

**CITY OF FRENCHBURG**  
**Frenchburg, Kentucky**

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**FINANCIAL STATEMENTS**  
**June 30, 2018**

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CPAs Consultants

## 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, each major fund, and the aggregate remaining fund information of the City of Frenchburg, Kentucky as of and for the year ended June 30, 2018, 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 opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Frenchburg, Kentucky, as of June 30, 2018, 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.

### ***Emphasis of a Matter – Implementation of New GASB Accounting Standards***

As discussed in Notes 8 and 12 to the financial statements, effective July 1, 2017 the City adopted Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

### ***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, pension schedules and OPEB schedules on pages 3–10 and 35–40, 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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2019, 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 31, 2019

# 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, 2018. 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**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total Primary</u> <u>Government</u>
Current and Other Assets	\$ 246,605	\$ 528,088	\$ 774,693
Capital Assets and Inventory	1,276,288	5,782,163	7,058,451
Deferred Outflows-Pension and OPEB	<u>-</u>	<u>223,577</u>	<u>223,577</u>
Total Assets & Deferred Outflows	<u>1,522,893</u>	<u>6,533,828</u>	<u>8,056,721</u>
Long-Term Debt, Net Pension and OPEB Liability	183,750	1,906,532	2,090,282
Current Liabilities	17,733	218,176	235,909
Deferred Inflows-Pension and OPEB	<u>-</u>	<u>27,462</u>	<u>27,462</u>
Total Liabilities & Deferred Inflows	<u>201,483</u>	<u>2,152,170</u>	<u>2,353,653</u>
Net Position:			
Net Investment in Capital Assets	1,077,025	4,532,249	5,609,274
Restricted	119,435	-	119,435
Unrestricted	<u>124,950</u>	<u>(150,591)</u>	<u>(25,641)</u>
Total Net Position	<u>\$1,321,410</u>	<u>\$ 4,381,658</u>	<u>\$ 5,703,068</u>

The capital assets of the City's governmental activities were \$ 1,276,288 as of June 30, 2018. The capital assets of the business-type activities were \$ 5,720,168 as of June 30, 2018.

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>
<b>Program Revenues</b>			
Charges for Service	\$ -	\$ 1,165,528	\$ 1,165,528
Operating Grants & Contributions	91,122	-	91,122
Capital Grants & Contributions	-	21,950	21,950
Total revenue	<u>91,122</u>	<u>1,187,478</u>	<u>1,278,600</u>
<b>Program Expenses</b>			
General Administration	127,080	-	127,080
Street department	8,650	-	8,650
Interest on long-term debt	7,360	-	7,360
Utility	-	1,737,823	1,737,823
Total program expenses	<u>143,090</u>	<u>1,737,823</u>	<u>1,880,913</u>
Net revenues (expenses)	<u>(51,968)</u>	<u>(550,345)</u>	<u>(602,213)</u>
<b>General Revenues</b>			
Taxes	\$ 17,879	\$ -	\$ 17,879
License fees	43,401	-	43,401
Investment earnings	403	1,308	1,711
Total general revenue	<u>61,683</u>	<u>1,308</u>	<u>62,991</u>
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>\$ 9,715</u>	<u>\$ (549,037)</u>	<u>\$ (539,322)</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	\$ 17,879	\$ -	\$ 17,879
Licenses and permits	43,401	-	43,401
Intergovernmental	4,414	16,002	20,416
Other Revenues	<u>70,997</u>	<u>112</u>	<u>71,109</u>
Total Revenues	<u>136,691</u>	<u>16,114</u>	<u>152,805</u>
General Administration	82,558	-	82,558
Public works-Streets	3,236	5,193	8,429
Capital outlay	27,933	-	27,933
Debt service	<u>22,397</u>	<u>-</u>	<u>22,397</u>
Total Expenditures	<u>136,124</u>	<u>5,193</u>	<u>141,317</u>
Excess (Deficit)	<u>\$ 567</u>	<u>\$ 10,921</u>	<u>\$ 11,488</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	\$ 15,900	\$ 17,879	\$ 1,979
Licenses and permits	38,300	43,401	5,101
Intergovernmental	18,600	20,416	1,816
Other Revenues	<u>47,490</u>	<u>71,109</u>	<u>23,619</u>
Total Revenues	<u>\$ 120,290</u>	<u>\$ 152,805</u>	<u>\$ 32,515</u>

**Table A-5**

**Condensed Governmental Activities – Expenditures**

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
General Government	\$ 71,150	\$ 82,558	\$ 11,408
Public works-Streets	15,100	8,429	(6,671)
Capital Outlay	-	27,933	27,933
Debt service	<u>25,000</u>	<u>22,397</u>	<u>(2,603)</u>
Total Expenditures	<u>\$ 111,250</u>	<u>\$ 141,317</u>	<u>\$ 30,067</u>

The City budgeted for a total of \$120,290 in revenues for 2017-2018, but ended up having revenues of \$152,805. The City was over budget on revenues by approximately 27 percent. A total of \$111,250 was budgeted for expenses, but expenditures totaled \$141,317 at the end of 2018. The City was over budget on expenses by approximately 37 percent.

