Allocation and Rate Design
15.	1997	Pa. PUC	R-973972	Consumers Pennsylvania Water Company - Shenango Valley Division	Cash Working Capital
16.	1998	Ohio PUC	98-178-WS-AIR	Citizens Utilities Company of Ohio	Water and Wastewater Cost Allocation and Rate Design
17.	1998	Pa. PUC	R-984375	City of Bethlehem - Bureau of Water	Revenue Requirement, Cost Allocation and Rate Design
18.	1999	Pa. PUC	R-994605	The York Water Company	Cost Allocation and Rate Design
19.	1999	Pa. PUC	R-994868	Philadelphia Suburban Water Company	Cost Allocation and Rate Design
	1999	PSC of W.Va.	99-1570-W-MA	Clarksburg Water Board	Revenue Requirements (Rule 42), Cost Allocation and Rate Design
21.	2000	Ky. PSC	2000-120	Kentucky-American Water Company	Cost Allocation and Rate Design
22.	2000	Pa. PUC	R-00005277	PPL Gas Utilities	Cash Working Capital
23.	2000	NJ BPU	WR00080575	Atlantic City Sewerage Company	Cost Allocation and Rate Design
24.	2001	Ia. St Util Bd	RPU-01-4	Iowa-American Water Company	Cost Allocation and Rate Design
25.	2001	Va. St. Corp	PUE010312	Virginia-American Water Company	Cost Allocation and Rate Design
26.	2001	WV PSC	01-0326-W-42T	West-Virginia American Water Company	Cost Allocation And Rate Design
27.	2001	Pa. PUC	R-016114	City of Lancaster	Tapping Fee Study
28.	2001	Pa. PUC	R-016236	The York Water Company	Cost Allocation and Rate Design
29.	2001	Pa. PUC	R-016339	Pennsylvania-American Water Company	Cost Allocation and Rate Design
30.	2001	Pa. PUC	R-016750	Philadelphia Suburban Water Company	Cost Allocation and Rate Design
31.	2002	Va. St. Corp Cm	PUE-2002-00375	Virginia-American Water Company	Cost Allocation and Rate Design
32.	2003	Pa. PUC	R-027975	The York Water Company	Cost Allocation and Rate Design
33.	2003	Tn Reg. Auth	03-	Tennessee-American Water Company	Cost Allocation and Rate Design
34.	2003	Pa. PUC	R-038304	Pennsylvania-American Water Company	Cost Allocation and Rate Design
35.	2003	NJ BPU	WR03070511	New Jersey-American Water Company	Cost Allocation and Rate Design
36.	2003	Mo. PSC	WR-2003-0500	Missouri-American Water Company	Cost Allocation and Rate Design
37.	2004	Va. St. Corp Cm	PUE-200 -	Virginia-American Water Company	Cost Allocation and Rate Design
38.	2004	Pa. PUC	R-038805	Pennsylvania Suburban Water Company	Cost Allocation and Rate Design
39.	2004	Pa. PUC	R-049165	The York Water Company	Cost Allocation and Rate Design
40.	2004	NJ BPU	WRO4091064	The Atlantic City Sewerage Company	Cost Allocation and Rate Design
41.	2005	WV PSC	04-1024-S-MA	Morgantown Utility Board	Cost Allocation and Rate Design
42.	2005	WV PSC	04-1025-W-MA	Morgantown Utility Board	Cost Allocation and Rate Design
43.	2005	Pa. PUC	R-051030	Aqua Pennsylvania, Inc.	Cost Allocation and Rate Design
	2006	Pa. PUC	R-051178	T. W. Phillips Gas and Oil Co.	Cost Allocation and Rate Design
44.	2006	Pa. PUC	R-061322	The York Water Company	Cost Allocation and Rate Design
46.	2006	NJ BPU	WR-06030257	New Jersey American Water Company	Cost Allocation and Rate Design
47.	2006	Pa. PUC	R-061398	PPL Gas Utilities, Inc.	Cost Allocation and Rate Design
48.	2006	NM PRC	06-00208-UT	New Mexico American Water Company	Cost Allocation and Rate Design

LIST OF CASES IN WHICH PAUL R. HERBERT TESTIFIED

	<u>Year</u>	<u>Jurisdiction</u>	<u>Docket No.</u>	<u>Client/Utility</u>	<u>Subject</u>
49.	2006	Tn Reg Auth	06-00290	Tennessee American Water Company	Cost Allocation and Rate Design
50.	2007	Ca. PUC	U-339-W	Suburban Water Systems	Water Conservation Rate Design
51.	2007	Ca. PUC	U-168-W	San Jose Water Company	Water Conservation Rate Design
52.	2007	Pa. PUC	R-00072229	Pennsylvania American Water Company	Cost Allocation and Rate Design
53.	2007	Ky. PSC	2007-00143	Kentucky American Water Company	Cost Allocation and Rate Design
54.	2007	Mo. PSC	WR-2007-0216	Missouri American Water Company	Cost Allocation and Rate Design
55.	2007	Oh. PUC	07-1112-WS-AIR	Ohio American Water Company	Cost Allocation and Rate Design
56.	2007	Il. CC	07-0507	Illinois American Water Company	Customer Class Demand Study
57.	2007	Pa. PUC	R-00072711	Aqua Pennsylvania, Inc.	Cost Allocation and Rate Design
58.	2007	NJ BPU	WR07110866	The Atlantic City Sewerage Company	Cost Allocation and Rate Design
59.	2007	Pa. PUC	R-00072492	City of Bethlehem – Bureau of Water	Revenue Requirements, Cost Alloc.
60.	2007	WV PSC	07-0541-W-MA	Clarksburg Water Board	Cost Allocation and Rate Design
61.	2007	WV PSC	07-0998-W-42T	West Virginia American Water Company	Cost Allocation and Rate Design
62.	2008	NJ BPU	WR08010020	New Jersey American Water Company	Cost Allocation and Rate Design
63.	2008	Va St Corp Com	Pue-2008-00009	Virginia American Water Company	Cost Allocation and Rate Design
64.	2008	Tn. Reg. Auth.	08-00039	Tennessee American Water Company	Cost Allocation and Rate Design
65.	2008	Mo PSC	WR-2008-0311	Missouri American Water Company	Cost Allocation and Rate Design
66.	2008	De PSC	08-96	Artesian Water Company, Inc.	Cost Allocation and Rate Design
67.	2008	Pa PUC	R-2008-2032689	Penna. American Water Co. -- Coatesville Wastewater	Cost Allocation and Rate Design
68.	2008	AZ Corp. Com.	W-01303A-08-0227 SW-01303A-08-0227	Arizona American Water Co. - Water - Wastewater	Cost Allocation and Rate Design
69.	2008	Pa PUC	R-2008-2023067	The York Water Company	Cost Allocation and Rate Design
70.	2008	WV PSC	08-0900-W-42T	West Virginia American Water Company	Cost Allocation and Rate Design
71.	2008	Ky PSC	2008-00250	Frankfort Electric and Water Plant Board	Cost Allocation and Rate Design
72.	2008	Ky PSC	2008-00427	Kentucky American Water Company	Cost Allocation and Rate Design
73.	2009	Pa PUC	2008-2079660	UGI – Penn Natural Gas	Cost of Service Allocation
74.	2009	Pa PUC	2008-2079675	UGI – Central Penn Gas	Cost of Service Allocation
75.	2009	Pa PUC	2009-2097323	Pennsylvania American Water Co.	Cost Allocation and Rate Design
76.	2009	Ia St Util Bd	RPU-09-	Iowa-American Water Company	Cost Allocation and Rate Design
77.	2009	Il CC	09-0319	Illinois-American Water Company	Cost Allocation and Rate Design
78.	2009	Oh PUC	09-391-WS-AIR	Ohio-American Water Company	Cost Allocation and Rate Design
79.	2009	Pa PUC	R-2009-2132019	Aqua Pennsylvania, Inc.	Cost Allocation and Rate Design
80.	2009	Va St Corp Com	PUC-00059	Aqua Virginia, Inc.	Cost Allocation (only)
81.	2009	Mo PSC	WR-2010-0131	Missouri American Water Company	Cost Allocation and Rate Design
82.	2010	Va St Corp Com	2010-00001	Virginia American Water Company	Cost Allocation and Rate Design
83.	2010	Ky PSC	2010-00036	Kentucky American Water Company	Cost Allocation and Rate Design
84.	2010	NJ BPU	WR10040260	New Jersey American Water Company	Cost Allocation and Rate Design
85.	2010	Pa PUC	2010-	T.W. Phillips Gas and Oil Co.	Cost Allocation and Rate Design
86.	2010	Pa PUC	2010-2166212	Pennsylvania American Water Co. - Wastewater	Cost Allocation and Rate Design
87.	2010	Pa PUC	R-2010-2157140	The York Water Company	Cost Allocation and Rate Design
88.	2010	Ky PSC	2010-00094	Northern Kentucky Water District	Cost Allocation and Rate Design
89.	2010	WV PSC	10-0920-W-42T	West Virginia American Water Co.	Cost Allocation and Rate Design
90.	2010	Tn Reg Auth	10-00189	Tennessee American Water Company	Cost Allocation and Rate Design
91.	2010	CT Dept PU Cntrl	10-09-08	United Water Connecticut	Cost Allocation and Rate Design

RESPONSE TO PSC

*PSC CASE NO. 2010-00485*

ITEM 2



Frankfort Electric and Water Plant Board  
Response to PSC Order Dated: 12/17/2010  
Case No. 2010-00485

ITEM 2: Independent Auditor's Reports

Response: 2(a): Ex. 1 - 2009/2008

Ex. 2 - 2008/2007

Ex. 3 - 2007/2006

2(b): Auditor's report for fiscal year ending June 30, 2010 is anticipated January, 2011

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

Financial Statements

Together With Independent Auditor's Report  
June 30, 2009 and 2008

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

Independent Auditor's Report

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

We have audited the comparative statement of net assets of the Electric and Water Plant Board of the City of Frankfort, Kentucky, as of June 30, 2009 and 2008 and the related comparative statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric and Water Plant Board of the City of Frankfort, Kentucky, as of June 30, 2009 and 2008 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

*Charles T. Mitchell Co.*

January 12, 2010

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

**INTRODUCTION**

The following discussion and analysis of the Frankfort Electric and Water Plant Board's financial performance provides an overview of the Board's financial activities for the fiscal years ended June 30, 2009 and 2008.

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

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

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

**FINANCIAL HIGHLIGHTS**

The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by \$54,899,618 (equity). Of this amount, \$48,947,308 is invested in Capital Assets, \$1,439,849 is restricted for Debt Retirement, \$414,078 is restricted for Retirement Plans, and \$4,098,383 is unrestricted.

The Board's equity (net assets) increased \$676,027 during the current fiscal year. The major changes from the prior year included: Sales to customers increased \$736,981, Capital Contributions decreased \$2,220,822, Electric Power Cost Expense decreased \$829,602, and Interest Expense decreased \$456,964.

**Revenues**

Gross income from sales, and other sources, was \$69,386,996 for FY09. This represents a decrease of \$1,488,478, or 2.10% from FY08. The major decreases were attributable to Electric Revenue \$859,398 and Capital Contributions \$2,220,822. The major increases were attributable to Basic Cable Revenue \$458,908, Digital Basic Revenue \$198,323, HSDS Revenue \$674,222, and Dark Fiber Revenue \$284,319. All three divisions of FPB performed work on the state US 421 road project in FY08 with only a minimal amount of work remaining in FY09 resulting in a significant reduction in Capital Contributions.

**Expenses**

Total expenses were \$68,710,969 for FY09. This represents an increase of \$631,722, or .9% from FY08. The major increases were attributable to Station Expenses \$435,843 and Water Distribution Expenses \$202,423.

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

## OVERVIEW OF THE FINANCIAL STATEMENTS

FPB's Financial Statements are comprised of two components:

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

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

The Three Financial Statement Types:

1. The "Balance Sheet" presents information on FPB's assets and liabilities, with the difference between the two reported as Equity (which is also known in the Accounting profession as "Net Assets"). Over time, increases and decreases in Equity may serve as a useful indicator of whether the financial condition of FPB is improving or deteriorating.
2. The "Statement of Revenues, Expenses, and Changes in Net Assets" presents information showing how FPB's Equity changed between FY08 and FY09. Results of FPB's "operations are reported as the underlying events occur, regardless of the timing of cash flows." This means that FPB's revenues and its expenses are reported in the Financial Statements for some items that will result in cash flows (positive or negative) in some future year, but not this one. For example, take Accounts Payable and Accounts Receivable. Customers owed FPB money as of June 30, 2009. This was reported as income in FY09 but the cash won't be realized until the next fiscal year. On a similar note, FPB owed money to KU as of June 30, 2009. This was reported as expense in FY09 but the cash won't be expended until the next fiscal year. This is called the "accrual" basis of accounting and is further explained in Note A.

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

3. The "Statement of Cash Flows" presents the cash flow changes occurring during the FY09 and FY08 in "highly liquid" cash and investments, including certain restricted cash accounts or cash-like assets. "Highly liquid" means it is, or can quickly be, turned into useable cash.

Notes to the Financial Statements:

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

## FINANCIAL ANALYSIS

### Assets

FPB's Total Assets decreased \$1,802,297 from FY08. The major changes in Assets, as reported on the Audit, were in "Cash", "Investments", "Inventory", "Billed User Fees" and "Property, Plant, and Equipment" net of Accumulated Depreciation. Reduced sales in Electric and Water explains the decrease in Unbilled User Fees. The downturn in the economy resulted in a near halt in contract development and reduced inventory needs. Property, Plant, and Equipment increased due to continued investment in our systems.

### Liabilities

FPB's Total Liabilities decreased \$2,478,324 from FY08. The Audit Report indicates that the major change was in "Bonds Payable". The decrease in Bonds Payable is due to no additional borrowing, increased principal payments on the FSN notes, and the continued repayment of the existing Water Bonds. The \$1.85 million water BAN was renewed in FY07 for a term of 18 months, with the Board's intention being to roll this BAN into another bond issue in the future.

### Net Assets

As noted earlier, FPB's assets exceeded its liabilities by \$54,899,618 at the end of FY09. This represents an increase from FY08 of \$676,027, and as previously mentioned, increases or decreases in equity may, over time, serve as a useful indicator of FPB's financial position. The disclaimer comes from the fact that being "land rich and cash poor" is not beneficial if the company needs liquidity for cash flow. On the other hand, if you have sufficient cash flow, "investing" in your electric, water, and cable systems (maintaining, expanding, replacing, upgrading, etc.) or land, is a good and prudent business practice.

A portion of FPB's net Assets, \$48,947,308, or 89%, reflect it's investment in "Capital Assets", such as transmission and distribution facilities, less any related debt used to acquire such assets that remained outstanding as of the end of FY09. FPB uses these Capital Assets to provided services to its owners/customers; consequently, these assets are not available for spending. Resources needed to repay the outstanding debt shown on the Balance Sheet must come from other sources, such as sales of water and cable services, since, obviously, the Capital Assets themselves cannot be used to pay such "long-term" liabilities.

The "unrestricted" portion of FPB's net assets is \$4,098,383, or 8% of total Net Assets. This portion may be used to meet FPB's ongoing obligations to creditors and owners/customers.

An additional portion of FPB's Equity, \$1,853,927, or 3%, represents resources that are subject to external restrictions on how they are used. \$1,439,849 is reserved for debt repayment and \$414,078 is reserved for retirement benefits for those few employees whom opted out of the CERS retirement plan.

## **CAPITAL ASSETS**

FPB's investments in capital assets as of June 30, 2009 amounted to \$85,514,990 (net of accumulated depreciation). This includes investment in transmission and distribution related infrastructure, as well as general items such as office equipment, vehicles, etc. Major capital assets events during the current fiscal year included:

### Electric

- \*SCADA addition and two breaker replacements at East Main Substation
- \*Rebuild of a large portion of transmission circuit #4
- \*Reconductor and strengthen circuit between Reservoir and Benson Valley substations
- \*Overall general distribution system improvements

### Water

- \*Engineering for the Chemical Feed / OSG project at the Water Treatment Plant
- \*Overall distribution upgrades and improvements

### Cable

- \*Completion of digital simulcast in preparation for all-digital transition
- \*DCTs for premium channel conversion and for Digital Cable/HD/DVR
- \*Completion of Fiber-to-the-Home project in the Lewis Ferry area

### General

- \*Began construction of Maintenance Barn at WTP
- \*Began remodel at Service Center
- \*Outsource programmers to develop new Customer Service and Billing System
- \*Backhoe Loader – Water Department
- \*Komatsu Trackhoe – Water Department
- \*JCB Excavator – Water Department
- \*Fleet replacement (1 pickup & 1 crane truck in the Water Dept, 1 pickup in the Cable Dept)

## **LONG-TERM DEBT**

As of 6/30/09, FPB had long term bonded water debt outstanding of \$8,885,000. This is debt backed by the electric and water revenues of FPB (revenue bonds). No changes occurred in this bonded debt other than the regularly scheduled principal payment of \$580,000.

As of 6/30/09, FPB had a long term bond outstanding for the Consolidated acquisition of \$657,844. This is debt backed by the cable system. No changes occurred in this bonded debt other than the regularly scheduled principal payments totaling \$236,778.

