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December 21, 2007

Public Service Commission
ATTN: Ms. Beth O'Donnell, Executive Director
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40601

RECEIVED
DEC 26 2007
PUBLIC SERVICE
COMMISSION

Re: Case No. 2007-00257

Dear Ms. O'Donnell:

Enclosed is an original Motion To Supplement Record and ten (10) *copies for filing in the above referenced case. I have also enclosed an extra copy of the Motion To Supplement Record for you to stamp file and return to this office in the self addressed stamped envelope.*

Thank you for your cooperation in this matter. Please do not hesitate to contact me should you have any questions, and thank you for your kind and prompt attention.

Sincerely,


Henry Watson III

HW/sma

Enclosures

cc: City of Falmouth

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE) CASE NO. 2007-00257
RATES OF THE CITY OF FALMOUTH)

MOTION TO SUPPLEMENT RECORD

Comes now the City of Falmouth, by counsel, and Moves the Kentucky Public Service Commission For Leave To Supplement The Record in this matter, by filing the City of Falmouth Audited Financial Statement for fiscal year ending June 30, 2006. The purpose of this Motion is to place additional information in the record concerning the reasonableness of the rates for wholesale water service agreed to by the City of Falmouth, the East Pendleton County Water District, and the Pendleton County Water District, parties hereto.

The Audited Financial Statement is attached hereto and incorporated herein by reference.

Respectfully Submitted,

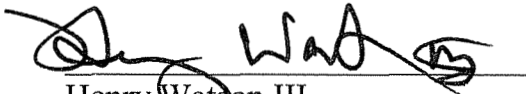


Henry Watson III
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Paris, Kentucky 40361
Telephone: 859-987-6525
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Counsel for the City of Falmouth

RECEIVED
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PUBLIC SERVICE
COMMISSION

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Motion was served upon the Commonwealth of Kentucky Public Service Commission by first class mail at 211 Sower Building, P.O. Box 615, Frankfort, Kentucky 40602-0615; upon Pendleton County Water District, by mailing a copy to William T. Jones, Manager, at P.O. Box 232, Falmouth, Kentucky 41040; and upon East Pendleton County Water District, by mailing a copy to Wayne Lonaker, Manager, at 600 Woodson Road, P.O. Box 29, Falmouth, Kentucky 41040, this the 21ST day of December, 2007.


Henry Watson III

CITY OF FALMOUTH, KENTUCKY
FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2006

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CITY OF FALMOUTH, KENTUCKY
 FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORT
 TABLE OF CONTENTS

<u>Independent Auditor's Report</u>	<u>1</u>
<u>Management's Discussion and Analysis</u>	<u>3</u>
<u>Statement of Net Assets</u>	<u>7</u>
<u>Statement of Activities</u>	<u>8</u>
<u>Balance Sheet</u>	<u>9</u>
<u>Statement of Revenues and Expenditures and Changes in Fund Balances – Governmental Funds</u>	<u>10</u>
<u>Statement of Revenues and Expenditures and Changes in Fund Balances – Budget & Actual – Non-GAAP Basis</u>	<u>12</u>
<u>Statement of Fund Net Assets – Proprietary Funds</u>	<u>13</u>
<u>Statement of Revenues and Expenses and Changes in Fund Net Assets – Proprietary Funds</u>	<u>14</u>
<u>Statement of Cash Flows – Proprietary Funds</u>	<u>15</u>
<u>Notes to Financial Statements</u>	<u>16</u>
SUPPLEMENTAL DATA	
<u>Schedule of Expenditures of Federal Awards</u>	<u>23</u>
<u>Schedule of Cash, Investments and Reserves</u>	<u>24</u>
<u>Schedule of Revenues, Budget and Actual - General Fund</u>	<u>25</u>
<u>Schedule of Expenditures, Budget and Actual - General Fund</u>	<u>26</u>
<u>Schedule of Revenues and Expenses - Utility Fund</u>	<u>28</u>
<u>Schedule of Revenues and Expenditures – budget and actual – Special Revenue Fund</u>	<u>29</u>
SUPPLEMENTAL REPORTS	
<u>Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></u>	<u>30-31</u>
<u>Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance Required by OMB Circular A-133</u>	<u>32-33</u>
<u>Schedule of Findings and Questioned Costs and Corrective Action Plan</u>	<u>34</u>
<u>Summary Schedule of Prior Audit Findings</u>	<u>35</u>

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Falmouth, Kentucky

We have audited the accompanying financial statements of governmental activities and business-type activities, and each major fund of the City of Falmouth, Kentucky as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Falmouth, Kentucky's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of governmental activities, the business-type activities, and each major fund of the City of Falmouth, Kentucky as of June 30, 2006, and respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 16, 2007 on our consideration of the City of Falmouth, Kentucky's internal control structure over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City of Falmouth, Kentucky's basic financial statements. The accompanying supplemental data as listed in the table of contents is presented for purposes of additional analysis, and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the City of Falmouth, Kentucky. The accompanying Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit 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.

Teresa Franklin Hudson CPA Inc.

Teresa Franklin Hudson, CPA, Inc.
February 16, 2007

**CITY OF FALMOUTH, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

Our discussion and analysis of the City of Falmouth, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's basic financial statements, which begin on page 7.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on page 7 and 8) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 9. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most financially significant funds.