**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**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total Primary Government</b>
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	401,979
Land Improvements	189,854	-	189,854
Plant & Sewer System	-	<u>13,784,055</u>	<u>13,784,055</u>
 Total Capital Assets	 <u>\$ 1,812,783</u>	 <u>\$ 14,166,627</u>	 <u>\$ 15,979,410</u>

**DEBT**

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

**Table A-7**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total Primary Government</b>
<b><u>Debt Outstanding at Year End</u></b>			
Notes Payable	<u>\$ 198,750</u>	<u>\$ 1,187,919</u>	<u>\$ 1,386,669</u>
Total Debt Outstanding	<u>\$ 198,750</u>	<u>\$ 1,187,919</u>	<u>\$ 1,386,669</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, 2018**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 235,564	\$ 410,918	\$ 646,482
Receivables, net	9,365	106,155	115,520
Prepaid expenses	3,491	-	3,491
Internal balances	<u>(11,015)</u>	<u>11,015</u>	<u>-</u>
Total current assets	<u>237,405</u>	<u>528,088</u>	<u>765,493</u>
<b>Noncurrent assets</b>			
Restricted cash and cash equivalents	9,200	-	9,200
Inventory	-	61,995	61,995
<b>Capital assets</b>			
Land	258,832	6,850	265,682
Plant and sewer system, net	-	5,713,318	5,713,318
Depreciable property, plant, and equipment, net	<u>1,017,456</u>	<u>-</u>	<u>1,017,456</u>
Total noncurrent assets	<u>1,285,488</u>	<u>5,782,163</u>	<u>7,067,651</u>
Total assets	<u>1,522,893</u>	<u>6,310,251</u>	<u>7,833,144</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - pension	-	165,624	165,624
Deferred outflows - OPEB	<u>-</u>	<u>57,953</u>	<u>57,953</u>
Total deferred outflows of resources	<u>-</u>	<u>223,577</u>	<u>223,577</u>
Total assets and deferred outflows of resources	<u>\$ 1,522,893</u>	<u>\$ 6,533,828</u>	<u>\$ 8,056,721</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 2,220	\$ 53,901	\$ 56,121
Meter deposits payable	-	71,430	71,430
Accrued liabilities	-	25,389	25,389
Accrued interest	513	-	513
Other liabilities	-	2,456	2,456
Current portion of long-term obligations	<u>15,000</u>	<u>65,000</u>	<u>80,000</u>
Total current liabilities	<u>17,733</u>	<u>218,176</u>	<u>235,909</u>
<b>Noncurrent liabilities</b>			
Noncurrent portion of long-term obligations	183,750	1,122,919	1,306,669
Net pension liability	-	583,282	583,282
Net OPEB liability	<u>-</u>	<u>200,331</u>	<u>200,331</u>
Total noncurrent liabilities	<u>183,750</u>	<u>1,906,532</u>	<u>2,090,282</u>
Total liabilities	<u>201,483</u>	<u>2,124,708</u>	<u>2,326,191</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - pension	-	16,973	16,973
Deferred inflows - OPEB	<u>-</u>	<u>10,489</u>	<u>10,489</u>
Total deferred inflows of resources	<u>-</u>	<u>27,462</u>	<u>27,462</u>
<b>NET POSITION</b>			
Net investment in capital assets	1,077,025	4,532,249	5,609,274
<b>Restricted for</b>			
Other purposes	110,235	-	110,235
Debt Service	9,200	-	9,200
Unrestricted	<u>124,950</u>	<u>(150,591)</u>	<u>(25,641)</u>
Total net position	<u>1,321,410</u>	<u>4,381,658</u>	<u>5,703,068</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,522,893</u>	<u>\$ 6,533,828</u>	<u>\$ 8,056,721</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, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
<b>Governmental activities</b>							
General administration	\$ 127,080	\$ -	\$ 75,120	\$ -	\$ (51,960)	\$ -	\$ (51,960)
Street department	8,650	-	16,002	-	7,352	-	7,352
Interest on long-term debt	7,360	-	-	-	(7,360)	-	(7,360)
<b>Total governmental activities</b>	<b>143,090</b>	<b>-</b>	<b>91,122</b>	<b>-</b>	<b>(51,968)</b>	<b>-</b>	<b>(51,968)</b>
<b>Business-type activities</b>							
Utility	1,737,823	1,165,528	-	21,950	-	(550,345)	(550,345)
<b>Total business-type activities</b>	<b>1,737,823</b>	<b>1,165,528</b>	<b>-</b>	<b>21,950</b>	<b>-</b>	<b>(550,345)</b>	<b>(550,345)</b>
<b>Total primary government</b>	<b>\$ 1,880,913</b>	<b>\$ 1,165,528</b>	<b>\$ 91,122</b>	<b>\$ 21,950</b>	<b>(51,968)</b>	<b>(550,345)</b>	<b>(602,313)</b>

