

This Preliminary Official Statement and information contained herein are subject to change, completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

**PRELIMINARY OFFICIAL STATEMENT
DATED DECEMBER 5, 2007**

**Book Entry Only
New Issue**

**Rating: Moody's " ____ "
See Rating herein**

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

\$7,105,000*
CITY OF OWENSBORO, KENTUCKY
GENERAL OBLIGATION BOND ANTICIPATION NOTES, SERIES 2007

Dated: Date of Delivery

Due: December 1, 2010

Interest on the captioned Notes (herein the "Notes") issued by the City of Owensboro, Kentucky (the "City") will be issued in denominations of \$5,000 each or integral multiples thereof, and will bear interest payable on June 1, 2008 and thereafter semiannually on each December 1 and June 1.

Unless the successful bidder notifies the City in writing within twenty-four hours of the award of the Notes that it has elected (at such purchaser's expense) to take physical delivery of the Notes, The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Notes and the Notes will be issuable under a book entry system, registered in the name of The Depository Trust Company ("DTC") or its nominee. There will be no distribution of the Notes to the ultimate purchasers. See "Book Entry" herein. Principal and interest on the Notes is payable at the principal office of U.S. Bank, National Association, Louisville, Kentucky, as Paying Agent and Note Registrar. The Notes are subject to optional redemption prior to maturity as described herein.

The Notes are being issued as fully registered Notes in denominations of \$5,000 and integral multiples thereof. Interest payments will be mailed by the Paying Agent to each holder of record as of the fifteenth day of the month preceding the date for such interest payment.

The Notes are being issued in anticipation of the issuance of the City's General Obligation Bonds, Series 2010 (the "Series 2010 Bonds") for the purpose of (i) paying the costs of the acquisition, construction, installation and equipping of stormwater system improvements (the "Project") and (ii) paying the costs of issuance of the Notes.

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

The Notes are offered when, as and if issued, subject to the approval of legality and tax exemption by Peck, Shaffer & Williams LLP, Note Counsel, Covington, Kentucky. Certain legal matters have been passed upon for the City by David Fowler, Esq., City Attorney. The Notes are expected to be available for delivery on or about December 19, 2007.

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

FIRST KENTUCKY SECURITIES CORPORATION

CITY OF OWENSBORO, KENTUCKY

Board of Commissioners

Tom Watson, Mayor
Cathy Armour
Candance Brake
David L. Johnson
Al Mattingly, Jr.

City Manager

Bob Whitmer

City Attorney

David C. Fowler, Esq.

City Clerk

Beverly Lovan

City Finance Director

J. T. Fulkerson

NOTE COUNSEL

Peck, Shaffer & Williams LLP
Covington, Kentucky

UNDERWRITER

First Kentucky Securities Corporation
Frankfort, Kentucky

NOTE REGISTRAR AND PAYING AGENT

U.S. Bank, National Association
Louisville, Kentucky

TABLE OF CONTENTS

INTRODUCTION	2
The Issuer and Authorization	2
Sources of Payment for the Notes	2
Purpose of the Notes	2
Description of the Notes	2
Book Entry	3
Interest	3
Tax Exemption	3
Parties to the Issuance of the Notes	3
Authority for Issuance	3
Offering and Delivery of the Notes	4
Disclosure Information	4
Additional Information	4
DESCRIPTION OF THE NOTES	4
Redemption Provisions	4
Security and Source of Payment for Notes	5
BOOK ENTRY	6
PURPOSE OF THE NOTES	9
DESCRIPTION OF THE PROJECT	9
SOURCES AND USES OF FUNDS	10
INVESTMENT CONSIDERATIONS	10
PROFILE OF THE CITY AND SURROUNDING AREA	10
CITY GOVERNMENT	10
Organization and Major Offices	10
Elected and Appointed Officials	10
Financial Matters	11
Financial Management	11
Financial Reports and Examinations of Accounts	11
Budgeting and Appropriations Procedures	12
Investment Policies	12
Debt Limitation	13
Future Borrowings of the City	14
LEGAL MATTERS	14
General Information	14
Transcript and Closing Certificates	15
Litigation	15
Tax Exemption	15
RATING	16
CONTINUING DISCLOSURE	16
UNDERWRITING	18
FINANCIAL ADVISOR	18
MISCELLANEOUS	18

APPENDICES:

- APPENDIX A – Estimated Debt Service Requirements for the Notes
- APPENDIX B - Economic and Financial Data on the City of Owensboro, Kentucky
- APPENDIX C - Audited General Purpose Financial Statements of the City of Owensboro,
Kentucky for the Fiscal Year Ending June 30, 2006
- APPENDIX D- Statement of Indebtedness of the City
- APPENDIX E - Form of Legal Approving Opinion of Note Counsel

REGARDING THIS OFFICIAL STATEMENT

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

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

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

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future. Insofar as the statements contained in this Official Statement involve matters of opinion or estimates, even if not expressly stated as such, such statements are made as such and not as representations of fact or certainty, no representation is made that any of such statements have been or will be realized, and such statements should be regarded as suggesting independent investigation or consultation of other sources prior to the making of investment decisions. Certain information may not be current; however, attempts were made to date and document sources of information. Neither this Official Statement nor any oral or written representations by or on behalf of the City preliminary to sale of the Notes should be regarded as part of the City's contract with the successful bidder or the holders from time to time of the Notes.

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

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

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to provide certain information with respect to the issuance of \$7,105,000* aggregate principal amount of General Obligation Bond Anticipation Notes, Series 2007 (the "Notes") of the City of Owensboro, Kentucky as specified on the cover hereof.

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

The Issuer and Authorization

The Notes are being issued by the City of Owensboro, Kentucky a City and political subdivision of the Commonwealth of Kentucky (the "City"), pursuant to the Constitution and laws of the Commonwealth, Chapter 66 of the Kentucky Revised Statutes, as amended (the "Act"), and an ordinance adopted by the Board of Commissioners of the City on December 4, 2007 (the "Ordinance").

Sources of Payment for the Notes

The Notes are general obligation debt of the City issued in anticipation of the issuance of the City's General Obligation Bonds, Series 2010 (the "Series 2010 Bonds"). Pursuant to the Ordinance, the City has covenanted to cause the Series 2010 Bonds or other financing to be issued at or prior to the time necessary to pay in full the principal of, and interest on, the Notes when due. In the Ordinance the City has pledged the proceeds of such Series 2010 Bonds or other financing to the payment of the principal of, and interest on, the Notes at maturity on December 1, 2010. In addition to the proceeds of the Series 2010 Bonds or other permanent financing, the Notes shall be payable from the City's ability to levy an annual tax to pay the interest on and principal of the Notes as and when the same become due and payable. (See "Security and Source of Payment for the Notes," herein).

Purpose of the Notes

The Notes are being issued for the purpose of (i) paying the costs, on an interim basis, of the acquisition, construction, installation and equipping of stormwater system improvements (the "Project") and (ii) paying certain costs related to the issuance of the Notes. (See "DESCRIPTION OF THE PROJECT" herein.)

Description of the Notes

The Notes mature as indicated on the cover page hereof. The Notes are being offered in the denominations of \$5,000 or any integral multiple thereof. The Notes are initially being issued in Book-Entry-Only form registered in the name of DTC or its nominee, and there will be no distribution of Notes to ultimate purchasers (see "Book-Entry", herein), unless the successful bidder notifies the City in writing within twenty-four hours of the award of the Notes that it has elected (at such purchaser's expense) to take physical delivery of the Notes.

Redemption. The Notes are subject to optional redemption prior to maturity on or after December 1, 2008 in whole or in part (see "DESCRIPTION OF THE NOTES - Redemption Provisions", herein).

In the event any Notes are called for redemption, notice shall be given by mailing a copy of the redemption notice at least thirty (30) days prior to the date fixed for redemption to the registered owner of each Note to be redeemed (see "DESCRIPTION OF THE NOTES - Redemption Provisions", herein).

Book Entry

The Notes are issuable only as fully registered Notes, without coupons. The Notes, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Notes. Purchasers will not receive certificates representing their ownership interest in the Notes purchased. So long as DTC or its nominee is the registered owner of the Notes, payments of the principal of and interest due on the Notes will be made directly to DTC. Principal of, redemption premium, if any, and interest on the Notes will be paid directly to DTC by U.S. Bank, National Association, Louisville, Kentucky, as Registrar and Paying Agent (the "Registrar and Paying Agent"). See "BOOK-ENTRY" herein.

Interest

The Notes shall be dated their date of initial delivery and bear interest at the rates set forth on the cover hereof, payable on June 1, 2008 and thereafter semiannually on each December 1 and June 1 until maturity on December 1, 2010.

Tax Exemption

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

The City has designated the Notes as "qualified tax-exempt obligations" with respect to certain financial institutions under Section 265 of the Internal Revenue Code of 1986, as amended. See Appendix E hereto for the form of the opinion Note Counsel proposes to deliver in connection with the Notes.

Parties to the Issuance of the Notes

The Registrar and Paying Agent is U.S. Bank, National Association, Louisville. Legal matters incident to the issuance of the Notes and with regard to the tax-exempt status of the interest thereon are subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Note Counsel. The Underwriter and Financial Advisor to the City is First Kentucky Securities Corporation.

Authority for Issuance

Authority for the issuance of the Notes is provided by Sections 66.011 through 66.171 of the Kentucky Revised Statutes and an ordinance (the "Ordinance") adopted by the Board of Commissioners of the City on December 4, 2007.

Offering and Delivery of the Notes

The Notes are offered when, as and if issued by the City. The Notes will be delivered on or about December 19, 2007 in New York, New York through the Depository Trust Company (DTC).

Disclosure Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement and continuing disclosure documents of the City are intended to be made available through one or more repositories. Copies of the basic documentation relating to the Notes, including the authorizing ordinances and the note forms, are available from the City.

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

Additional Information

Additional information concerning this Official Statement, as well as copies of the basic documentation relating to the Notes, is available from First Kentucky Securities Corporation, as Underwriter, 305 Ann Street, Suite 400, Frankfort, Kentucky 40601, Telephone (502) 875-4611.

DESCRIPTION OF THE NOTES

The Notes will be dated their date of initial delivery and bear interest from such date at the rates set forth on the cover page of this Official Statement. The Notes are being issued as fully registered Notes in the denomination of \$5,000 or any integral multiple thereof.

Interest on the Notes is payable on June 1, 2008 and thereafter semiannually on each December 1 and June 1 until maturity on December 1, 2010. Interest on all Notes is payable by check or draft mailed to the registered holder by U.S. Bank, National Association, Louisville, the Registrar and Paying Agent. Principal is payable when due to the registered holder upon surrender of the Notes at the principal corporate office of the Registrar and Paying Agent.

Redemption Provisions

Optional Redemption

The Notes are subject to optional redemption on or after December 1, 2008 in whole or in part at a redemption price equal to the principal amount to be redeemed, plus accrued interest to the date of redemption.

Notice of Redemption

If less than all Notes which are payable by their terms on the same date are to be called, the particular Notes or portions of Notes payable on such same date and to be redeemed from such series shall be selected by lot by the Registrar and Paying Agent, in such manner as the Registrar and Paying Agent in its discretion may determine; provided, however, that the portion of any Note to be redeemed shall be in the principal amount of \$5,000 or some multiple thereof, and that, in selecting Notes for redemption, the Registrar and Paying Agent shall treat each Note as representing that number of Notes which is obtained by dividing the principal amount of such Note by \$5,000.

At least thirty (30) days before the redemption date of any Notes the Registrar and Paying Agent shall cause a notice of such redemption either in whole or in part, signed by the Registrar and Paying Agent, to be mailed, postage prepaid, to all registered owners of Notes to be redeemed in whole or in part at their addresses as they appear on the registration books kept by the Registrar and Paying Agent, but failure so to mail any such notice shall not affect the validity of the proceedings for such redemption. Each such notice shall set forth the date fixed for redemption, the redemption price to be paid and, if less than all of the Notes being payable by their terms on a single date then outstanding shall be called for redemption, the distinctive numbers or letters, if any, of such Notes to be redeemed and, in the case of Notes to be redeemed in part only, the portion of the principal amount thereof to be redeemed. In case any Note is to be redeemed in part only, the notice of redemption which relates to such Note shall state also that on or after the redemption date upon surrender of such Notes, a new Note in principal amount equal to the unredeemed portion of such Notes will be issued.

On the date so designated for redemption, notice having been sent in the manner and under the conditions hereinabove provided and moneys for payment of the redemption price being held in separate accounts by the Registrar and Paying Agent for the holders of the Notes or portions thereof to be redeemed, the Notes or portions of Notes so called for redemption shall become and be due and payable at the redemption price provided for redemption of such Notes or portions of Notes on such date, interest on the Notes or portions of Notes so called for redemption shall cease to accrue, and the holders or registered owners of such Notes or portions of Notes shall have no rights in respect thereof except to receive payment of the redemption price thereof and to receive Notes for any unredeemed portions of Notes.

In case part but not all of an outstanding Note shall be selected for redemption, the registered owner thereof or his attorney or legal representative shall present and surrender such Note to the Registrar and Paying Agent for payment of the principal amount hereof so called for redemption, and the City shall execute and the Registrar and Paying Agent shall authenticate and deliver to or upon the order of such registered owner or his legal representative, without charge therefor, for the unredeemed portion of the principal amount of the Note so surrendered a Note of the same series and maturity and bearing interest at the same rate.

Security and Source of Payment for Notes

Pledge of Proceeds of Series 2010 Bonds, Renewal Notes and Other Financings

The Notes are payable from the proceeds of the Series 2010 Bonds, renewal notes ("Renewal Notes") and other financings obtained by the City for the permanent financing of the Project. The par value to be received from the sale of the Series 2010 Bonds anticipated by the Notes, and any excess funds resulting from the issuance of the Notes shall, to the extent necessary, be used only for the retirement of the Notes at maturity or prior redemption, together with interest thereon, and is pledged for such purpose. The City has covenanted in the Ordinance that prior to the maturity date of the Notes, the City will take all proper and necessary action under existing statutory authority and in accordance with law to issue and to deliver the Series 2010 Bonds in an amount which will be sufficient to provide for the retirement of the Notes. In the alternative, the City has reserved the right to issue Renewal Notes when, prior to maturity of the Notes, the City shall make a determination that by reason of construction delays, changes in plans, high long-term interest rates or uncertainties in the municipal bond market, or other causes justifying delay in the final offering of the Series 2010 Bonds, the Series 2010 Bonds should not immediately be offered, and the proceeds of the sale of such Renewal Notes shall be applied to the payment of the principal of the Notes. The City has further reserved the right, in lieu of the issuance of the Series 2010 Bonds or Renewal Notes, to retire the Notes from the proceeds of a loan from other sources of financing if the City shall determine that interest rates or other factors in the municipal bond market justify obtaining a loan from such other sources to retire the Notes.

Pledge of Taxing Power

In addition to the proceeds of the Series 2010 Bonds, the Notes are being issued as general obligations of the City and the full faith, credit and taxing power of the City is irrevocably pledged to the payment of principal of and interest on the Notes when due. The basic security for the general obligation debt of the City, including the Notes, is the City's ability to levy, and its pledge to levy, an annual tax to pay the interest on and principal of the Notes as and when the same become due and payable. The tax must be levied in sufficient amount to pay, as the same become due, the principal of and interest on the Notes as well as the principal of and interest on all outstanding general obligation bonds and bond anticipation notes of the City. The Constitution of the State mandates the collection of a tax sufficient to pay the interest on an authorized indebtedness and the creation of a sinking fund for the payment of the principal thereof. The Ordinance levies such annual tax which shall be collected to the extent other lawfully available monies of the City are not provided. The Ordinance also creates a sinking fund into which the proceeds of such tax or other lawfully available monies of the City are to be deposited for payment of the interest on and principal of the Notes and shall not be used for any other purpose.

Chapter 9 of the Federal Bankruptcy Code contains provisions relating to the adjustment of debts of a State's political subdivisions, public agencies and instrumentalities ("eligible entity"), such as the City. Under the Bankruptcy Code and in certain circumstances described therein, an eligible entity may be authorized to initiate Chapter 9 proceedings without prior notice to or consent of its creditors, which proceedings may result in material and adverse modification or alteration of the rights of its secured and unsecured creditors, including holders of its Notes and notes.

Section 66.400 of the Kentucky Revised Statutes permits a political subdivision, such as the City, for the purpose of enabling such subdivision to take advantage of the provisions of the Bankruptcy Code, and for that purpose only, to file a petition stating that the subdivision is insolvent or unable to meet its debts as they mature, and that it desires to effect a plan for the composition or readjustment of its debts, and to take such further proceedings as are set forth in the Bankruptcy Code as they relate to such subdivision. No taxing subdivision is permitted, in availing itself of the provisions of the Bankruptcy Code, to scale down, cut down or reduce the principal sum of its securities except that interest thereon may be reduced in whole or in part.

BOOK ENTRY

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

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

DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may

be requested by an authorized representative of DTC. One fully-registered Note will be issued for in the aggregate principal amount of the Notes and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Note documents. For example,

Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and Registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Paying Agent and Registrar as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Paying Agent and Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Notes held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC or its nominee, the Paying Agent and Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent and Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

NEITHER THE CITY NOR THE PAYING AGENT AND REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE PAYING AGENT AND REGISTRAR AS BEING A HOLDER WITH RESPECT TO: (1) THE NOTES; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PURCHASE PRICE OF TENDERED NOTES OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE NOTES; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF

THE RESOLUTION TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE NOTES; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

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

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

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

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

PURPOSE OF THE NOTES

The Notes are being issued for the purpose of (i) providing interim financing to pay the costs of the acquisition, construction, installation and equipping of storm-water system improvements (the "Project") and (ii) paying certain costs related to the issuance of the Notes. (See "DESCRIPTION OF THE PROJECT" herein.)

DESCRIPTION OF THE PROJECT

There will be a two-phase storm-water improvement project that includes the expansion of the capacity and reach of Goetz, Harsh, Devins and Scherm ditches to reduce the amount of combined sewer overflows in to the Ohio River during heavy rains. Reducing the number of overflows into the river is mandated by the state Division of Water and the Environmental Protection Agency.eries of miscellaneous storm-water improvements.

SOURCES AND USES OF FUNDS

Sources:

Par Amount of Notes \$ _____

Total Sources \$ _____

Uses:

Deposit to Construction Fund \$ _____

Original Issue Discount _____

Underwriter's Discount _____

Cost of Issuance _____

TOTAL: \$ _____

INVESTMENT CONSIDERATIONS

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

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

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

With regard to the risk involved in a lowering of the City's bond rating, see "RATING" herein. With regard to creditors' rights, see "SECURITY AND SOURCE OF PAYMENT FOR NOTES" herein.

PROFILE OF THE CITY AND SURROUNDING AREA

Economic and financial information with respect to the City is set forth in Appendix B hereto.

CITY GOVERNMENT

Organization and Major Offices

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

Elected and Appointed Officials

The City operates under a City Manager form of government. The Owensboro Board of Commissioners (the "Board") is made up of a Mayor and four Commissioners elected at large by the citizens on a non-partisan ballot. The Mayor is elected for a four-year term and Commissioners for a two-year term. The Mayor and Commissioners have equal voting power.

The Board sets the policies that govern the City. It appoints advisory citizen groups that help in the decision making process. The City Manager is hired by the Board and is responsible for the day-to-

day operations of the City's employees. The department managers are responsible for their various departments and report to the City Manager.

Financial Matters

The Finance Director is the chief fiscal officer of the City, and is appointed by and serves at the pleasure of the Board. The Finance Director is responsible for the accounting, collection, custody and disbursement of the funds of the City.

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

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

1. Establishment of overall financial policy, the Board.
2. Planning and development, the Mayor and Manager.
3. Assessment of real and personal property, the Daviess County Property Valuation Administrator.
4. Financial control functions, the Manager and the Finance Director.
5. Inspection and supervision of the accounts and reports of the City as required by law, by the Auditor of Public Accountants and by independent certified public accountants.

Financial Management

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

Financial Reports and Examinations of Accounts

Each city in the State is required to keep its accounting records and render financial reports in such a way as to: (a) determine compliance with statutory provisions; (b) determine fairly and with full disclosure the financial operations of consistent funds and account groups of the city in conformity with generally accepted governmental accounting principles; and (c) readily provide such financial data as may be required by the federal revenue sharing program.

Municipal accounting systems are required to be organized and operated on a fund basis. The City maintains its accounts and other fiscal records on an appropriation and modified accrual basis in accordance with the procedures established and prescribed by the Kentucky Department for Local Government.

As required by law, financial reports are prepared annually by the City and filed with the Kentucky Department of Local Government. Audits are required to be completed by the February 1st immediately following the fiscal year being audited.

The accounting procedures prescribed by the Kentucky Department of Local Government are generally applicable to all cities in Kentucky and may be different from generally accepted government accounting principles as presented and recommended in the National Council on Governmental Accounting publication "Governmental Accounting Auditing and Financial Reporting," and the Industry

Audit Guide of the American Institute of Certified Public Accountants, entitled "Audits of State and Local Governmental Units." Those publications, among other things, provide for a modified accrual basis of accounting for the general fund, all special revenue funds and the debt service fund, and for a full accrual basis of accounting for all other funds, and further provide for the preparation for each fund of balance sheets, statements of revenues and expenditures, and statements showing changes in fund balances.

Budgeting and Appropriations Procedures

Detailed provisions for City budgeting, tax levies and appropriations are made in the Kentucky Revised Statutes. Cities are required to operate under an annual budget ordinance and no City may expend any moneys from a governmental or proprietary fund except in accordance with such budget. A budget proposal must be submitted to the City's legislative body no later than 30 days prior to the beginning of the fiscal year covered by the budget. No budget ordinance may be adopted which provides for appropriations to exceed revenues in a fiscal year. The full amount estimated to be required for debt service during the budget year must be appropriated.

Investment Policies

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

- (a) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian. These investments may be accomplished through repurchase agreements reached with sources including, but not limited to, national or state banks chartered in Kentucky;
- (b) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States governmental agency, including but not limited to:
 - 1. United States Treasury;
 - 2. Export-Import Bank of the United States;
 - 3. Farmers Home Administration;
 - 4. Governmental National Mortgage corporation; and
 - 5. Merchant Marine bonds;
- (c) Obligations of any corporation of the United States government, including but not limited to:
 - 1. Federal Home Loan Mortgage Corporation;
 - 2. Federal Farm Credit Banks;
 - 3. Bank for Cooperatives;
 - 4. Federal Intermediate Credit Banks;
 - 5. Federal Land Banks;
 - 6. Federal Home Loan Banks;
 - 7. Federal National Mortgage Association; and
 - 8. Tennessee Valley Authority;
- (d) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by KRS 41.240(d);

- (e) Uncollateralized certificates of deposit issued by any bank or savings and loan institutions rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- (f) Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- (g) Commercial paper rated in the highest category by a nationally recognized rating agency;
- (h) Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
- (i) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one (1) of the three highest categories by a nationally recognized rating agency; and
- (j) Shares of mutual funds, each of which shall have the following characteristics;
 1. The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
 2. The management company of the investment company shall have been in operation for at least five (5) years; and
 3. All of the securities in the mutual fund shall be eligible investments pursuant to this section.

Debt Limitation

Kentucky Constitution Section 158 provides that cities shall not incur indebtedness to an amount exceeding the following maximum percentages on the value of the taxable property therein, to be estimated by the last assessment previous to the incurring of the indebtedness:

- (a) Cities having a population of fifteen thousand (15,000) or more, ten percent (10%);
- (b) Cities having a population of less than fifteen thousand (15,000) but not less than three thousand, five percent (5%); and
- (c) Cities having a population of less than three thousand (3,000), three percent (3%).

Nothing shall prevent the issue of renewal bonds, or bonds to fund the floating indebtedness of any city, county, or taxing district. Subject to the limits and conditions set forth in that section and elsewhere in the Constitution, the General Assembly has the power to establish additional limits on indebtedness and conditions under which debt may be incurred by cities.

KRS 66.041 provides the same limitations as are set forth in the Constitution except that the limitations apply to "net indebtedness". In calculating "net indebtedness," KRS 66.031 provides that certain obligations of a municipality are not to be considered in the calculation, including self-supporting obligations, revenue bonds, and special assessment debt. (For a complete list of exempt debt see the Statement of Indebtedness attached as Appendix D.)

Other infrequently-issued types of obligations are also excluded from the calculation of net indebtedness. The City has no such obligations outstanding. Notes issued in anticipation of bonds excluded from the calculation of net indebtedness are also excluded from such calculation.

Appendix D of this Official Statement is a Statement of Indebtedness for the City, certified by the City, calculating the amount of the outstanding obligations of the City (including the Bonds) which are subject to the total direct debt limit (10% limit). The total principal amount of general obligation debt that could be issued by the City, subject to the 10% total direct debt limitation is \$261,901,461 and the City's net debt subject to such limitation presently outstanding (including the Bonds) is \$30,092,826 leaving a balance of approximately \$231,808,635 borrowing capacity issuable within such limitation.

However, as described below, the City's ability to incur debt in these amounts is restricted by tax limitations. In the case of general obligation debt, both the debt limitations and tax limitations must be met.

Tax Limitation

The Kentucky Constitution Section 157 also indirectly imposes a debt limitation on general obligation indebtedness of Cities by limiting the tax rates cities may impose upon the value of taxable property, as follows:

- (a) cities having a population of fifteen thousand or more, one dollar and fifty cents on each hundred dollars of assessed value;
- (b) cities having a population of less than fifteen thousand and not less than ten thousand, one dollar on each hundred dollars of assessed value; and
- (c) cities having a population of less than ten thousand, seventy-five cents on the hundred dollars.

Section 159 of the Kentucky Constitution requires the collection of an annual tax sufficient to pay the interest on contracted indebtedness and to retire indebtedness over a period not exceeding forty years. The two constitutional provisions operate as a limit on general obligation debt. Because the indirect debt limit results from tax limitations and the requirement to levy taxes to pay debt charges, it has application only to debts which are payable from taxes either initially or in the event other pledged non-tax revenues prove to be insufficient. It does not have any application where the type of debt being issued does not pledge the credit of the municipality or when the debt is payable solely out of the revenues of non-tax sources, such as utility income.

Appendix D of this Official Statement contains a Statement of Indebtedness, certified by the City, setting forth the property tax rate currently levied by the City (.2608) and certifying that the issuance of the Bonds will not cause such rate to increase to an amount which would exceed the maximum permissible rate.

Future Borrowings of the City

At this time, the City does not anticipate any future borrowings other than the Series 2010 Bonds.

LEGAL MATTERS

General Information

Legal matters incident to the issuance of the Notes and with regard to the tax-exempt status thereof are subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Note Counsel. Upon delivery of the Notes of the City to the successful bidder therefor, the Notes will be accompanied by an approving opinion dated the date of such delivery, rendered by Peck, Shaffer & Williams LLP. A draft of such legal opinion for the Notes is attached as Appendix E.

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

The engagement of said firm as Note Counsel is limited to the preparation of certain of the documents contained in the transcript of proceedings with regard to the Notes, and an examination of such transcript proceedings incident to rendering its legal opinion. In its capacity as Note Counsel, said firm has reviewed the information in this Official Statement under Sections entitled "General Information" as to legal matters, "Authority for Issuance", "Security and Source of Payment for Notes", "Debt Limitation", "Tax Limitation" and "Tax Exemption", which review did not include any independent verification of financial statements and statistical data included therein, if any.

Transcript and Closing Certificates

A complete transcript of proceedings, a no-litigation certificate and other appropriate closing documents will be delivered by the City when the Notes are delivered to the original purchaser. The City will also provide to the original purchaser, at the time of such delivery, a certificate from the City's Mayor and or Finance Director addressed to such purchaser relating to the accuracy and completeness of this Official Statement.

Litigation

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

Tax Exemption

In the opinion of Note Counsel for the Notes, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Notes is excludible from gross income for Federal income tax purposes. Note Counsel for the Notes is also of the opinion that interest on the Notes is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Note Counsel for the Notes is of the opinion that interest on the Notes is exempt from taxation, including personal income taxation, by the Commonwealth of Kentucky and its political subdivisions.

A copy of the opinion of Note Counsel for the Notes is set forth in Appendix E, attached hereto.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Notes. The Issuer has covenanted to comply with certain restrictions designed to ensure that interest on the related issues of Notes will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Notes being includable in income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Notes. The opinion of Note Counsel assumes compliance with these covenants. However, Note Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Notes may adversely affect the tax status of the interest on the Notes.

Certain requirements and procedures contained or referred to in the Note documents and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the

Notes) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Note Counsel expresses no opinion as to any Notes or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of Note Counsel other than Peck, Shaffer & Williams LLP.

Although Note Counsel for the Notes is of the opinion that interest on the Notes will be excludible from gross income for Federal and Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Notes may otherwise affect a Noteholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Noteholder or the Noteholder's other items of income or deduction. Note Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Noteholder or potential Noteholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Notes on the tax liabilities of the individual or entity.

For example, although Note Counsel for the Notes is of the opinion that interest on the Notes will not be a specific item of tax preference for the alternative minimum tax, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed. Receipt of tax-exempt interest, ownership or disposition of the Notes may result in other collateral Federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of Social Security or Railroad Retirement benefits under Section 86 of the Code and limiting the use of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any Notes may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of Notes in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Notes.

The City has designated the Notes as "qualified tax-exempt obligations" within the meaning of Section 265 of the Code.

RATING

As noted on the cover page of this Official Statement, Moody's Investor's Service ("Moody's") has assigned its municipal bond rating of "___", to this issue of Notes.

Such rating reflects only the view of said organization. Any explanation of the significance of such rating may only be obtained from Moody's, at the following address: Moody's Investors Service, 99 Church Street, New York, New York 10007.

There can be no assurance that a rating when assigned will continue for any given period of time or that it will not be lowered or withdrawn entirely by the rating agency if in its judgment circumstances so warrant. Any such downward change in or withdrawal of a rating may have an adverse effect on the marketability and/or market price of the Notes.

CONTINUING DISCLOSURE

In accordance with the Securities and Exchange Commission Rule 15c2-12 (the "Rule") and so long as the Notes are outstanding the City of Owensboro (the "Obligated Person") will agree pursuant to a

Continuing Disclosure Agreement dated as of December 1, 2007 between the City and U.S. Bank, National Association, Louisville, Kentucky, to be delivered on the date of delivery of the Notes, to cause the following information to be provided:

- (i) to each nationally recognized municipal securities information repository ("NRMSIR") and, if one is established for the Commonwealth of Kentucky, to its state information depository ("SID"), certain annual financial information and operating data, including audited financial statements, generally consistent with the information contained in "Appendix B" and "Appendix C" of the Official Statement ("Financial Data"). The annual financial information shall be provided within 210 days after the end of the fiscal year ending June 30, commencing with the fiscal year ending June 30, 2007; provided that the audited financial statements may not be available by such date, but will be made available immediately upon delivery thereof by the auditors for the Obligated Person; and;
- (ii) to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB") and to the SID, if any, notice of the occurrence of the following events, if material, with respect to the Notes:
 - (a) Principal and interest payment delinquencies;
 - (b) Non-payment related defaults;
 - (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
 - (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
 - (e) Substitution of credit or liquidity providers, or their failure to perform;
 - (f) Adverse tax opinions or events affecting the tax-exempt status of the security;
 - (g) Modifications to rights of security holders;
 - (h) Note calls, except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event;
 - (i) Defeasances;
 - (j) Release, substitution or sale of property securing repayment of the securities;
 - (k) Rating changes; and
 - (l) The cure, in the manner provided under the Note Ordinance, of any payment or nonpayment related default.
- (iii) to each NRMSIR or to the MSRB and to the SID, if any, notice of a failure (of which the Obligated Person or Disclosure Agent has knowledge) of and Obligated Person to provide the required annual financial information on or before the date specified in its written continuing disclosure undertaking.

The Continuing Disclosure Agreement provides Noteholders with certain enforcement rights in the event of a failure by the Obligated Person to comply with the terms thereof; however, a default under the Continuing Disclosure Agreement does not constitute a default under the Note Legislation. The Continuing Disclosure Agreement may be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein. Noteholders are advised that the Continuing Disclosure Agreement copies of which are available at the office of the Obligated Party should be read in its entirety for more complete information regarding its contents.

For purposes of this transaction with respect to events as set forth in the Rule:

- (a) there are no debt service reserve funds applicable to the Notes;
- (b) there are no liquidity providers applicable to the Notes; and

APPENDIX A

**CITY OF OWENSBORO, KENTUCKY
GENERAL OBLIGATION BOND ANTICIPATION NOTES, SERIES 2007**

ESTIMATED DEBT SERVICE REQUIREMENTS FOR THE NOTES

ESTIMATED DEBT SERVICE SCHEDULE

Maturity Date	Principal	Interest	Total	Fiscal Year Total
06/01/2008		\$113,502.38	\$113,502.38	\$113,502.38
12/01/2008		126,113.75	126,113.75	
06/01/2009		126,113.75	126,113.75	252,227.50
12/01/2009		126,113.75	126,113.75	
06/01/2010		126,113.75	126,113.75	252,227.50
12/01/2010	\$7,105,000	126,113.75	7,231,113.75	7,231,113.75
Totals	<u>\$7,105,000</u>	<u>\$744,071.13</u>	<u>\$7,849,071.13</u>	<u>\$7,849,071.13</u>

Source: Financial Advisor

THIS PAGE INTENTIONALLY
LEFT BLANK

APPENDIX B

**CITY OF OWENSBORO, KENTUCKY
GENERAL OBLIGATION BOND ANTICIPATION NOTES, SERIES 2007**

ECONOMIC AND FINANCIAL DATA ON THE CITY OF OWENSBORO, KENTUCKY

CITY OF OWENSBORO, KENTUCKY

The City

Owensboro, originally known as "Yellowbanks" in reference to the color of the soil along the Ohio River banks, was first settled in 1797. By 1810, David Morton had opened a general store and population of the settlement grew to 100 by 1815. An 1817 Act of the Kentucky Legislature incorporated the town as "Owensborough", later shortened to "Owensboro".

The Owensboro area has grown steadily, while retaining the "small town quality" of a friendly city of warm-hearted and hospitable people. Owensboro ranks as Kentucky's third largest city in terms of population and is the industrial and cultural capital of western Kentucky.

Location

Owensboro is the county seat of Daviess County, Kentucky, and lies on the southern banks of the Ohio River, one of the nation's major waterways, in the western Kentucky coal field region. Owensboro is located 32 miles southeast of Evansville, Indiana, 123 miles north of Nashville, Tennessee, and 109 miles southwest of Louisville, Kentucky. The William H. Natcher Bridge, a long awaited new bridge from Owensboro into southern Indiana, provides a direct route to Interstate 64 in Indiana, providing a link from St. Louis to Louisville. The Natcher Bridge opened in October of 2002.

Industry and Economic Development

The Owensboro area has emerged as an industrial hub of western Kentucky, attracting major manufacturing and processors in aluminum, distilling, coal mining, steel and natural gas transmission corporations. Locally produced commodities include electrical products, chewing tobacco, paper products, tubes, office furniture, wire, plastic, small electric motors, spaghetti sauce, truck frames, and many others.

The City is active in promoting economic development, as new developmental job growth is necessary to ensure the continued stability of the City's revenue base. Economic indicators and trends reflect stabilization in the area's economy compared to the previous year. As of April 2002, area employment was approximately the same as during the prior 12-month period and averaged approximately 47,133. The April 1, 2002, unemployment rate was 5.39%, about the same as both state and national rates. Active electric and water meters showed slight growth for the year.

An aggressive annexation policy is being pursued to insure continued growth and development for the City of Owensboro. Much of the City's long-term growth potential lies in the Carter Road/Airport Corridor, anchored by the 400-acre Mid-America Airpark. The City of Owensboro has coordinated with Industry, Inc., to complete Mid-America AirPark, which includes AirPark, Tamarack, and Unifirst Drives. The Mid-America AirPark is a valuable tool for attracting new industry to Owensboro. The Owensboro-Daviess County Regional Airport recently completed a \$40 million expansion. The overall outlook for the area's economy continues to remain bright.

Total Population

	2003	2004	2005	2006	2007
Labor Market Area	471,005	474,067	474,583	477,943	478,776
Daviess County	92,540	92,587	92,957	93,334	94,174
Owensboro	54,471	55,000	55,459	55,525	N/A

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

Population by Selected Age Groups, 2007

	Daviess County		Labor Market Area	
	Number	Percent	Number	Percent
Under 15	19,186	20.4	92,896	19.4
15-24	12,676	13.5	65,277	13.6
25-34	11,344	12.0	60,659	12.7
35-44	12,383	13.1	63,682	13.3
45-54	14,003	14.9	71,583	15.0
55-64	10,940	11.6	56,104	11.7
65-74	7,074	7.5	34,998	7.3
75 and older	6,568	7.0	33,577	7.0
Median Age	38.3		38.4	

Source: Applied Geographic Solutions, Simi Valley, CA

Population by Race and Hispanic Origin, 2007

	Daviess County		Labor Market Area	
	Number	Percent	Number	Percent
White	86,711	92.1	440,587	92.0
Black	2,922	3.1	22,221	4.6
Am. Indian & Alaska Native	30	0.0	622	0.1
Asian	591	0.6	3,585	0.7
Native Hawaiian & other Pacific Islander	46	0.0	155	0.0
Other/Multirace	3,872	4.1	11,602	2.4
Hispanic Origin	1,235	1.3	6,530	1.4

Note: Hispanic is not a race category. A person can be white, black, etc. and be of hispanic origin.
Source: Applied Geographic Solutions, Semi Valley, CA

Population Projections

	2012			
Labor Market Area	487,918			
	2010	2015	2020	2025
Daviess County	94,567	97,166	99,438	101,420

Source: Applied Geographic Solutions, Simi Valley, CA (Labor Market Area);
Kentucky State Data Center, University of Louisville (Counties).

Personal Income

	2000	2005	Pct. Change
Daviess County	\$24,635	\$28,259	14.7 %
Kentucky	\$24,412	\$28,272	15.8 %
U.S.	\$29,845	\$34,471	15.5 %
Labor Market Area Range	\$18,405- \$28,480	\$20,429- \$34,194	

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

Households

	2007		2007
	Number of Households	Persons Per Household	Median Household Income
Daviess County	38,860	2.36	\$44,469

Source: Applied Geographic Solutions, Simi Valley, CA

Summary of Recent Locations and Expansions, 2004-Present

	Companies	Reported	
		Jobs	Investment
Manufacturing Location	1	47	\$4,817,000
Manufacturing Expansion	23	350-425	\$112,414,000
Supportive/Service Location	2	113	\$1,815,500
Supportive/Service Expansion	4	265-280	\$12,889,740

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

Firm	Product(s)/Service(s)	Emp.	Year Established
<i>Owensboro</i>			
Barton Brands Ltd	Whiskey, gin, vodka, wines, brandy & cocktail bottling	204	1869
BellSouth Telecommunications	National directory call center (1+411)	200	1997
Dana Corporation	Steel pickup truck frames (Tundra and Sequoia)	380	1997
Daramic Inc	Automotive deep cycle & Industrial battery separators	264	1959
HON Co	Wooden office chairs	260	1945
Kimberly-Clark Corp	Tissue paper & towels	342	N/A
Miles Farm Supply LLC	Agricultural distribution center	175	1973
MPD Inc	Commercial tubes & components, microwave & police radar equipment, breath analyzers, ceramics & ceramic to metal seals	264	1987
Omico Plastics Inc	Blow molded plastic parts	185	1964
Plastech	Plastic blow molded automotive parts	200	1974
Southern Star Central Gas Pipeline Inc	Headquarters	456	2002
Specialty Foods Field Packing Division	Processed meat products	504	1915
Swedish Match North America	Smokeless tobacco products	356	1973
Texas Gas Co	Headquarters, pipeline co.	400	1960
Toyotetsu Mid America LLC	Stamped and welded metal automotive parts	561	2002
Unifirst	Uniform distribution	327	1998
Unilever Foods North America	Pasta and simmer sauces	393	1974
US Bank Home Mortgage	Loan processing and underwriting service center, loan servicing center	685	1992
Yager Materials LLC	Ready-mixed concrete, crushed limestone, sand & gravel	192	1917
<i>Philpot</i>			
Premium Allied Tool Inc	Precision metal stampings, deep draw stampings, wire forms & strip forms	194	1966

Source: Kentucky Cabinet for Economic Development (8/21/2007).

