

CITY OF MIDDLESBORO, KENTUCKY
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013
with
REPORT ON INDEPENDENT AUDITORS

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Cloyd & Associates, PSC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Mayor and Council
City of Middlesboro
Middlesboro, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, as applicable, of the City of Middlesboro, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government 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.

Auditor's 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. 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 auditor's 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.

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Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
General Fund	Unmodified
Sewer Fund	Unmodified
Garbage Fund	Unmodified
Ambulance Fund	Unmodified
Aggregate Remaining Fund Information	Qualified

Basis for Qualified Opinion on Aggregate Remaining Fund Information

Accounting principles generally accepted in the United States of America Require certain financial data to be presented and disclosed for the Police and Fireman Pension Fund. The City has not presented the data for the fund. Because of this departure from accounting principles generally accepted in the United States of America, the disclosures and required supplemental schedules are incomplete at June 30, 2013.

Qualified Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Qualified Opinion on Aggregate Remaining Fund Information" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate remaining fund information of the City of Middlesboro, Kentucky as of June 30, 2013, or the changes in financial position or cash flows, as applicable, thereof for the year then ended.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, for the primary government of the City of Middlesboro, as of June 30 , 2013 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 to the financial statements, the City had a prior period adjustment due to a correction of an error. Certain capital assets were not recorded during the prior year, so the City corrected the financial statements for the year ended June 30, 2013.



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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information per the table of contents 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.

The management's discussion and analysis and the budgetary comparison information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 31, 2017 on our consideration of City of Middlesboro, 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. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Middlesboro, Kentucky's internal control over financial reporting and compliance.

Cloyd & Associates, PSC

December 31, 2017
Middlesboro, KY

CITY OF MIDDLESBORO, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2013

As management of the City of Middlesboro (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes.

FINANCIAL HIGHLIGHTS

- The City's ending cash balance was \$2,466,510 comprised of \$11,641 in restricted cash and \$2,454,869 in unrestricted cash. The prior year's cash balance was \$2,520,389 comprised of \$48,038 in restricted cash and \$2,472,351 in unrestricted cash.
- The City's combined net position increased by \$648,968 or approximately 3.9% between 2013 and 2012.
- The General Fund had approximately \$4.65 million in revenue, which primarily consisted of tax revenue, fees for services, regulatory fees, and intergovernmental revenue. There was an overall increase in the General Fund net fund balance of approximately \$302,274 compared to an increase of \$105,221 for 2012. The total overall increase for governmental funds was \$243,714 for 2013 compared to an increase of \$35,428 for 2012.
- The City's total long-term liabilities decreased by \$255,828, relative to 2012. The ending long-term debt balance was \$758,306 including the accrued absences.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the City that are primarily supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, police department, fire protection, public works, recycling, building inspection, parks and recreation, main street and special projects. Fixed asset acquisitions and related debt are also supported by taxes and intergovernmental revenues. The government-wide

CITY OF MIDDLESBORO, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) **Year ended June 30, 2013**

financial statements can be found on pages 8 and 9 of this report.

Fund financial statement. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental, proprietary, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to provide benefits for employees. The City has no proprietary funds. All other activities of the City are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 through 18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to the financial statements can be found on pages 19 through 34 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental assets exceeded liabilities by approximately \$17.23 Million. The largest portion of the City's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

The City as a Whole

The following is a summary of the City's net assets:

See table on next page

CITY OF MIDDLESBORO, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2013

	2013	2012
Current and other assets	\$ 3,064,676	\$ 3,099,549
Capital assets	15,649,808	15,266,357
Total Assets	18,714,484	18,365,906
Current liabilities	712,768	896,409
Noncurrent liabilities	768,742	885,491
Total Liabilities	1,481,510	1,781,900
Investment in capital assets, net of related debt	14,678,841	15,083,545
Restricted net assets	11,641	475,296
Unrestricted net assets	2,542,492	1,025,165
Total Net Assets	\$ 17,232,974	\$ 16,584,006

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for fiscal years 2013 and 2012:

	2013	2012
Revenues and other financing sources		
Taxes	\$ 3,664,859	\$ 3,559,024
License, permits, fees	612,672	598,559
Intergovernmental programs	451,239	1,247,988
Fines and forfeits	33,680	92,577
Other	269,375	92,649
Total Revenue	5,031,825	5,590,797
Expenditures and other financing uses		
General government	752,225	2,307,198
Public safety	3,471,528	2,609,827
Highways and streets	1,292,181	1,576,429
Debt service	115,395	108,672
Capital outlay	170,532	67,645
Total expenditures	5,801,861	6,669,771
Excess revenues (expenditures)	(770,036)	(1,078,974)
Other financing sources (uses)		
Bond proceeds	-	250,000
Transfers in	1,013,750	1,107,417
Transfers out	-	(261,515)
Other	-	18,500
Total other financing sources (uses)	1,013,750	1,114,402
Net change in fund balance	243,714	35,428

CITY OF MIDDLESBORO, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2013

General Fund Revenue

The majority of revenue, net of debt, was derived from tax revenue (73% in 2013 and 64% in 2012). License, permits, and fees made up 12% of revenue in 2013 and 11% in 2012. Classification of occupation tax revenue is the reason for the large increase in percentages for tax revenue.

BUDGETARY IMPLICATION

The City's fiscal year is July 1 - June 30; other programs, i.e., some federal programs operate on a different fiscal calendar, but are reflected in the City's overall budget. Significant events that may impact the finances include expected state budget deficits that may impact grant or other revenue. The City routinely attempts to keep expenditures to a minimum because of the anticipated revenue problems. The City's budget was not exceeded in the current year.

Questions regarding this report should be directed to the Middlesboro City Clerk, PO Box 756, Middlesboro, Kentucky, 40965.

City of Middlesboro, Kentucky
Statement of Net Position
June 30, 2013

	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash	\$ 1,024,281	\$ 1,430,588	\$ 2,454,869
Accounts receivable, net			
Taxes	-	-	-
Other	10,111	483,159	493,270
Inventory	-	5,799	5,799
Total Current Assets	<u>1,034,392</u>	<u>1,919,546</u>	<u>2,953,938</u>
Noncurrent Assets			
Restricted cash	11,641	-	11,641
Bond Issue Costs	24,570	-	24,570
Capital assets, net of accumulated depreciation	8,439,976	7,173,621	15,613,597
Total Noncurrent Assets	<u>8,476,187</u>	<u>7,173,621</u>	<u>15,649,808</u>
Total Assets	<u>9,510,579</u>	<u>9,093,167</u>	<u>18,603,746</u>
Liabilities			
Current liabilities			
Accounts payable	27,046	185,881	212,927
Accrued liabilities	118,971	7,192	126,163
Compensated absences	218,693	24,437	243,130
Accrued interest	6,470	-	6,470
Bonds and notes payable	87,000	-	87,000
Leases payable	-	37,078	37,078
Total current liabilities	<u>458,180</u>	<u>254,588</u>	<u>712,768</u>
Non current liabilities			
Bonds and notes payable	516,000	-	516,000
Leases payable	-	79,666	79,666
Compensated absences	155,306	17,770	173,076
Total non-current liabilities	<u>671,306</u>	<u>97,436</u>	<u>768,742</u>
Total liabilities	<u>1,129,486</u>	<u>352,024</u>	<u>1,481,510</u>
Net Position			
Invested in capital assets, net of related debt	7,777,959	6,900,882	14,678,841
Restricted for:			
Debt service	11,641	-	11,641
Other	170,311		170,311
Unrestricted	421,182	1,840,261	2,261,443
Total Net Position	<u>\$ 8,381,093</u>	<u>\$ 8,741,143</u>	<u>\$ 17,122,236</u>