**General revenues**

<b>Taxes</b>			
Property taxes, levied for general purposes	17,879	-	17,879
<b>License fees</b>			
Franchise	3,299	-	3,299
Insurance premiums	39,502	-	39,502
Occupational	600	-	600
Investment earnings	403	1,308	1,711
<b>Total general revenues</b>	<b>61,683</b>	<b>1,308</b>	<b>62,991</b>
<b>Change in net position</b>	<b>9,715</b>	<b>(549,037)</b>	<b>(539,322)</b>
<b>Net position-beginning, as restated</b>	<b>1,311,695</b>	<b>4,930,695</b>	<b>6,242,390</b>
<b>NET POSITION-ENDING</b>	<b>\$ 1,321,410</b>	<b>\$ 4,381,658</b>	<b>\$ 5,703,068</b>

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

**CITY OF FRENCHBURG, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2018**

	General	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 127,514	\$ 117,250	\$ 244,764
Receivables, net	9,365	-	9,365
Prepaid expenses	3,491	-	3,491
 Total assets	 \$ 140,370	 \$ 117,250	 \$ 257,620
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 2,220	\$ -	\$ 2,220
Due to other funds	4,000	7,015	11,015
 Total liabilities	 6,220	 7,015	 13,235
<b>Fund balances</b>			
Restricted			
Roads	-	110,235	110,235
Debt service	9,200	-	9,200
Unassigned	124,950	-	124,950
 Total fund balances	 134,150	 110,235	 244,385
 Total liabilities and fund balances	 \$ 140,370	 \$ 117,250	 \$ 257,620

Amounts reported for <i>governmental activities</i> in the statement of net position are different because	
Fund balances reported above	\$ 244,385
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,276,288
Interest accrued on general long-term debt is not a current expenditure and is not reported in the funds	(513)
Long-term liabilities, including notes payable are not due and payable in the current period and therefore are not reported in the funds.	(198,750)
Net position of governmental activities	\$ 1,321,410

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, 2018

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Taxes	\$ 17,879	\$ -	\$ 17,879
Licenses and permits	43,401	-	43,401
Intergovernmental	24,414	16,002	40,416
Other revenues	50,997	112	51,109
 Total revenues	 136,691	 16,114	 152,805
<b>EXPENDITURES</b>			
Current			
General administration	82,558	-	82,558
Streets	3,236	5,193	8,429
Capital outlay	27,933	-	27,933
Debt service	22,397	-	22,397
 Total expenditures	 136,124	 5,193	 141,317
 Excess of revenues over (under) expenditures	 567	 10,921	 11,488
 Fund balances - beginning	 133,583	 99,314	 232,897
 <b>Fund balances - ending</b>	 <b>\$ 134,150</b>	 <b>\$ 110,235</b>	 <b>\$ 244,385</b>
 Reconciliation to government-wide change in net position:			
Net change in fund balances			\$ 11,488
Add: capital outlay expenditures capitalized			27,933
Add: debt service expenditures			22,397
Less: depreciation on governmental activities assets			(44,743)
Less: interest on long term debt			(7,360)
 Change in net position governmental activities			 <b>\$ 9,715</b>

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

**CITY OF FRENCHBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2018**

	<u>Business-Type Activities Water &amp; Sewer Fund</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 410,918
Receivables, net	106,155
Internal balances	<u>11,015</u>
Total current assets	<u>528,088</u>
Noncurrent assets	
Inventory	61,995
Water and sewer systems	14,166,627
Less: accumulated depreciation	<u>(8,446,459)</u>
Total noncurrent assets	<u>5,782,163</u>
Total assets	<u>6,310,251</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows - pension	165,624
Deferred outflows - OPEB	<u>57,953</u>
Total deferred outflows of resources	<u>223,577</u>
Total assets and deferred outflows of resources	<u>\$ 6,533,828</u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 53,901
Meter deposits payable	71,430
Accrued liabilities	25,389
Other liabilities	2,456
Current portion of long-term obligations	<u>65,000</u>
Total current liabilities	<u>218,176</u>
Noncurrent liabilities	
Noncurrent portion of long-term obligations	1,122,919
Net pension liability	583,282
Net OPEB liability	<u>200,331</u>
Total noncurrent liabilities	<u>1,906,532</u>
Total liabilities	<u>2,124,708</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows - pension	16,973
Deferred inflows - OPEB	<u>10,489</u>
Total deferred inflows of resources	<u>27,462</u>
<b>NET POSITION</b>	
Net investment in capital assets	4,532,249
Unrestricted	<u>(150,591)</u>
Total net position	<u>4,381,658</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 6,533,828</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, 2018