As of 6/30/09, FPB had long term notes outstanding with Farmers Bank of \$25,174,838. This is debt backed by the cable system. FPB made regularly scheduled principal payments totaling \$1,787,651. The Board refinanced three of the five FSN notes in FY09 in order to extend the maturity from 2016 to 2022 and to establish a new floor of 4.00% and a new ceiling of 6.25%. All five notes have now been refinanced.

As of 6/30/09, FPB had a long term bond anticipation note (BAN) outstanding for the Water Department of \$1,850,000. This is debt backed by the electric and water revenues of FPB. The Board currently makes interest payments only on this BAN. The original BAN matured in February 2007 but, the Board decided to refinance this BAN for another 18 months with the intention of rolling this debt into a future bond issue for the Water Department.

## **BUDGET**

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

Decreased sales resulted in lower than budgeted Electric Operating Revenues of \$2,836,439. Capital Contributions came in at \$316,335, or 83.2%, lower than the FY09 budget. Power Costs were \$2,114,582 lower than budgeted but, Fuel Adjustments were still significantly higher than anticipated (.90% actual vs. .60% budget). Overall, the Electric Department had a net loss \$1,389,949 unfavorable to what was budgeted.

Decreased sales resulted in lower than budgeted Water Operating Revenues of \$370,825. The Water Distribution Department worked more time on maintenance projects than what was budgeted resulting in more charges to expense and lower charges to capital. Overall, the Water Department had net income \$297,992 unfavorable to what was budgeted.

For the most part, weather conditions have little impact on the Cable operations. Cable Operating Revenues were \$56,443 lower than budgeted. Basic Service Revenue was \$20,805 favorable to budget due to an unbudgeted rate increase of \$1.30 for station fees on seven channels that we previously broadcast at zero cost. This was offset by decreased customer counts. Local Phone Revenue was unfavorable to budget \$183,499 due to slower growth than anticipated. HSDS Revenue was \$144,566 favorable to budget due to higher than anticipated customers taking faster speeds of modem service. Total Cable expenses were \$121,761 less than budgeted, primarily due to a miscalculation on Digital Station Expense and delaying the purchase of a soft switch in the Telephony Department. Total expenses that were allocated to the Cable department were favorable \$632,574 as a result of lower spending in computer expenses, administrative expenses, and FSN interest expense. Overall, the Cable Department had net income \$781,068 favorable to what was budgeted.

## **THE FUTURE**

### **Electric**

Due to the rising costs of materials and pension expenses, reduced SEPA credit, general inflation, and maintaining minimum reserves as established by the Board, coupled with a combined 11.7% rate increase from Kentucky Utilities, the Board implemented a 14% electric rate increase on July 1, 2009. This rate increase occurred 6 months later than what was budgeted in the prior five-year plan but the rate is 12.75% higher than expected due to the unforeseen rate increase from KU. There are no further rate increases anticipated in the five-year plan.

The primary goals of the Electric Department for FY10 are to continue strengthening the transmission/distribution system for load-growth capacity, improved power quality and reliability. During FY10, the Electric Department will continue to perform upgrades of transmission/distribution lines and facilities, specifically breaker replacements and evaluations of new meter technologies. The Department will continue to improve and expand the existing distribution substations to include increased SCADA functionality. This will give our system greater flexibility and redundancy. In FY10, voltage conversions from 8.3kV to 13.2 kV will continue to improve voltage quality and load capacity. We will continue the aggressive tree trimming and spray programs to reduce tree related outages. The Electric Department does not forecast the addition of any employees over the next five years.

### **Water**

Due to the rising costs of materials and pension expenses, general inflation, increased interest, principal, and debt service payments for a new borrowing, and maintaining minimum reserves as established by the Board, the Board anticipates the need for regular rate adjustments every two years. The first rate increase is scheduled for April 2010. A rate increase is also planned for all customers in Jan 2012. With both of these rate increases, the county rate increase is anticipated to be at a lower figure in an effort to balance city and county water rates. The Water department will undergo a cost of service study in FY10 for FY09 and the plan is to conduct these studies every two years in order to maintain rates necessary for the operations of the department while trying to minimize the need for large increases at any one time. The April 10 increase is 3 months later than what was budgeted in the prior five-year plan but 9.5% higher while the January 12 increase timing was not changed but the rate is expected to be 2.5% higher. We will continue to draw on our 1.0% loan from the KIA for the construction of our new Chemical Feed Facility with the bulk of the borrowing (approximately \$6.4m) occurring in FY10 and completion of the project in FY11. The Reservoir Replacement Project will require additional borrowing beginning in FY11. The Board does not anticipate any problems with implementing rate increases or borrowing.

The Water department will be focusing on beginning construction of the new Reservoir, finishing construction of the Chemical Feed Facility, and pursuing secondary water connection in order to address emergency and/or drought conditions. The Water Department does not anticipate any personnel changes over the next five years.

#### Cable Telecommunications

The Cable Telecommunications Department expects to complete several projects over the next fiscal year. Those projects include: the rollout and completion of the “all-digital” cable television conversion, the continuation of the node division project, the engineering of phase one of a fiber-to-the-home extension in rural Franklin County, begin the construction of a new Headend facility on the east side of the Kentucky River and to comply with Federal, State, and Company regulations.

New service offerings this fiscal year include the addition of digital and high definition programming to the cable lineup at the time in which the “all-digital” conversion is completed. The completion of the premium channel migration to digital receivers is expected to be completed with the conversion of HBO in early 2010. New broadband speeds of 20 megabit will be introduced on a limited basis to those areas in the community where the node division project has been completed. This new speed should be available to 6,000 customers by the end of the fiscal year.

Rate increases are planned for expanded cable programming to keep pace with the rising programming expenses. A \$2 rate increase will also be implemented for DVR service. The FCC Network Access fee for local telephone will increase in fiscal year 2010 by \$1. Broadband rates will not change in the 2010 fiscal year.

#### Administrative and General

Expenses for the Board’s Self-Insurance plan have remained relatively stable over the last four fiscal years. In FY10, the Board has increased the budget for Self-Insurance by \$53,500, with a 3% increase each year thereafter, understanding that one illness and/or accident could result in significant increases. In order to provide somewhat of a “cushion” for fluctuating claims, the Board has decided to fund the Self-Insurance fund at the full budgeted amount each fiscal year, even if actual claims come in lower than anticipated. This is an attempt to keep unexpected high claims from taking a devastating toll on the Board’s reserves.

The Board has experienced large increases in the employer contribution rate to KERS for employee pension. The rate went from 13.50% in FY09 to 16.16% in FY10, a 2.66% increase. Based on actuarial studies, rates are still expected to climb to 20.66% in five years. The increase is right on target with what was calculated last year. This increase has been incorporated in the Board’s current five-year plan.

#### Overall

The Board has decided to move in the direction of becoming a “greener” company. As a result, \$118,000 has been earmarked for green projects in FY10. FPB will incorporate this directive into our constant mission of providing superior, reliable services to the community at the most reasonable prices possible.



Electric & Water Plant Board of The City of Frankfort, Kentucky  
Comparative Statement of Net Assets  
June 30, 2009 and 2008

Assets	2009	2008
Cash & Cash Equivalents	\$ 2,769,628	\$ 4,530,267
Investments	4,259,411	3,882,489
Accrued Interest Receivable	6,278	11,943
Receivables		
Billed user fees	7,110,062	7,326,728
Unbilled user fees	1,054,300	1,201,800
Advertising	142,122	171,984
Other	285,032	229,358
Inventory	4,838,034	4,986,454
Prepaid Expenses	602,117	592,682
Property, Plant, and Equipment	167,374,593	161,352,080
Less: Accumulated Depreciation	(81,859,603)	(75,964,762)
Cable Acquisition Cost	351,000	491,400
Unamortized Bond Discount	167,155	183,201
Insurance Escrow Account	311,304	224,294
Retirement Plan Assets:		
Cash and Cash Equivalents	86,512	33,867
Investments	327,548	374,005
Total Assets	\$ 107,825,493	\$ 109,627,790
Liabilities and Net Assets		
Liabilities		
Accounts and Other Payables	\$ 12,320,387	\$ 12,409,063
Accrued Expenses	1,106,628	1,002,761
Customer Deposits	2,267,268	2,162,677
Unearned Revenues	663,910	657,587
Bonds Payable Due in One Year	4,473,714	3,137,763
Long Term Debt		
Bonds & Bond Anticipation Note Payable	32,093,968	36,034,348
Total Liabilities	52,925,875	55,404,199
Net Assets		
Invested in capital assets	48,947,308	46,215,207
Restricted for debt retirement, contracts, & capital additions	1,439,849	1,316,121
Restricted for retirement plans	414,078	407,891
Unrestricted	4,098,383	6,284,372
Total Net Assets	54,899,618	54,223,591
Total Liabilities and Net Assets	\$ 107,825,493	\$ 109,627,790

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

Electric & Water Plant Board of The City of Frankfort, Kentucky  
Comparative Statement of Revenues, Expenses, and  
Changes in Net Assets  
For The Years Ended June 30, 2009 and 2008

	2009	2008
Operating Revenues		
User Fees		
Electric	\$ 40,201,361	\$ 41,060,752
Water	7,645,773	7,632,125
Cable	20,154,458	18,571,734
Total Operating Revenues	68,001,592	67,264,611
Operating Expenses		
Electric	41,835,702	42,232,269
Water	7,241,538	6,913,611
Cable	17,798,941	16,641,565
Total Operating Expenses	66,876,181	65,787,445
Net Income From Operations	1,125,411	1,477,166
Non-Operating Revenues(Expenses)		
Net Merchandise Sale	8,109	35,900
Rental Revenue	9,737	9,951
Interest Revenue	92,547	189,805
Other Non-Operating Revenue	563,255	439,408
Interest Expense	(1,834,788)	(2,291,752)
Retirement Plan Net Loss	6,187	9,408
Total Non-Operating Revenues (Expenses)	(1,154,953)	(1,607,280)
Income (Loss) Before Contributions	(29,542)	(130,114)
Capital Contributions	705,569	2,926,391
Change in Net Assets	676,027	2,796,277
Net Assets - Beginning of Year	54,223,591	51,427,314
Net Assets - End of Year	\$ 54,899,618	\$ 54,223,591

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

Electric & Water Plant Board of The City of Frankfort, Kentucky  
Comparative Statements of Cash Flows  
For The Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Cash Received from Users and Customers	\$ 68,456,525	\$ 67,935,528
Cash Received from Other Non-Operating Revenues	1,379,217	3,601,455
Cash Payments for Employee Services and Benefits	(13,513,480)	(4,154,440)
Cash Payments to Suppliers for Goods and Services	(46,946,677)	(55,858,827)
Cash Payments for Other Non-Operating Expenses	(1,828,601)	(2,282,344)
Net Cash Provided (Used) by Operating Activities	7,546,984	9,241,372
Cash Flows from Capital and Related Financing Activities		
Purchases of property, plant & equipment	(6,233,082)	(7,519,822)
Purchases of securities	(330,465)	(676,120)
Net Cash Provided (Used) by Capital and Related Financing Activities	(6,563,547)	(8,195,942)
Cash Flows from Investing Activities		
Increase in Bond/Note Indebtedness	(2,604,421)	(2,273,024)
Net Cash Provided (Used) by Investing Activities	(2,604,421)	(2,273,024)
Net increase (Decrease) in Cash and Cash Equivalents	(1,620,984)	(1,227,594)
Cash and Cash Equivalents, Beginning of Year	4,788,428	6,016,022
Cash and Cash Equivalents, End of Year	\$ 3,167,444	\$ 4,788,428
Reconciliation of Operating Income ( Loss) to Net Cash Used by Operating Activities		
Operating Income (Loss)	\$ 676,027	\$ 2,796,277
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) in Operating Activities:		
Depreciation	6,105,402	5,918,407
Amortization	156,446	156,446
(Increase)/Decrease in receivables	344,019	459,743
(Increase)/Decrease in inventory	148,420	(476,586)
(Increase)/Decrease in prepaid expenses	(9,435)	18,366
Increase/(Decrease) in accounts and other payables	(88,676)	125,165
Increase/(Decrease) in accrued expenses	103,867	32,380
Increase/(Decrease) in customer deposits	104,591	150,564
Increase/(Decrease) in unearned revenues	6,323	60,610
Net Cash Provided (Used) by Operating Activities	\$ 7,546,984	\$ 9,241,372

Non-Cash Capital & Financing Activities

In 2009 and 2008, capital contributions consisted of \$705,569 and \$2,926,341 respectively.

The accompanying notes are an integral part of these financial statements

## Note A – Summary of Significant Accounting Policies

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

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

### The Reporting Entity

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

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

- *Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* – The component of net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

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

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

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

### Fund Accounting

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

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

Property, Plant, Equipment, and Long-Term Liabilities

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

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

Basis of Accounting

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

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

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

Budgets and Budgetary Accounting

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

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

Revenue Requirements

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

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

Purpose of Various Internal Funds

Operating Funds

(1) Water and Electric Revenue Fund

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

(2) Operations and Maintenance Fund

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

Restricted Funds

(1) Electric and Water Revenue Bonds and Interest Sinking Fund

This fund was established in accordance with Kentucky Revised Statute 96.182. It provides that a reserve is to be accumulated over a ten year period to equal the average annual interest and principal requirements for such then outstanding.

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

**Cash, Cash Equivalents and Investments**

The Electric and Water Plant Board maintains a cash account for each of the internal funds described in Note A above. Additionally, some of these internal funds hold investments which are stated at cost. For the purpose of these financial statements, the Board considers all highly liquid investment vehicles with an original maturity of three months or less to be cash equivalents. Statutes require that financial institutions pledge approved securities to secure those funds on deposit in an amount equal to the amount of those funds. At the end of the fiscal year, the carrying amount of the Board's deposits and investments were \$7,029,039. All deposits and investments were covered by federal depository insurance or by collateral held in the pledging institution's trust department in the Board's name.

The following is a chart categorizing the investments in order to give an indication of the level of risk assumed by the Board at June 30, 2009 and 2008. Category 1 includes investments that are insured or registered or for which the securities are held by the Board's custodial agent in the Board's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Board's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its department or agent, but not in the Board's name.

	2009 Category				
	1	2	3	Carrying Amount	Market Value
U.S. Government Securities	\$ 4,152,000	\$	\$	\$ 4,152,000	\$ 4,165,344
Certificates of Deposit	107,412			107,412	107,412
	\$ 4,259,412	\$	\$	\$ 4,259,412	\$ 4,272,756
	2008 Category				
	1	2	3	Carrying Amount	Market Value
U.S. Government Securities	\$ 3,780,081	\$	\$	\$ 3,780,081	\$ 3,780,081
Certificates of Deposit	102,408			102,408	102,408
	\$ 3,882,489	\$	\$	\$ 3,882,489	\$ 3,882,489

The Frankfort Electric and Water Plant Board Revised Retirement Plan records as cash and cash equivalents all highly liquid investment vehicles with an original maturity of three months or less. Marketable securities are carried at cost including premiums and discounts on corporate bonds. The premiums and discounts are not material in relation to the investment taken as a whole. Therefore, premiums and discounts have not been amortized. All securities are held in trust by Farmers Bank & Capital Trust Company, Frankfort, Kentucky. Under the terms of the retirement plan, the trustee has the power to hold, invest, reinvest, purchase insurance on the lives of members, control, and disburse funds as at that time shall be set forth in the Trust Agreement.

The following is a chart categorizing the Retirement Plan's investment in order to give an indication of level of risk assumed by the Plan at June 30, 2009 and 2008. Category 1 includes investments that are insured or registered or for which the securities are held by the Plan's custodial agent in the Plan's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Plan's name. Shown in this category are investments with Farmers Bank & Capital Trust Co. which were acquired by the merger of Community Service's plan into the Plant Board plan. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Plan's Name.

	2009 Category				
	1	2	3	Carrying Amount	Market Value
U.S. Government Securities	\$ 98,340	\$	\$	\$ 98,340	\$ 107,828
Corporate Bonds	150,020			150,020	121,013
Mutual Funds	79,188			79,188	77,981
	\$ 327,548	\$	\$	\$ 327,548	\$ 306,822
	2008 Category				
	1	2	3	Carrying Amount	Market Value
U.S. Government Securities	\$ 148,225	\$	\$	\$ 148,225	\$ 152,496
Corporate Bonds	150,020			150,020	136,273
Mutual Funds	75,760			75,760	74,554
	\$ 374,005	\$	\$	\$ 374,005	\$ 363,323

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

Inventory

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

Accumulated Compensated Absences

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

Pension Plans

The Board became a member of the County Employees’ Retirement System (CERS) on July 1, 1988. Eligible employees were enrolled in CERS on that date. Both employer and the employee contribute to this plan. The total estimated cost of entering the system as of July 1, 1988 was \$2,989,322. The original plan for entering the system required annual payments for 24 years from funds available in the Electric and Water Plant Board Retirement Plan and the Board made the annual payments and paid off the balance owed in 2007. The retirees currently being paid benefits by the previously funded Electric and Water Plant Board Retirement Plan will continue to receive their monthly benefits from this retirement plan. The Board does not make any payments from the operating accounts.

