

CITY OF FRENCHBURG
Frenchburg, Kentucky

FINANCIAL STATEMENTS
June 30, 2017

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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, 2017, 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 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 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 auditor considers 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, 2017, 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, budgetary comparison information and pension schedules on pages 3–10, and 31–34 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 an opinion on the financial statements that collectively comprise the City of Frenchburg, Kentucky's basic financial statements. The Statement of Revenues, Expenses, and Changes in Fund Net Position - Water and Sewer Fund 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 Fund Net Position - Water and Sewer Fund 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 or to 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 Fund Net Position - Water and Sewer Fund are fairly stated in all material respects in relation to the basic financial statements as a whole.

Prior-Year Comparative Information

We have previously audited the City's 2016 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information in our report dated December 1, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2018, 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.

RFH

RFH, PLLC
Lexington, Kentucky
January 16, 2018

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, 2017. Please read the following in conjunction with the auditors' report on pages 1-2 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, streets and parks. Property taxes, licenses and permits (including occupational license 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

	Governmental	Business-type	Total Primary
	Activities	Activities	Government
	<u> </u>	<u> </u>	<u> </u>
Current and Other Assets	\$ 235,228	\$ 585,652	\$ 820,880
Capital Assets and Inventory	1,293,098	6,253,870	7,546,968
Deferred Outflows-Pension	<u> -</u>	<u> 115,221</u>	<u> 115,221</u>
Total Assets & Deferred Outflows	<u>1,528,326</u>	<u>6,954,743</u>	<u>8,483,069</u>
Long-Term Debt Outstanding	198,750	1,662,559	1,861,309
Current Liabilities	17,881	213,385	231,266
Deferred Inflows-Pension	<u> -</u>	<u> 3,704</u>	<u> 3,704</u>
Total Liabilities & Deferred Inflows	<u>216,631</u>	<u>1,879,648</u>	<u>2,096,279</u>
Net Position:			
Net Investment in Capital Assets	1,078,798	4,940,943	6,019,741
Restricted	108,514	-	108,514
Unrestricted	<u>124,383</u>	<u>134,152</u>	<u>258,535</u>
Total Net Position	<u>\$1,311,695</u>	<u>\$ 5,075,095</u>	<u>\$ 6,386,790</u>

The capital assets of the City's governmental activities are \$ 1,293,098 as of June 30, 2017. The capital assets of the business-type activities are \$ 6,193,860 as of June 30, 2017.

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

Table A-2

Condensed Statement of Activities

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Program Revenues			
Charges for Service	\$ -	\$ 1,166,226	\$ 1,166,226
Operating Grants & Contributions	69,998	-	69,998
Capital Grants & Contributions	-	22,323	22,323
Total revenue	<u>69,998</u>	<u>1,188,549</u>	<u>1,258,547</u>
Program Expenses			
General Administration	124,056	-	124,056
Street department	9,332	-	9,332
Interest on long-term debt	8,493	-	8,493
Utility	-	1,651,663	1,651,663
Total program expenses	<u>141,881</u>	<u>1,651,663</u>	<u>1,793,544</u>
Net revenues (expenses)	<u>(71,883)</u>	<u>(463,114)</u>	<u>(534,997)</u>
General Revenues			
Taxes	\$ 15,816	\$ -	\$ 15,816
License fees	41,934	-	41,934
Investment earnings	426	1,575	2,001
Total general revenue	<u>58,176</u>	<u>1,575</u>	<u>59,751</u>
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>\$ (13,707)</u>	<u>\$ (461,539)</u>	<u>\$ (475,246)</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	\$ 15,816	\$ -	\$ 15,816
Licenses and permits	41,934	-	41,934
Intergovernmental	4,802	15,157	19,959
Other Revenues	<u>50,361</u>	<u>104</u>	<u>50,465</u>
Total Revenues	<u>112,913</u>	<u>15,261</u>	<u>128,174</u>
General Administration	79,061	-	79,061
Public works-Streets	1,723	7,388	9,111
Debt service	<u>24,850</u>	<u>-</u>	<u>24,850</u>
Total Expenditures	<u>105,634</u>	<u>7,388</u>	<u>113,022</u>
Excess (Deficit)	<u>\$ 7,279</u>	<u>\$ 7,873</u>	<u>\$ 15,152</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 amended budget to actual amounts for governmental activities is presented in the tables below (Tables A-4 & 5).

