

RESPONSE TO PSC

PSC CASE NO. 2008-00250

ITEM 2

Frankfort Electric and Water Plant Board
Response to PSC Order Dated: 7-2-2008
Case No. 2008-00250

ITEM 2: Independent Auditor's Reports

Response: Ex. 1 – 2006/2005

Ex. 2 – 2007/2006

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

FINANCIAL STATEMENTS

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
June 30, 2006 and 2005

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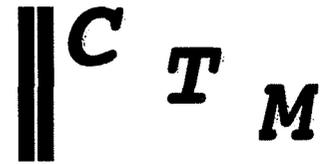
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INDEPENDENT AUDITOR'S REPORT

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, 2006 and 2005 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, 2006 and 2005 and the results of its operations 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 the Governmental Accounting Standards Board. 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 14 through 25 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.

September 28, 2006

**Frankfort Electric & Water Plant Board
Management's Discussion & Analysis**

The Frankfort Electric and Water Plant Board is presenting the following discussion and analysis in order to provide an overall review of the Board's significant financial activities for the fiscal year ended June 30, 2006. We encourage the readers to consider the information presented here in conjunction with the Board's financial statements to enhance their understanding of the Board's financial performance.

OPERATIONAL OVERVIEW

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 5 to 7 of the Audit Report. Cable Telecommunications operations are separated from the Electric and Water operations on the audit report under "Supplemental Information" pages 14 to 24. 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 upgrade is being financed by a Master Credit Agreement with a credit line of \$29.5 million dollars all of which has been expended. 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.

Assets

The major changes in Assets, as reported on the Audit, are in "Cash & Cash Equivalents", "Investments" and "Receivables". The increase in Cash and Investments is due to the timing of payables and new development. The monthly power bill to Kentucky Utilities was due and paid July 1st, immediately following the fiscal year end. This resulted in an additional \$3.0 million in cash than in the previous fiscal year end. The Board received over \$1.0 million in contract payments for new developments. This money is not disbursed until the developed lots are actually occupied. Therefore, it is held in Cash and in Investments. The increase in receivables is due to an increasing Fuel Adjustment charge on the Electric Bills and the continued success of new services available with the FSN.

Liabilities

The Audit Report indicates that the major changes in the Liabilities are in the "Accounts Payable" and "Bonds Payable Due in One Year". The increase in Accounts Payable is due to rising power costs resulting from an increasing Fuel Adjustment charge. The increase in the Bonds Payable Due in One Year is due to the beginning of payments on the FSN Notes and an upcoming due date for the Bond Anticipation Note for the water department, all within the next 12 months. The \$1.85 million BAN is due in February of 2007, at which time the Board anticipates rolling this debt into a Bond Issue for other Water Capital Projects. The other existing major debt is the 1999 Electric and Water Bond issue on which payments and sinking fund requirements are being met in accordance with the Bond contract.

Net Assets

The decrease in Invested in Capital Assets reflects, primarily, the increase in "Bonds Payable Due in One Year" and "Long Term Debt". The increase in Unrestricted Net Assets is due to operational profit realized this Fiscal Year. The reasons for the profits are more fully covered in the Revenue and Expense sections of this Management report. The increase in Restricted for Debt Retirement is in accordance with the 1999 Electric and Water Bond issue sinking fund requirements. Remaining categories have not significantly changed.

REVENUE & EXPENSES

Electric & Water

The Board budgets revenues and expenses based on a five-year historical calculation and current inflationary trends. There are major impacts to the Electric and Water operations due mainly to weather conditions, which cannot be adequately anticipated. The use of a 5-year historical period tends to result in an "average" year in growth, inflation and prevailing weather. It is a rare occurrence when "average" and actual coincide. For the Fiscal Year ended June 30, 2006 electric and water were both significantly higher than what would be considered "average", due mainly to prevailing weather conditions. On the Electric side, despite an increasing Fuel Adjustment, the department generated a positive net income. The record high temperatures of the summer of 2005 yielded very favorable electric sales. As of July 2005, the Board has changed its method of passing the fuel adjustment to our customers in order to minimize any losses from fuel clause. The Board learns what was paid for fuel adjustment in one month (which is late in the following month), and therefore cannot pass that cost on to its customers until the following month. This timing can cause cash flow issues, but does not result in net losses. However, if a major increase in fuel adjustment cost occurs in the last month of a fiscal year, the problem of having the expense occur in one year and the revenue offset occurring in the next fiscal year could result in a net loss for that time period. Sufficient reserves exist to cover this temporary contingency. On the Water side, the summer of 2005 drought resulted in exceptional water sales. This coupled with a rate increase effective April 1st, 2006 resulted in \$500,000 more in Water revenue than what was budgeted. The Water Department budgeted for a state project that did not materialize in this Fiscal Year. Labor that was budgeted in capital for this state project was used in Operations and Maintenance resulting in a budget overrun for Water Distribution Payroll. Increased chemical costs and a pump failure at the Water Treatment Plant also caused budget overruns for the Water Department. The remaining variances in both electric and water are within acceptable ranges.

Cable Telecommunications

With the exception of storm damage, Telecommunications is not affected by weather conditions. The Board anticipated a net loss of \$145,000 for this operation in Fiscal Year 05-06 due to the completion of the Full Service Network. The Cable Department ended the year with an actual net income of \$88,000. Revenue from Cable Modem Services resulted in a budget surplus of \$591,000. A shift in personnel expenditures from Capital projects to Operations and Maintenance resulted in a budget overrun. The difference affects net income, but not cash reserves. Rising interest costs associated with the FSN notes resulted in a budget overrun in Interest Expense of \$202,000.

Other Non-Operating Revenues

Other non-operating revenues were \$707,000 under budget this Fiscal Year, primarily due to the Highway 421 state project budgeted in the Water Department that did not materialize. Other non-operating revenues were \$103,000 higher than last fiscal year. Miscellaneous Income was significantly higher as a result of the sale of scrap transformers in the Electric Department. Funds from these sales will be used to purchase a new transformer in the 06-07 Fiscal Year.