Restrictions of Net Assets

	2009	2008
1) Revenue Bond Sinking Reserve	\$ 1,439,849	\$ 1,136,121
2) Retirement Plan Assets	414,078	407,891
Total Restricted Net Assets	\$ 1,853,927	\$ 1,544,012

Projects and Funding

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

General Obligation Bonded Debt Service

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

Comparative

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

Allowance for Uncollectible Amounts

The Board records an allowance for doubtful accounts in the financial statements. The allowance for doubtful accounts at June 30, 2009 and 2008 was \$16,100 and \$23,100, respectively.

**Note B – Property, Plant and Equipment**

The following is a summary of the property, plant and equipment as of June 30, 2009 and 2008:

Property, Plant & Equipment Description	June 30, 2008	Additions	Retirements	June 30, 2009
Water Distribution System	36,752,831	890,648	-	37,643,479
Water Treatment Plant	11,551,407	636,934	-	12,188,341
Electric Distribution System	52,635,604	1,039,028	-	53,674,632
Structures & Improvements	2,423,035	140,728	-	2,563,763
Transportation Equipment	4,146,936	19,542	(12,743)	4,153,735
Office Furniture & Equipment	6,773,307	622	-	6,773,929
Tools, Shop, Garage & Store Equipment	419,794	-	-	419,794
Laboratory Equipment	52,192	-	-	52,192
Power Operated Equipment	2,010,567	217,212	(56,492)	2,171,287
Communication Equipment	347,292	-	-	347,292
Miscellaneous Equipment	705,310	36,719	-	742,029
Cable Division Assets	41,792,240	2,520,358	-	44,312,598
Land & Land Rights	585,848	-	-	585,848
Computer Equipment	1,155,717	589,954	-	1,745,671
Total Property, Plant & Equipment	<u>\$ 161,352,080</u>	<u>\$ 6,091,745</u>	<u>\$ (69,235)</u>	<u>\$ 167,374,590</u>

Accumulated Depreciation:

Description	June 30, 2008	Additions	Retirements	June 30, 2009
Water Distribution System	\$ 11,355,364	\$ 718,169	\$ -	\$ 12,073,533
Water Treatment Plant	5,370,138	237,284	-	5,607,422
Electric Distribution System	27,419,670	1,335,335	(95)	28,754,910
Structures & Improvements	1,457,064	115,858	-	1,572,922
Transportation Equipment	2,975,901	263,123	(185,313)	3,053,711
Office Furniture & Equipment	5,242,141	376,700	-	5,618,841
Tools, Shop, Garage & Store Equipment	388,622	7,918	-	396,540
Laboratory Equipment	51,628	484	-	52,112
Power Operated Equipment	1,755,185	126,952	-	1,882,137
Communication Equipment	238,073	21,000	-	259,073
Miscellaneous Equipment	648,117	39,960	(4,344)	683,733
Cable Division Assets	18,878,258	2,560,970	-	21,439,228
Land & Land Rights	-	-	-	-
Computer Equipment	184,601	280,840	-	465,441
Total Accumulated Depreciation	<u>\$ 75,964,762</u>	<u>\$ 6,084,593</u>	<u>\$ (189,752)</u>	<u>\$ 81,859,603</u>

**Note C – Bonds Payable**

The annual requirements to retire bonded debt as of June 30, 2009 and 2008 are as follows:

2009		2008	
June 30,	Principal	June 30,	Principal
2010	\$ 4,473,714	2009	\$ 3,137,763
2011	2,806,887	2010	5,692,239
2012	2,814,575	2011	3,854,607
2013	2,715,000	2012	3,854,202
2014	2,755,000	2013	3,736,374
Thereafter	21,002,506	Thereafter	18,896,926
Total	<u>\$ 36,567,682</u>	Total	<u>\$ 39,172,111</u>



**Note C – Bonds Payable (Continued):**

Payments on Long-Term Debt for the fiscal year ended June 30, 2009 and 2008 are as follows:

Debt	2009		2008	
	June 30, 2008	Additions	Repayments	June 30, 2009
Consolidated Note Variable Interest Rate	\$ 894,622		\$ (236,787)	\$ 657,835
1999 Bond Issue Variable Interest Rates	9,465,000		(580,000)	8,885,000
FSN Note 1 Variable Interest Rates	3,830,000		(258,000)	3,572,000
FSN Note 2 Variable Interest Rates	6,929,824		(398,704)	6,531,120
FSN Note 3 Variable Interest Rates	5,290,890		(417,374)	4,873,516
FSN Note 4 Variable Interest Rates	6,769,966		(389,500)	6,380,466
FSN Note 5 Variable Interest Rates	4,141,809		(324,064)	3,817,745
Water BAN Variable Interest Rate	1,850,000			1,850,000
	<u>\$ 39,172,111</u>	<u>\$ -</u>	<u>\$ (2,604,429)</u>	<u>\$ 36,567,682</u>

From July 1, 1998 to June 30, 2007 the Plant Board entered into bond anticipation notes with Farmers Bank and Capital Trust Company. The purpose of these notes was to enable the Plant Board to work on capital additions for the Full Service Network. The balance of the bond anticipation notes at June 30, 2009 totaled \$25,174,838 and at June 30, 2008, the notes totaled \$26,962,491. This amount is included in long-term debt.

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

**Note D – Insurance Escrow Account**

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

**Note E – Frankfort Plant Board Municipal Projects Corporation**

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

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

**Note F – Retirement Plans**

All employees are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers' retirement system established under the provisions of Kentucky Revised Statute Section 61.645. Funding for the plan is provided through payroll withholdings of 5.00% and a Board contribution of 13.50% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$10,414,853. The contribution requirement for CERS for the year ended June 30, 2009 was \$1,948,288 which consisted of \$1,406,005 from the Board and \$520,744 from the employees. Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

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

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

**Note G – Deferred Compensation**

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

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

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

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

Supplemental Information

Electric & Water Plant Board Of The City of Frankfort, Kentucky  
Statement of Financial Position - Electric & Water, Cable  
June 30,2009

Assets	<u>Electric &amp; Water</u>	<u>Cable</u>	<u>Total</u>
Cash & Cash Equivalents	\$ 6,141,749	\$ 887,290	\$ 7,029,039
Accrued Interest Receivable	4,522	1,756	6,278
Receivables			
Billed user fees	5,122,343	1,987,719	7,110,062
Unbilled user fees	1,054,300	-	1,054,300
Advertising	-	142,122	142,122
Other	269,742	15,290	285,032
Inventory	3,962,489	875,545	4,838,034
Prepaid Expenses	414,046	188,071	602,117
Property, Plant, and Equipment	116,787,958	50,586,635	167,374,593
Less: Accumulated Depreciation	(55,861,839)	(25,997,764)	(81,859,603)
Cable Acquisition Cost	-	351,000	351,000
Unamortized Bond Discount	167,155	-	167,155
Insurance Escrow Account	162,538	148,766	311,304
Retirement Plan Assets:			
Cash and Cash Equivalents	86,512	-	86,512
Investments	327,548	-	327,548
<b>Total Assets</b>	<b><u>\$ 78,639,063</u></b>	<b><u>\$ 29,186,430</u></b>	<b><u>\$ 107,825,493</u></b>
Liabilities and Net Assets			
Liabilities			
Accounts and Other Payables	\$ 10,647,944	\$ 1,672,443	\$ 12,320,387
Accrued Expenses	653,909	452,719	1,106,628
Customer Deposits	2,237,219	30,049	2,267,268
Unearned Revenues	-	663,910	663,910
Bonds Payable Due in One Year	2,460,000	2,013,714	4,473,714
Long Term Debt			
Bonds and Bond Anticipation Note Payable	8,275,000	23,818,968	32,093,968
<b>Total Liabilities</b>	<b><u>24,274,072</u></b>	<b><u>28,651,803</u></b>	<b><u>52,925,875</u></b>
Net Assets			
Invested in capital assets	50,191,119	(1,243,811)	48,947,308
Restricted for debt retirement, contracts, & capital additions	1,439,849	-	1,439,849
Restricted for retirement plans	414,078	-	414,078
Unrestricted	2,319,945	1,778,438	4,098,383
<b>Total Net Assets</b>	<b><u>54,364,991</u></b>	<b><u>534,627</u></b>	<b><u>54,899,618</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 78,639,063</u></b>	<b><u>\$ 29,186,430</u></b>	<b><u>\$ 107,825,493</u></b>

Frankfort Electric & Water Plant Board  
Statement of Revenues, Expenses, and Changes In  
Retained Earnings - Budget and Actual  
For The Year Ended June 30, 2009

	<u>Budgeted</u>	<u>Actual</u>	<u>Variable Favorable (Unfavorable)</u>
Operating Revenues:			
User Fees			
Electric	\$ 43,037,800	\$ 40,201,361	\$ (2,836,439)
Water	8,016,600	7,645,773	(370,827)
Telecommunication	<u>20,257,000</u>	<u>20,154,458</u>	<u>(102,542)</u>
Total Operating Revenues	<u>71,311,400</u>	<u>68,001,592</u>	<u>(3,309,808)</u>
Operating Expenses:			
Electric	43,547,301	41,839,473	1,711,599
Water	7,195,066	7,241,538	(46,472)
Telecommunication	<u>18,387,633</u>	<u>17,798,941</u>	<u>588,692</u>
Total Operating Expenses	<u>69,130,000</u>	<u>66,876,181</u>	<u>2,253,819</u>
Operating Income	<u>2,181,400</u>	<u>1,125,411</u>	<u>(1,055,989)</u>
Non-Operating Revenues/(Expenses)			
Net Merchandise Sale	15,800	8,109	(7,691)
Rental Revenue	9,400	9,737	337
Interest Revenue	196,900	92,547	(104,353)
Other Non-Operating Revenue	433,500	563,255	129,755
Interest Expense	(2,017,700)	(1,834,788)	182,912
Retirement Plan Net Loss	<u>                    </u>	<u>6,187</u>	<u>6,187</u>
Total Non-Operating Revenues (Expenses)	<u>(1,362,100)</u>	<u>(1,154,953)</u>	<u>207,147</u>
Income (Loss) Before Contributions	819,300	(29,542)	(848,842)
Capital Contributions	<u>797,900</u>	<u>705,569</u>	<u>(92,331)</u>
Change in Net Assets	1,617,200	676,027	(941,173)
Net Assets - Beginning of Year	<u>54,223,591</u>	<u>54,223,591</u>	<u>                    </u>
Net Assets - End of Year	<u>\$ 55,840,791</u>	<u>\$ 54,899,618</u>	<u>\$ (941,173)</u>

Frankfort Electric & Water Plant Board  
Statement of Revenues and Expenses  
Electric, Water and Telecommunication Divisions  
For the Year Ended June 30, 2009

	Electric Division	Water Division	Telecommunication Division
Operating Income			
User Fees	\$ 40,201,361	\$ 7,645,773	\$ 19,425,255
Advertising Revenue			729,203
Total Operating Revenues	40,201,361	7,645,773	20,154,458
Operating Expenses	41,835,702	7,241,538	17,798,941
Operating Income	(1,634,341)	404,235	2,355,517
Non-Operating Revenues/(Expenses)			
Net Merchandise Sales	2,182	1,632	4,295
Rental Revenues	2,620	1,960	5,157
Interest Revenues	30,641	37,989	23,917
Other Non-Operating Revenues	221,983	165,140	176,132
Interest Expense	(76,755)	(594,635)	(1,163,398)
Retirement Plan Net Loss	3,094	3,093	
Total Non-Operating Revenues (Expenses)	183,765	(384,821)	(953,897)
Net Income	\$ (1,450,576)	\$ 19,414	\$ 1,401,620

Frankfort Electric & Water Plant Board  
 Detail Schedule of Budgeted and Actual Operating Expenses  
 Electric, Water and Telecommunication Divisions  
 For The Year Ended June 30, 2009

Electric Division	Budgeted	Actual	Variance Favorable (Unfavorable)
Electricity Purchased	\$ 36,031,800	\$ 33,917,218	\$ 2,114,582
Transmission and Distribution	2,094,000	2,416,574	(322,574)
Engineering	242,200	255,685	(13,485)
Total Electric Expense	<u>38,368,000</u>	<u>36,589,477</u>	<u>1,778,523</u>
Meter Reading	218,020	226,150	(8,130)
Customer Records and Collection	237,946	231,653	6,293
Postage and Printing	47,089	45,323	1,766
24/7 Customer Care Payroll	-	-	-
Over and Short	27	31	(4)
Office Supplies	12,109	12,710	(601)
Bad Debts	112,495	85,654	26,841
GIS Expenses	14,799	9,350	5,449
CIS Expenses	75,073	45,134	29,939
Computer Expenses	34,980	37,976	(2,996)
Information Technologies Payroll	160,317	126,992	33,325
Total Office Expenses	<u>912,855</u>	<u>820,973</u>	<u>91,882</u>
Advertising	6,727	2,224	4,503
Administrative Expenses	287,321	284,066	3,255
Clearing Account	-	1,006	(1,006)
Dues & Subscriptions	18,482	41,403	(22,921)
Safety	9,964	8,396	1,568
Travel and Training	73,868	39,623	34,245
Board Expenses	1,642	1,905	(263)
Social Security Expense	214,358	218,851	(4,493)
Legal and Consulting Fees	95,075	230,819	(135,744)
Insurance	275,992	286,961	(10,969)
Total Administrative Expenses	<u>983,429</u>	<u>1,115,254</u>	<u>(131,825)</u>
Vacation Benefits	146,705	171,656	(24,951)
Sick Benefits	75,402	79,543	(4,141)
Employees Welfare	466,339	465,498	841
Clubhouse Expense	2,143	2,580	(437)
Employee Activity	10,634	9,395	1,239
Employee Assistance	1,232	782	450
Pension Expense	462,753	405,485	57,268
Total Employee Benefits Expenses	<u>1,165,208</u>	<u>1,134,939</u>	<u>30,269</u>
General Expenses	4,036	3,933	103
Maintenance	9,418	12,200	(2,782)
Depreciation	1,544,399	1,662,216	(117,817)
In-lieu of Tax City	47,288	37,801	9,487
In-lieu of Tax County	23,076	17,401	5,675
Cash Contributions to City	15,624	15,625	(1)
Total General Expenses	<u>1,643,841</u>	<u>1,749,176</u>	<u>(105,335)</u>
Support Services	150,953	146,006	4,947
Inventory Adjustments	-	9,873	(9,873)
Cost of Sales Clearing	-	1,221	(1,221)
Auto and Truck Repair	170,629	136,403	34,226
Gas and Oil	152,386	132,380	20,006
Total Support Services	<u>473,968</u>	<u>425,883</u>	<u>48,085</u>
<b>Total Operating Expenses - Electric Division</b>	<u>\$ 43,547,301</u>	<u>\$ 41,835,702</u>	<u>\$ 1,711,599</u>

Frankfort Electric & Water Plant Board  
 Detail Schedule of Budgeted and Actual Operating Expenses  
 Electric, Water and Telecommunication Divisions  
 For the Year Ended June 30, 2009

	Budgeted	Actual	Variance Favorable (Unfavorable)
Water Division			
Distributions and Treatment	\$ 2,404,500	\$ 2,855,351	\$ (450,851)
Engineering	228,900	236,004	(7,104)
Total Water Department Expense	<u>2,633,400</u>	<u>3,091,355</u>	<u>(457,955)</u>
Meter Reading	165,198	169,279	(4,081)
Customer Records and Collection	182,622	173,288	9,334
Postage and Printing	38,016	35,697	2,319
24/7 Customer Care Payroll	-	-	-
Over and Short	21	23	(2)
Office Supplies	7,994	9,574	(1,580)
Bad Debts	14,367	15,705	(1,338)
GIS Expenses	11,302	8,964	2,338
CIS Expenses	55,689	33,762	21,927
Computer Expenses	26,714	28,408	(1,694)
Information Technologies Payroll	108,624	94,996	13,628
Total Office Expenses	<u>610,547</u>	<u>569,696</u>	<u>40,851</u>
Advertising	5,137	5,350	(213)
Administrative Expenses	200,479	215,346	(14,867)
Clearing Account	-	753	(753)
Dues & Subscriptions	19,982	12,389	7,593
Safety	9,614	8,894	720
Travel and Training	59,008	34,274	24,734
Board Expenses	1,254	1,424	(170)
Social Security Expense	209,959	211,840	(1,881)
Legal and Consulting Fees	61,687	68,928	(7,241)
Insurance	248,273	250,369	(2,096)
Total Administrative Expenses	<u>815,393</u>	<u>809,567</u>	<u>5,826</u>
Vacation Benefits	144,970	170,181	(25,211)
Sick Benefits	77,350	94,631	(17,281)
Employees Welfare	509,249	490,563	18,686
Clubhouse Expense	2,027	4,039	(2,012)
Employee Activity	11,294	9,899	1,395
Employee Assistance	1,332	834	498
Pension Expense	467,282	395,555	71,727
Total Employee Benefits Expenses	<u>1,213,504</u>	<u>1,165,702</u>	<u>47,802</u>
General Expenses	2,569	2,959	(390)
Maintenance	5,137	10,095	(4,958)
Depreciation & Amortization	1,073,072	1,201,935	(128,863)
In-lieu of Tax City	39,188	30,906	8,282
In-lieu of Tax County	19,124	14,228	4,896
Cash Contributions to City	2,993	2,865	128
Total General Expenses	<u>1,142,083</u>	<u>1,262,988</u>	<u>(120,905)</u>
Support Services	112,919	109,212	3,707
Inventory Adjustments		2,999	(2,999)
Cost of Sales Clearing		914	(914)
Auto and Truck Repair	114,754	131,616	(16,862)
Gas and Oil	93,008	97,489	(4,481)
Total Support Services	<u>320,681</u>	<u>342,230</u>	<u>(21,549)</u>
Total Operating Expenses - Water Division	<u>\$ 6,735,608</u>	<u>\$ 7,241,538</u>	<u>\$ (505,930)</u>