	<u>Business-Type Activities Water &amp; Sewer Fund</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 1,126,602
Penalties	20,720
Other revenues	<u>18,206</u>
 Total operating revenues	 <u>1,165,528</u>
<b>OPERATING EXPENSES</b>	
Personnel	468,130
Water purchased	481,914
Maintenance and repairs	7,093
Utilities	42,658
Auto	11,939
Insurance	17,743
Office supplies	13,000
Professional services	25,637
Operating services	89,922
Rent	36,000
Postage	12,331
Other	14,630
Depreciation	<u>473,692</u>
 Total operating expenses	 <u>1,694,689</u>
<b>OPERATING (LOSS)</b>	<b>(529,161)</b>
Non-operating income (expense)	
Interest income	1,308
Interest expense	<u>(43,134)</u>
<b>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	<b>(570,987)</b>
Capital contributions	
Hook on fees	<u>21,950</u>
<b>CHANGE IN NET POSITION</b>	<b>(549,037)</b>
Net position - beginning of the year, as restated	<u>4,930,695</u>
<b>NET POSITION - END OF YEAR</b>	<b>\$ <u>4,381,658</u></b>

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, 2018

	<u>Business-Type Activities Water &amp; Sewer Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 1,162,074
Payments to suppliers	(751,766)
Payments for employee services and benefits	<u>(386,450)</u>
Net cash provided by operating activities	<u>23,858</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Receipts (Payments) on interfund loans	<u>12,584</u>
Net cash provided by non-capital financing activities	<u>12,584</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital contributions	21,950
Principal paid on capital debt	(65,000)
Interest paid on capital debt	<u>(43,134)</u>
Net cash (used) by capital and related financing activities	<u>(86,184)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	<u>1,308</u>
Net cash provided by investing activities	<u>1,308</u>
Net (decrease) in cash and cash equivalents	(48,434)
Cash and cash equivalents-beginning of the year	<u>459,352</u>
<b>CASH AND CASH EQUIVALENTS-END OF THE YEAR</b>	<u>\$ 410,918</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating (loss)	\$ (529,161)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	473,692
Net change in pension liability	71,506
Net change in OPEB liability	8,467
Change in assets and liabilities:	
Receivables, net	(3,454)
Inventory	(1,985)
Accounts and other payables	3,086
Accrued expenses	<u>1,707</u>
Net cash provided by operating activities	<u>\$ 23,858</u>

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

**CITY OF FRENCHBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2018

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**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, 2018

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**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, 2018

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**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's 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.

**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. For fiscal year 2018 the City expended \$37,874 more in the General Fund than was budgeted.

**CITY OF FRENCHBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2018

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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. Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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.

**H. 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.

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.

**CITY OF FRENCHBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**H. Other Accounting Policies (CONTINUED)**

The City has evaluated and considered the need to recognize or disclose subsequent events through January 31, 2019 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, 2018, have not been evaluated by the city.

**2. CASH AND INVESTMENTS**

**Statutory Requirements**

The City's deposits and investments at June 30, 2018, were entirely covered by federal depository insurance or by collateral held by the custodial banks in the City's name.

FDIC – demand deposits	\$ 415,091
Collateralized by securities held by the bank in the City's name	<u>241,742</u>
Total bank balances	<u>\$ 656,833</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.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy on custodial credit risk; however, state law requires the City to be adequately covered by federal depository insurance or by collateral pledged by the custodial bank.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City does not have a formal investment policy for interest rate risk.

**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	Proprietary Fund	Water & Sewer Fund
Governmental Funds:			
Taxes	\$ 1,341	Customer	\$ 114,113
Licenses and fees	8,183	Allowance	<u>(7,958)</u>
Intergovernmental	<u>1,182</u>		
		Net receivables	<u>\$ 106,155</u>
Gross receivables	10,706		
Less: allowance for uncollectible	<u>(1,341)</u>		
Net receivables	<u>\$ 9,365</u>		