Table A-4

Condensed Governmental Activities – Revenues

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
Taxes	\$ 16,500	\$ 15,816	\$ (684)
Licenses and permits	37,700	41,934	4,234
Intergovernmental	5,500	4,802	(698)
Other Revenues	<u>46,900</u>	<u>50,361</u>	<u>3,461</u>
Total Revenues	<u>\$ 106,600</u>	<u>\$ 112,913</u>	<u>\$ 6,313</u>

Table A-5

Condensed Governmental Activities – Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
General Government	\$ 78,250	\$ 79,061	\$ 811
Public works-Streets	200	1,723	1,523
Debt service	<u>25,000</u>	<u>24,850</u>	<u>(150)</u>
Total Expenditures	<u>\$ 103,450</u>	<u>\$ 105,634</u>	<u>\$ 2,184</u>

The City budgeted for a total of \$106,600 in revenues for 2016-2017, but ended up having revenues of \$112,913. The City was over budget on revenues by approximately 6 percent. A total of \$103,450 was budgeted for expenses, but expenditures totaled \$105,634 at the end of 2017. The City was over budget on expenses by approximately 2%.

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 Activities	Business-type Activities	Total Primary Government
Land	\$ 258,832	\$ 6,850	\$ 265,682
Infrastructure	20,055	-	20,055
Buildings	1,317,785	-	1,317,785
Vehicles & Equipment	26,257	375,722	401,989
Land Improvements	161,921	-	161,921
Plant & Sewer System	-	<u>13,784,055</u>	<u>13,784,055</u>
 Total Capital Assets	 <u>\$ 1,784,850</u>	 <u>\$ 14,166,627</u>	 <u>\$ 15,951,477</u>

DEBT

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

Table A-7

	Governmental Activities	Business-type Activities	Total Primary Government
<u>Debt Outstanding at Year End</u>			
Leases	<u>\$ 213,750</u>	<u>\$ 1,252,917</u>	<u>\$ 1,466,667</u>
Total Debt Outstanding	<u>\$ 213,750</u>	<u>\$ 1,252,917</u>	<u>\$ 1,466,667</u>

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 Brandi Gross, City Clerk/Treasurer, PO Box 113, Frenchburg, KY 40322.

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2017

	Primary Government			Totals 2016
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 241,918	\$ 459,352	\$ 701,270	\$ 713,709
Receivables, net	7,709	102,701	110,410	143,376
Internal balances	<u>(23,599)</u>	<u>23,599</u>	<u>-</u>	<u>-</u>
Total current assets	<u>226,028</u>	<u>585,652</u>	<u>811,680</u>	<u>857,085</u>
Noncurrent assets				
Restricted cash and cash equivalents	9,200	-	9,200	9,200
Inventory	-	60,010	60,010	60,010
Capital assets				
Land	258,832	6,850	265,682	265,682
Plant and sewer system, net	-	6,187,010	6,187,010	6,661,764
Depreciable property, plant, and equipment, net	<u>1,034,266</u>	<u>-</u>	<u>1,034,266</u>	<u>1,079,482</u>
Total noncurrent assets	<u>1,302,298</u>	<u>6,253,870</u>	<u>7,556,168</u>	<u>8,067,627</u>
Total assets	<u>1,528,326</u>	<u>6,839,522</u>	<u>8,367,848</u>	<u>8,924,712</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	-	115,221	115,221	115,221
Total assets and deferred outflows of resources	<u>\$ 1,528,326</u>	<u>\$ 6,954,743</u>	<u>\$ 8,483,069</u>	<u>\$ 9,018,787</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 2,331	\$ 52,979	\$ 55,310	\$ 97,019
Meter deposits payable	-	69,270	69,270	69,270
Accrued liabilities	-	23,682	23,682	23,682
Accrued interest	550	-	550	550
Other liabilities	-	2,454	2,454	2,454
Current portion of long-term obligations	<u>15,000</u>	<u>65,000</u>	<u>80,000</u>	<u>81,250</u>
Total current liabilities	<u>17,881</u>	<u>213,385</u>	<u>231,266</u>	<u>269,662</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations	198,750	1,187,917	1,386,667	1,386,667
Net pension liability	<u>-</u>	<u>474,642</u>	<u>474,642</u>	<u>474,642</u>
Total noncurrent liabilities	<u>198,750</u>	<u>1,662,559</u>	<u>1,861,309</u>	<u>1,861,309</u>
Total liabilities	<u>216,631</u>	<u>1,875,944</u>	<u>2,092,575</u>	<u>2,151,011</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	-	3,704	3,704	3,704
NET POSITION				
Net investment in capital assets	1,078,798	4,940,943	6,019,741	6,019,741
Restricted for				
Other purposes	99,314	-	99,314	99,314
Debt Service	9,200	-	9,200	9,200
Unrestricted	<u>124,383</u>	<u>134,152</u>	<u>258,535</u>	<u>258,535</u>
Total net position	<u>1,311,695</u>	<u>5,075,095</u>	<u>6,386,790</u>	<u>6,386,790</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,528,326</u>	<u>\$ 6,954,743</u>	<u>\$ 8,483,069</u>	<u>\$ 9,018,787</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, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Government			Totals 2016
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General administration	\$ 124,056	\$ -	\$ 54,841	\$ -	\$ (69,215)	\$ -	\$ (69,215)	\$ (75,510)
Street department	9,332	-	15,157	-	5,825	-	5,825	(42,954)
Interest on long-term debt	8,493	-	-	-	(8,493)	-	(8,493)	(19,295)
Total governmental activities	141,881	-	69,998	-	(71,883)	-	(71,883)	(137,759)
Business-type activities								
Utility	1,651,663	1,166,226	-	22,323	-	(463,114)	(463,114)	(437,272)
Total business-type activities	1,651,663	1,166,226	-	22,323	-	(463,114)	(463,114)	(437,272)
Total primary government	\$ 1,793,544	\$ 1,166,226	\$ 69,998	\$ 22,323	(71,883)	(463,114)	(534,997)	(575,031)
General revenues								
Taxes								
					15,816	-	15,816	16,564
License fees								
					2,997	-	2,997	2,997
					38,177	-	38,177	38,428
					760	-	760	660
					426	1,575	2,001	2,349
					58,176	1,575	59,751	60,998
Change in net position								
					(13,707)	(461,539)	(475,246)	(514,033)
					1,325,402	5,536,634	6,862,036	7,376,069
NET POSITION-ENDING					\$ 1,311,695	\$ 5,075,095	\$ 6,386,790	\$ 6,862,036