Frankfort Electric & Water Plant Board  
 Detail Schedule of Budgeted and Actual Operating Expenses  
 Electric, Water and Telecommunication Divisions  
 For the Year Ended June 30, 2009

	Budgeted	Actual	Variable Favorable (Unfavorable)
<b>Telecommunication Division</b>			
Operations & Maintenance	642,300	967,585	(325,285)
Distribution	310,000	405,729	(95,729)
HBO Expense	453,700	414,838	38,862
TMC Expense	30,700	27,802	2,898
Disney Expense	-	-	-
Showtime Expense	80,400	74,298	6,102
Cinemax Expense	54,000	47,174	6,826
Encore Expense	2,700	1,838	862
Starz/Encore Expense	96,000	85,493	10,507
Digital Music Expense	3,900	2,833	1,067
Satellite Station Expense	3,120,200	3,825,578	(705,378)
Pole Rental Expense	56,000	20,459	35,541
Digital Station Expense	447,500	517,172	(69,672)
High Definition TV Expense	70,900	(4,506)	75,406
Pay per View Expense	8,400	61,911	(53,511)
Royalty Copyright Expense	65,000	72,774	(7,774)
Total Operations & Maintenance	<u>5,441,700</u>	<u>6,520,978</u>	<u>(1,079,278)</u>
Cable 10 Payroll	455,000	483,801	(28,801)
Cable 10 Expense	55,000	48,491	6,509
Ad Insertion Payroll	-	-	-
Ad Insertion Expenses	87,000	86,327	673
Marketing Expenses	75,000	65,590	9,410
Total Cable 10 Expenses	<u>672,000</u>	<u>684,209</u>	<u>(12,209)</u>
FSN Payroll	765,200	789,938	(24,738)
FSN Expense	1,250,000	1,380,123	(130,123)
Access Billing Expense	40,000	47,296	(7,296)
Cable Tree Trimming	-	-	-
Security Payroll	-	-	-
Expanded Cable	-	-	-
Security Expense	63,000	77,194	(14,194)
Total Cable FSN Expenses	<u>2,118,200</u>	<u>2,294,551</u>	<u>(176,351)</u>
Engineering Expense	2,000	1,268	732
Engineering Payroll	150,000	106,708	43,292
Total Cable Engineering Expense	<u>152,000</u>	<u>107,976</u>	<u>44,024</u>
Total Cable Expenses	<u>8,383,900</u>	<u>9,607,714</u>	<u>(1,223,814)</u>
Customer Records and Collection Expense	460,993	456,011	4,982
Postage and Printing	95,964	89,559	6,405
24/7 Customer Care Payroll	-	-	-
Over and Short	52	21	31
Office Supplies	20,178	29,279	(9,101)
Bad Debts	28,721	35,687	(6,966)
GIS Expenses	28,530	18,401	10,129
CIS Expenses	140,575	106,696	33,879
Computer Expenses	67,434	75,417	(7,983)
Information Technologies Payroll	274,199	249,926	24,273
Total Office Expenses	<u>1,116,646</u>	<u>1,060,997</u>	<u>55,649</u>

Frankfort Electric & Water Plant Board  
 Detail Schedule of Budgeted and Actual Operating Expenses  
 Electric, Water and Telecommunication Divisions  
 For the Year Ended June 30, 2009

Telecommunication Division(continued)	Budgeted	Actual	Variable Favorable (Unfavorable)
Advertising	\$ 12,968	\$ 5,914	\$ 7,054
Administrative Expense	506,070	560,680	(54,610)
Clearing Account	-	1,982	(1,982)
Dues & Subscriptions	29,973	6,407	23,566
Safety	14,422	14,098	324
Travel and Training	109,769	56,166	53,603
Board Expenses	3,164	5,291	(2,127)
Social Security Expense	313,713	323,007	(9,294)
Legal and Consulting Fees	138,188	91,303	46,885
Insurance	334,652	350,819	(16,167)
<b>Total Administrative Expenses</b>	<b>1,462,919</b>	<b>1,415,667</b>	<b>47,252</b>
Vacation Benefits	217,455	232,338	(14,883)
Sick Benefits	116,025	96,735	19,290
Employees Welfare	763,874	762,015	1,859
Clubhouse Expense	3,041	4,301	(1,260)
Employee Activity	16,941	14,434	2,507
Employee Assistance	1,998	1,303	695
Pension Expense	698,365	604,996	93,369
<b>Total Employee Benefits Expenses</b>	<b>1,817,699</b>	<b>1,716,122</b>	<b>101,577</b>
General Expenses	6,484	9,116	(2,632)
Maintenance	12,968	29,908	(16,940)
Amortization of Goodwill	140,400	140,400	-
Depreciation	3,024,155	3,257,297	(233,142)
In-lieu of Tax City	38,013	40,300	(2,287)
In-lieu of Tax County	18,550	14,371	4,179
Cash Contributions to City	5,983	6,512	(529)
<b>Total General Expenses</b>	<b>3,246,553</b>	<b>3,497,904</b>	<b>(251,351)</b>
Support Services Expense	48,242	47,034	1,208
Support Services Payroll	236,799	240,305	(3,506)
Inventory Adjustments		6,618	(6,618)
Cost of Sales Clearing		2,402	(2,402)
Auto and Truck Repair Expense	55,869	51,790	4,079
Auto and Truck Repair Payroll	56,405	60,085	(3,680)
Gas and Oil	90,996	92,303	(1,307)
<b>Total Support Services Expense</b>	<b>488,311</b>	<b>500,537</b>	<b>(12,226)</b>
<b>Total Operating Expenses - Telecommunication Division</b>	<b>\$ 16,516,028</b>	<b>\$ 17,798,941</b>	<b>\$ (1,282,913)</b>

Frankfort Electric & Water Plant Board  
Comparative Operating Expenses  
Electric, Water and Telecommunication Divisions  
For The Years Ended June 30, 2009 and 2008

Electric Division	2009	2008
Electricity Purchased	33,917,218	34,746,820
Transmission and Distribution	2,416,574	2,046,915
Engineering	255,685	221,261
Total Electric Expense	36,589,477	37,014,996
Meter Reading	226,150	224,831
Customer Records and Collection	231,653	230,214
Postage and Printing	45,323	45,538
24/7 Customer Care Payroll	-	-
Over and Short	31	79
Office Supplies	12,710	11,905
Bad Debts	85,654	144,147
GIS Expenses	9,350	12,692
CIS Expenses	45,134	35,345
Computer Expenses	37,976	42,907
Information Technologies Payroll	126,992	127,994
Total Office Expenses	820,973	875,652
Advertising	2,224	5,892
Administrative Expenses	284,066	266,159
Clearing Account	1,006	291
Dues & Subscriptions	41,403	40,077
Safety	8,396	9,651
Travel and Training	39,623	46,899
Board Expenses	1,905	1,558
Social Security Expense	218,851	205,087
Legal and Consulting Fees	230,819	82,333
Insurance	286,961	284,960
Total Administrative Expenses	1,115,254	942,907
Vacation Benefits	171,656	158,052
Sick Benefits	79,543	75,303
Employees Welfare	465,498	482,393
Clubhouse Expense	2,580	4,445
Employee Activity	9,395	8,299
Employee Assistance	782	681
Pension Expense	405,485	454,917
Total Employee Benefits Expenses	1,134,939	1,184,090
General Expenses	3,933	6,622
Maintenance	12,200	9,548
Depreciation	1,662,216	1,639,346
In-lieu of Tax City	37,801	38,210
In-lieu of Tax County	17,401	17,590
Cash Contributions to City	15,625	16,022
Total General Expenses	1,749,176	1,727,338
Support Services	146,006	144,637
Inventory Adjustments	9,873	24,011
Cost of Sales Clearing	1,221	6,134
Auto and Truck Repair	136,403	150,375
Gas and Oil	132,380	162,129
Total Support Services	425,883	487,286
Total Operating Expenses - Electric Division	\$ 41,835,702	\$ 42,232,269

Frankfort Electric & Water Plant Board  
 Comparative Operating Expenses  
 Electric, Water, And Telecommunication Divisions  
 For The Years Ended June 30, 2009 and 2008

Water Division	<u>2009</u>	<u>2008</u>
Distributions and Treatment	2,855,351	2,562,095
Engineering	236,004	226,768
Total Water Department Expense	<u>3,091,355</u>	<u>2,788,863</u>
Meter Reading	169,279	166,967
Customer Records and Collection	173,288	171,534
Postage and Printing	35,697	34,800
24/7 Customer Care Payroll	-	-
Over and Short	23	59
Office Supplies	9,574	8,613
Bad Debts	15,705	26,922
GIS Expenses	8,964	9,457
CIS Expenses	33,762	26,336
Computer Expenses	28,408	31,866
Information Technologies Payroll	94,996	95,369
Total Office Expenses	<u>569,696</u>	<u>571,923</u>
Advertising	5,350	2,401
Administrative Expenses	215,346	197,600
Clearing Account	753	217
Dues & Subscriptions	12,389	11,259
Safety	8,894	10,075
Travel and Training	34,274	41,911
Board Expenses	1,424	1,160
Social Security Expense	211,840	207,798
Legal and Consulting Fees	68,928	41,501
Insurance	250,369	247,306
Total Administrative Expenses	<u>809,567</u>	<u>761,228</u>
Vacation Benefits	170,181	168,434
Sick Benefits	94,631	59,748
Employees Welfare	490,563	502,926
Clubhouse Expense	4,039	4,664
Employee Activity	9,899	8,461
Employee Assistance	834	714
Pension Expense	395,555	462,281
Total Employee Benefits Expenses	<u>1,165,702</u>	<u>1,207,228</u>
General Expenses	2,959	4,875
Maintenance	10,095	7,310
Depreciation & Amoritzation	1,201,935	1,156,517
In-lieu of Tax City	30,906	31,326
In-lieu of Tax County	14,228	14,420
Cash Contributions to City	2,865	2,992
Total General Expenses	<u>1,262,988</u>	<u>1,217,440</u>
Support Services	109,212	107,770
Inventory Adjustments	2,999	11,876
Cost of Sales Clearing	914	4,570
Auto and Truck Repair	131,616	133,775
Gas and Oil	97,489	108,938
Total Support Services	<u>342,230</u>	<u>366,929</u>
Total Operating Expenses - Water Division	<u>\$ 7,241,538</u>	<u>\$ 6,913,611</u>

Frankfort Electric & Water Plant Board  
Comparative Operating Expenses  
Electric, Water, And Telecommunication Divisions  
For The Years Ended June 30, 2009 and 2008

Telecommunication Division	2009	2008
Operations & Maintenance	967,585	811,615
Distribution	405,729	314,320
HBO Expense	414,838	437,902
TMC Expense	27,802	31,137
Disney Expense	-	-
Showtime Expense	74,298	80,246
Cinemax Expense	47,174	52,484
Encore Expense	1,838	3,385
Starz/Encore Expense	85,493	78,187
Digital Music Expense	2,833	3,302
Satellite Station Expense	3,825,578	3,373,577
Pole Rental Expense	20,459	28,828
Digital Station Expense	517,172	400,923
High Definition TV Expense	(4,506)	95,533
Pay per View Expense	61,911	35,571
Royalty Copyright Expense	72,774	75,440
Total Operations & Maintenance	6,520,978	5,822,450
Cable 10 Payroll	483,801	441,780
Cable 10 Expense	48,491	42,268
Ad Insertion Payroll	-	-
Ad Insertion Expenses	86,327	55,757
Marketing Expenses	65,590	68,560
Total Cable 10 Expenses	684,209	608,365
FSN Payroll	789,938	762,087
FSN Expense	1,380,123	1,292,403
Access Billing Expense	47,296	24,309
Cable Tree Trimming	-	-
Security Payroll	-	-
Expanded Cable	-	-
Security Expense	77,194	67,771
Total Cable FSN Expenses	2,294,551	2,146,570
Engineering Expense	1,268	1,287
Engineering Payroll	106,708	117,865
Total Cable Engineering Expense	107,976	119,152
Total Cable Expenses	9,607,714	8,696,537
Customer Records and Collection Expense	456,011	433,061
Postage and Printing	89,559	91,794
24/7 Customer Care Payroll	-	-
Over and Short	21	149
Office Supplies	29,279	23,314
Bad Debts	35,687	53,844
GIS Expenses	18,401	23,870
CIS Expenses	106,696	66,475
Computer Expenses	75,417	81,411
Information Technologies Payroll	249,926	240,721
Total Office Expenses	1,060,997	1,014,639

Frankfort Electric & Water Plant Board  
Comparative Operating Expenses  
Electric, Water, And Telecommunication Divisions  
For The Years Ended June 30, 2009 and 2008

Telecommunication Division (continued)	2009	2008
Advertising	5,914	8,551
Administrative Expense	560,680	499,282
Clearing Account	1,982	549
Dues & Subscriptions	6,407	6,868
Safety	14,098	16,315
Travel and Training	56,166	68,866
Board Expenses	5,291	2,930
Social Security Expense	323,007	305,585
Legal and Consulting Fees	91,303	48,465
Insurance	350,819	333,348
Total Administrative Expenses	1,415,667	1,290,759
Vacation Benefits	232,338	205,608
Sick Benefits	96,735	102,290
Employees Welfare	762,015	752,776
Clubhouse Expense	4,301	6,996
Employee Activity	14,434	12,078
Employee Assistance	1,303	1,072
Pension Expense	604,996	682,293
Total Employee Benefits Expenses	1,716,122	1,763,113
General Expenses	9,116	15,222
Maintenance	29,908	19,687
Amortization of Goodwill	140,400	140,400
Depreciation	3,257,297	3,138,590
In-lieu of Tax City	40,300	39,470
In-lieu of Tax County	14,371	13,988
Cash Contributions to City	6,512	5,985
Total General Expenses	3,497,904	3,373,342
Support Services Expense	47,034	42,606
Support Services Payroll	240,305	229,416
Inventory Adjustments	6,618	13,825
Cost of Sales Clearing	2,402	11,536
Auto and Truck Repair Expense	51,790	43,290
Auto and Truck Repair Payroll	60,085	56,660
Gas and Oil	92,303	105,842
Total Support Services Expense	500,537	503,175
Total Operating Expenses - Telecommunication Division	\$ 17,798,941	\$ 16,641,565

Electric & Water Plant Board Of The City of Frankfort, Kentucky  
Schedule Of Bond Principal And Interest Maturities  
June 30, 2009

Consolidated Note	Principal	Interest	Total
Fiscal Year Ended June 30, 2010	\$ 251,382	\$ 32,632	\$ 284,014
Fiscal Year Ended June 30, 2011	266,887	17,127	284,014
Fiscal Year Ended June 30, 2012	139,575	2,454	142,029
<b>Total</b>	<b>\$ 657,844</b>	<b>\$ 52,213</b>	<b>\$ 710,057</b>

1999 Bond Issue	Principal	Interest	Total
Fiscal Year Ended June 30, 2010	\$ 610,000	\$ 466,710	\$ 1,076,710
Fiscal Year Ended June 30, 2011	640,000	433,898	1,073,898
Fiscal Year Ended June 30, 2012	675,000	399,379	1,074,379
Fiscal Year Ended June 30, 2013	715,000	362,713	1,077,713
Fiscal Year Ended June 30, 2014	755,000	323,380	1,078,380
Fiscal Year Ended June 30, 2015	795,000	281,133	1,076,133
Fiscal Year Ended June 30, 2016	840,000	236,170	1,076,170
Fiscal Year Ended June 30, 2017	885,000	188,733	1,073,733
Fiscal Year Ended June 30, 2018	935,000	138,683	1,073,683
Fiscal Year Ended June 30, 2019	990,000	85,745	1,075,745
Fiscal Year Ended June 30, 2020	1,045,000	29,255	1,074,255
<b>Total</b>	<b>\$ 8,885,000</b>	<b>\$ 2,945,799</b>	<b>\$ 11,830,799</b>

FSN Notes	Principal	Interest	Total
Fiscal Year Ended June 30, 2010	\$ 1,762,332	Interest is variable	\$ 1,762,332
Fiscal Year Ended June 30, 2011	1,900,000	Interest is variable	1,900,000
Fiscal Year Ended June 30, 2012	2,000,000	Interest is variable	2,000,000
Fiscal Year Ended June 30, 2013	2,000,000	Interest is variable	2,000,000
Fiscal Year Ended June 30, 2014	2,000,000	Interest is variable	2,000,000
Fiscal Year Ended June 30, 2015	2,000,000	Interest is variable	2,000,000
Fiscal Year Ended June 30, 2016	2,000,000	Interest is variable	2,000,000
Fiscal Year Ended June 30, 2017	2,000,000	Interest is variable	2,000,000
Fiscal Year Ended June 30, 2018	2,000,000	Interest is variable	2,000,000
Fiscal Year Ended June 30, 2019	2,000,000	Interest is variable	2,000,000
Fiscal Year Ended June 30, 2020	2,000,000	Interest is variable	2,000,000
Fiscal Year Ended June 30, 2021	2,000,000	Interest is variable	2,000,000
Fiscal Year Ended June 30, 2022	1,512,506	Interest is variable	1,512,506
<b>Total</b>	<b>\$ 25,174,838</b>		<b>\$ 25,174,838</b>

Water Bond Anticipation Note		
Fiscal Year Ended June 30, 2010		<u>\$ 1,850,000</u>



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

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

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

We have audited the financial statements of Electric & Water Plant Board, as of and for the year ended June 30, 2009, and have issued our report thereon dated January 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the Standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Electric & Water Plant Board, in a separate letter dated January 12, 2010.