**CITY OF FRENCHBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2018

**4. CAPITAL ASSETS**

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 258,832	\$ -	\$ -	\$ 258,832
Capital assets being depreciated:				
Buildings and improvements	1,317,785	-	-	1,317,785
Land improvements	161,921	27,933	-	189,854
Vehicles and equipment	26,257	-	-	26,257
Infrastructure	20,055	-	-	20,055
<b>Totals</b>	<u>1,526,018</u>	<u>27,933</u>	<u>-</u>	<u>1,553,951</u>
<b>Total capital assets</b>	<u>1,784,850</u>	<u>27,933</u>	<u>-</u>	<u>1,812,783</u>
Less accumulated depreciation:				
Buildings and improvements	373,903	33,922	-	407,825
Land improvements	74,194	10,600	-	84,794
Vehicles and equipment	23,601	221	-	23,822
Infrastructure	20,054	-	-	20,054
<b>Totals</b>	<u>491,752</u>	<u>44,743</u>	<u>-</u>	<u>536,495</u>
<b>Capital assets, net</b>	<u>\$ 1,293,098</u>	<u>\$ (16,810)</u>	<u>\$ -</u>	<u>\$ 1,276,288</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	375,722	-	-	375,722
<b>Totals</b>	<u>14,159,777</u>	<u>-</u>	<u>-</u>	<u>14,159,777</u>
<b>Total capital assets</b>	<u>14,166,627</u>	<u>-</u>	<u>-</u>	<u>14,166,627</u>
<b>Less accumulated depreciation:</b>	<u>7,972,767</u>	<u>473,692</u>	<u>-</u>	<u>8,446,459</u>
<b>Capital depreciable assets, net:</b>	<u>6,187,010</u>	<u>(473,692)</u>	<u>-</u>	<u>5,713,318</u>
<b>Total capital assets, net</b>	<u>\$ 6,193,860</u>	<u>\$ (473,692)</u>	<u>\$ -</u>	<u>\$ 5,720,168</u>

**CITY OF FRENCHBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**4. CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to the Governmental functions as follows:

General government	\$ 44,522
Streets	<u>221</u>
<b>Total depreciation expense</b>	<b><u>\$ 44,743</u></b>

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:

	<b>Balance June 30, 2017</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2018</b>
KBC note payable	\$ 1,252,919	\$ -	\$ 65,000	\$ 1,187,919
Net pension liability	474,642	108,640	-	583,282
Net OPEB liability	<u>157,133</u>	<u>43,198</u>	<u>-</u>	<u>200,331</u>
<b>Total</b>	<b><u>\$ 1,884,694</u></b>	<b><u>\$ 151,838</u></b>	<b><u>\$ 65,000</u></b>	<b><u>\$ 1,971,532</u></b>

**CITY OF FRENCHBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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

The minimum obligation for the KBC note payable at June 30, 2018, is as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 65,000	\$ 41,672	\$ 106,672
2020	67,083	39,939	107,022
2021	70,000	37,758	107,758
2022	72,083	35,483	107,566
2023	75,000	33,141	108,141
2024-2028	330,833	130,489	461,322
2029-2033	279,583	75,519	355,102
2034-2038	182,917	32,570	215,487
2039-2040	<u>45,420</u>	<u>3,112</u>	<u>48,532</u>
Total	<u>\$ 1,187,919</u>	<u>\$ 429,683</u>	<u>\$ 1,617,602</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, 2017	Additions	Retirements	Balance June 30, 2018
KBC note payable	<u>\$ 213,750</u>	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ 198,750</u>

The annual requirements to amortize all governmental long-term debt outstanding at June 30, 2018 is as follows:

Year Ending June 30,	Principal	Total Interest and Fees	Total Payment
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	20,000	4,567	24,567
2024-2028	100,833	9,651	110,484
2029	<u>5,834</u>	<u>-</u>	<u>5,834</u>
Total	<u>\$ 198,750</u>	<u>\$ 38,633</u>	<u>\$ 237,383</u>

**CITY OF FRENCHBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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**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, 2018, 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, 2018, participating employers contributed 19.18% 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 \$48,618 for the year ended June 30, 2018, or 100% of the required contribution. The contribution was allocated \$36,704 to the CERS pension fund and \$11,914 to the CERS insurance fund.

**CITY OF FRENCHBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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**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, 2018, the City reported a liability of \$583,282 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the City's proportion was .010 percent, which was the same as its proportion at June 30, 2016.

**CITY OF FRENCHBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**7. RETIREMENT PLAN (CONTINUED)**

For the year ended June 30, 2018, the City recognized pension expense of \$108,209. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 723	\$ 14,806
Changes of assumptions	107,631	-
Net difference between projected and actual earnings on Plan Investments	7,214	-
Changes in proportion and differences between City contributions and proportionate share of contributions	13,352	2,167
City contributions subsequent to the measurement date	36,704	-
<b>Total</b>	<b><u>\$ 165,624</u></b>	<b><u>\$ 16,973</u></b>

The \$36,704 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<b>Year ending June 30,</b>	
2019	\$ 50,320
2020	47,524
2021	21,593
2022	(7,490)

*Actuarial Assumptions* – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%	
Salary increases	3.05%, average, including inflation	
Investment rate of return	6.25%, 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, 2017 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, 2018

**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
U.S. Equity	25.6%	11.27%
Non-U.S. Equity	25.2%	2.83%
Fixed Income	14.0%	7.69%
Real Return	8.0%	4.00%
Real Estate	5.0%	5.95%
Absolute Return	10.0%	3.96%
Private Equity	10.0%	10.95%
Cash Equivalent	2.2%	3.65%
<b>TOTAL</b>	<b>100%</b>	

*Discount Rate* – The discount rate used to measure the total pension liability was 6.25 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 26-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 6.25 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 (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Discount rate	City's proportionate share of net pension liability
1% decrease	5.25%	\$ 735,645
Current discount rate	6.25%	\$ 583,282
1% increase	7.25%	\$ 455,832

**CITY OF FRENCHBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

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**7. RETIREMENT PLAN (CONTINUED)**

*Payable to the Pension Plan* – At June 30, 2018, the City reported a payable of \$4,666 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018. The payable includes both the pension and insurance contribution allocation.