THE FUTURE

Electric & Water

Due to the rising costs of materials and pension expenses, general inflation, and maintaining minimum reserves as established by the Board, the Board anticipates the need for rate adjustments and borrowings in the near future. For Electric, this is not expected to occur until the 08-09 fiscal year, three years later than what was anticipated in the last five-year plan. For Water, due to its relatively small funding reserves and unanticipated expenditures related to the pump failure, there will be a rate increase for wholesale customers in the next Fiscal Year, with another rate increase anticipated for city customers in the 08-09 Fiscal Year. The construction of a Chemical Feed Facility will require new borrowing beginning in the next Fiscal Year. The Board does not anticipate any problems with implementing rate increases or borrowing for either operation.

Cable Telecommunications

The Board will continue to bring innovative voice, video and data technology to its subscribers. Faster broadband speeds will be introduced in late 2006. Plans for late 2007 include bringing feature rich Voice-on-the-Net service to

local telephone users and planning is underway for a Video-on-Demand service to be made available to FPB cable customers in 2008 or 2009. Even with the increase in costs due to rising pension expenses, higher interest rates and principal payments on the FSN notes, the Board anticipates generating positive net income beginning in Fiscal Year 06-07. The Board foresees amending the terms of the FSN notes beginning in Fiscal Year 06-07. These amendments will reduce the required annual principal payments, extend the maturities of the notes, and alter the floor and ceiling on the variable interest rate. 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. There is no rate increase anticipated in the next fiscal year other than the pre-approved \$1 for Basic Cable. A \$1 rate increase for Local Phone Service is expected in Fiscal year 08-09.

Frankfort Electric & Water Plant Board
Comparative Statement of Net Assets
June 30, 2006 and 2005

ASSETS	2006	2005
Cash & Cash Equivalents	\$ 7,038,106	\$ 2,772,877
Investments	2,334,539	1,485,024
Accrued Interest Receivable	23,898	8,787
Receivables		
Billed user fees	6,774,845	5,748,153
Unbilled user fees	1,217,993	1,158,993
Advertising	156,318	178,023
Other	231,724	266,445
Inventory	3,806,652	3,472,116
Prepaid Expenses	608,473	616,346
Property, Plant, and Equipment	146,580,966	141,109,518
Less: Accumulated Depreciation	(64,441,191)	(59,492,262)
Cable Acquisition Cost	772,200	912,600
Unamortized Bond Discount	215,295	231,341
Insurance Escrow Account	41,000	41,000
Retirement Plan Assets:		
Cash and Cash Equivalents	25,511	21,404
Investments	<u>366,803</u>	<u>363,792</u>
TOTAL ASSETS	<u>\$ 105,753,132</u>	<u>\$ 98,894,157</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts and Other Payables	\$ 10,322,820	\$ 7,368,808
Accrued Expenses	939,317	870,574
Customer Deposits	1,857,033	1,722,696
Unearned Revenues	583,338	570,366
Bonds Payable Due in One Year	3,335,996	1,130,356
Long Term Debt:		
Bonds & Bond Anticipation Note Payable	39,443,696	39,446,983
Notes Payable-Retirement Plan	<u>267,161</u>	<u>309,021</u>
TOTAL LIABILITIES	<u>56,749,361</u>	<u>51,418,804</u>
NET ASSETS		
Invested in Capital Assets	39,360,083	41,039,917
Restricted for Debt Retirement	1,063,318	940,468
Restricted for Retirement Plans	392,333	385,209
Unrestricted	<u>8,188,037</u>	<u>5,109,759</u>
TOTAL NET ASSETS	<u>49,003,771</u>	<u>47,475,353</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 105,753,132</u>	 <u>\$ 98,894,157</u>

Frankfort Electric & Water Plant Board
Comparative Statement of Revenues, Expenses, and
Changes in Net Assets
For The Years Ended June 30, 2006 and 2005

	2006	2005
Operating Revenues		
Fees		
Electric	\$ 39,853,473	\$ 32,573,117
Water	7,444,375	6,517,960
Telecommunication	14,882,075	12,619,308
Total Operating Revenues	62,179,923	51,710,385
Operating Expenses		
Electric	39,506,027	34,550,730
Water	6,774,304	6,374,719
Telecommunication	13,654,953	13,015,534
Total Operating Expenses	59,935,284	53,940,983
Net Income From Operations	2,244,639	(2,230,598)
Non-Operating Revenues(Expenses)		
Net Merchandise Sale	12,348	11,288
Rental Revenue	9,966	9,205
Interest Revenue	124,545	54,239
Other Non-Operating Revenue	574,808	343,251
Interest Expense	(2,037,152)	(1,714,278)
Retirement Plan Net Income/(Loss)	7,124	4,382
Total Non-Operating Revenues (Expenses)	(1,308,361)	(1,291,913)
Income (Loss) Before Contributions	936,278	(3,522,511)
Capital Contributions	592,140	792,334
Change in Net Assets	1,528,418	(2,730,177)
Net Assets - Beginning of Year	47,475,353	50,205,530
Net Assets - End of Year	\$ 49,003,771	\$ 47,475,353

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, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 1,528,418	\$ (2,730,177)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,378,257	5,288,913
Amortization	156,446	156,446
(Increase)/Decrease in receivables	(1,044,377)	(656,374)
(Increase)/Decrease in inventory	(334,536)	(348,011)
(Increase)/Decrease in prepaid expenses	7,873	(38,946)
Increase/(Decrease) in accounts and other payables	2,954,012	1,219,238
Increase/(Decrease) in accrued expenses	68,743	101,415
Increase/(Decrease) in customer deposits	134,337	88,608
Increase/(Decrease) in unearned revenues	12,972	4,040
	7,333,727	5,815,329
Total Adjustments		
Net cash provided by operating activities	8,862,145	3,085,152
Cash Flows from Investing Activities:		
Net capital additions	(5,900,779)	(6,854,740)
Net sale of investments	(852,522)	(25,471)
	(6,753,301)	(6,880,211)
Net cash used by investing activities		
Cash Flows from Financing Activities:		
Net increase in bond/note indebtedness	2,160,492	4,521,097
	2,160,492	4,521,097
Net cash provided by financing activities		
Net increase/(decrease) in cash and cash equivalents	4,269,336	726,038
Cash and cash equivalents beginning of year	2,835,281	2,109,243
	7,104,617	2,835,281
Cash and cash equivalents end of year	\$ 7,104,617	\$ 2,835,281

Non-Cash Capital & Financing Activities

In 2006 and 2005, capital contributions consisted of \$592,140 and \$792,334 respectively.