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

*Charles T. Mitchell Co.*

January 12, 2010



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

Financial Statements

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

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Frankfort, Kentucky

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

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

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

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

*Charles T. Mitchell Co.*

November 14, 2008

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

**INTRODUCTION**

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

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

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

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

**FINANCIAL HIGHLIGHTS**

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

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

**Revenues**

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

**Expenses**

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

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

**OVERVIEW OF THE FINANCIAL STATEMENTS**

FPB's Financial Statements are comprised of two components:

- Financial Statements; and
- “Notes” to the Financial Statements.

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

The Three Financial Statement Types:

1. The “Balance Sheet” presents information on FPB’s assets and liabilities, with the difference between the two reported as Equity (which is also known in the Accounting profession as “Net Assets”). Over time, increases and decreases in Equity may serve as a useful indicator of whether the financial condition of FPB is improving or deteriorating.
2. The “Statement of Revenues, Expenses, and Changes in Net Assets” presents information showing how FPB’s Equity changed between FY07 and FY08. Results of FPB’s “operations are reported as the underlying events occur, regardless of the timing of cash flows.” This means that FPB’s revenues and its expenses are reported in the Financial Statements for some items that will result in cash flows (positive or negative) in some future year, but not this one. For example, take Accounts Payable and Accounts Receivable. Customers owed FPB money as of June 30, 2008. This was reported as income in FY08 but the cash will not be realized until the next fiscal year. On a similar note, FPB owed money to Kentucky Utilities as of June 30, 2008. This was reported as expense in FY08 but the cash will not be expended until the next fiscal year. This is called the “accrual” basis of accounting and is further explained in Note A.

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

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

Notes to the Financial Statements:

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

## FINANCIAL ANALYSIS

### Assets

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

### Liabilities

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

### Net Assets

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

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

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

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

## **CAPITAL ASSETS**

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

### Electric

- \*SCADA addition and two breaker replacements at Ridgeview Substation

- \*Overall general distribution system improvements

### Water

- \*US 421

- \*Wet Well Project @ WTP

- \*Hoist Replacement @ WTP

- \*New Subdivision development

### Cable

- \*Completion of two Dark Fiber rings for use by State Government

- \*DCTs for Digital Cable/HD/DVR

- \*Headend Equipment improvements for transition to Digital Simulcast

### General

- \*Savin 8065 Digital Copier/Printer (Downtown)

- \*John Deere Z-Track Mower

- \*Outsource programmers to develop new Customer Service and Billing System

- \*Fleet replacement (1 utility truck w/ crane & 1 pickup truck in the Electric Dept, 1 pickup truck in Electric Eng Dept, 1 pickup & 1 van in the Cable Dept, 2 pickups in the Meter Reading Dept, 1 pickup in Support Services Dept)

## **LONG-TERM DEBT**

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

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

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

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

## **BUDGET**

Every year, the Board approves a 5-year budget for all operations of FPB. Revenues and Expenses are based on a five-year historical calculation (with some exceptions primarily in Cable) and current inflationary trends. There are major impacts to the Electric and Water operations due mainly to weather conditions, which cannot be accurately anticipated. The use of a 5-year historical period tends to result in an “average” year in growth, inflation, and prevailing weather conditions. It is a rare occurrence when “average” and actual coincide. Additionally, expenditures are divided between capital and expense items. When workflow calls for more

expenditure on capital items than what was budgeted, expenses will typically be lower and net income will be higher but with no impact on reserves. The opposite is also true.

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

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

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

## THE FUTURE

### Electric

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

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

### Water

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

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

### Cable Telecommunications

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

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

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

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

### Administrative and General

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

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

### Overall

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

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

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

The accompanying notes are an integral part of these financial statements.7



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

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

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

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

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

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

#### Note A – Summary of Significant Accounting Policies

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

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

##### The Reporting Entity

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

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

- *Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* – The component of net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

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

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

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

##### Fund Accounting

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

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

Property, Plant, Equipment, and Long-Term Liabilities

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

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

Basis of Accounting

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

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

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

Budgets and Budgetary Accounting

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

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

Revenue Requirements

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

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

Purpose of Various Internal Funds

Operating Funds

(1) Water and Electric Revenue Fund

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

(2) Operations and Maintenance Fund

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

Restricted Funds

(1) Electric and Water Revenue Bonds and Interest Sinking Fund

This fund was established in accordance with Kentucky Revised Statute 96.182. It provides that a reserve is to be accumulated over a ten year period to equal the average annual interest and principal requirements for such then outstanding.

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

Cash, Cash Equivalents and Investments

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

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

	2008 Category			Carrying Amount	Market Value
	1	2	3		
U.S. Government Securities	\$ 3,780,081	\$	\$	\$ 3,780,081	\$ 3,780,081
Certificates of Deposit	102,408			102,408	102,408
	<u>\$ 3,882,489</u>	<u>\$</u>	<u>\$</u>	<u>\$ 3,882,489</u>	<u>\$ 3,882,489</u>
	2007 Category			Carrying Amount	Market Value
	1	2	3		
U.S. Government Securities	\$ 3,134,871	\$	\$	\$ 3,134,871	\$ 3,134,871
Certificates of Deposit	75,000			75,000	75,000
	<u>\$ 3,209,871</u>	<u>\$</u>	<u>\$</u>	<u>\$ 3,209,871</u>	<u>\$ 3,209,871</u>

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

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

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

	2008 Category			Carrying Amount	Market Value
	1	2	3		
U.S. Government Securities	\$ 148,225	\$	\$	\$ 148,225	\$ 152,496
Corporate Bonds	150,020			150,020	136,273
Mutual Funds	75,760			75,760	74,554
	<u>\$ 374,005</u>	<u>\$</u>	<u>\$</u>	<u>\$ 374,005</u>	<u>\$ 363,323</u>
	2007 Category			Carrying Amount	Market Value
	1	2	3		
U.S. Government Securities	\$ 148,225	\$	\$	\$ 148,225	\$ 145,451
Corporate Bonds	150,020			150,020	143,415
Mutual Funds	72,258			72,258	69,587
	<u>\$ 370,503</u>	<u>\$</u>	<u>\$</u>	<u>\$ 370,503</u>	<u>\$ 358,453</u>

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

Inventory

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

Accumulated Compensated Absences

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

Pension Plans

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

$$\$264,318 \times 24 \text{ annual payments} = \$6,343,632$$

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

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

Restrictions of Net Assets

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

Projects and Funding

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

General Obligation Bonded Debt Service

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

Comparative

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

Allowance for Uncollectible Amounts

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

**Note B – Property, Plant and Equipment**

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

	2008		
	Cost	Accumulated Depreciation	Book Value
Water Distribution System	\$ 36,752,831	\$ 11,355,364	\$ 25,397,467
Water Treatment Plant	11,551,407	5,370,138	6,181,269
Electric Distribution System	52,635,604	27,419,670	25,215,934
Structures and Improvements	2,423,035	1,457,064	965,971
Transportation Equipment	4,146,936	2,975,901	1,171,035
Office Furniture and Equipment	6,773,307	5,242,141	1,531,166
Tools, Shop Garage and Store Equipment	419,794	388,622	31,172
Laboratory Equipment	52,192	51,628	564
Power Operated Equipment	2,010,567	1,755,185	255,382
Communication Equipment	347,292	238,073	109,219
Miscellaneous Equipment	705,310	648,117	57,193
Cable Division Assets	41,792,240	18,878,258	22,913,982
Land and Land Rights	585,848		585,848
Computer Equipment	1,155,717	184,601	971,116
	<u>\$ 161,352,080</u>	<u>\$ 75,964,762</u>	<u>\$ 85,387,318</u>
Total Property, Plant and Equipment			
	2007		
	Cost	Accumulated Depreciation	Book Value
Water Distribution System	\$ 34,717,954	\$ 10,661,411	\$ 24,056,543
Water Treatment Plant	11,144,426	5,142,660	6,001,766
Electric Distribution System	51,176,530	26,123,318	25,053,212
Structures and Improvements	2,492,411	1,345,046	1,147,365
Transportation Equipment	3,985,276	2,732,564	1,252,712
Office Furniture and Equipment	6,736,812	4,808,600	1,928,212
Tools, Shop Garage and Store Equipment	416,803	380,383	36,420
Laboratory Equipment	52,192	51,113	1,079
Power Operated Equipment	1,992,407	1,649,027	343,380
Communication Equipment	347,292	215,151	132,141
Miscellaneous Equipment	670,229	508,443	161,786
Cable Division Assets	39,150,864	16,405,715	22,745,149
Land and Land Rights	458,881		458,881
Computer Equipment	512,527	45,271	467,256
	<u>\$ 153,854,604</u>	<u>\$ 70,068,702</u>	<u>\$ 83,785,902</u>
Total Property, Plant and Equipment			

**Note C – Bonds Payable**

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

June 30,	2008
	Principal
2009	\$ 4,987,763
2010	3,842,239
2011	3,854,607
2012	3,854,202
2013	3,736,374
Thereafter	18,896,926
Total	\$ 39,172,111
June 30,	2007
	Principal
2008	\$ 4,123,022
2009	3,316,778
2010	4,086,382
2011	4,256,887
2012	4,339,575
Thereafter	21,322,491
Total	\$ 41,445,135

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

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

**Note D – Insurance Escrow Account**

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

**Note E – Frankfort Plant Board Municipal Projects Corporation**

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

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

**Note F – Retirement Plans**

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

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

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



**Note F – Retirement Plans (continued)**

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

**Note G – Deferred Compensation**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

Frankfort Electric and Water Plant Board  
Schedule of Bond Principal and Interest Maturities  
June 30, 2008

Consolidated Note

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

1999 Bond Issue

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

Full Service Network Notes

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

Water Bond Anticipation Note

	<u>Principal</u>
Fiscal Year ended June 30, 2008	<u>\$ 1,850,000</u>

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



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

Independent Auditor's Report

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

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

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

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

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

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

*Charles T. Mitchell Co.*

November 14, 2008

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

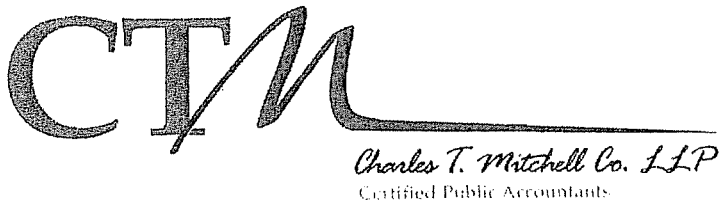
FINANCIAL STATEMENTS

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT  
June 30, 2007 and 2006

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

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Electric and Water Plant Board of the City of Frankfort, Kentucky, as of June 30, 2007 and 2006 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric and Water Plant Board of the City of Frankfort, Kentucky, as of June 30, 2007 and 2006 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 16 through 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Charles T. Mitchell Co.*

October 28, 2007



Frankfort Electric & Water Plant Board  
Comparative Statement of Revenues, Expenses, and  
Changes in Net Assets  
For The Years Ended June 30, 2007 and 2006

	2007	2006
Operating Revenues		
Fees		
Electric	\$ 40,795,896	\$ 39,853,473
Water	7,479,360	7,444,375
Telecommunication	17,000,863	14,882,075
Total Operating Revenues	65,276,119	62,179,923
Operating Expenses		
Electric	40,800,193	39,506,027
Water	6,919,855	6,774,304
Telecommunication	14,471,319	13,654,953
Total Operating Expenses	62,191,367	59,935,284
Net Income From Operations	3,084,752	2,244,639
Non-Operating Revenues(Expenses)		
Net Merchandise Sale	12,784	12,348
Rental Revenue	9,000	9,966
Interest Revenue	214,148	124,545
Other Non-Operating Revenue	430,827	574,808
Interest Expense	(2,388,734)	(2,037,152)
Retirement Plan Net (Loss)	6,160	7,124
Total Non-Operating Revenues (Expenses)	(1,715,815)	(1,308,361)
Income (Loss) Before Contributions	1,368,937	936,278
Capital Contributions	1,054,606	592,140
Change in Net Assets	2,423,543	1,528,418
Net Assets - Beginning of Year	49,003,771	47,475,353
Net Assets - End of Year	\$ 51,427,314	\$ 49,003,771

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

Frankfort Electric & Water Plant Board  
Comparative Statement of Cash Flows  
For The Years Ended June 30, 2007 and 2006

	2007	2006
Cash Flows from Operating Activities:		
Cash Received from Users and Customers	\$ 65,444,839	\$ 62,327,232
Cash Received from Other Non-Operating Revenues	1,721,365	1,313,807
Cash Payments for Employee Services and Benefits	(12,148,012)	(11,661,813)
Cash Payments to Suppliers for Goods and Services	(43,970,381)	(41,087,053)
Cash Payments for Other Non-Operating Expenses	(2,382,574)	(2,030,028)
Cash Provided/(Used) by Operating Activities	8,665,237	8,862,145
Cash Flows from Investing Activities		
Purchases of Property, Plant & Equipment	(7,273,081)	(5,900,779)
Purchase of Securities	(879,033)	(852,522)
Cash Provided/(Used) by Capital and Related Financing Activities	(8,152,114)	(6,753,301)
Cash Flows from Financing Activities		
Long-Term Debt Proceeds	151,454	3,267,554
Payments on Bond/Note Indebtedness	(1,753,172)	(1,107,062)
Cash Provided/(Used) by Financing Activities	(1,601,718)	2,160,492
Increase/(Decrease) in Cash and Cash Equivalents	(1,088,595)	4,269,336
Cash and Cash Equivalents, Beginning of Year	7,104,617	2,835,281
Cash and Cash Equivalents, End of Year	\$ 6,016,022	\$ 7,104,617
Reconciliation of Operating Income/(Loss) to Net Cash Used by Operating Activities		
Operating Income/(Loss)	2,423,543	1,528,418
Adjustment to Reconcile Operating Income/(Loss) to		
Cash Provided/(Used) in Operating Activities		
Depreciation	5,626,955	5,378,257
Amortization	156,446	156,446
(Increase)/Decrease in Receivables	(996,778)	(1,044,377)
(Increase)/Decrease in Inventory	(703,216)	(334,536)
(Increase)/Decrease in Prepaid Expenses	(2,575)	7,873
Increase/(Decrease) in Accounts and Other Payables	1,961,078	2,954,012
Increase/(Decrease) in Accrued Expenses	31,064	68,743
Increase/(Decrease) in Customer Deposits	155,080	134,337
Increase/(Decrease) in Unearned Revenues	13,640	12,972
Cash Provided/(Used) by Operating Activities	\$ 8,665,237	\$ 8,862,145

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

**INTRODUCTION**

The following discussion and analysis of the Frankfort Electric and Water Plant Board's financial performance provides an overview of the Board's financial activities for the fiscal years ended June 30, 2007 and 2006.

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

The Board was established under Kentucky Revised Statutes (KRS 96-176) as a combined Electric and Water System to operate, maintain, improve, and expand the respective facilities and began operations in 1943. In 1954 the Board created Community Television and appointed a separate Cable Board to provide Cable TV service to Frankfort and the surrounding area. In 1988, the Board took direct control of the Cable TV operation in order to provide additional services over a fiber optic network, as a public project (the Full Service Network). All three operations are combined together and presented on pages 7 to 9 of the Audit Report. Cable Telecommunications operations are separated from the Electric and Water operations on the audit report under "Supplemental Information" on pages 16 to 27. The Board has completed the upgrade of the cable system to fiber optics and is now able to provide a Full Service Network (FSN) with few exceptions, throughout the Cable Service Area. The Full Service Network includes Digital TV, HDTV, DVR, Broadband Service, Point to Point Fiber service, Security Service, and Local and Long Distance Telephone Service.

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

**FINANCIAL HIGHLIGHTS**

The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by \$51,427,314 (equity). Of this amount, \$42,340,767 is invested in Capital Assets, \$1,190,081 is restricted for Debt Retirement, \$398,493 is restricted for Retirement Plans, and \$7,497,973 is unrestricted.

The Board's equity (net assets) increased \$2,423,543 during the current fiscal year. The major changes from the prior year included: Sales to customers increased \$3,096,196, Capital Contributions increased \$462,466, Electric Fuel Adjustment Expense increased \$426,774, FSN interest expense increased \$358,182, and Pension Expense increased \$233,299.