Tax Base Information

<u>Year</u>	<u>Real Estate</u>	<u>Tangible Personal (1)</u>	<u>Real Estate Franchise</u>	<u>Tangible Franchise</u>	<u>Total Assessed Value</u>
06/07	\$2,240,389,072	\$307,709,918	\$20,032,146	\$50,883,475	\$2,619,014,611
05/06	2,149,205,217	253,083,835	30,242,635	65,784,833	2,498,316,520
04/05	2,028,537,916	232,560,600	43,075,632	84,433,475	2,388,607,623
03/04	1,907,097,401	225,651,953	32,854,639	69,256,167	2,234,860,160
02/03	1,858,072,636	259,602,395	27,756,258	74,396,746	2,219,828,035
01/02	1,813,449,766	269,369,280	23,704,177	74,755,573	2,181,278,796
00/01	1,703,101,329	245,253,177	25,969,097	71,182,692	2,045,506,295

(1) Includes Motor Vehicles and Watercraft.

Assessment Rates (per \$100.00 assessed valuation)

<u>Year</u>	<u>Real Estate</u>	<u>Tangible Personal</u>	<u>Real Estate Franchise</u>	<u>Tangible Franchise</u>	<u>Motor Vehicles</u>	<u>Watercraft</u>
06/07	.2608	.2744	.2608	.2744	.3030	.3030
05/06	.2580	.3072	.2580	.3072	.3030	.3030
04/05	.2586	.3091	.2586	.3091	.3030	.3030
03/04	.2612	.2946	.2612	.2946	.3030	.3030
02/03	.2541	.2541	.2541	.2541	.3030	.3030
01/02	.2472	.2472	.2472	.2472	.3030	.3030
00/01	.2472	.2472	.2472	.2472	.3030	.3030

Tax Collections

<u>Year</u>	<u>Total Charges</u>	<u>Net to City</u>
06/07	\$8,129,079	\$8,045,021
05/06	7,778,567	7,641,239
04/05	7,514,441	7,396,847
03/04	7,147,174	7,024,928
02/03	6,759,522	6,598,792
01/02	6,526,836	6,378,460
00/01	6,113,868	5,909,143

Largest City Principal Taxpayers (for year ended 6/30/07)

<u>Name</u>	<u>Assessment</u>
Wal-Mart Real Estate	\$36,111,965
Toyotetsu Mid America	30,171,969
Towne Square Mall	26,021,000
Ragu	22,856,674
Unifirst Corp	19,152,893
Atmos Energy	18,441,794
Bellsouth	17,330,401
Texas Gas Transmission	17,168,749
Field Packing	16,068,000
Lowe's	15,375,737

APPENDIX C

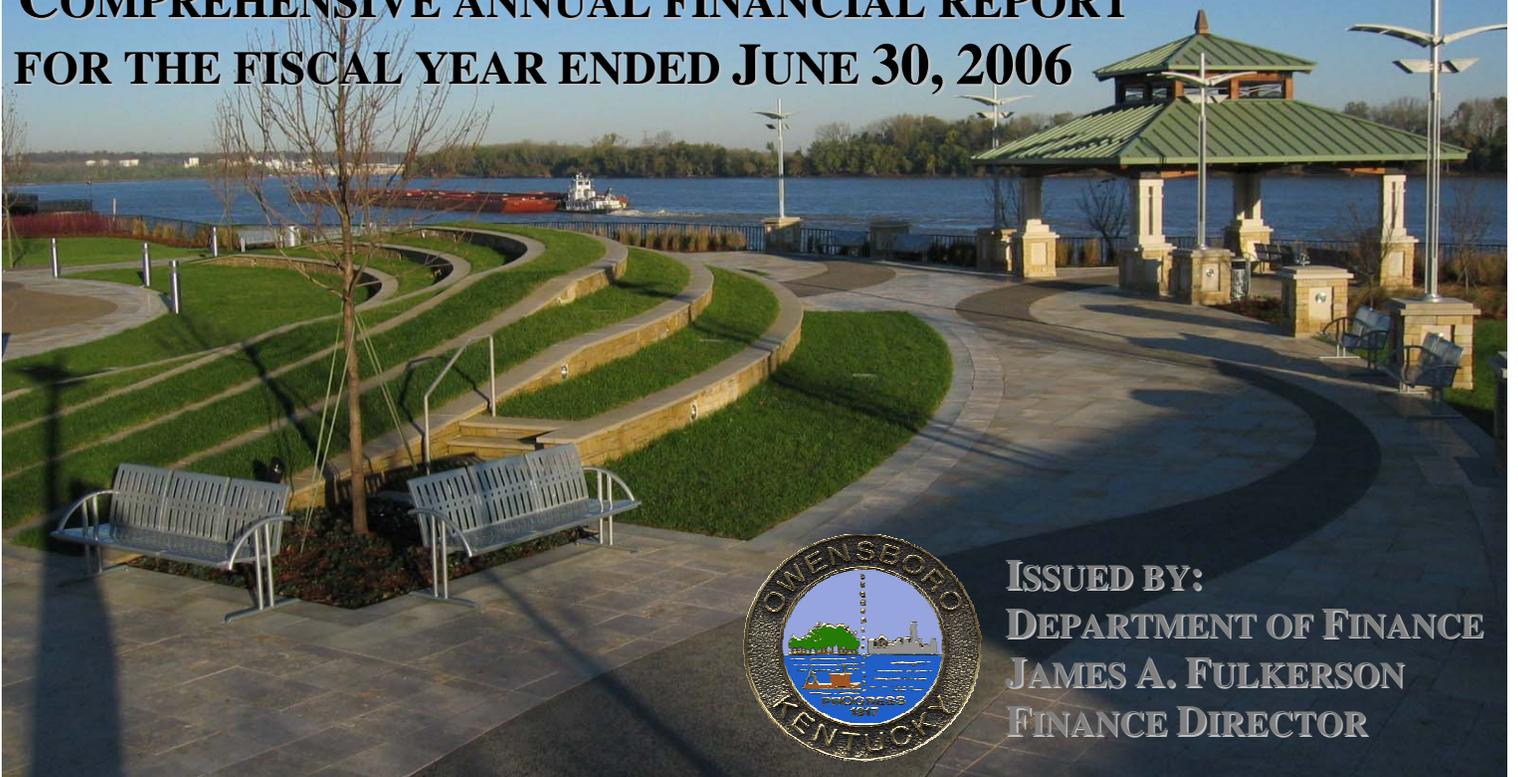
**CITY OF OWENSBORO, KENTUCKY
GENERAL OBLIGATION BOND ANTICIPATION NOTES, SERIES 2007**

AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS OF CITY OF OWENSBORO,
KENTUCKY FOR FISCAL YEAR ENDING JUNE 30, 2006



CITY OF OWENSBORO

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2006



**ISSUED BY:
DEPARTMENT OF FINANCE
JAMES A. FULKERSON
FINANCE DIRECTOR**

These Ohio River photographs represent the earliest phases of Owensboro's multi-year Riverfront Development Project.

City of Owensboro
Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2006



Issued by the
Department of Finance

James A. Fulkerson
Director of Finance

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE CITY OF OWENSBORO, KENTUCKY
YEAR ENDED JUNE 30, 2006**

TABLE OF CONTENTS

Page(s)

INTRODUCTORY SECTION

Letter of Transmittal.....	1-9
Government’s Principal Officials.....	10
City of Owensboro Organizational Chart.....	11
GFOA Certificate of Achievement for Excellence in Financial Reporting.....	12

FINANCIAL SECTION

INDEPENDENT AUDITORS’ REPORT	13-14
------------------------------------	-------

MANAGEMENT DISCUSSION AND ANALYSIS (required supplementary information).....	15-25
--	-------

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements

Statement of Net Assets	26
Statement of Activities	27

Fund Financial Statements

Governmental Fund Financial Statements

Balance Sheet	28
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	29
Statement of Revenues, Expenditures and Changes in Fund Balances	30
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	31

Proprietary Fund Financial Statements

Statement of Net Assets – Business-Type Activities – Enterprise Funds – Governmental Activities – Internal Service Funds	32
Statement of Revenues, Expenses and Changes in Fund Net Assets – Business-Type Activities – Enterprise Funds – Governmental Activities – Internal Service Funds	33
Statement of Cash Flows – Business-Type Activities – Enterprise Funds – Governmental Activities – Internal Service Funds	34

Fiduciary Fund Financial Statements

Statement of Fiduciary Net Assets	35
Statement of Changes in Fiduciary Net Assets.....	36

Component Units Financial Statements

Statement of Net Assets..... 37
Statement of Activities..... 38

Notes to Basic Financial Statements..... 39-78

REQUIRED SUPPLEMENTAL INFORMATION OTHER THAN MD&A

Pension Schedules

Schedules of Funding Progress..... 79
Schedule of Employer Contributions 80

Budgetary Comparison Schedules – General and Major Special Revenue Funds

General Fund 81-82
Your Community Vision Special Revenue Fund..... 83

Notes to Required Supplementary Information (RSI) on Budgetary Accounting and Control 84

COMBINING FINANCIAL STATEMENTS

Nonmajor Governmental Funds

Combining Balance Sheet 85
Combining Statement of Revenues, Expenditures and Changes in Fund Balances 86
Budgetary Comparison Schedules:
Community Development Special Revenue Fund..... 87
Greenbelt Special Revenue Fund..... 88
Drug and Property Recovery Special Revenue Fund..... 89
Economic Development Special Revenue Fund 90

Nonmajor Enterprise Funds

Combining Statement of Net Assets..... 91
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets..... 92
Combining Statement of Cash Flows 93

Internal Service Funds

Combining Statement of Net Assets..... 94
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets..... 95
Combining Statement of Cash Flows 96

Fiduciary Funds

Combining Statement of Fiduciary Net Assets – Pension Trust Funds..... 97
Combining Statement of Changes in Fiduciary Net Assets – Pension Trust Funds 98
Combining Statement of Assets and Liabilities – Agency Funds 99
Combining Statement of Changes in Assets and Liabilities – Agency Funds..... 100

Component Unit

Owensboro Municipal Utilities	
Combining Statement of Net Assets	101
Combining Statement of Activities	102

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

Schedule by Source	103
Schedule by Function and Activity	104
Schedule of Changes by Function and Activity.....	105

STATISTICAL SECTION

General Information	106-112
Changes in Fund Balances of Governmental Funds – Last Ten Fiscal Years.....	113
Changes in Fund Balances of Governmental Funds – 2002 Fiscal Year Converted to GASB 34	114
General Governmental Expenditures by Function – Last Ten Fiscal Years	115
General Revenue by Source - Last Ten Fiscal Years	116
Tax Revenue by Source - Last Ten Fiscal Years	117
Property Tax Levies and Collections - Last Ten Fiscal Years.....	118
Assessed and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years	119
Ad Valorem Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years	120
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capital – - Last Ten Fiscal Years.....	121
Computation of Legal Debt Margin	122
Computation of Direct and Overlapping Debt	123
Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Expenditures - Last Ten Fiscal Years	124
Property Value, Construction and Bank Deposits - Last Ten Fiscal Years	125
Demographic Statistics - Last Ten Fiscal Years	126
Full-Time Equivalent City Government Employees by Function	127
Principal Employers Current Year and Nine Years Ago.....	128
Principal Taxpayers	129
Schedule of Insurance in Force.....	130
City Employees' Pension Fund - Ten Year Comparative Summary of Net Assets Available for Benefits and Total Actuarial Present Value of Credited Projected Benefits or Pension Benefit Obligation.....	131
City Employees' Pension Fund - Ten Year Comparative Summary of Unfunded (Excess) Actuarial Present Value of Credited Projected Benefits or Pension Benefit Obligation and Annual Active Member Payroll	132
City Employees' Pension Fund - Ten Year Comparative Summary of Actuarial Values and Percentage Covered by Net Assets Available for Benefits.....	133
City Employees' Pension Fund - Ten Year Comparative Summary of Revenues by Source and Expenses by Type	134
Police and Firefighters' Retirement Fund - Ten Year Comparative Summary of Net Assets Available for Benefits and Total Actuarial Present Value of Credited Projected Benefits or Pension Benefit Obligation	135
Police and Firefighters' Retirement Fund - Ten Year Comparative Summary of Unfunded (Excess) Actuarial Present Value of Credited Projected Benefits or Pension Benefit Obligation and Annual Active Member Payroll	136
Police and Firefighters' Retirement Fund - Ten Year Comparative Summary of Actuarial Values and Percentage Covered by Net Assets Available for Benefits	137
Police and Firefighters' Retirement Fund - Ten Year Comparative Summary of Revenues by Source and Expenses by Type	138
Miscellaneous Statistical Data	139-143

November 21, 2006

Honorable Mayor and City Commissioners, City Manager, and Citizens of Owensboro:

The Comprehensive Annual Financial Report of the City of Owensboro (the "City") for the fiscal year ended June 30, 2006, is hereby submitted. Responsibility for accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the City of Owensboro. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

FORMAT

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial and Statistical. The Introductory Section includes this transmittal letter, the City's organizational chart, and a list of principal officials. The Financial Section includes the auditor's report, management's discussion and analysis, basic financial statements, required supplementary information and other supplementary information. The Statistical Section includes selected unaudited financial and demographic information, generally presented on a multi-year basis.

LEGAL REQUIREMENT

This report has been prepared pursuant to and in compliance with the State Statutes of Kentucky, which require an annual audit of books of account, financial records and transactions of the City. In addition to meeting the requirements set forth in State Statutes, the audit is intended to meet the requirements of the federal Single Audit Act Amendments of 1996 and related OMB Circular A-133. The independent auditor's report on the basic financial statements is included in the financial section of this report. The independent auditor's reports related specifically to the single audit are published separately. To receive the Single Audit Report, direct a request to the City Finance Director.

Generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

As demonstrated by the statements and schedules included in this report, the City continues to meet its responsibility for sound financial management.

REPORTING ENTITY

The City provides a wide range of municipal services and includes, for financial reporting purposes, all funds, agencies, boards, commissions, trusts and authorities involved in the provision of these services and for which, in the opinion of the City officials, the City is financially accountable. The City is financially accountable for the organizations that make up its legal entity. The City is financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and it is either able to impose its will on that organization or there is potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. The City is also financially accountable for fiscally dependent governmental organizations.

The City has performed a comprehensive evaluation of its financial reporting entity in accordance with Governmental Accounting Standards Board Statement No. 14, *"The Financial Reporting Entity"*, and, based on the foregoing criteria, has included the following separate organizations as discretely presented component units within the City's basic financial statements:

Owensboro Municipal Utilities
 Owensboro Riverport Authority

The following entities do not meet the financial accountability criteria discussed above and are not included in this report:

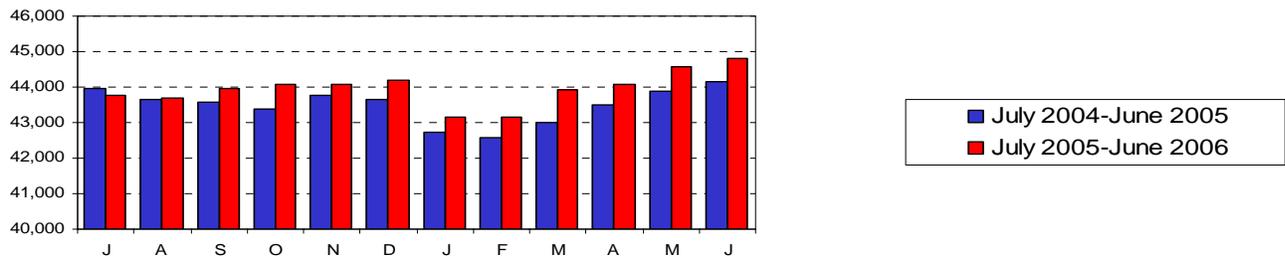
Owensboro Public Housing Authority
 Owensboro-Daviess County Hospital Board
 Owensboro-Daviess County Planning Commission
 Regional Water Resource Agency

The Owensboro-Daviess County Regional Airport Board is a joint venture between the City and County governments. The City's equity interest in this joint venture is reflected in the Comprehensive Annual Financial Report.

The City provides a full range of municipal services, including public safety (police and fire), sanitation, street maintenance, transit, culture/recreation, and general administrative services.

ECONOMIC DEVELOPMENT AND OUTLOOK

Owensboro continues to grow and the City unemployment rate, as measured by the Kentucky Cabinet for Human Resources, continues to decline. Employment in the Owensboro Metropolitan Statistical Area (MSA) during the two-year period ended June 30, 2006, is shown below.



Source: KY Cabinet for Human Resources

The City continues to be actively involved in promoting economic development, as new developmental job growth is necessary to ensure the continued stability of the City's revenue base. Economic indicators and trends reflect improvement in the area's economy over the previous year. Area employment averaged 44,811, slightly up over the prior 12-month period. The June 30, 2006, unemployment rate was 5.9%, slightly below the state rate of 6.1% and slightly above the national rate of 4.8%. Active electric and water meters were up .47% and .76%, respectively. Residential construction permits were obtained for 177 units of single-family units, down 8.76%. Construction permits for multi-family houses increased from 3 to 17, a 466.67% increase. The value of commercial and industrial permits was \$43,716,740.

SIGNIFICANT EVENTS AND INITIATIVES

The accomplishments by each department in Fiscal Year 2005-2006 embody each of the characteristics set forth in the City's mission statement. The City continues to form partnerships with other departments, outside state, federal, and local departments, and with the citizenry itself, to meet its goals and spend its tax dollars wisely. The City's response to recent storm-related crises continues to confirm that the goals of each department contribute to the higher mission statement of the City. An efficiently functioning City government was able to respond quickly to the needs of the citizens and to continue addressing those needs with high levels of commitment and standards of excellence. Refinement of department goals and the City mission statement have strengthened those commitments and standards.

The City had much to be proud of in 2005-2006. The City's commitment to public safety, stormwater management, and street repair was emphasized in the previous fiscal year, as it is in the current budget. Other accomplishments include:

- Secured \$40,000,000 federal appropriation for riverfront development with the help of Senator Mitch McConnell.
- Completed and partially funded feasibility study for a downtown arena and a baseball stadium; completed design of a new boat ramp and selected English Park as its new location.
- Developed a program to prosecute delinquent occupational and net profit taxpayers.
- Oversaw construction on new Fisher Park Field House and Kendall Perkins Park sprayground; designed and constructed new restroom and maintenance building at Southern Little League; reviewed new riverfront wall design; implemented new median program; designed and completed Phase 1 of Chautauqua Park new trail lights; completed new airport practice fields, Morris Park field lights, and Greenbelt repairs; and completed the latest Greenbelt projects.
- Constructed 11 new homes in 2005-06; secured properties for and created Old Germantown Neighborhood Park conceptual design; began public process for final construction concept; began arranging for Mercy Heights Neighborhood Redevelopment Plan.
- Developed a stronger confidential informant pool and expanded informants' roles of responsibility to the Criminal Investigation Division; worked with Crime Stoppers leads in order to solve incidents. Successfully arrested a child exploitation predator during a joint internet crime investigation between the Police Department and the FBI. Obtained over \$1 million, the largest grant in Kentucky, from the Office of Homeland Security to further development of the Ohio Valley Interoperable Communications Consortium. Established the region's first Regional Bomb Squad certified and trained by the FBI.
- Continued implementation of Mosquito Control Program, Pavement Management Program, and Regional Water Resource Agency Stormwater Repair/Maintenance Program; cleaned 35 miles of ditches, cleaned Strawbridge Place Ditch, and completed re-grade of Southtown Boulevard Ditch.
- Completed additional year without a Sanitation rate increase on the \$12.00 monthly user fee charge designed to expire in 2004-05.
- Hosted the largest United States Tennis Association Kentucky Adult State Mixed Tournament with 533 participants; was awarded the USTA Kentucky Adult State Mixed Tournament for 2006, the USA League Tennis Kentucky Adult Open for 2007, and the 2007 ASA Girls 16 and Under Class B Fast Pitch Northern National Championship Tournament; created \$16.8 million in economic impact for our community through tournaments hosted at the Softball Complex.

ACCOUNTING SYSTEM, INTERNAL CONTROLS AND BUDGETARY CONTROLS

Accounting System

The Finance Department is responsible for providing to the City all financial services, including accounting and reporting, payroll, accounts payable, cash and investment management, debt management, budgeting and purchasing. The City has computerized systems of accounting and reporting, and payroll/personnel.

Internal Controls

City management is responsible for establishing and maintaining an internal control structure designed to ensure the assets of the City are protected from loss, theft or misuse, and that adequate accounting data is compiled to allow for preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that cost of a control should not exceed the benefit to be derived, and that valuation of costs and benefits requires estimates and judgment by management.

As a recipient of federal and state financial assistance, the City is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by City management and by the City's independent certified public accounting and auditing firm.

As a part of the City's single audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's single audit for the fiscal year ended June 30, 2006, disclosed no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

Budgetary Controls

The City additionally maintains budgetary controls. The object of the controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Commission. Activities of the General Fund and certain Special Revenue Funds are included in the annual appropriated budget. The level of budgetary control (this is the level at which expenditures cannot legally exceed the appropriated amount) is at the departmental level within an individual fund. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control.

GENERAL GOVERNMENTAL FUNCTIONS

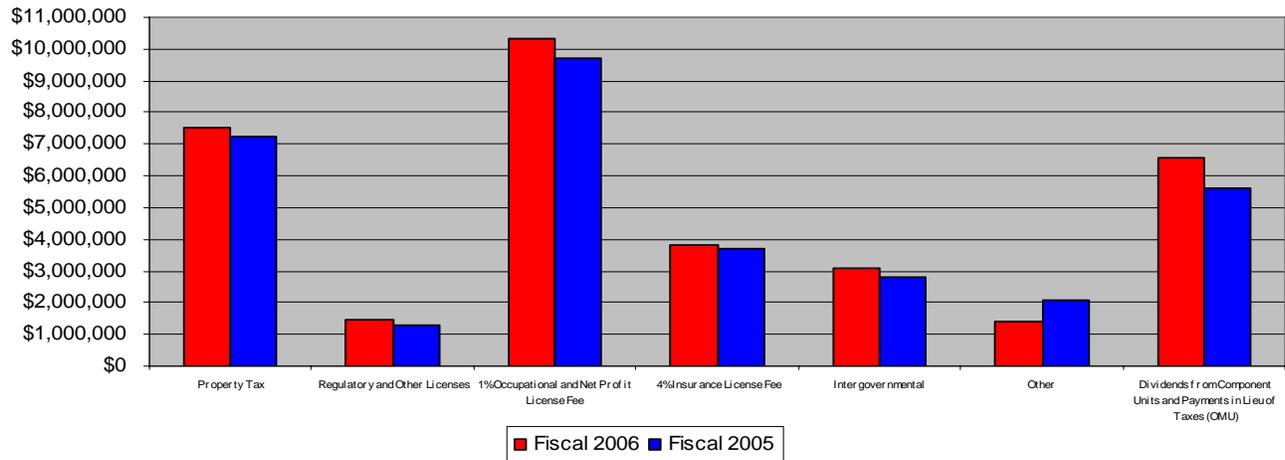
Information regarding all City funds, including enterprise, internal service, capital projects, debt service, and special revenue, is contained in the MD&A at pages 16-25 of the audit report.

General Fund

General Fund revenue and other financing sources totaled \$34,663,887 in fiscal year 2005-2006, an increase of 6.7% over fiscal year 2004-2005. Expenditures and transfers out totaled \$32,862,172, an increase of 2.2%. The City's general fund unreserved fund balance of \$3,590,854 gives the City a strong financial posture. For further information on the General Fund, please see MD&A, pages 21-22.

GENERAL FUND MAJOR REVENUE CATEGORIES

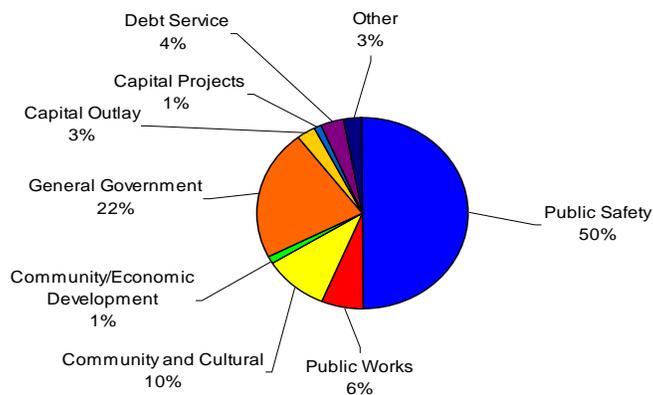
Category	Fiscal 2006	Fiscal 2005	Difference In Amount	%
Property Tax	\$7,531,520	\$7,242,711	\$ 288,809	4%
Regulatory and Other Licenses	1,435,166	1,313,469	121,697	9%
1% Occupational and Net Profit License Fee	10,330,308	9,716,487	613,821	6%
4% Insurance License Fee	3,798,730	3,700,353	98,377	3%
Intergovernmental	3,082,989	2,791,385	291,604	10%
Other	1,412,264	2,083,001	(670,737)	-32%
Dividends from Component Units and Payments in Lieu of Taxes (OMU)	6,576,042	5,633,555	942,487	17%
Total	\$34,167,019	\$32,480,961	\$1,686,058	5%



Uses of General Fund resources are also depicted on the following chart and table:

USE OF GENERAL FUND REVENUE RESOURCES

Category	Fiscal 2006	Fiscal 2005	Difference in Amount	%
Public Safety	\$16,337,753	\$ 15,489,039	\$ 848,714	5%
Public Works	2,068,594	3,544,292	(1,475,698)	42%
Community and Cultural	3,303,781	3,412,635	(108,854)	-3%
Community/Economic Development	361,015	327,348	33,667	10%
General Government	7,371,075	6,180,140	1,190,935	19%
Capital Outlay	935,138	877,550	57,588	7%
Transfers Out:				
Capital Projects	375,000	225,000	150,000	67%
Debt Service	1,198,583	1,210,098	(11,515)	-1%
Other	911,233	901,243	9,990	1%
Total	\$32,862,172	\$ 32,167,345	\$ 694,827	2%



Capital Projects Fund

Expenditures for the Capital Projects Funds totaled \$2,648,228. Major projects included the Riverfront project and design, and the Stormwater Master Plan.

Special Revenue Fund

Special Revenue funds are restricted to use by federal government and other external requirements. Revenues for these funds increased by 66% over the prior year and amounted to \$12,376,918.

Debt Service Fund

The Debt Service Fund is used to account for payment of bond principal and interest. These payments totaled \$2,473,786 for the fiscal year ended June 30, 2006. Lease payments (operating transfers) from the General Fund of the City of Owensboro and various civic organizations finance this fund.

ENTERPRISE FUNDS

These funds include the City's enterprise funds as well as certain component units that provide electric, water, and riverport services. City pension funds and non-expendable trust funds are excluded from the analysis. Enterprise funds are used to account for operations:

- that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or
- 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.

The City's four enterprise funds provide parking garage operations, sanitation, recreation, and transit services. With the exception of sanitation, which is self-supporting, the other enterprises receive subsidy from the General Fund. The following table summarizes the City's enterprise funds at June 30, 2006:

Summary of City Enterprise Funds

Enterprise	Net Income (Loss)		Fund Equity (Deficit)		Total Assets	
	Fiscal 2006	Increase/ Decrease from 2005	Fiscal 2006	Increase/ Decrease from 2005	Fiscal 2006	Increase/ Decrease from 2005
Sanitation Other Enterprise Funds	\$1,364,783	\$261,281	\$8,007,598	\$1,364,783	\$8,362,147	\$1,429,773
	(11,526)	109,096	1,309,578	(11,526)	1,540,991	(12,949)
Total	\$1,353,257	\$370,377	\$9,317,176	\$1,353,257	\$9,903,138	\$1,416,824

The City's component unit enterprises include the Riverport Authority and Owensboro Municipal Utilities (OMU), which provides the electric, light and power system and the water works system. The chart below depicts a summary of component unit enterprise activity as of June 30, 2006.

Summary of Component Unit Enterprises

Enterprise	Net Income		Fund Equity		Total Assets	
	Fiscal 2006	Increase/ Decrease from 2005	Fiscal 2006	Increase/ Decrease from 2005	Fiscal 2006	Increase/ Decrease from 2005
Electric (OMU)	\$ 2,649,235	\$(11,290,075)	\$116,637,600	\$ 2,649,235	\$334,862,124	\$(2,754,917)
Water (OMU)	1,136,359	(405,085)	27,912,921	1,136,359	52,200,620	(351,477)
Riverport	1,765,696	559,026	16,581,750	1,765,696	26,420,395	1,597,799
Total	\$ 5,551,290	\$(11,136,134)	\$161,132,271	\$ 5,551,290	\$413,483,139	\$(1,508,595)

PENSION FUND MANAGEMENT

City of Owensboro employees are covered by one of three retirement systems: 1) Police and Firefighters' Retirement Fund; 2) City Employees' Pension Fund; and 3) County Employees' Retirement System (CERS).

The Police and Firefighters' Retirement Fund is a contributory defined benefit plan created by ordinance under state statute. Members contributed 8% of their earnings. A board of trustees manages the investments of this fund, which uses J.P. Morgan as its advisor. Monthly reports are received and quarterly meetings are held with the professional managers to review progress and objectives of the fund. The actuarial update showed assets were less than projected liabilities by \$879,481 as of June 30, 2006. There were no active members and 74 pensioners as of June 30, 2006.

The City Employees' Pension Fund is a contributory defined benefit plan created by ordinance under state statute. The 2006 actuarial report reported that the plan covered no active employees and 66 retirees as of June 30, 2006. The actuarial report showed assets in excess of projected plan liabilities of \$1,389,251. Members contributed 4.0% of employee earnings. J.P. Morgan is financial advisor to the board of trustees.

The County Employees Retirement System is a multiple-employer, cost-sharing, defined benefit plan administered by the Kentucky Retirement System. All future full-time City employees will be members of the County Employees Retirement System (CERS). All employees previously covered by the City's plan, except for 7 active members, converted to CERS in October 1986. On August 1, 1988, all current police and firefighters had the option of changing from the present plan to the County Employees Retirement System. All but 6 active members chose the County Employees Retirement System. Each employee now participating in CERS contributes 5% if non-hazardous and 8% if hazardous. The City contributed 10.98% for non-hazardous and 25.01% for hazardous employees during the year ended June 30, 2006.

DEBT ADMINISTRATION

The City of Owensboro's long-term bonds and other long-term obligations amounted to \$22,780,062 at June 30, 2006. Changes in the City's general long-term debt are as follows:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006
Governmental activities:				
Bonds and notes payable:				
Lease revenue bonds:				
Series 1995	\$ 2,750,000	\$ -	\$(2,750,000)	\$ -
Series 1989	690,000	-	(50,000)	640,000
Floating indebtedness bonds:				
Series 2005	357,000	-	(115,000)	242,000
General obligation bonds:				
Series 1999	485,000	-	(60,000)	425,000
Series 1999B	560,000	-	(130,000)	430,000
Series 2001	1,890,000	-	(445,000)	1,445,000
Series 2002A	2,970,000	-	(120,000)	2,850,000
Series 2002B	6,370,000	-	(265,000)	6,105,000
Series 2003A	3,001,000	-	(211,000)	2,790,000
Series 2006	-	4,100,000	-	4,100,000
Series 2006 Refunding	-	2,550,000	(215,000)	2,335,000
Notes payable:				
OMIC	88,206	-	(51,806)	36,400
Other	870,000	-	-	70,000
	<u>20,031,206</u>	<u>6,650,000</u>	<u>(4,412,806)</u>	<u>22,268,400</u>
Less deferred amounts:				
For issuance discounts	(90,643)	-	12,335	(78,308)
On refunding:				
Series 2002B	(191,772)	-	31,962	(159,810)
Series 2003A	(307,672)	-	27,970	(279,702)
Series 2006 Refunding	-	(131,398)	3,285	(128,113)
Total bonds and notes payable	19,441,119	6,518,602	(4,337,254)	21,622,467
Net pension obligation	1,361,904	-	(1,361,904)	-
Compensated absences	3,106,964	2,178,640	(1,841,117)	3,444,487
Total Governmental	<u>\$23,909,987</u>	<u>\$8,697,242</u>	<u>\$(7,540,275)</u>	<u>\$25,066,954</u>
Business-type activities:				
Compensated absences	\$ 231,979	\$ 189,782	\$ (199,810)	\$ 221,951

CASH MANAGEMENT

The City of Owensboro, Kentucky, sponsors an external investment pool. The internal portion of this fund is allocated to the City's funds participating and the external portion is accounted for in the Investment Trust Fund of the City's reporting entity. The pool is not registered with the SEC as an investment company. The pool is not subject to regulatory oversight. The pool investments are reported at fair value. Investments are valued at the market quotation on the last business day of the fiscal year. Market quotations are obtained from brokers or available published services. Participants' shares sold and redeemed are determined using specific identification of the participant's cost basis in the investment pool. The City's policy is to fully insure or collateralize its deposits and investments, thereby minimizing credit and market risk.

RISK MANAGEMENT

The City uses various risk control techniques to minimize accident-related losses, with the major emphasis on employee accident prevention training. The City continued a comprehensive study of all insurance programs in Fiscal 2005-2006.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association (GFOA) of the United States and Canada awarded the City a Certificate of Achievement for Excellence in Financial Reporting for fiscal year ended June 30, 2005, the 25th year Owensboro has received this prestigious award.

In order to be awarded this Certificate, the City published an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. This report satisfied both generally accepted accounting principles and applicable legal requirements.

The Certificate is valid for a period of one year only. We believe our current report continues to conform to program requirements and will submit it to GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA Distinguished Budget Presentation Award for its annual budget document for the 6th year. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

ACKNOWLEDGMENTS

Preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire Finance Department staff. We wish to express our appreciation to all department members who assisted and contributed to its preparation, with special thanks to Riney, Hancock & Co., PSC. We also thank the Mayor, the City Commissioners, and the City Manager for their interest, support, and integrity in directing the City's financial operations in a responsible, progressive manner.

Respectfully submitted,



James A. Fulkerson
Director of Finance

DIRECTORY OF PUBLIC OFFICIALS

ELECTED OFFICIALS - BOARD OF COMMISSIONERS

Mayor Tom Watson

Commissioner Charles Castlen
(Mayor Pro Tem)

Commissioner Jim Glenn

Commissioner Candance Brake

Commissioner Ron Payne

APPOINTED OFFICIALS AND DEPARTMENT HEADS

City Manager	Bob Whitmer
Operations Manager.....	Tony Cecil
City Attorney.....	David Fowler
City Clerk.....	Carol Blake
City Engineer.....	Joe Schepers
Community Development	Keith Free
Facilities Maintenance Superintendent.....	Lelan Hancock
Director of Finance/Treasurer.....	Jim Tony Fulkerson
Fire Chief.....	Ronnie Heep
Garage Superintendent	Eddie Buchanan
Information Services Director	Harvey Sopher
Parks & Recreation Director	Cyndi Sturgeon
Personnel Director.....	Danielle Woodward
Police Chief	John Kazlauskas
Purchasing Manager	Joey Beatty
Sanitation/Street Superintendent.....	Bill Parrish
Transit System Manager	Louis Lindsay

City of Owensboro

Organization Chart



Our Values



We promote an enthusiastic partnership with the community, elected officials, and City employees to achieve our vision and our goals.



We care about those served.



We pursue excellence.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Owensboro,
Kentucky

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry

President

Jeffrey R. Emmer

Executive Director



Riney, Hancock & Co., PSC
 Certified Public Accountants & Financial Advisors

2900 Veach Road, Suite 2
 Owensboro, Kentucky 42303
 270-926-4540
 Fax: 270-926-1494

313 Southeast First Street
 Evansville, Indiana 47713
 812-423-0300
 Fax: 812-423-6282

www.rineyhancock.com
 E-mail: info@rineyhancock.com

Member of
PKF North American Network
An association of legally independent firms

INDEPENDENT AUDITORS' REPORT

The Honorable Tom Watson, Mayor
 and Board of Commissioners
 City of Owensboro, Kentucky

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006, on our consideration of the City of Owensboro, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, pension schedules, and budgetary comparison schedules are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied

City of Owensboro, Kentucky
Page Two

certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining financial statements, statistical section, and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Owensboro, Kentucky. The combining financial statements and other schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Riney, Hancock + Co., PSC

Owensboro, Kentucky
August 25, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Owensboro ("City") offers Management's Discussion and Analysis to provide a narrative overview and analysis of City financial activities for fiscal year ended June 30, 2006. To fully understand the entire scope of the City's financial activities, this information should be read in conjunction with the letter of transmittal (pages 1-9) and the financial statements (pages 26-105) provided in this document.

I. Financial Highlights

- Assets exceeded liabilities by \$60.3 million at the close of the 2005-2006 fiscal year. Of this amount, \$18.7 million (unrestricted net assets) may be used to meet City government's ongoing obligations to citizens and creditors.
- Total net assets increased by \$4,324,135.
- At fiscal year end, City governmental funds reported a combined ending fund balance of \$9.8 million. Approximately 65% of this total amount, \$6.4 million, is unreserved and available for spending at the City's discretion.
- At the end of the current fiscal year, unreserved general fund balance was \$3.59 million, 11.8% of total general fund expenditures.

II. Overview of Financial Statements

This discussion and analysis serves as an introduction to the City's basic financial statements, which consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

A. Government-Wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of City finances in a manner similar to private-sector business.

The Statement of Net Assets presents information on all City assets and liabilities, with the difference between assets and liabilities reported as net assets. Monitoring increases and/or decreases in net assets over time helps the City to recognize whether its financial position is deteriorating, stagnating, or improving.

The Statement of Activities shows how City net assets changed during the past fiscal year. All net asset changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in the Statement of Activities for some items that will only result in cash flows in the future (e.g., uncollected taxes and earned but unused vacation leave).

These two government-wide financial statements separate City functions primarily supported by taxes and intergovernmental revenues (governmental activities) from other City functions that are intended to recover all or a significant portion of expenses through user fees and charges (business-type activities). City governmental activities include general government, public safety, public works, community and economic development, and community and cultural. Business-type activities of the City include sanitation, transit, recreation, and parking garage operations.

Government-wide financial statements include not only the City (the primary government), but also a legally separate Owensboro Municipal Utilities and Owensboro Riverport Authority for which the City is financially accountable (component units). Financial information for the component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 26-27 of this report.

B. Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over segregated resources for specific activities or objectives. The City of Owensboro, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. City funds can be divided into three categories:

1) Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike government-wide financial statements, however, governmental fund financial statements focus on near-term inflow and outflows of spendable resources, as well as on balances of spendable resources available at fiscal year-end. This information can help the City when it evaluates near-term financing requirements.

The City maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Your Community Vision, Wellness Fund, and Debt Service Fund, all of which are considered to be major funds. Data from the other seven (7) governmental funds are combined into a single aggregated presentation. Individual fund data for each non-major governmental fund is provided in the form of combining statements elsewhere in this report.