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

**CITY OF FRENCHBURG, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017**

	General	Other Governmental Funds	Total Governmental Funds	Totals 2016
ASSETS				
Cash and cash equivalents	\$ 135,589	\$ 106,329	\$ 241,918	\$ 223,323
Restricted cash and cash equivalents	9,200	-	9,200	9,200
Receivables, net	7,709	-	7,709	10,436
 Total assets	\$ 152,498	\$ 106,329	\$ 258,827	\$ 242,959
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 2,331	\$ -	\$ 2,331	\$ 3,242
Due to other funds	16,584	7,015	23,599	21,972
 Total liabilities	18,915	7,015	25,930	25,214
Fund balances				
Restricted				
Roads	-	99,314	99,314	91,441
Debt service	9,200	-	9,200	9,200
Unassigned	124,383	-	124,383	117,104
 Total fund balances	133,583	99,314	232,897	217,745
 Total liabilities and fund balances	\$ 152,498	\$ 106,329	\$ 258,827	\$ 242,959

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

Fund balances reported above	\$ 232,897	\$ 217,745
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,293,098	1,338,314
Interest accrued on general long-term debt is not a current expenditure and is not reported in the funds	(550)	(657)
Long-term liabilities, including notes payable are not due and payable in the current period and therefore are not reported in the funds.	(213,750)	(230,000)
 Net position of governmental activities	\$ 1,311,695	\$ 1,325,402

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, 2017

	General	Other Governmental Funds	Total Governmental Funds	Totals 2016
REVENUES				
Taxes	\$ 15,816	\$ -	\$ 15,816	\$ 16,564
Licenses and permits	41,934	-	41,934	42,085
Intergovernmental	4,802	15,157	19,959	42,655
Other revenues	50,361	104	50,465	48,110
Total revenues	112,913	15,261	128,174	149,414
EXPENDITURES				
Current				
General administration	79,061	-	79,061	106,667
Streets	1,723	7,388	9,111	53,952
Capital outlay	-	-	-	14,222
Debt service	24,850	-	24,850	128,638
Total expenditures	105,634	7,388	113,022	303,479
Excess of revenues over (under) expenditures	7,279	7,873	15,152	(154,065)
OTHER FINANCING SOURCES (USES)				
Other financing sources - note proceeds	-	-	-	230,000
Other financing uses - repayment of lease	-	-	-	(220,000)
Total other financing sources and uses	-	-	-	10,000
Net change in fund balances	7,279	7,873	15,152	(144,065)
Fund balances - beginning	126,304	91,441	217,745	361,810
Fund balances - ending	<u>\$ 133,583</u>	<u>\$ 99,314</u>	<u>\$ 232,897</u>	<u>\$ 217,745</u>
Reconciliation to government-wide change in net position:				
Net change in fund balances			\$ 15,152	\$ (144,065)
Add: capital outlay expenditures capitalized			-	14,222
Add: debt service expenditures			24,850	128,638
Less: net note proceeds			-	(10,000)
Less: depreciation on governmental activities assets			(45,216)	(47,928)
Less: interest on long term debt			(8,493)	(19,295)
Change in net position governmental activities			<u>\$ (13,707)</u>	<u>\$ (78,428)</u>