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 \$9,372,645. 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, 2006 and 2005. 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.

	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>
	2005 Category			Carrying Amount	Market Value
	1	2	3		
U.S. Government Securities	\$ 1,415,706	\$	\$	\$ 1,415,706	\$ 1,415,706
Certificates of Deposit	69,318			69,318	69,318
	<u>\$ 1,485,024</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,485,024</u>	<u>\$ 1,485,024</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, 2006 and 2005. 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.

	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>
	2005 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	65,547			65,547	65,547
	<u>\$ 363,792</u>	<u>\$</u>	<u>\$</u>	<u>\$ 363,792</u>	<u>\$ 363,792</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 eighteen years. The Board's current indebtedness is \$267,162.

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

	2006	2005
1) Revenue Bond Sinking Reserve	\$ 1,063,318	\$ 940,468
2) Retirement Plan Assets	392,333	385,209
 Total Restricted Net Assets	 \$ 1,455,651	 \$ 1,325,677

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, 2006 is \$16,000.

NOTE B – PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the property, plant and equipment as of June 30, 2006 and 2005:

	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	1,113,836
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	14,092,806	22,137,087
Land and Land Rights	458,882		458,882
	<u>\$ 146,580,967</u>	<u>\$ 64,441,193</u>	<u>\$ 82,139,775</u>
Total Property, Plant and Equipment			
	2005		
	Cost	Accumulated Depreciation	Book Value
Water Distribution System	\$ 32,675,549	\$ 9,298,444	\$ 23,377,105
Water Treatment Plant	10,356,036	4,709,252	5,646,784
Electric Distribution System	47,858,590	23,601,712	24,256,878
Structures and Improvements	2,316,974	1,130,811	1,186,163
Transportation Equipment	4,158,295	2,559,736	1,598,559
Office Furniture and Equipment	6,380,796	3,846,272	2,534,524
Tools, Shop Garage and Store Equipment	411,926	357,211	54,715
Laboratory Equipment	52,192	48,370	3,822
Power Operated Equipment	1,833,318	1,477,489	355,829
Communication Equipment	341,528	168,418	173,110
Other Equipment	594,153	397,815	196,338
Cable Division Assets	33,671,280	11,896,732	21,774,548
Land and Land Rights	458,881		458,881
	<u>\$ 141,109,518</u>	<u>\$ 59,492,262</u>	<u>\$ 81,617,256</u>
Total Property, Plant and Equipment			

NOTE C – BONDS PAYABLE

The annual requirements to retire bonded debt as of June 30, 2006 and 2005 are as follows:

June 30,	2006		
	Principal	Interest	Total
2007	\$ 3,335,996	\$ 1,641,639	\$ 4,977,635
2008	2,273,022	1,564,965	3,837,987
2009	3,316,778	1,456,059	4,772,837
2010	4,086,382	1,313,529	5,399,911
2011	4,256,887	1,151,025	5,407,912
Thereafter	25,510,627	3,676,298	29,186,925
Total	\$ 42,779,692	\$ 10,803,515	\$ 53,583,207

June 30,	2005		
	Principal	Interest	Total
2006	\$ 1,130,356	\$ 1,269,332	\$ 2,399,688
2007	1,480,066	1,641,640	3,121,706
2008	2,273,022	1,564,965	3,837,987
2009	3,316,778	1,456,059	4,772,837
2010	4,086,382	1,313,530	5,399,912
Thereafter	29,918,968	4,827,320	34,746,288
Total	\$ 42,205,572	\$ 12,072,846	\$ 54,278,418

From July 1, 1998 to June 30, 2006 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.

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 10.98% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$8,485,465. The contribution requirement for CERS for the year ended June 30, 2006 was \$1,435,710 which consisted of \$1,011,437 from the Board and \$424,273 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, 2006 comprehensive annual financial reports.

FRANKFORT ELECTRIC AND WATER PLANT BOARD
SUPPLEMENTAL INFORMATION

Frankfort Electric and Water Plant Board
Statement of Net Assets
June 30, 2006

ASSETS	Electric & Water	Telecommunication	Total
Cash & Cash Equivalents	\$ 6,531,085	\$ 2,841,560	\$ 9,372,645
Accrued Interest Receivable	18,743	5,155	23,898
Receivables			
Billed user fees	5,315,006	1,459,839	6,774,845
Unbilled user fees	1,217,993		1,217,993
Advertising		156,318	156,318
Other	218,575	13,149	231,724
Inventory	2,604,860	1,201,792	3,806,652
Prepaid Expenses	428,377	180,096	608,473
Property, Plant, and Equipment	107,530,580	39,050,386	146,580,966
Less: Accumulated Depreciation	(48,599,819)	(15,841,372)	(64,441,191)
Cable Acquisition Cost		772,200	772,200
Unamortized Bond Discount	215,295		215,295
Insurance Escrow Account	22,022	18,978	41,000
Retirement Plan Assets:			
Cash and Cash Equivalents	25,511		25,511
Investments	366,803		366,803
TOTAL ASSETS	\$ 75,895,031	\$ 29,858,101	\$ 105,753,132
 LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts and Other Payables	\$ 9,150,233	\$ 1,172,587	\$ 10,322,820
Accrued Expenses	565,662	373,655	939,317
Customer Deposits	1,830,311	26,722	1,857,033
Unearned Revenues		583,338	583,338
Bonds Payable Due in One Year	2,375,929	960,067	3,335,996
Long Term Debt:			
Bonds & Bond Anticipation Note Payable	10,009,071	29,434,625	39,443,696
Notes Payable-Retirement Plan	267,161		267,161
Total Liabilities	24,198,367	32,550,994	56,749,361
 NET ASSETS			
Retained Earnings	51,696,664	(2,692,893)	49,003,771
Total Net Assets	51,696,664	(2,692,893)	49,003,771
TOTAL LIABILITIES AND NET ASSETS	\$ 75,895,031	\$ 29,858,101	\$ 105,753,132