Readers may better understand the long-term impact of the City near-term financing decision by comparing the narrow-focus government funds financial statements with governmental activities in the government-wide financial statements. The governmental fund balance sheet (pages 28-29) and the statement of revenues, expenditures and changes in fund balances (pages 30-31) provide a reconciliation to ease comparison between governmental funds and governmental activities.

The basic governmental fund financial statements can be found at pages 28-31 of this report.

2) Proprietary Funds. The City maintains two different types of proprietary funds:

- a. **Enterprise funds**. Enterprise funds report the same functions presented as business-type activities in the government-wide financial statements and are used to account for operations:
 - that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or
 - where the governing body decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City uses four enterprise funds to account for Transit, Sanitation, Recreation and Parking Garage operations, as well as certain component units that provide electric, water, and riverport services. These component units, which each have their own board of directors, are also Enterprise Funds. With the exception of Sanitation and the component units, which are self-supporting, the other enterprises receive subsidy from the General Fund.

The City's component unit enterprises are Owensboro Municipal Utilities (OMU), which provides the electric, light and power system and the water works system, and the Owensboro Riverport.

- b. **Internal Service funds** are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Insurance, Garage, Facilities Maintenance (buildings and grounds), and Fleet and Facilities Maintenance (fleet and long-term buildings and vehicle expenses) operations. Internal Service Funds have been included within governmental activities in the government-wide financial statements because these funds predominantly benefit governmental functions versus business-type functions.

Proprietary funds provide the same kind of information as government-wide financial statements, but in greater detail. Individual data for the proprietary fund financial statements is presented in the form of combining statements at pages 32-34 of this report. Individual data for the internal service fund financial statements are likewise presented in the form of combining statements at pages 93-96 of this report.

- 3) Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government and are not reflected in government-wide financial statements because those resources are not available to support City programs. Individual data for the City's four fiduciary funds (City Employees Pension, Police and Firefighters Retirement, Investment Trust, and Agency) are presented in the form of combining statements at pages 97-98 of this report.

C. Notes to the Financial Statements

These notes provide additional information crucial to fully understanding data provided in the government-wide and fund financial statements. Notes to the financial statements can be found at pages 39-78 of this report.

D. Other Information

In addition to basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning City funding of its obligation to provide pension benefits to its employees and budgetary comparison schedules for general and major special revenue funds. The General Fund and the Wellness Fund are the budgeted major general and special revenue funds. Required supplementary information can be found on pages 79-84 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 81-102 of this report.

III. Government-Wide Financial Analysis

As previously indicated, net assets may serve over time as a useful indicator of the City's financial position. City assets exceeded liabilities by \$60.3 million at June 30, 2006.

The largest portion of the City's net assets (58.4%) reflects its investment in capital assets (i.e., land, buildings, machinery, and equipment) less outstanding related debt used to acquire those assets. The City uses these capital assets to provide service to citizens and as a result, these assets are not available for future spending. The City's capital assets investment is reported net of related debt, but the resources to pay this debt must be provided from other sources since the capital assets cannot be used to liquidate the liabilities.

An additional portion of City net assets (10.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$18.7 million) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the last fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

City of Owensboro Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Current and other assets	\$32,374,017	\$32,812,929	\$6,757,504	\$ 7,956,308	\$39,131,521	\$40,769,237
Capital assets	50,818,073	52,256,598	1,909,075	2,059,230	52,727,148	54,315,828
Total assets	\$83,192,090	\$85,069,527	\$8,666,579	\$10,015,538	\$91,858,669	\$95,085,065
Long-term liabilities						
outstanding	\$22,548,083	\$25,066,954	\$ 231,979	\$ 222,504	\$22,780,062	\$25,289,458
Other liabilities	11,231,023	9,239,844	261,632	284,393	11,492,655	9,524,237
Total liabilities	\$33,779,106	\$34,306,798	\$ 493,611	\$ 506,897	\$34,272,717	\$34,813,695
Net assets:						
Invested in capital assets, net of related debt	\$34,377,954	\$33,144,429	\$1,909,075	\$ 2,059,230	\$36,287,029	\$35,203,659
Restricted	6,204,137	6,321,540	-	-	6,204,137	6,321,540
Unrestricted	8,830,893	11,296,760	6,263,893	7,449,411	15,094,786	18,746,171
Total net assets	\$49,412,984	\$50,762,729	\$8,666,579	\$ 9,508,641	\$57,585,952	\$60,271,370

A. Analysis of the City's Operations

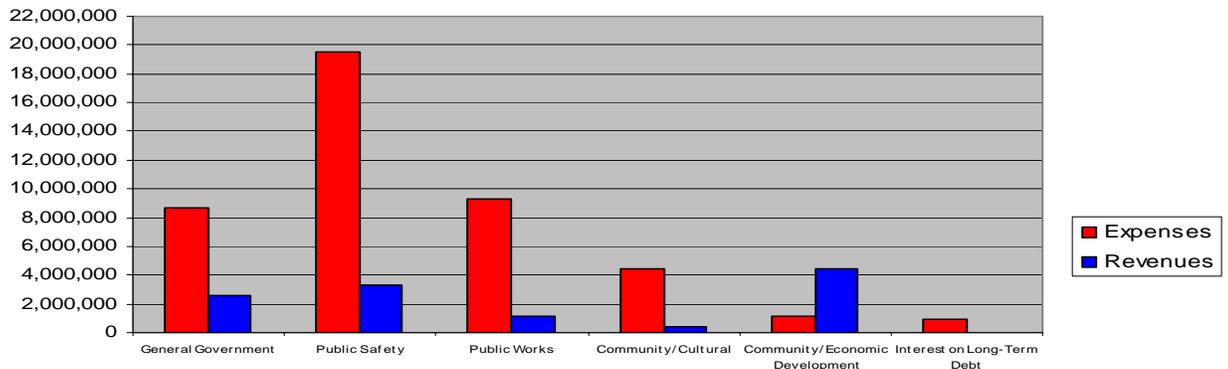
The following table summarizes City operations for the year ended June 30, 2006. Governmental activities increased City net assets by \$3.0 million, accounting for approximately 69.1% of the total increase in net assets. Business-type activities increased City net assets by \$1.3 million, 30.9% of the total increase in City net assets.

City of Owensboro – Changes in Net Assets

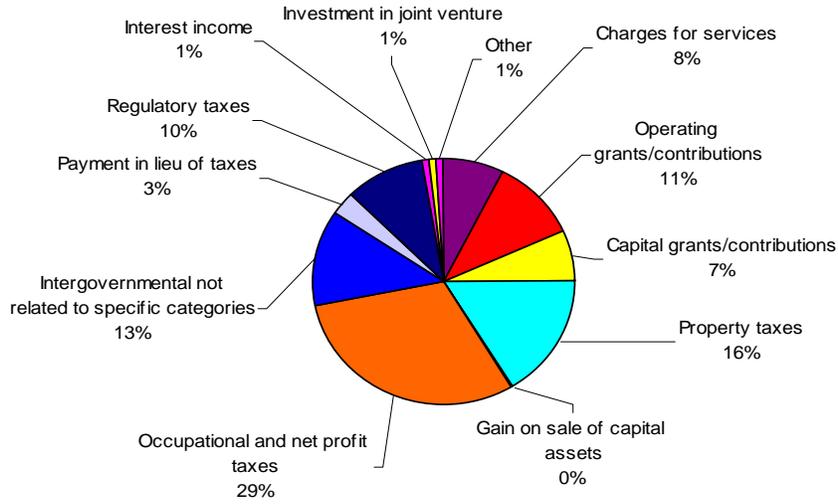
	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Revenues:						
Program revenues:						
Charges for services	\$ 3,445,580	\$3,635,090	\$6,154,895	\$6,287,072	\$ 9,600,475	\$ 9,922,162
Operating grants/ contributions	2,979,952	5,152,432	553,152	652,332	3,533,104	5,804,764
Capital grants/contributions	3,564,624	3,142,387	40,957	-	3,605,581	3,142,387
General revenues:						
Property taxes	7,492,747	7,758,532	-	-	7,492,747	7,758,532
Occupational & Net Profit Licenses	14,699,014	14,425,547	-	-	14,699,014	14,425,547
Regulatory licenses	4,505,405	4,722,033	-	-	4,505,405	4,722,033
Payment in lieu of taxes	1,627,979	1,480,187	-	-	1,627,979	1,480,187
Gain on sale of capital assets	-	127,727	-	142,184	-	269,911
Interest income	384,007	373,234	159,369	166,231	543,376	539,465
Intergovernmental revenues	4,843,914	6,172,509	-	-	4,843,914	6,172,509
Investment in joint venture	929,339	464,514	-	-	929,339	464,514
Other	779,527	357,791	-	-	779,527	357,791
Total revenues	\$45,252,088	\$47,811,983	\$6,908,373	\$7,247,819	\$52,160,461	\$55,059,802
Expenses:						
General government	\$ 7,204,175	\$ 8,644,720	\$ -	\$ -	\$ 7,204,175	\$ 8,644,720
Public safety	15,551,627	19,513,418	-	-	15,551,627	19,513,418
Public works	10,304,723	9,278,026	-	-	10,304,723	9,278,026
Community and cultural Community/economic development	4,373,153	4,457,954	-	-	4,373,153	4,457,954
Interest on long-term debt	1,394,189	1,113,760	-	-	1,394,189	1,113,760
Sanitation	933,123	926,657	-	-	933,123	926,657
Other enterprise funds	-	-	3,862,662	4,013,954	3,862,662	4,013,954
Total expenses	\$39,760,990	\$43,934,535	\$6,542,112	\$6,801,132	\$46,303,102	\$50,735,667
Increase in net assets before transfers	\$5,491,098	\$ 3,877,448	\$ 366,261	\$ 446,687	\$5,857,359	\$ 4,324,135
Transfers	(864,800)	(888,986)	864,800	888,986	-	-
Increase in net assets	4,626,298	2,988,462	1,231,061	1,335,673	5,857,359	4,324,135
Net assets restated – beginning of year	44,786,686	47,774,267	6,941,907	8,172,968	51,728,593	55,947,235
Net assets – end of year	\$49,412,984	\$50,762,729	\$8,172,968	\$9,508,641	\$57,585,952	\$60,271,370

B. Governmental Activities

Expenses and Program Revenues - Governmental Activities



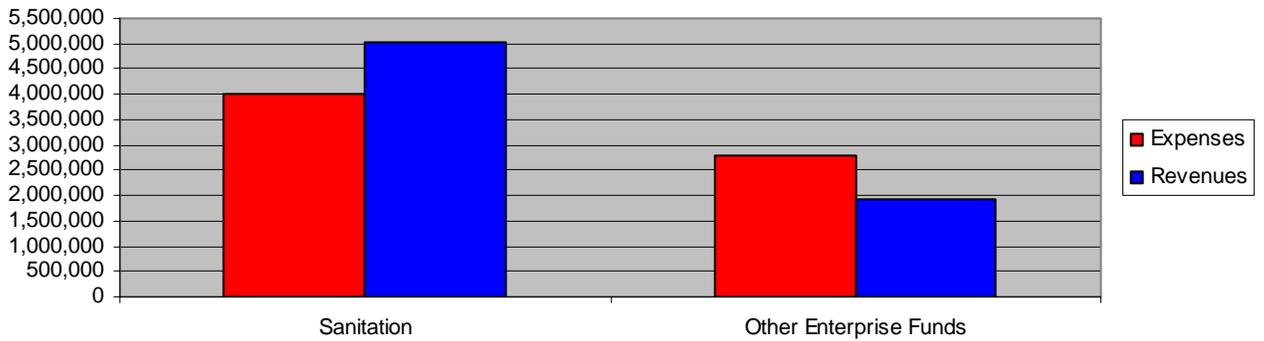
Revenue by Source - Governmental Activities



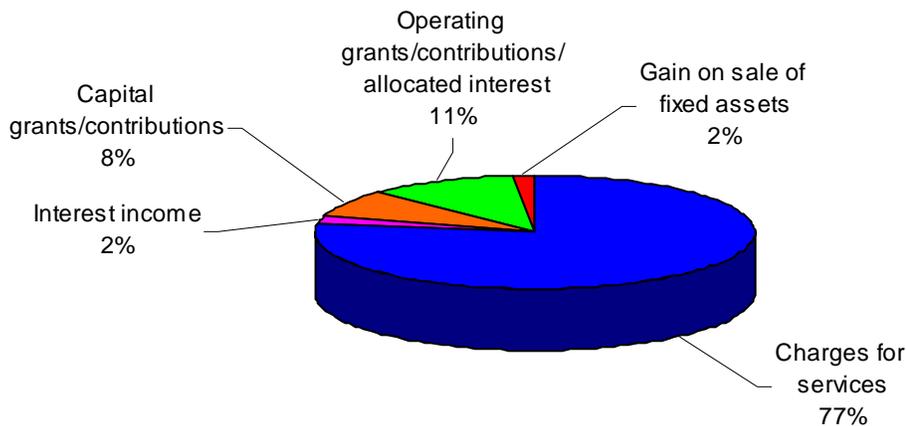
C. Business-Type Activities

Business-type activities increased the City's net assets by \$1.3 million, accounting for 30.9% of the total increase in the City's net assets.

Expenses and Revenues - Business-Type Activities



Revenue by Source - Business-Type Activities

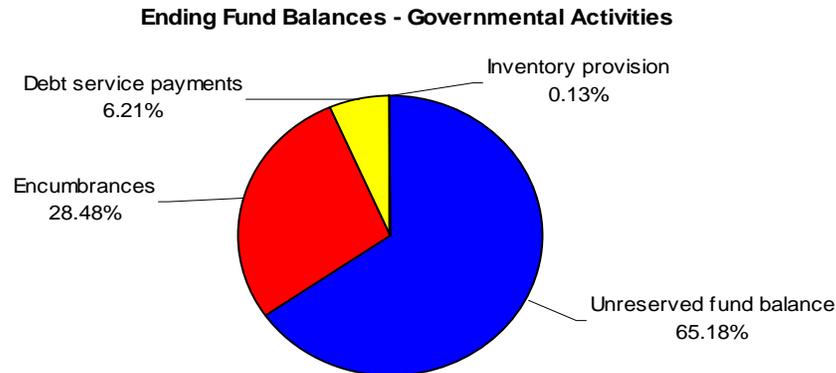


IV. Financial Analysis of the City's Funds

As was earlier stated, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

A. Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources, which is useful in determining the City's financing requirements. Unreserved fund balance serves as a useful measure of the City's net resources available for spending at the end of the fiscal year.



At the end of the fiscal year, the City governmental funds reported combined ending fund balances of \$9.8 million. Approximately 65% of this total amount, \$6.4 million, is unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$2.8 million), 2) to pay debt service (\$608 thousand), and 3) to provide for inventory (\$12 thousand).

The general fund is the chief operating fund of the City. At the end of the 2005-2006 fiscal year, the general fund unreserved fund balance was \$3,590,854, while total fund balance was \$3,743,968. As a measure of general fund liquidity, readers may compare both unreserved fund balance and total fund balance to total general fund expenditures. Unreserved fund balance represents 11.8% and total fund balance represents 12.3% of total general fund expenditures (\$30.4 million).

The City's general fund balance increased by \$1.8 million during the 2005-2006 fiscal year. Key factors contributing to this increase are:

- * Growth in occupational and net profit license fees.
- * Increase in dividends from component units.
- * Only a 2% increase in expenditures.

The Wellness fund has a total fund balance of \$3.36 million. It is unreserved and available for spending on capital projects related to wellness.

The debt service fund has a total fund balance of \$608 thousand, all of which is reserved for payment of debt service. The net decrease in fund balance in the debt service fund was \$72 thousand. The continuing low interest rates have allowed the City to refinance another bond issue, thus lowering future interest expenditures.

B. Proprietary Funds

The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the respective proprietary funds are:

Sanitation	\$7,184,488
Other Enterprise Funds	\$ 73,458

The change in net assets for the four funds was \$1.4 million. Sanitation increased \$1.4 million. Other Enterprise Funds decreased \$12 thousand. Other factors concerning the proprietary enterprise funds have been addressed in the discussion of City business-type activities.

V. General Fund Budgetary Highlights

Differences between the original budget and the final amended budget resulted in a \$192,458 increase in appropriations and can be briefly summarized as follows:

• \$ (26,240)	decrease in Administration
• \$ (65,740)	decrease in Community Development
• \$(494,762)	decrease in Engineering
• \$ (52,543)	decrease in Finance
• \$ 311,347	increase in Fire
• \$ (87,680)	decrease in Information Services
• \$ (23,145)	decrease in Parks
• \$ (3,796)	decrease in Personnel
• \$(284,925)	decrease in Police
• \$(145,000)	decrease in Street
• \$ 932,904	increase in General Government
• \$ 132,038	increase in Community Services

Transfers out were increased by \$375,000. Dividends from component units were increased by \$950,000. Payments in lieu of taxes were decreased by \$245,000. Other revenues were increased by \$378,410. The net decrease to appropriations and transfers out of \$515,952 was to be added to the available fund balance.

VI. Capital Asset and Debt Administration

A. Capital Assets

The City's investment in capital assets for governmental and business-type activities as of June 30, 2006, is \$54 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, park facilities, roads, highways and bridges, and construction in progress.

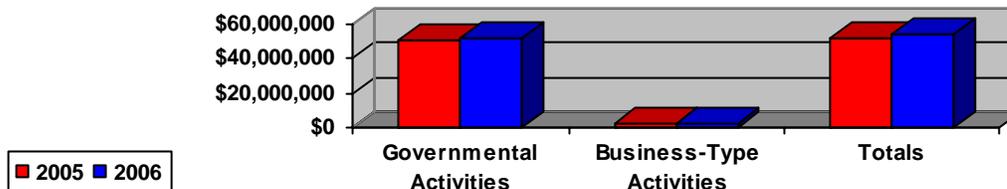




The City's multi-year Riverfront Development Project focuses on public and private enhancement along the Owensboro riverfront. Principal improvements included completion of a master plan, expansion of the RiverPark Center patio, construction of a Riverwalk, and study of development of marina facilities. The purpose of the Riverfront Development Project is to provide public access to the river, while stimulating economic growth in the downtown and riverfront areas. The RiverPark Center patio expansion and the Mitch McConnell Plaza and Walkway, shown above, are complete, demonstrating the City's forward movement in implementing the Riverfront Development Project.

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Land	\$ 9,916,928	\$ 9,997,503	\$ 118,739	\$ 118,739	\$10,035,667	\$10,116,242
Land improvements	27,760,734	29,905,396	34,783	11,595	27,795,507	29,916,991
Buildings	10,614,248	10,014,629	759,280	707,844	11,373,528	10,722,473
Machinery and equipment	561,982	608,595	104,221	175,676	666,203	784,271
Vehicles	1,287,368	1,730,475	892,052	1,045,376	2,579,420	2,775,851
Total	\$50,541,260	\$52,256,598	\$1,909,075	\$2,059,230	\$52,450,335	\$54,315,828

Capital Projects - Governmental and Business-Type Activities



Additional information on City capital assets can be found on pages 103-105 of this report and in Footnote 5 at pages 55-57.

B. Long-Term Debt

At year end the City had \$22,268,400 in outstanding notes, bonds and capital leases, compared to \$20,031,206 at June 30, 2005. That is an increase of 11.2%, as shown in the following table:

	Governmental Activities	
	2005	2006
OMIC lease revenue bonds	\$ 2,750,000	\$ -
OMIC notes	88,206	36,400
General obligation bonds	3,530,000	7,380,000
Lease revenue bonds	690,000	640,000
Advance refunding bonds	11,746,000	13,100,000
Floating indebtedness funding bond	357,000	242,000
Notes Payable	870,000	870,000
Total	<u>\$20,031,206</u>	<u>\$22,268,400</u>

The City's legal debt limit under Kentucky Constitution §158 is 10% of total assessed value of taxable property in Owensboro; therefore the debt limit is \$263,731,552. The City's latest bond rating is A2.

The City issues and incurs debt in order to fund capital improvement projects, purchase major capital equipment facilities, and respond to other special funding needs. Total municipal debt outstanding at June 30, 2006, is \$22,268,400, with maturities extending through the year 2026. The City has a very low amount of general obligation debt, which explains our large legal debt margin. Less than 4% of the General Fund budget is expended for debt service, and thus has little impact on current and future operations.

C. Types of Municipal Debt

- i. **OMIC Notes.** Variable rate notes are payable to local financial institutions with \$36,400 outstanding and with maturities in fiscal 2008. This is a decrease from the previous fiscal year of \$51,806. The notes were issued for acquisition of the Audubon Area Community Services building.
- ii. **Advance Refunding Bonds.** The City issued General Obligation Public Projects Refunding Bonds to advance refund the 1993 and 1994 Series Bonds, which reduced debt service payments. During 2003-2004, the City issued General Obligation Refunding Bonds to advance refund the Floating Indebtedness Bond, which reduced debt service payments. The outstanding amount is \$13,100,000.
- iii. **Floating Indebtedness Funding Bond.** This debt was issued in early 2005 to finance the remodeling of the new Owensboro Symphony offices.
- iv. **Lease Revenue Bonds.** This debt was issued in May of 2001. The funds were used to build a new pro shop at the City golf course and acquire land for the City's newest park.
- v. **City of Owensboro Notes.** Notes are payable for acquisition of land at the AirPark and Area Museum of Science. The outstanding debt is \$870,000, which matures in fiscal 2006. Additional information on the City's long-term debt can be found in Footnote 6 at pages 58-65.

VII. Economic Factors and Next Year's Budgets and Rates

- A. Unemployment Rate.** The unemployment rate for the City of Owensboro as of June 2006 was 6.06%. This rate is lower than the 6.13% state unemployment rate and higher than the 4.83% federal unemployment rate.
- B. Inflationary Trends.** Inflationary trends in the City also compare favorably to state and national trends.
- C. Annexation Policy.** Incentive investments in annexation and economic development should enable revenue to increase significantly over the next 2-3 years. The City will continue to aggressively pursue its annexation efforts as these efforts will insure long-term financial stability for the City in terms of increased property taxes, occupational license fees, and occupational net profit fees through mixed commercial, industrial, and residential development. City policy will continue to provide annexation and economic development incentives that will pay for themselves within five years of implementation and serve as incentive investments in future revenues to offset the cost of providing services to the newly annexed areas. The policy of balanced and controlled growth will be the City's greatest challenge in the next 5-10 years.
- D. Fleet and Facilities Maintenance Plan.** The City's strategy to continue to limit expenditure growth and seek cost savings opportunities will insure that funds are available for needed capital projects in the future. The City has been helped in this regard by implementation of the Fleet and Facilities Maintenance Plan. This plan allows the City to make long-range plans for facility maintenance and to replace vehicles at the optimal time to avoid high maintenance costs and take advantage of a higher resale value.
- E. Debt Service Payments.** All future debt service payments must come from operating funds. As a result, debt service requirements were an important consideration when preparing the 2005-2006 annual operating budget. Less than 4% of the General Fund budget is expended for debt service. This does not now impact the City's annual operating budget and should have little impact on the operating budget in the future.

All the above factors, in addition to current and future needs of the City, were considered when the 2006-2007 budget for the City of Owensboro was prepared. The beginning general fund fiscal year balance is \$3,743,968. The City estimated an ending fund balance of \$3,494,899, or 10.1% of projected general fund revenues. The City is in good financial condition at the present time and no tax increase is planned for this fiscal year.

VIII. Requests for Information

This financial report is designed to provide a general financial overview for those interested in the City of Owensboro government finances. Questions or requests for additional financial information may be addressed to James A. Fulkerson, Finance Director, City of Owensboro, 101 East Fourth Street, Owensboro, KY 42303.

CITY OF OWENSBORO, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2006

	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
ASSETS				
Equity in pooled deposits and investments	\$ 11,961,516	\$ 6,921,835	\$ 18,883,351	\$ 5,140,005
Cash and cash equivalents:				
In segregated accounts	2,106	4,100	6,206	15,153,477
With escrow agents	288,547	-	288,547	-
Receivables:				
Accounts	777,898	168,821	946,719	9,961,879
Lease	6,383,400	-	6,383,400	-
Component units	152,733	708,317	861,050	-
Taxes	1,914,346	-	1,914,346	-
Intergovernmental	1,106,487	-	1,106,487	-
Delinquent taxes receivable, net of allowance for uncollectibles of \$155,000	84,106	-	84,106	-
Internal balances	(112,400)	112,400	-	-
Investments	-	-	-	4,875,000
Materials and supplies inventory	31,388	23,155	54,543	2,836,185
Prepaid items	20,880	17,680	38,560	231,449
Other current assets	-	-	-	93,956
Restricted assets	429,826	-	429,826	84,160,103
Net investment in sales type leases	-	-	-	23,802
Capital assets, net of accumulated depreciation:				
Land	9,997,503	118,739	10,116,242	-
Depreciable capital assets	42,259,095	1,940,491	44,199,586	285,653,041
Other noncurrent assets	-	-	-	44,865
Deferred charges	203,606	-	203,606	5,309,377
Investment in joint venture	9,568,490	-	9,568,490	-
Total assets	\$ 85,069,527	\$ 10,015,538	\$ 95,085,065	\$ 413,483,139
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable	\$ 1,240,451	\$ 240,445	\$ 1,480,896	\$ 12,317,698
Accrued wages	226,554	-	226,554	-
Other accrued liabilities	135,039	43,948	178,987	419,731
Accrued interest payable	294,240	-	294,240	1,293,234
Other payables	-	-	-	2,786,306
Dividends payable	-	-	-	37,500
Intergovernmental payable	105,940	-	105,940	-
Component unit payable	148,437	-	148,437	-
Unearned revenue	7,089,183	-	7,089,183	7,664,191
Customers' advances	-	-	-	1,141,121
Non-current liabilities:				
Due within one year	1,964,764	27,430	1,992,194	20,000,727
Due in more than one year	23,102,190	195,074	23,297,264	206,690,360
Total liabilities	34,306,798	506,897	34,813,695	252,350,868
Net assets:				
Invested in capital assets, net of related debt	33,144,429	2,059,230	35,203,659	72,178,599
Restricted for:				
Capital projects	5,412,258	-	5,412,258	1,625,917
Economic development	291,095	-	291,095	-
Debt service	313,566	-	313,566	17,173,762
Other purposes	304,621	-	304,621	42,098,463
Unrestricted	11,296,760	7,449,411	18,746,171	28,055,530
Total net assets	50,762,729	9,508,641	60,271,370	161,132,271
Total liabilities and net assets	\$ 85,069,527	\$ 10,015,538	\$ 95,085,065	\$ 413,483,139

See Notes to Financial Statements

CITY OF OWENSBORO, KENTUCKY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions / Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
PRIMARY GOVERNMENT								
Governmental activities:								
General government	\$ 8,644,720	\$ 2,325,733	\$ 222,629	\$ -	\$ (6,096,358)		\$ (6,096,358)	
Public safety	19,513,418	778,650	2,412,214	142,164	(16,322,554)		(16,322,554)	
Public works	9,278,026	215,894	907,949	-	(8,154,183)		(8,154,183)	
Community and cultural	4,457,954	13,001	438,131	-	(4,006,822)		(4,006,822)	
Community / economic development	1,113,760	301,812	1,171,509	3,000,223	359,561		359,561	
Interest on long-term debt	926,657	-	-	-	(926,657)		(926,657)	
Total governmental activities	43,934,535	3,635,090	5,152,432	3,142,387	(32,004,626)		(32,004,626)	
Business-type activities:								
Sanitation	4,013,954	5,030,171	-	-	\$ 1,016,217		1,016,217	
Transit	1,367,534	148,421	652,332	-	(566,781)		(566,781)	
Parking garage operations	74,906	56,556	-	-	(18,350)		(18,350)	
Recreation	1,344,738	1,051,924	-	-	(292,814)		(292,814)	
Total business-type activities	6,801,132	6,287,072	652,332	-	138,272		138,272	
Total primary government	\$ 50,735,667	\$ 9,922,162	\$ 5,804,764	\$ 3,142,387	(32,004,626)	138,272	(31,866,354)	
COMPONENT UNITS								
Owensboro Municipal Utilities	\$ 100,359,142	\$ 100,209,525	\$ -	\$ 199,265				\$ 49,648
Owensboro Riverport Authority	6,760,065	8,302,807	-	-				1,542,742
Total component units	\$ 107,119,207	\$ 108,512,332	\$ -	\$ 199,265				1,592,390
General revenues:								
Property taxes					7,758,532	-	7,758,532	
Occupational license taxes					12,282,123	-	12,282,123	
Net profit license taxes					2,143,424	-	2,143,424	
Regulatory taxes					4,722,033	-	4,722,033	
Payments in lieu of taxes from component unit					1,480,187	-	1,480,187	
Interest income					373,234	166,231	539,465	3,923,944
Intergovernmental, unrestricted					6,172,509	-	6,172,509	
Gain on sale of capital assets					127,727	142,184	269,911	16,741
Investment in joint venture					464,514	-	464,514	
Miscellaneous					357,791	-	357,791	18,215
Transfers					(888,986)	888,986	-	
Total general revenues and transfers					34,993,088	1,197,401	36,190,489	3,958,900
Change in net assets					2,988,462	1,335,673	4,324,135	5,551,290
Net assets, June 30, 2005, as restated					47,774,267	8,172,968	55,947,235	155,580,981
Net assets, June 30, 2006					\$ 50,762,729	\$ 9,508,641	\$ 60,271,370	\$ 161,132,271

See Notes to Financial Statements

CITY OF OWENSBORO, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General Fund	Your Community Vision Fund	Debt Service Fund	Wellness Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Equity in pooled deposits and investments	\$ 3,737,579	\$ 725,760	\$ 171,842	\$ 3,359,258	\$ 816,768	\$ 8,811,207
Cash and cash equivalents:						
In segregated accounts	1,556	-	-	-	-	1,556
With escrow agents	-	-	6,138	-	282,409	288,547
Receivables:						
Accounts	647,595	-	-	-	128,526	776,121
Lease	-	-	6,383,400	-	-	6,383,400
Component units	152,733	-	-	-	-	152,733
Interfund	467,990	-	-	-	-	467,990
Taxes receivable	1,389,246	492,374	-	-	32,726	1,914,346
Intergovernmental	49,806	-	-	-	1,056,681	1,106,487
Delinquent taxes receivable, net of allowance for uncollectibles of \$155,000	84,106	-	-	-	-	84,106
Materials and supplies inventory	12,454	-	-	-	-	12,454
Prepaid expenses	109	-	-	-	-	109
Restricted assets	-	-	429,826	-	-	429,826
Total assets	\$ 6,543,174	\$ 1,218,134	\$ 6,991,206	\$ 3,359,258	\$ 2,317,110	\$ 20,428,882
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 167,392	\$ 224,252	\$ -	\$ -	\$ 54,472	\$ 446,116
Accrued wages	225,192	1,362	-	-	-	226,554
Other accrued liabilities	107,441	-	-	-	-	107,441
Intergovernmental payable	105,940	-	-	-	-	105,940
Interfund payable	-	-	-	-	388,925	388,925
Component unit payable	148,437	-	-	-	-	148,437
Deferred revenue	2,044,804	591,126	6,383,400	-	151,491	9,170,821
Total liabilities	2,799,206	816,740	6,383,400	-	594,888	10,594,234
Fund balances:						
Reserved for:						
Encumbrances	140,660	726,928	-	-	1,920,668	2,788,256
Inventories	12,454	-	-	-	-	12,454
Debt service	-	-	607,806	-	-	607,806
Unreserved	3,590,854	(325,534)	-	3,359,258	-	6,624,578
Unreserved, reported in nonmajor:						
Special revenue funds	-	-	-	-	(221,021)	(221,021)
Capital projects funds	-	-	-	-	22,575	22,575
Total fund balances	3,743,968	401,394	607,806	3,359,258	1,722,222	9,834,648
Total liabilities and fund balances	\$ 6,543,174	\$ 1,218,134	\$ 6,991,206	\$ 3,359,258	\$ 2,317,110	\$ 20,428,882

CITY OF OWENSBORO, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total fund balances - governmental funds \$ 9,834,648

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

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds:

Cost	\$ 78,469,125	
Accumulated depreciation	<u>(27,582,630)</u>	50,886,495

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 3,549,046

The City has an equity interest in a joint venture. This investment is not a current financial resource, and therefore is not reported in the funds. 9,568,490

Certain assets not available to pay for current period expenditures:

Occupational and net profit taxes	\$ 1,914,346	
Property maintenance code revenue	167,292	
Deferred issuance costs	<u>203,606</u>	2,285,244

Long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in governmental funds:

Long-term debt	\$ (22,268,400)	
Accrued interest payable	(294,240)	
Debt issuance discount	78,308	
Deferred refunding charges	567,625	
Compensated absences	<u>(3,444,487)</u>	<u>(25,361,194)</u>

Net assets of governmental activities \$ 50,762,729

CITY OF OWENSBORO, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	General Fund	Your Community Vision Fund	Debt Service Fund	Wellness Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Real and personal property taxes	\$ 7,531,520	\$ -	\$ -	\$ -	\$ 227,012	\$ 7,758,532
Occupational licenses	8,556,160	3,047,455	-	-	633,157	12,236,772
Net profit license fees	1,774,148	613,796	-	-	47,915	2,435,859
Regulatory licenses	4,722,033	-	-	-	-	4,722,033
Intergovernmental	3,066,218	784,594	121,885	-	5,221,232	9,193,929
Interest	148,415	8,321	10,579	92,610	43,261	303,186
Fees, licenses and permits	511,863	17,677	-	-	-	529,540
Fines and forfeitures	161,279	-	-	-	-	161,279
Rentals	-	-	720,515	-	20,715	741,230
Charges for services	654,748	-	-	-	-	654,748
Contributions and donations	-	-	-	-	22,227	22,227
Dividends from component units	5,095,855	-	-	-	-	5,095,855
Payments in lieu of taxes from component unit	1,480,187	-	-	-	-	1,480,187
Miscellaneous income	447,822	-	-	-	429,044	876,866
Total revenues	<u>34,150,248</u>	<u>4,471,843</u>	<u>852,979</u>	<u>92,610</u>	<u>6,644,563</u>	<u>46,212,243</u>
Expenditures:						
Current:						
General government	7,371,075	-	-	-	2,900	7,373,975
Public safety	16,337,753	4,003,748	-	-	105,709	20,447,210
Public works	2,068,594	2,048,560	-	-	961,073	5,078,227
Community and cultural	3,303,781	-	-	-	659,145	3,962,926
Community /economic development	361,015	-	-	-	752,745	1,113,760
Capital outlay	935,138	2,571,885	-	66,552	3,704,896	7,278,471
Debt service:						
Principal	-	-	1,662,807	-	-	1,662,807
Interest	-	-	810,979	-	-	810,979
Issuance costs	-	96,252	-	-	51,681	147,933
Total expenditures	<u>30,377,356</u>	<u>8,720,445</u>	<u>2,473,786</u>	<u>66,552</u>	<u>6,238,149</u>	<u>47,876,288</u>
Excess (deficiency) of revenues over expenditures	<u>3,772,892</u>	<u>(4,248,602)</u>	<u>(1,620,807)</u>	<u>26,058</u>	<u>406,414</u>	<u>(1,664,045)</u>
Other financing sources (uses):						
Sale of capital assets	28,639	-	-	-	161,922	190,561
Issuance of debt	-	4,100,000	-	-	-	4,100,000
Refunding bonds issued	-	-	-	-	2,550,000	2,550,000
Payment to bond refunding escrow	-	-	-	-	(2,881,398)	(2,881,398)
Transfers in	485,000	-	1,558,372	-	410,200	2,453,572
Transfers out	(2,484,816)	(41,338)	-	-	(219,065)	(2,745,219)
Total other financing sources (uses)	<u>(1,971,177)</u>	<u>4,058,662</u>	<u>1,558,372</u>	<u>-</u>	<u>21,659</u>	<u>3,667,516</u>
Net change in fund balances	1,801,715	(189,940)	(62,435)	26,058	428,073	2,003,471
Fund balances, beginning of year	<u>1,942,253</u>	<u>591,334</u>	<u>670,241</u>	<u>3,333,200</u>	<u>1,294,149</u>	<u>7,831,177</u>
Fund balances, end of year	<u>\$ 3,743,968</u>	<u>\$ 401,394</u>	<u>\$ 607,806</u>	<u>\$ 3,359,258</u>	<u>\$ 1,722,222</u>	<u>\$ 9,834,648</u>

See Notes to Financial Statements

CITY OF OWENSBORO, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 2,003,471

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

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

Capital outlays	\$ 4,748,853	
Depreciation expense	<u>(2,888,169)</u>	1,860,684

Governmental funds report the disposal of capital assets to the extent proceeds
are received. However, the statement of activities reports the gain or loss. (62,834)

Revenues in the statement of activities that do not provide current financial resources
are not reported as revenues in the funds:

Occupational and net profit taxes	\$ (247,084)	
Property maintenance code revenue	167,292	
Increase in investment in joint venture	<u>464,514</u>	384,722

The issuance of long-term debt provides current financial resources to governmental
funds, while the repayment of the principle of long-term debt consumes the
current financial resources of governmental funds. Neither transaction, however,
has any effect on net assets. Also, governmental funds report the effect of
issuance costs and similar items when debt is first issued, whereas these
amounts are deferred and amortized in the statement of activities:

Debt principle payments	\$ 1,662,807	
Proceeds from debt issuance	(6,650,000)	
Payment to bond refund escrow	2,881,398	
Bond issuance costs	147,933	
Amortization of refunding costs and issuance discounts	(75,552)	
Amortization of bond issuance costs	<u>(10,262)</u>	(2,043,676)

Certain expenses reported in the statement of activities do not require the use of
current financial resources, and therefore are not reported as expenditures in
governmental funds:

Increase in compensated absences liability	\$ (337,523)	
Decrease in net pension obligation	1,361,904	
Increase in accrued interest	<u>(29,864)</u>	994,517

Internal service funds are used by management to charge the costs of certain
activities to individual funds. The net revenue of the internal service funds is
reported with governmental activities. (148,422)

Change in net assets of governmental activities \$ 2,988,462

CITY OF OWENSBORO, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	Business-Type Activities Enterprise Funds			Governmental Activities- Internal Service Funds
	Sanitation Fund	Nonmajor Enterprise Funds	Total	
ASSETS				
Current assets:				
Equity in pooled deposits and investments	\$ 6,807,786	\$ 114,049	\$ 6,921,835	\$ 3,150,309
Cash and cash equivalents:				
In segregated accounts	125	3,975	4,100	550
Receivables:				
Accounts	13,719	155,102	168,821	1,777
Component units	708,317	-	708,317	-
Intergovernmental	-	-	-	-
Materials and supplies inventory	9,090	14,065	23,155	18,934
Prepaid expenses	-	17,680	17,680	20,771
Total current assets	7,539,037	304,871	7,843,908	3,192,341
Noncurrent assets:				
Capital assets, net of accumulated depreciation:				
Land	13,000	105,739	118,739	-
Depreciable capital assets	810,110	1,130,381	1,940,491	1,370,103
Total noncurrent assets	823,110	1,236,120	2,059,230	1,370,103
Total assets	\$ 8,362,147	\$ 1,540,991	\$ 9,903,138	\$ 4,562,444
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	\$ 224,740	\$ 15,705	\$ 240,445	\$ 794,335
Accrued liabilities	18,400	25,548	43,948	27,598
Compensated absences	13,179	14,251	27,430	-
Due to other funds	-	79,065	79,065	-
Total current liabilities	256,319	134,569	390,888	821,933
Non-current liabilities:				
Compensated absences	98,230	96,844	195,074	-
Total non-current liabilities	98,230	96,844	195,074	-
Total liabilities	354,549	231,413	585,962	821,933
Net assets:				
Invested in capital assets	823,110	1,236,120	2,059,230	1,370,103
Unrestricted	7,184,488	73,458	7,257,946	2,370,408
Total net assets	8,007,598	1,309,578	9,317,176	3,740,511
Total liabilities and net assets	\$ 8,362,147	\$ 1,540,991	\$ 9,903,138	\$ 4,562,444
Total net assets			\$ 9,317,176	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			191,465	
Net assets of business-type activities			\$ 9,508,641	