City of Middlesboro, Kentucky
Statement of Activities
For the Year Ended June 30, 2013

Function/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business Type Activities	Total
Governmental Activities:							
General government	\$ 844,680	\$ 8,190	\$ 451,239	\$ -	\$ (385,251)	\$ -	\$ (385,251)
Public safety	3,460,160	-	-	-	(3,460,160)	-	(3,460,160)
Highways and streets	1,276,272	-	-	-	(1,276,272)	-	(1,276,272)
Depreciation & amortization	154,923	-	-	-	(154,923)	-	(154,923)
Interest on long-term debt	25,367	-	-	-	(25,367)	-	(25,367)
Total Governmental Activities	5,761,402	8,190	451,239	-	(5,301,973)	-	(5,301,973)
 Business-Type Activities							
Sewer	1,480,403	1,505,442	394,481	-	-	419,520	419,520
Garbage	397,570	332,722	-	-	-	(64,848)	(64,848)
Ambulance	181,986	875,433	-	-	-	693,447	693,447
Interest expense	7,662	-	-	-	-	(7,662)	(7,662)
Total Business-Type Activities	2,067,621	2,713,597	394,481	-	-	1,040,457	1,040,457
 Total City	\$ 7,829,023	\$ 2,721,787	\$ 845,720	\$ -	(5,301,973)	1,040,457	(4,261,516)
 General Revenues (Expenses):							
Taxes					3,664,859	-	3,664,859
Licenses and permits					612,672	-	612,672
Interest income					2,733	4,468	7,201
Gain on sale of assets					-	-	-
Miscellaneous income					292,132	10,169	302,301
Transfers in / (out)					1,013,750	(1,013,750)	-
Total General Revenues (Expenses)					5,586,146	(999,113)	4,587,033
 Change in Net Position					284,173	41,344	325,517
 Net Position - Beginning					7,730,413	8,853,593	16,584,006
 Prior period adjustment (See Note 16)					366,507	(153,794)	212,713
 Beginning net position					8,096,920	8,699,799	16,796,719
 Net Position - Ending					\$ 8,381,093	\$ 8,741,143	\$ 17,122,236

City of Middlesboro, Kentucky
Balance Sheet - Governmental Funds
June 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash	\$ 853,970	\$ 170,311	\$ 1,024,281
Restricted cash	11,641	-	11,641
Accounts receivable, net			
Tax and license	-	-	-
Other	10,111	-	10,111
Total Assets	<u>\$ 875,722</u>	<u>\$ 170,311</u>	<u>\$ 1,046,033</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	27,046	-	27,046
Accrued liabilities	285,231	-	285,231
Total Liabilities	<u>312,277</u>	<u>-</u>	<u>312,277</u>
Fund Balances			
Restricted	11,641	170,311	181,952
Unassigned	551,804	-	551,804
Total Fund Balances	<u>563,445</u>	<u>170,311</u>	<u>733,756</u>
Total Liabilities and Fund Balances	<u>\$ 875,722</u>	<u>\$ 170,311</u>	<u>\$ 1,046,033</u>

City of Middlesboro, Kentucky
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Position
June 30, 2013

Total fund balance per fund financial statements	\$ 733,756
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	8,439,976
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Certain assets are not reported in this fund financial statements because they are not current financial resources, but they are reported in the statement of net position	24,570
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Bonds payable are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.	(603,000)
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Certain liabilities (such as long-term portion of compensated absences and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position	<u>(214,209)</u>
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Net Position For Governmental Activities	<u>\$ 8,381,093</u>
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City of Middlesboro, Kentucky
Statement of Revenues, Expenditures and Changes In
Fund Balances - Governmental Funds
For the Year Ended June 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenue			
Taxes	\$ 3,664,859	\$ -	\$ 3,664,859
Licenses and permits	612,672	-	612,672
Fines and forfeits	33,680	-	33,680
Interest income	2,497	236	2,733
Rental income	8,190	-	8,190
Intergovernmental programs	73,093	378,146	451,239
Miscellaneous income	258,452	-	258,452
Total revenue	<u>4,653,443</u>	<u>378,382</u>	<u>5,031,825</u>
Expenditures			
General government	751,320	905	752,225
Public safety	3,471,528	-	3,471,528
Highways and streets	1,036,144	256,037	1,292,181
Debt service	115,395	-	115,395
Capital outlay	170,532	-	170,532
Total Expenditures	<u>5,544,919</u>	<u>256,942</u>	<u>5,801,861</u>
Excess of Revenues Over (Under) Expenditures	(891,476)	121,440	(770,036)
Other Financing Sources (Uses)			
Refinancing proceeds from loan	-	-	-
Proceed from sale of fixed assets	-	-	-
Operating transfers in (out)	1,193,750	(180,000)	1,013,750
Total Other Financing Sources (Uses)	<u>1,193,750</u>	<u>(180,000)</u>	<u>1,013,750</u>
Net Change in Fund Balance	302,274	(58,560)	243,714
Fund Balance July 1, 2012	<u>139,494</u>	<u>350,548</u>	<u>490,042</u>
Prior period adjustment (See Note 16)	<u>121,677</u>	<u>(121,677)</u>	<u>-</u>
Fund Balance June 30, 2013	<u>\$ 563,445</u>	<u>\$ 170,311</u>	<u>\$ 733,756</u>

City of Middlesboro, Kentucky
Statement of Net Position - Proprietary Funds
June 30, 2013