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, 2006

	<u>Budgeted</u>	<u>Actual</u>	<u>Variable Favorable (Unfavorable)</u>
OPERATING REVENUES			
Fees			
Electric	\$ 34,727,300	\$ 39,853,473	\$ 5,126,173
Water	6,891,800	7,444,375	552,575
Telecommunication	<u>14,181,500</u>	<u>14,882,075</u>	<u>700,575</u>
Total Operating Revenues	<u>55,800,600</u>	<u>62,179,923</u>	<u>6,379,323</u>
OPERATING EXPENSES			
Electric	35,096,995	39,506,027	(4,409,032)
Water	6,267,278	6,774,304	(507,026)
Telecommunication	<u>13,375,927</u>	<u>13,654,953</u>	<u>(279,026)</u>
Total Operating Expenses	<u>54,740,200</u>	<u>59,935,284</u>	<u>(5,195,084)</u>
OPERATING INCOME	<u>1,060,400</u>	<u>2,244,639</u>	<u>1,184,239</u>
NON-OPERATING REVENUES (EXPENSES)			
Net Merchandise Sale	17,900	12,348	(5,552)
Rental Revenue	12,000	9,966	(2,034)
Interest Revenue	44,500	124,545	80,045
Other Non-Operating Revenue	350,000	574,808	224,808
Interest Expense	(1,811,100)	(2,037,152)	(226,052)
Retirement Plan Net Income/(Loss)	<u> </u>	<u>7,124</u>	<u>7,124</u>
Total Non-Operating Revenues (Expenses)	<u>(1,386,700)</u>	<u>(1,308,361)</u>	<u>78,339</u>
Income (Loss) Before Contributions	<u>(326,300)</u>	<u>936,278</u>	<u>1,262,578</u>
Capital Contributions	<u>1,596,000</u>	<u>592,140</u>	<u>(1,003,860)</u>
Change in Net Assets	1,269,700	1,528,418	258,718
Net Assets - Beginning of Year	<u>47,475,353</u>	<u>47,475,353</u>	<u> </u>
Net Assets - End of Year	<u>\$ 48,745,053</u>	<u>\$ 49,003,771</u>	<u>\$ 258,718</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, 2006

	Electric Division	Water Division	Telecommunication Division
Operating Income			
User Fees	\$ 39,853,473	\$ 7,444,375	\$ 14,153,312
Advertising Revenue			728,763
Total Operating Revenues	39,853,473	7,444,375	14,882,075
Operating Expenses	39,506,027	6,774,304	13,654,953
Net Operating Income	347,446	670,071	1,227,122
Non-Operating Revenues (Expenses)			
Net Merchandise Sales	4,571	3,363	4,414
Rental Revenues	3,689	2,714	3,563
Interest Revenues	46,995	46,114	31,436
Other Non-Operating Revenues	257,835	213,192	103,781
Interest Expense	(70,581)	(644,943)	(1,321,628)
Retirement Plan Net Income/(Loss)	3,562	3,562	
Total Non-Operating Revenues (Expenses)	246,071	(375,998)	(1,178,434)
Change in Net Assets	\$ 593,517	\$ 294,073	\$ 48,688

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, 2006

	Budgeted	Actual	Variance Favorable (Unfavorable)
ELECTRIC DIVISION			
Electricity Purchased	\$ 28,134,200	\$ 32,410,802	\$ (4,276,602)
Transmission and Distribution	1,641,600	1,773,721	(132,121)
Engineering	257,000	240,779	16,221
Total Electric Expense	<u>30,032,800</u>	<u>34,425,302</u>	<u>(4,392,502)</u>
Meter Reading	216,801	213,412	3,389
Customer Records and Collection	279,947	276,466	3,481
Postage and Printing	70,868	54,969	15,899
Over and Short	36	55	(19)
Office Supplies	15,773	14,866	907
Bad Debts	54,997	69,910	(14,913)
GIS Expenses	19,988	21,972	(1,984)
CIS Expenses	63,963	41,001	22,962
Computer Expenses	47,245	35,027	12,218
Information Technologies Payroll	170,338	177,278	(6,940)
Total Office Expenses	<u>939,956</u>	<u>904,956</u>	<u>35,000</u>
Advertising	11,993	7,993	4,000
Administrative Expenses	366,661	371,891	(5,230)
Clearing Account		(370)	370
Dues & Subscriptions	19,475	34,598	(15,123)
Safety	9,794	10,501	(707)
Travel and Training	55,585	44,294	11,291
Board Expenses	2,035	2,160	(125)
Social Security Expense	211,050	212,404	(1,354)
Legal and Consulting Fees	60,484	60,227	257
Insurance	303,188	333,902	(30,714)
Total Administrative Expenses	<u>1,040,265</u>	<u>1,077,600</u>	<u>(37,335)</u>
Vacation Benefits	127,484	154,629	(27,145)
Sick Benefits	56,887	88,877	(31,990)
Employees Welfare	483,998	424,404	59,594
Clubhouse Expense	1,679	1,714	(35)
Employee Activity	10,101	11,836	(1,735)
Employee Assistance	1,287	690	597
Pension Expense	288,379	282,993	5,386
Total Employee Benefits Expenses	<u>969,815</u>	<u>965,143</u>	<u>4,672</u>
General Expenses	3,125	4,443	(1,318)
Maintenance	3,089	8,021	(4,932)
Depreciation	1,543,613	1,564,772	(21,159)
In-lieu of Tax City	44,864	29,911	14,953
In-lieu of Tax County	18,934	18,933	1
Cash Contributions to City	17,186	17,187	(1)
Total General Expenses	<u>1,630,811</u>	<u>1,643,267</u>	<u>(12,456)</u>
Support Services	205,554	190,303	15,251
Inventory Adjustments		10,036	(10,036)
Cost of Sales Clearing		3,358	(3,358)
Auto and Truck Repair	168,657	169,784	(1,127)
Gas and Oil	109,137	116,278	(7,141)
Total Support Services	<u>483,348</u>	<u>489,759</u>	<u>(6,411)</u>
TOTAL OPERATING EXPENSES - ELECTRIC DIVISION	<u>\$ 35,096,995</u>	<u>\$ 39,506,027</u>	<u>\$ (4,409,032)</u>