See Notes to Financial Statements

CITY OF OWENSBORO, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	Business-Type Activities Enterprise Funds			Governmental Activities- Internal Service Funds
	Sanitation Fund	Nonmajor Enterprise Funds	Total	
Operating revenues:				
Charges for services	\$ 4,983,063	\$ 1,256,901	\$ 6,239,964	\$ 8,613,515
Miscellaneous income	47,108	-	47,108	-
Total operating revenues	<u>5,030,171</u>	<u>1,256,901</u>	<u>6,287,072</u>	<u>8,613,515</u>
Operating expenses:				
Salaries, wages, and benefits	1,323,134	1,216,794	2,539,928	1,933,989
Maintenance	523,771	676,857	1,200,628	1,245,148
Utilities	9,942	124,622	134,564	32,996
Administrative	-	-	-	137,728
Supplies	246,034	313,818	559,852	667,329
Other	1,623,402	354,690	1,978,092	54,430
Claims	-	-	-	4,035,532
Depreciation	247,435	123,049	370,484	601,659
Total operating expenses	<u>3,973,718</u>	<u>2,809,830</u>	<u>6,783,548</u>	<u>8,708,811</u>
Operating income (loss)	<u>1,056,453</u>	<u>(1,552,929)</u>	<u>(496,476)</u>	<u>(95,296)</u>
Nonoperating revenues:				
Gain (loss) on sale of capital assets	142,099	85	142,184	141,667
Interest income	166,231	-	166,231	70,048
Grants	-	652,332	652,332	2,575
Total nonoperating revenues	<u>308,330</u>	<u>652,417</u>	<u>960,747</u>	<u>214,290</u>
Income (loss) before transfers	<u>1,364,783</u>	<u>(900,512)</u>	<u>464,271</u>	<u>118,994</u>
Transfers in	-	911,233	911,233	-
Transfers out	-	(22,247)	(22,247)	(285,000)
Change in net assets	<u>1,364,783</u>	<u>(11,526)</u>	<u>1,353,257</u>	<u>(166,006)</u>
Net assets, beginning of year, as restated	<u>6,642,815</u>	<u>1,321,104</u>	<u>7,963,919</u>	<u>3,906,517</u>
Net assets, end of year	<u>\$ 8,007,598</u>	<u>\$ 1,309,578</u>	<u>\$ 9,317,176</u>	<u>\$ 3,740,511</u>
Change in net assets			\$ 1,353,257	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			<u>(17,584)</u>	
Change in net assets of business-type activities			<u>\$ 1,335,673</u>	

See Notes to Financial Statements

CITY OF OWENSBORO, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	Business-Type Activities			Governmental Activities- Internal Service Funds
	Enterprise Funds			
	Sanitation Fund	Nonmajor Enterprise Funds	Total	
Cash flows from operating activities:				
Cash received from customers	\$ 4,981,734	\$ 1,227,503	\$ 6,209,237	\$ 8,611,738
Other cash receipts	47,108	-	47,108	-
Cash payments to employees for services	(1,361,535)	(1,261,303)	(2,622,838)	(1,979,725)
Cash payments to suppliers	(2,289,398)	(1,490,020)	(3,779,418)	(1,892,761)
Cash payments for interfund services used	-	50,281	50,281	-
Cash payments for claims	-	-	-	(4,035,532)
Net cash provided by (used in) operating activities	<u>1,377,909</u>	<u>(1,473,539)</u>	<u>(95,630)</u>	<u>703,720</u>
Cash flows from noncapital financing activities:				
Government grants	-	652,332	652,332	2,575
Compensated absences	(10,028)	553	(9,475)	-
Transfers in	-	911,933	911,933	-
Transfers out	-	(22,247)	(22,247)	(285,000)
Net cash provided by (used in) noncapital financing activities	<u>(10,028)</u>	<u>1,542,571</u>	<u>1,532,543</u>	<u>(282,425)</u>
Cash flows from capital and related financing activities:				
Proceeds from sale of capital assets	176,671	85	176,756	155,051
Payments for capital acquisitions	(555,211)	-	(555,211)	(532,531)
Net cash provided by (used in) noncapital financing activities	<u>(378,540)</u>	<u>85</u>	<u>(378,455)</u>	<u>(377,480)</u>
Cash flows from investing activities:				
Interest on investments	166,231	-	166,231	70,048
Net increase (decrease) in cash and cash equivalents	<u>1,155,572</u>	<u>69,117</u>	<u>1,224,689</u>	<u>113,863</u>
Equity in pooled cash and deposits, and cash and cash equivalents, beginning of year	<u>5,652,339</u>	<u>48,907</u>	<u>5,701,246</u>	<u>3,036,996</u>
Equity in pooled cash and deposits, and cash and cash equivalents, end of year	<u>\$ 6,807,911</u>	<u>\$ 118,024</u>	<u>\$ 6,925,935</u>	<u>\$ 3,150,859</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 1,056,453	\$ (1,552,929)	\$ (496,476)	\$ (95,296)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	247,435	123,049	370,484	601,659
Change in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	1,116	(29,398)	(28,282)	(1,777)
Component unit receivable	(2,445)	-	(2,445)	-
Materials and supplies inventory	332	5,395	5,727	(3,289)
Prepaid expenses	-	(17,680)	(17,680)	(20,771)
Increase (decrease) in liabilities:				
Accounts payable	113,419	(7,748)	105,671	268,930
Accrued liabilities	(38,401)	(44,509)	(82,910)	(45,736)
Interfund payables	-	50,281	50,281	-
Net cash provided by (used in) operating activities	<u>\$ 1,377,909</u>	<u>\$ (1,473,539)</u>	<u>\$ (95,630)</u>	<u>\$ 703,720</u>

See Notes to Financial Statements

CITY OF OWENSBORO, KENTUCKY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	Pension Trust Funds	Investment Trust Fund	Agency Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Equity in pooled deposits and investments	\$ 3,980,120	\$ 5,511,998	\$ 77,538
Cash and cash equivalents	230,721	-	-
Cash and cash equivalents, restricted	49,061	-	-
Interest receivable	42,939	-	-
Intergovernmental receivable	-	-	19,705
Investments, at fair value:			
Mutual funds	10,167,334	-	-
Investments at fair value, restricted:			
Mutual funds	<u>2,378,657</u>	<u>-</u>	<u>-</u>
Total assets	<u>16,848,832</u>	<u>5,511,998</u>	<u>97,243</u>
LIABILITIES			
Pension payable	117,949	-	-
Other	<u>729</u>	<u>-</u>	<u>97,243</u>
Total liabilities	<u>118,678</u>	<u>-</u>	<u>97,243</u>
NET ASSETS			
Held in trust for pension benefits	14,294,299	-	-
Held in trust for debt service	2,435,855	-	-
Held in trust for external pool participants	<u>-</u>	<u>5,511,998</u>	<u>-</u>
Total net assets	<u>\$ 16,730,154</u>	<u>\$ 5,511,998</u>	<u>\$ -</u>

See Notes to Financial Statements

CITY OF OWENSBORO, KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2006

	Pension Trust Funds	Investment Trust Fund
	<u> </u>	<u> </u>
Additions:		
Purchases of pool units	\$ -	\$ 21,647,881
Contributions:		
Employer	4,003,748	-
Other	25,144	-
Total contributions	<u>4,028,892</u>	<u>-</u>
Investment earnings:		
Net appreciation (depreciation) in fair value of investments	469,294	(56,320)
Interest	335,478	289,205
Total investment earnings	<u>804,772</u>	<u>21,880,766</u>
Less investment expense	<u>10,062</u>	<u>-</u>
Net investment earnings	<u>794,710</u>	<u>21,880,766</u>
Total additions	<u>4,823,602</u>	<u>21,880,766</u>
Deductions:		
Benefits	1,720,675	-
Transfer to debt service fund	312,339	-
Redemption of pool units	-	26,966,952
Total deductions	<u>2,033,014</u>	<u>26,966,952</u>
Change in net assets	2,790,588	(5,086,186)
Net assets, beginning of year	<u>13,939,566</u>	<u>10,598,184</u>
Net assets, end of year	<u>\$ 16,730,154</u>	<u>\$ 5,511,998</u>

See Notes to Financial Statements

CITY OF OWENSBORO, KENTUCKY
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2006

	Owensboro Municipal Utilities	Owensboro Riverport Authority	Total
ASSETS			
Equity in pooled deposits and investments	\$ -	\$ 5,140,005	\$ 5,140,005
Cash and cash equivalents:			
In segregated accounts	13,383,092	1,770,385	15,153,477
Accounts receivable (less allowance of \$87,263 and \$7,755 for OMU and ORA, respectively)	7,943,911	2,017,968	9,961,879
Investments	4,875,000	-	4,875,000
Material and supplies inventory	2,836,185	-	2,836,185
Prepaid items	156,628	74,821	231,449
Other current assets	88,436	5,520	93,956
Restricted assets	84,160,103	-	84,160,103
Net investment in sales type leases	-	23,802	23,802
Capital assets, net of accumulated depreciation	268,310,012	17,343,029	285,653,041
Other noncurrent assets	-	44,865	44,865
Deferred charges	5,309,377	-	5,309,377
Total assets	\$ 387,062,744	\$ 26,420,395	\$ 413,483,139
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable	\$ 12,103,216	\$ 214,482	\$ 12,317,698
Accrued liabilities	-	419,731	419,731
Accrued interest payable	1,293,234	-	1,293,234
Other payables	2,786,306	-	2,786,306
Dividends payable	-	37,500	37,500
Deferred revenue	7,413,202	250,989	7,664,191
Customers' advances	1,141,121	-	1,141,121
Non-current liabilities:			
Due within one year	19,515,908	484,819	20,000,727
Due in more than one year	198,259,236	8,431,124	206,690,360
Total liabilities	242,512,223	9,838,645	252,350,868
Net assets:			
Invested in capital assets, net of related debt	63,751,513	8,427,086	72,178,599
Restricted for:			
Capital projects	1,625,917	-	1,625,917
Debt service	17,173,762	-	17,173,762
Other purposes	42,098,463	-	42,098,463
Unrestricted	19,900,866	8,154,664	28,055,530
Total net assets	144,550,521	16,581,750	161,132,271
Total liabilities and net assets	\$ 387,062,744	\$ 26,420,395	\$ 413,483,139

See Notes to Financial Statements

CITY OF OWENSBORO, KENTUCKY
STATEMENT OF ACTIVITIES
COMPONENT UNITS
Year Ended June 30, 2006

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Capital Grants and Contributions</u>	<u>Owensboro Municipal Utilities</u>	<u>Riverport Authority</u>	<u>Totals</u>
Owensboro Municipal Utilities	\$ 100,359,142	\$ 100,209,525	\$ 199,265	\$ 49,648	\$ -	\$ 49,648
Owensboro Riverport Authority	<u>6,760,065</u>	<u>8,302,807</u>	<u>-</u>	<u>-</u>	<u>1,542,742</u>	<u>1,542,742</u>
Total Component Units	<u>\$ 107,119,207</u>	<u>\$ 108,512,332</u>	<u>\$ 199,265</u>	<u>49,648</u>	<u>1,542,742</u>	<u>1,592,390</u>

General revenues:

Interest on investments and sales type leases	3,717,731	206,213	3,923,944
Gain on sale of capital assets	-	16,741	16,741
Miscellaneous	<u>18,215</u>	<u>-</u>	<u>18,215</u>
Total general revenues	<u>3,735,946</u>	<u>222,954</u>	<u>3,958,900</u>
Change in net assets	3,785,594	1,765,696	5,551,290
Net assets, beginning of year	<u>140,764,927</u>	<u>14,816,054</u>	<u>155,580,981</u>
Net assets, end of year	<u>\$ 144,550,521</u>	<u>\$ 16,581,750</u>	<u>\$ 161,132,271</u>

See Notes to Financial Statements

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS
Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The City is a municipal corporation governed by an elected mayor and four-member commission. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the government. Individual discretely presented component units are presented in the combining component units financial statements.

Blended Component Unit:

Established in 1967 pursuant to Kentucky Revised Statutes Section 273, the Owensboro Municipal Improvement Corporation (OMIC) has been presented as a blended component unit because the entity's governing body is substantially the same as the governing body of the City, and because its only purpose is to provide a financing vehicle for the acquisition of property to be dedicated to public use by the City. The Corporation has no separate existence apart from the City.

Discretely Presented Component Units:

The component units column in the government-wide financial statements includes the financial data of the City's other component units. They are reported in a separate column to emphasize that they are legally separate from the City. The following component units are included in the City's reporting entity because the primary government is financially accountable and is able to impose its will on the organizations.

Owensboro Municipal Utilities

Owensboro Municipal Utilities (OMU) is managed, controlled and operated by the City Utility Commission, established by the City in 1940. OMU consists of the Electric Light and Power System and the Water Works System. The fiscal year-end for OMU is May 31; data presented for OMU is as of and for the year ended May 31, 2006. There were no intervening events that would materially affect financial position or results of operations of the City.

OMU is subject to regulation, including establishment of rates charged for utility services, by the City, or set forth in applicable City ordinance. City officials select the Board of Directors. The City is contingently responsible for the bonded debt of OMU since the debt is in the City's name as required by Kentucky statutes. OMU is presented as an enterprise fund.

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Owensboro Riverport Authority and Affiliate

The Owensboro Riverport Authority (Authority) was created by ordinance on September 9, 1966, for the purpose of establishing, maintaining, operating and expanding necessary and proper riverport and navigational facilities for the purpose of attracting river-oriented industry. The City selects the Authority's board of directors. The Authority is presented as an enterprise fund.

In accordance with Kentucky Revised Statutes, the Authority organized Owensboro Riverport Properties, Inc. (Affiliate), a non-stock, non-profit corporation in January 2005. The Authority has a 100% ownership interest in the Affiliate, which owns commercial and industrial public properties. All material intercompany accounts and transactions have been eliminated in consolidation.

The combining financial statements for the discretely presented component units are included within this report. Complete financial statements of the individual component units can be requested from the City's Finance Director.

Related Organization:

The City is responsible for appointing four members to the board of the Regional Water Resource Agency (RWRA). RWRA was established through an ordinance dated October 18, 1994, as a legally separate entity which administers and provides regional comprehensive wastewater services for Owensboro and Daviess County, excluding the Facilities Planning Area boundary of the City of Whitesville. The Board consists of seven members, the remaining three of which are appointed by the Daviess County Judge-Executive. RWRA has currently contracted with the City to provide financial and personnel services. The City's responsibility does not extend beyond appointing authority and the City is not financially accountable for the activities of RWRA. Separate financial statements for RWRA may be obtained from the City's Finance Director.

(b) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(c) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, the debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

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

The City reports the following governmental funds:

General Fund

The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law, ordinance or contractual agreement to some other fund are accounted for in this fund. From this fund are paid the general operating expenditures, the fixed charges and the capital improvement costs that are not paid through other funds. This is a major fund of the City.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources. This is a major fund of the City.

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes, and are as follows:

Community Development Fund – established to account for grants to the City for community development. Resources may only be used for activities that are directed toward satisfying the primary objective of developing viable urban communities and expanding economic opportunities, principally for persons of low or moderate income.

Greenbelt Fund – established to account for federal grant funds received for the purpose of constructing a recreational area.

Drug and Property Recovery Fund – established to account for funds obtained through drug law enforcement grants.

Economic Development Fund – established to monitor incentives disbursed for economic development of the City and the increased revenues resulting from that development. The City's intent is to offset the incentive within a five-year period with an increased revenue stream.

Your Community Vision Fund - established to account for revenues derived from a .33% increase of occupational license and net profit taxes and expenditures of those revenues to fund Your Community Vision projects. This is a major fund of the City.

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds are as follows:

Capital Improvements Fund - established to account for acquisition of fixed assets or construction of major capital projects purchased with funds from long-term borrowings.

Airpark Fund - established to account for the City and County's grant matching funds for development and improvement at the airport.

Riverfront Development Fund – established to account for grants received from federal and state grants and matching funds for development of the riverfront.

Wellness Fund - established to account for expenditure of revenues from the restructuring of Owensboro Mercy Health System. These revenues are restricted to community wellness projects. This is a major fund of the City.

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary Funds

Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. The City reports the following proprietary funds, which are classified as either enterprise or internal service.

Enterprise Funds

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 determinations of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The City reports the following enterprise funds:

Sanitation Fund - established as a means of more effectively managing and accounting for operations of the City Sanitation Department. This is a major fund of the City.

Transit Fund - established for the purpose of managing and accounting for the operations of the City's Transit Department.

Parking Garage Operations Fund - established for the purpose of managing and accounting for the operations of the City's parking garage.

Recreation Fund – established for the purpose of managing and accounting for the operations of the City's swimming pools, golf course, ice arena, and Sportscenter.

Internal Service Funds

Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the City on a user charge basis. The internal service funds of the City are as follows:

Insurance Fund – established to account for the City's health and workers' compensation insurance programs.

Garage Service Fund – established to account for garage maintenance provided to departments within the City.

Facilities Maintenance Fund – established to account for maintenance provided to departments within the City.

Fleet and Facilities Fund – established to account for foreseeable capital expenditures and to straight-line their cost over thirty years.

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments, and are therefore not available to support the City's own programs. The various pension trust, investment trust, and agency funds of the City are as follows:

City Employees' Pension Fund

The City Employees' Pension Fund (a contributory defined benefit plan) was created by ordinance, August 13, 1946, under Kentucky Revised Statutes (KRS) Sections 90.310 to 90.410. It covers all employees of the City of Owensboro and Owensboro Municipal Utilities, except for the Owensboro Riverport Authority, the City's police and Firefighters and those employees who elected to transfer into the CERS.

Police and Firefighters Retirement Fund

The Police and Firefighters Retirement Fund (a contributory defined benefit plan) was created by ordinance, March 26, 1928, under Kentucky Revised Statutes (KRS) Sections 95.851 to 95.991. It covers employees of the City of Owensboro in the police and fire departments that elected not to transfer into the CERS.

Investment Trust Fund

Established to account for monies of legally separate entities that participate in the City-sponsored external investment pool. The Investment Trust Fund is accounted for using the economic resources measurement focus and the accrual basis of accounting.

Agency Funds

The agency funds are custodial in nature and does not present results of operations or have a measurement focus. The funds are used to account for assets that the government holds for others in an agency capacity. The School District Tax Fund accounts for school district tax collection and payment to the Owensboro Board of Education. The Occupational Tax Fund accounts for occupational tax collection and payment to Daviess County, Kentucky.

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

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As a general rule the effect of Interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes received from one of the City's component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

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

(d) Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty-one days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. The City considers property taxes as available if they are collected within sixty days after year-end. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

The following is a list of primary revenue sources which have been treated as susceptible to accrual under the modified accrual basis, and which have not:

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Susceptible

Taxes
Intergovernmental

Not Susceptible

Licenses and permits

(e) Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

(f) Deposits and Investments

City Ordinance 2-76 requires all City deposits to be secured by bonds or other securities of the U.S. Government, bonds of the City redeemable from taxes collected by the City or by other certificates of indebtedness of cities or corporations, which shall have a fair value equal or greater than the amount of the deposits which may exist from time to time.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments (including restricted assets) with a maturity of three months or less from the date of acquisition.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest-bearing depository accounts are presented on the statement of net assets as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City's treasury.

Investments are stated at fair value. Fair values are obtained from market quotations on the last business day of the fiscal year. The market quotations are obtained from national security exchanges or other published sources. Kentucky Revised Statute 66.480 permits the City to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial banks' certificates of deposits, savings and loan deposits and the Commonwealth of Kentucky Investment Pool.

(g) Materials and Supplies Inventory

Inventory is valued at cost, which approximates market, using the first-in/first-out (FIFO) method. Inventory consists of expendable supplies held for consumption. The cost is recorded as an asset at the time individual inventory items are purchased and as an expenditure when used (consumption method).

CITY OF OWENSBORO, KENTUCKY
 NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
 Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems and water and sewer lines. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure are estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land Improvements	20 years	3-30 years
Machinery and Equipment	3-9 years	2-25 years
Buildings	30 years	20-60 years
Vehicles	4-6 years	4-10 years
Infrastructure	20 years	n/a

(i) Property Taxes

Property taxes are recognized as revenue to the extent that they are both measurable and available; an appropriate allowance is established for the portion that is estimated to be uncollectible.

(j) Compensated Absences

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. Sick pay is accumulated to one hundred days; thereafter, employees are compensated for sick pay earned and not taken up to a maximum of twelve days annually. The liability for these compensated absences is recorded as long-term debt and an expense when earned in the government-wide statements. The current portion of this debt is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured; for example, as a result of employee resignation or retirement.

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Interfund Balances

On fund financial statements, long-term interfund loans are classified as “advances to/from other funds” on the balance sheet and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

(l) Accrued Liability and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability in the fund financial statements when due.

(m) Bond Discounts/Issuance Costs

In governmental fund financial statements, bond discounts and issuance costs are recognized in the current period. In the government-wide financial statements and proprietary fund types in the fund financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds-outstanding method, which approximates the effective interest method.

(n) Fund Balance Reserves

Reservations of fund balance represent amounts that are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances and inventories are recorded as reservations of fund balance.

(o) Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Interfund Activity

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statement.

(q) Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of City administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year ended June 30, 2006.

(r) Estimates

Preparation of financial statements in conformity with U.S. generally accepted accounting principles generally accepted in the United States of America 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/expenditures during the reporting period. Actual results could differ from those estimates.

(s) Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except for the Capital Projects Funds and the Debt Service Fund because effective budgetary control is alternately achieved through project budgets, bond indenture provisions and City ordinances, respectively.

Budgets for the General and Special Revenue Funds are adopted on the modified accrual basis. Encumbrance accounting, under which purchase orders, contracts and other commitments for the use of resources are reflected in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds for which annual budgets have been adopted.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

CITY OF OWENSBORO, KENTUCKY
 NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
 Year Ended June 30, 2006

2. PROPERTY TAXES

Property taxes attach as a lien on property as of January 1 each year. Property values are assessed on January 1 of each year. These taxes are levied annually by ordinance, usually in September, and are payable in one installment on or before November 1. The tax rate and assessed valuation, a County government function, are not known until September of the year. The City bills and collects its own property taxes as well as the taxes for the Owensboro Board of Education. Collections of the school taxes are remitted to the Board each month based upon collections in the previous month.

The City is permitted by Section 157 of the Constitution of Kentucky to levy taxes up to \$1.50 per \$100 of assessed valuation for general governmental services other than school purposes. The real property tax rate to finance general governmental services other than school purposes for the year ended June 30, 2006, was \$.258 per \$100, which means that the City has a tax margin of \$1.242 per \$100, on the assessed valuation of \$2,180,139,107. Although this tax margin would indicate significantly higher potential tax revenues, the City is subject to a recall petition if it levies a tax rate that will produce revenue 4% greater, exclusive of revenue from net assessment growth, than would be produced by application of the tax rate that was levied in the preceding year to the preceding year's assessment. The effect of this legislation has been to limit increases in property tax revenues to minimal levels. The City's personal property and vehicle tax rates were \$.3072 and .3030 per \$100 of assessed value, respectively.

3. DEPOSITS AND INVESTMENTS

The City sponsors an external investment pool in which monies of the primary government and of legally separate entities that choose to participate are commingled and invested for the benefit of all participants. The internal portion of this fund is allocated to the City's funds participating and the external portion is accounted for in the Investment Trust Fund of the City's reporting entity. The equity position of each City fund is reported at fair value in the assets of those funds with the equity position of the external participants reflected at fair value in the Investment Trust Fund. The pool is not registered with the SEC as an investment company and is not subject to regulatory oversight. Investments are valued at the market quotation on the last business day of the fiscal year. Market quotations are obtained from brokers or available published services. Investment income is allocated to participants based on the participant's average cash balance. Immaterial accounts do not receive investment income. Participants with negative cash balances are not charged interest. Participants' shares sold and redeemed are determined using specific identification of the participant's cost basis in the investment pool. The City does not issue a separate report for the pool.

The City has neither provided nor obtained any legally binding guarantees during the period to support the value of shares. The pool includes no involuntary participants. The investments held by the pool at June 30, 2006, consist of the following major investment classifications:

	<u>Fair Value</u>	<u>Number of Shares</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>
Government Agency obligations	\$24,865,708	25,587,500	2.250%-5.875%	12/06-10/13
Cash	8,700,517	8,700,517		
Totals	<u>\$33,566,225</u>	<u>34,288,017</u>		

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

3. DEPOSITS AND INVESTMENTS (continued)

The following condensed statements of net assets and changes in net assets for the year ended June 30, 2006, are presented for the pool as a whole:

Statement of Net Assets

Assets:	
Investments in securities, at fair value	\$24,865,708
Cash and cash equivalents	8,700,517
Total assets	<u>\$33,566,225</u>
Net assets:	
Net assets held in trust for external pool participants	\$14,682,874
Net assets held in trust for internal pool participants	18,883,351
Total net assets	<u>\$33,566,225</u>
Net assets consist of:	
Participants' units outstanding (\$1.00 par)	<u>\$34,288,017</u>

Statement of Changes in Net Assets

Revenues:	
Interest income	\$ 1,435,400
Net change in fair value	(526,143)
Total revenues	<u>909,257</u>
Share transactions at net asset value of \$1.00 per share:	
Purchase of units	76,753,035
Redemption of units	(75,853,658)
Net decrease in net assets and shares resulting from share transactions	<u>1,808,634</u>
Total decrease in net assets	
Net assets:	
Beginning of period	31,757,591
End of period	<u>\$33,566,225</u>

Interest Rate Risk

The City recognizes that some level of risk is inherent in any investment transaction. Losses may be incurred due to issuer default, market price changes, or closing investments prior to maturity due to unanticipated cash flow needs. Diversification of the City's investment portfolio by institution, type of investment instrument, and term to maturity is the primary method to minimize investment risk.

With the exception of fully insured or fully collateralized investments, and except for authorized investment pools, no more than twenty-five percent of the City's total investment portfolio shall be invested in a single security type or with a single financial institution. Unless matched to a specific cash flow need, no more than fifty percent of the funds shall be invested in securities maturing more than ten years from the date of purchase.

CITY OF OWENSBORO, KENTUCKY
 NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
 Year Ended June 30, 2006

3. DEPOSITS AND INVESTMENTS (continued)

Credit Risk

The City's investment policy limits investments to obligations of the U.S. and of its agencies and instrumentalities, obligations backed by the full faith and credit of the U.S. or a U.S. government agency, obligations of any corporation of the U.S. government, certificates of deposit issued by FDIC insured or similarly collateralized institutions, and bonds and securities of states, local governments, or related agencies in the U.S. rated in one of the three highest categories by a nationally recognized rating agency. The City's investments in U.S. government agencies listed above were rated AAA by Moody's.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the city will not be able to recover the value of its investments that are in the possession of an outside party. All of the City's investments in U.S. government agencies were held by the counterparty and carry the explicit guarantee of the U.S. government. It is the City's policy that all cash and investments maintained in any financial institution named as a depository be collateralized. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be 110% of the market value of principal, plus accrued interest. Collateral shall always be held by an independent third-party custodian with whom the City has a current custodial agreement.

As of June 30, 2006, \$9,695,274 of the City's bank balance was collateralized by an irrevocable, unconditional, nontransferable letter of credit issued by the Federal Home Loan Bank which expires July 2006.

As of June 30, 2006, the City had the following investments. Investments are reported at fair values.

<u>Investments</u>	<u>Maturities</u>	
U.S. government agencies	42 months average	<u>\$24,865,708</u>

Primary Government

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Deposits and investments:		
Non-pooled:		
Cash and cash equivalents	<u>\$372,804</u>	\$ 372,804
Government agency obligations		351,775
Fiduciary cash equivalents		<u>279,782</u>
Total non-pooled		<u>1,004,361</u>
Pooled:		
Cash and cash equivalents		8,700,517
Government agency obligations		<u>24,865,708</u>
Total pooled		<u>33,566,225</u>
Non-pooled fiduciary investments:		
Mutual funds (police and firefighters/city pensions)		<u>12,545,991</u>

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

3. DEPOSITS AND INVESTMENTS (continued)

Total deposits and investments		47,116,577
Less:		
External participants' equity in pool:		
Component units' equity in pool		(5,113,218)
Other external participants		(5,511,998)
Fiduciary cash equivalents		(279,782)
Fiduciary equity in pool		(4,057,658)
Non-pooled investments		<u>(12,545,991)</u>
Total deposits and investments - primary government		<u>\$19,607,930</u>
<u>Balance Sheet Accounts:</u>		
Equity in pooled deposits and investments		\$18,883,351
Cash and cash equivalents:		
In segregated accounts		6,206
With escrow agents		288,547
Restricted assets:		
Cash and cash equivalents		<u>429,826</u>
Total deposits and investments - primary government		<u>\$19,607,930</u>
<u>Component Units</u>		
	<u>Bank</u>	
	<u>Balance</u>	
Deposits:		
Cash and cash equivalents	<u>\$66,385,518</u>	<u>\$63,457,718</u>
Investments:		
Equity in pooled deposits and investments		5,140,005
Government agency obligations		19,282,812
Repurchase agreements		<u>8,900,000</u>
Total investments		<u>33,322,817</u>
Total deposits and investments - component units		<u>\$96,780,535</u>
<u>Balance Sheet Accounts:</u>		
Equity in pooled deposits and investments		\$ 5,140,005
Cash and cash equivalents		15,153,477
Investments		<u>4,875,000</u>
		<u>25,168,482</u>
Restricted assets:		
Cash and cash equivalents		45,616,985
Investments		25,995,068
Other restricted assets		<u>12,548,050</u>
		<u>24,160,103</u>
Less other restricted assets		<u>(12,548,050)</u>
Total deposits and investments - component units		<u>\$96,780,535</u>

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

4. RESTRICTED ASSETS

Primary Government

Certain assets of the primary government, which are restricted, consist of the following:

Debt Service Fund:	
Cash with trustee	\$ 429,826
Total restricted assets - primary government	<u>\$ 429,826</u>

Component Units

Certain assets of Owensboro Municipal Utilities as of May 31, 2006, which are restricted, consist of the following:

Electric Light and Power System:	
Cash and equivalents	\$43,296,416
Investments	25,995,068
Purchased power receivable	4,767,955
Accrued interest receivable	360,757
Fuel inventory, at cost	7,011,908
Other	407,112
	<u>81,839,216</u>
Water Works System:	
Cash and equivalents	2,320,569
Accrued interest receivable	318
	<u>2,320,887</u>
 Total restricted assets – component units	 <u><u>\$84,160,103</u></u>

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

5. CAPITAL ASSETS

Primary Government

Capital asset activity for the City for the year ended June 30, 2006 was as follows:

	Balance June 30, 2005	Increases	Decreases	Balance June 30, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 9,916,928	\$ 132,809	\$ (52,234)	\$ 9,997,503
Total capital assets, not being depreciated	<u>9,916,928</u>	<u>132,809</u>	<u>(52,234)</u>	<u>9,997,503</u>
Capital assets, being depreciated:				
Land improvements/infrastructure	40,651,954	4,175,888	-	44,827,842
Buildings	17,660,345	-	(18,922)	17,641,423
Machinery and equipment	3,603,924	246,674	(78,928)	3,771,670
Vehicles	6,638,820	726,011	(434,530)	6,930,301
Total capital assets, being depreciated	<u>68,555,043</u>	<u>5,148,573</u>	<u>(532,380)</u>	<u>73,171,236</u>
Less accumulated depreciation for:				
Land improvements/infrastructure	(12,891,220)	(2,031,226)	-	(14,922,446)
Buildings	(7,046,097)	(594,258)	13,561	(7,626,794)
Machinery and equipment	(3,041,942)	(190,492)	69,359	(3,163,075)
Vehicles	(4,951,452)	(646,236)	397,862	(5,199,826)
Total accumulated depreciation	<u>(27,930,711)</u>	<u>(3,462,212)</u>	<u>480,782</u>	<u>(30,912,141)</u>
Total capital assets, being depreciated, net	<u>40,624,332</u>	<u>1,686,361</u>	<u>(51,598)</u>	<u>42,259,095</u>
Governmental activities capital assets, net	<u>\$ 50,541,260</u>	<u>\$ 1,819,170</u>	<u>\$ (103,832)</u>	<u>\$ 52,256,598</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 118,739	\$ -	\$ -	\$ 118,739
Total capital assets, not being depreciated	<u>118,739</u>	<u>-</u>	<u>-</u>	<u>118,739</u>
Capital assets, being depreciated:				
Land improvements	545,446	-	-	545,446
Buildings	2,466,945	-	-	2,466,945
Machinery and equipment	370,513	152,244	(202,666)	320,091
Vehicles	4,630,023	402,967	(309,310)	4,723,680
Total capital assets, being depreciated	<u>8,012,927</u>	<u>555,211</u>	<u>(511,976)</u>	<u>8,056,162</u>
Less accumulated depreciation for:				
Land improvements	(510,663)	(23,188)	-	(533,851)
Buildings	(1,707,665)	(51,436)	-	(1,759,101)
Machinery and equipment	(266,292)	(28,415)	150,292	(144,415)
Vehicles	(3,737,971)	(249,643)	309,310	(3,678,304)
Total accumulated depreciation	<u>(6,222,591)</u>	<u>(352,682)</u>	<u>459,602</u>	<u>(6,115,671)</u>
Total capital assets, being depreciated, net	<u>1,790,336</u>	<u>202,529</u>	<u>(52,374)</u>	<u>1,940,491</u>
Business-type activities capital assets, net	<u>\$ 1,909,075</u>	<u>\$ 202,529</u>	<u>\$ (52,374)</u>	<u>\$ 2,059,230</u>

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

5. CAPITAL ASSETS (continued)

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

Governmental activities:	
General government	\$ 1,107,273
Public safety	242,948
Public works	1,635,646
Community and cultural	476,345
Total depreciation expense, governmental activities	<u>\$ 3,462,212</u>
Business-type activities:	
Sanitation	\$ 229,634
Transit	99,860
Recreation	23,188
Total depreciation expense, business-type activities	<u>\$ 352,682</u>

Component Units

Capital asset activity for Owensboro Municipal Utilities for the year ended May 31, 2006, was as follows:

	Balance May 31, 2005	Additions	Retirements	Balance May 31, 2006
Electric, Light and Power:				
Capital assets, not being depreciated:				
Construction in progress	\$ 56,289,597	\$ 765,571	\$ -	\$ 57,055,168
Capital assets, being depreciated:				
Utility plant	321,564,146	4,228,702	(920,124)	324,872,724
Less accumulated depreciation	(148,056,418)	(12,424,393)	661,399	(159,819,412)
Total capital assets, being depreciated, net	<u>173,507,728</u>	<u>(8,195,691)</u>	<u>(258,725)</u>	<u>165,053,312</u>
Electric, Light and Power capital assets, net	<u>\$ 229,797,325</u>	<u>\$ (7,430,120)</u>	<u>\$ (258,725)</u>	<u>\$ 222,108,480</u>
Water Works System:				
Capital assets, not being depreciated:				
Construction in progress	\$ 3,853,016	\$ -	\$ (2,751,067)	\$ 1,101,949
Capital assets, being depreciated:				
Utility plant	61,334,622	4,103,334	(198,090)	65,239,866
Less accumulated depreciation	(18,725,743)	(1,766,340)	351,800	(20,140,283)
Total capital assets, being depreciated, net	<u>42,608,879</u>	<u>2,336,994</u>	<u>153,710</u>	<u>45,099,583</u>
Water Works System capital assets, net	<u>\$ 46,461,895</u>	<u>\$ 2,336,994</u>	<u>\$ (2,597,357)</u>	<u>\$ 46,201,532</u>

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

5. CAPITAL ASSETS (continued)

Capital asset activity for Owensboro Riverport Authority for the year ended June 30, 2006, was as follows:

	Balance June 30, 2005	Additions	Retirements	Balance June 30, 2006
Capital assets, not being depreciated:				
Land and land improvements	\$ 2,184,335	\$ 431,388	\$ -	\$ 2,615,723
Construction in progress	-	8,560	-	8,560
Total capital assets, not being depreciated	<u>2,134,426</u>	<u>439,948</u>	<u>-</u>	<u>2,624,283</u>
Capital assets, being depreciated:				
Port facilities	19,670,410	143,289	(344,001)	19,469,698
Machinery and equipment	4,206,536	331,709	(72,054)	4,466,191
Office furniture and equipment	642,424	247,784	(1,601)	888,607
Property on operating leases	486,204	-	-	486,204
Total capital assets, being depreciated	<u>25,055,483</u>	<u>722,782</u>	<u>(417,656)</u>	<u>25,310,700</u>
Less accumulated depreciation for:				
Port facilities	(5,666,577)	(616,823)	5,733	(6,277,667)
Machinery and equipment	(3,209,624)	(259,425)	70,612	(3,398,437)
Office furniture and equipment	(352,141)	(90,617)	1,601	(441,157)
Property on operating leases	(473,132)	(1,561)	-	(474,693)
Total accumulated depreciation	<u>(9,701,474)</u>	<u>(968,426)</u>	<u>77,946</u>	<u>(10,591,954)</u>
Total capital assets, being depreciated, net	<u>15,354,009</u>	<u>(245,644)</u>	<u>(339,710)</u>	<u>14,718,746</u>
Owensboro Riverport Authority capital assets, net	<u>\$ 17,488,435</u>	<u>\$ 194,304</u>	<u>\$ (339,710)</u>	<u>\$ 17,343,029</u>

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

6. LONG-TERM LIABILITIES

Primary Government

Long-term liability activity for the City for the year ended June 30, 2006, was as follows:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
Governmental activities:					
Bonds and notes payable:					
Lease revenue bonds:					
Series 1995	\$ 2,750,000	\$ -	\$(2,750,000)	\$ -	\$ -
Series 1989	690,000	-	(50,000)	640,000	55,000
Floating indebtedness bonds:					
Series 2005	357,000	-	(115,000)	242,000	10,000
General obligation bonds:					
Series 1999	485,000	-	(60,000)	425,000	65,000
Series 1999B	560,000	-	(130,000)	430,000	135,000
Series 2001	1,890,000	-	(445,000)	1,445,000	460,000
Series 2002A	2,970,000	-	(120,000)	2,850,000	125,000
Series 2002B	6,370,000	-	(265,000)	6,105,000	275,000
Series 2003A	3,001,000	-	(211,000)	2,790,000	215,000
Series 2006	-	4,100,000	-	4,100,000	140,000
Series 2006 Refunding	-	2,550,000	(215,000)	2,335,000	225,000
Notes payable:					
OMIC	88,206	-	(51,806)	36,400	36,400
Other	870,000	-	-	70,000	-
	<u>20,031,206</u>	<u>6,650,000</u>	<u>(4,412,806)</u>	<u>22,268,400</u>	<u>1,741,400</u>
Less deferred amounts:					
For issuance discounts	(90,643)	-	12,335	(78,308)	-
On refunding:					
Series 2002B	(191,772)	-	31,962	(159,810)	-
Series 2003A	(307,672)	-	27,970	(279,702)	-
Series 2006 Refunding	-	(131,398)	3,285	(128,113)	-
Total bonds and notes payable	<u>19,441,119</u>	<u>6,518,602</u>	<u>(4,337,254)</u>	<u>21,622,467</u>	<u>1,741,400</u>
Net pension obligation	1,361,904	-	(1,361,904)	-	-
Compensated absences	<u>3,106,964</u>	<u>2,178,640</u>	<u>(1,841,117)</u>	<u>3,444,487</u>	<u>223,364</u>
Total Governmental	<u>\$23,909,987</u>	<u>\$8,697,242</u>	<u>\$(7,540,275)</u>	<u>\$25,066,954</u>	<u>\$1,964,764</u>
Business-type activities:					
Compensated absences	<u>\$ 231,979</u>	<u>\$ 190,335</u>	<u>\$ (199,810)</u>	<u>\$ 222,504</u>	<u>\$ 27,430</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. For governmental activities, compensated absences are generally liquidated by the general fund.