	Sewer	Garbage	Ambulance	Total Proprietary Funds
Current Assets				
Cash	\$ 959,473	\$ 39,842	\$ 431,273	\$ 1,430,588
Accounts receivable, net	226,093	44,111	212,955	483,159
Inventory	5,799	-	-	5,799
Total Current Assets	<u>1,191,365</u>	<u>83,953</u>	<u>644,228</u>	<u>1,919,546</u>
Noncurrent Assets				
Restricted cash	-	-	-	-
Capital assets, net of accumulated depreciation	6,993,070	-	180,551	7,173,621
Total Noncurrent Assets	<u>6,993,070</u>	<u>-</u>	<u>180,551</u>	<u>7,173,621</u>
Total Assets	<u>\$ 8,184,435</u>	<u>\$ 83,953</u>	<u>\$ 824,779</u>	<u>\$ 9,093,167</u>
Current Liabilities				
Capital leases	\$ -	\$ -	\$ 37,078	\$ 37,078
Accounts payable	124,310	32,204	29,367	185,881
Accrued expenses	7,192	-	-	7,192
Compensated absences	24,437	-	-	24,437
Total Current Liabilities	<u>155,939</u>	<u>32,204</u>	<u>66,445</u>	<u>254,588</u>
Noncurrent Liabilities				
Capital leases	-	-	79,666	79,666
Compensated absences	17,770	-	-	17,770
Total Noncurrent Liabilities	<u>17,770</u>	<u>-</u>	<u>79,666</u>	<u>97,436</u>
Total Liabilities	<u>173,709</u>	<u>32,204</u>	<u>146,111</u>	<u>352,024</u>
Net Position				
Invested in capital assets, net of related debt	6,993,070	-	63,807	7,056,877
Restricted for debt service	-	-	-	-
Unrestricted	1,017,656	51,749	614,861	1,684,266
Total Net Position	<u>\$ 8,010,726</u>	<u>\$ 51,749</u>	<u>\$ 678,668</u>	<u>\$ 8,741,143</u>

City of Middlesboro, Kentucky
Statement of Revenues, Expenses, and Changes in
Net Position - Proprietary Funds
For the Year Ended June 30, 2013

	Sewer	Garbage	Ambulance	Total Proprietary Funds
Operating Revenues				
Charges for services	\$ 1,505,442	\$ 332,722	\$ 875,433	\$ 2,713,597
Intergovernmental revenue	394,481	-	-	394,481
Other income	-	-	10,169	10,169
Total Operating Revenue	<u>1,899,923</u>	<u>332,722</u>	<u>885,602</u>	<u>3,118,247</u>
Operating Expense				
Salaries	354,668	-	9,925	364,593
Contractors fees	-	397,570	-	397,570
Rescue squad	-	-	15,000	15,000
Depreciation	373,289	-	29,987	403,276
Maintenance	83,429	-	12,996	96,425
Utilities	185,960	-	-	185,960
Chemicals	117,549	-	-	117,549
Employee benefits	44,331	-	637	44,968
Retirement expense	61,797	-	26	61,823
Payroll taxes	25,559	-	-	25,559
Insurance	45,450	-	-	45,450
Supplies	18,449	-	30,719	49,168
Professional fees	13,235	-	41,591	54,826
Testing	25,028	-	-	25,028
Telephone	5,501	-	-	5,501
Equipment rental	1,236	-	-	1,236
Fuel	20,381	-	23,370	43,751
Uniforms	5,349	-	9,100	14,449
Travel	3,737	-	698	4,435
Taxes	51,512	-	-	51,512
Dumping expenses	4,703	-	-	4,703
Grant expense	-	-	-	-
Other operating expenses	1,304	-	4,056	5,360
Other general expenses	37,936	-	3,881	41,817
Total Operating Expenses	<u>1,480,403</u>	<u>397,570</u>	<u>181,986</u>	<u>2,059,959</u>
Operating Income (Loss)	<u>419,520</u>	<u>(64,848)</u>	<u>703,616</u>	<u>1,058,288</u>
Other Revenues (Expenses)				
Interest revenue	2,014	224	2,230	4,468
Interest expense	-	-	(7,662)	(7,662)
Total Other Revenues (Expenses)	<u>2,014</u>	<u>224</u>	<u>(5,432)</u>	<u>(3,194)</u>
Income (loss) before transfers	421,534	(64,624)	698,184	1,055,094
Transfers (to) / from governmental activities	<u>(175,000)</u>	<u>(25,000)</u>	<u>(813,750)</u>	<u>(1,013,750)</u>
Net Income (Loss)	246,534	(89,624)	(115,566)	41,344
Net Position , July 1, 2012	7,764,192	141,373	948,028	8,853,593
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>(153,794)</u>	<u>(153,794)</u>
Net Position, June 30, 2013	<u>\$ 8,010,726</u>	<u>\$ 51,749</u>	<u>\$ 678,668</u>	<u>\$ 8,741,143</u>

City of Middlesboro, Kentucky
Statement of Cash Flows - Proprietary Funds
For the Year Ended June 30, 2013

	Sewer	Garbage	Ambulance	Total Proprietary Funds
Cash Flows From Operating Activities				
Receipts from customers	\$ 1,779,827	\$ 353,057	\$ 842,546	\$ 2,975,430
Payments for goods and services	(999,637)	(396,877)	(123,030)	(1,519,544)
Net Cash Provided (Used) by Operating Activities	<u>780,190</u>	<u>(43,820)</u>	<u>719,516</u>	<u>1,455,886</u>
Cash Flows From Noncapital Financing Activities				
Transfers (to) from other funds	(175,000)	(25,000)	(813,750)	(1,013,750)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(175,000)</u>	<u>(25,000)</u>	<u>(813,750)</u>	<u>(1,013,750)</u>
Cash Flows From Capital Financing Activities				
Proceeds from debt	-	-	-	-
Acquisition and construction of capital assets	(430,081)	-	(19,895)	(449,976)
Principal and interest paid on debt	-	-	(43,017)	(43,017)
Net Cash Used by Capital Financing Activities	<u>(430,081)</u>	<u>-</u>	<u>(62,912)</u>	<u>(492,993)</u>
Cash Flows From Investing Activities				
Interest	2,014	224	2,230	4,468
Net Cash Provided by Investing Activities	<u>2,014</u>	<u>224</u>	<u>2,230</u>	<u>4,468</u>
Net Decrease in Cash	177,123	(68,596)	(154,916)	(46,389)
Cash - July 1, 2012	<u>782,350</u>	<u>108,438</u>	<u>586,189</u>	<u>1,476,977</u>
Cash - June 30, 2013	<u>\$ 959,473</u>	<u>\$ 39,842</u>	<u>\$ 431,273</u>	<u>\$ 1,430,588</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 419,520	\$ (64,848)	\$ 703,616	\$ 1,058,288
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	373,289	-	29,987	403,276
Net change in pension expense	-	-	-	-
(Increase) Decrease in:				
Accounts receivable	(120,096)	20,335	(43,056)	(142,817)
Inventory	-	-	-	-
Undeposited funds	-	-	-	-
Increase (Decrease) in:				
Accounts payable	103,913	693	28,969	133,575
Compensated absences	3,318	-	-	3,318
Accrued expenses	246	-	-	246
Net Cash Provided (Used) by Operating Activities	<u>\$ 780,190</u>	<u>\$ (43,820)</u>	<u>\$ 719,516</u>	<u>\$ 1,455,886</u>