The accompanying notes are an integral part of these financial statements. 17

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, 2006

	Budgeted	Actual	Variance Favorable (Unfavorable)
WATER DIVISION			
Distributions and Treatment	\$ 2,094,500	\$ 2,568,592	\$ (474,092)
Engineering	166,900	166,507	393
Total Water Department Expense	<u>2,261,400</u>	<u>2,735,099</u>	<u>(473,699)</u>
Meter Reading	159,499	157,031	2,468
Customer Records and Collection	205,954	203,429	2,525
Postage and Printing	52,137	40,447	11,690
Over and Short	27	40	(13)
Office Supplies	11,604	11,215	389
Bad Debts	10,717	13,626	(2,909)
GIS Expenses	14,705	3,225	11,480
CIS Expenses	47,057	30,169	16,888
Computer Expenses	34,758	25,773	8,985
Information Technologies Payroll	125,316	130,444	(5,128)
Total Office Expenses	<u>661,774</u>	<u>615,399</u>	<u>46,375</u>
Advertising	8,823	4,448	4,375
Administrative Expenses	269,748	273,546	(3,798)
Clearing Account		(273)	273
Dues & Subscriptions	20,752	8,326	12,426
Safety	10,436	10,438	(2)
Travel and Training	53,005	41,327	11,678
Board Expenses	1,497	1,589	(92)
Social Security Expense	192,428	193,949	(1,521)
Legal and Consulting Fees	32,726	48,272	(15,546)
Insurance	281,987	310,700	(28,713)
Total Administrative Expenses	<u>871,402</u>	<u>892,322</u>	<u>(20,920)</u>
Vacation Benefits	135,844	164,285	(28,441)
Sick Benefits	60,617	112,490	(51,873)
Employees Welfare	515,736	452,313	63,423
Clubhouse Expense	1,789	1,827	(38)
Employee Activity	10,764	12,615	(1,851)
Employee Assistance	1,372	736	636
Pension Expense	307,289	301,603	5,686
Total Employee Benefits Expenses	<u>1,033,411</u>	<u>1,045,869</u>	<u>(12,458)</u>
General Expenses	2,299	3,269	(970)
Maintenance	2,273	5,896	(3,623)
Depreciation & Amortization	1,046,553	1,102,084	(55,531)
In-lieu of Tax City	42,357	28,240	14,117
In-lieu of Tax County	17,876	17,875	1
Cash Contributions to City	3,349	3,350	(1)
Total General Expenses	<u>1,114,707</u>	<u>1,160,714</u>	<u>(46,007)</u>
Support Services	151,224	140,034	11,190
Inventory Adjustments		3,832	(3,832)
Cost of Sales Clearing		2,471	(2,471)
Auto and Truck Repair	105,254	105,977	(723)
Gas and Oil	68,106	72,587	(4,481)
Total Support Services	<u>324,584</u>	<u>324,901</u>	<u>(317)</u>
TOTAL OPERATING EXPENSES - WATER DIVISION	<u>\$ 6,267,278</u>	<u>\$ 6,774,304</u>	<u>\$ (507,026)</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, 2006

TELECOMMUNICATION DIVISION	Budgeted	Actual	Variable Favorable (Unfavorable)
Operations & Maintenance	\$ 488,500	\$ 871,723	\$ (383,223)
Distribution	270,000	351,035	(81,035)
HBO Expense	456,600	446,340	10,260
TMC Expense	33,900	31,390	2,510
Showtime Expense	90,400	81,908	8,492
Cinemax Expense	51,400	51,024	376
Encore Expense	2,900	4,022	(1,122)
Starz/Encore Expense	101,000	93,525	7,475
Digital Music Expense	5,600	4,006	1,594
Satellite Station Expense	2,665,500	2,638,930	26,570
Pole Rental Expense	31,000	40,168	(9,168)
Digital Station Expense	263,600	228,456	35,144
Pay per View Expense	19,200	30,664	(11,464)
Royalty Copyright Expense	60,000	57,433	2,567
Total Operations & Maintenance	<u>4,539,600</u>	<u>4,930,624</u>	<u>(391,024)</u>
Cable 10 Payroll	394,900	433,444	(38,544)
Cable 10 Expense	140,000	165,496	(25,496)
Total Cable 10 Expenses	<u>534,900</u>	<u>598,940</u>	<u>(64,040)</u>
FSN Payroll	595,200	540,062	55,138
FSN Expense	1,059,600	1,121,733	(62,133)
Security Expense	51,100	50,731	369
Total Cable FSN Expenses	<u>1,705,900</u>	<u>1,712,526</u>	<u>(6,626)</u>
Engineering Expense	2,500	565	1,935
Engineering Payroll	55,800	107,877	(52,077)
Total Cable Engineering Expense	<u>58,300</u>	<u>108,442</u>	<u>(50,142)</u>
Total Cable Expenses	<u>6,838,700</u>	<u>7,350,532</u>	<u>(511,832)</u>
Customer Records and Collection Expense	284,398	266,907	17,491
Postage and Printing	71,995	53,068	18,927
Over and Short	37	53	(16)
Office Supplies	16,023	14,369	1,654
Bad Debts	14,286	18,151	(3,865)
GIS Expenses	20,306	4,232	16,074
CIS Expenses	64,980	39,584	25,396
Computer Expenses	47,997	33,836	14,161
Information Technologies Payroll	173,046	171,149	1,897
Total Office Expenses	<u>693,068</u>	<u>601,349</u>	<u>91,719</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, 2006