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017

	Business-Type Activities Water & Sewer Fund	Totals 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 459,352	\$ 490,386
Receivables, net	102,701	132,940
Internal balances	<u>23,599</u>	<u>21,972</u>
Total current assets	<u>585,652</u>	<u>645,298</u>
Noncurrent assets		
Inventory	60,010	51,499
Water and sewer systems	14,166,627	14,166,627
Less: accumulated depreciation	<u>(7,972,767)</u>	<u>(7,498,013)</u>
Total noncurrent assets	<u>6,253,870</u>	<u>6,720,113</u>
Total assets	<u>6,839,522</u>	<u>7,365,411</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	<u>115,221</u>	<u>94,075</u>
Total assets and deferred outflows of resources	<u>\$ 6,954,743</u>	<u>\$ 7,459,486</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 52,979	\$ 93,777
Meter deposits payable	69,270	68,118
Accrued liabilities	23,682	19,993
Other liabilities	2,454	2,625
Current portion of long-term obligations	<u>65,000</u>	<u>65,000</u>
Total current liabilities	<u>213,385</u>	<u>249,513</u>
Noncurrent liabilities		
Noncurrent portion of long-term obligations	1,187,917	1,252,917
Net pension liability	<u>474,642</u>	<u>420,422</u>
Total noncurrent liabilities	<u>1,662,559</u>	<u>1,673,339</u>
Total liabilities	<u>1,875,944</u>	<u>1,922,852</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	<u>3,704</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	4,940,943	5,350,697
Unrestricted	<u>134,152</u>	<u>185,937</u>
Total net position	<u>5,075,095</u>	<u>5,536,634</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 6,954,743</u>	<u>\$ 7,459,486</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, 2017

	Business-Type Activities Water & Sewer Fund	Totals 2016
OPERATING REVENUES		
Charges for services	\$ 1,129,272	\$ 1,135,393
Penalties	19,572	20,556
Other revenues	17,382	264,990
 Total operating revenues	 1,166,226	 1,420,939
OPERATING EXPENSES		
Personnel	400,749	387,069
Water purchased	446,578	442,337
Maintenance and repairs	20,113	9,598
Utilities	39,232	38,759
Auto	10,578	9,133
Insurance	18,361	15,621
Office supplies	10,433	10,897
Professional services	26,129	20,872
Operating services	99,142	107,418
Rent	36,000	36,000
Postage	12,231	11,874
Other	12,763	273,530
Depreciation	474,754	475,076
 Total operating expenses	 1,607,063	 1,838,184
OPERATING (LOSS)	 (440,837)	 (417,245)
Non-operating income (expense)		
Interest income	1,575	1,667
Interest expense	(44,600)	(47,480)
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	 (483,862)	 (463,058)
Capital contributions		
Hook on fees	22,323	27,453
CHANGE IN NET POSITION	 (461,539)	 (435,605)
Net position - beginning of the year	5,536,634	5,972,239
NET POSITION - END OF YEAR	\$ 5,075,095	\$ 5,536,634

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, 2017

	Business-Type Activities Water & Sewer Fund	Totals 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,196,465	\$ 1,387,459
Payments to suppliers	(779,888)	(945,787)
Payments for employee services and benefits	(360,282)	(354,747)
Net cash provided by operating activities	56,295	86,925
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
(Payments) on interfund loans	(1,627)	(10,023)
Net cash (used) by non-capital financing activities	(1,627)	(10,023)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	22,323	27,453
Purchases of capital assets	-	(18,500)
Principal paid on capital debt	(65,000)	(66,468)
Interest paid on capital debt	(44,600)	(47,480)
Net cash (used) by capital and related financing activities	(87,277)	(104,995)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	1,575	1,667
Net cash provided by investing activities	1,575	1,667
Net (decrease) in cash and cash equivalents	(31,034)	(26,426)
Cash and cash equivalents-beginning of the year	490,386	516,812
CASH AND CASH EQUIVALENTS-END OF THE YEAR	\$ 459,352	\$ 490,386
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating (loss)	\$ (440,837)	\$ (417,245)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	474,754	475,076
Net changes in pension liability	36,778	31,644
Change in assets and liabilities:		
Receivables, net	30,239	(33,480)
Inventory	(8,511)	572
Accounts and other payables	(39,817)	29,680
Accrued expenses	3,689	678
Net cash provided by operating activities	\$ 56,295	\$ 86,925

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

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.