City of Middlesboro, Kentucky
Statement of Fiduciary Net Position - Fiduciary Funds
For the Year Ended June 30, 2013

	<u>P&F Pension Fund</u>
ASSETS	
Cash and cash equivalents	\$ 270,207
Investments	1,358,087
Receivables	
Interest	<u>-</u>
Total Assets	<u>1,628,294</u>
 LIABILITIES	
Due to agencies	-
Total Liabilities	<u>-</u>
 NET POSITION	
Held in trust for pension benefits	<u>\$ 1,628,294</u>

City of Middlesboro, Kentucky
Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the Year Ended June 30, 2013

	P&F Pension Fund
ADDITIONS	
Tax revenue	\$ -
Employee contributions	-
Interest	13,487
Other	-
Total revenues	<u>13,487</u>
DEDUCTIONS	
Benefits	215,837
Plan administration	-
Total expenditures	<u>215,837</u>
Increase/(Decrease) in net assets	(202,350)
Net Assets, July 1, 2012	<u>1,830,644</u>
Net Position Held in Trust for Pension Benefits, June 30, 2013	<u><u>\$ 1,628,294</u></u>

CITY OF MIDDLESBORO, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The financial reporting entity

The City of Middlesboro, Kentucky is a second-class city and operates under a Mayor-Council form of government. The City's major operations include public safety, fire protection, public works, recreation and parks, and general administrative services. The accounting policies of the City of Middlesboro, Kentucky conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant accounting policies.

The financial statements of the City of Middlesboro, Kentucky include the funds, activities and entities over which the Mayor and Council exercise significant responsibility. Oversight responsibility, as defined by Section 2100 of the *GASB Codification of Governmental Accounting and Financial Reporting Standards*, was determined on the basis of the City's ability to significantly influence operations, select the governing body, and participate in fiscal management and scope of public service.

The City's basic financial statements include the accounts of all the accounts of the city including any component units. The criteria for including organizations as component units within the City's reporting entity is set forth in Section 2100 of *GASB Codification of Governmental Accounting and Financial Reporting Standards* and primarily includes those organizations over which the City exercises significant operational or functional control. The criteria include whether:

- The organization is legally separate (can sue or be sued in their own name)
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial burden on the City
- The organization is fiscally dependent on the City

Based on the criteria listed above, the Middlesboro/Bell County Airport Board, the Municipal Housing Authority, the Library Board, the Tourism Council, the Bell County Industrial Foundation, and the Alexander Arthur Museum are not considered component units of the City of Middlesboro because the City's authority generally does not extend beyond making appointments.

B. Basic financial statements

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

The government-wide financial statements (Statement of Net Position and Statement of Activities) generally report on the City and its component units as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

CITY OF MIDDLESBORO, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

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

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or function. The City does not charge indirect expense to programs or functions. Interest on general long-term bonded debt is not allocated to the various functions, and interest on capital leases may be allocated to various functions. Program revenues include: 1) charges paid by the recipients of the goods, services, or privileges offered by the program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also, part of the basic financial statements are fund financial statements for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The City does not have any proprietary funds except in discretely presented component units (business-type activities in the government-wide financial statements). The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds.

Governmental Funds

The City reports the following governmental funds:

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

CITY OF MIDDLESBORO, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are restricted by law to be expended for specific purposes. The following Special Revenue Funds are maintained by the City:

Municipal Road Aid Fund – A special revenue fund to account for money received from the State of Kentucky to be used exclusively for repair of roads.

LGEA Fund – A special revenue fund used to account for the Local Government Economic Assistance activity.

Proprietary Fund Types

Proprietary Funds are maintained on the accrual basis of accounting. Proprietary funds apply all statements of the Financial Accounting Standards Board issued after November 30, 1989, as they relate to business enterprises unless they contradict existing Government Accounting Standards Board pronouncements. The City's enterprise operations include sewer, sanitation services, and ambulance services.

Sewer Fund – The sewer fund reports activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs of providing services to the general public on a continuing basis be financed or recorded primarily through user charges. City employees perform sewer operations. The City and the local water utility agreed to combine utility billing and collection services.

Sanitation Fund – The sanitation fund reports activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs of providing services to the general public on a continuing basis be financed or recorded primarily through user charges. The City has contracted with an outside provider to perform sanitation services. The City and the local water utility agreed to combine utility billing and collection services.

Ambulance Fund – The ambulance fund is financed by fees earned from emergency transport. The City has contracted with an outside provider to perform the billing function. Employees of the city's fire department provided the services. The employment cost associated with this service is recorded and paid by the general fund. No formal determination is made to allocated salaries and benefits to the ambulance fund; however, the City annually budgets and transfers funds from the Ambulance fund to offset operational costs in the general fund.

Fiduciary Funds

Pension Trust Funds – The pension trust funds account for assets held on behalf of City employees.

CITY OF MIDDLESBORO, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement focus and basis of accounting

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

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, licenses, fees and permits, intergovernmental revenues charges for services, fines, forfeits and penalties, and interest.
- B. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Debt proceeds and cost are reported as other financing sources.

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

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

D. Cash and cash equivalents and investments

For purposes of the basic financial statements, the City considers cash and cash equivalents to be all demand deposits, all certificates of deposit, and highly liquid, short-term security investments that are readily convertible to known amounts of cash and mature within three months of the date they are acquired. Deposits (cash and investments) are carried at cost which approximates market value. The carrying amount of all deposits is separately displayed on the balance sheet depending on the terms of the deposit. Restricted cash and investments are separately displayed on the balance sheet.

The City of Middlesboro, Kentucky is authorized by state statute to invest in:

- 1. Obligations of the United States and of its agencies and instrumentalities;
- 2. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;

CITY OF MIDDLESBORO, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Shares of any savings and loan association insured by an agency of the government of the United States up to the amount so insured;
4. Interest bearing deposits in nationally chartered or state banks chartered in Kentucky and insured by an agency of the government of the United States up to the amount so insured, and in large amounts provided such bank shall pledge as security obligations of the United States government, its agencies and instrumentalities. Investments are stated as cost or amortized cost, which approximates market.

E. Receivables

All trade receivables are shown net of an allowance for uncollectible accounts and estimated refunds. In the ambulance fund, the City considers the following to be uncollectible; 1) all accounts turned over the district court for collection, 2) all private pay accounts over 90 days old, 3) 40% of all claims billed to Medicare, and 4) 90% of all Medicaid claims. As of June 30, 2013, the allowance for uncollectible accounts for business-type activities was \$283,088.