Financial Highlights

- The City carries no debt.
- The assets of the City exceeded its liabilities at the close of the most recent year by \$9.6 million. (net assets).
- At the close of the current fiscal year, the City's governmental activities reported combined ending net assets of \$3.3 million. This was an increase of \$2.06 million compared with the prior year.
- At the close of the current fiscal year, the City's total net assets increased by \$1.4 million.
- Falmouth is a Silver-Designated Renaissance Kentucky city. The Governor's Office for Local Development announced in December 2004 a commitment of \$500,000 in Community Development Block Grant funds for an ambitious Downtown Urban Renewal Initiative project in the City. In May 2005, the Kentucky Transportation Cabinet approved a Transportation Enhancement Contract Amendment of \$798,000 for Streetscape Improvements in the Downtown area. The revenues for these grants were substantially expended in the year ended June 30, 2006.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the City's finances is "is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer that question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets, the difference between assets, what the citizens own and liabilities, what the citizens owe, as one way to measure the City's financial health, or *financial position*. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial, however, such as changes in the City's property tax base, income tax base, and the condition of the City's capital assets (roads, buildings, and equipment) to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, information is presented as follows:

- Government activities: most of the City's basic services are reported here, including the general government, public works, waste collection, and cemetery. Property taxes, bank deposit taxes, and franchise fees finance these activities.
- Business type activities: The City's services provided in the Utility Fund are reported here, including Electric, Water and Sewer, and Garbage Collection services. These services are funded by charges to users, and by grants.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 9 and provide detailed information about the most significant funds. Some funds are required to be established by State law. However, the City Commission established many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for grant funds. The City's has two types of funds, governmental funds and proprietary funds. There are no component units.

Governmental funds: The City's basis services are reported as governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The government fund statements provided a detailed short-term view of the City's general government operations and the basis services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds in reconciliation beside the fund financial statements.

Government-Wide Statement of Net Assets Summary

	2006	2005
Cash	649,939	1,089,903
Other current assets	1,003,091	641,780
Capital Assets	8,855,277	7,327,075
Total Assets	<u>10,508,307</u>	<u>9,058,758</u>
Short & Long term debt	0	202,148
Other liabilities	894,234	632,014
Total liabilities	<u>894,234</u>	<u>834,162</u>
Net Assets	<u>9,614,073</u>	<u>8,224,596</u>

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expense, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a net (expense)/revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The following schedule presents a summary of general and special revenues and expenditures for the fiscal year ended June 30, 2006, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2005 Amount	FYE 2006 Amount	Percent Of Total	Increase (Decrease) From FYE 05
Taxes	\$ 536,558	\$ 489,774	25%	\$ (46,784)
Licenses and permits	39,283	53,465	3%	14,182
Intergovernmental	101,761	123,228	6%	21,467
Charges for services	25,500	19,875	1%	(5,625)
Grant revenues	396,804	1,200,981	62%	804,177
Other	6,228	39,264	2%	33,036
Total revenues	\$ 1,106,134	\$ 1,926,587	100.00%	\$ 820,453

The decrease in taxes is a result of prior year overpayments received on Insurance Premium Taxes, that were credited against taxes due in FYE 2006.

The increase in grant revenues is a result of the Downtown Urban Renewal Initiative Project, which was substantially completed in FYE 2006.

Expenditures	FYE 2005 Amount	FYE 2006 Amount	Percent Of Total	Increase (Decrease) From FYE 05
General government	\$ 98,376	\$ 112,151	6%	\$ 13,775
Police	471,249	512,626	27%	41,377
Fire	84,088	110,649	6%	26,561
Public works	553,658	1,582,319	82%	1,028,661
Total expenditures	\$ 1,207,371	\$ 2,317,745	120.30%	\$ 1,110,374

The increase in Public Works expenditures is a result of the Downtown Urban Renewal Initiative Project, which was substantially completed in FYE 2006.

The increase in police department expenditures is due primarily to the purchase of a new cruiser, and to an increase in insurance rates.

CAPITAL ASSETS

At June 30, 2006, the capital assets reported amounted to \$8.8 invested as follows:

	Governmental Activities	BusinessType Activities	Total
Land	\$ 362,839	\$ -	\$ 362,839
Buildings	1,508,303	348,569	1,856,872
Water and sewer system	-	7,960,062	7,960,062
Electric system	-	789,083	789,083
Vehicles	667,312	396,570	1,063,882
Other equipment	131,698	201,083	332,781
Parks	151,654	-	151,654
Streets	1,491,896	-	1,491,896
less accumulated depreciation	(920,292)	(4,233,500)	(5,153,792)
Total capital assets, net of depreciation	<u>\$ 3,393,410</u>	<u>\$ 5,461,867</u>	<u>\$ 8,855,277</u>
 <u>This year's major additions include:</u>			
Infrastructure improvements	\$ 1,453,195	\$ -	\$ 1,453,195
Police cruiser	19,985	-	19,985
Fire equipment	15,236	-	15,236
Water plant improvements	-	385,611	385,611
Bucket truck	-	15,200	15,200
Total major additions	<u>\$ 1,488,416</u>	<u>\$ 400,811</u>	<u>\$ 1,889,227</u>

General Fund Budgetary Highlights

The City Commission approved the original budget for the year, and did not subsequently revise it. Actual revenues and appropriations for Governmental funds were \$1.6million less than budget. Most of this variance was due to timing differences on grant revenues of \$1,148,594 in the Special Revenue fund. Revenues of \$1,185,291 were received and expenses of \$1,547,785 were incurred in the current year for the Regional Sewer Project and the Renaissance Project.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City is experiencing increasing revenues and rising operating costs. The General Fund budget has anticipated growth in certain revenue areas. The expenditures for the General Fund include above average increases in fuel, utilities, insurance, and retirement costs. These increases are driven by outside economic factors beyond the City's control.

The budget for infrastructure projects includes expenditures to complete the downtown Renaissance Project, and to begin construction of a Regional Sewer Project. The City continues to annually invest in its infrastructure. The City does have adequate contingency funds to address any non-catastrophic unforeseen conditions and events. The fiscal year 2007 budget provides adequate resources for the continuation of services and programs at the present levels.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's Office at 230 Main St., Falmouth, KY 41040.