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.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (continued)

Fund Financial Statements (continued)

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 the 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:

Water and Sewer- 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.

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.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (continued)

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 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, 2017

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. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

G. 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 \$7,214 in the proprietary fund and \$2,991 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.

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 16, 2018 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, 2017, have not been evaluated by the city.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

2. CASH AND INVESTMENTS

Statutory Requirements

The City's deposits and investments at June 30, 2017, were entirely covered by federal depository insurance or by collateral held by the custodial banks in the City's name.

FDIC – demand deposits	\$ 414,857
Collateralized by securities held by the bank in the City's name	<u>296,945</u>
Total	<u>\$ 711,802</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.

3. RECEIVABLES

Receivables at year end of the City's major individual funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund
Governmental Funds:	
Taxes	\$ 2,991
Licenses and fees	<u>7,709</u>
Gross receivables	10,700
Less: allowance for uncollectible	<u>(2,991)</u>
Net receivables	<u>\$ 7,709</u>
	Water & Sewer Fund
Proprietary Fund:	
Customer	\$ 109,915
Grants	<u>-</u>
Gross receivables	109,915
Less: allowance for uncollectible	<u>(7,214)</u>
Net receivables	<u>\$ 102,701</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

4. CAPITAL ASSETS

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

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 258,832	\$ -	\$ -	\$ 258,832
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>258,832</u>	<u>-</u>	<u>-</u>	<u>258,832</u>
Capital assets being depreciated:				
Buildings and improvements	1,317,785	-	-	1,317,785
Land improvements	161,921	-	-	161,921
Vehicles and equipment	26,257	-	-	26,257
Infrastructure	<u>20,055</u>	<u>-</u>	<u>-</u>	<u>20,055</u>
Totals	<u>1,526,018</u>	<u>-</u>	<u>-</u>	<u>1,526,018</u>
Total capital assets	<u>1,784,850</u>	<u>-</u>	<u>-</u>	<u>1,784,850</u>
Less accumulated depreciation:				
Buildings and improvements	338,960	34,943	-	373,903
Land improvements	64,142	10,052	-	74,194
Vehicles and equipment	23,380	221	-	23,601
Infrastructure	<u>20,054</u>	<u>-</u>	<u>-</u>	<u>20,054</u>
Totals	<u>446,536</u>	<u>45,216</u>	<u>-</u>	<u>491,752</u>
Capital assets, net	<u>\$ 1,338,314</u>	<u>\$ (45,216)</u>	<u>\$ -</u>	<u>\$ 1,293,098</u>
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 6,850	\$ -	\$ -	\$ 6,850
Capital assets being depreciated:				
Plant and sewer system	13,784,055	-	-	13,784,055
Vehicles and equipment	<u>375,722</u>	<u>-</u>	<u>-</u>	<u>375,722</u>
Totals	14,159,777	-	-	14,159,777
Less accumulated depreciation:	<u>7,498,013</u>	<u>474,754</u>	<u>-</u>	<u>7,972,767</u>
Capital depreciable assets, net:	<u>6,661,764</u>	<u>(474,754)</u>	<u>-</u>	<u>6,187,010</u>
Total capital assets, net	<u>\$ 6,668,614</u>	<u>\$ (474,754)</u>	<u>\$ -</u>	<u>\$ 6,193,860</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

4. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the Governmental functions as follows:

General government	\$ 44,995
Streets	<u>221</u>
 Total depreciation expense	 <u>\$ 45,216</u>

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

5. BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT

Kentucky Bond Corporation Financing Program Revenue Bonds First Series 2014 E

On December 3, 2014, Revenue Bonds in the amount of \$1,420,000 bearing interest at 2-3.75% were issued through a pooled financing transaction with the Kentucky Bond Corporation (KBC). The proceeds were used to refund all previously issued water and sewer revenue bonds. The City entered into a financing agreement with the KBC to repay the associated debt over a period of 25 years by making monthly principal and interest payments beginning January 1, 2015 with the final monthly payment scheduled to be made on January 1, 2040.