F. Prepaid expenses

Certain prepayments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

G. Restricted assets

Certain grant proceeds, as well as funds set aside for the repayment of bonds or restricted by enabling legislation may be classified as restricted on the balance sheet and statement of net assets, because they are maintained in separate bank accounts or their use is limited by applicable grant agreements or debt covenants.

H. Capital assets

Under Governmental Accounting Standards Board Statement No. 34 (GASB-34), all capital assets, whether owned by governmental activities or business-type activities, as applicable, are recorded and depreciated in the government-wide financial statements. No capital assets or depreciation are shown in the governmental funds financial statements. The City generally considers assets with a cost of \$5,000 and useful lives in excess of one year or more to be a capital asset.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Major additions that are substantially a new asset are capitalized over the useful lives of that asset category as determined by the City's management.

CITY OF MIDDLESBORO, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major outlays for capital assets and improvements are capitalized as the projects are constructed and put into use. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	50 years
Machinery and equipment	5 years
Infrastructure	25 years

Capital assets transferred between funds or functions are transferred at their net book value (cost less accumulated depreciation), as of the date of transfer.

I. Lease obligations

The City may have various assets under capital lease agreements. In the government wide financial statements, capital leases and the related lease obligations are reported as liabilities in the governmental activities of the statement of net assets.

J. Debt costs

Debt costs are amortized over the life of the debt. For the year ended June 30, 2013, the net bond issue cost amount was \$24,570.

K. Unearned revenues

Unearned revenues arise in governmental funds when revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue may also arise, in both governmental and proprietary funds, when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures (unearned). In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The City assumes all delinquent taxes to be uncollectible at the end of the year and does not present accounts receivable or deferred revenue in connection with taxes receivable. However, the City does attempt to collect all delinquent taxes.

L. Compensated absences

The City's policy allows employees to accumulate a maximum of 288 hours of unused sick leave and 192 hours of vacation leave. Employees are compensated for excess leave hours at the regular rate of pay each year in December.

M. Pension plans

Full-time City employees are members of the State of Kentucky County Employees' Retirement System (CERS). The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually as of June 30 of the prior fiscal year by the System's actuary. Former employees are also members of the Police and Fireman's pension fund. The City funds the Police and Fireman's Pension Fund as deemed necessary.

CITY OF MIDDLESBORO, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund balances:

The Board has elected to adopt GASB Statement Number 54 for the current and subsequent reporting periods. This statement substantially changes the terminology used to describe different component of the fund balance. Under this statement, the fund balance is separated into five categories as follows:

Nonspendable:	Funds permanently nonspendable by decree of donor, such as an endowment or items which may not be used for another purpose, such as amounts used to prepay future expenses or already purchased inventory on hand.
Restricted:	Funds legally restricted under federal and state law, bond authority or grantor contract.
Committed:	Commitments passed by the Board for specific expenditures.
Assigned:	Funds assigned to management priority including issued encumbrances.
Unassigned:	Funds available for future operations

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, Board, or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

The City does not use encumbrance accounting.

O. Budgets and Budgetary accounting

The City follows procedures pursuant to KRS 91A.030 in establishing the budgetary data reflected in the financial statements as follows:

1. Prior to May 1 of each year, the Mayor submits to the Middlesboro City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The Mayor is authorized to transfer budgeted amounts between categories within each department; however, any revisions that alter the total expenditures of any fund must be approved by the Middlesboro City Council.
5. Formal budgetary integration is employed as a management control device during the year for the general fund. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Operating transfers required for debt service is accounted for in the budget of the City's general fund.

CITY OF MIDDLESBORO, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Actual expenditures may not exceed the legally adopted budget for any given fund.
7. The budget for the fiscal year ending June 30, 2013 was amended during the year as in accordance with the law. The amendment was approved in the same manner as the original budget was adopted.

P. Property taxes

Delinquent property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1, and are payable in full by December 31. The County bills the property taxes and the City collects the taxes. City property tax revenues are recorded as receivables and deferred revenue at the time the tax levy is billed. Current year revenues recognized are those collected within the current period, or soon enough thereafter to pay current liabilities, generally within sixty days after the year-end. The City does not realize prior year delinquencies in the following year soon enough to make them available to meet current year expenditures, and fully reserves the uncollected balance at year's end as uncollectible. Since the net is zero they are not presented on the financial statements.

Q. Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. As such, actual results could differ from those estimates.

R. Inventory

Inventory is reported at cost and pertains only to the sewer fund. It represents supplies that will be utilized in the repair and maintenance of lines. The inventory value at June 30, 2013 was \$5,799.

NOTE 2 – CASH AND INVESTMENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2013, the carrying amount of the City's cash and cash equivalents was \$2,466,510. The bank balance was \$2,536,077. The City also held \$1,628,294 in agency for the Middlesboro Police and Firemen's Pension Fund. Of the total cash balance, \$1,001,404 was covered by federal depository insurance with the remaining balance, excluding petty cash of \$1,000, covered by collateral agreements and collateral held by the pledging bank's trust department in the City's name. By state statute, and City policy, the City may deposit funds in state and nationally chartered banks which provide FDIC insurance and sufficient collateral to secure deposits in excess of FDIC coverage. Cash equivalents are considered to be demand deposits, certificates of deposit and highly liquid, short-term security investments that are readily convertible to known amounts of cash and mature within three months of the date they are acquired. Of the total cash balance exclusive of the Police & Firemen's Pension Fund, \$11,641 is considered restricted or committed. All Pension Fund cash is considered restricted. Restricted and committed cash is restricted by grant agreements, enabling legislation, or Council action. The remaining balance is unrestricted.

CITY OF MIDDLESBORO, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 3 - INVESTMENTS

City funds are considered to be public funds and, therefore, their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds as provided by KRS 66.480. At June 30, 2013, the City holds only demand deposits and certificates of deposit considered to be cash equivalents. The City holds three long term certificates of deposit in agency for the City of Middlesboro Police and Firemen's Pension Fund that do not bear material interest rate risk. Consequently, the City does not bear material investment related credit risk or interest rate risk. The City has not adopted a formal investment policy.

NOTE 4 – CONTINGENCIES

A. Pending and Threatened Litigation

A number of claims and suits are pending against the City for alleged damages to persons and/or property and for other alleged liabilities arising out of matters usually incident to the operation of a city such as Middlesboro. In the opinion of City management, the City has strong defenses against such claims, and thus the ultimate loss, if any, relating to these claims and suits not covered by insurance, will not materially affect the financial position of the City.