City of Falmouth, Kentucky
Statement of Net Assets
June 30, 2006

Primary Government

	Governmental Activities	Business Type Activities	Total
ASSETS			
Current Assets:			
Cash & cash equivalents	\$ 269,910	\$ 380,029	\$ 649,939
Accounts receivable-net	20,122	229,706	249,828
Taxes receivable	-	-	-
Receivable from Governmental agencies	298,053	-	298,053
Total current assets	<u>588,085</u>	<u>609,735</u>	<u>1,197,820</u>
Noncurrent Assets:			
Due from other funds	-	455,210	455,210
Capital Assets:			
Land	362,839	-	362,839
Buildings	1,508,303	348,569	1,856,872
Water and sewer system	-	7,960,062	7,960,062
Electric system	-	789,083	789,083
Vehicles	667,312	396,570	1,063,882
Other equipment	131,698	201,083	332,781
Parks	151,654	-	151,654
Streets	1,491,896	-	1,491,896
less accumulated depreciation	(920,292)	(4,233,500)	(5,153,792)
Total capital assets, net of depreciation	<u>3,393,410</u>	<u>5,461,867</u>	<u>8,855,277</u>
Total noncurrent assets	<u>3,393,410</u>	<u>5,917,077</u>	<u>9,310,487</u>
Total assets	<u>\$ 3,981,495</u>	<u>\$ 6,526,812</u>	<u>\$ 10,508,307</u>
LIABILITIES:			
Current Liabilities:			
Accounts payable & other current liabilities	183,718	181,346	365,064
Total current liabilities	<u>183,718</u>	<u>181,346</u>	<u>365,064</u>
Noncurrent Liabilities:			
Due to Other funds	455,210	-	455,210
Deferred revenues	19,560	-	19,560
Customer deposits	822	53,578	54,400
Leases payable, due in less than one year	-	-	-
Total noncurrent liabilities	<u>475,592</u>	<u>53,578</u>	<u>529,170</u>
Total liabilities	<u>\$ 659,310</u>	<u>234,924</u>	<u>\$ 894,234</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,393,410	5,408,289	8,801,699
Restricted for other purposes	141,827	245,464	387,291
Unrestricted	(213,052)	638,135	425,083
Total net assets	<u>\$ 3,322,185</u>	<u>6,291,888</u>	<u>\$ 9,614,073</u>

The accompanying footnotes are an integral part of these financial statements

City of Falmouth, Kentucky
Statement of Activities
For the Year Ended June 30, 2006

Primary government				Total primary government			
Functions/Programs				Business-type activities			
Governmental activities				Total business-type activities			
General Government				Total primary government			
Public Safety				Utilities			
Police				Business-type activities			
Fire				Total governmental activities			
Public Works				Total business-type activities			
General Government				Total primary government			
Public Safety				Utilities			
Police				Business-type activities			
Fire				Total governmental activities			
Public Works				Total business-type activities			
General Government				Total primary government			
\$	134,643	\$	-	\$	7,500	\$	-
	514,322		-		39,111		-
	121,855		19,875		15,690		-
	163,449		-		1,269,408		-
	934,269		19,875		1,331,709		-
	2,294,144		2,690,802		-		-
	2,294,144		2,690,802		-		-
\$	3,228,413	\$	2,710,677	\$	1,331,709	\$	-
\$	813,973						

Primary Government				Total			
Governmental Activities				Business-type Activities			
Total				Total			
	168,823		-		168,823		-
	16,778		-		16,778		-
	18,015		-		18,015		-
	286,158		-		286,158		-
	53,465		-		53,465		-
	31,764		-		31,764		-
	270,000		(270,000)		-		-
	845,003		(270,000)		575,003		-
	1,262,318		126,658		1,388,976		-
	2,059,867		6,165,230		8,225,097		-
\$	3,322,185	\$	6,291,888	\$	9,614,073		-

General Revenues:
Taxes:
Property taxes
Bank shares tax
Motor vehicle tax
Insurance premium tax
Licenses & permits
Miscellaneous
Transfers
Total general revenues & transfers
Change in net assets
Net assets - beginning
Net assets - ending

The accompanying footnotes are an integral part of these financial statements

City of Falmouth, Kentucky
 Balance Sheet
 Governmental Funds
 June 30, 2005

	Primary Government		
	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash & cash equivalents	\$ 228,885	\$ 41,025	\$ 269,910
Grants receivable	24,871	273,182	298,053
Other assets	-	-	-
Total assets	<u>253,756</u>	<u>314,207</u>	<u>567,963</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable & other current liabilities	12,160	172,380	184,540
Total liabilities	<u>12,160</u>	<u>172,380</u>	<u>184,540</u>
FUND BALANCES			
Reserved for:			
Other purposes	-		
Unreserved, reported in:			
Governmental funds	241,596	141,827	383,423
Total fund balances	<u>241,596</u>	<u>141,827</u>	<u>383,423</u>
Total liabilities & fund balances	<u>253,756</u>	<u>314,207</u>	<u>567,963</u>

Total fund balances - governmental funds \$ 383,423

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	362,839	
Buildings	1,508,303	
Vehicles	667,312	
Other Equipment	131,698	
Parks	151,654	
Streets	1,491,896	
Accumulated depreciation	(920,292)	
Total capital assets	<u>3,393,410</u>	3,393,410

Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds

Taxes receivable		20,122
------------------	--	--------

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Due from other funds	455,210	
Deferred revenues	19,560	
Leases payable-due in more than one year	-	
Total long-term liabilities	<u>474,770</u>	(474,770)

Net assets of governmental activities \$ 3,322,185

The accompanying footnotes are an integral part of these financial statements

City of Falmouth, Kentucky
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2006

	Primary Government		
	General Fund	Special Revenue Fund	Total Governmental Funds
<u>Revenues</u>			
Taxes	\$ 489,774	\$ -	\$ 489,774
Licenses and permits	53,465	-	53,465
Intergovernmental revenues	123,228	-	123,228
Charges for services	19,875	-	19,875
Grant revenues	15,690	1,185,291	1,200,981
Other revenue	39,139	125	39,264
Total revenues	<u>741,171</u>	<u>1,185,416</u>	<u>1,926,587</u>
<u>Expenditures</u>			
General government	112,151	-	112,151
Public safety - police	512,626	-	512,626
Public safety - fire	110,649	-	110,649
Public works	34,534	1,547,785	1,582,319
Total expenditures	<u>769,960</u>	<u>1,547,785</u>	<u>2,317,745</u>
Excess (deficiency) of revenues over expenditures	(28,789)	(362,369)	(391,158)
<u>Other financing sources (uses)</u>			
Transfers (to) from other funds	(82,324)	352,324	270,000
Total other financing sources (uses)	<u>(82,324)</u>	<u>352,324</u>	<u>270,000</u>
Excess (deficiency) of revenues and other financing sources over expenditures	<u>(111,113)</u>	<u>(10,045)</u>	<u>(121,158)</u>
Fund balances, beginning	(101,939)	151,873	49,934
Fund balances, ending	<u>\$ (213,052)</u>	<u>\$ 141,828</u>	<u>\$ (71,224)</u>

The accompanying footnotes are an integral part of these financial statements

City of Falmouth, Kentucky

Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities

For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds **\$ 1,262,318**

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

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those assets
is allocated over their estimated useful lives and reported as
depreciation expense.