**8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

*Plan Description* – As more fully described in Note 7, the City of Frenchburg participates in the County Employees' Retirement System (CERS). 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. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

*Contributions* – As more fully described in Note 7, plan members contribute to CERS for non-hazardous job classifications. For the year ending June 30, 2018, the employer's contribution was 4.70% to the insurance trust 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. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended June 30, 2018, the City contributed \$11,914, or 100% of the required contribution for non-hazardous job classifications.

*Benefits* – CERS provides health insurance benefits to Plan employees and beneficiaries.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

**CITY OF FRENCHBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2018

**8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2018, the City reported a liability for its proportionate share of the net OPEB liability of \$200,331.

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2017 was as .010 percent.

For the year ended June 30, 2018, the City recognized OPEB expense of \$22,828. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ -	\$ 556
Changes of assumptions	43,591	-
Net difference between projected and actual earnings on Plan investments	-	9,468
Changes in proportion and differences between City contributions and proportionate share of contributions	-	465
City contributions subsequent to the measurement date	14,362	-
<b>Total</b>	<b>\$ 57,953</b>	<b>\$ 10,489</b>

The \$14,362 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 OPEB liability in the year ending June 30, 2019. This includes an adjustment of \$2,448 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in expense as follows:

**Year ending June 30,**

2019	\$	5,696
2020	\$	5,696
2021	\$	5,696
2022	\$	5,696
2023	\$	8,061
2024	\$	2,257

*Actuarial Assumptions* – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous**

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

**CITY OF FRENCHBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017. Subsequent to the actuarial valuation date (June 30, 2016) but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted updated actuarial assumptions, which were used in performing the actuarial valuation as of June 30, 2017.

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 arithmetic nominal real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Nominal Real Rate of Return</b>
U.S Equity	26.5%	9.56%
Non-U.S. Equity	26.5%	2.84%
Fixed Income	12.0%	6.53%
Real Return	8.0%	3.68%
Real Estate	5.0%	8.99%
Absolute Return	10.0%	3.89%
Private Equity	10.0%	9.74%
Cash Equivalent	<u>2.0%</u>	2.69%
Total	100%	

**CITY OF FRENCHBURG, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018**

**8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

*Discount Rate* – The discount rate used to measure the total OPEB liability was 5.84% for non-hazardous classifications. 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 26-year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

	<b>Discount rate</b>		<b>Proportionate share of net OPEB liability</b>
1% decrease	4.84%	\$	254,908
Current discount rate	5.84%	\$	200,331
1% increase	6.84%	\$	154,911

*Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate* – The following presents the City's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<b>Proportionate share of net OPEB liability</b>
1% decrease	\$ 153,663
Current trend rate	\$ 200,331
1% increase	\$ 260,993

*OPEB plan fiduciary net position* – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report.

**9. PROPERTY TAX CALENDAR**

Property taxes for fiscal year 2018 were levied in November 2017, 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, 2017                  |
| 2. Face value amount payment dates | November 1, 2017 to March 1, 2018 |
| 3. 10% penalty delinquent date     | March 2, 2018                     |

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, 2018

**10. 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.

**11. INTERFUND BALANCES**

This table shows interfund balances as of June 30, 2018:

	General Fund	Water & Sewer Fund	Road Aid Fund	Total Due From
General Fund	\$ -	\$ (4,000)	\$ -	\$ (4,000)
Water & Sewer Fund	4,000	-	7,015	11,015
Road Aid Fund	-	(7,015)	-	(7,015)
Total due to (from)	<u>\$ 4,000</u>	<u>\$ (11,015)</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.

**12. RESTATEMENT OF NET POSITION**

Implementation of new accounting standard GASB Statement No. 75

During 2018, the City implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which addresses financial reporting for state and local government employers whose employees are provided with other postemployment benefits (OPEB) through defined benefit plans that are covered under Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

The guidance contained in Statement 75 changed how governments calculate and report the costs and obligations associated with OPEB. Under the new standards GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 75 to be applied retroactively, which has resulted in a restatement of beginning net position as follows:

<b>Business-type activities</b>	
Net position, at beginning of year	\$ 5,075,095
Beginning deferred outflows of resources	12,733
Beginning net OPEB liability	<u>(157,133)</u>
Net position, at beginning of year, as restated	<u>\$ 4,930,695</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF FRENCHBURG, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2018**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<b>REVENUES</b>				
<b>Taxes</b>				
Property taxes	\$ 8,000	\$ 8,000	\$ 9,527	\$ 1,527
Vehicle taxes	700	700	705	5
Bank shares	<u>7,200</u>	<u>7,200</u>	<u>7,647</u>	<u>447</u>
Total taxes	<u>15,900</u>	<u>15,900</u>	<u>17,879</u>	<u>1,979</u>
<b>Licenses and permits</b>				
Occupation license	800	800	600	(200)
Insurance premiums	35,000	35,000	39,502	4,502
Franchise fees	<u>2,500</u>	<u>2,500</u>	<u>3,299</u>	<u>799</u>
Total licenses and permits	<u>38,300</u>	<u>38,300</u>	<u>43,401</u>	<u>5,101</u>
<b>Intergovernmental revenue</b>				
Police	5,500	5,500	4,414	(1,086)
Siren grant	-	-	20,000	20,000
Other grants	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total intergovernmental	<u>5,500</u>	<u>5,500</u>	<u>24,414</u>	<u>18,914</u>
<b>Other revenues</b>				
Community Center	9,500	10,000	11,425	1,425
Rent	36,000	36,000	36,000	-
Interest income	400	400	291	(109)
Other	<u>1,000</u>	<u>1,000</u>	<u>3,281</u>	<u>2,281</u>
Total other	<u>46,900</u>	<u>47,400</u>	<u>50,997</u>	<u>3,597</u>
Total revenue	<u>106,600</u>	<u>107,100</u>	<u>136,691</u>	<u>29,591</u>
<b>EXPENDITURES</b>				
<b>General Government</b>				
<b>Current</b>				
Personnel services	13,000	13,000	13,028	28
Professional fees	13,500	-	7,836	7,836
Dues and subscriptions	4,500	5,000	4,745	(255)
Office	1,000	1,500	863	(637)
Utilities	22,775	15,775	25,102	9,327
Insurance	12,000	11,025	9,162	(1,863)
Law /Task force	5,500	5,500	4,414	(1,086)
Organization	10,000	-	3,900	3,900
Other expenses	<u>7,800</u>	<u>19,950</u>	<u>13,508</u>	<u>(6,442)</u>
Total general government	<u>90,075</u>	<u>71,750</u>	<u>82,558</u>	<u>10,808</u>
Street maintenance	<u>1,200</u>	<u>1,500</u>	<u>3,236</u>	<u>1,736</u>
Capital Outlay	<u>-</u>	<u>-</u>	<u>27,933</u>	<u>27,933</u>
Debt Service	<u>25,000</u>	<u>25,000</u>	<u>22,397</u>	<u>(2,603)</u>
Total expenditures	<u>116,275</u>	<u>98,250</u>	<u>136,124</u>	<u>37,874</u>
Excess (deficiency) revenues over expenditures	<u>\$ (9,675)</u>	<u>\$ 8,850</u>	<u>\$ 567</u>	<u>\$ (8,283)</u>

**CITY OF FRENCHBURG, KENTUCKY  
 REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON  
 SPECIAL REVENUE FUND  
 for the year ended June 30, 2018**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Intergovernmental	\$ 15,000	\$ 13,100	\$ 16,002	\$ 2,902
Other	90	90	112	22
Total revenue	<u>15,090</u>	<u>13,190</u>	<u>16,114</u>	<u>2,924</u>
<b>EXPENDITURES</b>				
<b>Streets</b>				
Utilities	3,600	3,600	3,978	378
Maintenance	<u>20,000</u>	<u>10,000</u>	<u>1,215</u>	<u>(8,785)</u>
Total expenditures	<u>23,600</u>	<u>13,600</u>	<u>5,193</u>	<u>(8,407)</u>
Excess (deficiency) revenues over expenditures	<u>\$ (8,510)</u>	<u>\$ (410)</u>	<u>\$ 10,921</u>	<u>\$ 11,331</u>

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

	2018	2017	2016	2015	2014
City's proportion of the net pension liability	0.010%	0.010%	0.010%	0.009%	0.009%
City's proportionate share of the net pension liability (asset)	\$ 583,282	\$ 474,642	\$ 420,422	\$ 297,391	\$ 306,391
City's covered employee payroll	\$ 242,625	\$ 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	240.40%	206.40%	184.28%	141.46%	140.74%
Plan fiduciary net position as a percentage of the total pension liability	53.32%	55.50%	59.97%	66.80%	61.22%

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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.

The above schedule will present 10 years of historical data, once available.

**CITY OF FRENCHBURG, KENTUCKY  
REQUIRED SUPPLEMENTAL  
SCHEDULE OF PENSION CONTRIBUTIONS - NONHAZARDOUS  
Last Six Fiscal Years**

	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 36,704	\$ 33,846	\$ 28,562	\$ 29,088	\$ 28,885	\$ 27,474
Contributions relative to contractually required employer contribution	<u>36,704</u>	<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	\$ 253,481	\$ 242,625	\$ 229,966	\$ 228,142	\$ 210,227	\$ 217,705
Employer contributions as a percentage of covered-employee payroll	14.48%	13.95%	12.42%	12.75%	13.74%	12.62%

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

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.