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

	Balance	Additions	Retirements	Balance
	June 30, 2016			June 30, 2017
KBC note payable	\$ 1,317,917	\$ -	\$ 65,000	\$ 1,252,917
Net pension liability	<u>420,422</u>	<u>54,220</u>	<u>-</u>	<u>474,642</u>
Total	<u>\$ 1,738,339</u>	<u>\$ 54,220</u>	<u>\$ 65,000</u>	<u>\$ 1,727,559</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

The minimum obligation for the KBC note payable at June 30, 2017, is as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 65,000	\$ 44,597	\$ 109,597
2019	65,000	43,134	108,134
2020	67,083	39,939	107,022
2021	70,000	37,758	107,758
2022	72,083	35,483	107,566
2023-2027	343,750	139,759	483,509
2028-2032	301,667	86,413	388,080
2033-2037	190,834	47,630	238,464
2038-2040	<u>77,500</u>	<u>6,663</u>	<u>84,163</u>
Total	<u>\$ 1,252,917</u>	<u>\$ 481,376</u>	<u>\$ 1,734,293</u>

6. 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. On May 18, 2016 Revenue Bonds in the amount of \$230,000 bearing interest at 3% were issued through a pooled financing transaction with the KBC. Proceeds from the bonds along with a \$100,000 contribution made by the City paid in full the lease agreement with the KADD Financing Trust. On June 1, 2016 the City entered into a financing agreement with the KBC to repay over a period of 13 years the associated debt by making monthly principal and interest payments beginning July 1, 2016 with the final monthly payment scheduled to be made on February 1, 2029.

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

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017
KBC note payable	<u>\$ 230,000</u>	<u>\$ -</u>	<u>\$ 16,250</u>	<u>\$ 213,750</u>

The annual requirements to amortize all governmental long-term debt outstanding at June 30, 2017 is as follows:

Year Ending June 30,	Principal	Total Interest and Fees	Total Payment
2018	\$ 15,000	\$ 7,397	\$ 22,397
2019	15,000	6,909	21,909
2020	17,083	6,422	23,505
2021	20,000	5,867	25,867
2022	20,000	5,217	25,217
2023-2027	102,084	16,333	118,417
2028-2029	<u>24,583</u>	<u>1,251</u>	<u>25,834</u>
Total	<u>\$ 213,750</u>	<u>\$ 49,396</u>	<u>\$ 263,146</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

7. RETIREMENT PLAN

CERS

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 publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

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, 2017, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 were 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 78.545(33), 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2017, participating employers contributed 18.68% 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.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The City contributed \$45,322 for the year ended June 30, 2017, or 100% of the required contribution. The contribution was allocated \$33,846 to the CERS pension fund and \$11,476 to the CERS insurance fund.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

7. RETIREMENT PLAN (CONTINUED)

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old
	At least	25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2017, the City reported a liability of \$474,642 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the City's proportion was .010 percent, which was the same as its proportion at June 30, 2015.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

7. RETIREMENT PLAN (CONTINUED)

For the year ended June 30, 2017, the City recognized pension expense of \$69,450. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 44,621	\$ -
Changes of assumptions	25,144	-
Net difference between projected and actual earnings on Plan Investments	2,072	-
Changes in proportion and differences between City contributions and proportionate share of contributions	9,538	3,704
City contributions subsequent to the measurement date	33,846	-
Total	<u>\$ 115,221</u>	<u>\$ 3,704</u>

The \$33,846 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2018	\$ 31,464
2019	19,537
2020	16,758
2021	9,912

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%	
Salary increases	4.00%, average, including inflation	
Investment rate of return	7.50%, net of Plan investment expense, including inflation	

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2008 - June 30, 2013.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

7. RETIREMENT PLAN (CONTINUED)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	(0.25)%
TOTAL	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	Discount rate	Company's proportionate share of net pension liability
1% decrease	6.50%	\$ 591,479
Current discount rate	7.50%	\$ 474,642
1% increase	8.50%	\$ 374,487

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

7. RETIREMENT PLAN (CONTINUED)

Payable to the Pension Plan – At June 30, 2017, the City reported a payable of \$4,452 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017. The payable includes both the pension and insurance contribution allocation.

8. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2017 were levied in November 2016, 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, 2016 |
| 2. Face value amount payment dates | November 1, 2016 to March 1, 2017 |
| 3. 10% penalty delinquent date | March 2, 2017 |

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.

