

CITY OF FRENCHBURG
Frenchburg, Kentucky

FINANCIAL STATEMENTS
June 30, 2013

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City of Frenchburg, Kentucky

Management's Discussion and Analysis

Our discussion and analysis of the City of Frenchburg's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2013. Please read the following in conjunction with the auditors' report on pages 9-10 and the City's financial statements, which begin to appear on page 11.

OVERVIEW OF THIS ANNUAL REPORT

This annual report consists of the management's discussion and analysis report, the independent auditor's report, the basic financial statements of the City, and the independent auditor's report on compliance. The financial statements also include notes that explain in more detail some of the information in the financial statements.

In the past, the primary focus of local government financial statements has been summarized fund type information on a current financial resource basis. This approach has been modified; the City's financial statements now present two kinds of statements, each with a different snapshot of the City's finances. The new focus is both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements, which have been provided in the past, focus on the individual funds of the City, reporting the City's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year to year or government to government) and enhance the City's accountability.

GOVERNMENT – WIDE FINANCIAL STATEMENTS

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

These two statements report the net position of the City and the changes in them. One can think of the City's net position—the difference between assets and liabilities—as one way to measure financial health or financial position. Over time, increases or decreases in the City's net position are an indicator of whether its financial health or position is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, changes in property tax rates or valuation, infrastructure asset condition, and new or changed government legislation.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

Governmental activities—Most of the City's basic services are reported here, including general government administration, police, fire, streets, parks and tourism. Property taxes, licenses and permits (including occupational licenses fees and franchise fees), and grants finance most of these activities.

Business-type activities—The City collects fees from customers to cover the costs of the services, provided by the water and sewer utility.

FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the City's funds. The fund financial statements provide more information about the City's funds and not the City as a whole.

The City has two kinds of funds:

Governmental Fund—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets, that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statement that explains the relationship (or differences) between them.

Proprietary Fund—Services for which the City charges customers a fee are generally reported in proprietary funds.

NET POSITION

Our analysis begins with a summary of the City's Statement of Net Position, which is presented on Table A-1 followed by an explanation of the results. Changes in net position are presented in Table A-2, which is also followed by an explanation of the results.

Table A-1

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total Primary</u> <u>Government</u>
Current and Other Assets	\$ 364,672	\$ 446,678	\$ 811,350
Capital Assets	<u>1,409,523</u>	<u>8,308,999</u>	<u>9,718,522</u>
Total Assets	<u>1,774,195</u>	<u>8,755,677</u>	<u>10,529,872</u>
Long-Term Debt Outstanding	323,864	1,441,756	1,765,620
Current Liabilities	<u>14,954</u>	<u>208,372</u>	<u>223,326</u>
Total Liabilities	<u>338,818</u>	<u>1,650,128</u>	<u>1,988,946</u>
Net Position:			
Invested in Capital Assets, net of debt	1,075,659	6,571,961	8,080,622
Restricted	104,321	202,414	340,363
Unrestricted	<u>255,397</u>	<u>331,174</u>	<u>624,204</u>
Total Net Position	<u>\$1,435,377</u>	<u>\$ 7,105,549</u>	<u>\$ 8,540,926</u>

The capital assets of the City's governmental activities are \$ 1,409,523 as of June 30, 2013. The capital assets of the business-type activities are \$ 8,308,999 as of June 30, 2013.

Net assets from one activity generally cannot be used to make up for any deficits in the other activities.

Table A-2

Condensed Statement of Activities

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	Total Primary <u>Government</u>
Program Revenues			
Charges for Service	\$	\$ 1,053,949	\$ 1,053,949
Operating Grants & Contributions	75,338	-	75,338
Capital Grants & Contributions	<u>11,707</u>	<u>16,825</u>	<u>28,532</u>
Total revenue	<u>87,045</u>	<u>1,070,774</u>	<u>1,157,819</u>
Program Expenses			
General Administration	144,490	-	144,490
Street department	29,381	-	29,381
Interest on long-term debt	19,218	-	19,218
Utility	<u>-</u>	<u>1,528,438</u>	<u>1,528,438</u>
Total program expenses	<u>193,089</u>	<u>1,528,438</u>	<u>1,721,527</u>
Net revenues (expenses)	<u>(106,044)</u>	<u>(457,664)</u>	<u>(563,708)</u>
General Revenues			
Taxes	\$ 17,355	\$ -	\$ 17,355
License fees	39,277	-	39,277
Investment earnings	659	2,354	3,013
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>
Total general revenue	<u>57,291</u>	<u>2,354</u>	<u>59,645</u>
Transfers in (out)	<u>(20,000)</u>	<u>20,000</u>	<u>-</u>
Net Change in Position	<u>\$ (68,753)</u>	<u>\$ (435,310)</u>	<u>\$ (504,063)</u>

The City's change in Net Position above appears to be analogous to the long-standing concept of net revenues, but under the full accrual basis utilized by the Governmental Activities; these numbers include dollars of "paper" depreciation expenses that are not cash expenditures of the City. Therefore, these "paper" bookkeeping entries are never considered as part of the City's budget process. Additionally, the principal portions of debt obligations are excluded from the above but are reflected as debt service expenditures along with capital outlay expenditures in the City's budget for governmental activities.

GOVERNMENTAL ACTIVITIES

Table A-3 details a condensed statement of the fiscal year's governmental activities.

