

CITY OF AUDUBON PARK, KENTUCKY

JUNE 30, 2006

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Audubon Park, Kentucky

We have audited the accompanying financial statements of the governmental activities, and the individual fund information of the City of Audubon Park, Kentucky (the "City"), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the individual fund information of the City as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated November 15, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 5 through 10 and the Budgetary Comparison Information on pages 25 through 26 are not a required part of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

HENSON & ASSOCIATES  
Certified Public Accountants

Louisville, Kentucky  
November 15, 2006

CITY OF AUDUBON PARK, KENTUCKY  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	<u>Governmental Activities</u>	<u>Total</u>
<u>ASSETS</u>		
Cash	339,978.68	339,978.68
Due from other governments	11,156.80	11,156.80
Capital assets, net of accumulated depreciation		
Buildings	78,179.26	78,179.26
Equipment	198,409.62	198,409.62
Capital asset, non depreciable		
Land	<u>37,290.36</u>	<u>37,290.36</u>
Total Assets	<u>665,014.72</u>	<u>665,014.72</u>
 <u>LIABILITIES</u>		
Accounts payable	21,692.33	21,692.33
Accrued expenses	8,117.43	8,117.43
Deferred revenue	487,001.01	487,001.01
Loan payable-Stockyards	50,000.00	50,000.00
Leases payable - current	22,947.36	22,947.36
- non current	<u>17,274.00</u>	<u>17,274.00</u>
Total Liabilities	607,032.13	607,032.13
 <u>NET ASSETS</u>		
Invested in capital assets	273,657.88	273,657.88
Unrestricted (Deficit)	<u>(215,675.29)</u>	<u>(215,675.29)</u>
Total Net Assets	<u>57,982.59</u>	<u>57,982.59</u>
Total Liabilities and Net Assets	<u>665,014.72</u>	<u>665,014.72</u>

See notes to financial statements.

CITY OF AUDUBON PARK, KENTUCKY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Program Revenues</u>				<u>Net Revenue (Expenses) and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Grants and Donations Operating</u>	<u>Capital</u>	<u>Governmental Activities</u>	<u>Total</u>
<u>FUNCTIONS/ACTIVITIES</u>						
<u>GOVERNMENTAL ACTIVITIES</u>						
Public Safety	439,173.47	42,320.82	32,947.69	7,700.00	(356,204.96)	(356,204.96)
Public works	89,221.52	7,200.00	24,964.29		(57,057.23)	(57,057.23)
Sanitation	166,377.60	323,484.22			157,106.62	157,106.62
General government	<u>179,510.45</u>	<u>4,100.00</u>	<u>26,342.60</u>		<u>(149,067.85)</u>	<u>(149,067.85)</u>
Total Governmental Activities	874,283.04	377,105.04	84,254.58	7,700.00	(405,223.42)	(405,223.42)
<u>GENERAL REVENUES</u>						
Taxes						
Real Property					237,944.88	237,944.88
Insurance					88,660.29	88,660.29
Motor Vehicle					20,385.77	20,385.77
Franchise					12,940.00	12,940.00
Interest and penalties					13,582.11	13,582.11
Other					<u>29,689.50</u>	<u>29,689.50</u>
Total General Revenues					<u>403,202.55</u>	<u>403,202.55</u>
<u>CHANGE IN NET ASSETS</u>					(2,020.87)	(2,020.87)
<u>NET ASSETS AT BEGINNING OF YEAR</u>					<u>60,003.46</u>	<u>60,003.46</u>
<u>NET ASSETS AT END OF YEAR</u>					<u>57,982.59</u>	<u>57,982.59</u>

See notes to financial statements.

CITY OF AUDUBON PARK, KENTUCKY  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<u>General</u>	<u>Special Revenue</u>	<u>Totals</u>
<u>ASSETS</u>			
Cash	284,458.92	55,519.76	339,978.68
Receivables (net, where applicable of allowances for uncollectibles)			
Intergovernmental	9,050.12	2,106.58	11,156.70
Due from special revenue fund	<u>85,620.42</u>	<u>                    </u>	<u>85,620.42</u>
 TOTAL ASSETS	 <u>379,129.46</u>	 <u>57,626.34</u>	 <u>436,755.80</u>
 <u>LIABILITIES</u>			
Accounts payable	21,692.23		21,692.23
Accrued expenses	8,117.43		8,117.43
Deferred revenues	487,001.01		487,001.01
Due to general fund	<u>                    </u>	<u>85,620.42</u>	<u>85,620.42</u>
TOTAL LIABILITIES	<u>516,810.67</u>	<u>85,620.42</u>	<u>602,431.09</u>
 <u>FUND BALANCE</u>			
Unreserved fund balance (deficit)	(137,681.21)	(27,994.08)	(165,675.29)
Total Fund Balance (deficit)	<u>(137,681.21)</u>	<u>(27,994.08)</u>	<u>(165,675.29)</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>379,129.46</u>	 <u>57,626.34</u>	 <u>436,755.80</u>