B. Short-term Line of Credit/ Short Term Loan

The City of Middlesboro maintains a short-term line of credit of \$250,000 with a local bank. The purpose of the loan is to meet short-term commitments as needed. There is no balance owed on the line of credit at June 30, 2013. The total short term borrowings at June 30, 2013 are outlined below:

Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
\$ 175,000	\$ -	\$ 175,000	\$ -

C. Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

CITY OF MIDDLESBORO, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

<u>Governmental Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Land	\$ 1,599,747	\$ -	\$ -	\$ 1,599,747
Infrastructure	90,713	-	-	90,713
Buildings	4,676,209	69,846	-	4,746,055
Equipment	1,131,434	43,680	-	1,175,114
Vehicles	2,170,005	-	1,486	2,168,519
Construction in progress	-	-	-	-
Total at historical cost	<u>9,668,108</u>	<u>113,526</u>	<u>1,486</u>	<u>9,780,148</u>
Less: Accumulated depreciation	<u>1,191,392</u>	<u>148,780</u>	<u>-</u>	<u>1,340,172</u>
Governmental Activities Capital Assets-net	<u>8,476,716</u>	<u>(35,254)</u>	<u>1,486</u>	<u>8,439,976</u>
<u>Business-Type Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Land	345,173	-	-	345,173
Buildings	111,620	26,000	-	137,620
Sewer plant	14,042,219	404,081	-	14,446,300
Equipment	1,945,124	19,895	-	1,965,019
Vehicles	577,148	-	-	577,148
Total at historical cost	<u>17,021,284</u>	<u>449,976</u>	<u>-</u>	<u>17,471,260</u>
Less: Accumulated depreciation	<u>9,894,363</u>	<u>403,276</u>	<u>-</u>	<u>10,297,639</u>
Business-Type Activities Capital Assets-net	<u>\$ 7,126,921</u>	<u>\$ 46,700</u>	<u>\$ -</u>	<u>\$ 7,173,621</u>

Depreciation expense for governmental activities is charged to functions as follows:

Governmental funds	\$ 57,475
Public safety	62,630
Highways and streets	26,557
Culture and recreation	<u>2,118</u>
	<u>\$ 148,780</u>

NOTE – 6 LONG-TERM LIABILITIES

A. Compensated absences

The government-wide statement of net position and the proprietary fund financial statements record non-current accrued vacation and sick-leave as a long-term liability of the City

CITY OF MIDDLESBORO, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 6 – LONG-TERM LIABILITIES (Continued)

B. Bonds Payable

Kentucky Bond Corporation Financing Program Revenue Bonds

The City issued \$255,000 in revenue bonds in March 2012 to finance a repayment of compensation of firefighters for overtime wages. This determination was made by a Kentucky Labor Cabinet audit and subsequent ruling. The bonds carry an interest rate of 2.5% - 3.5% and are payable in annual installments of \$20,000 over a ten-year period. Interest is paid semi-annually.

Kentucky League of Cities (KLC) Funding Trust General Obligation Refunding and Taxable Funding Bonds, Series 2003A and 2003B

In August, 1988, the City elected to have its employees participate in the Commonwealth of Kentucky's County Employee Retirement System (CERS). In conjunction with this election, the City entered in an agreement with CERS whereby the City would fund the prior service credit of its employees over a thirty-year period at 8% interest. In August 1994, the City issued \$1,115,000 KLC floating Indebtness Funding Bonds to refinance the existing debt with CERS.

The following table presents future principal and interest payments due for the bonds payable at June 30, 2013:

	Principal	Interest	Total
2014	\$ 87,000	\$ 21,405	\$ 108,405
2015	96,000	18,067	114,067
2016	99,000	14,405	113,405
2017	103,000	10,376	113,376
2018	106,000	6,098	112,098
2019	25,000	3,525	28,525
2020	30,000	2,775	32,775
2021	30,000	1,875	31,875
2022	30,000	975	30,975
	<u>\$ 606,000</u>	<u>\$ 79,500</u>	<u>\$ 685,500</u>

B. Capital Lease Obligations

Lease Payable

On November 8, 2011, the City acquired two ambulances with a fair market value of \$188,562. The lease purchase agreement carries an interest rate of 4.25% and is payable in annual installments over five years. The balance of the lease at June 30, 2013 was \$116,744. Future principal and anticipated interest rates as of June 30, 2013 are:

See table on next page

CITY OF MIDDLESBORO, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 6 – LONG-TERM LIABILITIES (Continued)

Year	Principal	Interest	Total
2013-14	37,078	5,689	42,767
2014-15	38,886	7,412	46,298
2015-16	40,780	16,073	56,853
Totals	<u>\$ 116,744</u>	<u>\$ 29,174</u>	\$ 145,918
Less: amounts representing interest			<u>(29,174)</u>
Net Capital lease liability			<u>\$ 116,744</u>

Changes in long-term liability for the year ended June 30, 2013 were as follows:

	Balance July 1, 2012	Issues or Additions	Payments or Expenditures	Balance June 30, 2013
<u>Governmental Activities</u>				
General obligation bonds	\$ 440,000	\$ -	\$ 69,000	\$ 371,000
Revenue bonds	255,000	-	20,000	235,000
Compensated absences	<u>147,134</u>	<u>8,172</u>	<u>-</u>	<u>155,306</u>
	<u>\$ 842,134</u>	<u>\$ 8,172</u>	<u>\$ 89,000</u>	<u>\$ 761,306</u>
<u>Business-Type Activities</u>				
Lease Purchase	\$ 152,099	\$ -	\$ 35,355	\$ 116,744
Compensated absences	<u>18,613</u>	<u>-</u>	<u>843</u>	<u>17,770</u>
	<u>\$ 170,712</u>	<u>\$ -</u>	<u>\$ 36,198</u>	<u>\$ 134,514</u>

CITY OF MIDDLESBORO, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 7 – PENSION PLANS

A. County Employee's Retirement System (CERS)

The City contributes to the Kentucky County Employees Retirement System (CERS), which is a cost-sharing multiple-employer public employer retirement system (PERS) administered by the Kentucky retirement system. All full-time employees are eligible and must participate in the State PERS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits to plan members and their beneficiaries. A member may retire after reaching the age of 55 or accumulating 27 years (20 years for hazardous-pay employees) of service with the City or another entity covered by the State PERS. Employees who retire at or after age 55 with 27 (20 years for hazardous-pay employees) or more years of service are entitled to pension payments for the remainder of their lives equal to a percentage of their final salary which depends on the number of years they were employed by a participant in the state PERS. Ten-year historical trend information showing CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their comprehensive annual financial statements and required supplementary information. The report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601. Separate pension information pertaining solely to the City of Middlesboro, Kentucky is not available.

Funding Policy: Employees of the City are required to pay 5-6% (7.98% for hazardous-pay employees) of their gross earnings to the pension plan. The City makes annual contributions to pension plan equal to the amount required by state statutes. During the year the City was required to contribute 19.55% (37.60% for hazardous-pay employees) of its gross payroll to the plan. Covered payroll was \$2,998,920. Total contributions for the year ending June 30, 2013 were \$1,091,862 of which the City contributed \$886,615 and the employees contributed \$205,247. The City's contributions to the County Employee's Retirement systems for the years ending June 30, 2013, 2012 and 2011 were \$886,615, \$884,178, and \$837,402, respectively. The City's contributions were equal to the contractually required contributions as set by state statutes.