Table A-3

Condensed Governmental Activities – Revenues & Expenditures

	<u>General</u>	<u>Other Gov't Funds</u>	<u>Total</u>
Taxes	\$ 17,355	\$ -	\$ 17,355
Licenses and permits	39,277	-	39,277
Intergovernmental	11,707	27,831	39,538
Other Revenues	<u>48,056</u>	<u>110</u>	<u>48,166</u>
Total Revenues	<u>116,395</u>	<u>27,941</u>	<u>144,336</u>
General Administration	103,329	-	103,329
Public works-Streets	4,524	18,832	23,356
Debt service	29,218	-	29,218
Capital outlay	<u>6,000</u>	<u>-</u>	<u>6,000</u>
Total Expenditures	<u>143,071</u>	<u>18,832</u>	<u>161,903</u>
Excess (Deficit)	<u>(26,676)</u>	<u>9,109</u>	<u>(17,567)</u>
Other Financing Sources (Uses)	<u>(20,000)</u>	<u>-</u>	<u>(20,000)</u>
Expenditures over Revenues before other financing sources	<u>\$ (46,676)</u>	<u>\$ 9,109</u>	<u>\$ (37,567)</u>

The bottom number of Table A-3 above should not be confused with the end-of-year "Fund Balance" figure shown in the City's General Fund Budget, because the above does not reflect the General Fund's beginning-of-year balance and any debt proceeds received during the fiscal year.

BUDGET HIGHLIGHTS

The budget contains proposed expenditures and expected revenues. A comparison of the original budget to actual amounts for governmental activities is presented in the table below (Tables A-4 & 5).

Table A-4

Condensed Governmental Activities – Revenues

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
Taxes	\$ 17,220	\$ 17,355	\$ 135
Licenses and permits	36,097	39,277	3,180
Intergovernmental	41,070	39,648	(1,422)
Other Revenues	<u>170,387</u>	<u>48,056</u>	<u>(122,331)</u>
Total Revenues	<u>\$ 264,774</u>	<u>\$ 144,336</u>	<u>\$ (120,438)</u>

Table A-5

Condensed Governmental Activities – Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
General Government	\$ 115,177	\$ 103,329	\$ (11,848)
Public works-Streets	25,800	23,356	(2,444)
Debt service	29,218	29,218	-
Capital outlay	<u>-</u>	<u>6,000</u>	<u>6,000</u>
Total Expenditures	<u>\$ 170,195</u>	<u>\$ 161,903</u>	<u>\$ (8,292)</u>

The City budgeted for a total of \$264,774 in revenues for 2012-2013, but ended up having revenues of \$144,336. The City was under budget on revenues by approximately 45 percent as a result of budgeting for a large insurance reimbursement that was recorded on the financial statements as revenue in the PY. After accounting for this timing difference the City was over budget on revenues by 2%. A total of \$170,195 was budgeted for expenses, but expenditures only totaled \$161,903 at the end of 2013.

CAPITAL ASSETS

Table A-1 showed summary totals for a broad range of capital assets, including police and fire equipment and vehicles, buildings, land, street equipment and all of the equipment and materials involved in the operation of a water and sewer utility. Table A-6 shows the breakdown of non-depreciated capital assets for both governmental and business-type activities.

Table A-6

Capital Assets at Year End Without Depreciation

	Governmental	Business-type	Total Primary
	Activities	Activities	Government
Land	\$ 258,832	\$ 6,850	\$ 265,682
Construction in Progress	-	-	-
Infrastructure	20,055	-	20,055
Buildings	1,308,482	-	1,308,482
Vehicles & Equipment	26,257	357,183	383,440
Land Improvements	101,535	-	101,535
Plant & Sewer System	-	13,765,554	13,765,554
Total Capital Assets	\$ 1,715,161	\$ 14,129,587	\$ 15,844,748

DEBT

Table A-7 provides a summary of all of the City's outstanding indebtedness.

Table A-7

	Governmental	Business-type	Total Primary
<u>Debt Outstanding at Year End</u>	Activities	Activities	Government
Leases	\$ 350,000	\$ -	\$ 350,000
Bonds Payable	-	1,482,556	1,482,556
Notes Payable	-	-	-
Total Debt Outstanding	\$ 350,000	\$ 1,482,556	\$ 1,832,556

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Mayor and City Commission consider many factors when setting the fiscal year budget. Some of the factors are the local economy, expected grant money, and anticipated tax revenue. Major expenditures that will impact next fiscal year's budget include the purchase of water from the Cave Run Water Commission.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens of the City, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Melissa Gravett, City Clerk/Treasurer, PO Box 113, Frenchburg, KY 40322.