TELECOMMUNICATION DIVISION (continued)

Advertising	12,184	6,016	6,168
Administrative Expense	372,491	358,966	13,525
Clearing Account		(358)	358
Dues & Subscriptions	29,372	11,056	18,316
Safety	14,771	15,158	(387)
Travel and Training	83,910	64,426	19,484
Board Payroll	2,068	2,085	(17)
Social Security Expense	273,123	264,750	8,373
Legal and Consulting Fees	63,390	27,854	35,536
Insurance	252,825	272,459	(19,634)
Total Administrative Expenses	<u>1,104,134</u>	<u>1,022,412</u>	<u>81,722</u>
Vacation Benefits	192,272	197,987	(5,715)
Sick Benefits	85,796	84,115	1,681
Employees Welfare	729,965	640,095	89,870
Clubhouse Expense	2,532	2,585	(53)
Employee Activity	15,235	17,863	(2,628)
Employee Assistance	1,941	1,041	900
Pension Expense	434,932	426,816	8,116
Total Employee Benefits Expenses	<u>1,462,673</u>	<u>1,370,502</u>	<u>92,171</u>
General Expenses	3,175	4,290	(1,115)
Maintenance	3,138	7,736	(4,598)
Amortization of Goodwill	140,400	140,400	-
Depreciation	2,715,434	2,727,447	(12,013)
In-lieu of Tax City	21,779	50,855	(29,076)
In-lieu of Tax County	9,190	9,190	-
Cash Contributions to City	4,465	4,462	3
Total General Expenses	<u>2,897,581</u>	<u>2,944,380</u>	<u>(46,799)</u>
Support Services Expense	33,228	31,602	1,626
Support Services Payroll	175,594	152,155	23,439
Inventory Adjustments		2,702	(2,702)
Cost of Sales Clearing		3,242	(3,242)
Auto and Truck Repair Expense	49,847	55,211	(5,364)
Auto and Truck Repair Payroll	53,942	49,283	4,659
Gas and Oil	67,160	71,583	(4,423)
Total Support Services Expense	<u>379,771</u>	<u>365,778</u>	<u>13,993</u>
TOTAL OPERATING EXPENSES - TELECOMMUNICATION DIVISION	<u>\$ 13,375,927</u>	<u>\$ 13,654,953</u>	<u>\$ (279,026)</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, 2006 and 2005

ELECTRIC DIVISION	2006	2005
Electricity Purchased	\$ 32,410,802	\$ 27,216,136
Transmission and Distribution	1,773,721	2,007,605
Engineering	240,779	269,931
Total Electric Expense	34,425,302	29,493,672
Meter Reading	213,412	204,793
Customer Records and Collection	276,466	261,334
Postage and Printing	54,969	61,316
24/7 Customer Care Payroll		1
Over and Short	55	23
Office Supplies	14,866	12,476
Bad Debts	69,910	103,399
GIS Expenses	21,972	8,481
CIS Expenses	41,001	79,702
Computer Expenses	35,027	52,485
Information Technologies Payroll	177,278	166,953
Total Office Expenses	904,956	950,963
Advertising	7,993	13,988
Administrative Expenses	371,891	387,837
Clearing Account	(370)	(453)
Dues & Subscriptions	34,598	34,727
Safety	10,501	6,519
Travel and Training	44,294	35,881
Board Expenses	2,160	2,330
Social Security Expense	212,404	180,959
Legal and Consulting Fees	60,227	68,887
Insurance	333,902	292,820
Total Administrative Expenses	1,077,600	1,023,495
Vacation Benefits	154,629	150,265
Sick Benefits	88,877	84,266
Employees Welfare	424,404	466,686
Clubhouse Expense	1,714	2,745
Employee Activity	11,836	10,059
Employee Assistance	690	690
Pension Expense	282,993	212,616
Total Employee Benefits Expenses	965,143	927,327
General Expenses	4,443	3,451
Maintenance	8,021	12,410
Depreciation	1,564,772	1,612,937
In-lieu of Tax City	29,911	37,389
In-lieu of Tax County	18,933	18,933
Cash Contributions to City	17,187	17,187
Total General Expenses	1,643,267	1,702,307
Support Services	190,303	196,058
Inventory Adjustments	10,036	28,671
Cost of Sales Clearing	3,358	3,080
Auto and Truck Repair	169,784	144,890
Gas and Oil	116,278	80,267
Total Support Services	489,759	452,966
TOTAL OPERATING EXPENSES - ELECTRIC DIVISION	\$ 39,506,027	\$ 34,550,730

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, 2006 and 2005

WATER DIVISION	2006	2005
Distributions and Treatment	\$ 2,568,592	\$ 2,315,579
Engineering	166,507	154,799
Total Water Department Expense	2,735,099	2,470,378
Meter Reading	157,031	150,643
Customer Records and Collection	203,429	192,294
Postage and Printing	40,447	45,117
Over and Short	40	17
Office Supplies	11,215	9,180
Bad Debts	13,626	20,153
GIS Expenses	3,225	6,240
CIS Expenses	30,169	47,654
Computer Expenses	25,773	38,619
Information Technologies Payroll	130,444	122,847
Total Office Expenses	615,399	632,764
Advertising	4,448	5,971
Administrative Expenses	273,546	287,052
Clearing Account	(273)	(179)
Dues & Subscriptions	8,326	12,853
Safety	10,438	6,948
Travel and Training	41,327	39,367
Board Expenses	1,589	1,714
Social Security Expense	193,949	192,456
Legal and Consulting Fees	48,272	33,429
Insurance	310,700	272,473
Total Administrative Expenses	892,322	852,084
Vacation Benefits	164,285	145,586
Sick Benefits	112,490	65,053
Employees Welfare	452,313	497,375
Clubhouse Expense	1,827	2,925
Employee Activity	12,615	10,787
Employee Assistance	736	736
Pension Expense	301,603	226,598
Total Employee Benefits Expenses	1,045,869	949,060
General Expenses	3,269	2,539
Maintenance	5,896	9,032
Depreciation & Amoritzation	1,102,084	1,105,019
In-lieu of Tax City	28,240	35,300
In-lieu of Tax County	17,875	17,875
Cash Contributions to City	3,350	3,350
Total General Expenses	1,160,714	1,173,115
Support Services	140,034	144,022
Inventory Adjustments	3,832	10,527
Cost of Sales Clearing	2,471	2,221
Auto and Truck Repair	105,977	90,438
Gas and Oil	72,587	50,110
Total Support Services	324,901	297,318
TOTAL OPERATING EXPENSES - WATER DIVISION	\$ 6,774,304	\$ 6,374,719