Long-term debt of the City at June 30, 2006, consisted of the following:

Series 1989 Lease Revenue Bonds: 3.27% variable rate bonds with principal due annually and interest due semi-annually through January 2019	\$ 640,000
Series 2005 Lease Revenue Bonds: 3.27% variable rate bonds with principal and interest due semi-annually through January 2019	242,000

CITY OF OWENSBORO, KENTUCKY
 NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
 Year Ended June 30, 2006

6. LONG-TERM LIABILITIES (continued)

Series 1999 General Obligation Bonds: 4.0%-4.35% with principal due annually and interest due semi-annually through August 2011	425,000
Series 1999B General Obligation Bonds: 4%-4.65% with principal due annually and interest due semi-annually through July 2009	430,000
Series 2001 General Obligation Bonds: 3.75%-4.0% with principal due annually and interest due semi-annually through February 2009	1,445,000
Series 2002A General Obligation Bonds: 4%-5% with principal due annually and interest due semi-annually through February 2022	2,850,000
Series 2002B General Obligation Bonds: 3%-5% with principal due annually and interest due semi-annually through September 2021	6,105,000
Series 2003A General Obligation Bonds: 2.0%-4.375% with principal due annually and interest due semi-annually through June 2017	2,790,000
Series 2006 General Obligation Bonds: 3.75% with principal due annually and interest due semi-annually through March 2026	4,100,000
Series 2006 Refunding General Obligation Bonds: 3.50%-3.85% with principal due annually and interest due semi-annually through June 2015	2,335,000
Two variable rate notes payable to financial institution in monthly principal and interest payments of \$4,416 through February 2007; rate is 80% of prime, currently 6.6%; office building pledged as collateral	36,400
Note payable, 5.78% variable rate, unsecured, interest payable quarterly, lump sum principal payment due April 2009	870,000
	\$22,268,400

The lease revenue bonds were issued to provide funds for 1) the acquisition of the Airport property and improvements thereto, 2) improvement at Hillcrest Golf course and Southpark, and 3) Symphony building renovations. The Airport bonds are secured by the acquired Airport property and are subject to optional redemption.

The City issues general obligation bonds to provide funds for the acquisition and construction of various public projects in the City. These bonds are direct obligations and pledge the full faith and credit of the government. Certain of the issues are subject to optional redemption prior to maturity.

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

6. LONG-TERM LIABILITIES (continued)

In April 2006, the City issued \$2,550,000 in General Obligation Refunding Bonds to advance refund \$2,750,000 of the 1995 series bonds along with the 1995 series debt service reserve of \$375,000. The proceeds, less a discount of \$16,395, less a good faith deposit of \$51,000, and less a payment of \$35,286 in underwriting fees, insurance, and other issuance costs were used to purchase \$2,442,356 in U.S. government securities and \$4,963 in cash. Those securities and cash were deposited in an irrevocable trust with an escrow agent to provide for the defeasance of the 1995 bond series scheduled to begin maturity June 1, 2006. As a result, the 1995 bond series scheduled to begin maturity on June 1, 2006, is considered to be defeased and the liability for those bonds has been removed from long-term liabilities.

The City advance refunded the 1995 series bonds to reduce its total debt service payments over the next 10 years by approximately \$618,455 and to obtain an economic gain (difference between present values of the debt service payments on the old and new debt) on approximately \$528,669.

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2006, \$7,677,326 of bonds outstanding are considered defeased.

Annual debt service requirements for long-term debt (excluding compensated absences and the net pension obligation) are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,741,400	\$ 873,051	\$ 2,614,451
2008	1,769,000	810,110	2,579,110
2009	2,714,000	743,238	3,457,238
2010	1,229,000	672,497	1,901,497
2011	1,284,000	624,218	1,908,218
2012-2016	6,434,000	2,327,585	8,761,585
2017-2021	4,997,000	1,063,345	6,060,345
2022-2026	2,100,000	188,255	2,288,255
Total	<u>\$22,268,400</u>	<u>\$7,302,299</u>	<u>\$29,570,699</u>

Component Units

Owensboro Municipal Utilities Electric Light and Power System

Long-term liability activity for the year ended May 31, 2006, was as follows:

<u>Bonds Payable</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Series of 1991-B	\$146,902,553	\$ 9,854,920	\$(15,725,000)	\$141,032,473	\$15,124,582
Series of 1993-B	12,851,570	567,660	(5,375,000)	8,044,230	248,934
Series of 2002-A	33,895,000	-	(1,055,000)	32,840,000	1,735,000
Series of 2002-B	11,770,000	-	(450,000)	11,320,000	660,000
	<u>205,419,123</u>	<u>10,422,580</u>	<u>(22,605,000)</u>	<u>193,236,703</u>	<u>17,768,516</u>

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

6. LONG-TERM LIABILITIES (continued)

Less unamortized debt discount	(773,921)	-	111,337	(662,584)	-
Less unamortized deferred loss on debt defeasance	(29,962)	-	8,363	(21,599)	-
Total bonds payable	204,615,240	10,422,580	(22,485,300)	192,552,520	17,768,516
Other liabilities:					
Long-term payable to Kentucky Utilities Co.	2,997,723	625,886	(769,986)	2,853,623	332,392
Total long-term Liabilities	\$207,612,963	<u>\$11,048,466</u>	<u>\$(23,255,286)</u>	<u>\$195,406,143</u>	<u>\$18,100,908</u>

Bonds payable at May 31 consist of the following Electric Light and Power Revenue Bonds:

Series of 1991-B:

Deferred interest bonds including interest compounded semi-annually at 6.70% to 6.95%, principal and interest due from 2005 to 2020 (original principal outstanding bonds at May 31, 2006, was \$52,734,416) \$141,032,473

Series of 1993-B:

Deferred interest bonds including interest compounded semi-annually at 3.80% to 5.45%, principal and interest due from 1996 to 2009 (original principal of outstanding bonds at May 31, 2006, was \$4,107,078) 8,044,230

Series of 2002-A:

6.34% due 2020, subject to annual pro rata sinking fund redemption from 2005 to 2020 32,840,000

Series of 2002-B:

Current interest bonds of 3.25% to 4.75%, due from 2005 to 2017 8,090,000

5.0% due 2020, subject to annual pro rata sinking fund redemption from 2018 to 2020 3,230,000

Total 193,236,703

Less current maturities (17,768,516)

Less unamortized debt discount (662,584)

Less unamortized deferred net loss on debt defeasance (21,599)

Total \$174,784,004

Sinking fund requirements and schedule aggregate maturities of long-term debt as follows:

<u>Year ending May 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending May 31, 2007	\$ 18,370,000	\$ 2,592,193	\$ 20,962,193
Year ending May 31, 2008	19,555,000	2,459,095	22,014,095
Year ending May 31, 2009	23,300,000	2,316,952	25,616,952
Year ending May 31, 2010	18,370,000	2,316,952	20,686,952
Year ending May 31, 2011	18,520,000	2,166,224	20,686,224
Five years ending May 31, 2016	95,230,000	8,202,546	103,432,546
Five years ending May 31, 2021	80,090,000	2,657,109	82,747,109
	<u>\$273,435,000</u>	<u>\$22,711,071</u>	<u>\$296,146,071</u>

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

6. LONG-TERM LIABILITIES (continued)

The scheduled principal maturities include \$80,198,297 of interest schedule to be incurred in future years on deferred interest bonds, which will be compounded and added to the original principal amounts.

On December 6, 1991, the City issued \$62,474,359 of Electric Light and Power System Revenue Bonds, 1991-B series, dated December 6, 1991. These deferred interest bonds bear interest at rates ranging from 6.7% to 6.95% which, when compounded semi-annually and added to the original principal amount, will result in compounded amounts at scheduled maturities in 2005 to 2020 of \$25,000 per bond.

The 1991-B Bonds were issued to provide construction funds for certain pollution control facilities and equipment, certain solid waste disposal facilities and equipment and related purposes. The 1991-B series is not subject to redemption prior to maturity.

On November 18, 1993, the City issued \$62,721,241 of Electric Light and Power System Revenue Bonds, 1993-B Refunding Series, dated October 1, 1993 for current interest bonds and November 18, 1993 for deferred interest bonds. The deferred interest bonds bear interest at rates ranging from 3.8% to 5.45% which, when compounded semi-annually and added to the original principal amount, results in compounded amounts at scheduled maturities through 2009 of \$25,000 per bond.

The 1993-B Bonds were issued to provide funds to refund a portion of the outstanding 1985-A and B series bonds. The in-substance defeasance of a portion of the 1985 Bonds was accomplished by placing approximately \$61,554,000 in proceeds from the 1993-B Bonds in an irrevocable escrow fund to be used solely for satisfying scheduled debt service payments on those 1985 Bonds. The 1993B series deferred interest bonds are not subject to redemption prior to maturity.

On February 27, 2002, the City issued \$34,905,000 of Electric Light and Power System Revenue Bonds, Taxable 2002-A Series and \$12,205,000 of Electric Light and Power System Revenue Bonds, Tax-Exempt 2002-B Series, each dated February 1, 2002. The 2002-A and B Bonds were issued to provide construction funds for certain pollution control facilities and equipment.

The 2002-A series is subject to scheduled redemption prior to maturity based upon annual pro rata sinking fund redemptions. In addition, the 2002-A series is subject to early redemption, in whole or in part, at any time, at terms specified in the 2002 Official Statement. Certain 2002-B series bonds totaling \$3,230,000 due January 1, 2020, are subject to scheduled redemption beginning in 2018 based upon annual pro rata sinking fund redemptions. The 2002-B series is also subject to early redemption in whole or in part on any date on or after January 1, 2009, at redemption prices (expressed as a percentage or principal amount) of 101% for 2009, 100½% for 2010, and 100% thereafter, plus accrued interest to the redemption date.

All bonds are secured by a pledge of and are payable from the gross revenues derived from the operation of the electric system and are secured by a statutory mortgage lien as provided and authorized by the Kentucky Revised Statutes.

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

6. LONG-TERM LIABILITIES (continued)

As discussed above, the electric system accomplished in-substance defeasances of certain bonds by irrevocably placing U.S. Government obligations in escrow funds to be used solely for satisfying schedule debt service payments on the defeased bonds. The in-substance defeasances resulted in the accounting recognition of net gains approximating \$8,901,000. Consistent with the ratemaking treatment, this gain has been deferred and is being amortized to income (straight-line method) during the period to 2009. As a result of the in-substance defeasances, escrow fund assets and the liability for the defeased bonds are not included in the electric system's financial statements. At May 31, 2006, the following outstanding bonds are considered defeased:

Series of 1978 \$13,775,000

Owensboro Municipal Utilities Water Works System

Long-term liability activity for the year ended May 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Bonds Payable:					
Series of 1999	\$20,340,000	\$ -	\$(1,200,000)	\$19,140,000	\$1,245,000
Series of 2003	4,420,000	-	(165,000)	4,255,000	170,000
	24,760,000	-	(1,365,000)	23,395,000	1,415,000
Less amortized debt discount	(26,585)	-	2,163	(24,422)	-
Less unamortized deferred loss on debt defeasance	(1,090,277)	-	88,700	(1,001,577)	-
Total bonds payable	<u>\$23,643,138</u>	<u>\$ -</u>	<u>\$(1,274,137)</u>	\$22,369,001	<u>\$1,415,000</u>

Long-term debt at May 31, 2006, consists of the following Water Revenue Bonds:

Series of 1999: 4.0% to 5.25% due serially September 15, 1999 to 2017	\$19,140,000
Series of 2003: 2.0% to 4.25%, due serially September 15, 2004 to 2023	<u>4,255,000</u>
Total	23,395,000
Less current maturities	(1,415,000)
Less unamortized debt discount	(24,422)
Less unamortized deferred loss on debt defeasance	<u>(1,001,577)</u>
	<u><u>\$20,954,001</u></u>

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

6. LONG-TERM LIABILITIES (continued)

Sinking fund requirements and scheduled aggregate maturities of long-term debt are as follows:

<u>Year ending May 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending May 31, 2007	\$ 1,415,000	\$ 996,534	\$ 2,411,534
Year ending May 31, 2008	1,465,000	940,771	2,405,771
Year ending May 31, 2009	1,540,000	873,884	2,413,884
Year ending May 31, 2010	1,605,000	803,795	2,408,795
Year ending May 31, 2011	1,665,000	736,869	2,401,869
Five years ending May 31, 2016	9,500,000	2,507,973	12,007,973
Five years ending May 31, 2021	5,260,000	517,275	5,777,275
Five years ending May 31, 2026	945,000	58,931	1,003,931
	<u>\$23,395,000</u>	<u>\$7,436,032</u>	<u>\$30,831,032</u>

The Water System is subject to certain debt covenants, compliance with which is required by the ordinances authorizing its bond issues. Such ordinances require revenue to be first applied to the Sinking Fund, next to the Operations and Maintenance Fund and finally to the Renewal and Replacement Fund.

On January 12, 1999, the City issued \$26,410,000 of Water Revenue Refunding and Improvement Bonds, Series 1999, dated January 1, 1999. The 1999 Bonds were issued to refund, at a lower cost, all outstanding 1991 and 1992 series bonds and to provide funds for the cost of extensions and improvements to the Water System. The in-substance defeasance of the 1991 and 1992 bonds was accomplished by placing approximately \$23,271,892 in proceeds from the

1999 bonds and \$3,117,030 in funds from the 1991 and 1992 bonds sinking funds in an irrevocable escrow fund to be used solely for satisfying scheduled debt service payments of the 1991 and 1992 bonds.

The Series 1999 Bonds maturing on and after September 15, 2009, are subject to redemption prior to maturity in whole or in part on March 15, 2009, and on any date thereafter, at the redemption price of 100% of the principal amount redeemed, plus accrued interest to the redemption date.

On May 29, 2003, the City issued \$4,500,000 of Water Revenue Improvement Bonds, Series 2003, dated May 15, 2003. The 2003 bonds were issued to provide funds for the cost of extensions and improvements to the water system. The Series 2003 bonds maturing on or after September 15, 2013, are subject to redemption in whole or in part on September 15, 2012, and on any date thereafter, at the redemption price of 100% of the principal amount redeemed, plus accrued interest to the redemption date.

All bonds are secured by a pledge of and are payable from the gross revenues derived from the operation of the Water System and are secured by the statutory mortgage lien as provided and authorized by the Kentucky Revised Statutes.

Owensboro Riverport Authority

In 2002, the Authority entered into a \$10,175,000 Lease Agreement with the Kentucky League of Cities Funding Trust to construct warehouse and storage facilities. On April 1, 2005, the Authority entered into a \$105,000 Lease Agreement with the Kentucky League of Cities Fund-

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

6. LONG-TERM LIABILITIES (continued)

ing Trust to acquire vehicles. Under the agreements, the Authority is obligated to make lease rental payments equal to the base rentals identified in the agreements, which include principal, interest, and administrative fees. The interest rate is a market driven variable rate approximating the Bond Market Association (BMA) Municipal Swap Index. The Authority has an option to prepay in full its lease rental payments under the lease, at which time the lessor would transfer and convey the project or vehicles to the Authority. Under the agreements, the Authority agrees to maintain net revenues not less than one and ten one hundredths (1.10) times the maximum annual debt service requirements of the leases.

Long-term debt activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Maturities</u>
Variable rate lease obligation payable in monthly installments until October 2022, effective rate was 4.00% for 2006	\$9,286,306	\$ -	\$(452,603)	\$8,833,703	\$464,498
Variable rate lease obligation payable in monthly installments until April 2010, effective rate was 3.99% for 2006	101,809	-	(19,569)	82,240	20,321
	<u>\$9,388,115</u>	<u>\$ -</u>	<u>\$(472,172)</u>	<u>\$8,915,943</u>	<u>\$484,819</u>

Scheduled aggregate maturities on long-term debt and lease agreements are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 484,819	\$ 410,006	\$ 894,825
2008	494,742	387,002	881,744
2009	504,775	363,285	868,060
2010	511,167	339,334	850,501
2011	501,850	315,477	817,327
2012-2016	2,659,701	1,209,920	3,869,621
2017-2021	2,928,948	552,148	3,481,096
2022-2023	829,941	27,827	857,768
	<u>\$8,915,943</u>	<u>\$3,604,999</u>	<u>\$12,520,942</u>

7. PENSION PLANS

The City of Owensboro has two pension plans which are funded and administered by the City. One plan covers its police and firefighters, and the other plan covers all other employees of the City and Owensboro Municipal Utilities. Neither plan covers those employees who elected to participate in the County Employees Retirement System.

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

7. PENSION PLANS (continued)

Plan Descriptions:

City Employees Pension Fund (CEPF)

All of the City's and OMU's full-time Civil Service employees, except for the City's police and firefighters and those employees who elected to transfer to the County Employees Retirement System (an option created by ordinance on October 6, 1986), participate in the CEPF, a single-employer, defined benefit plan. The plan was created by ordinance on August 13, 1946, under Kentucky Revised Statutes (KRS) Sections 90.310 through 90.410. Benefit provisions and contribution requirements are established under these authorities. A board of trustees consisting of the Mayor, two commissioners and four employees administers the plan.

Police and Firefighters' Retirement Fund (PFPF)

All of the City's full-time police and firefighters, except those who elected to transfer to the County Employees Retirement System (an option created by ordinance on August 1, 1988), participate in the PFPF, a single employer, defined benefit plan. The plan was created by ordinance on March 26, 1928, under Kentucky Revised Statutes (KRS) Sections 95.851 through 95.991. Benefit provisions and contribution requirements are established under these authorities.

The CEPF and PFPF issue publicly available financial reports that include financial statements and required supplementary information for the CEPF and PFPF. These financial reports may be obtained from the City's Finance Director, City Hall, Owensboro, Kentucky 42301.

Significant Plan Accounting Policies

Basis of Accounting: The financial statements of the CEPF and PFPF are prepared using the accrual basis of accounting. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Funding Policy and Annual Pension Cost: The Board of Trustees of each plan establishes and may amend the contribution requirements of plan members and the City. The City's annual pension cost for the current year and related information for each plan is as follows:

	<u>CEPF</u>	<u>PFPF</u>
Contribution rates:		
City	-	-
Plan members	-	-
Annual required contribution	-	\$ 70,306
Interest on net pension obligation	\$(838)	\$ 95,333
Adjustment to annual required contribution	\$(1,130)	\$ 128,554
Annual pension cost	\$292	\$ 37,085
Contributions made	-	\$4,003,748
Actuarial valuation date	June 30, 2006	June 30, 2006
Actuarial cost method	Entry age	Entry age

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

7. PENSION PLANS (continued)

Amortization method	Level dollar – closed	Level dollar – closed
Remaining amortization period	20 years	20 years
Asset valuation method	Market	Market
Actuarial assumptions:		
Investment rate of return	7.0%	7.0%
Inflation rate	None	None
Projected salary increases	None	None
Cost of living adjustment	None	None

Methods Used to Value Investments: Plan investments are reported at fair value. Investments at June 30, 2006, consist of investments in mutual funds.

Three-Year Trend Information

Fiscal Year ending June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
CEPF: 6/30/2006	\$292	-	-
6/30/2005	\$299	-	-
6/30/2004	\$307	-	-
PFPF: 6/30/2006	\$ 37,085	100%	-
6/30/2005	\$361,208	-	\$1,361,904
6/30/2004	\$370,239	-	\$1,000,696

Schedules of Funding Progress
(Required supplementary information)

Year Ended June 30,	Actuarial Value of Assets	Actuarial Accrued Liability – Entry Age	Funded (Unfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Funded (Unfunded) Actuarial Accrued Liability as a Percentage of Covered Payroll
CEPF:						
2006	\$5,467,685	\$4,078,434	\$1,389,251	134.1%	n/a	n/a
2005	\$5,658,796	\$4,400,114	\$1,257,982	128.6%	n/a	n/a
2004	\$5,757,018	\$4,530,556	\$1,226,462	127.1%	n/a	n/a
PFPF:						
2006	\$8,826,614	\$ 9,706,095	\$(879,481)	55.3%	n/a	n/a
2005	\$5,682,475	\$10,271,819	\$(4,589,344)	59.5%	n/a	n/a
2004	\$6,413,342	\$10,784,539	\$(4,371,197)	63.3%	n/a	n/a

County Employees Retirement System (CERS)

Substantially all of the City's full-time general employees, as well as employees for the Owensboro Municipal Utilities and Owensboro Riverport Authority participate in the County Employees Retirement System (CERS). The CERS is a multiple employer, cost sharing, defined benefit pension plan administered by the Board of Trustees of Kentucky Retirement Systems (KRS). CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members

CITY OF OWENSBORO, KENTUCKY
 NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
 Year Ended June 30, 2006

7. PENSION PLANS (continued)

under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State legislature. Section 61.645 of the Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The KRS issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601, or by calling 1-502-564-4646.

Funding Policy: Plan members are required to contribute a percent of their annual creditable compensation (5% if non-hazardous and 8% if hazardous) and the System is required to contribute at an actuarially determined rate. The current rate is 10.98% of annual covered payroll for nonhazardous employees and 25.01% for hazardous employees. The contribution requirements of plan members, the City, and component units are established and may be amended by the KRS Board of Trustees. Contributions to CERS for the years ended June 30, 2006, 2005 and 2004, were equal to the required contributions for each year and are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
City of Owensboro	\$3,231,089	\$2,598,738	\$2,112,842
Component Units:			
Owensboro Municipal Utilities:			
Electric, Light and Power System	\$1,114,000	\$ 828,000	\$ 727,000
Water Works System	\$ 229,000	\$ 167,000	\$ 141,000
Owensboro Riverport Authority	\$ 196,451	\$ 136,178	\$ 100,228

8. LEASES

Primary Government

The City's leasing operations, as lessor, are as follows:

(a) Audubon Area Community Services, Inc.

Under the terms of an agreement dated October 20, 1987, effective upon completion of construction in 1988, Owensboro Municipal Improvement Corporation (OMIC) leased to the Audubon Area Community Services, Inc. (AACS) a new office building. The initial term of the lease is for 20½ years for a rental which shall be payable and be paid to the financial institution holding the mortgage on such property. Such rental shall be an amount equal to the debt service on said mortgage, currently \$3,864 per month. However, this amount shall vary with the floating interest rate. The City of Owensboro shall obtain, after payment of the adjustable rate note in full, the exclusive use and possession of the property.

Under the terms of an agreement dated July 19, 1995, OMIC entered into a second lease agreement with AACS relating to improvements upon real estate owned by OMIC. The initial term of the lease is for 13 years for a rental which shall be payable and be paid to the financial institution holding the mortgage on the property. Such rental shall be an amount equal to the debt service, currently \$752 per month. It is the intention of both OMIC and AACS that this shall be a "net lease" and that all of the rent be used to retire the indebtedness in the property.

CITY OF OWENSBORO, KENTUCKY
 NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
 Year Ended June 30, 2006

8. LEASES (continued)

(b) Museum of Fine Art, Inc. Lease

On May 21, 1997, the City, as lessor, entered into a lease agreement with the Museum of Fine Art, Inc. (the lessee), for certain property on which is situated a building known as the "Carnegie Building". The term of the lease is for ninety-nine years, for which the Museum will pay to the City an annual sum of \$1.00.

(c) Owensboro Independent School District

Under the terms of an agreement dated July 20, 2004, the City entered into a twenty-year lease agreement with Owensboro Independent School District relating to the assignment of Shifley Park, together with all equipment, fixtures and improvement thereon, for athletic and other recreational events. The agreement provided for a one-time payment of \$210,000, which is being recognized as rental income over the twenty-year lease term. Rental income for fiscal year 2005 totaled \$10,500, resulting in deferred revenue of \$189,018 at June 30, 2005. The lease automatically renews June 30, of each successive year for \$1.00 per annum.

The cost and carrying amount of property held under the three aforementioned leases is as follows:

Land	\$ 81,220
Buildings	<u>1,804,037</u>
	1,885,257
Less accumulated depreciation	<u>(885,194)</u>
	<u>\$1,000,063</u>

Component Units

Leasing arrangements of the City's component units are as follows:

Owensboro Riverport Authority

The Authority's leasing operations (as lessor) consist principally of the leasing of the bulk storage warehouse, the grain loading facility and the harbor boat. These leases include various operating leases and a capital sales type lease.

Operating Leases

Investments in property on operating leases at June 30, 2006, are as follows:

Asphalt pad	\$ 25,324
Bulk storage warehouse	<u>460,880</u>
	486,204
Less accumulated depreciation	<u>(474,693)</u>
	<u>\$ 11,511</u>

CITY OF OWENSBORO, KENTUCKY
 NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
 Year Ended June 30, 2006

8. LEASES (continued)

Sales Type Lease

The Authority's sales type lease consists of a ten-year agreement entered into in October 1995 for the lease of the harbor boat. The net investment in the harbor boat sales type lease at June 30, 2006, is as follows:

Total minimum lease payments to be received	\$ -
Estimated residual value of lease property (unguaranteed)	23,802
Less unearned income	<u>-</u>
Net investment in sales type lease	23,802
Less amounts due within one year	<u>-</u>
Noncurrent amounts	<u><u>\$23,802</u></u>

Minimum lease payments, including any related profit, to be received under the above lease arrangements and other long-term warehouse operating leases are as follows:

Year ending June 30,	<u>Operating Leases</u>	<u>Other Operating Leases</u>
2007	\$162,000	\$454,545
2008	73,575	-
2009	<u>22,050</u>	<u>-</u>
	<u><u>\$257,625</u></u>	<u><u>\$454,545</u></u>

Contingent rentals included in operating income are based upon throughput agreements and totaled \$44,595 in 2006.

The Authority's leasing operations (as lessee) during 2006 consisted of leased warehouse space under operating leases, all of which are renewable on a yearly basis, and various equipment leases. Total rent expense for the year ended June 30, 2006, was \$328,621.

Future minimum lease payments to be paid under the warehouse and equipment leases are as follows:

Year ending June 30:

2007	\$ 7,959
2008	7,959
2009	7,959
2010	<u>1,990</u>
	<u><u>\$25,867</u></u>

CITY OF OWENSBORO, KENTUCKY
 NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
 Year Ended June 30, 2006

9. PROJECT FINANCING

RiverPark Center

In March 2002, the City issued General Obligation Public Project Refunding and Improvement Bonds, Series 2002B, to refund in advance of maturity the outstanding principal amount of a \$7,660,000 Lease Purchase Agreement dated as of September 30, 1993, between the City and the Kentucky Municipal Finance Corporation (the "Corporation"), thus exercising the City's rights to reacquire the RiverPark Center ("RPC") facilities from the Corporation under the Lease Purchase Agreement. The City and RPC then entered into a twenty-year lease agreement wherein RPC agreed to pay to the City, as rent for the property, amounts equal to the payments of principal and interest due on the debt.

The lease is an absolute net lease under which the RPC pays, in addition to rent as stated above, any and all expenses related to the leased premises. Upon the earlier of the end of the term or the payoff and retirement or a full defeasance of the bond issue, and for 180 days thereafter, RPC has the option to purchase the project from the City for \$100.

Owensboro Symphony Orchestra

In April 2005, the City issued lease revenue bonds totaling \$357,000 to renovate certain property to be leased to the Owensboro Symphony Orchestra (OSO). The City and OSO then entered into a fifteen-year lease agreement wherein OSO agreed to pay to the City, as rent for the property, amounts equal to the payments of principle and interest due on the debt. The lease is an absolute net lease under which OSO pays, in addition to rent as stated above, any and all expenses related to the leased premises. The property shall become the property of OSO in fee simple absolute and the City's interest therein shall be conveyed to OSO, without cost, upon OSO's performance of all obligations under the lease.

Minimum lease payments under the two aforementioned lease agreements, for which lease receivables and deferred revenue have been recorded, based on the current interest rates, to be received in the next five years and later years are as follows:

	<u>Year ending June 30,</u>	
2007		\$ 599,088
2008		562,374
2009		561,369
2010		559,258
2011		566,173
2012-2016		2,828,437
2017-2021		2,796,226
2022		543,250
Net minimum lease payments		9,016,175
Less amount representing interest		(2,632,775)
Present value of minimum lease payments		\$ 6,383,400

CITY OF OWENSBORO, KENTUCKY
 NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
 Year Ended June 30, 2006

10. DEFERRED COMPENSATION PLANS

The City provides its employees the opportunity to participate in two Deferred Compensation Plans which comply with Section 457 of the Internal Revenue Code. One plan is administered by Nationwide Retirement Solutions, Inc. and the second is administered by Kentucky Public Employees' Deferred Compensation Authority. Participation in the plans is optional. The City remits amounts withheld from payroll to administrators of each plan. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. As of January 1, 1999, the plans were compliant with recent law changes. Accordingly, assets of the plans are held in trust under the requirements of IRC Section 457, subsection (g), for the exclusive benefit of the participants and their beneficiaries. The plans do not meet the criteria in NCGA Statement 1 for reporting as fiduciary funds.

11. COMPENSATED ABSENCES

Employees who retire, or whose position has been eliminated, receive payment for accumulated sick leave under one of the following options:

- 1) To receive a cash payment equal to fifty (50) percent of their current salary value of accumulated sick leave,
- 2) To apply all accumulated sick leave as a credit toward years of service, included in the calculation of pension benefits, or
- 3) To elect a combination of Option 1 and Option 2.

In addition, upon termination of employment (retirement or otherwise), employees are paid for accumulated vacation at their current rate of pay.

The liability for the aforementioned compensated absences is recorded as a non-current liability on the statement of net assets, and benefits paid under these provisions during fiscal year 2006 totaled \$259,516.

12. INTERFUND BALANCES

Interfund balances, which resulted from expenditures disbursed by the General Fund on behalf of the other funds, at June 30, 2006, consisted of the following:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
Major Fund:		
General Fund	\$467,990	\$ -
Non-Major Governmental Funds:		
Community Development Fund	-	101,206
Riverfront Development Fund	-	97,021
Drug and Property Recovery Fund	-	190,698
Non-Major Enterprise Fund:		
Transit Fund	-	79,065
	<u>\$467,990</u>	<u>\$467,990</u>

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

12. INTERFUND BALANCES (continued)

Receivable and payable balances involving component units at June 30, 2006, were as follows:

	<u>Receivable</u>	<u>Payable</u>
<u>Primary Government</u>		
Sanitation Fund	\$708,317	\$ -
General Fund	152,733	148,437
	<u>\$861,050</u>	<u>\$148,437</u>
<u>Component Units</u>		
Owensboro Municipal Utilities	\$148,437	\$823,550
Owensboro Riverport Authority	-	37,500
	<u>\$148,437</u>	<u>\$861,050</u>

Receivables in the Sanitation Fund represent balances due from the component units for sanitation services. Receivables in the General Fund represent balances due from component units for dividends receivable, utilities, and computer services. Payables to Owensboro Municipal Utilities represent the balance due for utility services.

13. TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following:

	Transfer in							Total
	Major Funds		Nonmajor Governmental Funds		Enterprise Funds			
	General Fund	Debt Service Fund	Greenbelt Fund	Capital Improvements Fund	Transit Fund	Parking Garage Fund	Recreation Fund	
<u>Transfer out:</u>								
Major Funds:								
General Fund	\$ -	\$ 1,198,583	\$ -	\$ 375,000	\$ 450,010	\$ 20,511	\$ 440,712	\$ 2,484,816
Your Community Vision Fund	-	6,138	35,200	-	-	-	-	41,338
								<u>2,526,154</u>
Nonmajor Governmental Funds:								
Airpark Fund	-	19,065	-	-	-	-	-	19,065
Economic Development Fund	200,000	-	-	-	-	-	-	200,000
								<u>219,065</u>
Enterprise Funds:								
Recreation Fund	-	22,247	-	-	-	-	-	22,247
Internal Service Funds:								
Garage Operations Fund	45,000	-	-	-	-	-	-	45,000
Fleet & Facilities Fund	240,000	-	-	-	-	-	-	240,000
								<u>285,000</u>
Fiduciary Funds:								
Police & Firefighters' Retirement Fund	-	312,339	-	-	-	-	-	312,339
	<u>\$ 485,000</u>	<u>\$ 1,558,372</u>	<u>\$ 35,200</u>	<u>\$ 375,000</u>	<u>\$ 450,010</u>	<u>\$ 20,511</u>	<u>\$ 440,712</u>	<u>\$ 3,364,805</u>

NOTE: Transfers are used to :

- (1) move revenues from the fund that a statute or budget requires to collect them to the fund that a statute of budget requires to expend them,
- (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and
- (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF OWENSBORO, KENTUCKY
 NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
 Year Ended June 30, 2006

14. RISK MANAGEMENT

Primary Government

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. Beginning in July 1994, the City established an Insurance Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Insurance Fund provides coverage for up to a maximum of \$250,000 through December 31, 2004, and \$300,000 thereafter, for each workers' compensation claim, up to a maximum of \$2,000,000 per policy year; and \$100,000 for each health insurance claim, up to maximum aggregate claims of \$2,000,000 lifetime per insured. The City purchases commercial insurance for claims in excess of coverage provided by the Fund and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

All funds of the City participate in the program and make payments to the Insurance Fund based on historical cost information of the amounts needed to pay prior and current year claims. The claims liability of \$656,692 reported in the Fund at June 30, 2006, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, as amended by Statement No. 30, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Fund's claims liability amount since July 1, 2002, are as follows:

Fiscal year ended June 30,	Beginning of Fiscal Year Liability	Current Year Claims & Changes in Estimates	Claim Payments	End of Fiscal Year Liability
2003-2004	\$290,670	\$2,857,884	\$(2,857,884)	\$290,670
2004-2005	\$290,670	\$2,824,696	\$(2,759,699)	\$355,667
2005-2006	\$355,667	\$3,852,060	\$(3,551,035)	\$656,692

Component Units

OMU 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. OMU manages its risks through coverages provided by private insurance carriers for various risks of losses to which it is exposed, including directors and officers, employee dishonesty, boiler and machinery, workers' compensation, and other property risks. The boiler and machinery policy contains a deductible of \$500,000 and excludes acts of terrorism from its coverage. OMU is self-insured for group health and dental insurance and limits its risks of loss by purchasing reinsurance coverage.

The Owensboro Riverport Authority 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. The Authority purchases commercial insurance for the risks of losses to which it is exposed.

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

15. POWER SALE CONTRACT - COMPONENT UNIT

The City and Utility Commission have a contract with Kentucky Utilities Company (KU) whereby KU has agreed to purchase all surplus power produced at Owensboro Municipal Utilities Elmer Smith in excess of that required by the System to fulfill the demands of its customers. Elmer Smith is operated as a separate division within the Electric System. Power sold by Elmer Smith to the Electric System and KU under this agreement is priced to cover all operations and debt service (principal and interest) requirements of Elmer Smith and such requirements are allocated to each party based on usage and demand as defined in the agreement. Because revenue under this agreement is generated in amounts equal to debt service requirements, the sinking fund method of depreciation was adopted in order to match costs and related revenues. This agreement shall expire on January 1, 2020, and may be extended by mutual consent or terminated as stated in the contract. The agreement provides that amounts contributed to the restricted asset funds by KU and OMU be maintained in such funds until the related bonds are no longer outstanding. If the agreement with KU is terminated, amounts contributed by KU will be paid to them upon termination. The long-term payable to KU for such contributions plus certain interest earned on such funds totaled \$2,853,623 at May 31, 2006.

16. TRANSFERS – COMPONENT UNITS

The Municipal Utility Commission may withdraw and transfer to the General Fund an amount of excess cash, as determined under the terms and restrictions of Ordinance 72-63 of the City.

Effective July 1, 1984, both parties agreed that the amount of the transfer, equal to the dollar value of service purchased, would not exceed \$700,000 for fiscal year ended June 30, 1985, and thereafter increase at a compound rate of 5% per annum. Transfers to the General Fund under this ordinance and agreement were \$6,192,490 for the year.

The Water Works System transfers to the General Fund each year a sum equal to the dollar value of service purchased by the City from the Water Works System. Transfers to the General Fund under this ordinance were \$163,073 for the year.

The Owensboro Riverport Authority made transfers to the General Fund in the amount of \$150,000 for the year.

17. COMMITMENTS AND CONTINGENCIES

Primary Government

Under the terms of other federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits lead to reimbursement of the grant monies to the granting agencies. City management believes that disallowances, if any, will be immaterial.

There is a number of pending legal actions involving the City. Management believes that the outcome of such legal actions and claims will not have a material effect on the City's financial position or results of operations.

Component Units

The OMU Electric System has entered into contracts to purchase fuel for electric generation. Although contracts have termination provisions related to performance, minimum future payments on these contracts are estimated to be as follows:

CITY OF OWENSBORO, KENTUCKY
NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
Year Ended June 30, 2006

17. COMMITMENTS AND CONTINGENCIES (continued)

Year ending May 31,

2007	\$25,739,443
2008	9,567,020
2009	1,919,271
2010	<u>1,130,208</u>
	<u>\$38,355,942</u>

OMU is subject to a number of environmental laws and regulations. The United States Environmental Protection Agency announced its final regulation in September 1998 that requires numerous utilities, including OMU, to reduce the nitrogen oxide emissions. During the year ended May 31, 2004, the Electric System substantially completed a construction project at a cost of approximately \$54,000,000 in order to comply with Title I of the 1990 Clean Air Act amendments and to improve the reliability of existing pollution control systems. The proceeds of the 2002-A and B Bonds were used primarily to fund the costs of the project.

OMU has been identified by the United States Environmental Protection Agency as one of numerous parties that may be liable for damages under federal law with respect to a superfund hazardous waste site. Through May 31, 2006, OMU has paid \$57,500 plus legal costs related to this matter. Based upon the opinion of its outside legal counsel, management does not anticipate additional costs to be material; however, the ultimate resolution of this matter and the related financial impact on OMU, if any, cannot be determined at this time.

On May 11, 2004, OMU and the City of Owensboro filed suit against KU seeking a declaration of the parties' respective rights under their Contract dated September 30, 1960, as supplemented or amended by the parties (Contract), which allows KU to purchase surplus power from OMU's Elmer Smith Generating Station and imposes certain obligations on KU. The case is pending in U.S. District Court for the Western District of Kentucky (Civil Action No. 4:04-CV-87-M). OMU and the City also seek to recover damages from KU based upon their interpretation of the Contract, and KU has counterclaimed for sums that it claims are due from OMU for OMU's alleged underpayment for backup energy sold to OMU by KU, among other things. While the likelihood of a favorable or unfavorable outcome of this litigation is not known at this time, management believes that the outcome of this legal action is not likely to have a material adverse effect on OMU's financial position or its operations.