Based on state statutes, all full-time employees must participate in city or municipality pension plans. Under the provisions of the City's pension plan, pension benefits vest after twenty years of full-time employment. An employee may retire after twenty years of service and receive annual pension benefits equal to on-half of the employee's salary, including incentive pay, earned during the last year of employment. Also, the pension plan provides for death and disability benefits. All pension, death, and disability benefits are determined by state statutes. The Fund is closed to new participants, and there are no active employees in the plan.

B. Police and Fireman's Pension Fund

The City contributes to a defined benefit plan, the Middlesboro Police and Fireman's Fund, which is a single-employer pension employee retirement system (PERS). In August 1988, the City froze admission of new entrants who now join the statewide County Employees Retirement System. Members who had already retired at August 1988 remained in the plan and continue to receive monthly benefits. It is the responsibility of the Middlesboro PERS to function as an investment and administrative agent for the City of Middlesboro with respect to the pension plan. The plan is included in the accompanying financial statements as the P&F Pension Fund.

CITY OF MIDDLESBORO, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE 7 – PENSION PLANS (Continued)

B. Police and Fireman's Pension Fund (Continued)

The Plan uses the accrual basis of accounting. Investment income is recognized when incurred and contributions are recognized when due. Benefits and refunds are recognized when due and payable under the terms of the Plan. The Plan does not issue stand-alone financial statements; however, it is presented in the City's financial statements as the P&F Pension Fund. Three investments represented more than 5% of the net assets available for benefits. Long term certificates of deposit in the amounts of \$680,900, \$334,836 and \$342,351 represented 41.82%, 20.56% and 21.03% of total holdings respectively.

The remaining assets are held in an interest bearing checking account. The checking account represents 16.59% of total holdings. The cost of administering the plan is financed by the P&F Pension Fund. There are no related party transactions. According to KRS 95.629, if there are insufficient funds, the City will be held responsible for the monthly payment of the pensions after the entire proceeds of the pension fund have been transferred to the general fund of the City. City contributions are determined by the City council. For the year ended June 30, 2013, the City did not contribute any monies to the pension fund. Membership in the plan as of June 30, 2013 is seven participants. The population is made up of retired or terminated participants with deferred vested interest in the pension fund.

The fund has a cash and investment balance of \$1,628,294. The fund earned \$13,487 in interest income and paid out \$215,837 in benefits for the year ended June 30, 2013.

NOTE – 8 OTHER POST EMPLOYMENT BENEFITS

The City does not offer other post-employment benefits to its employees.

NOTE – 9 LEASES

The City receives rental income principally for real property from various agencies. Future minimum rental commitments under these leases are insignificant. Rental income from these sources totaled approximately \$8,190 for the year ended June 30, 2013.

NOTE – 10 MUNICIPAL AID FUNDS

The City receives municipal aid funding from the State of Kentucky. These funds are restricted for the specific purposes and are accounted for the Municipal Road Aid Fund. Municipal Aid funds received for the year amounted to \$268,288.

NOTE – 11 LOCAL GOVERNMENT ECONOMIC ASSISTANCE

The City receives LGEA funding from the State of Kentucky. The funds are restricted for specific purposes, and, the City accounts for these funds under the LGEA fund. Local Government Economic Assistance funds received for the year amounted to \$109,858.

CITY OF MIDDLESBORO, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE – 12 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the City participates in the Kentucky League of Cities Insurance Services. The City pays an annual premium to each fund for coverage. Workers' Compensation premiums are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications.

In accordance with KRS 65.067, the City bonds officials or employees who handle public funds in an amount covering the maximum amount they may have under their control at any given time. This statute applies to all officers, officials, and employees of all local governments who handle public funds in an execution of their duties. In order to comply with the regulation, the City purchases insurance bonds through various agencies.

There has been no reduction in insurance coverage from the previous year in any of the City's policies. In addition, there have been no settlements in excess of the City's coverage in the past three years.

NOTE – 13 RESTRICTED FUND BALANCE

At June 30, 2013, the City of Middlesboro had \$11,641 in restricted fund balances representing escrow held for bond payments in the same amount.

NOTE – 14 RESTRICTED NET ASSETS

Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, committed, or assigned are shown as unrestricted. Restricted assets included \$11,641 in escrow deposits and \$170,311 in grant revenue restricted for specific purposes.

NOTE – 15 IMPLEMENTATION OF GASB STATEMENT NUMBER 63

The City has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013. This standard established guidance for reporting deferred outflows of resources, deferred inflow of resources, and net position in a statement of financial position.

The noticeable changes to this audit include the use of the new wording, "net position", instead of the previously used wording of "net assets" and resulted in only a formatting change in the current year's audit.

CITY OF MIDDLESBORO, KENTUCKY

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

Year ended June 30, 2013

NOTE – 16 RESTATEMENT OF NET POSITION

The beginning net position of governmental activities was increased a total of \$366,507 to correctly state beginning capital assets, net of depreciation. In addition, the beginning net position of business-type activities was decreased by \$153,794 to properly account for changes in the estimation of uncollectible receivables for the ambulance fund. This results in a net increase of net position of \$212,713.

Net Assets, June 30, 2012	\$ 16,584,006
Prior Period Adjustment	<u>212,713</u>
Restated Net Assets, June 30, 2012	<u>\$ 16,796,719</u>

The beginning fund balance of the general fund was increased by \$121,677 to show those portions deemed special revenue in the prior year. These funds are now accounted for within the general fund.

Fund Balance, June 30, 2012	\$ 139,494
Prior Period Adjustment	<u>121,677</u>
Restated Fund Balance, June 30, 2012	<u>\$ 261,171</u>

NOTE – 17 INTERFUND TRANSFERS

Interfund transfers during the year ended June 30, 2013 were as follows:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
MRA	General	Operating	\$ 30,000
LGEA	General	Operating	150,000
Ambulance	General	Operating	813,750
Garbage	General	Operating	25,000
Sewer	General	Operating	\$ 175,000

NOTE – 18 SUBSEQUENT EVENTS

The City's management has evaluated subsequent events through December 31, 2017, the date which the financial statements were available to be issued. Management has noted no issues that affect the current financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

City of Middlesboro, Kentucky
Required Supplemental Budgetary Comparison - General Fund
Year Ended June 30, 2013