The above schedule will present 10 years of historical data, once available.

**CITY OF FRENCHBURG, KENTUCKY  
 REQUIRED SUPPLEMENTAL SCHEDULE OF  
 PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - NONHAZARDOUS  
 Last Two Fiscal Years**

	2018	2017
City's proportion of the net OPEB liability	0.010%	0.010%
City's proportionate share of the net OPEB liability (asset)	\$ 200,331	\$ 157,133
City's covered employee payroll	\$ 242,625	\$ 229,966
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	82.57%	68.33%
Plan fiduciary net position as a percentage of the total OPEB liability	52.39%	unavailable

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

The measurement date of the net OPEB 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 OPEB liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

The above schedule will present 10 years of historical data, once available.

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

	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 11,914	\$ 11,476	\$ 10,670	\$ 11,225	\$ 10,827	\$ 15,087
Contributions relative to contractually required employer contribution	<u>11,914</u>	<u>11,476</u>	<u>10,670</u>	<u>11,225</u>	<u>10,827</u>	<u>15,087</u>
Contribution deficiency (excess)	<u>\$ -</u>					
City's covered employee payroll	\$ 253,481	\$ 242,625	\$ 229,966	\$ 228,142	\$ 210,227	\$ 217,705
Employer contributions as a percentage of covered-employee payroll	4.70%	4.73%	4.64%	4.92%	5.15%	6.93%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the pension fund of the CERS. The above contributions only include those contributions allocated directly to the CERS insurance fund.

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 OPEB Liability.

The above schedule will present 10 years of historical data, once available.

**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, 2018**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,031,856	\$ 94,746	\$ 1,126,602
Penalties	19,127	1,593	20,720
Other revenues	<u>18,206</u>	<u>-</u>	<u>18,206</u>
 Total operating revenues	 <u>1,069,189</u>	 <u>96,339</u>	 <u>1,165,528</u>
<b>OPERATING EXPENSES</b>			
Personnel	408,142	59,988	468,130
Water purchased	481,914	-	481,914
Maintenance and repairs	2,531	4,562	7,093
Utilities	28,531	14,127	42,658
Auto	11,939	-	11,939
Insurance	12,288	5,455	17,743
Office supplies	12,892	108	13,000
Professional services	8,467	17,170	25,637
Operating supplies	76,436	13,486	89,922
Rent	36,000	-	36,000
Postage	12,331	-	12,331
Other	12,827	1,803	14,630
Depreciation	<u>317,904</u>	<u>155,788</u>	<u>473,692</u>
 Total operating expenses	 <u>1,422,202</u>	 <u>272,487</u>	 <u>1,694,689</u>
<b>OPERATING (LOSS)</b>	<b>(353,013)</b>	<b>(176,148)</b>	<b>(529,161)</b>
Non-operating revenue (expense)			
Interest income	1,079	229	1,308
Interest expense	<u>(31,501)</u>	<u>(11,633)</u>	<u>(43,134)</u>
<b>NET (LOSS)</b>	<b>(383,435)</b>	<b>(187,552)</b>	<b>(570,987)</b>
Capital contributions			
Hook on fees	<u>20,750</u>	<u>1,200</u>	<u>21,950</u>
 Change in net position	 <u>\$ (362,685)</u>	 <u>\$ (186,352)</u>	 <u>(549,037)</u>
 Net position - Beginning of Year, as Restated			 <u>4,930,695</u>
 <b>NET POSITION - End of Year</b>			 <u><b>\$ 4,381,658</b></u>



CPAs 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**

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, each major fund and the aggregate remaining fund information of the City of Frenchburg, Kentucky, as of and for the year ended June 30, 2018, 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 31, 2019.

**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 certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses: 2018-001 and 2018-002.

**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 Responses to Findings**

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

### **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 31, 2019

**CITY OF FRENCHBURG  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2018**

**FINDINGS**

***2018-001 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.

***2018-002 All bank accounts should be reconciled monthly to the City's financial records.***

Criteria: The City's system of internal control requires that all bank accounts are reconciled to the City's financial records monthly.

Condition: Multiple bank accounts were not reconciled for several months and transactions were not recorded accurately.

Cause: The City Clerk is not adequately trained to reconcile bank accounts timely and ensure the City's financial activity is recorded accurately.

Effect: Auditors identified several bank accounts that were not reconciled timely. Numerous material audit adjustments were needed in order for the City's fiscal year end financial statements to be fairly presented.

Recommendation: We recommend that the City take steps to ensure that all bank accounts are reconciled monthly and that all financial activity is recorded accurately. We recommend the City devote more resources to its financial management system to resolve this deficiency.

**RESPONSE:** The City will meet with an outside consultant to assist with taking the necessary steps to resolve the issues described in this finding.