On May 16, 2006, OMU and the City notified KU of their exercise of their right to terminate the Contract, effective four years after the notice. The notice was given pursuant to the terms of the Contract and consistent with the July 22, 2005, Memorandum Opinion and Order of the U.S. District Court on cross motions for partial summary judgment, declaring the right of OMU and the City to terminate upon four years' notice. The partial summary judgment ruling is not final, pending the adjudication of the remaining issues in the litigation and resolution of any appeal of the ruling on this issue, if an appeal is taken. KU continues to assert that OMU and the City are not entitled to terminate the Contract on four years' notice and has taken the position that the notice is a repudiation and material breach of the Contract, for which it may seek damages. OMU believes that KU's position is without merit and will vigorously contest any efforts by KU to reverse the District Court's ruling. While it is impossible to predict the outcome of this dispute, management believes that the outcome is not likely to have a material adverse effect on OMU's financial position or its operations. Upon termination of the Contract, that portion of the output from OMU's generating units that is not needed to serve OMU's customers, and that is currently being made available to KU, will be available to OMU for sale to others by contract or by other suitable arrangements, as may be permitted by applicable law and existing obligations.

CITY OF OWENSBORO, KENTUCKY
 NOTES TO THE BASIC FINANCIAL STATEMENTS, continued
 Year Ended June 30, 2006

18. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash and cash equivalents approximate fair value because of the short maturity of those instruments. Investments are stated at their fair value obtained from market quotations from published sources on the last business day of the fiscal year.

19. CONDUIT DEBT OBLIGATIONS

From time to time, the City has issued Industrial Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

At June 30, 2006, four of these bond issues were outstanding with principal balances totaling \$193,760,000.

20. JOINT VENTURE

The City of Owensboro and Daviess County Fiscal Court jointly maintain equity interests in the Owensboro-Daviess County Regional Airport. A Board of Directors oversees the operations of the Airport. The Board is comprised of ten members, five each appointed by the City Mayor and County Judge Executive for a term of four years.

The Board is primarily autonomous in its operation. The City does not exercise any control over the Board in its budgetary or financial affairs. If the Airport were to cease operation, its properties would be distributed to the City and County in direct proportion to their cumulative contributed grants. This proportion is approximately 50% each at June 30, 2006.

The City's equity interest in the Owensboro-Daviess County Regional Airport at June 30, 2006, was \$9,568,490, an increase of \$464,514 from the prior year, and is reported as investment in joint venture in the government-wide statement of net assets.

Separate financial statements for the Airport may be obtained from the City's Finance Director.

21. PRIOR PERIOD ADJUSTMENT

Certain errors in the prior year were corrected during the current year, resulting in the following changes to fund balances and net assets as of June 30, 2005.

	<u>Governmental Fund Balances</u>	<u>Net Assets</u>
Balances as previously reported	\$7,831,177	\$49,412,984
Overstatements of assets	<u> -</u>	<u> (1,638,717)</u>
Balances, as restated	<u><u>\$7,831,177</u></u>	<u><u>\$47,774,267</u></u>

CITY OF OWENSBORO, KENTUCKY
SCHEDULE OF FUNDING PROGRESS
FIDUCIARY FUNDS
June 30, 2006

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - Entry Age (AAL) (b)	Funded (Unfunded) ALL [F(U)AAL] (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	F(U)AAL as a Percentage of Covered Payroll [(a-b)/c]
City Employees' Pension Fund							
June 30, 2004	June 30, 2004	\$ 5,757,018	\$ 4,530,556	\$ 1,226,462	127.1%	N/A	N/A
June 30, 2005	June 30, 2004	\$ 5,658,096	\$ 4,400,114	\$ 1,257,982	128.6%	N/A	N/A
June 30, 2006	June 30, 2006	\$ 5,467,685	\$ 4,078,434	\$ 1,389,251	134.1%	N/A	N/A
Police and Firefighters' Retirement Fund							
June 30, 2004	June 30, 2004	\$ 6,413,342	\$ 10,784,539	\$ (4,371,197)	59.5%	N/A	N/A
June 30, 2005	June 30, 2004	\$ 5,682,475	\$ 10,271,819	\$ (4,589,344)	55.3%	N/A	N/A
June 30, 2006	June 30, 2006	\$ 8,826,614	\$ 9,706,095	\$ (879,481)	90.9%	N/A	N/A

CITY OF OWENSBORO, KENTUCKY
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FIDUCIARY FUNDS
June 30, 2006

Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contribution
City Employees' Pension Fund			
June 30, 2004	\$ -	\$ -	-
June 30, 2005	\$ -	\$ -	-
June 30, 2006	\$ -	\$ -	-
Police and Firefighters' Retirement Fund			
June 30, 2004	\$ 385,618	\$ -	-
June 30, 2005	\$ 385,618	\$ -	-
June 30, 2006	\$ 70,306	\$ 4,003,748	100.00%

CITY OF OWENSBORO, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Real and personal property	\$ 6,716,000	\$ 6,716,000	\$ 6,718,629	\$ 2,629
Personal tax-state collected	865,000	865,000	812,891	(52,109)
Total taxes	<u>7,581,000</u>	<u>7,581,000</u>	<u>7,531,520</u>	<u>(49,480)</u>
Licenses and permits:				
Occupational:				
Employees' withholding	8,440,000	8,440,000	8,556,160	116,160
Net profits	1,500,000	1,625,000	1,774,148	149,148
Regulatory:				
Insurance license fee	3,755,000	3,755,000	3,798,730	43,730
Alcoholic beverage license fee	55,000	55,000	60,192	5,192
Franchise fee	770,000	770,000	863,111	93,111
Other	512,000	512,000	511,863	(137)
Total licenses and permits	<u>15,032,000</u>	<u>15,157,000</u>	<u>15,564,204</u>	<u>407,204</u>
Intergovernmental revenues:				
Data processing fees	825,000	825,000	908,447	83,447
Federal grants	212,771	436,181	486,859	50,678
State grants - KLEFPF incentive	705,000	705,000	760,327	55,327
State grants - other	-	-	2,636	2,636
City's portion of state gasoline tax	900,000	900,000	875,115	(24,885)
LGEA mineral severance tax	35,000	35,000	32,834	(2,166)
Total intergovernmental revenues	<u>2,677,771</u>	<u>2,901,181</u>	<u>3,066,218</u>	<u>165,037</u>
Charges for services:				
Tax collection	200,000	200,000	193,836	(6,164)
Management fee	500,000	500,000	460,912	(39,088)
Total charges for services	<u>700,000</u>	<u>700,000</u>	<u>654,748</u>	<u>(45,252)</u>
Other revenues:				
Fines and forfeitures	142,000	142,000	161,279	19,279
Investment income	90,000	90,000	148,415	58,415
Dividends from component units	4,126,774	5,076,774	5,095,855	19,081
Payments in lieu of taxes	1,700,000	1,455,000	1,480,187	25,187
Miscellaneous	497,400	527,400	447,822	(79,578)
Total other revenues	<u>6,556,174</u>	<u>7,291,174</u>	<u>7,333,558</u>	<u>42,384</u>
Total revenues	<u>32,546,945</u>	<u>33,630,355</u>	<u>34,150,248</u>	<u>519,893</u>

CITY OF OWENSBORO, KENTUCKY
BUDGETARY COMPARISON SCHEDULE, CONCLUDED
GENERAL FUND
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Expenditures:				
Administration	983,128	956,888	949,274	7,614
Community development	463,590	397,850	367,000	30,850
Engineering	1,246,437	751,675	694,638	57,037
Finance	1,188,654	1,136,111	1,109,468	26,643
Fire	6,913,693	7,225,040	7,218,396	6,644
Information services	2,780,871	2,693,191	2,491,393	201,798
Parks	2,229,164	2,206,019	2,199,094	6,925
Personnel	566,217	562,421	533,088	29,333
Police	9,985,866	9,700,941	9,585,258	115,683
Street	1,790,286	1,645,286	1,543,575	101,711
General government	1,588,958	2,521,862	2,386,367	135,495
Community services	1,167,767	1,299,805	1,299,805	-
Total expenditures	<u>30,904,631</u>	<u>31,097,089</u>	<u>30,377,356</u>	<u>719,733</u>
Excess of revenues over expenditures	<u>1,642,314</u>	<u>2,533,266</u>	<u>3,772,892</u>	<u>1,239,626</u>
Other financing sources (uses):				
Sale of capital assets	20,000	20,000	28,639	8,639
Transfer in	485,000	485,000	485,000	-
Transfers out	<u>(2,147,035)</u>	<u>(2,522,035)</u>	<u>(2,484,816)</u>	<u>37,219</u>
Total other financing sources (uses)	<u>(1,642,035)</u>	<u>(2,017,035)</u>	<u>(1,971,177)</u>	<u>45,858</u>
Net change in fund balances	279	516,231	1,801,715	1,285,484
Fund balances, beginning of year	<u>1,942,253</u>	<u>1,942,253</u>	<u>1,942,253</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,942,532</u>	<u>\$ 2,458,484</u>	<u>\$ 3,743,968</u>	<u>\$ 1,285,484</u>

CITY OF OWENSBORO, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
YOUR COMMUNITY VISION SPECIAL REVENUE FUND
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Occupational licenses	\$ 2,901,510	\$ 2,901,510	\$ 3,047,455	\$ 145,945
Net profit license fee	515,000	515,000	613,796	98,796
Interest	-	6,140	8,321	2,181
Fees, licenses and permits	-	-	17,677	17,677
Intergovernmental	-	847,985	784,594	(63,391)
Total revenues	<u>3,416,510</u>	<u>4,270,635</u>	<u>4,471,843</u>	<u>201,208</u>
Expenditures:				
Public safety	-	-	4,003,748	(4,003,748)
Public works	2,535,000	2,196,951	2,048,560	148,391
Capital outlay	1,150,000	3,631,441	2,571,885	1,059,556
Issuance costs	-	96,252	96,252	-
Total expenditures	<u>3,685,000</u>	<u>5,924,644</u>	<u>8,720,445</u>	<u>(2,795,801)</u>
Excess (deficiency) of revenues over expenditures	<u>(268,490)</u>	<u>(1,654,009)</u>	<u>(4,248,602)</u>	<u>(2,594,593)</u>
Other financing sources (uses):				
Transfers out	-	(4,144,088)	(41,338)	4,102,750
Issuance of debt	323,490	5,358,690	4,100,000	(1,258,690)
Total other financing sources (uses)	<u>323,490</u>	<u>1,214,602</u>	<u>4,058,662</u>	<u>2,844,060</u>
Net change in fund balances	55,000	(439,407)	(189,940)	249,467
Fund balances, beginning of year	<u>591,334</u>	<u>591,334</u>	<u>591,334</u>	<u>-</u>
Fund balances, end of year	<u>\$ 646,334</u>	<u>\$ 151,927</u>	<u>\$ 401,394</u>	<u>\$ 249,467</u>

CITY OF OWENSBORO, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (RSI)
ON BUDGETARY ACCOUNTING AND CONTROL
Year Ended June 30, 2006

Stewardship, compliance and accountability:

Budgets and budgetary accounting:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except for the Capital Projects Funds and the Debt Service Fund because effective budgetary control is alternately achieved through project budgets, bond indenture provisions and City ordinances, respectively.
2. Budgets for the General and Special Revenue Funds are adopted on the modified accrual basis. Encumbrance accounting, under which purchase orders, contracts and other commitments for the use of resources are reflected in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds for which annual budgets have been adopted. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

CITY OF OWENSBORO, KENTUCKY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2006

	Special Revenue					Capital Projects			Total Nonmajor Governmental Funds	
	Community Development Fund	Greenbelt Fund	Drug and Property Recovery Fund	Economic Development Fund	Total Special Revenue Funds	Capital Improvements Fund	Airpark Fund	Riverfront Development Fund		Total Capital Projects Funds
ASSETS										
Equity in pooled deposits and investments	\$ -	\$ 50,918	\$ -	\$ 266,169	\$ 317,087	\$ 472,180	\$ 27,501	\$ -	\$ 499,681	\$ 816,768
Cash and cash equivalents:										
With escrow agents	-	-	-	-	-	-	282,409	-	282,409	282,409
Accounts receivable	118,765	9,016	745	-	128,526	-	-	-	-	128,526
Taxes receivable	-	-	-	32,726	32,726	-	-	-	-	32,726
Intergovernmental receivable	136,206	-	446,312	-	582,518	4,428	372,714	97,021	474,163	1,056,681
Total assets	<u>\$ 254,971</u>	<u>\$ 59,934</u>	<u>\$ 447,057</u>	<u>\$ 298,895</u>	<u>\$ 1,060,857</u>	<u>\$ 476,608</u>	<u>\$ 682,624</u>	<u>\$ 97,021</u>	<u>\$ 1,256,253</u>	<u>\$ 2,317,110</u>
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	\$ 35,000	\$ -	\$ 11,672	\$ 7,800	\$ 54,472	\$ -	\$ -	\$ -	\$ -	\$ 54,472
Interfund payable	101,206	-	190,698	-	291,904	-	-	97,021	97,021	388,925
Deferred revenue	118,765	-	-	32,726	151,491	-	-	-	-	151,491
Total liabilities	<u>254,971</u>	<u>-</u>	<u>202,370</u>	<u>40,526</u>	<u>497,867</u>	<u>-</u>	<u>-</u>	<u>97,021</u>	<u>97,021</u>	<u>594,888</u>
Fund balances:										
Reserved for:										
Encumbrances	419,929	33,000	329,375	1,707	784,011	277,118	-	859,539	1,136,657	1,920,668
Unreserved, reported in:										
Special Revenue Funds	(419,929)	26,934	(84,688)	256,662	(221,021)	-	-	-	-	(221,021)
Capital Projects Funds	-	-	-	-	-	199,490	682,624	(859,539)	22,575	22,575
Total fund balances	<u>-</u>	<u>59,934</u>	<u>244,687</u>	<u>258,369</u>	<u>562,990</u>	<u>476,608</u>	<u>682,624</u>	<u>-</u>	<u>1,159,232</u>	<u>1,722,222</u>
Total liabilities and fund balances	<u>\$ 254,971</u>	<u>\$ 59,934</u>	<u>\$ 447,057</u>	<u>\$ 298,895</u>	<u>\$ 1,060,857</u>	<u>\$ 476,608</u>	<u>\$ 682,624</u>	<u>\$ 97,021</u>	<u>\$ 1,256,253</u>	<u>\$ 2,317,110</u>

CITY OF OWENSBORO, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	Special Revenue				Total Special Revenue Funds	Capital Projects			Total Capital Projects Funds	Total Nonmajor Governmental Funds
	Community Development Fund	Greenbelt Fund	Drug and Property Recovery Fund	Economic Development Fund		Capital Improvements Fund	Airpark Fund	Riverfront Development Fund		
Revenues:										
Real and personal property taxes	\$ -	\$ -	\$ -	\$ 227,012	\$ 227,012	\$ -	\$ -	\$ -	\$ -	\$ 227,012
Occupational licenses	-	-	-	633,157	633,157	-	-	-	-	633,157
Net profit license fee	-	-	-	47,915	47,915	-	-	-	-	47,915
Intergovernmental	1,150,296	84,116	1,629,524	-	2,863,936	2,003,281	-	354,015	2,357,296	5,221,232
Interest	-	576	4,902	4,470	9,948	(8,480)	41,793	-	33,313	43,261
Rentals	20,715	-	-	-	20,715	-	-	-	-	20,715
Contributions and donations	-	2,500	19,727	-	22,227	-	-	-	-	22,227
Other	-	-	95,176	-	95,176	333,868	-	-	333,868	429,044
Total revenues	1,171,011	87,192	1,749,329	912,554	3,920,086	2,328,669	41,793	354,015	2,724,477	6,644,563
Expenditures:										
Current:										
General government	-	-	-	-	-	2,900	-	-	2,900	2,900
Public safety	-	-	105,709	-	105,709	-	-	-	-	105,709
Public works	517,512	-	-	-	517,512	443,561	-	-	443,561	961,073
Community and cultural	-	35,832	-	623,313	659,145	-	-	-	-	659,145
Community /economic development	663,074	-	-	-	663,074	-	-	89,671	89,671	752,745
Debt service										
Issuance costs	-	-	-	-	-	-	51,681	-	51,681	51,681
Capital outlay										
	-	81,536	1,629,497	-	1,711,033	1,728,712	-	265,151	1,993,863	3,704,896
Total expenditures	1,180,586	117,368	1,735,206	623,313	3,656,473	2,175,173	51,681	354,822	2,581,676	6,238,149
Excess of revenues over (under) expenditures	(9,575)	(30,176)	14,123	289,241	263,613	153,496	(9,888)	(807)	142,801	406,414
Other financing sources (uses):										
Sale of capital assets	9,575	-	20,207	-	29,782	132,140	-	-	132,140	161,922
Refunding bonds issued	-	-	-	-	-	-	2,550,000	-	2,550,000	2,550,000
Payment to refunding bond escrow	-	-	-	-	-	-	(2,881,398)	-	(2,881,398)	(2,881,398)
Transfers in	-	35,200	-	-	35,200	375,000	-	-	375,000	410,200
Transfers out	-	-	-	(200,000)	(200,000)	-	(19,065)	-	(19,065)	(219,065)
Total other financing sources (uses)	9,575	35,200	20,207	(200,000)	(135,018)	507,140	(350,463)	-	156,677	21,659
Net change in fund balances	-	5,024	34,330	89,241	128,595	660,636	(360,351)	(807)	299,478	428,073
Fund balances, beginning of year	-	54,910	210,357	169,128	434,395	(184,028)	1,042,975	807	859,754	1,294,149
Fund balances, end of year	\$ -	\$ 59,934	\$ 244,687	\$ 258,369	\$ 562,990	\$ 476,608	\$ 682,624	\$ -	\$ 1,159,232	\$ 1,722,222

CITY OF OWENSBORO, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intergovernmental	\$ 964,872	\$ 2,520,223	\$ 1,150,296	\$ (1,369,927)
Rentals	<u>20,000</u>	<u>20,000</u>	<u>20,715</u>	<u>715</u>
Total revenues	<u>984,872</u>	<u>2,540,223</u>	<u>1,171,011</u>	<u>(1,369,212)</u>
Expenditures:				
Public works	-	1,345,559	517,512	828,047
Community/economic development	<u>984,872</u>	<u>1,194,664</u>	<u>663,074</u>	<u>531,590</u>
Total expenditures	<u>984,872</u>	<u>2,540,223</u>	<u>1,180,586</u>	<u>1,359,637</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(9,575)</u>	<u>(9,575)</u>
Other financing sources (uses):				
Sale of capital assets	<u>-</u>	<u>-</u>	<u>9,575</u>	<u>9,575</u>
Net change in fund balances	-	-	-	-
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF OWENSBORO, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GREENBELT SPECIAL REVENUE FUND
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues:				
Intergovernmental	\$ -	\$ 725,259	\$ 84,116	\$ (641,143)
Interest	-	-	576	576
Contributions and donations	-	-	2,500	2,500
	<u>-</u>	<u>725,259</u>	<u>87,192</u>	<u>(638,067)</u>
Total revenues				
Expenditures:				
Community and cultural	-	120,877	35,832	85,045
Capital outlay	-	612,782	81,536	531,246
	<u>-</u>	<u>733,659</u>	<u>117,368</u>	<u>616,291</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(8,400)</u>	<u>(30,176)</u>	<u>(21,776)</u>
Other financing sources:				
Transfers in	-	-	35,200	35,200
Net change in fund balances	-	(8,400)	5,024	13,424
Fund balances, beginning of year	<u>54,910</u>	<u>54,910</u>	<u>54,910</u>	<u>-</u>
Fund balances, end of year	<u>\$ 54,910</u>	<u>\$ 46,510</u>	<u>\$ 59,934</u>	<u>\$ 13,424</u>

CITY OF OWENSBORO, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
DRUG AND PROPERTY RECOVERY SPECIAL REVENUE FUND
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues:				
Intergovernmental	\$ -	\$ -	\$ 1,629,524	\$ 1,629,524
Interest	4,325	4,325	4,902	577
Donations	-	-	19,727	19,727
Restitution and other income	<u>66,000</u>	<u>66,000</u>	<u>95,176</u>	<u>29,176</u>
Total revenues	<u>70,325</u>	<u>70,325</u>	<u>1,749,329</u>	<u>1,679,004</u>
Expenditures:				
Public safety	98,285	98,285	105,709	(7,424)
Capital outlay	<u>-</u>	<u>-</u>	<u>1,629,497</u>	<u>(1,629,497)</u>
Total expenditures	<u>98,285</u>	<u>98,285</u>	<u>1,735,206</u>	<u>(1,636,921)</u>
Excess (deficiency) of revenues over expenditures	<u>(27,960)</u>	<u>(27,960)</u>	<u>14,123</u>	<u>42,083</u>
Other financing sources (uses):				
Sale of capital assets	<u>4,500</u>	<u>4,500</u>	<u>20,207</u>	<u>15,707</u>
Net change in fund balances	(23,460)	(23,460)	34,330	57,790
Fund balances, beginning of year	<u>162,273</u>	<u>(119,018)</u>	<u>210,357</u>	<u>-</u>
Fund balances, end of year	<u>\$ 138,813</u>	<u>\$ (142,478)</u>	<u>\$ 244,687</u>	<u>\$ 57,790</u>

CITY OF OWENSBORO, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT SPECIAL REVENUE FUND
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Real and personal property taxes	\$ 265,000	\$ 265,000	\$ 227,012	\$ (37,988)
Occupational licenses	558,000	588,000	633,157	45,157
Net profit license fee	25,000	25,000	47,915	22,915
Interest	-	-	4,470	4,470
	<u>848,000</u>	<u>878,000</u>	<u>912,554</u>	<u>34,554</u>
Total revenues				
Expenditures:				
Community/economic development	735,521	825,971	623,313	202,658
Excess (deficiency) of revenues over expenditures	<u>112,479</u>	<u>52,029</u>	<u>289,241</u>	<u>237,212</u>
Other financing uses:				
Transfers out	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>-</u>
Net change in fund balances	(87,521)	(147,971)	89,241	237,212
Fund balances, beginning of year	<u>167,421</u>	<u>167,421</u>	<u>169,128</u>	<u>-</u>
Fund balances, end of year	\$ <u><u>79,900</u></u>	\$ <u><u>19,450</u></u>	\$ <u><u>258,369</u></u>	\$ <u><u>237,212</u></u>

CITY OF OWENSBORO, KENTUCKY
COMBINING STATEMENT OF NET ASSETS
NONMAJOR PROPRIETARY FUNDS
June 30, 2006

	Enterprise Funds			
	Transit Fund	Parking Garage Operations Fund	Recreation Fund	Total Nonmajor Enterprise Funds
ASSETS				
Current assets:				
Equity in pooled deposits and investments	\$ -	\$ 528	\$ 113,521	\$ 114,049
Cash and cash equivalents:				
In segregated accounts	100	-	3,875	3,975
Accounts receivable	102,049	-	53,053	155,102
Intergovernmental receivable	-	-	-	-
Materials and supplies inventory	-	-	14,065	14,065
Prepaid expenses	-	-	17,680	17,680
Total current assets	<u>102,149</u>	<u>528</u>	<u>202,194</u>	<u>304,871</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation:				
Land	-	-	105,739	105,739
Depreciable capital assets	1,118,786	-	11,595	1,130,381
Total noncurrent assets	<u>1,118,786</u>	<u>-</u>	<u>117,334</u>	<u>1,236,120</u>
Total assets	<u>\$ 1,220,935</u>	<u>\$ 528</u>	<u>\$ 319,528</u>	<u>\$ 1,540,991</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	\$ 2,274	\$ -	\$ 13,431	\$ 15,705
Accrued liabilities	11,736	528	13,284	25,548
Due to other funds	79,065	-	-	79,065
Total current liabilities	<u>93,075</u>	<u>528</u>	<u>26,715</u>	<u>120,318</u>
Non-current liabilities:				
Due within one year	13,032	-	1,219	14,251
Due in more than one year	56,240	-	40,604	96,844
Total non-current liabilities	<u>69,272</u>	<u>-</u>	<u>41,823</u>	<u>111,095</u>
Total liabilities	<u>162,347</u>	<u>528</u>	<u>68,538</u>	<u>231,413</u>
Net assets:				
Invested in capital assets	1,118,786	-	117,334	1,236,120
Unrestricted	(60,198)	-	133,656	73,458
Total net assets	<u>1,058,588</u>	<u>-</u>	<u>250,990</u>	<u>1,309,578</u>
Total liabilities and net assets	<u>\$ 1,220,935</u>	<u>\$ 528</u>	<u>\$ 319,528</u>	<u>\$ 1,540,991</u>

CITY OF OWENSBORO, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
NONMAJOR PROPRIETARY FUNDS
Year Ended June 30, 2006

	Enterprise Funds			Total Nonmajor Enterprise Funds
	Transit Fund	Parking Garage Operations Fund	Recreation Fund	
Operating revenues:				
Charges for services	\$ 148,421	\$ 56,556	\$ 1,051,924	\$ 1,256,901
Total operating revenues	<u>148,421</u>	<u>56,556</u>	<u>1,051,924</u>	<u>1,256,901</u>
Operating expenses:				
Salaries, wages, and benefits	722,795	25,262	468,737	1,216,794
Maintenance	212,369	37,296	427,192	676,857
Utilities	20,604	6,406	97,612	124,622
Supplies	124,742	12	189,064	313,818
Other	178,675	5,636	170,379	354,690
Depreciation	99,859	-	23,190	123,049
Total operating expenses	<u>1,359,044</u>	<u>74,612</u>	<u>1,376,174</u>	<u>2,809,830</u>
Operating loss	<u>(1,210,623)</u>	<u>(18,056)</u>	<u>(324,250)</u>	<u>(1,552,929)</u>
Nonoperating revenues:				
Gain on sale of capital assets	-	-	85	85
Grants	652,332	-	-	652,332
Total nonoperating revenues	<u>652,332</u>	<u>-</u>	<u>85</u>	<u>652,417</u>
Loss before transfers	(558,291)	(18,056)	(324,165)	(900,512)
Transfers in	450,010	20,511	440,712	911,233
Transfers out	<u>-</u>	<u>-</u>	<u>(22,247)</u>	<u>(22,247)</u>
Change in net assets	(108,281)	2,455	94,300	(11,526)
Net assets, beginning of year	<u>1,166,869</u>	<u>(2,455)</u>	<u>156,690</u>	<u>1,321,104</u>
Net assets, end of year	<u>\$ 1,058,588</u>	<u>\$ -</u>	<u>\$ 250,990</u>	<u>\$ 1,309,578</u>

CITY OF OWENSBORO, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUNDS
Year Ended June 30, 2006

	Transit Fund	Parking Garage Operations Fund	Recreation Fund	Total Nonmajor Enterprise Funds
Cash flows from operating activities:				
Cash received from customers	\$ 135,134	\$ 57,056	\$ 1,035,313	\$ 1,227,503
Cash payments to employees for services	(745,495)	(27,689)	(488,119)	(1,261,303)
Cash payments to suppliers	(540,539)	(49,350)	(900,131)	(1,490,020)
Cash payments for interfund services used	50,281	-	-	50,281
Net cash used in operating activities	<u>(1,100,619)</u>	<u>(19,983)</u>	<u>(352,937)</u>	<u>(1,473,539)</u>
Cash flows from noncapital financing activities:				
Compensated absences	(1,723)	-	2,276	553
Government grants	652,332	-	-	652,332
Transfers in	450,010	20,511	441,412	911,933
Transfers out	-	-	(22,247)	(22,247)
Net cash provided by noncapital financing activities	<u>1,100,619</u>	<u>20,511</u>	<u>421,441</u>	<u>1,542,571</u>
Cash flows from capital and related financing activities:				
Proceeds from sale of capital assets	-	-	85	85
Payments for capital acquisitions	-	-	-	-
Net cash provided by capital and related financing activities	<u>-</u>	<u>-</u>	<u>85</u>	<u>85</u>
Net increase (decrease) in cash and cash equivalents	-	528	68,589	69,117
Cash and cash equivalents, beginning of year	<u>100</u>	<u>-</u>	<u>48,807</u>	<u>48,907</u>
Cash and cash equivalents, end of year	<u>\$ 100</u>	<u>\$ 528</u>	<u>\$ 117,396</u>	<u>\$ 118,024</u>
Reconciliation of operating loss to net cash used in operating activities:				
Operating income	\$ (1,210,623)	\$ (18,056)	\$ (324,250)	\$ (1,552,929)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	99,859	-	23,190	123,049
Change in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	(13,287)	500	(16,611)	(29,398)
Materials and supplies inventory	-	-	5,395	5,395
Prepaid expenses	-	-	(17,680)	(17,680)
Increase (decrease) in liabilities:				
Accounts payable	(4,149)	-	(3,599)	(7,748)
Accrued liabilities	(22,700)	(2,427)	(19,382)	(44,509)
Interfund payables	50,281	-	-	50,281
Net cash used in operating activities	<u>\$ (1,100,619)</u>	<u>\$ (19,983)</u>	<u>\$ (352,937)</u>	<u>\$ (1,473,539)</u>

CITY OF OWENSBORO, KENTUCKY
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30, 2006

	Governmental Activities Internal Service Funds				
	Facilities Maintenance Fund	Insurance Fund	Garage Service Fund	Fleet and Facilities Fund	Total Internal Service Funds
ASSETS					
Current assets:					
Equity in pooled deposits and investments	\$ 395,332	\$ 1,248,048	\$ 15,617	\$ 1,491,312	\$ 3,150,309
Cash and cash equivalents:					
In segregated accounts	450	-	100	-	550
Accounts receivable	1,777	-	-	-	1,777
Material and supplies inventory	-	-	18,934	-	18,934
Prepaid expenses	-	20,771	-	-	20,771
Total current assets	<u>397,559</u>	<u>1,268,819</u>	<u>34,651</u>	<u>1,491,312</u>	<u>3,192,341</u>
Noncurrent assets:					
Capital assets, net of accumulated depreciation:					
Depreciable capital assets	9,892	-	27,803	1,332,408	1,370,103
Total noncurrent assets	<u>9,892</u>	<u>-</u>	<u>27,803</u>	<u>1,332,408</u>	<u>1,370,103</u>
Total assets	<u>\$ 407,451</u>	<u>\$ 1,268,819</u>	<u>\$ 62,454</u>	<u>\$ 2,823,720</u>	<u>\$ 4,562,444</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable	\$ 80,990	\$ 656,751	\$ 37,658	\$ 18,936	\$ 794,335
Accrued liabilities	19,154	-	8,444	-	27,598
Total liabilities	<u>100,144</u>	<u>656,751</u>	<u>46,102</u>	<u>18,936</u>	<u>821,933</u>
Net assets:					
Invested in capital assets	9,892	-	27,803	1,332,408	1,370,103
Unrestricted	297,415	612,068	(11,451)	1,472,376	2,370,408
Total net assets	<u>307,307</u>	<u>612,068</u>	<u>16,352</u>	<u>2,804,784</u>	<u>3,740,511</u>
Total liabilities and net assets	<u>\$ 407,451</u>	<u>\$ 1,268,819</u>	<u>\$ 62,454</u>	<u>\$ 2,823,720</u>	<u>\$ 4,562,444</u>

CITY OF OWENSBORO, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
Year Ended June 30, 2006

	Governmental Activities Internal Service Funds				
	Facilities Maintenance Fund	Insurance Fund	Garage Service Fund	Fleet and Facilities Fund	Total Internal Service Funds
Operating revenues:					
Charges for services	\$ 2,561,992	\$ 3,811,200	\$ 1,098,712	\$ 1,141,611	\$ 8,613,515
Total operating revenues	<u>2,561,992</u>	<u>3,811,200</u>	<u>1,098,712</u>	<u>1,141,611</u>	<u>8,613,515</u>
Operating expenses:					
Salaries, wages, and benefits	1,416,555	-	517,434	-	1,933,989
Maintenance	885,498	-	48,358	311,292	1,245,148
Utilities	20,072	-	12,924	-	32,996
Administrative	-	137,728	-	-	137,728
Supplies	221,130	-	446,199	-	667,329
Other	49,334	-	5,096	-	54,430
Claims	-	4,035,532	-	-	4,035,532
Depreciation	1,711	-	4,865	595,083	601,659
Total operating expenses	<u>2,594,300</u>	<u>4,173,260</u>	<u>1,034,876</u>	<u>906,375</u>	<u>8,708,811</u>
Operating income	<u>(32,308)</u>	<u>(362,060)</u>	<u>63,836</u>	<u>235,236</u>	<u>(95,296)</u>
Nonoperating revenues:					
Gain on sale of capital assets	462	-	113	141,092	141,667
Interest income	-	41,190	-	28,858	70,048
Grants	2,575	-	-	-	2,575
Total nonoperating revenues	<u>3,037</u>	<u>41,190</u>	<u>113</u>	<u>169,950</u>	<u>214,290</u>
Income before transfers	<u>(29,271)</u>	<u>(320,870)</u>	<u>63,949</u>	<u>405,186</u>	<u>118,994</u>
Transfers out	-	-	(45,000)	(240,000)	(285,000)
Change in net assets	<u>(29,271)</u>	<u>(320,870)</u>	<u>18,949</u>	<u>165,186</u>	<u>(166,006)</u>
Net assets, beginning of year, as restated	<u>336,578</u>	<u>932,938</u>	<u>(2,597)</u>	<u>2,639,598</u>	<u>3,906,517 *</u>
Net assets, end of year	<u>\$ 307,307</u>	<u>\$ 612,068</u>	<u>\$ 16,352</u>	<u>\$ 2,804,784</u>	<u>\$ 3,740,511</u>

NOTE:

Net assets, June 30, 2005, as previously reported	\$ 1,195,635	\$ 2,462,554
Prior period adjustment	<u>1,443,963</u>	<u>1,443,963</u>
Net assets, June 30, 2005, as restated	<u>\$ 2,639,598</u>	<u>\$ 3,906,517 *</u>

CITY OF OWENSBORO, KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
Year Ended June 30, 2006

	Governmental Activities				
	Internal Service Funds				
	Facilities Maintenance Fund	Insurance Fund	Garage Service Fund	Fleet and Facilities Fund	Total Internal Service Funds
Cash flow from operating activities:					
Cash received from customers	\$ 2,560,215	\$ 3,811,200	\$ 1,098,712	\$ 1,141,611	\$ 8,611,738
Cash payments to employees for services	(1,448,731)	-	(530,994)	-	(1,979,725)
Cash payments to suppliers	(1,139,058)	60,776	(522,123)	(292,356)	(1,892,761)
Cash payments for claims	-	(4,035,532)	-	-	(4,035,532)
Net cash provided by operating activities	<u>(27,574)</u>	<u>(163,556)</u>	<u>45,595</u>	<u>849,255</u>	<u>703,720</u>
Cash flows from noncapital financing activities:					
Grants	2,575	-	-	-	2,575
Transfers out	-	-	(45,000)	(240,000)	(285,000)
Net cash used in noncapital financing activities	<u>2,575</u>	<u>-</u>	<u>(45,000)</u>	<u>(240,000)</u>	<u>(282,425)</u>
Cash flows from capital and related financing activities:					
Proceeds from sale of capital assets	462	-	113	154,476	155,051
Payments for capital acquisitions	(10,632)	-	(24,987)	(496,912)	(532,531)
Net cash provided by noncapital financing activities	<u>(10,170)</u>	<u>-</u>	<u>(24,874)</u>	<u>(342,436)</u>	<u>(377,480)</u>
Cash flows from investing activities:					
Interest on investments	-	41,190	-	28,858	70,048
Net increase (decrease) in cash and cash equivalents	<u>(35,169)</u>	<u>(122,366)</u>	<u>(24,279)</u>	<u>295,677</u>	<u>113,863</u>
Cash and cash equivalents, beginning of year	<u>430,951</u>	<u>1,370,414</u>	<u>39,996</u>	<u>1,195,635</u>	<u>3,036,996</u>
Cash and cash equivalents, end of year	<u>\$ 395,782</u>	<u>\$ 1,248,048</u>	<u>\$ 15,717</u>	<u>\$ 1,491,312</u>	<u>\$ 3,150,859</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ (32,308)	\$ (362,060)	\$ 63,836	\$ 235,236	\$ (95,296)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,711	-	4,865	595,083	601,659
Change in assets and liabilities:					
(Increase) decrease in assets:					
Accounts receivable	(1,777)	-	-	-	(1,777)
Materials and supplies inventory	-	-	(3,289)	-	(3,289)
Prepaid expenses	-	(20,771)	-	-	(20,771)
Increase (decrease) in liabilities:					
Accounts payable	36,976	219,275	(6,257)	18,936	268,930
Accrued liabilities	(32,176)	-	(13,560)	-	(45,736)
Net cash provided by operating activities	<u>\$ (27,574)</u>	<u>\$ (163,556)</u>	<u>\$ 45,595</u>	<u>\$ 849,255</u>	<u>\$ 703,720</u>

CITY OF OWENSBORO, KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
June 30, 2006

	<u>City Employees Pension Fund</u>	<u>Police and Firefighters Retirement Fund</u>	<u>Total Pension Trust Funds</u>
ASSETS			
Equity in pooled deposits and investments	\$ 1,353	\$ 3,978,767	\$ 3,980,120
Cash and cash equivalents	122,152	108,569	230,721
Cash and cash equivalents, restricted	-	49,061	49,061
Interest receivable	18,385	24,554	42,939
Investments, at fair value	5,348,654	4,818,680	10,167,334
Investments at fair value, restricted	-	2,378,657	2,378,657
Total assets	<u>5,490,544</u>	<u>11,358,288</u>	<u>16,848,832</u>
LIABILITIES			
Pension payable	22,471	95,478	117,949
Other	388	341	729
Total liabilities	<u>22,859</u>	<u>95,819</u>	<u>118,678</u>
NET ASSETS			
Held in trust for pension benefits	5,467,685	8,826,614	14,294,299
Held in trust for debt service	-	2,435,855	2,435,855
Total net assets	<u>\$ 5,467,685</u>	<u>\$ 11,262,469</u>	<u>\$ 16,730,154</u>

CITY OF OWENSBORO, KENTUCKY
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUNDS
Year Ended June 30, 2006

	City Employees Pension Fund	Police and Firefighters Retirement Fund	Total Pension Trust Funds
	<u> </u>	<u> </u>	<u> </u>
Additions:			
Contributions:			
Employer	\$ -	\$ 4,003,748	\$ 4,003,748
Other	-	25,144	25,144
	<u> </u>	<u> </u>	<u> </u>
Total contributions	-	4,028,892	4,028,892
	<u> </u>	<u> </u>	<u> </u>
Investment earnings:			
Net appreciation (depreciation) in fair value of investments	212,407	256,887	469,294
Interest	148,438	187,040	335,478
	<u> </u>	<u> </u>	<u> </u>
Total investment earnings	360,845	443,927	804,772
	<u> </u>	<u> </u>	<u> </u>
Less investment expense	4,060	6,002	10,062
	<u> </u>	<u> </u>	<u> </u>
Net investment earnings	356,785	437,925	794,710
	<u> </u>	<u> </u>	<u> </u>
Total additions	356,785	4,466,817	4,823,602
	<u> </u>	<u> </u>	<u> </u>
Deductions:			
Benefits	547,196	1,173,479	1,720,675
Operating transfer to debt service fund	-	312,339	312,339
	<u> </u>	<u> </u>	<u> </u>
Total deductions	547,196	1,485,818	2,033,014
	<u> </u>	<u> </u>	<u> </u>
Change in net assets	(190,411)	2,980,999	2,790,588
	<u> </u>	<u> </u>	<u> </u>
Net assets, beginning of year	5,658,096	8,281,470	13,939,566
	<u> </u>	<u> </u>	<u> </u>
Net assets, end of year	\$ <u>5,467,685</u>	\$ <u>11,262,469</u>	\$ <u>16,730,154</u>

CITY OF OWENSBORO, KENTUCKY
COMBINING STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2006

	<u>County Occupational Tax Fund</u>	<u>School District Tax Fund</u>	<u>Total Agency Funds</u>
ASSETS			
Equity in pooled deposits and investments	\$ 77,538	\$ -	\$ 77,538
Intergovernmental receivable	<u>-</u>	<u>19,705</u>	<u>19,705</u>
Total assets	<u>77,538</u>	<u>19,705</u>	<u>97,243</u>
LIABILITIES			
Other	<u>77,538</u>	<u>19,705</u>	<u>97,243</u>
Total liabilities	<u>77,538</u>	<u>19,705</u>	<u>97,243</u>
NET ASSETS			
Held in trust for agency funds	<u>-</u>	<u>-</u>	<u>-</u>
Total net assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF OWENSBORO, KENTUCKY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
Year Ended June 30, 2006

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2006</u>
County Occupational Tax Fund				
Assets				
Equity in pooled deposits and investments	\$ -	\$ 1,286,941	\$ 1,209,403	\$ 77,538
Liabilities				
Other	\$ -	\$ 1,286,941	\$ 1,209,403	\$ 77,538
School District Tax Fund				
Assets				
Intergovernmental receivable	\$ 46,272	\$ 7,803,057	\$ 7,829,624	\$ 19,705
Liabilities				
Other	\$ 46,272	\$ 7,683,830	\$ 7,710,397	\$ 19,705
Total Agency Funds				
Assets				
Equity in pooled deposits and investments	\$ -	\$ 1,286,941	\$ 1,209,403	\$ 77,538
Intergovernmental receivable	46,272	7,803,057	7,829,624	19,705
Total assets	<u>\$ 46,272</u>	<u>\$ 9,089,998</u>	<u>\$ 9,039,027</u>	<u>\$ 97,243</u>
Liabilities				
Other	<u>\$ 46,272</u>	<u>\$ 8,970,771</u>	<u>\$ 8,919,800</u>	<u>\$ 97,243</u>

CITY OF OWENSBORO, KENTUCKY
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNIT
OWENSBORO MUNICIPAL UTILITIES
June 30, 2006

	OMU Electric	OMU Water	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents:			
In segregated accounts	\$ 11,852,825	\$ 1,530,267	\$ 13,383,092
Accounts receivable (less allowance of \$35,708 and \$74,959 for Electric and Water, respectively)	6,643,763	1,300,148	7,943,911
Investments	4,875,000	-	4,875,000
Material and supplies inventory	2,463,110	373,075	2,836,185
Prepaid items	156,628	-	156,628
Other current assets	-	88,436	88,436
Restricted assets	81,839,216	2,320,887	84,160,103
Capital assets, net of accumulated depreciation:	222,108,480	46,201,532	268,310,012
Other noncurrent assets	-	-	-
Deferred charges	4,923,102	386,275	5,309,377
	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 334,862,124	\$ 52,200,620	\$ 387,062,744
	<u> </u>	<u> </u>	<u> </u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable	\$ 11,538,792	\$ 564,424	\$ 12,103,216
Accrued interest payable	1,080,081	213,153	1,293,234
Other payables	2,786,306	-	2,786,306
Deferred revenue	7,413,202	-	7,413,202
Customers' advances	-	1,141,121	1,141,121
Non-current liabilities:			
Due within one year	18,100,908	1,415,000	19,515,908
Due in more than one year	177,305,235	20,954,001	198,259,236
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	218,224,524	24,287,699	242,512,223
	<u> </u>	<u> </u>	<u> </u>
Net assets:			
Invested in capital assets, net of related debt	39,961,791	23,789,722	63,751,513
Restricted for:			
Capital projects	1,426,959	198,958	1,625,917
Debt service	16,046,944	1,126,818	17,173,762
Other purposes	42,098,463	-	42,098,463
Unrestricted	17,103,443	2,797,423	19,900,866
	<u> </u>	<u> </u>	<u> </u>
Total net assets	116,637,600	27,912,921	144,550,521
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and net assets	\$ 334,862,124	\$ 52,200,620	\$ 387,062,744
	<u> </u>	<u> </u>	<u> </u>

CITY OF OWENSBORO, KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNIT
OWENSBORO MUNICIPAL UTILITIES
Year Ended June 30, 2006

	Program Revenues			Net Revenue and Changes in Net Assets		
Expenses	Charges for Services and Sales	Capital Grants and Contributions	Electric, Light and Power	Water Works System	Totals	
Owensboro Municipal Utilities:						
Electric, Light & Power System	\$ 93,314,347	\$ 92,371,999	\$ -	\$ (942,348)	\$ -	\$ (942,348)
Water Works System	7,044,795	7,837,526	199,265	-	991,996	991,996
Total Owensboro Municipal Utilities	\$ 100,359,142	\$ 100,209,525	\$ 199,265	(942,348)	991,996	49,648
General revenues:						
Interest on investments and sales type leases			3,573,368	144,363	3,717,731	
Miscellaneous			18,215	-	18,215	
Total general revenues			3,591,583	144,363	3,735,946	
Change in net assets			2,649,235	1,136,359	3,785,594	
Net assets, beginning of year			113,988,365	26,776,562	140,764,927	
Net assets, end of year			\$ 116,637,600	\$ 27,912,921	\$ 144,550,521	

CITY OF OWENSBORO, KENTUCKY
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY SOURCE
 June 30, 2006

Governmental funds capital assets:

Land	\$ 9,997,503
Land improvements/infrastructure	44,827,842
Buildings	17,641,423
Vehicles	2,741,246
Equipment	3,261,111
	<u>\$ 78,469,125</u>

Investments in governmental funds capital assets by source:

General Fund	\$ 75,181,541
Community Development Fund	2,141,657
City of Owensboro Municipal Improvement Corporation	1,145,927
	<u>\$ 78,469,125</u>

This schedule presents only the capital assets balances related to the governmental funds. Accordingly, the capital assets reported in the internal service funds are excluded from the above amounts. Generally, the capital assets of internal funds are included as governmental activities in the statement of net assets.