INDEPENDENT AUDITORS' REPORT

Mayor and the City Commission
City of Frenchburg
Frenchburg, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Frenchburg, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, and the aggregate remaining fund information of the City of Frenchburg, Kentucky, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1–8 and 28–29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Frenchburg, Kentucky's basic financial statements. The Statement of Revenues, Expenses, and Changes in Net Position is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Statement of Revenues, Expenses, and Changes in Net Position is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Revenues, Expenses, and Changes in Net Position is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with **Government Auditing Standards**, we have also issued our report dated January 27, 2014, on our consideration of the City of Frenchburg, Kentucky's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering the City of Frenchburg, Kentucky's internal control over financial reporting and compliance.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
Lexington, Kentucky
January 27, 2014

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities	Business-type Activities	Total	Totals 2012
ASSETS				
Current assets				
Cash and cash equivalents	\$ 356,375	\$ 353,695	\$ 710,070	\$ 619,077
Insurance claim receivable	-	-	-	123,847
Receivables (net)	13,111	88,169	101,280	108,448
Grant receivable	-	-	-	20,093
Internal balances	<u>(4,814)</u>	<u>4,814</u>	<u>-</u>	<u>-</u>
Total current assets	<u>364,672</u>	<u>446,678</u>	<u>811,350</u>	<u>871,465</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	202,414	202,414	245,152
Inventory	-	52,068	52,068	51,148
Capital assets (Note 3)				
Construction in progress	-	-	-	18,000
Land	258,832	-	258,832	258,832
Plant and sewer system, net	-	8,054,517	8,054,517	8,478,433
Depreciable property, plant, and equipment, net	<u>1,150,691</u>	<u>-</u>	<u>1,150,691</u>	<u>1,191,145</u>
Total noncurrent assets	<u>1,409,523</u>	<u>8,308,999</u>	<u>9,718,522</u>	<u>10,242,710</u>
Total assets	<u>\$ 1,774,195</u>	<u>\$ 8,755,677</u>	<u>\$ 10,529,872</u>	<u>\$ 11,114,175</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 4,954	\$ 43,778	\$ 48,732	\$ 53,205
Construction payable	-	-	-	20,093
Meter deposits payable	-	69,977	69,977	72,210
Accrued liabilities	-	50,855	50,855	55,381
Other liabilities	-	2,962	2,962	2,309
Current portion of long-term obligations (Notes 4 and 5)	<u>10,000</u>	<u>40,800</u>	<u>50,800</u>	<u>50,100</u>
Total current liabilities	<u>14,954</u>	<u>208,372</u>	<u>223,326</u>	<u>253,298</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations (Notes 4 and 5)	<u>323,864</u>	<u>1,441,756</u>	<u>1,765,620</u>	<u>1,815,888</u>
Total liabilities	<u>338,818</u>	<u>1,650,128</u>	<u>1,988,946</u>	<u>2,069,186</u>
NET POSITION				
Net investment in capital assets	1,075,659	6,571,961	7,647,620	8,080,422
Restricted for				
Bond reserves	-	202,414	202,414	245,152
Other purposes	104,185	-	104,185	95,211
Unrestricted	<u>255,533</u>	<u>331,174</u>	<u>586,707</u>	<u>624,204</u>
Total net position	<u>1,435,377</u>	<u>7,105,549</u>	<u>8,540,926</u>	<u>9,044,989</u>
Total liabilities and net position	<u>\$ 1,774,195</u>	<u>\$ 8,755,677</u>	<u>\$ 10,529,872</u>	<u>\$ 11,114,175</u>

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government			Totals 2012
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General administration	\$ 144,490	\$ -	\$ 47,397	\$ 11,707	\$ (85,386)	\$ -	\$ (85,386)	\$ 67,109
Street department	29,381	-	27,941	-	(1,440)	-	(1,440)	3,001
Interest on long-term debt	19,218	-	-	-	(19,218)	-	(19,218)	(19,678)
Total governmental activities	193,089	-	75,338	11,707	(106,044)	-	(106,044)	50,432
Business type activities								
Utility	1,528,438	1,053,949	-	16,825	-	(457,664)	(457,664)	127,281
Total business-type activities	1,528,438	1,053,949	-	16,825	-	(457,664)	(457,664)	127,281
Total primary government	\$ 1,721,527	\$ 1,053,949	\$ 75,338	\$ 28,532	(106,044)	(457,664)	(563,708)	177,713

General revenues

Taxes				
Property taxes, levied for general purposes	17,355	-	17,355	16,334
License fees				
Franchise	3,297	-	3,297	2,168
Insurance premiums	35,300	-	35,300	40,225
Occupational	680	-	680	1,560
Investment earnings	659	2,354	3,013	4,540
Total general revenues	57,291	2,354	59,645	64,827
Transfers in (out)	(20,000)	20,000	-	-
Total general revenues, transfers and gains (losses)	37,291	22,354	59,645	64,827
Change in Net Position	(68,753)	(435,310)	(504,063)	242,540
Net position-beginning	1,504,130	7,540,859	9,044,989	8,802,449
NET POSITION-ENDING	\$ 1,435,377	\$ 7,105,549	\$ 8,540,926	\$ 9,044,989

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

CITY OF FRENCHBURG, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	General	Other Governmental Funds	Total Governmental Funds	Totals 2012
ASSETS				
Cash and cash equivalents	\$ 252,190	\$ 104,185	\$ 356,375	\$ 269,345
Insurance claim receivable	-	-	-	123,847
Receivables, net	13,111	-	13,111	14,531
Total assets	<u>\$ 265,301</u>	<u>\$ 104,185</u>	<u>\$ 369,486</u>	<u>\$ 407,723</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 4,954	-	\$ 4,954	\$ 8,338
Due to other funds	4,814	-	4,814	2,101
Total liabilities	<u>9,768</u>	<u>-</u>	<u>9,768</u>	<u>10,439</u>
Fund balances				
Restricted				
Tourism	-	-	-	136
Roads	-	104,185	104,185	95,075
Unassigned	255,533	-	255,533	302,073
Total fund balances	<u>255,533</u>	<u>104,185</u>	<u>359,718</u>	<u>397,284</u>
Total liabilities and fund balances	<u>\$ 265,301</u>	<u>\$ 104,185</u>	<u>\$ 369,486</u>	<u>\$ 407,723</u>