**Revenues**

Gross income from sales, and other sources, was \$67,003,644 for FY07. This represents an increase of \$3,502,790, or 5.52% from FY06. The major increases were attributable to Electric Revenue \$942,423, HSDS Revenue \$611,362, Local Phone Revenue \$499,219, Access Billing Revenue \$370,940 and Capital Contributions \$462,466. Access Billing Revenue is a new Cable Revenue source for FY07. Access Billing is revenue that we collect for terminating a long distance call to an FPB customer.

**Expenses**

Total expenses were \$64,580,102 for FY07. This represents an increase of \$2,607,666, or 4.21% from FY06. The major increases were attributable to Station Expenses \$279,392, Power Costs \$357,138, Other Electric Operating Costs \$212,207, FSN Interest Expense \$358,182, and Pension Expense \$233,299.

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

## OVERVIEW OF THE FINANCIAL STATEMENTS

FPB's Financial Statements are comprised of two components:

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

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

The Three Financial Statement Types:

1. The "Statement of Net Assets" presents information on FPB's assets and liabilities, with the difference between the two reported as Equity (which is also known in the Accounting profession as "Net Assets"). Over time, increases and decreases in Equity may serve as a useful indicator of whether the financial condition of FPB is improving or deteriorating.
2. The "Statement of Revenues, Expenses, and Changes in Net Assets" presents information showing how FPB's Equity changed between FY06 and FY07. Results of FPB's "operations are reported as the underlying events occur, regardless of the timing of cash flows." This means that FPB's revenues and its expenses are reported in the Financial Statements for some items that will result in cash flows (positive or negative) in some future year, but not this one. For example, take Accounts Payable and Accounts Receivable. Customers owed FPB money as of June 30, 2007. This was reported as income in FY07 but the cash won't be realized until the next fiscal year. On a similar note, FPB owed money to KU as of June 30, 2007. This was reported as expense in FY07 but the cash won't be expended until the next fiscal year. This is called the "accrual" basis of accounting and is further explained in Note A.

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

3. The "Statement of Cash Flows" presents the cash flow changes occurring during the FY07 and FY06 in "highly liquid" cash and investments, including certain restricted cash accounts or cash-like assets. "Highly liquid" means it is, or can quickly be, turned into useable cash.

Notes to the Financial Statements:

The "Notes to the Financial Statements" provide additional information that is essential for a full and complete understanding of the information provided in the Financial Statements. The Notes to these Financial Statements can be found on pages 10 to 15 of this report.

## FINANCIAL ANALYSIS

### Assets

FPB's Total Assets increased \$2,982,686 over FY06. The major changes in Assets, as reported on the Audit, were in "Receivables", "Inventory", and "Property, Plant, and Equipment" net of Accumulated Depreciation. Receivables continue to increase due to an increasing Fuel Adjustment charge on the Electric Bills and the continued success of new services available with the FSN. Maintaining the inventory needed for the ongoing demand for our various Cable Services and preparing for the State 421 project for all three departments resulted in a higher Inventory balance at the end of FY07. Property, Plant, and Equipment increased due to the overwhelming subdivision growth and continued investment in our systems.

### Liabilities

FPB's Total Liabilities increased \$559,143 over FY06. The Audit Report indicates that the major changes were in "Accounts Payable" and "Bonds Payable". The increase in Accounts Payable is due to rising power costs resulting from an increasing Fuel Adjustment charge. The decrease in Bonds Payable is due to only \$151,454 in additional borrowing on the FSN notes, increased principal payments on the FSN notes, and the continued repayment of the existing Water Bonds. The \$1.85 million water BAN was renewed in FY07 for a term of 18 months, with the Board's intention being to roll this BAN into a new water bond issue in FY08 for the planned Water Treatment Facility upgrade.

### Net Assets

As noted earlier, FPB's assets exceeded its liabilities by \$51,427,314 at the end of FY07. This represents an increase from FY06 of \$2,423,543, and as noted earlier, increases or decreases in equity may, over time, serve as a useful indicator of FPB's financial position. The disclaimer comes from the fact that being "land rich and cash poor" is not beneficial if the company needs liquidity for cash flow. On the other hand, if you have sufficient cash flow, "investing" in your electric, water, and cable systems (maintaining, expanding, replacing, upgrading, etc.) or land, is a good and prudent business practice.

A portion of FPB's net Assets, \$42,340,767, or 82%, reflect it's investment in "Capital Assets", such as transmission and distribution facilities, less any related debt used to acquire such assets that remained outstanding as of the end of FY07. FPB uses these Capital Assets to provided services to its owners/customers; consequently, these assets are not available for spending. Resources needed to repay the outstanding debt shown on the Balance Sheet must come from other sources, such as sales of water and cable services, since, obviously, the Capital Assets themselves cannot be used to pay such "long-term" liabilities.

The "unrestricted" portion of FPB's net assets is \$7,497,973, or 15% of total Net Assets. This portion may be used to meet FPB's ongoing obligations to creditors and owners/customers.

An additional portion of FPB's Equity, \$1,588,574, or 3%, represents resources that are subject to external restrictions on how they are used. \$1,190,081 is reserved for debt repayment and \$398,493 is reserved for retirement benefits for those few employees whom opted out of the CERS retirement plan.

### **CAPITAL ASSETS**

FPB's investments in capital assets as of June 30, 2007 amounted to \$83,785,902 (net of accumulated depreciation). This includes investment in transmission and distribution related infrastructure, as well as general items such as office equipment, vehicles, etc. Major capital assets events during the current fiscal year included:

#### Electric

- \*Old Soldiers Lane Substation's second bay
- \*Overall general distribution system improvements

#### Water

- \*Fort Hill water line
- \*US 421
- \*New Subdivision development

#### Cable

- \*DCTs for Digital Cable/HD/DVR
- \*MTAs & channel banks for local phone service

#### General

- \*Savin 8065 Digital Copier/Printer
- \*Outsource programmers to develop new Customer Service and Billing System
- \*Fleet replacement (1 pickup & 1 dump truck in the Water Dept, 2 pickups & 1 van in the Cable Dept, Crown Victoria for General Manager)

### **LONG-TERM DEBT**

As of 6/30/07, FPB had long term bonded water debt outstanding of \$10,015,000. This is debt backed by the electric and water revenues of FPB (revenue bonds). No changes occurred in this bonded debt other than the regularly scheduled principal payment of \$520,000.

As of 6/30/07, FPB had a long term bond outstanding for the Consolidated acquisition of \$1,117,629. This is debt backed by the cable system. No changes occurred in this bonded debt other than the regularly scheduled principal payments totaling \$216,000.

As of 6/30/07, FPB had long term notes outstanding with Farmers Bank of \$28,462,506. This is debt backed by the cable system. FPB borrowed the remaining \$151,454 on FSN Note #5 and made regularly scheduled principal payments totaling \$750,000. The Board refinanced one of the five FSN notes in FY07 in order to extend the maturity from 2016 to 2022 and to establish a new floor of 4.00% and a new ceiling of 6.25%. The remaining four notes are scheduled to be refinanced over the next three years.

As of 6/30/07, FPB had a long term bond anticipation note (BAN) outstanding for the Water Department of \$1,850,000. This is debt backed by the electric and water revenues of FPB. The Board currently makes interest payments only on this BAN. The original BAN matured in February 2007 but, the Board decided to refinance this BAN for another 18 months with the intention of rolling this debt into a future bond issue for the Water Department.

## BUDGET

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

Increased sales and higher Fuel Adjustments resulted in higher than budgeted Electric Operating Revenues of \$2,739,796. Capital Contributions came in at \$363,726, 82.64% higher than the previous year and 39.89% higher than the FY07 budget. Power Costs were \$2,504,574 higher than budgeted due to increased purchases and higher Fuel Adjustments (4.93% actual vs. 3.50% budget). Overall, the Electric Department had net income \$8,190 favorable to what was budgeted.

Decreased sales resulted in lower than budgeted Water Operating Revenues of \$536,640. Capital Contributions came in at \$644,035, 68.46% higher than the previous year and 329.36% higher than the FY07 budget. This is largely due to the beginning work on the US 421 project, which was not budgeted for in FY07. Several budgeted maintenance projects for the Water Treatment Department were not carried out in FY 07 and chemical costs were lower than anticipated resulting in favorable water operating costs of \$220,730. Overall, the Water Department had net income \$197,253 favorable to what was budgeted.

For the most part, weather conditions have little impact on the Cable operations. Cable Operating Revenues were \$463,263 higher than budgeted. This was largely due to the new revenue stream, Access Billing Revenue, which generated \$330,940 more revenue than what was budgeted. Total Cable expenses were \$204,454 more than budgeted, primarily due to a shift in labor expenditures from capital to expense. Total expenses that were allocated to the Cable department were favorable \$317,177 as a result of lower spending in computer expenses, employee health insurance, and administrative expenses. Overall, the Cable Department had net income \$541,600 favorable to what was budgeted.

## THE FUTURE

### Electric

Due to the rising costs of materials and pension expenses, reduced SEPA credit, general inflation, and maintaining minimum reserves as established by the Board, the Board anticipates the need for rate adjustments in the near future. The first increase is scheduled for the 09-10 fiscal year, one year later than what was anticipated in the last five- year plan.

The primary goals of the Electric Department for FY08 are to continue strengthening the transmission/distribution system for load-growth capacity, improved power quality and reliability. During FY08, the Electric Department will continue to perform upgrades of transmission lines and facilities, specifically breaker replacement at the receiving station and various KWH meter change outs. The Department will continue to add to and expand the distribution substations including SCADA functionality. This will give our system greater flexibility and redundancy. In FY08, voltage conversions from 8.3kV to 13.2 kV will continue to improve voltage quality and load capacity. A combined 25% increase in spending on tree trimming and spray programs over the next three fiscal years is projected to reduce tree related outages by as much as 20%. Higher costs are expected to continue in material due to the large increases in steel, copper, aluminum and oil prices. The Electric Department does not forecast the addition of any employees over the next five years.

### Water

Due to the rising costs of materials and pension expenses, general inflation, increased interest, principal, and debt service payments for a new bond issue, and maintaining minimum reserves as established by the Board, the Board anticipates the need for rate adjustments in the very near future. The first rate increase is scheduled for January 08 for Wholesale customers. This is a rate increase that was anticipated to generate revenues in FY07 but did not materialize. A rate increase for City customers is also planned at this time in an effort to balance city and county water rates. The final rate increase anticipated in the current five-year budget is July 09 for all water customers. The Water department will undergo a cost of service study in FY08 and the plan is to conduct these studies every two years in order to maintain rates necessary for the operations of the department while trying to minimize the need for large increases at any one time. The January 08 increase to City customers is 6 months sooner than what was budgeted in the prior five-year plan while the July 09 increase was not included in the FY07 budget. The construction of a new Chemical Feed Facility may require additional borrowing, as mentioned above, beginning in the next fiscal year. The Board does not anticipate any problems with implementing rate increases or borrowing.

The Water department will be focusing on US 421, the new Chemical Feed Facility, and secondary water connection options in the upcoming year. The US 421 project is well underway and has been included in the FY08 budget. This project will generate over \$1,000,000 in revenue, while contributing only about \$345,000 to Water reserves. The construction of the new Chemical Feed Facility is slated to start in FY08 with the majority of construction taking place in FY09. The Board will continue to evaluate options



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for a secondary potable water connection in order to address emergency and/or drought conditions. The Water Department does not anticipate any personnel changes over the next five years.

#### Cable Telecommunications

The Cable Telecommunications Department expects to complete several projects over the next fiscal year including: relocating utilities for the US 421 road widening project, the completion of the Owenton Road extension, the purchase of a soft-switch in the telephone department, the continuation of the Node Division project and the upgrade of our Cable Modem Termination System to comply with Federal regulations and also to expand our cable modem/telephone service capabilities.

The Board will add full-time staff in the Cable Division in FY08 by adding an order representative, two construction workers and one installer. The funds for these positions will come from retirement and replacement of those positions and the reduction of overtime throughout the division. The goal is to not increase payroll expense but to fill needed positions due to customer growth and demand for services.

New service offerings this fiscal year will be the addition of expanded basic channels, the introduction of a Broadcast Basic cable channel lineup, new digital and HDTV channels and the introduction of multiplex premium channels as a requirement for all customers. The final item is the first step in a gradual transition to an all-digital lineup over the next few fiscal years.

Rate increases are planned for expanded cable to fund the additions of new channels but to also keep pace with rising programming expenses. The FCC Network Access Fee for residential and business local telephone will also be increased this fiscal year. This fee is collected for the Universal Service Fund commitment. The cable modem business rates were reduced this fiscal year as an incentive to increase market share.

#### Administrative and General

Expenses for the Board's Self-Insurance plan have remained relatively stable over the last three fiscal years. In FY08, the Board has maintained the same budget for Self-Insurance as the previous fiscal year, with a 3% increase each year thereafter, understanding that one illness and/or accident could result in significant increases. In order to provide somewhat of a "cushion" for fluctuating claims, the Board has decided to fund the Self-Insurance fund at the full budgeted amount each fiscal year, even if actual claims come in lower than anticipated. This is an attempt to keep unexpected high claims from taking a devastating toll on the Board's reserves.

The Board has experienced large increases in the employer contribution rate to KERS for employee pension. The rate went from 13.19% in FY07 to 16.17% in FY08 and is expected to climb to 27.49% in five years. This increase has been incorporated in the Board's current five-year plan.

#### Overall

The Board has decided to move in the direction of becoming a "greener" company. FPB will incorporate this directive into our constant mission of providing superior, reliable services to the community at the most reasonable prices possible.

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

The Reporting Entity

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

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

- *Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* – The component of net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

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

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

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

Fund Accounting

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

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**  
**Property, Plant, Equipment, and Long-Term Liabilities**

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

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

**Basis of Accounting**

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

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

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

**Budgets and Budgetary Accounting**

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

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

**Revenue Requirements**

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

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

**Purpose of Various Internal Funds**

**Operating Funds**

**(1) Water and Electric Revenue Fund**

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

**(2) Operations and Maintenance Fund**

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

**Restricted Funds**

**(1) Electric and Water Revenue Bonds and Interest Sinking Fund**

This fund was established in accordance with Kentucky Revised Statute 96.182. It provides that a reserve is to be accumulated over a ten year period to equal the average annual interest and principal requirements for such then outstanding.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash, Cash Equivalents and Investments

The Electric and Water Plant Board maintains a cash account for each of the internal funds described in Note A above. Additionally, some of these internal funds hold investments which are stated at cost. For the purpose of these financial statements, the Board considers all highly liquid investment vehicles with an original maturity of three months or less to be cash equivalents. Statutes require that financial institutions pledge approved securities to secure those funds on deposit in an amount equal to the amount of those funds. At the end of the fiscal year, the carrying amount of the Board's deposits and investments were \$9,161,138. All deposits and investments were covered by federal depository insurance or by collateral held in the pledging institution's trust department in the Board's name.

The following is a chart categorizing the investments in order to give an indication of the level of risk assumed by the Board at June 30, 2007 and 2006. Category 1 includes investments that are insured or registered or for which the securities are held by the Board's custodial agent in the Board's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Board's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its department or agent, but not in the Board's name.

	2007 Category			Carrying Amount	Market Value
	1	2	3		
U.S. Government Securities	\$ 3,134,871	\$	\$	\$ 3,134,871	\$ 3,134,871
Certificates of Deposit	75,000			75,000	75,000
	<u>\$ 3,209,871</u>	<u>\$</u>	<u>\$</u>	<u>\$ 3,209,871</u>	<u>\$ 3,209,871</u>
	2006 Category			Carrying Amount	Market Value
	1	2	3		
U.S. Government Securities	\$ 2,259,539	\$	\$	\$ 2,259,539	\$ 2,259,539
Certificates of Deposit	75,000			75,000	75,000
	<u>\$ 2,334,539</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,334,539</u>	<u>\$ 2,334,539</u>

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

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

The following is a chart categorizing the Retirement Plan's investment in order to give an indication of level of risk assumed by the Plan at June 30, 2007 and 2006. Category 1 includes investments that are insured or registered or for which the securities are held by the Plan's custodial agent in the Plan's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Plan's name. Shown in this category are investments with Farmers Bank & Capital Trust Co. which were acquired by the merger of Community Service's plan into the Plant Board plan. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Plan's Name.

	2007 Category			Carrying Amount	Market Value
	1	2	3		
U.S. Government Securities	\$ 148,225	\$	\$	\$ 148,225	\$ 145,451
Corporate Bonds	150,020			150,020	143,415
Mutual Funds	72,258			72,258	69,587
	<u>\$ 370,503</u>	<u>\$</u>	<u>\$</u>	<u>\$ 370,503</u>	<u>\$ 358,453</u>
	2006 Category			Carrying Amount	Market Value
	1	2	3		
U.S. Government Securities	\$ 148,225	\$	\$	\$ 148,225	\$ 148,225
Corporate Bonds	150,020			150,020	150,020
Mutual Funds	68,558			68,558	68,558
	<u>\$ 366,803</u>	<u>\$</u>	<u>\$</u>	<u>\$ 366,803</u>	<u>\$ 366,803</u>

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

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

Accumulated Compensated Absences

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

Pension Plans

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

$$\$264,318 \times 24 \text{ annual payments} = \$6,343,632$$

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

The retirees currently being paid benefits by the previously funded Electric and Water Plant Board Retirement Plan will continue to receive their monthly benefits from this retirement plan. The Board will make no payments from the operating accounts.