CITY OF OWENSBORO, KENTUCKY
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
June 30, 2006

Function and Activity	Land	Land Improvements	Buildings	Vehicles	Equipment	Total
General government:						
City manager, commissioners and legal	\$ 201,993	\$ -	\$ 1,716,417	\$ -	\$ 133,214	\$ 2,051,624
Finance	-	-	-	-	9,928	9,928
Personnel	-	-	-	-	6,474	6,474
Information services	-	-	82,124	-	383,403	465,527
Garage	22,500	-	173,527	-	96,580	292,607
Unallocated	3,453,544	4,831,469	6,001,563	21,388	1,109,739	15,417,703
Total general government	3,678,037	4,831,469	7,973,631	21,388	1,739,338	18,243,863
Public Safety:						
Police	767,183	-	3,469,976	152,148	608,513	4,997,820
Fire	353,862	-	2,093,300	1,884,156	149,189	4,480,507
Total public safety	1,121,045	-	5,563,276	2,036,304	757,702	9,478,327
Public works:						
Engineering	-	-	-	-	35,117	35,117
Streets	1,226,722	34,976,067	39,081	95,357	122,000	36,459,227
Traffic maintenance	-	-	-	-	-	-
Stormwater	-	-	-	76,877	108,080	184,957
Total public works	1,226,722	34,976,067	39,081	172,234	265,197	36,679,301
Community and cultural:						
Parks	2,404,059	2,234,558	2,305,229	-	299,221	7,243,067
Community services	-	-	-	-	-	-
Other agencies	1,567,640	104,686	1,615,259	-	-	3,287,585
Your community vision	-	2,681,062	144,947	511,320	199,653	3,536,982
Total community and cultural	3,971,699	5,020,306	4,065,435	511,320	498,874	14,067,634
Community/economic development	-	-	-	-	-	-
Total governmental funds capital asse	\$ 9,997,503	\$ 44,827,842	\$ 17,641,423	\$ 2,741,246	\$ 3,261,111	\$ 78,469,125

CITY OF OWENSBORO, KENTUCKY
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
June 30, 2006

Function and Activity	Governmental Funds Capital Assets June 30, 2005	Additions	Deductions	Governmental Funds Capital Assets June 30, 2006
General government:				
City manager, commissioners and legal	\$ 1,764,575	\$ 287,049	\$ -	\$ 2,051,624
Finance	259,672	-	(249,744)	9,928
Personnel	-	6,474	-	6,474
Information services	448,058	31,746	(14,277)	465,527
Garage	4,798,544	-	(4,505,937)	292,607
Unallocated	15,281,708	172,809	(36,814)	15,417,703
Total general government	<u>22,552,557</u>	<u>498,078</u>	<u>(4,806,772)</u>	<u>18,243,863</u>
Public safety:				
Police	4,850,435	147,385	-	4,997,820
Fire	4,481,839	26,127	(27,459)	4,480,507
Total public safety	<u>9,332,274</u>	<u>173,512</u>	<u>(27,459)</u>	<u>9,478,327</u>
Public works:				
Engineering	27,750	15,057	(7,690)	35,117
Streets	33,745,429	2,713,798	-	36,459,227
Stormwater	179,297	5,660	-	184,957
Total public works	<u>33,952,476</u>	<u>2,734,515</u>	<u>(7,690)</u>	<u>36,679,301</u>
Community and cultural:				
Parks	7,346,972	23,135	(127,040)	7,243,067
Community services	45,000	-	(45,000)	-
Other agencies	3,525,398	424,000	(661,813)	3,287,585
Your community vision	1,924,512	1,612,470	-	3,536,982
Total community and cultural	<u>12,841,882</u>	<u>2,059,605</u>	<u>(833,853)</u>	<u>14,067,634</u>
Community / economic development	<u>21,388</u>	<u>-</u>	<u>(21,388)</u>	<u>-</u>
Total governmental funds capital assets	<u>\$ 78,700,577</u>	<u>\$ 5,465,710</u>	<u>\$ (5,697,162)</u>	<u>\$ 78,469,125</u>

This schedule presents only the capital assets balances related to the governmental funds. Accordingly, the capital assets reported in the internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.



CITY OF OWENSBORO GENERAL INFORMATION

The City

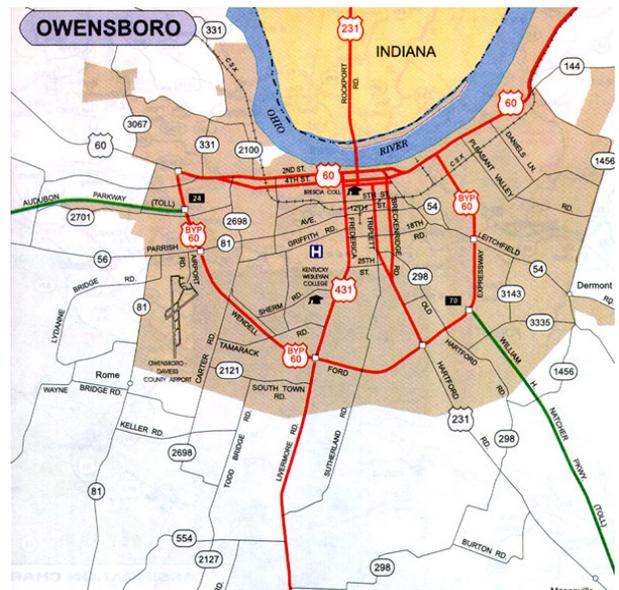
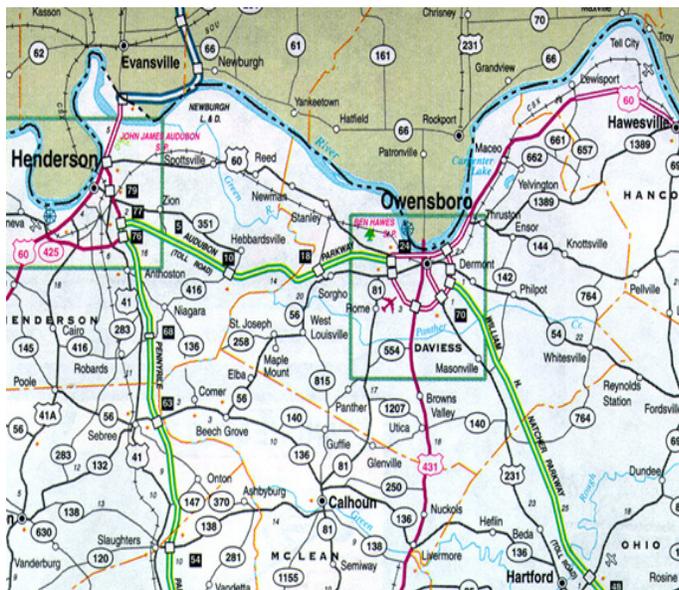
Owensboro, originally known as “Yellowbanks” in reference to the color of the soil along the Ohio River banks, was first settled in 1797. By 1810, David Morton had opened a general store and population of the settlement grew to 100 by 1815. An 1817 Act of the Kentucky Legislature incorporated the town as “Owensborough”, later shortened to “Owensboro”.

The Owensboro area has grown steadily, while retaining the “small town quality” of a friendly city of warm-hearted and hospitable people. Owensboro ranks as Kentucky’s third largest city in terms of population and is the industrial and cultural capital of western Kentucky.



Location

Owensboro is the county seat of Daviess County, Kentucky, and lies on the southern banks of the mighty Ohio River, one of the nation’s major waterways, in the western Kentucky coal field region. Owensboro is located 32 miles southeast of Evansville, Indiana, 123 miles north of Nashville, Tennessee, and 109 miles southwest of Louisville, Kentucky. A bridge from Owensboro into southern Indiana affords a direct route to Interstate 64 in Indiana, providing a link from St. Louis to Louisville.



Industry and Economic Development

Owensboro has emerged as an industrial hub of western Kentucky, attracting major manufacturing processors in aluminum, distilling, steel, coal mining, and natural gas transmission corporations. Locally produced goods include electrical products, chewing tobacco, plastic, wire, spaghetti sauce, paper products, office furniture, plastic, tubes, small electric motors, truck frames, and many others.



The City is active in promoting economic development, as new developmental job growth is necessary to ensure the continued stability of the City's revenue base. Economic indicators and trends reflect stabilization in the area's economy compared to the previous year. As of May 2006, area employment averaged approximately 44,569. The June 2006 unemployment rate was 5.9%, slightly lower than the state rate. Active electric and water meters showed growth for the year. Construction of single-family units was 7 units lower than the previous year; tornado damage had lifted the numbers for the past 4 years. Construction of multi-family units increased by 140%.



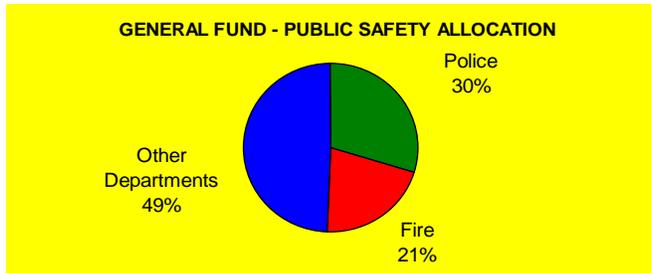
An aggressive annexation policy is being pursued to insure continued growth and development for the City of Owensboro. Much of the City's long-term growth potential lies in the Carter Road/Airport Corridor, anchored by the 400-acre Mid-America Airpark. The City has coordinated with the Greater Owensboro Economic Development Corporation to complete Mid-America AirPark, which includes AirPark, Tamarack, and Unifirst Drives. The Mid-America AirPark is a valuable tool for attracting new industry to Owensboro. The overall outlook for the area's economy continues to remain bright.

Communications

The Owensboro [Messenger-Inquirer](http://www.messengerinquirer.com) provides daily newspaper service to the citizens of Owensboro and surrounding counties, and sponsors a website at www.messengerinquirer.com. Nine radio stations serve the Owensboro area. The area is also served by the four major television networks (WEHT, WTVW, WFIE, and WEVV). Cable television service is provided by TimeWarner Cable. Owensboro is home to a United States Post Office, with branch offices throughout the City.

Public Safety

The City of Owensboro is committed to excellence from its Police and Fire Departments. The Police Department maintains a 3.5-minute emergency response time. The Fire Department maintains a 3.73-minute emergency response time, in accordance with the National Fire Protection and United States Insurance Service Offices recommendation.



The majority of General Fund expenditures, approximately 51%, are budgeted for public safety (police and fire). The chart on the left illustrates General Fund percentages for public safety and all other departments. The chart does not include capital projects funding.

Education

Quality education is a priority for the City of Owensboro. Education facilities in the area abound. The city, county and parochial school systems provide elementary, middle and secondary school students with quality education. The average student-teacher ratio for these systems is 20/25-1.

Vocational education is available at the Owensboro Community and Technical College.

Brescia University and Kentucky Wesleyan College are four-year education institutions offering Bachelor of Science and Arts degrees. Owensboro Community College, another institute of higher learning, offers two-year Associate of Arts and Science degrees, and several doctoral degree programs via telecommunications. The Owensboro Community and Technical College is a private two-year accredited school. Post-secondary educational opportunities in Owensboro are graduate programs offered through Brescia and Wesleyan by Western Kentucky University and Murray State University. These programs provide area residents with the opportunity to earn post-graduate degrees without leaving the city. Each year more than 1,500 students participate in graduate programs for credit hours. Another 500 per year take short courses at adult education workshops.



Owensboro is proud of The Wendell H. Ford Government Education Center located at the Area Museum of Science and History. Retired Senator Wendell H. Ford, a local resident, donated memorabilia from his long political career to the Center. The Center includes a replica of his Senate office, a rotunda, and a 70 seat "Senate chamber" used for community, school meetings and lectures. It is equipped with computer and television connections to Washington, D.C. and Frankfort, KY.

Medical Facilities

Owensboro is home to an excellent, well-staffed hospital - Owensboro Medical Health System (OMHS) that serves eight counties in Kentucky and southern Indiana, licensed for 469 beds. Approximately 130 physicians and 50 dentists serve our citizens.

OMHS has partnered with Jewish Heart and Lung Institute and University Cardiothoracic Surgical Associates. Jewish Hospital provides the OMHS heart program with management and medical oversight for cardiac surgery. The University Cardiothoracic Surgical Associates recruits and places surgeons in Owensboro.



OMHS is committed to leadership in heart care and will continue to offer comprehensive cardiovascular diagnosis, treatment and surgery, with a 15-bed coronary care unit, three cardiac catheterization labs, and an open heart surgical suite, an intensive care unit with dedicated cardiac surgery beds and two cardiac units with monitoring capabilities.

Available diagnostic services include: EKG, echocardiography, Holter monitoring, lipid profiles, cardiac catheterization, ambulatory blood pressure monitoring, and vascular lab. Treatment options include thrombolytic drug therapy, angioplasty, athrectomy, stent electrophysiology and open heart surgery.

Many other facilities serve community medical needs. These include an EmergiCenter, multiple Convenient Care facilities, an Ambulatory Surgical Center, a Wound Healing Center, a Breast and Diagnostic Center, and Outpatient Addiction Services. McAuley Clinic provides care for those not covered by health insurance, Medicaid or Medicare, with no charge for services. RiverValley Behavioral Health helps children and adults with emotional, mental and behavioral problems. The City has a state-maintained county health department.

The Owensboro HealthPark Center sponsors wellness programs to enrich City residents in development, maintenance and integration of overall health in mind, body and spirit. The health resource center is available to all residents. The HealthPark makes wellness affordable, available and effective with outpatient diagnostic capabilities, rehabilitation therapy, and a health and fitness center. Health screenings, classes and other program offerings are open to the community to help our citizens improve their lives with preventative wellness opportunities.

Recreation and Culture

The Owensboro-Daviess County Library serves the community well, with a collection of over 150,000 books and 13,000 audiovisual items. Interest in the natural sciences and area history is maintained by the Owensboro Area Museum. Art lovers are enjoying the recent expansion of the Owensboro Museum of Fine Art, which now features an Atrium Sculpture Court, a restored Civil War-era mansion, the Kentucky Spirit Galleries, and a priceless collection of German stained glass windows. These institutions are recognized as among the finest in western Kentucky.



Owensboro offers wide ranges of recreational and cultural activities to its citizens. Our citizens enjoy everything from fishing on nearby lakes to live performances of the Owensboro Symphony Orchestra, one of the finest in the state. Municipal parks provide areas for picnicking, golf, hiking, tennis, softball, football and just plain relaxing. State-maintained Carpenter and Kingfisher lakes offer a fine arena for the fisherman. Other water sports may be enjoyed on the Ohio River.

Whether walking, running or biking for fun or exercise, the City's Greenbelt offers a safe route for its residents.

During the summer months, the City maintains two swimming pools and the Kendall Perkins Water Park, a shallow water play area specially built for small children. Legion Park's sprayground is an enhancement to a beautiful park located in the center of Owensboro that already features basketball courts, a walking trail, playground equipment, and covered shelters.



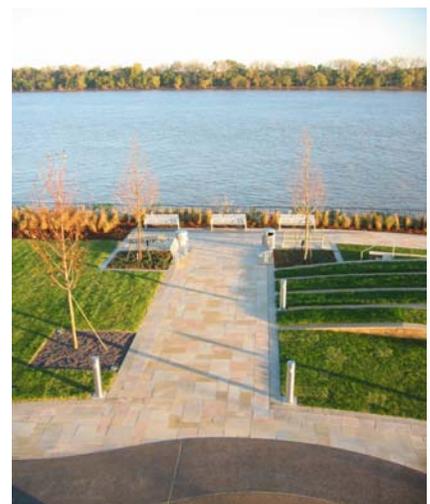
Owensboro RiverPark Center, a performing arts and civic center, boasts a 1,500 seat multi-purpose auditorium, and experimental theatre, a riverfront plaza, an open-air courtyard, meeting/reception rooms, and the International Bluegrass Music Museum. Each year the RiverPark Center hosts over 150 performance events and 900 civic events. Community activities include music, theatre and art. Cultural activities play a major role in the everyday lives of Owensboro's residents. Many cultural agencies are funded in part by the City of Owensboro.



Fridays After 5 is a weekly series of free outdoor concerts held on the riverfront beginning at the RiverPark Center patio and continuing for nearly 4 city blocks. The festival, created by Downtown Owensboro, Inc., began in 1996 with 10 concert weekends. It has grown to a summer-long signature event for the tri-state area hosting more than 35,000 visitors. Fridays After 5 continues through September 2006. The festival includes live bands, interactive events for families, entertainment and crafts each Friday after 5:00 p.m. until 10:00 p.m.



Mitch McConnell Plaza and Walkway is the City's most recent waterfront addition. Owensboro is indebted to Senator McConnell for his loyalty and dedication to the City and its ambitious riverfront projects. The City dedicated the plaza and walkway in his honor.



Owensboro hosts three major summer festivals. Each festival is unique and designed for the whole family. The International Bar-B-Q Festival is hosted on the Ohio River front each year. Daviess County has over 150 years of barbecuing experience and boasts of being the Bar-B-Q Capital of the World. The Bar-B-Q Festival is packed with food, music, dance, and more food.

The Fourth of July weekend ushers in the next Owensboro celebration -- the Owensboro Summer Festival, billed as the July 4th extravaganza. This festival is filled with countywide competition in softball, soccer, volleyball, running and much more. Musical entertainment and a major fireworks display are a big part of the festival.

A third festival is held each year in Owensboro's beautiful English Park overlooking the Ohio River.

Owensboro was awarded the designation of *Sports Illustrated* "Sportstown" as the state's top location for community sports and recreation. As Cyndi Sturgeon, Parks and Recreation Department Director, was quoted as saying in the *Sports Illustrated* article: "Sports are a huge focus here in Owensboro and we try to appeal to everyone at all stages of life — from tee-ball to adult softball and activities for seniors. It's our goal to help our residents have a positive, lifelong relationship with sports."



The Owensboro Sportscenter, a 5,000-seat, air-conditioned auditorium/arena, is home to local high school and college basketball. The City has several times hosted the NCAA Division II Men's "March Madness" Basketball Tournaments at this site. In past years, the Sportscenter has hosted the Kenny Rogers Christmas Show and the Kentucky-Indiana Boys' and Girls' High School Basketball Series.

Owensboro high schools participate in all major team sports offered by the Kentucky High School Athletic Association, and often at least one of these schools is in serious contention for state champion for various sports.

The Kentucky Wesleyan College basketball team has been referred to as the "UCLA of Small College Basketball". The Panthers are a perennial powerhouse in NCAA's small college basketball ranks, and have won eight NCAA II National Tournaments.

City facilities allow Owensboro to host to several national baseball and softball tournaments. The City has hosted four national championship tourneys and was awarded the James Farrell Award for hosting one of the highest rated national tournaments in the country. The City successfully hosted the 2004 NSA Men's Class D World Series, the 2004 USSSA "AA" National Championships, the 2004-2005 BPA Youth World Series, and the 2005 ASA Girls 14 & Under Fast Pitch National Championship.

Jack C. Fisher Park and the Owensboro Recreation Department hosted the 2005 Kentucky Fast-Pitch Softball State Tournament. The Owensboro Catholic Lady Aces captured the 2005 Kentucky Fast-Pitch Softball State Championship in front of a huge hometown crowd. It is the 4th state title the Lady Aces have earned since 1998.

Owensboro residents, children, teens, adults, and seniors have many recreational options, including golf, tennis, softball, volleyball, ice-skating, soccer, football, baseball and basketball. The Parks department hosts many special events throughout the year, which includes "Ghosts and Goblins" and "Daddy-Daughter Date Night". There are also developmental and instructional programs in t-

ball, soccer, cheerleading, tennis, golf, tae-kwon do, baseball, softball, volleyball, ice-skating, swimming, tumbling and fishing. The Owensboro Youth Hockey Association, Inc., is open to youth ages 5-18 from November to the end of March. The Owensboro Youth Soccer League involves youth ages 6-19 during spring and fall seasons. Owensboro Youth Baseball develops young people ages 6-18 in baseball.

The Government

Owensboro operates under a City Manager form of government. The Mayor and 4 Commissioners constitute the Board of Commissioners. The citizens elect the Commissioners at large on a non-partisan ballot. The Mayor is elected for a four-year term and the Commissioners for two-year terms. The Mayor and Commissioners have equal voting power. The Commission sets the policies that govern the City. It appoints citizen advisory groups that help in the decision-making process. The City Manager is appointed by the Board and is responsible for the day-to-day operations of City employees. Department managers are responsible for their various departments and report to the City Manager.

TABLE 1

CITY OF OWENSBORO
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General fund										
Reserved	\$ 100	\$ 348	\$ 35	\$ 57	\$ 127	\$ 130	\$ 128	\$ 79	\$ 87	\$ 153
Unreserved	3,177	2,954	2,402	1,625	1,855	1,951	1,749	1,550	1,855	3,591
Total General Fund	<u>\$ 3,277</u>	<u>\$ 3,302</u>	<u>\$ 2,437</u>	<u>\$ 1,682</u>	<u>\$ 1,982</u>	<u>\$ 2,081</u>	<u>\$ 1,877</u>	<u>\$ 1,629</u>	<u>\$ 1,942</u>	<u>\$ 3,744</u>
All other governmental units										
Reserved	\$ 2,983	\$ 13,303	\$ 13,820	\$ 9,942	\$ 7,708	\$ 4,834	\$ 2,865	\$ 6,158	\$ 3,958	\$ 3,256
Unreserved, reported in:										
Special revenue funds	743	385	348	463	424	6,447	371	890	(125)	(547)
Capital projects funds	2,606	2,538	4,704	5,327	3,852	3,011	2,346	2,370	2,056	3,382
Total all other government funds	<u>\$ 6,332</u>	<u>\$ 16,226</u>	<u>\$ 18,872</u>	<u>\$ 15,732</u>	<u>\$ 11,984</u>	<u>\$ 14,292</u>	<u>\$ 5,582</u>	<u>\$ 9,418</u>	<u>\$ 5,889</u>	<u>\$ 6,091</u>

TABLE 2

CITY OF OWENSBORO
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

	2002	2003	2004	2005	2006
Revenues					
Real and personal property taxes	\$ 6,526,834	\$ 6,752,239	\$ 7,137,309	\$ 7,492,747	\$ 7,758,532
Occupational licenses	10,862,478	8,305,933	10,930,002	11,542,558	12,236,772
Net profit license fees	1,709,697	1,721,567	1,516,557	2,101,988	2,435,859
Regulatory licenses	3,632,070	4,069,041	4,480,570	4,505,405	4,722,033
Intergovernmental	4,769,610	11,012,959	4,995,066	7,802,319	9,193,929
Interest	793,119	268,236	165,233	325,533	303,186
Fees, licenses and permits	542,387	559,944	547,350	518,750	529,540
Fines and forfeitures	159,989	179,297	138,012	120,197	161,279
Rentals	206,816	540,190	619,696	617,021	741,230
Charges for services	570,068	550,469	570,841	599,425	654,748
Contributions and donations	142,093	15,732	343	263,200	22,227
Dividends from component units	3,244,027	3,456,229	3,780,707	4,005,576	5,095,855
Payments in lieu of taxes from component unit	1,395,499	1,565,495	1,600,728	1,627,979	1,480,187
Miscellaneous income	584,404	626,604	495,811	675,310	876,866
Total Revenues	<u>35,139,091</u>	<u>39,623,935</u>	<u>36,978,225</u>	<u>42,198,008</u>	<u>46,212,243</u>
Expenditures					
Current:					
General government	4,998,728	5,342,397	5,954,993	6,183,140	7,373,975
Public safety	13,878,294	14,133,879	14,998,734	15,566,845	20,447,210
Public works	4,856,662	4,782,763	4,316,735	6,998,503	5,078,227
Community and cultural	4,346,214	3,294,964	4,292,232	4,100,447	3,962,926
Community/economic development	1,194,519	1,650,649	1,320,396	1,394,189	1,113,760
Capital outlay	3,712,815	10,681,356	3,441,023	8,692,798	7,278,471
Debt service:					
Principal	3,661,455	7,940,423	1,389,470	1,489,027	1,662,807
Interest	1,083,751	1,243,380	987,219	883,816	810,979
Issuance costs	167,807	2,000	88,552	10,500	147,933
Total Expenditures	<u>37,900,245</u>	<u>49,071,811</u>	<u>36,789,354</u>	<u>45,319,265</u>	<u>47,876,288</u>
Excess (deficiency) of revenues over expenditures	<u>(2,761,154)</u>	<u>(9,447,876)</u>	<u>188,871</u>	<u>(3,121,257)</u>	<u>(1,664,045)</u>
Other financing sources (uses):					
Sale of capital assets	540,561	388,257	4,145,279	138,367	190,561
Issuance of debt	4,835,397	-	88,552	357,000	4,100,000
Refunding bond issue	-	-	-	-	2,550,000
Payment to bond refunding escrow	4,995,489	9,842,399	2,240,697	2,681,286	(2,881,398)
Transfers in	4,995,489	9,842,399	2,240,697	2,681,286	2,453,572
Transfers out	(5,255,454)	(9,787,292)	(2,552,566)	(2,570,185)	(2,745,219)
Total Other Financing Sources (Uses)	<u>5,115,993</u>	<u>10,285,763</u>	<u>6,162,659</u>	<u>3,287,754</u>	<u>3,667,516</u>
Net change in fund balances	<u>\$2,354,839</u>	<u>\$ (9,004,127)</u>	<u>\$ 4,110,833</u>	<u>\$(2,514,789)</u>	<u>\$ 2,003,471</u>
Debt service as a percentage of non-capital expenditures	14.40%	23.9%	7.4%	6.5%	6.5%

TABLE 3
CITY OF OWENSBORO
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
Last Ten Fiscal Years

FISCAL YEAR	TOTAL	GENERAL GOVERNMENT	PUBLIC SAFETY	PUBLIC WORKS	COMMUNITY AND CULTURAL	COMMUNITY/ ECONOMIC DEVELOPMENT	CAPITAL OUTLAY	DEBT SERVICE
1996-1997	\$ 28,771,169	\$ 4,741,120	\$ 10,670,485	\$ 3,146,672	\$ 2,817,873	-	\$ 5,340,765	\$ 2,054,254
1997-1998	28,558,248	4,960,980	11,003,021	4,562,187	3,122,881	-	2,663,235	2,245,944
1998-1999	37,184,729	4,566,335	12,329,374	4,614,767	3,231,233	-	7,624,429	4,818,591
1999-2000	37,844,841	5,344,009	12,837,139	4,787,549	3,296,998	-	7,313,067	4,266,079
2000-2001	41,385,713	5,535,009	12,858,982	5,609,052	3,443,941	-	6,231,958	7,706,771
2001-2002	37,900,245	4,998,728	13,878,294	4,856,662	4,346,214	\$ 1,194,519	3,712,815	4,913,013
2002-2003	49,071,811	5,342,397	14,133,879	4,782,763	3,294,964	1,650,649	10,681,356	9,185,803
2003-2004	36,789,354	5,954,993	14,998,734	4,316,735	4,292,232	1,320,396	3,441,023	2,465,241
2004-2005	45,319,265	6,183,140	15,566,845	6,998,503	4,100,447	1,394,189	8,692,798	2,383,343
2005-2006	47,876,288	7,373,975	20,447,210	5,078,227	3,962,926	1,113,760	7,278,471	2,621,719

This table includes all governmental funds. In years prior to 2001-2002, Community/Economic Development expenditures were included in Public Works.

TABLE 4

**CITY OF OWENSBORO
GENERAL GOVERNMENTAL REVENUES BY SOURCE
Last Ten Fiscal Years**

FISCAL YEAR	TOTAL	PROPERTY TAXES	LICENSES AND PERMITS	INTER-GOVERNMENTAL REVENUES	CHARGES FOR SERVICES - GENERAL GOVERNMENT	FINES AND FORFEITS	INTEREST	MISC. REVENUES
1996-1997	\$ 22,333,542	\$ 5,068,244	\$ 10,805,100	\$ 4,123,321	\$ 774,949	\$ 177,722	\$ 662,748	\$ 721,458
1997-1998	25,550,305	5,405,878	13,468,054	3,899,441	590,810	177,973	916,553	1,091,596
1998-1999	29,399,449	5,429,767	14,747,523	6,998,149	700,655	173,843	774,514	574,998
1999-2000	29,220,862	5,820,136	15,225,664	5,267,504	594,010	167,262	1,187,816	958,470
2000-2001	32,249,206	6,113,868	15,686,280	5,251,379	559,169	163,874	1,239,060	3,235,576
2001-2002	31,895,064	6,526,834	16,746,632	6,165,109	570,068	159,989	793,119	933,313
2002-2003	39,623,935	6,752,239	14,656,485	16,034,683	550,469	179,297	268,236	1,182,526
2003-2004	36,978,225	7,137,309	17,474,479	10,376,501	570,841	138,012	165,233	1,115,850
2004-2005	42,198,008	7,492,747	18,668,701	13,435,874	599,425	120,197	325,533	1,555,531
2005-2006	46,212,243	7,758,532	19,924,204	15,769,971	654,748	161,279	303,186	1,640,323

This table includes all governmental funds.

TABLE 5
CITY OF OWENSBORO
TAX REVENUE BY SOURCE
Last Ten Fiscal Years

FISCAL YEAR	TOTAL	REAL AND PERSONAL PROPERTY	FRANCHISE	BANK DEPOSITS
1996-1997	\$ 5,068,244	\$ 4,710,563	\$ 180,131	\$ 177,550
1997-1998	5,405,878	4,997,656	221,550	186,672
1998-1999	5,429,767	5,014,706	163,559	251,502
1999-2000	5,820,136	5,349,065	215,224	255,847
2000-2001	6,113,868	5,609,223	240,159	264,486
2001-2002	6,526,834	6,012,922	243,393	270,519
2002-2003	6,752,239	6,185,066	259,571	307,602
2003-2004	7,137,309	6,415,266	289,845	432,198
2004-2005	7,492,747	6,747,157	372,377	373,213
2005-2006	7,758,532	7,157,244	280,117	321,171

Note: This table includes all governmental funds.

TABLE 6

**CITY OF OWENSBORO
PROPERTY TAX LEVIES & COLLECTIONS
Last Ten Fiscal Years**

FISCAL YEAR	TOTAL TAX		FINAL ADJUSTED LEVY	COLLECTED WITHIN FISCAL YEAR OF LEVY		COLLECTIONS IN SUBSEQUENT YEARS	TOTAL COLLECTIONS TO DATE	
	LEVY FOR FISCAL YEAR	ADJUSTMENTS TO LEVY		AMOUNT	% OF LEVY		AMOUNT	% OF LEVY
1997	\$ 4,891,678	\$ 176,566	5,068,244	\$ 4,991,916	98.5%	\$ 70,786	\$ 5,062,702	99.9%
1998	5,230,086	175,792	5,405,878	5,156,506	95.4%	244,400	5,400,906	99.9%
1999	5,227,568	202,199	5,429,767	5,322,760	98.0%	104,249	5,427,009	99.9%
2000	5,632,122	188,014	5,820,136	5,685,827	97.7%	128,878	5,814,705	99.9%
2001	5,879,384	234,484	6,113,868	5,894,785	96.4%	211,790	6,106,575	99.9%
2002	6,569,149	(42,315)	6,526,834	6,378,460	97.7%	141,276	6,519,736	99.9%
2003	6,477,380	274,859	6,752,239	6,598,792	97.7%	102,398	6,701,190	99.2%
2004	6,834,685	302,624	7,137,309	7,024,928	98.4%	81,875	7,106,803	99.6%
2005	7,135,269	357,478	7,492,747	7,396,847	98.7%	79,205	7,476,052	99.8%
2006	7,236,158	522,374	7,758,532	7,641,239	98.5%	n/a	7,641,239	98.5%

Note: This table includes all governmental funds.

TABLE 7
CITY OF OWENSBORO
ASSESSED & ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

FISCAL YEAR	REAL ESTATE	PERSONAL PROPERTY ¹	FRANCHISE	BANK DEPOSITS	TOTAL	ESTIMATED ACTUAL VALUE ²	PERCENT ASSESSED TO ESTIMATED VALUE
1996-1997	\$ 1,298,828,107	\$ 173,162,586	\$ 66,078,759	\$ 710,199,070	\$ 2,248,268,522	\$ 2,351,745,316	99.6%
1997-1998	1,361,950,549	186,619,757	81,273,053	730,689,146	2,360,532,505	2,585,468,242	91.3%
1998-1999	1,494,560,342	195,187,485	61,547,829	1,006,008,128	2,757,303,784	2,952,425,301	93.4%
1999-2000	1,605,314,275	247,846,205	83,578,504	1,023,387,597	2,960,126,581	3,218,547,651	92.0%
2000-2001	1,703,101,329	245,253,177	97,151,789	1,057,944,963	3,103,451,258	3,475,309,359	89.3%
2001-2002	1,813,449,766	269,369,280	98,459,750	1,082,074,798	3,263,353,594	3,550,983,236	91.9%
2002-2003	1,858,072,636	259,602,395	102,153,004	1,230,406,541	3,450,234,576	3,779,008,298	91.3%
2003-2004	1,907,097,401	225,651,953	102,110,806	1,728,792,581	3,963,652,741	4,327,131,813	91.6%
2004-2005	2,028,537,916	232,560,600	127,509,107	1,492,852,832	3,881,460,455	4,120,446,343	94.2%
2005-2006	2,149,205,217	253,083,835	96,027,468	1,284,683,290	3,782,999,810	3,887,975,139	97.3%

¹Assessment on motor vehicles are not included as the State of Kentucky collects the taxes when vehicles are licensed.