9. 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.

10. INTERFUND BALANCES

This table shows interfund balances as of June 30, 2017:

	General Fund	Water & Sewer Fund	Road Aid Fund	Total Due From
General Fund	\$ -	\$ (16,584)	\$ -	\$ (16,584)
Water & Sewer Fund	16,584	-	7,015	23,599
Road Aid Fund	<u>-</u>	<u>(7,015)</u>	<u>-</u>	<u>(7,015)</u>
Total due to (from)	<u>\$ 16,584</u>	<u>\$ (23,599)</u>	<u>\$ 7,015</u>	<u>\$ -</u>

Interfund balances result from goods and services type transactions that have occurred between individual funds that have resulted in amounts owed between funds.

CITY OF FRENCHBURG, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2017

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Taxes				
Property taxes	\$ 9,800	\$ 8,600	\$ 7,863	\$ (737)
Vehicle taxes	700	700	763	63
Bank shares	<u>7,200</u>	<u>7,200</u>	<u>7,190</u>	<u>(10)</u>
Total taxes	<u>17,700</u>	<u>16,500</u>	<u>15,816</u>	<u>(684)</u>
Licenses and permits				
Occupation license	800	200	760	560
Insurance premiums	35,000	35,000	38,177	3,177
Franchise fees	<u>2,500</u>	<u>2,500</u>	<u>2,997</u>	<u>497</u>
Total licenses and permits	<u>38,300</u>	<u>37,700</u>	<u>41,934</u>	<u>4,234</u>
Intergovernmental revenue				
Police	5,500	5,500	4,802	(698)
Other grants	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total intergovernmental	<u>5,500</u>	<u>5,500</u>	<u>4,802</u>	<u>(698)</u>
Other revenues				
Community Center	9,500	9,500	10,700	1,200
Rent	36,000	36,000	36,000	-
Interest income	600	400	322	(78)
Other	<u>1,000</u>	<u>1,000</u>	<u>3,339</u>	<u>2,339</u>
Total other	<u>47,100</u>	<u>46,900</u>	<u>50,361</u>	<u>3,461</u>
Total revenue	<u>108,600</u>	<u>106,600</u>	<u>112,913</u>	<u>6,313</u>
EXPENDITURES				
General Government				
Current				
Personnel services	13,000	13,000	13,038	38
Professional fees	11,000	11,000	6,836	(4,164)
Dues and subscriptions	5,700	5,700	6,363	663
Office	1,100	1,100	1,147	47
Utilities	22,305	19,450	24,955	5,505
Insurance	11,000	11,000	8,097	(2,903)
Law /Task force	5,500	5,500	4,402	(1,098)
Organization	10,000	10,000	2,900	(7,100)
Other expenses	<u>36,500</u>	<u>1,500</u>	<u>11,323</u>	<u>9,823</u>
Total general government	<u>116,105</u>	<u>78,250</u>	<u>79,061</u>	<u>811</u>
Street maintenance	<u>2,200</u>	<u>200</u>	<u>1,723</u>	<u>1,523</u>
Debt Service	<u>30,000</u>	<u>25,000</u>	<u>24,850</u>	<u>(150)</u>
Total expenditures	<u>148,305</u>	<u>103,450</u>	<u>105,634</u>	<u>2,184</u>
Excess (deficiency) revenues over expenditures	<u>\$ (39,705)</u>	<u>\$ 3,150</u>	<u>\$ 7,279</u>	<u>\$ 4,129</u>

CITY OF FRENCHBURG, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
SPECIAL REVENUE FUND
for the year ended June 30, 2017

	Enacted Budget	Amended Budget	Actual	Variance
REVENUES				
Intergovernmental	\$ 18,000	\$ 15,000	\$ 15,157	\$ 157
Other	110	110	104	(6)
Total revenue	18,110	15,110	15,261	151
EXPENDITURES				
Streets				
Utilities	3,600	3,600	3,888	288
Maintenance	20,000	10,000	3,500	(6,500)
Total expenditures	23,600	13,600	7,388	(6,212)
Excess (deficiency) revenues over expenditures	\$ (5,490)	\$ 1,510	\$ 7,873	\$ 6,363

CITY OF FRENCHBURG, KENTUCKY
 REQUIRED SUPPLEMENTAL SCHEDULE OF
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - NONHAZARDOUS
 Last Four Fiscal Years