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, 2006 and 2005

Telecommunication Division	2006	2005
Operations & Maintenance	\$ 871,723	\$ 841,332
Distribution	351,035	430,651
HBO Expense	446,340	467,954
TMC Expense	31,390	34,145
Showtime Expense	81,908	92,005
Cinemax Expense	51,024	54,353
Encore Expense	4,022	4,198
Starz/Encore Expense	93,525	101,987
Digital Music Expense	4,006	4,293
Satellite Station Expense	2,638,930	2,391,907
Pole Rental Expense	40,168	26,317
Digital Station Expense	228,456	201,631
Pay per View Expense	30,664	31,659
Royalty Copyright Expense	57,433	54,441
Total Operations & Maintenance	<u>4,930,624</u>	<u>4,736,873</u>
Cable 10 Payroll	433,444	179,594
Cable 10 Expense	165,496	51,139
Ad Insertion Payroll		205,447
Ad Insertion Expenses		52,046
Marketing Expenses		52,706
Total Cable 10 Expenses	<u>598,940</u>	<u>540,932</u>
FSN Payroll	540,062	444,731
FSN Expense	1,121,733	1,016,308
Expanded Cable		1,770
Security Expense	50,731	38,451
Total Cable FSN Expenses	<u>1,712,526</u>	<u>1,501,260</u>
Engineering Expense	565	1,413
Engineering Payroll	107,877	114,063
Total Cable Engineering Expense	<u>108,442</u>	<u>115,476</u>
Total Cable Expenses	<u>7,350,532</u>	<u>6,894,541</u>
Customer Records and Collection Expense	266,907	252,298
Postage and Printing	53,068	59,196
Over and Short	53	22
Office Supplies	14,369	12,044
Bad Debts	18,151	26,846
GIS Expenses	4,232	8,188
CIS Expenses	39,584	62,524
Computer Expenses	33,836	51,071
Information Technologies Payroll	171,149	161,181
Total Office Expenses	<u>601,349</u>	<u>633,370</u>

Frankfort Electric and Water Plant Board
Comparative Operating Expenses
Electric, Water and Telecommunication Divisions
For The Years Ended June 30, 2006 and 2005

Telecommunication Division (continued)	2006	2005
Advertising	6,016	10,035
Administrative Expense	358,966	374,427
Clearing Account	(358)	(234)
Dues & Subscriptions	11,056	10,036
Safety	15,158	14,119
Travel and Training	64,426	68,353
Board Expenses	2,085	2,249
Social Security Expense	264,750	273,432
Legal and Consulting Fees	27,854	68,885
Insurance	272,459	238,937
Total Administrative Expenses	1,022,412	1,060,239
Vacation Benefits	197,987	176,290
Sick Benefits	84,115	73,979
Employees Welfare	640,095	703,865
Clubhouse Expense	2,585	4,140
Employee Activity	17,863	15,172
Employee Assistance	1,041	1,041
Pension Expense	426,816	320,672
Total Employee Benefits Expenses	1,370,502	1,295,159
General Expenses	4,290	3,857
Maintenance	7,736	12,047
Amortization of Goodwill	140,400	140,400
Depreciation	2,727,447	2,587,002
In-lieu of Tax City	50,855	36,317
In-lieu of Tax County	9,190	9,190
Cash Contributions to City	4,462	4,462
Total General Expenses	2,944,380	2,793,275
Support Services Expense	31,602	28,251
Support Services Payroll	152,155	160,701
Inventory Adjustments	2,702	8,493
Cost of Sales Clearing	3,242	2,914
Auto and Truck Repair Expense	55,211	43,912
Auto and Truck Repair Payroll	49,283	45,260
Gas and Oil	71,583	49,419
Total Support Services Expense	365,778	338,950
TOTAL OPERATING EXPENSES - TELECOMMUNICATION DIVISION	\$ 13,654,953	\$ 13,015,534

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, 2006

CONSOLIDATED NOTE

	Principal Maturities	Interest	Total
Fiscal Year Ended June 30, 2007	\$ 215,996	\$ 73,948	\$ 289,944
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	139,575	2,454	142,029
Total	<u>\$ 1,333,640</u>	<u>\$ 234,389</u>	<u>\$ 1,568,029</u>

1999 BOND ISSUE

	Principal Maturities	Interest	Total
Fiscal Year Ended June 30, 2007	\$ 520,000	\$ 555,098	\$ 1,075,098
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	1,045,000	29,255	1,074,255
Total	<u>\$ 10,535,000</u>	<u>\$ 4,526,318</u>	<u>\$ 15,061,318</u>

FULL SERVICE NETWORK NOTES

	Principal	Interest	Total
Fiscal Year Ended June 30, 2007	\$ 750,000	\$ 1,012,593	\$ 1,762,593
Fiscal Year Ended June 30, 2008	1,500,000	976,500	2,476,500
Fiscal Year Ended June 30, 2009	2,500,000	910,875	3,410,875
Fiscal Year Ended June 30, 2010	3,225,000	814,187	4,039,187
Fiscal Year Ended June 30, 2011	3,350,000	700,000	4,050,000
Fiscal Year ended June 30, 2012	3,525,000	580,125	4,105,125
Fiscal Year ended June 30, 2013	3,625,000	455,437	4,080,437
Fiscal Year ended June 30, 2014	3,725,000	327,250	4,052,250
Fiscal Year ended June 30, 2015	3,800,000	195,562	3,995,562
Fiscal Year Ended June 30, 2016	3,061,052	70,279	3,131,331
Total	<u>\$ 29,061,052</u>	<u>\$ 6,042,808</u>	<u>\$ 35,103,860</u>

WATER BOND ANTICIPATION NOTE

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

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

Charles T. Mitchell Company, LLP

Certified Public Accountants

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JAMES CLOUSE, C.P.A.