Expenditures for capital outlays	1,485,041	
Depreciation expense	<u>(118,455)</u>	
Net difference	<u>1,366,586</u>	(1,366,586)

Repayment of debt principal is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the statement
of net assets.

Repayments of principal on capital lease		(16,890)
--	--	----------

Change in net assets of governmental activities **\$ (121,158)**

The accompanying footnotes are an integral part of these financial statements

City of Falmouth, Kentucky
Statement of Revenues and Expenditures and Changes in Fund Balances - Budget & Actual
Non-GAAP Budgetary Basis

For the Year Ended June 30, 2006

	General Fund		Special Revenue Fund		Total Governmental Funds	
	Budget	Actual	Budget	Actual	Budget	Actual
Budgetary fund balances, beginning of year	\$ 130,340	\$ (101,939)	\$ 443,585	\$ 151,873	\$ 573,925	\$ 49,934
Resources (inflows)						
Taxes	\$ 514,230	\$ 489,774	\$ -	\$ -	\$ 514,230	\$ 489,774
Licenses and permits	33,600	53,465	-	-	33,600	53,465
Intergovernmental revenues	131,095	123,228	-	-	131,095	123,228
Charges for services	27,000	19,875	-	-	27,000	19,875
Grant revenues	7,750	15,690	2,333,885	1,185,291	2,341,635	1,200,981
Other revenue	12,900	39,139	-	125	12,900	39,264
Amounts available for appropriation	856,915	639,232	2,777,470	1,337,289	3,634,385	1,976,521
Charges to appropriations (outflows)						
General government	109,815	112,151	-	-	109,815	112,151
Public safety - police	544,570	512,626	-	-	544,570	512,626
Public safety - fire	98,655	110,649	-	-	98,655	110,649
Public works	96,285	34,534	1,693,885	1,547,785	1,790,170	1,582,319
Total charges to appropriations	849,325	769,960	1,693,885	1,547,785	2,543,210	2,317,745
Transfers (to) from other funds	-	(82,324)	-	352,324	-	270,000
Budgetary fund balance - end of year	\$ 7,590	\$ (213,052)	\$ 1,083,585	\$ 141,828	\$ 1,091,175	\$ (71,224)

\$ 7,590 \$ (213,052) \$ 1,083,585 \$ 141,828 \$ 1,091,175 \$ (71,224) \$ (1,162,399)

(82,324) (82,324) - 352,324 352,324 270,000 270,000

849,325 769,960 1,693,885 1,547,785 2,543,210 2,317,745
96,285 34,534 61,751 1,693,885 1,547,785 1,790,170
98,655 110,649 (11,994) - - 98,655 110,649
544,570 512,626 31,944 - - 544,570 512,626
109,815 112,151 (2,336) - - 109,815 112,151

514,230 489,774 (24,456) 514,230 489,774 (24,456)
33,600 53,465 19,865 33,600 53,465 19,865
131,095 123,228 (7,867) 131,095 123,228 (7,867)
27,000 19,875 (7,125) 27,000 19,875 (7,125)
7,750 15,690 7,940 2,333,885 1,185,291 (1,148,594)
12,900 39,139 26,239 - 125 125
856,915 639,232 (217,683) 2,777,470 1,337,289 (1,440,181)

130,340 (101,939) (232,279) 443,585 151,873 (291,712)
573,925 49,934 (523,991)

City of Falmouth, Kentucky
Statement of Fund Net Assets
Proprietary Funds
June 30, 2006

	<u>Utility Fund</u>
<u>Assets and Other Debits</u>	
Cash - unrestricted	\$ 53,848
Cash - restricted	79,858
Investments - unrestricted	-
Cash - unrestricted - Council Designated	246,323
Receivables	
Customers (less allowance for doubtful accounts of \$ 10,000)	229,706
Governmental agencies	-
Due from other funds	455,210
Land	-
Buildings	348,569
Water and sewer system	7,960,062
Electric system	789,083
Vehicles	396,570
Other equipment	201,083
Parks	-
Streets	-
Accumulated depreciation	(4,233,500)
Loan fees, net of amortization	-
Total assets and other debits	<u>\$ 6,526,812</u>
 <u>Liabilities, Fund Equity, and Other Credits</u>	
Liabilities	
Accounts payable-trade	\$ 156,730
School tax payable	2,701
Sales tax payable	1,898
Due to other funds	-
Wages and payroll taxes withheld and accrued	20,017
Fire truck lease	-
Loan Payable 5th 3rd Bank	-
Customer deposits	53,578
Accrued interest	-
Deferred revenue	-
Total liabilities	<u>234,924</u>
Fund equity	
Contributed capital	550,348
Retained earnings - unreserved	5,496,076
Sinking Fund	14,636
Depreciation reserve-electric & garbage	118,491
Depreciation reserve-water & sewer	112,337
Total fund equity	<u>6,291,888</u>
Total liabilities and fund equity	<u>\$ 6,526,812</u>

The accompanying footnotes are an integral part of these financial statements

City of Falmouth, Kentucky
Statement of Revenues and Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2006