	2017	2016	2015	2014
City's proportion of the net pension liability	0.010%	0.010%	0.009%	0.009%
City's proportionate share of the net pension liability (asset)	\$ 474,642	\$ 420,422	\$ 297,391	\$ 306,391
City's covered employee payroll	\$ 229,966	\$ 228,142	\$ 210,227	\$ 217,705
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	206.40%	184.28%	141.46%	140.74%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%	61.22%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The measurement date of the net pension liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

CITY OF FRENCHBURG, KENTUCKY
 REQUIRED SUPPLEMENTAL
 SCHEDULE OF CONTRIBUTIONS - NONHAZARDOUS
 Last Five Fiscal Years

	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 33,846	\$ 28,562	\$ 29,088	\$ 28,885	\$ 27,474
Contributions relative to contractually required employer contribution	<u>33,846</u>	<u>28,562</u>	<u>29,088</u>	<u>28,885</u>	<u>27,474</u>
Contribution deficiency (excess)	<u>\$ -</u>				
City's covered employee payroll	\$ 242,625	\$ 229,966	\$ 228,142	\$ 210,227	\$ 217,705
Employer contributions as a percentage of covered-employee payroll	13.95%	12.42%	12.75%	13.74%	12.62%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

SUPPLEMENTARY INFORMATION

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
WATER AND SEWER FUND
for the year ended June 30, 2017

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>2016 Totals</u>
OPERATING REVENUES				
Charges for services	\$ 1,033,008	\$ 96,264	\$ 1,129,272	\$ 1,135,393
Penalties	2,383	17,189	19,572	20,556
Other revenues	<u>17,382</u>	<u>-</u>	<u>17,382</u>	<u>264,990</u>
Total operating revenues	<u>1,052,773</u>	<u>113,453</u>	<u>1,166,226</u>	<u>1,420,939</u>
OPERATING EXPENSES				
Personnel	346,643	54,106	400,749	387,069
Water purchased	446,578	-	446,578	442,337
Maintenance and repairs	10,138	9,975	20,113	9,598
Utilities	25,733	13,499	39,232	38,759
Auto	10,578	-	10,578	9,133
Insurance	16,361	2,000	18,361	15,621
Office supplies	10,383	50	10,433	10,897
Professional services	15,261	10,868	26,129	20,872
Operating supplies	85,757	13,385	99,142	107,418
Rent	36,000	-	36,000	36,000
Postage	12,231	-	12,231	11,874
Other	12,425	338	12,763	273,530
Depreciation	<u>318,965</u>	<u>155,789</u>	<u>474,754</u>	<u>475,076</u>
Total operating expenses	<u>1,347,053</u>	<u>260,010</u>	<u>1,607,063</u>	<u>1,838,184</u>
OPERATING (LOSS)	(294,280)	(146,557)	(440,837)	(417,245)
Non-operating revenue (expense)				
Interest income	1,365	210	1,575	1,667
Interest expense	<u>(32,571)</u>	<u>(12,029)</u>	<u>(44,600)</u>	<u>(47,480)</u>
NET (LOSS)	(325,486)	(158,376)	(483,862)	(463,058)
Capital contributions				
Hook on fees	<u>21,723</u>	<u>600</u>	<u>22,323</u>	<u>27,453</u>
Change in net position	<u>\$ (303,763)</u>	<u>\$ (157,776)</u>	(461,539)	(435,605)
Net position - Beginning of Year			<u>5,536,634</u>	<u>5,972,239</u>
NET POSITION - End of Year			<u>\$ 5,075,095</u>	<u>\$ 5,536,634</u>



**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**

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, 2017, 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 16, 2018.

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a material weakness: 2017-001.

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*.

The City of Frenchburg, Kentucky's Response to Findings

The City of Frenchburg, Kentucky's response to the finding 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.

RFH

RFH, PLLC
Lexington, Kentucky
January 16, 2018

**CITY OF FRENCHBURG
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017**

FINDINGS

2017-001 The City should have internal controls in place that enable it to prepare complete financial statements. This is a repeat finding.

Criteria: 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.

Condition: Management was unable to prepare draft financial statements, including the related notes to the financial statements.

Cause: 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 draft the financial statements in conformity with generally accepted accounting principles.

Effect: 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.

Recommendation: 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.

PRIOR AUDIT FINDINGS

2016-001 The City should have internal controls in place that enable it to prepare complete financial statements.

Resolution: Open.

2016-002 All bank accounts should be reconciled monthly to the City's financial records.

Resolution: Resolved.

2016-003 Expenditures out of each fund should be made in accordance with the City's budget.

Resolution: Resolved.