See notes to financial statements.

CITY OF AUDUBON PARK, KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Property taxes	258,330.65		258,330.65
Intergovernmental			
Court revenue	14,745.15		14,745.15
Grants	18,202.54		18,202.54
Municipal aid		24,964.29	24,964.29
Police and public works	43,600.00		43,600.00
Licenses and permits	2,141.65		2,141.65
Insurance tax	88,660.29		88,660.29
Franchise taxes	12,940.00		12,940.00
Interest and Penalties	12,509.29	1,072.82	13,582.11
Sanitation Fee	323,484.22		323,484.22
Donations	26,542.60		26,542.60
Miscellaneous	<u>40,838.04</u>	<u>4,230.63</u>	<u>45,068.67</u>
Total Revenues	841,994.43	30,267.74	872,262.17
<u>EXPENDITURES</u>			
Current			
Police department	375,126.39		375,126.39
Public works	26,851.31	59,318.21	86,169.52
Sanitation	166,377.60		166,377.60
Administration	170,691.50		170,691.50
Capital outlay			
Police department	32,805.00		32,805.00
Debt repayment			
Police department	17,087.40		17,087.40
Administration	<u>54,115.95</u>		<u>54,115.95</u>
Total Expenditures	843,055.15	59,318.21	902,373.36
<u>EXCESS OF EXPENDITURES OVER REVENUES</u>			
	(1,060.72)	(29,050.47)	(30,111.19)
<u>OTHER FINANCING SOURCES</u>			
Transfers In - Loan Proceeds	<u>25,911.00</u>		<u>25,911.00</u>
<u>NET CHANGE IN FUND BALANCES</u>	24,850.28	(29,050.47)	(4,200.19)
<u>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR</u>			
	<u>(162,531.49)</u>	<u>1,056.39</u>	<u>(161,475.10)</u>
<u>FUND BALANCE (DEFICIT) AT END OF YEAR</u>			
	<u>(137,681.21)</u>	<u>(27,994.08)</u>	<u>(165,675.29)</u>

See notes to financial statements.

CITY OF AUDUBON PARK, KENTUCKY  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006

Fund Balances of Governmental Funds	(165,675.29)
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets, net of depreciation, are not current financial resources and are not included in the governmental funds.	313,879.24
Loans and leases payable are not a current financial obligation. Therefore, they are not included in the governmental funds.	<u>(90,221.36)</u>
Net Assets of Governmental Activities	<u><u>57,982.59</u></u>

CITY OF AUDUBON PARK, KENTUCKY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
JUNE 30, 2006

Net Change in Fund Balances - Total Governmental Funds (4,200.19)

Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:

Cost of assets capitalized	32,805.00
Depreciation expense	(69,025.00)

Long-term loans and leases are reported as other financing sources when made and as expenditures when repaid in the governmental funds. This amount represents the change in the long-term loans and leases payable. 38,399.32

Change in Net Assets of Governmental Activities (2,020.87)