Operating revenues	
Charges for services	\$ 2,613,486
Interest income	5,968
Late fees & penalties	34,361
Other revenues	36,987
Total operating revenues	<u>2,690,802</u>
Operating expenses	
Electricity purchased	828,723
Waste collection contract	50,238
Salaries	584,358
Employee benefits	112,868
Payroll taxes & workers comp	78,549
Bank fees	3,339
Chemicals	76,804
Consulting & analysis	22,144
Advertising	2,070
Printing	1,789
Legal & accounting	11,042
Insurance	77,640
Repairs & maintenance	57,356
Travel	1,697
Education & training	1,138
Postage	4,883
Utilities	3,647
Telephone	9,009
Supplies	49,062
Uniforms	9,281
Gasoline	23,457
Dues & subscriptions	1,055
Engineering & other fees	27,211
Equipment expense	10,452
Interest expense	2,886
Amortization of loan fees	4,250
Depreciation	239,196
Total operating expenses	<u>2,294,144</u>
Net income before operating transfers	396,658
Transfers (to) from other funds	<u>(270,000)</u>
Net income after operating transfers	126,658
Fund Equity - Beginning of Year	6,165,230
Fund Equity - End of Year	<u>\$ 6,291,888</u>

The accompanying footnotes are an integral part of these financial statements

City of Falmouth, Kentucky
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

Cash flows from operating activities	
Net Income	\$ 126,658
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Amortization and depreciation	243,446
(Increase) Decrease in:	
Accounts receivable, net	2,441
Due from other funds	(96,563)
Increase (Decrease) in:	
Accounts payable	9,010
School taxes payable	(110)
Sales taxes payable	(39)
Payroll taxes and benefits payable	1,116
Meter deposits	(10,738)
Accrued interest	(1,840)
Net cash provided (used) by operating activities	<u>273,381</u>
Cash flows from investing activities	
(Increase) in restricted reserves	-
Net cash provided (used) by investing activities	<u>-</u>
Cash flows from capital financing activities	
Purchase of fixed assets	(400,811)
Principal payments on notes payable	(185,258)
Net cash provided (used) by financing activities	<u>(586,069)</u>
Net increase in cash and cash equivalents	(312,688)
Cash and cash equivalents, beginning of year	692,717
Cash and cash equivalents, end of year	<u>\$ 380,029</u>
Supplemental disclosures of cash flow information:	
Cash paid during the year for interest expense	<u>\$ 2,886</u>

The accompanying footnotes are an integral part of these financial statements

CITY OF FALMOUTH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Introduction

The accounting and reporting framework and the more significant accounting principles and practices of the City of Falmouth, Kentucky (the City) are discussed in subsequent sections of these Notes. The City is a municipality governed by a mayor and city council. As required by generally accepted accounting principles, the accompanying financial statements present the City's primary government. The City has no discretely presented component units.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. Certain of the significant changes in the Statement include the following:

For the first time the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The City has elected to implement the general provisions of the Statement in the current year.

Basic Financial Statements—Government-Wide Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's public safety, public works and general administrative services are classified as governmental activities. The City's utility services are classified as business-type activities.

CITY OF FALMOUTH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

In the government-wide Statement of Net Assets, governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs by function are normally covered by general revenue (property taxes, intergovernmental revenues, interest income, etc.). The City does not allocate indirect costs. This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Basic Financial Statements—Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

1. Governmental Activities:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The City reports the following major governmental funds

- a. General fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

2. Proprietary Funds

The City reports the following major enterprise funds:

- a. The Utility Fund is an enterprise fund that accounts for the operating activities of the City's water, sewer, electric, and garbage collection services.

CITY OF FALMOUTH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Property Tax Calendar

The City levies property taxes on qualifying property. Property taxes are the City's primary source of general fund revenue. Property taxes attach as an enforceable lien of property as of October 15 and are payable December 31. Property tax revenues are recognized when they become levied. No allowance for uncollectible receivable is considered necessary.

Income Taxes

The City is a political sub-division of the State of Kentucky and is not subject to federal and state income taxes.

Reporting Entity

The financial statements of the City include the funds over which the Mayor and Council exercise significant oversight responsibility. Oversight responsibility, as defined by Section 2100 of GASB Codification of Governmental Accounting and Financial Reporting Standards was determined on the basis of the City's ability to significantly influence operation, select the governing body, participate in fiscal management and the scope of public service. The only entity included in the financial statements is the City of Falmouth, Kentucky. There are no component units. Included within the reporting entity is the City of Falmouth Fire Department. The Department services all of Pendleton County. The County pays the City a flat fee to provide this service. The City incorporates the fire department into the operating budget and is responsible for all expenditures, including deficits, should they occur. The City does not appoint the governing body.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The General Fund uses a current financial resources measurement focus and is accounted for using the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual, i.e., when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, if measurable. Deferred revenue represents grant revenues received but not earned. Revenues are recognized when eligible expenditures are incurred.

The Proprietary Fund uses the accrual basis of accounting. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred.

CITY OF FALMOUTH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENT

Cash consists of deposits with banks. These deposits are carried at cost, which approximates market. Investments consists of certificates of deposit with banks, with maturities greater than three months. These are carried at cost, which approximates market. Fair value approximates carrying value.

Kentucky Revised Statutes authorize municipalities to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies and deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government and its agencies.

As of June 30, 2006 the carrying amount of the City's deposits is \$649,939. This amount was entirely covered by federal depository insurance or by collateral held by the City's agents in the City's name.

NOTE C - REVENUE BONDS AND LOANS PAYABLE

The City of Falmouth issued Municipal Electric Distribution, Waterworks and Sewer System Lease Revenue Bonds dated April 7, 1992. The original issue amount of the bonds was \$1,200,000 with interest rates ranging from 4.25% to 7.125% over the life of the bonds. In April 2003, the City obtained a \$534,609 loan from Fifth Third Bank, and used the proceeds of this loan to fully retire the revenue bonds and pay related fees and costs. The balance outstanding to Fifth Third bank was paid in full in 2006, and is zero as of June 30, 2006.