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

Fund balances reported above	\$ 359,718	\$ 397,284
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,409,523	1,449,977
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(350,000)	(360,000)
Debt issue costs	16,136	16,869
Net position of governmental activities	<u>\$ 1,435,377</u>	<u>\$ 1,504,130</u>

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2013

	General	Other Governmental Funds	Total Governmental Funds	Totals 2012
REVENUES				
Taxes	\$ 17,355	\$ -	\$ 17,355	\$ 16,334
Licenses and permits	39,277	-	39,277	43,953
Intergovernmental	11,707	27,831	39,538	27,733
Other revenues	48,056	110	48,166	171,616
 Total revenues	116,395	27,941	144,336	259,636
 EXPENDITURES				
Current				
General administration	103,329	-	103,329	74,884
Streets	4,524	18,832	23,356	7,765
Capital outlay	6,000	-	6,000	35,666
Debt service	29,218	-	29,218	29,678
 Total expenditures	143,071	18,832	161,903	147,993
 Excess of Revenues Over (Under) Expenditures	(26,676)	9,109	(17,567)	111,643
 Other financing sources				
Transfers in (out)	(20,000)	-	(20,000)	-
 Net change in fund balances	(46,676)	9,109	(37,567)	111,643
 Fund balances - beginning	302,209	95,076	397,285	285,639
 Fund balances-ending	\$ 255,533	\$ 104,185	\$ 359,718	\$ 397,282
 Reconciliation to government-wide change in net position:				
Net change in fund balances			\$ (37,567)	\$ 111,643
Add: capital outlay expenditures capitalized			6,000	35,666
Add: debt service expenditures			29,218	29,678
Less: depreciation on governmental activities assets			(46,453)	(45,212)
Less: interest on long term debt			(19,218)	(19,678)
Less: amortization on lease issuance costs			(733)	(733)
 Change in net position governmental activities			\$ (68,753)	\$ 111,364

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2013

	Business Type Activities Water & Sewer Fund	Totals 2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 353,695	\$ 349,732
Receivables (net)	88,169	93,917
Grant receivable	-	20,093
Internal balances	<u>4,814</u>	<u>2,101</u>
Total current assets	<u>446,678</u>	<u>465,843</u>
Noncurrent assets		
Restricted cash and cash equivalents	202,414	245,152
Inventory	52,068	51,148
Construction in progress	-	18,000
Water and sewer systems	14,129,587	14,116,457
Less: accumulated depreciation	<u>(6,075,070)</u>	<u>(5,638,024)</u>
Total noncurrent assets	<u>8,308,999</u>	<u>8,792,733</u>
Total assets	<u>\$ 8,755,677</u>	<u>\$ 9,258,576</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 43,778	\$ 44,867
Meters deposits payable	69,977	72,210
Construction payable	-	20,093
Accrued liabilities	16,810	20,577
Accrued interest	34,045	34,804
Other liabilities	2,962	2,309
Bonds, notes, and loans payable	<u>40,800</u>	<u>40,100</u>
Total current liabilities	<u>208,372</u>	<u>234,960</u>
Noncurrent liabilities		
Bonds, notes, and loans payable	<u>1,441,756</u>	<u>1,482,757</u>
Total noncurrent liabilities	<u>1,441,756</u>	<u>1,482,757</u>
Total liabilities	<u>1,650,128</u>	<u>1,717,717</u>
NET POSITION		
Net investment in capital assets	6,571,961	6,973,576
Restricted for debt service	48,085	82,055
Restricted for depreciation	154,329	163,097
Unrestricted	<u>331,174</u>	<u>322,131</u>
Total net position	<u>7,105,549</u>	<u>7,540,859</u>
Total liabilities and net position	<u>\$ 8,755,677</u>	<u>\$ 9,258,576</u>

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
for the year ended June 30, 2013

	Business Type Activities Water & Sewer Fund	Totals 2012
OPERATING REVENUES		
Charges for services	\$ 1,017,409	\$ 1,028,999
Penalties	19,257	19,705
Other revenues	17,283	16,336
 Total operating revenues	 1,053,949	 1,065,040
OPERATING EXPENSES		
Personnel	321,996	321,665
Water purchased	396,304	396,212
Bad debt	1,112	1,416
Maintenance and repairs	19,397	6,918
Utilities	38,986	45,851
Auto	15,385	18,679
Insurance	16,987	18,052
Office supplies	5,960	3,830
Professional services	29,540	28,042
Chemicals	3,856	5,055
Operating services	67,311	60,812
Rent	36,000	36,000
Postage	12,062	11,220
Other	21,397	32,001
Depreciation	472,896	454,182
 Total operating expenses	 1,459,189	 1,439,935
OPERATING (LOSS)	(405,240)	(374,895)
Non-operating income (expense)		
Interest income	2,354	3,895
Interest expense	(69,249)	(70,925)
LOSS BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(472,135)	(441,925)
Capital Contributions		
Hook on fees	15,200	25,775
Grants	1,625	547,326
Transfers in (out)	20,000	-
CHANGE IN NET POSITION	(435,310)	131,176
Net position - beginning of the year	7,540,859	7,409,683
NET POSITION - END OF YEAR	\$ 7,105,549	\$ 7,540,859