CITY OF AUDUBON PARK, KENTUCKY  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary Fund Balance, July 1	(100,000.00)	(100,000.00)	(162,531.49)	(62,531.49)
Resources (Inflows):				
Property taxes	260,000.00	262,000.00	258,330.65	(3,669.35)
Licenses and permits	3,500.00	1,500.00	2,141.65	641.65
Intergovernmental	107,600.00	112,835.00	76,547.69	(36,287.31)
Insurance taxes	69,000.00	89,000.00	88,660.29	(339.71)
Franchise taxes	14,500.00	14,500.00	12,940.00	(1,560.00)
Sanitation	323,064.00	323,064.00	323,484.22	420.22
Other	<u>23,736.00</u>	<u>76,000.00</u>	<u>105,800.93</u>	<u>29,800.93</u>
Amounts Available for Appropriation	<u>701,400.00</u>	<u>778,899.00</u>	<u>705,373.94</u>	<u>(73,525.06)</u>
Charges to Appropriations (Outflows):				
Current:				
General government	99,589.00	155,589.00	224,807.45	(69,218.45)
Public safety	318,200.00	418,200.00	425,018.79	(6,818.79)
Public works	4,000.00	4,000.00	26,851.31	(22,851.31)
Sanitation	<u>170,400.00</u>	<u>170,400.00</u>	<u>166,377.60</u>	<u>4,022.40</u>
Total Charges to Appropriations	<u>592,189.00</u>	<u>748,189.00</u>	<u>843,055.15</u>	<u>(94,866.15)</u>
Budgetary Fund Balance, June 30	<u><u>109,211.00</u></u>	<u><u>30,710.00</u></u>	<u><u>(137,681.21)</u></u>	<u><u>(168,391.21)</u></u>

See notes to financial statements.

CITY OF AUDUBON PARK, KENTUCKY  
SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Budgetary Fund Balance, July 1	25,000.00	25,000.00	1,056.39	(23,943.61)
Resources (Inflows):				
Intergovernmental	30,000.00	30,000.00	24,964.29	(5,035.71)
Interest and Other	<u>2,800.00</u>	<u>2,800.00</u>	<u>5,303.45</u>	<u>2,503.45</u>
Amounts Available for Appropriation	<u>57,800.00</u>	<u>57,800.00</u>	<u>31,324.13</u>	<u>(26,475.87)</u>
Charges to Appropriations (Outflows):				
Current:				
Public works	<u>41,460.00</u>	<u>55,460.00</u>	<u>59,318.21</u>	<u>(3,858.21)</u>
Total Charges to Appropriations	<u>41,460.00</u>	<u>55,460.00</u>	<u>59,318.21</u>	<u>(3,858.21)</u>
 Budgetary Fund Balance, June 30	 <u>16,340.00</u>	 <u>2,340.00</u>	 <u>(27,994.08)</u>	 <u>(30,334.08)</u>

See notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Audubon Park conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The City has implemented GASB Statement No. 34 and these statements are presented according to those requirements. The following is a summary of the significant policies.

Basic Financial Statements

In accordance with GASB Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the City as a whole, no component unit entities exist. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. However, in the governmental funds financial statements interfund balances due to and from are shown. These amounts are the results of interfund borrowings or repayments being in excess of actual amounts due.

The government-wide Statement of Net Assets reports all financial and capital resources of the City. It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for a purpose for which both restricted and unrestricted net assets are available.

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Program revenues include: 1) charges to customers or users who purchase, use or directly

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also, part of the basic financial statements are financial statements for governmental funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of the fund category), it also gives governments the option of displaying other funds as major funds.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Special Revenue Fund accounts for the financial resources provided by the State of Kentucky through its Municipal Road Aid Funds. These funds are earmarked for maintenance, rehabilitation, or improvements of public streets.

Measurement Focus and Basis of Accounting

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. The modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, intergovernmental revenues, and municipal road aid funds.
- B. Expenditures are recorded when the related fund liability is incurred. Exceptions to this general rule include:
  - 1) accumulated unpaid vacation, sick pay and retirement which are not accrued. As of June 30, 2006 accumulated unpaid vacation and sick pay is estimated to total \$28,667.73. During a prior year the City adopted a change to its retirement program in its Personnel/Civil Service Policy. The City has adopted an unfunded program to pay a retirement benefit to each employee with at least five years consecutive employment. The program pays a monthly amount that is determined by the length of consecutive employment and the gross pay earned in the calendar year preceding the date of termination of employment. This benefit ranges from a low of 20% of gross pay for 24 months to a high of 50% of gross pay for 84 months.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

One person became eligible for this benefit during a prior fiscal year. This benefit has been suspended due to the rehiring of this person. As required by GASB 45 the City will be required to include in its financial statements, starting June 30, 2010, an actuarially computed amount of its unfunded obligation as a current and prior adjustment.

- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Loan proceeds are reported as an other financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balances as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

Budgets

The City has ordained for itself a number of prescribed practices regarding the development of a budget, and for amending the budget once it is accepted by the governing body of the City. An annual budget is required by Kentucky Revised Statutes that, once accepted by the City's governing body, becomes the legal boundary of that government's appropriations and expenditures for that year. The City's annual budget conforms to generally accepted accounting principles. The budget was amended by an ordinance during the year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets

Under GASB Statement No. 34, all capital assets, whether owned by governmental activities or business-type activities, are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during the construction phase of projects is reflected in the capitalized value of the asset constructed for proprietary funds.

GASB Statement No. 34 allows cities with net assets under 10 million dollars to elect to not report infrastructure assets on a retroactive basis. The City has elected to not report on a retroactive basis.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings, structures and improvements	40 years
Machinery and equipment	5 years

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

General Government	\$ 4,703.00
Public Safety	61,270.00
Public Works	<u>3,052.00</u>
	<u>69,025.00</u>

Total accumulated depreciation for all prior periods was \$264,813.00.

Property Tax

Property is assessed as of January 1. Total assessed value was \$98,824,730.00 and the tax rate was .2430 cents per one hundred dollars of assessed valuation. Taxes were levied for the fiscal year of July 1, 2005 to June 30, 2006 on March 31, 2005 and are payable by June 30, 2005. City real property tax revenues are recognized in the fiscal year beginning July 1, 2005. Any real property tax unpaid at June 30 or 60 days thereafter is deemed uncollectible for financial reporting purposes. The total of unpaid real property taxes at June 30, 2006 was \$937.03. The City has liens on these properties to secure payment of these taxes. Deferred revenue represents property taxes levied for the fiscal year beginning July 1, 2006 collected in advance.

CITY OF AUDUBON PARK, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2006

NOTE 2 - SCHEDULE OF CASH

<u>Fund</u>	<u>Financial Institution</u>	<u>Bank</u> <u>Balance</u>	<u>Insured</u>	<u>Collateralized</u>
General	StockYards Bank	297,165.74	FDIC	Repurchase Agreement in Stockyards Bank
		297,165.74		
Special Revenue				
Municipal Aid	StockYards Bank	54,256.83	FDIC	
Municipal Aid	BB&T	1,262.93	FDIC	
		55,519.76		
Explorer Post #469		1,149.00	FDIC	
		300.00		
Petty Cash		<u>300.00</u>		
		<u>354,134.50</u>		

NOTE 3 - CONCENTRATION OF CREDIT RISK

The City has funds on deposit at various times during the year with one financial institution in excess of the FDIC insurance coverage. The City does not have a written investment policy.

NOTE 4 - RISK MANAGEMENT/CONTINGENCIES

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by various commercial insurance policies. There have been no significant reductions in insurance coverage from 2005 to 2006. Settlements, less deductibles, have not exceeded insurance coverage during the past three years. The City's attorney has advised that the City will not incur any loss in excess of insurance deductibles as a result of any lawsuits currently pending.

NOTE 5 - CAPITALIZED LEASE AGREEMENT

The City borrowed money to acquire two new police cruisers in July of 2004. This loan was for \$42,931.00 and is repayable in twelve quarterly payments of \$4,272.15 principal and interest. The final four quarterly installments of principal will be paid as follows:

6/30/07      14,310.36

The City borrowed money to acquire one new police cruiser in May of 2006. This loan was for \$25,911.00 and is repayable in twelve quarterly installments of \$2,392.67 principal and interest. The quarterly installments of principal will be paid as follows:

6/30/07      8,637.00  
 6/30/08      8,637.00  
 6/30/09      8,637.00

CITY OF AUDUBON PARK, KENTUCKY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2006

NOTE 6 - LOAN PAYABLE

The City borrowed \$100,000.00 from Stockyards Bank to fund its short term cash needs. This loan has a 8.25% current interest rate with interest paid monthly, and the principal due on the maturity date of January 14, 2007. Current year interest expense is \$7,708.93. The balance of their loan at June 30, 2006 was \$50,000.00.

NOTE 7 - INDUSTRIAL REVENUE BOND ISSUES

The City has issued fourteen industrial revenue bonds as of June 30, 2006. These bonds are not debts of the City and the City has no obligation to repay principal and interest. The City receives fees on an annual basis as consideration for issuing the bonds. Fees received during the current fiscal year totaled \$3,000.00.