The bond ordinance required that certain reserves be created and maintained by the City. After the bonds were paid in full, these funds were designated by Council to be used for future capital expenditures. The balances in these funds are as follows:

Sinking fund reserve	\$ 14,636
Depreciation reserve	<u>\$ 230,828</u>
Total Council Designated	<u>\$ 245,464</u>

CITY OF FALMOUTH, KENTUCKY
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2006

NOTE D - FIXED ASSETS

The property, plant, and equipment of all funds are stated at historical cost. Governmental fund fixed assets are recorded in the General Fixed Asset Account Group and are not depreciated. Proprietary fund fixed assets are recorded in the Proprietary Fund and are depreciated using the straight line method over their estimated useful lives, ranging from 10 to 50 years.

Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems acquired after June 30, 2003 are capitalized and depreciated over their estimated useful lives, in compliance with the guidelines of GASB 34. Infrastructure acquired prior to July 1, 2003 was not capitalized. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset life are not capitalized. A summary of changes in general fixed assets is as follows. The additions to infrastructure of \$1,453,195 relate to the downtown urban renewal initiative project.

	Balance 6/30/05	Additions	Deletions	Balance 6/30/06
Land	\$ 362,839	\$ -0-	\$ -0-	\$ 362,839
Parks	151,654	-0-	-0-	151,654
Buildings	1,508,303	-0-	-0-	1,508,303
Vehicles	650,327	16,985	-0-	667,312
Infrastructure	38,701	1,453,195	-0-	1,491,896
Equipment	116,462	15,235	-0-	131,697
Total	\$2,828,286	\$ 1,485,415	\$ -0-	\$4,313,701

A summary of changes in property recorded in the proprietary fund is as follows:

	Balance 6/30/05	Additions	Deletions	Balance 6/30/06
Buildings	\$ 348,569	\$ -0-	\$ -0-	\$ 348,569
Water/Sewer Systems	7,574,451	385,611	-0-	7,960,062
Electric System	789,083	-0-	-0-	789,083
Vehicles	381,370	15,200	-0-	396,570
Equipment	201,083	-0-	-0-	201,083
Total	\$9,294,556	\$ 400,811	\$ -0-	\$ 9,696,367

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

General Government	\$ 22,492
Police	\$ 20,542
Fire	\$ 41,095
Public Works	\$ 34,325
Utility Fund	\$ 239,195

CITY OF FALMOUTH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE E- BUDGETING

The City is required by state law to adopt annual budgets. The General Fund budget is prepared on the modified accrual basis of accounting. The Proprietary Fund budget is prepared on the accrual basis of accounting. This is consistent with generally accepted accounting principles. Budgets are prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by class as follows: general government, police, fire, dispatch, public works, and other. Section 91A.030 and Section 424.24 of the Kentucky Revised Statutes prohibits expenditure in excess of budgeted amounts and prohibits budgeting of appropriations in excess of revenues. For the year ended June 30, 2006, the City exceeded, on a line item basis and on a class basis, some approved appropriations for expenditures in the general fund and special revenue fund.

NOTE F – CONTINGENT LIABILITIES

The City is party to various legal proceedings which normally occur in governmental operations. It is neither possible to determine the outcome of these proceedings nor to estimate the possible effects adverse decisions may have on the future expenditures or revenue sources of the City. In the opinion of City management, these legal proceedings are not likely to have a material adverse impact on the accompanying financial statements. Therefore, no provision for any liability that may result upon adjudication of this and similar cases has been made in the accompanying financial statements.

NOTE G - EMPLOYEE RETIREMENT

The City participates in a defined contribution plan administered by the County Employees Retirement System.(CERS). Under provisions of Kentucky Revised Statute 61.645, the Board of Trustees of the Kentucky Retirement Systems administers the CERS. The plan issues separate financial statements, which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Rd., Frankfort, KY 40601. CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county, school board, and any additional eligible local agencies electing to participate in the system. The Plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the state legislature.

The City and participants are required to contribute 25.01% and 8% respectively for police officers. For all other employees, the City and participants are required to contribute 10.98% and 5% respectively. After ninety days, all new employees are eligible to participate in the program. The City contributed 100% of the required contributions of \$108,276 for the year ended June 30, 2006.

CITY OF FALMOUTH, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE H - VEHICLE LEASES

Vehicle leases consists of a capital lease for the purchase of a fire truck; with initial principal of \$135,000, and an interest rate of 4.98%. This agreement required semi-annual payments of \$8,762 expiring June 15, 2006. The lease was paid in full as of June 30, 2006.

NOTE I- NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The City implemented this standard for the fiscal year ending June 30, 2004.

SUPPLEMENTAL DATA



City of Falmouth, Kentucky
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/Program or Cluster Title		Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>Renaissance Project:</u>				
Governors Office for Local Development Downtown Urban Renewal Initiative Project CDBG Application 04-024				
Total Grant Awarded	<u>\$ 500,000</u>	20.205	CDBG #04-024	
Grant funds expended for year ended 6/30/06			-	\$ 490,000
Governors Office for Local Development Downtown Urban Renewal Initiative Project Renaissance Grant				
Total Grant Awarded	<u>\$ 44,480</u>	20.205		
Grant funds expended for year ended 6/30/06				\$ 44,480
Kentucky Transportation Cabinet Transportation Enhancement (TEA-21) Contract Streetscape Improvements - C01025032				
Total Grant Awarded	<u>\$ 798,000</u>	20.205	#C01025032	
Grant funds expended for year ended 6/30/06				\$ 636,819
<u>Total Renaissance Project</u>				<u>\$ 1,171,299</u>
<u>Ice Storm Project</u>				
Federal Emergency Management Agency (FEMA) Kentucky Division of Disaster & Emergency Services Hazard Mitigation Grant Program				
	<u>\$ 34,755</u>		83.548	<u>\$ 34,755</u>
Total Expenditures of Federal Awards				<u>\$ 1,206,054</u>

The accompanying footnotes are an integral part of these financial statements

City of Falmouth, Kentucky
 Schedule of Cash, Investments, and Reserves
 June 30, 2006