	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues	\$ 4,723,000	\$ 4,653,443	\$ (69,557)
Expenditures			
General government	899,050	751,320	147,730
Public Safety	3,657,300	3,471,528	185,772
Highways and streets	1,018,000	1,036,144	(18,144)
Debt service	118,600	115,395	3,205
Capital outlay	266,500	170,532	95,968
Total Expenditures	<u>5,959,450</u>	<u>5,544,919</u>	<u>414,531</u>
Other sources and uses			
Refinancing proceeds from loan	-	-	-
Refinancing payment of debt	-	-	-
Transfers in (out)	<u>1,250,000</u>	<u>1,193,750</u>	<u>(56,250)</u>
Total other sources and uses	<u>1,250,000</u>	<u>1,193,750</u>	<u>(56,250)</u>
Net Changes in Fund Balances	13,550	302,274	288,724
Restated Fund Balance July 1, 2012	<u>261,171</u>	<u>261,171</u>	<u>522,342</u>
Fund Balance June 30, 2013	<u>\$ 274,721</u>	<u>\$ 563,445</u>	<u>\$ 288,724</u>

CITY OF MIDDLESBORO, KENTUCKY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2013

Note A - Budgets and Budgetary accounting

The City follows procedures pursuant to KRS 91A.030 in establishing the budgetary data reflected in the financial statements as follows:

1. Prior to May 1 of each year, the Mayor submits to the Middlesboro City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The City Mayor is authorized to transfer budgeted amounts between categories within each department; however, any revisions that alter the total expenditures of any fund must be approved by the Middlesboro City Council.
5. Formal budgetary integration is employed as a management control device during the year for the general fund. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Operating transfers required for debt service are accounted for in the budget of the City's general fund.
6. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Actual expenditures may not exceed the legally adopted budget for any given fund.
7. The budget for the fiscal year ending June 30, 2013 was amended during the year as allowed by law. The amendment was approved in the same manner as the original budget was adopted.

City of Middlesboro, Kentucky
Balance Sheet - Non-Major Governmental Funds
June 30, 2013

	LGEA Fund	Municipal Road Aid Fund	Total Governmental Funds
Assets			
Cash	\$ 91,404	\$ 78,907	\$ 170,311
Restricted cash	-	-	-
Accounts receivable, net			
Tax and license	-	-	-
Other	-	-	-
Total Assets	\$ 91,404	\$ 78,907	\$ 170,311
Liabilities and Fund Balances			
Liabilities			
Accounts payable	-	-	-
Accrued liabilities	-	-	-
Total Liabilities	-	-	-
Fund Balances			
Restricted	91,404	78,907	170,311
Unassigned	-	-	-
Total Fund Balances	91,404	78,907	170,311
Total Liabilities and Fund Balances	\$ 91,404	\$ 78,907	\$ 170,311

City of Middlesboro, Kentucky
Statement of Revenues, Expenditures and Changes in
Fund Balances - Non-Major Governmental Funds
For the Year Ended June 30, 2013

	LGEA Fund	Municipal Road Aid Fund	Special Revenue Fund	Total Governmental Funds
Revenue				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Fines and forfeits	-	-	-	-
Interest income	125	111	-	236
Rental income	-	-	-	-
Intergovernmental programs	109,858	268,288	-	378,146
Miscellaneous income	-	-	-	-
Total revenue	<u>109,983</u>	<u>268,399</u>	<u>-</u>	<u>378,382</u>
Expenditures				
General government	905	-	-	905
Public safety	-	-	-	-
Highways and streets	-	256,037	-	256,037
Debt service	-	-	-	-
Capital outlay	-	-	-	-
Total Expenditures	<u>905</u>	<u>256,037</u>	<u>-</u>	<u>256,942</u>
Excess of Revenues Over (Under) Expenditures	109,078	12,362	-	121,440
Other Financing Sources (Uses)				
Refinancing proceeds from loan	-	-	-	-
Proceed from sale of fixed assets	-	-	-	-
Operating transfers in (out)	<u>(150,000)</u>	<u>(30,000)</u>	<u>-</u>	<u>(180,000)</u>
Total Other Financing Sources (Uses)	<u>(150,000)</u>	<u>(30,000)</u>	<u>-</u>	<u>(180,000)</u>
Net Change in Fund Balance	(40,922)	(17,638)	-	(58,560)
Fund Balance July 1, 2012	<u>132,326</u>	<u>96,545</u>	<u>121,677</u>	<u>350,548</u>
PPA - Reclass	<u>-</u>	<u>-</u>	<u>(121,677)</u>	<u>(121,677)</u>
Fund Balance June 30, 2013	<u>\$ 91,404</u>	<u>\$ 78,907</u>	<u>\$ -</u>	<u>\$ 170,311</u>

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

Independent Auditor's Report

Mayor and Councilors
City of Middlesboro
Middlesboro, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Middlesboro, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Middlesboro, Kentucky's basic financial statements, and have issued our report thereon dated December 31, 2017.

Internal Control over Financial Reporting

Management of City of Middlesboro, Kentucky is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered City of Middlesboro, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Middlesboro, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Middlesboro, 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. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Middlesboro, 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 three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*. These noncompliance findings are presented in the attached Comments and Recommendations letter dated December 31, 2017.

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.

Cloyd & Associates, PSC

Middlesboro, Kentucky
December 31, 2017

Mayor and Councilors
City of Middlesboro
Middlesboro, Kentucky

In planning and performing our audit of the basic financial statements of the City of Middlesboro, Kentucky for the year ended June 30, 2013, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

During our audit we note matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters, if any. This letter does not affect our report thereon dated December 31, 2017, on the basic financial statements of City of Middlesboro, Kentucky.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City management personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

Cloyd & Associates, PSC

Middlesboro, Kentucky
December 31, 2017

Comments and Recommendations
City of Middlesboro, Kentucky
June 30, 2013

Non-Compliance

We noted the following deficiencies that we consider to be material weaknesses. All material weaknesses are also considered significant deficiencies.

1. There is a failure of City Management to have the actuarial study of the Police and Firemen's Pension fund to be conducted timely in accordance with GAAP which requires that the actuarial study be conducted at least every two years. The City is also in noncompliance with Kentucky law in this regard which requires that such studies be conducted at least every three years.
2. There is a failure of City Management to establish sufficient controls over deposits within the sewer fund. Several checks totaling \$123,252 were received and held in the City vault for 30-60 days. Kentucky law require local governments to timely deposit all funds in an institution that protects deposits via the Federal Deposit Insurance Corporation and with additional pledged securities as needed.
3. There is a failure of City Management to timely submit audits per Kentucky statutory requirements. City audits for the years 2014, 2015, and 2016 are delinquent.

Management responses:

1. The City will conduct a study of cost and feasibility to get this noncompliance corrected as soon as possible.
2. The City has instituted a policy to deposit all funds weekly with deposit over \$10,000 made daily. In addition, the City Clerk will verify all funds are timely deposited.
3. The City has engaged auditors who are currently auditing all years that are delinquent.