NOTE 8 - Changes in General Fixed Assets:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Accumulated</u> <u>Depreciation</u>
Land	37,290.36			37,290.36	
Buildings	135,979.26			135,979.26	57,800.00
Equipment	234,492.29	1,594.00		236,086.29	82,785.00
Vehicles	<u>227,847.33</u>	<u>31,211.00</u>	<u>20,697.00</u>	<u>238,361.33</u>	<u>193,253.00</u>
	<u>635,609.24</u>	<u>32,805.00</u>	<u>20,697.00</u>	<u>647,717.24</u>	<u>333,838.00</u>

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

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Honorable Mayor and City Council  
City of Audubon Park, Kentucky

We have audited the financial statements of the City of Audubon Park, Kentucky as of and for the year ended June 30, 2006, and have issued our report thereon dated November 15, 2006. 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 City of Audubon Park's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion 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 general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the City of Audubon Park's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters that are required to be reported under Government Auditing Standards:

Finding:

06/06-1. The City's general fund and special revenue fund were in a deficit balance as of June 30, 2006.

Response:

City officials acknowledge that a deficit exists and that they are addressing this matter by implementing revenue raising programs and monitoring expenditures.

Finding:

06/06-2. The City's general government, public safety and public works expenditures were in excess of its budget.

Response:

City officials acknowledge that the budget ordinance was violated and that budget ordinances in the future will be amended on a timely basis when required.

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

HENSON & ASSOCIATES  
Certified Public Accountants  
November 15, 2006

CITY OF AUDUBON PARK, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2006

The discussion and analysis of the City of Audubon Park, Kentucky's financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended June 30, 2006. It should be read in conjunction with the accompanying transmittal letter and the accompanying basic financial statements. All amounts in this discussion, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City of Audubon Park, Kentucky exceeded its liabilities at the close of the fiscal year ending June 30, 2006 by \$58.0 thousand (net assets). However its unrestricted net assets were in a deficit position which negatively impacts its ability to meet the government's ongoing obligations to citizens and creditors.
- The City of Audubon Park, Kentucky's total net assets decreased by \$2.0 thousand for the year ended June 30, 2006. The decrease in net assets can be attributed to expenditures being in excess of current year revenues.
- As of June 30, 2006 the City of Audubon Park, Kentucky's governmental funds reported combined ending fund balances of a negative \$165.7 thousand, a decrease of \$4.2 thousand in comparison with the prior fiscal year.
- The City's total debt decreased by \$38.4 thousand during the current fiscal year. The City repaid money borrowed to fund its short term cash needs and borrowed to purchase one new police cruiser.

Overview of the Financial Statements

The discussion and analysis serves as an introduction to the City of Audubon Park, Kentucky's basic financial statements. The City of Audubon Park, Kentucky's basic financial statements are comprised of three components, government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Audubon Park, Kentucky's finances, in a manner similar to a private-sector business. The Statement of Net Assets presents information on all of the City of Audubon Park, Kentucky's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Audubon Park, Kentucky is improving or deteriorating. The Statement of Net Assets combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other nonfinancial factors should also be taken into consideration, such as changes in the City's property tax base, to assess the overall health or financial condition of the City. The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

CITY OF AUDUBON PARK, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006

In the Statement of Net Assets and the Statement of Activities, the City has one major type of activity:

- Governmental Activities - All of the City's basic services are reported here, including the police, public works, parks, and general administration. Property taxes, insurance taxes, sanitation and other fees and inter-governmental revenues finance most of these activities.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by state law. The City has one kind of fund - governmental.

- Governmental funds - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements readers may better understand the long-term effect of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund financial statements.

The City of Audubon Park, Kentucky maintains two governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and the Special Revenue Fund, both of which are considered to be major funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

The City as a Whole - Government-wide Financial Analysis

The City's net assets were \$58.0 thousand as of June 30, 2006 and \$60.0 thousand as of June 30, 2005. This analysis focuses on the net assets (table 1) and changes in general revenues (table 2) and significant expenses of the City's governmental activities.