	<u>Governmental Funds</u>		<u>Proprietary Funds</u>
	<u>General Fund</u>	<u>Special Revenue</u>	<u>Utility Fund</u>
<u>Cash - unrestricted</u>			
General checking	\$ 140,728	\$ -	\$ 53,668
Cash in drawer	-	-	180
	<u>\$ 140,728</u>	<u>\$ -</u>	<u>\$ 53,848</u>
<u>Cash - restricted</u>			
Municipal road aid	\$ 65,891	\$ -	\$ -
Equitable Sharing funds	8,240		
LGEA checking	12,853	-	-
Fire truck acquisition savings	1,173	-	-
Renaissance Grant checking	-	35,780	-
Regional Sewer project checking	-	5,245	-
Meter deposits	-	-	69,099
20 20 Water Grant checking	-	-	10,759
	<u>\$ 88,157</u>	<u>\$ 41,025</u>	<u>\$ 79,858</u>
<u>Investments - unrestricted</u>			
<u>Designated by Council for Economic Devel.</u>			
Kennedy Ridge CD	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Designated by Council for Capital Outlay</u>			
IRB bond fund	\$ -	\$ -	\$ 859
Sinking fund reserve	-	-	14,636
Depreciation reserve-Electric & Garbage	-	-	118,491
Depreciation reserve-Water & Sewer	-	-	112,337
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 246,323</u>
Total Cash, Investments, and Reserves	<u>\$ 228,885</u>	<u>\$ 41,025</u>	<u>\$ 380,029</u>

The accompanying footnotes are an integral part of these financial statements

City of Falmouth, Kentucky
Schedule of Revenues - Budget and Actual
General Fund
Non-GAAP Budgetary Basis
For the Year Ended June 30, 2006

	Original & Final Budget	Actual	Variance
Taxes			
Property taxes	\$ 161,000	\$ 168,823	\$ 7,823
Bank shares tax	16,730	16,778	48
Motor vehicle taxes	16,500	18,015	1,515
Insurance premium taxes	320,000	286,158	(33,842)
Total taxes	514,230	489,774	(24,456)
Licenses and permits			
Occupational	9,000	9,207	207
Building permits & inspection fees	2,500	1,273	(1,227)
Liquor licenses	3,600	4,200	600
Franchise fees	18,500	38,785	20,285
Total licenses and permits	33,600	53,465	19,865
Intergovernmental revenues			
LGEA program	35,660	31,874	(3,786)
Police incentive	25,875	27,037	1,162
Base court revenue	10,000	12,074	2,074
Municipal aid	59,560	52,243	(7,317)
Total intergovernmental revenues	131,095	123,228	(7,867)
Charges for services			
Fire runs	12,000	8,625	(3,375)
Fire contract	15,000	11,250	(3,750)
Total charges for services	27,000	19,875	(7,125)
Grant Revenues			
State fire grant	7,750	7,750	-
Equitable Sharing grant	-	7,940	7,940
Total Grant Revenues	7,750	15,690	7,940
Other revenues			
Miscellaneous	200	18,537	18,337
Donations	-	7,500	7,500
Rental income	11,000	11,008	8
Interest income	1,700	2,094	394
Total other revenues	12,900	39,139	26,239
Total revenues	\$ 726,575	\$ 741,171	\$ 14,596

The accompanying footnotes are an integral part of these financial statements

City of Falmouth, Kentucky
Schedule of Expenditures - Budget and Actual
General Fund
Non-GAAP Budgetary Basis
For the Year Ended June 30, 2006

	Original & Final Budget	Actual	Variance
General government			
Salaries	\$ 42,500	\$ 42,500	\$ -
Payroll taxes & benefits	3,315	3,182	133
Bank fees	350	194	156
Community Activities		700	(700)
Industrial Authority			-
NKADD fees			-
Animal control	2,500	2,500	-
Donations	3,000		3,000
Consulting	100		100
Advertising	5,000	3,313	1,687
Meals	1,000		1,000
Printing	2,000	407	1,593
Legal & accounting	15,500	14,919	581
Insurance	10,600	24,620	(14,020)
Repairs and maintenance	4,000	2,814	1,186
Travel	2,500	2,479	21
Education and training	1,000	78	922
Postage	1,000	872	128
Telephone	2,500	2,481	19
Office supplies	1,500	1,063	437
Uniforms	1,550	1,128	422
Planning & zoning	2,900	2,900	-
Dues & subscriptions	5,000	5,175	(175)
Interest expense	-	-	-
Miscellaneous	2,000	826	1,174
Payments on short term debt	-	-	-
Capital Outlay	-	-	-
Total general government	109,815	112,151	(2,336)
Police			
Salaries	284,160	277,230	6,930
Employee benefits	99,080	81,928	17,152
Payroll taxes and workers comp	35,230	34,860	370
COPS grant expenses			-
Bank fees	1,500	1,585	(85)
Advertising	500	114	386
Printing	300	25	275
Legal & accounting	8,500	3,047	5,453
Consulting	4,000	(965)	4,965
Insurance	43,500	47,527	(4,027)
Repairs & maintenance	8,000	9,351	(1,351)
Travel	1,500	1,149	351
Education & training	1,500	750	750
Postage	250	133	117
Utilities	-	505	(505)
Telephone	6,000	6,195	(195)
Supplies	7,250	5,338	1,912
Uniforms	3,500	1,493	2,007
Gasoline	14,000	11,503	2,497
Dues & subscriptions	1,000	147	853
Miscellaneous	300	181	119
Donations	-	2,750	(2,750)
Capital outlay	24,500	27,780	(3,280)
Total police	\$ 544,570	\$ 512,626	\$ 31,944

The accompanying footnotes are an integral part of these financials statements

City of Falmouth, Kentucky
Schedule of Expenditures - Budget and Actual (continued...)
General Fund
Non-GAAP Budgetary Basis
For the Year Ended June 30, 2006