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2013

	Business Type Activities Water & Sewer Fund	Totals 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,056,064	\$ 1,069,353
Payments to suppliers	(666,966)	(673,697)
Internal activity - payments from other funds	20,000	-
Payments for employee services and benefits	(325,763)	(315,290)
Net cash provided by operating activities	83,335	80,366
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	36,917	671,796
Purchases of capital assets	(51,073)	(665,320)
Principal paid on capital debt	(40,300)	(38,300)
Interest paid on capital debt	(70,008)	(72,042)
Net cash (used) by capital and related financing activities	(124,464)	(103,866)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	2,354	3,895
Net cash provided by investing activities	2,354	3,895
Net (decrease) in cash and cash equivalents	(38,775)	(19,605)
Cash and cash equivalents-beginning of the year	594,884	614,489
CASH AND CASH EQUIVALENTS-END OF THE YEAR	\$ 556,109	\$ 594,884
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating (loss)	\$ (405,240)	\$ (374,895)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	472,896	454,182
Internal activity - payments from other funds	20,000	-
Change in assets and liabilities:		
Receivables, net	2,115	4,313
Accounts and other payables	(2,669)	(9,609)
Accrued expenses	(3,767)	6,375
Net cash provided by operating activities	\$ 83,335	\$ 80,366

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Frenchburg, Kentucky (the City) conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant accounting policies.

A. Reporting Entity

Generally accepted accounting principles require governmental entities to determine the agencies or entities which comprise the government for financial reporting purposes, the criteria of oversight responsibility over such agencies or entities, special financing relationships and scope of public service provided by the agencies or entities are used. Oversight responsibility is determined by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations and accountability for fiscal matter. Based on these criteria, there are no agencies or entities that should be included.

B. Basis of Presentation

The City's financial statements are presented in conformity with the provisions of Governmental Accounting Standards Board Statement No 34, "**Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments**" and consist of the following:

Management's discussion and analysis (required supplementary information);

Basic Financial Statements
 Government-wide financial statements
 Fund financial statements
 Notes to the financial statements

Government-wide Financial Statements

The government-wide financial statements include a statement of net position and the statement of activities. These statements display information about the City as a whole. The statements distinguish between governmental and business-type activities of the City. These financial statements include the financial activities of the City except for fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. The government-wide statement of activities reflects costs of government by function for governmental activities and business-type activities. Program revenues include charges paid by recipient for the goods or services offered by the program and grants or contributions that are restricted to the program. Revenues which are not classified as program revenues are presented as general revenues of the City.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (continued)

Fund Financial Statements

Fund financial statements report detailed information about the City. The accounts of the City are organized on the basis of funds each of which is considered to be a separate fiscal and accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that is comprised of its assets, liabilities, reserves, fund equity, revenues and expenditures or expenses. Governmental funds are those through which most governmental functions are financed. The governmental fund measurement focus is upon determination of financial position and budgetary control over revenues and expenditures. Proprietary fund types are used to account for operations that are financed and operated in a manner similar to business enterprises - where intent of the governing body is that costs of providing services are to be financed or recovered primarily through user charges.

The following funds are used by the City of Frenchburg:

Governmental Funds

General Fund - The general operating fund of the City is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - The Municipal Road Aid Fund accounts for funds received from the Commonwealth of Kentucky to be used for streets.

Proprietary Funds

Proprietary funds are used to account for the ongoing organizations and activities of the City, which are similar to those found in private business enterprises. The measurement focus is upon determination of net income, financial position, and changes in cash flows.

Enterprise funds are established to account for the acquisition, operations and maintenance of the City's facilities and services which are entirely or predominantly self-supported by user charges or where the City has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounts are maintained on the accrual basis of accounting. The City applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The City's enterprise operations include the following:

Utility Fund- A proprietary fund used to account for the water and sewer utility services provided to the residents of the City of Frenchburg, the operations of which are financed by user charges.

C. Basis of Accounting

Basis of Accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (continued)

The Statement of Net Position and the Statement of Activities display information about the City as a whole. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for individual funds.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Taxes and intergovernmental revenues are accrued. Licenses and permits and other revenues are recognized when collected. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due.

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and expenses are recognized when they are incurred.

D. Fund Balances

The City of Frenchburg has implemented GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions. Fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the City Commissioners. The Commission is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Commission.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The City has designated the Mayor to carry the intent of the City Commission.

Unassigned – all other spendable amounts.

It is the policy of the City to spend restricted funds first when both restricted and unrestricted funds are available. Once restricted funds are spent, the City will use committed funds first, assigned funds second and unassigned funds last.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles.

Budgeted amounts, as amended, in the financial statements are as adopted by ordinance of the City.

F. Other Accounting Policies

Proprietary fixed assets are stated at cost. Depreciation has been provided using the straight-line method. Interest costs during construction are capitalized.

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City.

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

Accounts receivables are stated net of an allowance of doubtful accounts of \$16,234 in the proprietary fund and \$5,671 in the general fund.

Inventory consists of water and sewer supplies. Inventory amounts are stated at cost.

In the government-wide and proprietary fund financial statements, long-term obligations are reported as liabilities in the statement of net position. Discounts, premiums, and issuance costs related to bonds and notes issued are deferred and amortized over the life of the applicable bond or note using the straight-line method. Bonds and notes payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

The City has evaluated and considered the need to recognize or disclose subsequent events through January 27, 2014 which represents the date these financials statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2013, have not been evaluated by the city.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

2. CASH AND INVESTMENTS

Statutory Requirements

The City's deposits and investments at June 30, 2013, were entirely covered by federal depository insurance or by collateral held by the custodial banks in the City's name.