Restrictions of Net Assets

	2007	2006
1) Revenue Bond Sinking Reserve	\$ 1,190,081	\$ 1,063,318
2) Retirement Plan Assets	398,493	392,333
Total Restricted Net Assets	\$ 1,588,574	\$ 1,455,651

Projects and Funding

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

General Obligation Bonded Debt Service

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

Comparative

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

Allowance for Uncollectible Amounts

The Board records an allowance for doubtful accounts in the financial statements. The allowance for doubtful accounts at June 30, 2007 and 2006 was \$25,300 and \$16,000, respectively.

NOTE B – PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the property, plant and equipment as of June 30, 2007 and 2006:

	2007		
	Cost	Accumulated Depreciation	Book Value
Water Distribution System	\$ 34,717,954	\$ 10,661,411	\$ 24,056,543
Water Treatment Plant	11,144,426	5,142,660	6,001,766
Electric Distribution System	51,176,530	26,123,318	25,053,212
Structures and Improvements	2,492,411	1,345,046	1,147,365
Transportation Equipment	3,985,276	2,732,564	1,252,712
Office Furniture and Equipment	6,736,812	4,808,600	1,928,212
Tools, Shop Garage and Store Equipment	416,803	380,383	36,420
Laboratory Equipment	52,192	51,113	1,079
Power Operated Equipment	1,992,407	1,649,027	343,380
Communication Equipment	347,292	215,151	132,141
Other Equipment	670,229	508,443	161,786
Cable Division Assets	39,150,864	16,405,715	22,745,149
Land and Land Rights	458,881		458,881
Computer Equipment	512,527	45,271	467,254
	<u>\$ 153,854,604</u>	<u>\$ 70,068,702</u>	<u>\$ 83,785,900</u>
Total Property, Plant and Equipment			
	2006		
	Cost	Accumulated Depreciation	Book Value
Water Distribution System	\$ 33,360,975	\$ 9,970,768	\$ 23,390,207
Water Treatment Plant	11,058,858	4,920,382	6,138,476
Electric Distribution System	49,291,947	24,846,964	24,444,983
Structures and Improvements	2,341,403	1,227,568	1,113,835
Transportation Equipment	3,829,098	2,458,735	1,370,363
Office Furniture and Equipment	6,687,245	4,348,817	2,338,428
Tools, Shop Garage and Store Equipment	414,921	368,954	45,967
Laboratory Equipment	52,192	49,669	2,523
Power Operated Equipment	1,869,634	1,556,097	313,537
Communication Equipment	345,499	191,513	153,986
Other Equipment	640,420	408,920	231,500
Cable Division Assets	36,229,893	14,092,804	22,137,089
Land and Land Rights	458,881		458,881
	<u>\$ 146,580,966</u>	<u>\$ 64,441,191</u>	<u>\$ 82,139,775</u>
Total Property, Plant and Equipment			

**NOTE C – BONDS PAYABLE**

The annual requirements to retire bonded debt as of June 30, 2007 and 2006 are as follows:

June 30,	2007	
	Principal	
2008	\$	4,123,022
2009		3,316,778
2010		4,086,382
2011		4,256,887
2012		4,339,575
Thereafter		21,322,491
Total	\$	<u>41,445,135</u>
June 30,	2006	
	Principal	
2007	\$	3,335,996
2008		2,273,022
2009		3,316,778
2010		4,086,382
2011		4,256,887
Thereafter		25,510,627
Total	\$	<u>42,779,692</u>

From July 1, 1998 to June 30, 2007 the Plant Board entered into bond anticipation notes with Farmers Bank and Capital Trust Company. The purpose of these notes was to enable the Plant Board to work on capital additions for the Full Service Network. The balance of the bond anticipation notes at June 30, 2006 totaled \$29,061,064 and at June 30, 2005, the notes totaled \$27,407,502. This amount is included in long-term debt.

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

**NOTE D – INSURANCE ESCROW ACCOUNT**

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

**NOTE E – FRANKFORT PLANT BOARD MUNICIPAL PROJECTS CORPORATION**

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

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

**NOTE F – RETIREMENT PLANS**

All employees are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system established under the provisions of Kentucky Revised Statute Section 61.645. Funding for the plan is provided through payroll withholdings of 5.00% and a Board contribution of 13.19% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$9,672,613. The contribution requirement for CERS for the year ended June 30, 2007 was \$1,717,019 which consisted of \$1,245,051 from the Board and \$471,968 from the employees. Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

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

Ten-year historical trend information showing CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2007 comprehensive annual financial reports.

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FRANKFORT ELECTRIC AND WATER PLANT BOARD  
SUPPLEMENTAL INFORMATION



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

Assets	<u>Electric &amp; Water</u>	<u>Telecommunication</u>	<u>Total</u>
Cash & Cash Equivalents	\$ 7,412,639	\$ 1,748,499	\$ 9,161,138
Accrued Interest Receivable	25,847	7,062	32,909
Receivables			
Billed user fees	5,904,305	1,610,174	7,514,479
Unbilled user fees	1,253,900		1,253,900
Advertising		236,492	236,492
Other	343,228	20,548	363,776
Inventory	3,433,662	1,076,206	4,509,868
Prepaid Expenses	430,190	180,858	611,048
Property, Plant, and Equipment	109,307,610	44,546,994	153,854,604
Less: Accumulated Depreciation	(50,104,034)	(19,964,668)	(70,068,702)
Cable Acquisition Cost		631,800	631,800
Unamortized Bond Discount	199,248		199,248
Insurance Escrow Account	26,828	9,961	36,789
Retirement Plan Assets:			
Cash and Cash Equivalents	27,966		27,966
Investments	370,503		370,503
<b>Total Assets</b>	<b><u>\$ 78,631,892</u></b>	<b><u>\$ 30,103,926</u></b>	<b><u>\$ 108,735,818</u></b>
<b>Liabilities &amp; Net Assets</b>			
<b>Liabilities</b>			
Accounts and Other Payables	\$ 11,011,093	\$ 1,272,805	\$ 12,283,898
Accrued Expenses	732,987	237,394	970,381
Customer Deposits	1,982,549	29,564	2,012,113
Unearned Revenues		596,977	596,977
Bonds Payable Due in One Year	2,400,000	1,723,022	4,123,022
Long Term Debt:			
Bonds & Bond Anticipation Note Payable	9,465,000	27,857,113	37,322,113
Notes Payable-Retirement Plan			-
<b>Total Liabilities</b>	<b><u>25,591,629</u></b>	<b><u>31,716,875</u></b>	<b><u>57,308,504</u></b>
<b>Net Assets</b>			
Net Assets	<u>53,040,263</u>	<u>(1,612,949)</u>	<u>51,427,314</u>
<b>Total Net Assets</b>	<b><u>53,040,263</u></b>	<b><u>(1,612,949)</u></b>	<b><u>51,427,314</u></b>
<b>Total Liabilities &amp; Net Assets</b>	<b><u>\$ 78,631,892</u></b>	<b><u>\$ 30,103,926</u></b>	<b><u>\$ 108,735,818</u></b>

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

Frankfort Electric and Water Plant Board  
Statement of Revenues, Expenses and Changes In  
Net Assets - Budget and Actual  
For The Year Ended June 30, 2007

	<u>Budgeted</u>	<u>Actual</u>	<u>Variable Favorable (Unfavorable)</u>
Operating Revenues			
Fees			
Electric	\$ 38,056,100	\$ 40,795,896	\$ 2,739,796
Water	8,016,000	7,479,360	(536,640)
Telecommunication	<u>16,537,600</u>	<u>17,000,863</u>	<u>463,263</u>
Total Operating Revenues	<u>62,609,700</u>	<u>65,276,119</u>	<u>2,666,419</u>
Operating Expenses			
Electric	37,917,455	40,800,193	(2,882,738)
Water	7,139,703	6,919,855	219,848
Telecommunication	<u>14,584,042</u>	<u>14,471,319</u>	<u>112,723</u>
Total Operating Expenses	<u>59,641,200</u>	<u>62,191,367</u>	<u>(2,550,167)</u>
Operating Income	<u>2,968,500</u>	<u>3,084,752</u>	<u>116,252</u>
Non-Operating Revenues(Expenses)			
Net Merchandise Sale	18,700	12,784	(5,916)
Rental Revenue	10,000	9,000	(1,000)
Interest Revenue	125,400	214,148	88,748
Other Non-Operating Revenue	360,000	430,827	70,827
Interest Expense	(2,266,100)	(2,388,734)	(122,634)
Retirement Plan Net Income/(Loss)	<u>                    </u>	<u>6,160</u>	<u>6,160</u>
Total Non-Operating Revenues (Expenses)	<u>(1,752,000)</u>	<u>(1,715,815)</u>	<u>36,185</u>
Income (Loss) Before Contributions	1,216,500	1,368,937	152,437
Capital Contributions	<u>460,000</u>	<u>1,054,606</u>	<u>594,606</u>
Change in Net Assets	1,676,500	2,423,543	747,043
Net Assets - Beginning of Year	<u>49,003,771</u>	<u>49,003,771</u>	<u>                    </u>
Net Assets - End of Year	<u>\$ 50,680,271</u>	<u>\$ 51,427,314</u>	<u>\$ 747,043</u>

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

Frankfort Electric and Water Plant Board  
Statement of Revenues and Expenses  
Electric, Water, and Telecommunications Divisions  
For The Year Ended June 30, 2007

	Electric Division	Water Division	Telecommunication Division
Operating Income			
User Fees	\$ 40,795,896	\$ 7,479,360	\$ 16,202,440
Advertising Revenue			798,423
Total Operating Revenues	40,795,896	7,479,360	17,000,863
Operating Expenses	40,800,193	6,919,855	14,471,319
Net Operating Income	(4,297)	559,505	2,529,544
Non-Operating Revenues (Expenses)			
Net Merchandise Sales	4,606	3,395	4,783
Rental Revenues	3,242	2,390	3,368
Interest Revenues	76,208	86,499	51,441
Other Non-Operating Revenues	137,187	166,278	127,362
Interest Expense	(77,426)	(647,497)	(1,663,811)
Retirement Plan Net Loss	3,080	3,080	
Total Non-Operating Revenues (Expenses)	146,897	(385,855)	(1,476,857)
Change in Net Assets	\$ 142,600	\$ 173,650	\$ 1,052,687

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

Frankfort Electric and Water Plant Board  
 Detail Schedule of Budgeted and Actual Operating Expenses  
 Electric, Water, and Telecommunication Divisions  
 For The Year Ended June 30, 2007

	Budgeted	Actual	Variance Favorable (Unfavorable)
Electric Division			
Electricity Purchased	\$ 30,782,000	\$ 33,286,574	\$ (2,504,574)
Transmission and Distribution	1,636,000	1,985,928	(349,928)
Engineering	259,000	256,919	2,081
Total Electric Expense	<u>32,677,000</u>	<u>35,529,421</u>	<u>(2,852,421)</u>
Meter Reading	223,196	220,118	3,078
Customer Records and Collection	292,381	285,302	7,079
Postage and Printing	63,052	53,868	9,184
Over and Short	36	(129)	165
Office Supplies	13,619	14,693	(1,074)
Bad Debts	62,991	112,117	(49,126)
GIS Expenses	19,816	10,347	9,469
CIS Expenses	93,317	55,736	37,581
Computer Expenses	46,839	27,095	19,744
Information Technologies Payroll	188,688	170,055	18,633
Total Office Expenses	<u>1,003,935</u>	<u>949,202</u>	<u>54,733</u>
Advertising	10,809	4,172	6,637
Administrative Expenses	340,481	337,985	2,496
Clearing Account		954	(954)
Dues & Subscriptions	15,760	39,017	(23,257)
Safety	9,115	8,430	685
Travel and Training	60,716	72,404	(11,688)
Board Expenses	2,198	2,018	180
Social Security Expense	212,733	218,893	(6,160)
Legal and Consulting Fees	73,391	75,876	(2,485)
Insurance	300,325	310,136	(9,811)
Total Administrative Expenses	<u>1,025,528</u>	<u>1,069,885</u>	<u>(44,357)</u>
Vacation Benefits	132,072	150,227	(18,155)
Sick Benefits	60,178	92,559	(32,381)
Employees Welfare	462,120	403,732	58,388
Clubhouse Expense	1,313	2,380	(1,067)
Employee Activity	10,034	11,199	(1,165)
Employee Assistance	1,208	648	560
Pension Expense	338,507	326,986	11,521
Total Employee Benefits Expenses	<u>1,005,432</u>	<u>987,731</u>	<u>17,701</u>
General Expenses	3,603	5,704	(2,101)
Maintenance	6,125	13,948	(7,823)
Depreciation	1,639,603	1,681,608	(42,005)
In-lieu of Tax City	42,281	42,283	(2)
In-lieu of Tax County	17,843	17,843	
Cash Contributions to City	15,748	15,749	(1)
Total General Expenses	<u>1,725,203</u>	<u>1,777,135</u>	<u>(51,932)</u>
Support Services	192,903	189,931	2,972
Inventory Adjustments		(11,812)	11,812
Cost of Sales Clearing		1,391	(1,391)
Auto and Truck Repair	166,715	160,488	6,227
Gas and Oil	120,739	146,821	(26,082)
Total Support Services	<u>480,357</u>	<u>486,819</u>	<u>(6,462)</u>
Total Operating Expenses - Electric Division	<u>\$ 37,917,455</u>	<u>\$ 40,800,193</u>	<u>\$ (2,882,738)</u>

The accompanying notes are an integral part of these financial statements. 19

Frankfort Electric and Water Plant Board  
 Detail Schedule of Budgeted and Actual Operating Expenses  
 Electric, Water, and Telecommunication Divisions  
 For The Year Ended June 30, 2007

Water Division	Budgeted	Actual	Variance Favorable (Unfavorable)
Distributions and Treatment	\$ 2,766,000	\$ 2,545,270	\$ 220,730
Engineering	217,800	194,651	23,149
Total Water Department Expense	<u>2,983,800</u>	<u>2,739,921</u>	<u>243,879</u>
Meter Reading	164,504	162,230	2,274
Customer Records and Collection	215,496	209,906	5,590
Postage and Printing	46,472	39,959	6,513
Over and Short	27	(95)	122
Office Supplies	10,038	11,027	(989)
Bad Debts	12,605	22,423	(9,818)
GIS Expenses	14,605	7,628	6,977
CIS Expenses	68,778	41,086	27,692
Computer Expenses	34,521	19,973	14,548
Information Technologies Payroll	<u>139,070</u>	<u>125,358</u>	<u>13,712</u>
Total Office Expenses	<u>706,116</u>	<u>639,495</u>	<u>66,621</u>
Advertising	7,967	6,883	1,084
Administrative Expenses	250,947	250,270	677
Clearing Account		648	(648)
Dues & Subscriptions	17,420	11,578	5,842
Safety	10,074	9,316	758
Travel and Training	57,164	40,861	16,303
Board Expenses	1,620	1,488	132
Social Security Expense	199,641	199,873	(232)
Legal and Consulting Fees	38,984	43,293	(4,309)
Insurance	<u>260,917</u>	<u>269,440</u>	<u>(8,523)</u>
Total Administrative Expenses	<u>844,734</u>	<u>833,650</u>	<u>11,084</u>
Vacation Benefits	145,974	148,510	(2,536)
Sick Benefits	66,513	95,731	(29,218)
Employees Welfare	510,764	446,150	64,614
Clubhouse Expense	1,452	2,630	(1,178)
Employee Activity	11,090	11,106	(16)
Employee Assistance	1,335	716	619
Pension Expense	<u>374,139</u>	<u>361,340</u>	<u>12,799</u>
Total Employee Benefits Expenses	<u>1,111,267</u>	<u>1,066,183</u>	<u>45,084</u>
General Expenses	2,656	4,205	(1,549)
Maintenance	4,514	10,282	(5,768)
Depreciation & Amortization	1,095,750	1,227,707	(131,957)
In-lieu of Tax City	34,455	34,457	(2)
In-lieu of Tax County	14,541	14,540	1
Cash Contributions to City	<u>3,151</u>	<u>3,150</u>	<u>1</u>
Total General Expenses	<u>1,155,067</u>	<u>1,294,341</u>	<u>(139,274)</u>
Support Services	142,177	139,770	2,407
Inventory Adjustments		(3,864)	3,864
Cost of Sales Clearing		1,025	(1,025)
Auto and Truck Repair	113,988	109,005	4,983
Gas and Oil	<u>82,554</u>	<u>100,329</u>	<u>(17,775)</u>
Total Support Services	<u>338,719</u>	<u>346,265</u>	<u>(7,546)</u>
Total Operating Expenses - Water Division	<u>\$ 7,139,703</u>	<u>\$ 6,919,855</u>	<u>\$ 219,848</u>

Frankfort Electric and Water Plant Board  
 Detail Schedule of Budgeted and Actual Operating Expenses  
 Electric, Water, and Telecommunication Divisions  
 For The Year Ended June 30, 2007