	Original & Final Budget	Actual	Variance
Fire			
Lease payments - interest		\$ 633	(633)
Lease payments - principal		16,890	(16,890)
Salaries	13,200	13,200	-
Employee benefits	1,650	5,591	(3,941)
Payroll taxes and workers comp	1,810		1,810
Bank fees	100	51	49
Advertising	200		200
Fire runs	12,000	11,730	270
Meals	500	500	-
Printing	150		150
Legal & accounting	3,000	1,896	1,104
Consulting	500		500
Insurance	17,945	28,908	(10,963)
Repairs & maintenance	8,000	2,436	5,564
Travel	300	40	260
Education & training	1,200	661	539
Postage	100		100
Utilities	3,100	3,334	(234)
Telephone	900	668	232
Supplies	3,000	4,630	(1,630)
Uniforms	2,750	1,269	1,481
Gasoline	2,000	687	1,313
Dues & subscriptions	250	187	63
Capital outlay	26,000	17,338	8,662
Total fire	98,655	110,649	(11,994)
Public works			
Repairs & maintenance	60,000	3,728	56,272
Parks	-	-	-
LGEA expenses	36,285	30,806	5,479
Total public works	96,285	34,534	61,751
Total expenditures	\$ 849,325	\$ 769,960	\$ 79,365

The accompanying footnotes are an integral part of these financial statements

City of Falmouth, Kentucky
Schedule of Revenues and Expenses
Utility Fund
For the Year Ended June 30, 2006

	Other	Electric System	Water System	Sewer System	Waste Collection	Total
Operating revenues						
Charges for services	\$ -	\$ 1,131,280	\$ 717,213	\$ 187,418	\$ 177,146	\$ 2,213,057
Interest income	5,968	-	-	-	-	5,968
Late fees & penalties	34,361	-	-	-	-	34,361
Grant revenues	-	-	400,429	-	-	400,429
Other revenues	36,987	-	-	-	-	36,987
Total operating revenues	77,316	1,131,280	1,117,642	187,418	177,146	2,690,802
Operating expenses						
Electricity purchased		828,723				828,723
Waste collection contract					50,238	50,238
Salaries	124,957	79,014	250,789	79,357	50,241	584,358
Employee benefits	18,345	15,071	54,272	14,084	11,096	112,868
Payroll taxes & workers comp	10,159	8,613	39,398	11,675	8,704	78,549
Bank fees	682	351	1,955	351		3,339
Chemicals			75,895	909		76,804
Consulting & analysis		1,341	16,796	4,007		22,144
Advertising	64	99	1,599		308	2,070
Printing	294	294	453	374	374	1,789
Legal & accounting	1,922	2,391	2,853	1,956	1,920	11,042
Insurance	2,581	15,645	35,618	9,235	14,561	77,640
Repairs & maintenance	2,214	5,643	30,591	11,252	7,656	57,356
Travel			1,697			1,697
Education & training		246	867	25		1,138
Postage	928	883	1,054	882	1,136	4,883
Utilities		2,022	1,108	517		3,647
Telephone	4,038	1,908	2,717	50	296	9,009
Supplies	3,448	11,103	28,348	4,564	1,599	49,062
Uniforms		1,631	5,428	749	1,473	9,281
Gasoline		4,851	8,146	1,247	9,213	23,457
Dues & subscriptions	142	98	596	62	157	1,055
Engineering & other fees			27,211			27,211
Equipment expense	5,988		15		4,449	10,452
Interest expense			2,886			2,886
Amortization of loan fees	4,250					4,250
Depreciation	30,248	20,611	127,829	52,785	7,723	239,196
Total operating expenses	210,260	1,000,538	718,121	194,081	171,144	2,294,144
Operating income before transfers	\$ (132,944)	\$ 130,742	\$ 399,521	\$ (6,663)	\$ 6,002	\$ 396,658

The accompanying footnotes are an integral part of these financial statements

City of Falmouth, Kentucky
 Schedule of Revenues & Expenditures - Budget and Actual
 Special Revenue Fund
 Non-GAAP Budgetary Basis
 For the Year Ended June 30, 2006

	Original & Final Budget	Actual	Variance
Revenues			
Regional Sewer Project Grant	\$ 725,000	\$ 13,992	\$ (711,008)
Renaissance Grant	1,608,885	1,171,299	(437,586)
Other	-	125	125
Total revenues	2,333,885	1,185,416	(1,148,469)
Expenditures			
Renaissance Grant project	1,608,885	1,453,195	155,690
Regional Sewer Project	85,000	94,590	(9,590)
	1,693,885	1,547,785	146,100

The accompanying footnotes are an integral part of these financial statements

SUPPLEMENTAL REPORTS

Teresa Franklin Hudson, CPA, Inc.
4030 Mt. Carmel-Tobasco Rd., Suite 109
Cincinnati, OH 45255
(513) 528-5013 Phone
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Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Honorable Mayor and Members of the City Council
City of Falmouth, Kentucky

We have audited the financial statements of the City of Falmouth as of and for the year ended June 30, 2006, and have issued our report thereon dated February 16, 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.

As part of obtaining reasonable assurance about whether the City of Falmouth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described below. We also noted certain immaterial instances of noncompliance that we have reported to management of the City of Falmouth.

KRS 91A.030 & 424.240 require cities to adopt a budget for all governmental, and proprietary funds. Budgeted appropriations may not exceed revenues in any one fiscal year, and may not exceed available appropriations. The City's expenditures exceeded budgeted appropriations in some areas. However, the expenditures did not exceed the available resources.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weaknesses is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, others within the organization, and City Council, and is not intended to be and should not be used by anyone other than these specified parties.

Teresa Franklin Hudson CPA Inc.

Teresa Franklin Hudson, CPA, Inc.

February 16, 2007

Teresa Franklin Hudson, CPA, Inc.
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and Members of the City Council
City of Falmouth, Kentucky

Compliance

We have audited the compliance of The City of Falmouth, Kentucky with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended October 31, 2006. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration on the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Teresa Franklin Hudson CPA Inc.

Teresa Franklin Hudson, CPA, Inc.

February 16, 2007

CITY OF FALMOUTH, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Falmouth.
2. No material weaknesses were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award program.
5. The auditor's report on compliance for the major federal award programs for the Project expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award program.
7. The program tested as a major program includes: CFDA #20.205
8. The threshold for distinguishing Types A and B programs was \$500,000.
9. The Project was determined to be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

NONE

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT

NONE

CITY OF FALMOUTH, KENTUCKY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

There are no outstanding corrective actions on findings from prior audit reports.