²Source: Kentucky Department of Revenue - Research Division

TABLE 8
CITY OF OWENSBORO
AD VALOREM TAX RATES
DIRECT & OVERLAPPING GOVERNMENTS
Per \$100 of Net Assessed Valuation
Last Ten Fiscal Years

REAL PROPERTY:

Year	DIRECT	OVERLAPPING						TOTAL CITY RESIDENT ¹		
	City	City Schools	County Schools	State	County	Health	Extension	Library	City School	County School
1996-1997	0.2726	0.6550	0.4800	0.1630	0.1310	0.0250	0.0060	0.0400	1.2926	1.1176
1997-1998	0.2726	0.6610	0.4800	0.1570	0.1310	0.0250	0.0090	0.0400	1.2956	1.1146
1998-1999	0.2535	0.6580	0.4730	0.1530	0.1310	0.0250	0.0090	0.0395	1.2690	1.0840
1999-2000	0.2535	0.6640	0.4860	0.1480	0.1310	0.0250	0.0090	0.0405	1.2710	1.0930
2000-2001	0.2472	0.6460	0.4770	0.1480	0.1280	0.0250	0.0090	0.0390	1.2422	1.0732
2001-2002	0.2472	0.6690	0.4900	0.1360	0.1280	0.0350	0.0090	0.0400	1.2642	1.0852
2002-2003	0.2541	0.6640	0.5070	0.1350	0.1280	0.0350	0.0090	0.0410	1.2661	1.1091
2003-2004	0.2612	0.6970	0.5250	0.1330	0.1300	0.0350	0.0090	0.0560	1.3212	1.1492
2004-2005	0.2586	0.7010	0.5330	0.1310	0.1340	0.0350	0.0090	0.0660	1.3346	1.1666
2005-2006	0.2580	0.7040	0.5360	0.1310	0.1270	0.0350	0.0090	0.0570	1.3210	1.1530

PERSONAL PROPERTY:

Year	DIRECT	OVERLAPPING						TOTAL CITY RESIDENT ¹		
	City	City Schools	County Schools	State	County	Health	Extension	Library	City School	County School
1996-1997	0.2907	0.6550	0.4800	0.4500	0.1680	0.0250	0.0060	0.0400	1.6347	1.4597
1997-1998	0.2726	0.6610	0.4800	0.4500	0.1680	0.0250	0.0090	0.0400	1.6256	1.4446
1998-1999	0.2726	0.6580	0.4800	0.4500	0.1680	0.0250	0.0090	0.0405	1.6231	1.4451
1999-2000	0.2592	0.6640	0.4860	0.4500	0.1510	0.0250	0.0090	0.0450	1.6032	1.4252
2000-2001	0.2472	0.6460	0.4830	0.4500	0.1470	0.0250	0.0090	0.0395	1.5637	1.4007
2001-2002	0.2472	0.6690	0.4900	0.4500	0.1470	0.0350	0.0090	0.0400	1.5972	1.4182
2002-2003	0.2541	0.6640	0.5070	0.4500	0.1470	0.0350	0.0090	0.0411	1.6002	1.4432
2003-2004	0.2946	0.6970	0.5250	0.4500	0.1638	0.0350	0.0090	0.0462	1.6965	1.5245
2004-2005	0.3091	0.7020	0.5330	0.4500	0.1638	0.0350	0.0090	0.0570	1.7259	1.5569
2005-2006	0.3072	0.7040	0.5360	0.4500	0.1572	0.0350	0.0107	0.0577	1.7128	1.5538

The Kentucky Revised Statutes state that property tax revenue cannot exceed, excluding new property, 4% of the previous year property tax revenue on real property.

¹City residents can be in the City or County School Tax District.

TABLE 9

**CITY OF OWENSBORO
RATIO OF NET GENERAL BONDED DEBT
TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
Last Ten Fiscal Years**

FISCAL YEAR	POPULATION	ASSESSED VALUE ¹	GROSS BONDED DEBT	DEBT PAYABLE FROM POLICE & FIREFIGHTERS' RETIREMENT FUND ²	NET BONDED DEBT	RATIO OF NET BONDED DEBT TO ASSESSED VALUE	NET BONDED DEBT PER CAPITA
1996-1997	54,149	\$ 2,248,268,522	\$ 3,685,910	3,685,910		0.00	0.00
1997-1998	54,041	2,360,532,505	3,588,560	3,588,560		0.00	0.00
1998-1999	54,200	2,757,303,784	3,486,199	3,486,199		0.00	0.00
1999-2000	54,010	2,960,126,581	4,513,788	3,378,788	\$ 1,135,000	0.04	21.01
2000-2001	54,067	3,103,451,258	7,831,264	3,261,264	4,570,000	0.15	84.52
2001-2002	54,119	3,263,353,594	17,613,561	3,138,561	14,475,000	0.44	267.47
2002-2003	54,176	3,450,234,576	16,625,627	3,010,627	13,615,000	0.39	251.31
2003-2004	54,312	3,963,652,741	15,804,646	3,207,000	12,597,646	0.32	231.95
2004-2005	54,900	3,881,460,455	15,042,913	3,001,000	12,041,913	0.31	219.34
2005-2006	55,459	3,782,999,810	20,076,067	2,335,000	17,741,067	0.47	319.90

Sources: Bureau of the Census Count

¹Taxes were collected on motor vehicles by the State when licensed and the assessments are not included.

²These amounts include the general obligation bonds that are being repaid from the Police & Firefighters' Retirement Fund.

TABLE 10
CITY OF OWENSBORO
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt limit	\$ 163,802,315	\$ 173,466,186	\$ 185,829,906	\$ 204,667,058	\$ 216,097,480	\$ 230,545,940	\$ 234,476,604	\$ 236,619,486	\$ 252,127,162	\$ 263,731,552
Total net debt applicable to limit	-	-	-	-	4,570,000	14,475,000	13,615,000	13,092,955	12,504,430	17,640,212
Legal debt margin	<u>\$ 163,802,315</u>	<u>\$ 173,466,186</u>	<u>\$ 185,829,906</u>	<u>\$ 204,667,058</u>	<u>\$ 211,527,480</u>	<u>\$ 216,070,940</u>	<u>\$ 220,861,604</u>	<u>\$ 223,526,531</u>	<u>\$ 239,622,732</u>	<u>\$ 246,091,340</u>
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%	2.11%	6.28%	5.81%	5.53%	4.96%	6.69%

Legal Debt Margin Calculation for Fiscal Year 2005

Net assessed value	\$2,498,316,520
Add exemption	<u>138,999,000</u>
Total assessed value	\$2,637,315,520
Debt limit - 10% of total assessed value ¹	263,731,552
Amount of debt applicable to debt limit:	
Total general bonded debt	\$ 20,716,067
Less: Revenue Bonds	640,000
Amount available for repayment of general obligation bonds	<u>2,435,855</u>
Total debt applicable to limitation	<u>\$ 246,091,340</u>
Legal debt margin	

¹Section 158 of the Commonwealth of Kentucky Constitution states:

"Cities shall not be authorized or permitted to incur indebtedness to an amount, including existing indebtedness, in the aggregate exceeding the following named maximum percentages on the value of the taxable property therein, to be estimated by the assessment next before the last assessment previous to the incurring of the indebtedness. Cities of the first and second class, and of the third class having a population exceeding fifteen hundred, ten per centum."

TABLE 11

**CITY OF OWENSBORO
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
June 30, 2006**

	NET DEBT OUTSTANDING ¹	PERCENT APPLICABLE TO CITY OF OWENSBORO ²	CITY OF OWENSBORO SHARE OF OVERLAPPING	CITY OF OWENSBORO DIRECT AND OVER- LAPPING DEBT
Jurisdiction:				
City of Owensboro	\$ 25,066,954	100.0		\$ 25,066,954
Owensboro Independent Schools	5,067,118	100.0	\$ 5,067,118	5,067,118
Daviess County	15,706,304	58.4	9,172,482	9,172,482
Daviess County Schools	<u>51,765,000</u>	45.4	<u>23,501,310</u>	<u>23,501,310</u>
Total	<u>\$ 97,605,376</u>		<u>\$ 37,740,910</u>	<u>\$ 62,807,864</u>

Note: This table includes all debt for which the City is directly or contingently liable should the outstanding entity's revenue not be sufficient to retire the debt. This table excludes debt which is to be retired by the City's enterprise funds or component units through rates.

¹Gross general bonded debt less reserves.

²Determined by ratio of assessed valuation of property subject to taxation in overlapping unit to valuation of property subject to taxation in the City of Owensboro.

TABLE 12

CITY OF OWENSBORO
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL OBLIGATION BONDED DEBT¹ TO TOTAL GENERAL EXPENDITURES
Last Ten Fiscal Years

FISCAL YEAR	PRINCIPAL	INTEREST	DEBT SERVICE	TOTAL GENERAL EXPENDITURES ²	RATIO OF DEBT SERVICE TO TOTAL GENERAL EXPENDITURES
1996-1997				\$28,771,169	0.0
1997-1998				28,558,248	0.0
1998-1999				37,184,729	0.0
1999-2000	\$ 105,000	\$ 53,286	\$ 158,286	37,844,841	0.4
2000-2001	105,000	53,286	154,021	41,385,713	0.4
2001-2002	525,000	147,800	672,800	37,900,245	1.8
2002-2003	860,000	608,518	1,468,518	49,071,811	3.0
2003-2004	955,000	805,294	1,760,294	36,789,354	4.8
2004-2005	985,000	652,163	1,637,163	45,319,265	3.6
2005-2006	1,235,000	621,169	1,856,169	47,876,288	3.9

¹General obligation bonds reported in the pension funds have been excluded.

²Note: Includes General Fund, Special Revenue Funds, Capital Projects Fund and Debt Service Fund.

TABLE 13

**CITY OF OWENSBORO
PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
Last Ten Fiscal Years**

FISCAL YEAR	COMMERCIAL CONSTRUCTION		RESIDENTIAL CONSTRUCTION		PROPERTY VALUES		BANK DEPOSITS ¹
	NUMBER OF UNITS	VALUE	NUMBER OF UNITS	VALUE	COMMERCIAL	RESIDENTIAL	(IN THOUSANDS)
1996-1997	177	\$ 55,964,910	416	\$ 14,447,515	\$ 490,609,618	\$ 874,147,461	\$ 710,199
1997-1998	169	55,867,479	459	16,075,465	505,798,711	992,805,451	730,689
1998-1999	180	32,134,175	581	23,522,242	586,281,791	1,019,894,884	1,006,008
1999-2000	182	53,976,832	961	42,703,287	609,493,366	1,102,829,818	1,023,388
2000-2001	144	52,839,775	1,175	52,432,144	662,141,043	1,157,111,350	1,057,945
2001-2002	59	23,878,553	490	42,670,773	672,041,458	1,190,857,378	1,082,075
2002-2003	51	59,545,833	605	47,129,245	687,928,895	1,225,877,598	1,230,407
2003-2004	61	29,109,892	567	46,811,446	740,661,854	1,314,318,302	1,728,793
2004-2005	80	41,246,729	453	36,104,355	789,625,905	1,390,498,802	1,492,853
2005-2006	86	32,186,201	448	42,901,236	834,552,526	1,430,679,326	1,284,683

¹Source: Owensboro Banking Institutions.

TABLE 14
CITY OF OWENSBORO
DEMOGRAPHIC STATISTICS
Last Ten Fiscal Years

FISCAL YEAR	POPULATION ^{1&5}	PERSONAL INCOME (AMOUNT EXPRESSED IN THOUSANDS)	PER CAPITA INCOME ⁴	SCHOOL ENROLLMENT ²	UNEMPLOYMENT RATE ³
1996-1997	54,149	1,138,104	21,018	4,260	5.9%
1997-1998	54,041	1,163,611	21,532	4,145	5.0%
1998-1999	54,200	1,215,218	22,421	4,055	4.8%
1999-2000	54,010	1,233,426	22,837	4,000	4.8%
2000-2001	54,067	1,267,476	23,383	3,902	5.0%
2001-2002	54,119	1,317,044	24,238	3,861	5.2%
2002-2003	54,176	1,365,620	25,095	3,910	5.8%
2003-2004	54,312	1,361,187	25,014	3,849	5.9%
2004-2005	54,900	1,426,577	25,985	3,978	6.1%
2005-2006	55,459	1,488,298	26,836	3,942	5.9%

Sources:

¹Annual Survey of Buying Power

²Board of Education; represents elementary and secondary public schools

³Kentucky Department for Employment Services

⁴U.S. Department of Commerce, Bureau of Economic Analysis

⁵United States Census Estimates

Table 15

**City of Owensboro
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years**

Full-time Equivalent Employees as of June 30

Function	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Governmental Activities:										
General government ¹	50	54	55	59	66	66	68	69	74	80
Public safety	247	257	257	257	257	259	246	252	257	245
Public works	69	66	68	79	80	79	81	80	71	72
Community and cultural	13	13	16	13	15	14	12	12	5	5
Total Governmental Activities	379	390	396	408	418	418	407	413	407	402
Business-type activities:										
Sanitation	33	30	39	32	32	32	32	32	32	28
Other enterprise funds ²	22	23	30	94	90	93	94	94	101	95
Total business-type activities	55	53	69	126	122	125	126	126	133	123
Total primary government	434	443	465	534	540	543	533	539	540	525

Source: Government Budget

¹Added part-time couriers and part-time customer service 2001

²Temporary employees not included in employee counts until 2000

Table 16

**City of Owensboro
Principal Employers
Current Year and Nine Years Ago**

<u>Employer</u>	<u>2006</u>			<u>1997</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Owensboro Medical Health System	2,733	1	6.10%	1,966	1	4.33%
Owensboro Public Schools	985	2	2.20%	745	2	1.64%
US Bank Home Mortgage	667	3	1.49%			
Toyotetsu Mid-America	574	4	1.28%			
City of Owensboro	559	5	1.25%	552	5	1.21%
Wal-Mart	551	6	1.23%	333	10	0.73%
Specialty Foods (Field Packing Company)	500	7	1.12%	550	6	1.21%
Commonwealth of Kentucky	464	8	1.04%	561	4	1.23%
Canteen Service Company	402	9	0.90%			
Unilever Foods North America	400	10	0.89%			
River Valley Behavioral Health				737	3	1.62%
General Electric Motor Plant				480	7	1.06%
Texas Gas				432	8	0.95%
Executive Inn Rivermont				370	9	0.81%
Total	<u>7,835</u>		<u>17.48%</u>	<u>6,726</u>		<u>14.80%</u>

Source - Chamber of Commerce

TABLE 17
CITY OF OWENSBORO
PRINCIPAL TAXPAYERS
For the year ended June 30, 2006

TAXPAYER	TYPE OF BUSINESS	ASSESSED VALUATION ¹	PERCENTAGE OF TOTAL ASSESSED VALUATION
BellSouth Telecommunications	Telephone	\$31,726,392	1.33%
Towne Square Development	Mall Developer	26,021,000	1.09%
Texas Gas Transmission	Gas Company	24,857,306	1.04%
Western Kentucky Gas	Gas Company	21,721,771	0.91%
Adelphia Cable	Cable TV	21,512,700	0.90%
Unifirst Corporation	Manufacturer	19,633,298	0.82%
Dana Corporation	Manufacturer	16,710,948	0.70%
Field Packing Company	Manufacturer	16,617,599	0.70%
Barton Brands	Manufacturer	16,320,837	0.68%
BB&T	Bank	14,273,806	0.60%
		<u>\$ 209,395,657</u>	<u>8.77%</u>

Total Assessed Valuation (excluding bank deposits) = \$2,388,607,623

¹Source: Daviess County Property Valuation Office

TABLE 18
CITY OF OWENSBORO
SCHEDULE OF INSURANCE IN FORCE
For the year ended June 30, 2006

NAME OF COMPANY	POLICY NUMBER	POLICY PERIOD		TYPE OF INSURANCE/ DETAILS OF COVERAGE	LIABILITY COVERAGE	ANNUAL PREMIUM	
		FROM	TO			8/1/2004 to 8/1/2005	8/1/2005 to 8/1/2006
Cannon Cochran Management	AGC-1B11-KY	1/1/2006	12/31/2006	Workers' Compensation	As per KY Statutes	\$30,241.00	\$43,530.00
Specialty National Insurance Co.	3XZ12259700	8/1/2005	8/1/2006	General Liability	\$2,000,000 per occurrence; no deductible	\$374,124.00	\$362,002.00
Specialty National Insurance Co.	3XZ12259700	8/1/2005	8/1/2006	Public Officials Liability Errors and Omissions	\$2,000,000 per occurrence; no deductible	Included in General Liability	Included in General Liability
Specialty National Insurance Co.	3XZ12259700	8/1/2005	8/1/2006	Law Enforcement Liability	\$2,000,000 per occurrence; no deductible	Included in General Liability	Included in General Liability
Specialty National Insurance Co.	3XZ12259700	8/1/2005	8/1/2006	Automobile Fleet	Automobile liability \$2,000,000 per occurrence; no deductible; automobile physical damage - actual cash value; deductible per vehicle schedule	Included in General Liability	Included in General Liability
Ohio Casualty Company	2848204	8/1/2005	8/1/2006	Faithful Performance Bond (employees)	\$100,000; \$400,000 on City Manager and Finance Director	\$1,644.30	\$1,644.30
Ohio Casualty Company	3016435	8/1/2005	8/1/2006	Highway and Street Permit Bond	\$10,000	\$152.25	\$152.25
Ohio Casualty Company	3078130	8/1/2005	8/1/2006	City Transit - Gas Tax Bond	\$5,000	\$76.13	\$76.13
Specialty National Insurance Co.	3XZ12259700	8/1/2005	8/1/2006	Boiler and Machinery	\$32,000,000	Included in General Liability	Included in General Liability
Specialty National Insurance Co.	3XZ12259700	8/1/2005	8/1/2006	Property, computer and contractor equipment, leased/rented equipment	Property \$44,626,320/occurrence; Inland Marine \$3,664,673/occurrence; flood \$5,000,000/occurrence; earth movement \$10,000,000/occurrence; rental coverage \$1,000,000/occurrence; terrorism damage \$15,000,000/occurrence	\$98,812.00	\$104,105.00

TABLE 19

**CITY OF OWENSBORO
CITY EMPLOYEES' PENSION FUND
TEN YEAR COMPARATIVE SUMMARY OF NET ASSETS
AVAILABLE FOR BENEFITS AND TOTAL ACTUARIAL PRESENT
VALUE OF CREDITED PROJECTED BENEFITS OR
PENSION BENEFIT OBLIGATION**

YEAR	NET ASSETS AVAILABLE FOR BENEFITS	TOTAL ACTUARIAL PRESENT VALUE OF CREDITED BENEFITS	PENSION BENEFIT OBLIGATION	ACTUARIAL ACCRUED LIABILITY	PERCENTAGE
² 1997	\$ 6,946,952			\$ 4,748,921	146.3
¹ 1998	7,481,195			4,870,435	153.6
² 1999	7,612,144			5,329,294	142.8
¹ 2000	7,608,027			5,265,859	144.5
² 2001	6,931,736			5,129,507	135.1
¹ 2002	6,042,623			4,722,724	127.9
² 2003	5,630,953			4,446,421	126.6
¹ 2004	5,757,018			4,530,556	127.1
² 2005	5,658,096			4,400,114	128.6
¹ 2006	5,467,685			4,078,434	134.1

¹1998, 2000, 2002, 2004 and 2006 are years of actuarial studies.

²1997, 1999, 2001, 2003 and 2005 are based on actuarial updates as of that year.

TABLE 20
CITY OF OWENSBORO
CITY EMPLOYEES' PENSION FUND
TEN YEAR COMPARATIVE SUMMARY OF UNFUNDED (EXCESS)
ACTUARIAL PRESENT VALUE OF CREDITED PROJECTED BENEFITS OR
PENSION BENEFIT OBLIGATION
AND ANNUAL ACTIVE MEMBER PAYROLL

YEAR	UNFUNDED (EXCESS) ACTUARIAL PRESENT VALUE OF CREDITED PROJECTED BENEFITS	UNFUNDED (EXCESS) PENSION BENEFIT OBLIGATION	UNFUNDED (EXCESS) ACTUARIAL ACCRUED LIABILITY	ANNUAL ACTIVE MEMBER PAYROLL	PERCENTAGE
² 1997			\$ (2,198,031)	37,598	5846.1
¹ 1998			(2,610,761)	41,067	6357.3
² 1999			(2,282,850)	44,042	5183.3
¹ 2000			(2,342,168)	44,410	5274.0
² 2001			(1,802,229)	45,677	3945.6
¹ 2002			(1,319,899)	50,326	2622.7
² 2003			(1,184,532)	-	n/a
¹ 2004			(1,226,462)	-	n/a
² 2005			(1,257,982)	-	n/a
¹ 2006			(1,389,251)	-	n/a

¹1998, 2000, 2002, 2004 and 2006 are years of actuarial studies.

²1997, 1999, 2001, 2003 and 2005 are based on actuarial updates as of that year.

TABLE 21

**CITY OF OWENSBORO
CITY EMPLOYEES' PENSION FUND
TEN YEAR COMPARATIVE SUMMARY OF ACTUARIAL
VALUES AND PERCENTAGE COVERED BY NET ASSETS
AVAILABLE FOR BENEFITS**

YEAR	MEMBER CONTRIBUTION	CURRENT RETIREES & BENEFICIARIES	ACTIVE MEMBERS EMPLOYERS PART	AVAILABLE FOR BENEFITS	PERCENT OF ACTUARY VALUE COVERED BY NET ASSETS AVAILABLE FOR BENEFITS		
² 1997	\$ 19,016	\$ 4,637,748	\$ 92,158	\$ 6,946,952	100.0	100.0	100.0
¹ 1998	20,659	4,729,181	120,595	7,481,195	100.0	100.0	100.0
² 1999	22,421	5,204,647	124,647	7,612,144	100.0	100.0	100.0
¹ 2000	24,197	5,090,829	150,833	7,608,027	100.0	100.0	100.0
² 2001	26,024	5,129,507	154,934	6,931,736	100.0	100.0	100.0
¹ 2002	-	4,722,724	-	6,042,623	100.0	100.0	100.0
² 2003	-	4,446,421	-	5,630,953	100.0	100.0	100.0
¹ 2004	-	4,530,556	-	5,757,018	100.0	100.0	100.0
² 2005	-	4,400,114	-	5,658,096	100.0	100.0	100.0
¹ 2006	-	4,078,434	-	5,467,685	100.0	100.0	100.0

¹1998, 2000, 2002, 2004 and 2006 are years of actuarial studies.

²1997, 1999, 2001, 2003 and 2005 are based on actuarial updates as of that year.

TABLE 22

**CITY OF OWENSBORO
CITY EMPLOYEES' PENSION FUND
TEN YEAR COMPARATIVE SUMMARY OF REVENUES
BY SOURCE AND EXPENSES BY TYPE**

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Operating Revenues:										
Members contribution (net of refunds)	\$ -	\$ -	\$ -	\$ -	\$ 2,013	\$ 1,827	\$ 1,776	\$ 1,762	\$ 1,643	\$ 1,504
Employer's contribution:										
City of Owensboro	-	-	-	-	4,630	4,202	4,086	4,052	3,778	3,459
Owensboro Municipal Utilities	-	-	-	-	-	-	-	-	-	-
Employer's contribution as a percentage of covered payroll	n/a	n/a	n/a	n/a	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%
Investment income	148,438	152,131	141,507	166,231	217,757	237,330	258,964	288,856	285,710	312,167
Gain (loss) on sale of investments	-	-	-	-	-	-	-	-	-	274,340
Net appreciation (depreciation) in market value of investments	208,347	295,678	544,026	3,280	(517,152)	(278,628)	390,404	465,824	841,513	434,426
	<u>\$ 356,785</u>	<u>\$ 447,809</u>	<u>\$ 685,533</u>	<u>\$ 169,511</u>	<u>\$ (292,752)</u>	<u>\$ (35,269)</u>	<u>\$ 655,230</u>	<u>\$ 760,494</u>	<u>\$ 1,132,644</u>	<u>\$ 1,025,896</u>
Operating expenses:										
Retirement benefits	\$ 547,196	\$ 546,731	\$ 559,468	\$ 581,181	\$ 596,361	\$ 641,022	\$ 659,347	\$ 629,545	\$ 598,401	\$ 622,075

TABLE 23

**CITY OF OWENSBORO
POLICE AND FIREFIGHTERS' RETIREMENT FUND
TEN YEAR COMPARATIVE SUMMARY OF NET ASSETS
AVAILABLE FOR BENEFITS AND TOTAL ACTUARIAL PRESENT
VALUE OF CREDITED PROJECTED BENEFITS OR
PENSION BENEFIT OBLIGATION**

YEAR	NET ASSETS AVAILABLE FOR BENEFITS	TOTAL ACTUARIAL PRESENT VALUE OF CREDITED BENEFITS	PENSION BENEFIT OBLIGATION	ACTUARIAL ACCRUED LIABILITY	PERCENTAGE
² 1997	\$ 11,631,502			\$ 11,282,132	103.1
¹ 1998	12,364,855			11,909,917	103.8
² 1999	12,472,082			11,857,908	105.2
¹ 2000	11,856,795			11,974,964	99.0
² 2001	9,816,037			11,387,018	86.2
¹ 2002	7,925,502			11,307,678	70.1
² 2003	6,843,756			10,819,643	63.3
¹ 2004	6,413,342			10,784,539	59.5
² 2005	5,682,475			10,271,819	55.3
¹ 2006	8,826,614			9,706,095	90.9

¹1998, 2000, 2002, 2004 and 2006 are years of actuarial studies.

²1997, 1999, 2001, 2003 and 2005 are based on actuarial updates as of that year.

TABLE 24

**CITY OF OWENSBORO
POLICE AND FIREFIGHTERS' RETIREMENT FUND
TEN YEAR COMPARATIVE SUMMARY OF UNFUNDED (EXCESS)
ACTUARIAL PRESENT VALUE OF CREDITED PROJECTED BENEFITS OR
PENSION BENEFIT OBLIGATION AND ANNUAL ACTIVE MEMBER PAYROLL**

YEAR	UNFUNDED (EXCESS) ACTUARIAL PRESENT VALUE OF CREDITED PROJECTED BENEFITS	UNFUNDED (EXCESS) PENSION BENEFIT OBLIGATION	UNFUNDED (EXCESS) ACTUARIAL ACCRUED LIABILITY	ANNUAL ACTIVE MEMBER PAYROLL	PERCENTAGE
² 1997			\$ (349,370)	\$ 82,955	421.16
¹ 1998			(454,938)	0	n/a
² 1999			(614,174)	0	n/a
¹ 2000			118,169	0	n/a
² 2001			1,570,981	0	n/a
¹ 2002			3,382,176	0	n/a
² 2003			3,975,887	0	n/a
¹ 2004			4,371,197	0	n/a
² 2005			4,589,344	0	n/a
¹ 2006			879,481	0	n/a

¹1998, 2000, 2002, 2004 and 2006 are years of actuarial studies.

²1997, 1999, 2001, 2003 and 2005 are based on actuarial updates as of that year.

TABLE 25

**CITY OF OWENSBORO
POLICE AND FIREFIGHTERS' RETIREMENT FUND
TEN YEAR COMPARATIVE SUMMARY OF ACTUARIAL
VALUES AND PERCENTAGE COVERED BY NET ASSETS
AVAILABLE FOR BENEFITS**

YEAR	MEMBER CONTRIBUTION	CURRENT RETIREES & BENEFICIARIES	ACTIVE MEMBERS EMPLOYERS PART	AVAILABLE FOR BENEFITS	PERCENT OF ACTUARY VALUE COVERED BY NET ASSETS AVAILABLE FOR BENEFITS		
² 1997	-	11,282,132	-	11,631,502	100.0	100.0	100.0
¹ 1998	-	11,909,917	-	12,364,855	100.0	100.0	100.0
² 1999	-	11,857,908	-	12,472,082	100.0	100.0	100.0
¹ 2000	-	11,974,964	-	11,856,795	100.0	99.0	100.0
² 2001	-	11,387,018	-	9,816,037	100.0	86.2	100.0
¹ 2002	-	11,307,678	-	7,925,502	100.0	70.1	100.0
² 2003	-	10,819,643	-	6,843,756	100.0	63.3	100.0
¹ 2004	-	10,784,539	-	6,413,342	100.0	59.5	100.0
² 2005	-	10,271,819	-	5,682,475	100.0	55.3	100.0
¹ 2006	-	9,706,095	-	8,826,614	100.0	90.9	100.0

¹1998, 2000, 2002, 2004 and 2006 are years of actuarial studies.

²1997, 1999, 2001, 2003 and 2005 are based on actuarial updates as of that year.

TABLE 26

**CITY OF OWENSBORO
POLICE AND FIREFIGHTERS' RETIREMENT FUND
TEN YEAR COMPARATIVE SUMMARY OF REVENUES
BY SOURCE AND EXPENSES BY TYPE**

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Operating Revenues:										
Members contribution (net of refunds)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,636
Employer's contribution	4,028,892	-	-	-	-	-	-	-	-	16,757
Employer's contribution as a percentage of covered payroll	n/a	-								
Investment income	187,040	235,919	229,609	286,166	396,076	496,548	548,038	651,990	681,687	639,063
Gain (loss) on sale of investments	-	-	-	-	-	-	-	-	-	599,357
Net appreciation (depreciation) in market value of investments	250,885	419,432	895,005	(12,196)	(1,034,405)	(829,108)	194,336	981,587	1,881,816	1,085,453
	<u>\$ 4,466,817</u>	<u>\$ 655,351</u>	<u>\$ 1,124,614</u>	<u>\$ 273,970</u>	<u>\$ (638,329)</u>	<u>\$ (332,560)</u>	<u>\$ 742,374</u>	<u>\$ 1,633,577</u>	<u>\$ 2,563,503</u>	<u>\$ 2,347,266</u>
Operating expenses:										
Retirement benefits	<u>\$ 1,173,479</u>	<u>\$ 1,197,070</u>	<u>\$ 1,240,785</u>	<u>\$ 1,271,057</u>	<u>\$ 1,284,554</u>	<u>\$ 1,291,811</u>	<u>\$ 1,303,237</u>	<u>\$ 1,260,659</u>	<u>\$ 1,255,971</u>	<u>\$ 1,233,010</u>

TABLE 27

CITY OF OWENSBORO
 MISCELLANEOUS STATISTICAL DATA
 For the year ended June 30, 2006

Date of Incorporation:		1817	
Form of Government:		City Manager, Mayor and Commissioners	
Area-Square Miles:		1996	16.48
		1997	16.51
		1998	17.29
		1999	17.38
		2000	17.61
		2001	17.81
		2002	18.08
		2003	18.13
		2004	18.41
	2005	18.51	
Miles of Streets/Paved:			236.96
Miles of Sidewalks:			204.57
Miles of Sanitary Sewers:			276.34
Miles of Storm Sewers:			39.06
Police and Fire Protection	Number of Employees:	109 Policemen, 94 Firefighters	
	Number of Police and Fire Buildings:	1 Police Administration Building; 2 Substations 5 Fire Stations, 1 Training Center	
	Number of Police Vehicular Units:	65 Patrol Cars, 13 unmarked cars, 2 Vans 1 Prisoner Vehicle 1 Three-Wheeler, 13 Four-Wheel Drive SUVs 5 Bicycles, 4 pickup trucks 3 V-Nose Trailers, 1 Blast Trailer	

TABLE 27
CITY OF OWENSBORO
MISCELLANEOUS STATISTICAL DATA, continued
For the year ended June 30, 2006

Education ¹ :	Number of Schools (by type):	4 Elementary Schools (K-4); 1 Elementary School K-6	
		1 5-6 Center (5-6)	
		1 Middle School (7-8)	
		1 High School (9-12)	
		1 Seven Hills Alternative School (7-12)	
		1 Mary Kendall Elementary Campus (K-8)	
		1 Mary Kendall Secondary Campus (9-12)	
	Number of Administrative Personnel:	32	
	Number of Teachers:	346	
	Number of Students:	3,942	
Average Daily Attendance (by school):	Cravens Elementary	246.9	
	Estes Elementary	323.6	
	Foust Elementary	342.4	
	Newton Parrish Elementary	367.6	
	Seven Hills Elementary	51.4	
	Sutton Elementary	288.1	
	Owensboro 5-6 Center	497.1	
	Owensboro Middle	526.4	
Owensboro High	975.9		
Water Utility ² :	Number of Users:	24,526	
	Annual Consumption:	4,332,646,703	
	Miles of Distribution:	285	
	Employees:	43	

TABLE 27

CITY OF OWENSBORO
 MISCELLANEOUS STATISTICAL DATA, continued
 For the year ended June 30, 2006

Sewer Utility ³ :	Treatment Capacity Westside Plant:		15,000,000 gallons per day
	Treatment Capacity Eastside Plant:		6,800,000 gallons per day
	Plant Capacity Westside Plant		35,700,000 gallons
	Plant Capacity Eastside Plant:		16,000,000 gallons
	Miles of Collection System:		
	Sanitary Sewers		141.14
	Combination Sewers		135.7
	Storm Sewers		39.06
	Employees:		77
	Electric Utility ² :	Number of Street Lights:	
Number of Traffic Signals:			111
Employees:			188
Election ⁴ :	Number of Registered Voters:		approx. 35,900
	Number of Votes Cast In Last General Election (City and fringe):		21,418
Population ⁵ :	Census Population Count for Last Five Census	1980/81	54,449
		1985	55,550
		1990	53,549
		1995	54,290
		2000	54,010
Survey of Buying Power ⁶ :	Retail Sales:	1996	685,305,000
		1997	719,708,000
		1998	774,915,000
		1999	766,230,000
		2000	888,750,000
		2001	800,963,000
		2002	745,634,000
		2003	757,577,000
		2004	779,335,000
			2005 - not available at time of printing

TABLE 27

CITY OF OWENSBORO
 MISCELLANEOUS STATISTICAL DATA, continued
 For the year ended June 30, 2006

	Per Median Household EBI	1996	24,751
	(Effective Buying Income):	1997	26,062
		1998	27,416
		1999	27,998
		2000	29,510
		2001	28,052
		2002	29,579
		2003	29,580
		2004	30,415
		2005 - not available at time of printing	
Recreation and Culture:	Parks, No. of Facilities and Acres:	19 Parks, 378 Acres	
	Number of Playgrounds:	13	
	Number of Golf Courses:	One 9-hole	
	Number of Swimming Pools:	2	
	Number of Other Recreation Facilities:	1 Recreation Center	
		16 Ball Diamonds (Softball and Baseball)	
		1 Art Museum	
		1 History & Science Museum	
		1 Ice Rink (Indoor)	
		1 Softball Complex	
		9 Basketball Courts	
		3 Closed Pavilions	
		9 Open Pavilions	
		4 Youth Football Fields	
		13 Youth Soccer Fields	
		6 Jogging/Walking Paved Trails	
		1 Plaza/Pavilion	
		1 Amphitheater (English Park)	
		25 Tennis Courts	
		1 Performing Arts Center	

TABLE 27

CITY OF OWENSBORO
MISCELLANEOUS STATISTICAL DATA, continued
For the year ended June 30, 2006

1 Senior Center
1 Public Boat Ramp
2 Sand Volleyball
1 Sports Arena (5,000 Seating - Indoor)
1 Skate Park
3 Nature Trails
2 Sprayparks
1 Greenbelt

Sources:

- ¹ Owensboro Board of Education
- ² Owensboro Municipal Utilities
- ³ Regional Water Resource Agency
- ⁴ Daviess County Court Clerk
- ⁵ Census Report
- ⁶ Sales & Marketing Management

APPENDIX D

**CITY OF OWENSBORO, KENTUCKY
GENERAL OBLIGATION BOND ANTICIPATION NOTES, SERIES 2007**

STATEMENT OF INDEBTEDNESS OF THE CITY

(f) Leases entered into under KRS 65.940 to 65.956 after July 15, 1996 which are not tax-supported leases.....	\$-0-
(g) Bonds issued in the case of an emergency, when the public health or safety should so require.....	\$-0-
(h) Bonds issued to fund a floating indebtedness.....	\$132,000
TOTAL EXEMPT OBLIGATIONS.....	\$402,423,289

5. The total of bonds, notes and other obligations subject to the debt limitation set forth in KRS 66.041 (3 minus 4) is..... \$30,092,826

6. The total of bonds, notes and other obligations subject to the debt limitation set forth in KRS 66.041 as computed in 5 above, does not exceed 10% of the assessed valuation of all the taxable property in the City.

7. The current tax rate of the City, for other than school purposes, upon the value of the taxable property therein is .2608 which does not exceed the maximum permissible tax rate for the City as set forth in Section 157 of the Kentucky Constitution.

8. The issuance of the bonds, notes or other obligations set forth in 3 hereof will not cause the tax rate set forth in 7 hereof to increase in an amount which would exceed the maximum permissible tax rate for the City as set forth in Section 157 of the Kentucky Constitution.

*10% for cities having a population of fifteen thousand or more;
5% for cities having a population of less than fifteen thousand but not less than three thousand; and
3% for cities having a population of less than three thousand.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of December, 2007.

/S/ J. T. Fulkerson
Finance Director

PECK, SHAFFER & WILLIAMS LLP
BOND ATTORNEYS
Covington, Kentucky

APPENDIX E

**CITY OF OWENSBORO, KENTUCKY
GENERAL OBLIGATION BOND ANTICIPATION NOTES, SERIES 2007**

FORM OF LEGAL APPROVING OPINION OF NOTE COUNSEL

December __, 2007

City of Owensboro, Kentucky
Owensboro, Kentucky

Re: \$_____ City of Owensboro, Kentucky General Obligation Bond
Anticipation Notes, Series 2007

Gentlemen:

We have examined a certified copy of the transcript of proceedings of the City of Owensboro, Kentucky, a municipal corporation and political subdivision of the Commonwealth of Kentucky (the "Issuer") relating to the authorization, sale and issuance of its General Obligation Bond Anticipation Notes, Series 2007, in the aggregate principal amount of \$_____ (the "Series 2007 Notes"), dated December __, 2007.

The Series 2007 Notes have been authorized and issued pursuant to the Constitution and laws of the Commonwealth of Kentucky (the "Commonwealth"), including particularly Chapter 66 of the Kentucky Revised Statutes (the "Act") and an Ordinance adopted by the Issuer on December 4, 2007 (the "Ordinance").

We have examined such portions of the Constitution, Statutes and laws of the United States, the Constitution, Statutes and laws of the Commonwealth, and such applicable court decisions, regulations, rulings and opinions as we have deemed necessary or relevant for the purposes of the opinions set forth below.

We have also examined records and the transcript of proceedings relating to the authorization and issuance of the Series 2007 Notes, including a specimen Series 2007 Note, and other relevant matters. We have also made such investigation as we have deemed necessary for the purposes of such opinion, and relied upon certificates of officials of the Issuer as to certain factual matters.

Based on the foregoing examination, we are of the opinion, based upon laws, regulations, rulings and decisions in effect on the date hereof, that:

1. The Series 2007 Notes constitute valid obligations of the Issuer in accordance with their terms, which unless paid from other sources, are payable from the proceeds of the Issuer's General Obligation Bonds, Series 2010, or otherwise from taxes to be levied by the Issuer without limitation as to rate.

2. The Ordinance has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Issuer enforceable in accordance with its terms.

3. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the Series 2007 Notes is excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Series 2007 Notes will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Series 2007 Notes.

4. The interest on the Series 2007 Notes is not subject to taxation by the Commonwealth, and the Series 2007 Notes are not subject to ad valorem taxation by the Commonwealth or by any political subdivision thereof.

The Issuer has designated the Series 2007 Notes as "qualified tax-exempt obligations" under Section 265 of the Code.

Our opinion set forth above is subject to the qualification that the enforceability of the Ordinance, the Series 2007 Notes and agreements relating thereto may be limited by bankruptcy, reorganization, moratorium, insolvency, or other similar laws relating to or affecting the enforcement of creditors' rights, and to the exercise of judicial discretion in accordance with general equitable principles.

Very truly yours,