FDIC – demand deposits	\$ 250,000
Collateralized by securities held by the bank in the City's name	<u>705,586</u>
Total	<u>\$ 955,586</u>

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

Statement of Cash Flows

The proprietary fund type Statement of Cash Flows includes as cash and cash equivalents all cash restricted or unrestricted as follows:

Cash	\$ 353,695
Cash - restricted	<u>202,414</u>
	<u>\$ 556,109</u>

3. CAPITAL ASSETS

A summary of capital asset activity during the fiscal year follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ <u>258,832</u>	\$ -	\$ -	\$ <u>258,832</u>
Capital assets being depreciated:				
Buildings and improvements	1,302,482	6,000	-	1,308,482
Land improvements	101,535	-	-	101,535
Vehicles and equipment	26,257	-	-	26,257
Infrastructure	<u>20,055</u>	<u>-</u>	<u>-</u>	<u>20,055</u>
Totals	<u>1,450,329</u>	<u>6,000</u>	<u>-</u>	<u>1,456,329</u>
Total capital assets	<u>1,709,161</u>	<u>6,000</u>	<u>-</u>	<u>1,715,161</u>
Less accumulated depreciation:				
Buildings and improvements	199,564	34,570	-	234,134
Land improvements	35,750	5,858	-	41,608
Vehicles and equipment	19,860	2,014	-	21,874
Infrastructure	<u>4,011</u>	<u>4,011</u>	<u>-</u>	<u>8,022</u>
Totals	<u>259,185</u>	<u>46,453</u>	<u>-</u>	<u>305,638</u>
Capital assets, net	<u>\$ 1,449,976</u>	<u>\$ (40,453)</u>	<u>\$ -</u>	<u>\$ 1,409,523</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

3. CAPITAL ASSETS (CONTINUED)

Business Type Activities:

Capital assets not depreciated:

Land	\$ 6,850	\$ -	\$ -	\$ 6,850
Construction in process	<u>18,000</u>	<u>-</u>	<u>(18,000)</u>	<u>-</u>
Total	<u>24,850</u>	<u>-</u>	<u>(18,000)</u>	<u>6,850</u>

Capital assets being depreciated:

Plant and sewer system	13,747,554	18,000	-	13,765,554
Vehicles and equipment	<u>362,052</u>	<u>30,981</u>	<u>(35,850)</u>	<u>357,183</u>

Total	14,109,606	48,981	(35,850)	14,122,737
Less: accumulated depreciation	<u>5,638,024</u>	<u>472,896</u>	<u>(35,850)</u>	<u>6,075,070</u>

Capital assets being depreciated, net: 8,471,582 (423,915) - 8,047,667

Capital assets, net \$ 8,496,432 \$ (423,915) \$ (18,000) \$ 8,054,517

Depreciation expense was charged to the Governmental functions as follows:

General government	\$ 40,428
Streets	<u>6,025</u>

Total depreciation expense \$ 46,453

Under GASB, the City has elected to not report major infrastructure retroactively. Capital assets acquired are recorded at cost or estimated cost. Depreciation of capital assets is provided over the estimated useful lives of the respective assets using the straight-line basis. The estimated useful lives are as follows:

Infrastructure	20-40 years
Buildings	25-40 years
Improvements	10-20 years
Vehicles, furniture and equipment	5-10 years

4. BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT

Bonds payable at June 30, 2013, consist of the following:

	Interest Rate	Original Issue	Maturity Date	Balance as of June 30, 2013
1985 Water Revenue Bond	5.0%	\$ 375,000	01/01/2025	\$ 218,255
1990A Sewer Revenue Bonds	5.0%	150,000	01/01/2031	104,000
1991 Sewer Revenue Bonds	5.0%	244,000	01/01/2031	167,000
1992 Water Revenue Bonds	5.0%	166,000	01/01/2032	118,900
1995 Sewer Revenue Bonds	4.5%	119,000	01/01/2034	90,400
1997 Water Revenue Bonds	4.5%	188,000	01/01/2037	150,500
1999 Sewer Revenue Bonds	4.5%	124,000	01/01/2039	104,100
2001 Water Revenue Bonds	4.5%	100,000	01/01/2041	87,401
2008 Water & Sewer Revenue Bonds	4.125%	458,000	01/01/2049	<u>442,000</u>
Total long-term debt				<u>\$ 1,482,556</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

4. BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (CONTINUED)

The changes in business-type activities long-term debt is as follows:

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
Revenue Bonds	<u>\$ 1,522,856</u>	<u>\$ _____</u>	<u>\$ 40,300</u>	<u>\$ 1,482,556</u>

BOND ORDINANCE REQUIREMENTS

The revenue bond ordinances require that the following reserves be created and maintained.

Sinking Fund Reserve - This reserve is required to receive a monthly transfer of one-sixth of the next interest payment and one-twelfth of the next principal payment. The reserve had a balance of \$48,085 at June 30, 2013.

Depreciation reserve - This reserve is required to receive a monthly transfer of \$205 after provision for bonds and interest until a balance of \$24,600 is established. This reserve is for balancing depreciation in the system. The reserve had a balance of \$154,329 at June 30, 2013.