	Budgeted	Actual	Variable Favorable (Unfavorable)
Telecommunication Division			
Operations & Maintenance	\$ 520,000	\$ 740,398	\$ (220,398)
Distribution	300,000	372,937	(72,937)
HBO Expense	470,700	443,626	27,074
TMC Expense	31,700	31,349	351
Showtime Expense	80,600	79,295	1,305
Cinemax Expense	50,400	51,931	(1,531)
Encore Expense	2,700	3,806	(1,106)
Starz/Encore Expense	96,500	47,669	48,831
Digital Music Expense	4,300	3,809	491
Satellite Station Expense	2,946,200	2,865,377	80,823
Pole Rental Expense	55,000	28,731	26,269
Digital Station Expense	319,000	288,517	30,483
High Definition TV Expense	37,500	43,616	(6,116)
Pay per View Expense	5,000	33,252	(28,252)
Royalty Copyright Expense	65,000	60,694	4,306
Total Operations & Maintenance	<u>4,984,600</u>	<u>5,095,007</u>	<u>(110,407)</u>
Cable 10 Payroll	435,000	435,645	(645)
Cable 10 Expense	48,000	49,532	(1,532)
Ad Insertion Expenses	58,000	52,261	5,739
Marketing Expenses	75,000	57,477	17,523
Total Cable 10 Expenses	<u>616,000</u>	<u>594,915</u>	<u>21,085</u>
FSN Payroll	672,200	752,848	(80,648)
FSN Expense	1,129,000	1,152,677	(23,677)
Access Billing Expense	10,000	38,820	(28,820)
Security Expense	55,000	58,916	(3,916)
Total Cable FSN Expenses	<u>1,866,200</u>	<u>2,003,261</u>	<u>(137,061)</u>
Engineering Expense	2,500	221	2,279
Engineering Payroll	143,500	123,850	19,650
Total Cable Engineering Expense	<u>146,000</u>	<u>124,071</u>	<u>21,929</u>
Total Cable Expenses	<u>7,612,800</u>	<u>7,817,254</u>	<u>(204,454)</u>
Customer Records and Collection Expense	303,623	295,664	7,959
Postage and Printing	65,476	57,792	7,684
Over and Short	37	(134)	171
Office Supplies	14,143	15,210	(1,067)
Bad Debts	24,404	43,423	(19,019)
GIS Expenses	20,579	10,744	9,835
CIS Expenses	96,905	57,871	39,034
Computer Expenses	48,640	28,133	20,507
Information Technologies Payroll	195,942	176,569	19,373
Total Office Expenses	<u>769,749</u>	<u>685,272</u>	<u>84,477</u>

Frankfort Electric and Water Plant Board  
 Detail Schedule of Budgeted and Actual Operating Expenses  
 Electric, Water, and Telecommunication Divisions  
 For The Year Ended June 30, 2007

Telecommunication Division (continued)			
Advertising	11,224	5,300	5,924
Administrative Expense	353,572	351,460	2,112
Clearing Account		913	(913)
Dues & Subscriptions	26,820	6,842	19,978
Safety	15,511	14,345	1,166
Travel and Training	76,820	62,737	14,083
Board Expenses	2,282	2,096	186
Social Security Expense	297,826	272,838	24,988
Legal and Consulting Fees	93,125	57,490	35,635
Insurance	312,558	322,769	(10,211)
Total Administrative Expenses	<u>1,189,738</u>	<u>1,096,790</u>	<u>92,948</u>
Vacation Benefits	224,754	200,960	23,794
Sick Benefits	102,409	97,648	4,761
Employees Welfare	786,416	686,976	99,440
Clubhouse Expense	2,235	4,050	(1,815)
Employee Activity	17,076	16,049	1,027
Employee Assistance	2,057	1,103	954
Pension Expense	576,054	556,387	19,667
Total Employee Benefits Expenses	<u>1,711,001</u>	<u>1,563,173</u>	<u>147,828</u>
General Expenses	3,741	6,307	(2,566)
Maintenance	6,361	14,634	(8,273)
Amortization of Goodwill	140,400	140,400	
Depreciation	2,722,947	2,733,685	(10,738)
In-lieu of Tax City	32,264	32,266	(2)
In-lieu of Tax County	13,616	13,616	
Cash Contributions to City	6,101	6,100	1
Total General Expenses	<u>2,925,430</u>	<u>2,947,008</u>	<u>(21,578)</u>
Support Services Expense	33,673	32,254	1,419
Support Services Payroll	166,647	151,110	15,537
Inventory Adjustments		(8,220)	8,220
Cost of Sales Clearing		1,445	(1,445)
Auto and Truck Repair Expense	51,067	45,104	5,963
Auto and Truck Repair Payroll	50,430	50,772	(342)
Gas and Oil	73,507	89,357	(15,850)
Total Support Services Expense	<u>375,324</u>	<u>361,822</u>	<u>13,502</u>
Total Operating Expenses - Telecommunication Division	<u>\$ 14,584,042</u>	<u>\$ 14,471,319</u>	<u>\$ 112,723</u>

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

Frankfort Electric and Water Plant Board  
Comparative Operating Expenses  
Electric, Water and Telecommunication Divisions  
For The Years Ended June 30, 2007 and 2006

	2007	2006
Electric Division		
Electricity Purchased	\$ 33,286,574	\$ 32,410,802
Transmission and Distribution	1,985,928	1,773,721
Engineering	256,919	240,779
Total Electric Expense	35,529,421	34,425,302
Meter Reading	220,118	213,412
Customer Records and Collection	285,302	276,466
Postage and Printing	53,868	54,969
24/7 Customer Care Payroll	1	1
Over and Short	(129)	55
Office Supplies	14,693	14,866
Bad Debts	112,117	69,910
GIS Expenses	10,347	21,972
CIS Expenses	55,736	41,001
Computer Expenses	27,095	35,027
Information Technologies Payroll	170,055	177,278
Total Office Expenses	949,202	904,957
Advertising	4,172	7,993
Administrative Expenses	337,985	371,891
Clearing Account	954	(370)
Dues & Subscriptions	39,017	34,598
Safety	8,430	10,501
Travel and Training	72,404	44,294
Board Expenses	2,018	2,160
Social Security Expense	218,893	212,404
Legal and Consulting Fees	75,876	60,227
Insurance	310,136	333,902
Total Administrative Expenses	1,069,885	1,077,600
Vacation Benefits	150,227	154,629
Sick Benefits	92,559	88,877
Employees Welfare	403,732	424,404
Clubhouse Expense	2,380	1,714
Employee Activity	11,199	11,836
Employee Assistance	648	690
Pension Expense	326,986	282,993
Total Employee Benefits Expenses	987,731	965,143
General Expenses	5,704	4,443
Maintenance	13,948	8,021
Depreciation	1,681,608	1,564,772
In-lieu of Tax City	42,283	29,911
In-lieu of Tax County	17,843	18,933
Cash Contributions to City	15,749	17,187
Total General Expenses	1,777,135	1,643,267
Support Services	189,931	190,303
Inventory Adjustments	(11,812)	10,036
Cost of Sales Clearing	1,391	3,358
Auto and Truck Repair	160,488	169,784
Gas and Oil	146,821	116,277
Total Support Services	486,819	489,758
Total Operating Expenses - Electric Division	\$ 40,800,193	\$ 39,506,027

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



Frankfort Electric and Water Plant Board  
Comparative Operating Expenses  
Electric, Water and Telecommunication Divisions  
For The Years Ended June 30, 2007 and 2006

Water Division	2007	2006
Distributions and Treatment	\$ 2,545,270	\$ 2,568,592
Engineering	194,651	166,507
Total Water Department Expense	2,739,921	2,735,099
Meter Reading	162,230	157,031
Customer Records and Collection	209,906	203,429
Postage and Printing	39,959	40,447
Over and Short	(95)	40
Office Supplies	11,027	11,215
Bad Debts	22,423	13,626
GIS Expenses	7,628	3,225
CIS Expenses	41,086	30,169
Computer Expenses	19,973	25,773
Information Technologies Payroll	125,358	130,444
Total Office Expenses	639,495	615,399
Advertising	6,883	4,448
Administrative Expenses	250,270	273,546
Clearing Account	648	(273)
Dues & Subscriptions	11,578	8,326
Safety	9,316	10,438
Travel and Training	40,861	41,327
Board Expenses	1,488	1,589
Social Security Expense	199,873	193,949
Legal and Consulting Fees	43,293	48,272
Insurance	269,440	310,700
Total Administrative Expenses	833,650	892,322
Vacation Benefits	148,510	164,285
Sick Benefits	95,731	112,490
Employees Welfare	446,150	452,313
Clubhouse Expense	2,630	1,827
Employee Activity	11,106	12,615
Employee Assistance	716	736
Pension Expense	361,340	301,603
Total Employee Benefits Expenses	1,066,183	1,045,869
General Expenses	4,205	3,269
Maintenance	10,282	5,896
Depreciation & Amortization	1,227,707	1,102,084
In-lieu of Tax City	34,457	28,240
In-lieu of Tax County	14,540	17,875
Cash Contributions to City	3,150	3,350
Total General Expenses	1,294,341	1,160,714
Support Services	139,770	140,034
Inventory Adjustments	(3,864)	3,832
Cost of Sales Clearing	1,025	2,471
Auto and Truck Repair	109,005	105,977
Gas and Oil	100,329	72,587
Total Support Services	346,265	324,901
Total Operating Expenses - Water Division	\$ 6,919,855	\$ 6,774,304

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

Frankfort Electric and Water Plant Board  
Comparative Operating Expenses  
Electric, Water and Telecommunication Divisions  
For The Years Ended June 30, 2007 and 2006

Telecommunication Division	2007	2006
Operations & Maintenance	\$ 740,398	\$ 871,723
Distribution	372,937	351,035
HBO Expense	443,626	446,340
TMC Expense	31,349	31,390
Showtime Expense	79,295	81,908
Cinemax Expense	51,931	51,024
Encore Expense	3,806	4,022
Starz/Encore Expense	47,669	93,525
Digital Music Expense	3,809	4,006
Satellite Station Expense	2,865,377	2,638,930
Pole Rental Expense	28,731	40,168
Digital Station Expense	288,517	228,456
High Definition TV Expense	43,616	
Pay per View Expense	33,252	30,664
Royalty Copyright Expense	60,694	57,433
Total Operations & Maintenance	<u>5,095,007</u>	<u>4,930,624</u>
Cable 10 Payroll	435,645	433,444
Cable 10 Expense	49,532	165,496
Ad Insertion Expenses	52,261	
Marketing Expenses	57,477	
Total Cable 10 Expenses	<u>594,915</u>	<u>598,940</u>
FSN Payroll	752,848	540,062
FSN Expense	1,152,677	1,121,733
Access Billing Expense	38,820	
Security Expense	58,916	50,731
Total Cable FSN Expenses	<u>2,003,261</u>	<u>1,712,526</u>
Engineering Expense	221	565
Engineering Payroll	123,850	107,877
Total Cable Engineering Expense	<u>124,071</u>	<u>108,442</u>
Total Cable Expenses	<u>7,817,254</u>	<u>7,350,532</u>
Customer Records and Collection Expense	295,664	266,907
Postage and Printing	57,792	53,068
Over and Short	(134)	53
Office Supplies	15,210	14,369
Bad Debts	43,423	18,151
GIS Expenses	10,744	4,232
CIS Expenses	57,871	39,584
Computer Expenses	28,133	33,836
Information Technologies Payroll	176,569	171,149
Total Office Expenses	<u>685,272</u>	<u>601,349</u>

Frankfort Electric and Water Plant Board  
Comparative Operating Expenses  
Electric, Water and Telecommunication Divisions  
For The Years Ended June 30, 2007 and 2006

Telecommunication Division (continued)	2007	2006
Advertising	5,300	6,016
Administrative Expense	351,460	358,966
Clearing Account	913	(358)
Dues & Subscriptions	6,842	11,056
Safety	14,345	15,158
Travel and Training	62,737	64,426
Board Expenses	2,096	2,085
Social Security Expense	272,838	264,750
Legal and Consulting Fees	57,490	27,854
Insurance	322,769	272,459
Total Administrative Expenses	1,096,790	1,022,412
Vacation Benefits	200,960	197,987
Sick Benefits	97,648	84,115
Employees Welfare	686,976	640,095
Clubhouse Expense	4,050	2,585
Employee Activity	16,049	17,863
Employee Assistance	1,103	1,041
Pension Expense	556,387	426,816
Total Employee Benefits Expenses	1,563,173	1,370,502
General Expenses	6,307	4,290
Maintenance	14,634	7,736
Amortization of Goodwill	140,400	140,400
Depreciation	2,733,685	2,727,447
In-lieu of Tax City	32,266	50,855
In-lieu of Tax County	13,616	9,190
Cash Contributions to City	6,100	4,462
Total General Expenses	2,947,008	2,944,380
Support Services Expense	32,254	31,602
Support Services Payroll	151,110	152,155
Inventory Adjustments	(8,220)	2,702
Cost of Sales Clearing	1,445	3,242
Auto and Truck Repair Expense	45,104	55,211
Auto and Truck Repair Payroll	50,772	49,283
Gas and Oil	89,357	71,583
Total Support Services Expense	361,822	365,778
Total Operating Expenses - Telecommunication Division	\$ 14,471,319	\$ 13,654,953

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

Frankfort Electric and Water Plant Board  
Schedule of Bond Principal and Interest Maturities  
June 30, 2007

CONSOLIDATED NOTE

	<u>Principal Maturities</u>	<u>Interest</u>	<u>Total</u>
Fiscal Year Ended June 30, 2008	\$ 223,022	\$ 60,992	\$ 284,014
Fiscal Year Ended June 30, 2009	236,778	47,236	284,014
Fiscal Year Ended June 30, 2010	251,382	32,632	284,014
Fiscal Year Ended June 30, 2011	266,887	17,127	284,014
Fiscal Year Ended June 30, 2012	<u>139,575</u>	<u>2,454</u>	<u>142,029</u>
Total	<u>\$ 1,117,644</u>	<u>\$ 160,441</u>	<u>\$ 1,278,085</u>

1999 BOND ISSUE

	<u>Principal Maturities</u>	<u>Interest</u>	<u>Total</u>
Fiscal Year Ended June 30, 2008	\$ 550,000	\$ 527,473	\$ 1,077,473
Fiscal Year Ended June 30, 2009	580,000	497,948	1,077,948
Fiscal Year Ended June 30, 2010	610,000	466,710	1,076,710
Fiscal Year Ended June 30, 2011	640,000	433,898	1,073,898
Fiscal Year Ended June 30, 2012	675,000	399,379	1,074,379
Fiscal Year Ended June 30, 2013	715,000	362,713	1,077,713
Fiscal Year Ended June 30, 2014	755,000	323,380	1,078,380
Fiscal Year Ended June 30, 2015	795,000	281,133	1,076,133
Fiscal Year Ended June 30, 2016	840,000	236,170	1,076,170
Fiscal Year Ended June 30, 2017	885,000	188,733	1,073,733
Fiscal Year Ended June 30, 2018	935,000	138,683	1,073,683
Fiscal Year Ended June 30, 2019	990,000	85,745	1,075,745
Fiscal Year Ended June 30, 2020	<u>1,045,000</u>	<u>29,255</u>	<u>1,074,255</u>
Total	<u>\$ 10,015,000</u>	<u>\$ 3,971,220</u>	<u>\$ 13,986,220</u>

FULL SERVICE NETWORK NOTES

	<u>Total</u>
Fiscal Year Ended June 30, 2008	\$ 1,500,000
Fiscal Year Ended June 30, 2009	2,320,985
Fiscal Year Ended June 30, 2010	2,980,857
Fiscal Year Ended June 30, 2011	2,947,720
Fiscal Year Ended June 30, 2012	3,039,627
Fiscal Year Ended June 30, 2013	3,021,374
Fiscal Year Ended June 30, 2014	2,975,073
Fiscal Year Ended June 30, 2015	3,044,786
Fiscal Year Ended June 30, 2016	3,718,640
Fiscal Year Ended June 30, 2017	506,134
Fiscal Year Ended June 30, 2018	506,134
Fiscal Year Ended June 30, 2019	506,134
Fiscal Year Ended June 30, 2020	506,134
Fiscal Year Ended June 30, 2021	506,134
Fiscal Year Ended June 30, 2022	<u>382,759</u>
Total	<u>\$ 28,462,491</u>

WATER BOND ANTICIPATION NOTE

	<u>Principal</u>
Fiscal Year ended June 30, 2007	<u>\$ 1,850,000</u>

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



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

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of Electric & Water Plant Board, as of and for the year ended June 30, 2007, and have issued our report thereon dated October 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the Standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Electric & Water Plant Board, in a separate letter dated October 28, 2007.

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

*Charles T. Mitchell Co.*

October 28 2007

RESPONSE TO PSC

*PSC CASE NO. 2010-00485*

ITEM 3

Frankfort Electric and Water Plant Board  
Response to PSC Order Dated: 12/17/2010  
Case No. 2010-00485

ITEM 3: State the 12-month test period upon which the Plant Board bases its proposed rate adjustment.

Response: 3(a): Fiscal Year 2009 (7/1/08 – 6/30/09)

3(b): The test period chosen was based on the most recent audited fiscal year data available when the study was performed.