CITY OF AUDUBON PARK, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006

By far the largest portion of the City's net assets (\$273.7 thousand) reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1  
Summary of Net Assets  
Governmental Activities  
(Amounts Expressed in Thousands)

	<u>6/30/2006</u>	<u>6/30/2005</u>
Current and other assets	351.1	376.9
Capital assets	<u>313.9</u>	<u>350.0</u>
Total assets	665.0	726.9
Current Liabilities	<u>607.0</u>	<u>666.9</u>
Total liabilities	<u>607.0</u>	<u>666.9</u>
Net assets		
Invested in capital assets, net of related debt	273.7	321.5
Unrestricted (Deficit)	<u>(215.7)</u>	<u>(261.5)</u>
Total net assets	<u><u>58.0</u></u>	<u><u>60.0</u></u>

Governmental Activities

The City's general tax revenues increased when compared to the prior year by \$29.6 thousand. Property tax revenue increased due to increased property valuations and the 4% increase allowed by law and an increase in insurance tax collections. Other miscellaneous revenues increased by \$2.7 thousand.

Table 2  
General Tax Revenues  
(Amounts Expressed in Thousands)

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Taxes	359,931	330,378	29,553

CITY OF AUDUBON PARK, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006

Governmental activities decreased the City's net assets by \$2.0 thousand for the year ended June 30, 2006 and increased the City's net assets by \$24.7 thousand for the year ended June 30, 2005. The key elements of this change are as follows:

Table 3  
Changes in Net Assets  
(Amounts Expressed in Thousands)

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Revenues		
Program revenues		
Charges for services	377,105	275,444
Operating grants and contributions	91,955	285,995
General revenues		
Taxes	359,931	330,378
Other	<u>43,272</u>	<u>40,581</u>
Total Revenues	<u>872,263</u>	<u>932,398</u>
Expenses		
General government	179,510	191,633
Public safety	439,173	428,281
Public works	89,222	119,104
Sanitation	<u>166,378</u>	<u>168,637</u>
Total expenses	<u>874,283</u>	<u>907,655</u>
Increase (Decrease) in Net Assets	<u>(2,020)</u>	<u>24,743</u>
Net Assets, July 1,	<u>60,003</u>	<u>35,260</u>
Net Assets, June 30	<u><u>57,983</u></u>	<u><u>60,003</u></u>

CITY OF AUDUBON PARK, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006

The most significant governmental expense for the City was in providing for public safety, which incurred expenses of \$439.2 thousand. The most significant public safety expense was for personnel costs which totaled \$262.5 thousand.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2006, the City had \$313.9 invested in a broad range of capital assets, including equipment, buildings and land. This amount represents a net decrease (including additions and deductions) of \$36.1 over the prior fiscal year.

Debt

At year end, the City had \$90,221 in short term debt and capital leases outstanding as compared to \$128,621 at the end of the prior fiscal year, a decrease of \$38,400.

Table 4  
Outstanding Debt  
(Amounts Expressed in Thousands)

	Governmental Activities	
	2006	2005
Stockyards Bank	50,000	100,000
Capital leases	<u>40,221</u>	<u>28,621</u>
Totals	<u><u>90,221</u></u>	<u><u>128,621</u></u>

The City's Funds

At the close of the City's fiscal year on June 30, 2006, the governmental funds of the City reported a combined fund balance deficit of \$165.7 thousand. Expenditures for the year exceeded revenues by \$4.2 thousand. The City has to monitor expenditures closely in order to prevent the deficit from growing larger.

General Fund Budgetary Highlights

For fiscal year 2005-2006, actual expenditures on a budgetary basis were \$843.1 thousand compared to the budget amount of \$748.2 thousand. The \$94.9 thousand negative variance was due to expenditures in excess of budget.

CITY OF AUDUBON PARK, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006

For fiscal year 2005-2006 actual revenues on a budgetary basis were \$867.9 thousand as compared to the budget amount of \$878.9 thousand. The majority of the \$11.0 thousand negative variance was due to a shortfall in court revenue funding.

The City of Audubon Park, Kentucky has an actual, on a budgetary basis, General Fund deficit balance of \$137.7 thousand as of the fiscal year end, compared to the budgeted fund balance of \$30.7 thousand. The variance in fund balance is primarily due to expenditures in excess of budget.

Economic Factors and Next Year's Budget and Rates

The largest single factor is the ability of the City to generate sufficient revenues to fund the basic cost of the services the City provides. The increased cost of salaries and the cost of providing police protection are significant.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk, at the City of Audubon Park, Kentucky, 3340 Robin Road, Audubon Park, Kentucky, 40213.

SUPPLEMENTARY INFORMATION