The annual requirements to amortize all debt outstanding at June 30, 2013, is as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 40,800	\$ 66,597	\$ 107,397
2015	43,600	64,538	108,138
2016	46,400	62,556	108,956
2017	48,400	60,448	108,848
2018	50,900	58,253	109,153
2019-2023	302,000	253,687	555,687
2024-2028	301,756	181,360	483,116
2029-2033	260,900	115,724	376,624
2034-2038	161,700	68,219	229,919
2039-2043	105,600	38,277	143,877
2044-2048	102,600	17,802	120,402
2049	<u>17,900</u>	<u>6,153</u>	<u>24,053</u>
Total	<u>\$ 1,482,556</u>	<u>\$ 993,614</u>	<u>\$ 2,476,170</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT

The City entered into a long-term lease agreement with the KADD Financing Trust on June 28, 2005. The purpose of the lease was to consolidate a long-term debt agreement with Traditional Bank, Inc. to finance land acquisition and a lease purchase agreement with the KADD Financing Trust for three sanitation trucks, and to finance the purchase of a tract of land with a building on it for the amount of \$45,000. The total lease obligation was \$415,000 and the lease comes due in fiscal year 2035. The lease requires two semi-annual interest and fee payments and one annual principle payment. The interest rate of the lease fluctuates from 3.40-5.25%. The balance of the lease at June 30, 2013 totaled \$350,000.

The changes in general long-term debt is as follows:

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
Leases Payable	\$ 360,000	\$ -	\$ 10,000	\$ 350,000
Less: deferred charges on debt issuance	<u>16,869</u>	<u>-</u>	<u>733</u>	<u>16,136</u>
Total long-term debt, net	<u>\$ 343,131</u>	<u>\$ -</u>	<u>\$ 9,267</u>	<u>\$ 333,864</u>

The annual requirements to amortize all governmental long-term debt outstanding at June 30, 2013, is as follows:

Year Ending June 30,	Principal	Total Interest and Fees	Total Payment
2014	\$ 10,000	\$ 18,758	\$ 28,758
2015	10,000	18,298	28,298
2016	10,000	17,838	27,838
2017	10,000	17,328	27,328
2018	10,000	16,818	26,818
2019-2023	65,000	75,665	140,665
2024-2028	80,000	57,185	137,185
2029-2033	105,000	33,210	138,210
2034-2035	<u>50,000</u>	<u>4,988</u>	<u>54,988</u>
Total	<u>\$ 350,000</u>	<u>\$ 260,088</u>	<u>\$ 610,088</u>

6. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2013 were levied in November 2012, on the assessed valuation of property located in the City of Frenchburg as of the preceding January 1, the lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

- | | |
|------------------------------------|-----------------------------------|
| 1. Due date for payment of taxes | November 1, 2012 |
| 2. Face value amount payment dates | November 1, 2012 to March 1, 2013 |
| 3. 10% penalty delinquent date | March 2, 2013 |

These taxes are collected by the City Clerk. Vehicle taxes are collected by the County Clerk of Menifee County and are due and collected in the birth month of the licensee.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

7. RETIREMENT

The City of Frenchburg is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2013, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2013, participating employers contributed 19.55% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution and the actual percentage contributed for the City for the current and previous two years are as follows:

Year	Required Contribution	Percentage Contributed
2013	\$ 42,561	100%
2012	\$ 42,359	100%
2011	\$ 34,459	100%

8. RISK MANAGEMENT

The City of Frenchburg 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. In addition to its general liability insurance, the city also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

9. SUBSEQUENT EVENTS

Financial Reporting for Pension Plans

In June 2012, the GASB approved a pair of related Statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision - usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013, (that is, for years ended June 30, 2014, or later). The City is currently evaluating the effects of this statement on its financial statements. The Kentucky League of Cities (KLC) prepared estimates of the financial statement impact for all cities participating in CERS. KLC estimated that the City's unfunded liability would be approximately \$440,000 based on the 2011 actuarial analysis. The actual liability for June 30, 2014, could be considerably different due to changes in system assumptions and liabilities.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FRENCHBURG, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2013