BERNADETTE SMITH, C.P.A.

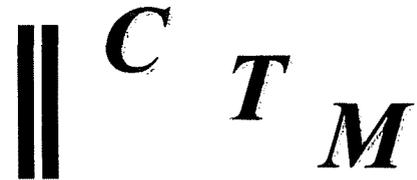
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Chairman
Members of the Electric & Water Plant Board
Frankfort, Kentucky

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, 2006, and have issued our report thereon dated September 28, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Electric & Water Plant Board's internal control over financial reporting in order to determine our auditing procedure 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 weakness is a reportable 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 misstatements caused by error or fraud in amounts that would be material in relation to the 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.

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 that are required to be reported under Government Auditing Standards.

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

Charles T. Mitchell Co.

September 28, 2006

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.
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Kim Field, C.P.A.
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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 Net Assets
 June 30, 2007 and 2006

Assets	2007	2006
Cash & Cash Equivalents	\$ 5,951,267	\$ 7,038,106
Investments	3,209,871	2,334,539
Accrued Interest Receivable	32,909	23,898
Receivables		
Billed user fees	7,514,479	6,774,845
Unbilled user fees	1,253,900	1,217,993
Advertising	236,492	156,318
Other	363,776	231,724
Inventory	4,509,868	3,806,652
Prepaid Expenses	611,048	608,473
Property, Plant, and Equipment	153,854,604	146,580,966
Less: Accumulated Depreciation	(70,068,702)	(64,441,191)
Cable Acquisition Cost	631,800	772,200
Unamortized Bond Discount	199,248	215,295
Insurance Escrow Account	36,789	41,000
Retirement Plan Assets:		
Cash and Cash Equivalents	27,966	25,511
Investments	370,503	366,803
Total Assets	\$ 108,735,818	\$ 105,753,132
Liabilities & Net Assets		
Liabilities		
Accounts and Other Payables	\$ 12,283,898	\$ 10,322,820
Accrued Expenses	970,381	939,317
Customer Deposits	2,012,113	1,857,033
Unearned Revenues	596,977	583,338
Bonds Payable Due in One Year	4,123,022	3,335,996
Long Term Debt:		
Bonds & Bond Anticipation Note Payable	37,322,113	39,443,696
Notes Payable-Retirement Plan		267,161
Total Liabilities	57,308,504	56,749,361
Net Asstes		
Investment in Capital Assets	42,340,767	39,360,083
Restricted for Debt Retirement	1,190,081	1,063,318
Restricted for Retirement Plans	398,493	392,333
Unrestricted	7,497,973	8,188,037
Total Net Assets	51,427,314	49,003,771
Total Liabilities & Net Assets	\$ 108,735,818	\$ 105,753,132

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, 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

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 X 24 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>

	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>

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.

**FRANKFORT ELECTRIC AND WATER PLANT BOARD
SUPPLEMENTAL INFORMATION**

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

Assets	<u>Electric & 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
Total Assets	<u>\$ 78,631,892</u>	<u>\$ 30,103,926</u>	<u>\$ 108,735,818</u>
Liabilities & Net Assets			
Liabilities			
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			-
Total Liabilities	<u>25,591,629</u>	<u>31,716,875</u>	<u>57,308,504</u>
Net Assets			
Net Assets	<u>53,040,263</u>	<u>(1,612,949)</u>	<u>51,427,314</u>
Total Net Assets	<u>53,040,263</u>	<u>(1,612,949)</u>	<u>51,427,314</u>
Total Liabilities & Net Assets	<u>\$ 78,631,892</u>	<u>\$ 30,103,926</u>	<u>\$ 108,735,818</u>

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>	Variable Favorable (Unfavorable)
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	139,070	125,358	13,712
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	260,917	269,440	(8,523)
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	374,139	361,340	12,799
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	3,151	3,150	1
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	82,554	100,329	(17,775)
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

Electric Division	2007	2006
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	<u>35,529,421</u>	<u>34,425,302</u>
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
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	<u>949,202</u>	<u>904,957</u>
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	<u>1,069,885</u>	<u>1,077,600</u>
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	<u>987,731</u>	<u>965,143</u>
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	<u>1,777,135</u>	<u>1,643,267</u>
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	<u>486,819</u>	<u>489,758</u>
Total Operating Expenses - Electric Division	<u>\$ 40,800,193</u>	<u>\$ 39,506,027</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

Water Division	2007	2006
Distributions and Treatment	\$ 2,545,270	\$ 2,568,592
Engineering	<u>194,651</u>	<u>166,507</u>
Total Water Department Expense	<u>2,739,921</u>	<u>2,735,099</u>
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	<u>125,358</u>	<u>130,444</u>
Total Office Expenses	<u>639,495</u>	<u>615,399</u>
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	<u>269,440</u>	<u>310,700</u>
Total Administrative Expenses	<u>833,650</u>	<u>892,322</u>
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	<u>361,340</u>	<u>301,603</u>
Total Employee Benefits Expenses	<u>1,066,183</u>	<u>1,045,869</u>
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	<u>3,150</u>	<u>3,350</u>
Total General Expenses	<u>1,294,341</u>	<u>1,160,714</u>
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	<u>100,329</u>	<u>72,587</u>
Total Support Services	<u>346,265</u>	<u>324,901</u>
Total Operating Expenses - Water Division	<u>\$ 6,919,855</u>	<u>\$ 6,774,304</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

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

	Principal Maturities	Interest	Total
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

	Principal Maturities	Interest	Total
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

	Total
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

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

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



Charles T. Mitchell Co. LLP
Certified Public Accountants

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