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Taxes				
Property taxes	\$ 9,500	\$ 9,200	\$ 9,254	\$ 54
Vehicle taxes	800	829	910	81
Bank shares	6,657	7,191	7,191	-
Total taxes	<u>16,957</u>	<u>17,220</u>	<u>17,355</u>	<u>135</u>
Licenses and permits				
Occupation license	800	800	680	(120)
Insurance premiums	36,000	32,000	35,300	3,300
Franchise fees	1,300	3,297	3,297	-
Total licenses and permits	<u>38,100</u>	<u>36,097</u>	<u>39,277</u>	<u>3,180</u>
Intergovernmental revenue				
Police	3,694	3,480	3,932	452
Other grants	-	-	979	979
Flex-E grant	10,000	9,759	6,796	(2,963)
Total intergovernmental	<u>13,694</u>	<u>13,239</u>	<u>11,707</u>	<u>(1,532)</u>
Other revenues				
Community Center	8,000	8,175	9,300	1,125
Rent	36,000	36,000	36,000	-
Interest income	451	664	659	(5)
Other	1,500	125,441	2,097	(123,344)
Total other	<u>45,951</u>	<u>170,280</u>	<u>48,056</u>	<u>(122,224)</u>
Total revenue	<u>114,702</u>	<u>236,836</u>	<u>116,395</u>	<u>(120,441)</u>
EXPENDITURES				
General Government				
Current				
Personnel services	13,038	13,038	13,039	1
Professional fees	9,500	8,560	8,060	(500)
Dues and subscriptions	3,500	6,300	7,232	932
Office	500	500	246	(254)
Utilities	25,872	23,895	23,590	(305)
Insurance	4,836	8,604	8,604	-
Law /Task force	3,694	16,740	18,932	2,192
Organization	3,750	15,150	15,350	200
Other expenses	14,449	22,390	8,276	(14,114)
Total general government	<u>79,139</u>	<u>115,177</u>	<u>103,329</u>	<u>(11,848)</u>
Street maintenance	<u>2,700</u>	<u>2,200</u>	<u>4,524</u>	<u>2,324</u>
Capital Outlay	<u>-</u>	<u>-</u>	<u>6,000</u>	<u>6,000</u>
Debt Service	<u>29,218</u>	<u>29,218</u>	<u>29,218</u>	<u>-</u>
Total expenditures	<u>111,057</u>	<u>146,595</u>	<u>143,071</u>	<u>(3,524)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	<u>(100)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-</u>
Excess (deficiency) revenues over expenditures	<u>\$ 3,545</u>	<u>\$ 70,241</u>	<u>\$ (46,676)</u>	<u>\$ (116,917)</u>

CITY OF FRENCHBURG, KENTUCKY
 REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
 SPECIAL REVENUE FUND
 for the year ended June 30, 2013

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Intergovernmental	\$ 13,921	\$ 27,505	\$ 27,831	\$ 326
Other	285	107	110	3
	<u>14,206</u>	<u>27,612</u>	<u>27,941</u>	<u>329</u>
EXPENDITURES				
Streets				
Utilities	3,600	3,600	3,765	165
Maintenance	20,000	20,000	15,067	(4,933)
	<u>23,600</u>	<u>23,600</u>	<u>18,832</u>	<u>(4,768)</u>
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>23,600</u>	<u>23,600</u>	<u>18,832</u>	<u>(4,768)</u>
Excess (deficiency) revenues over expenditures	<u>\$ (9,394)</u>	<u>\$ 4,012</u>	<u>\$ 9,109</u>	<u>\$ 5,097</u>

OTHER INFORMATION

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
WATER AND SEWER FUND
for the year ended June 30, 2013

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>2012 Totals</u>
OPERATING REVENUES				
Charges for services	\$ 919,775	\$ 97,634	\$ 1,017,409	\$ 1,028,999
Penalties	1,419	17,838	19,257	19,705
Other revenues	<u>17,002</u>	<u>281</u>	<u>17,283</u>	<u>16,336</u>
Total operating revenues	<u>938,196</u>	<u>115,753</u>	<u>1,053,949</u>	<u>1,065,040</u>
OPERATING EXPENSES				
Personnel	279,551	42,445	321,996	321,665
Water purchased	396,304	-	396,304	396,212
Bad debt	1,112	-	1,112	1,416
Maintenance and repairs	10,976	8,421	19,397	6,918
Utilities	26,448	12,538	38,986	45,851
Auto	15,385	-	15,385	18,679
Insurance	14,987	2,000	16,987	18,052
Office supplies	5,916	44	5,960	3,830
Professional services	17,872	11,668	29,540	28,042
Chemicals	3,856	-	3,856	5,055
Operating supplies	53,822	13,489	67,311	60,812
Rent	36,000	-	36,000	36,000
Postage	12,062	-	12,062	11,220
Other	18,464	2,933	21,397	32,001
Depreciation	<u>316,638</u>	<u>156,258</u>	<u>472,896</u>	<u>454,182</u>
Total operating expenses	<u>1,209,393</u>	<u>249,796</u>	<u>1,459,189</u>	<u>1,439,935</u>
OPERATING (LOSS)	(271,197)	(134,043)	(405,240)	(374,895)
Non-operating revenue (expense)				
Interest income	2,341	13	2,354	3,895
Interest expense	<u>(46,608)</u>	<u>(22,641)</u>	<u>(69,249)</u>	<u>(70,925)</u>
NET (LOSS)	(315,464)	(156,671)	(472,135)	(441,925)
Capital contributions				
Hook on fees	14,600	600	15,200	25,775
Grants	-	1,625	1,625	547,326
Transfers in (out)	<u>-</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Change in net position	<u>\$ (300,864)</u>	<u>\$ (134,446)</u>	(435,310)	131,176
Net position - Beginning of Year			<u>7,540,859</u>	<u>7,409,683</u>
NET POSITION - End of Year			<u>\$ 7,105,549</u>	<u>\$ 7,540,859</u>



Certified Public Accountants and Consultants

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

To the Mayor and City Commission
City of Frenchburg
Frenchburg, Kentucky

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Frenchburg, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Frenchburg, Kentucky's basic financial statements and have issued our report thereon dated January 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Frenchburg, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Frenchburg, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Frenchburg, Kentucky's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (2013-1).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS
(CONTINUED)**

The City of Frenchburg, Kentucky's Response to Findings

The City of Frenchburg, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City of Frenchburg, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC

Lexington, Kentucky

January 27, 2014

**CITY OF FRENCHBURG
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013**

FINDING:
2013-1

The City is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

The City lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to take responsibility for the financial statements in conformity with generally accepted accounting principles.

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

RESPONSE:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.