

CITY OF FRENCHBURG
Frenchburg, Kentucky

FINANCIAL STATEMENTS
June 30, 2014

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City of Frenchburg, Kentucky

Management's Discussion and Analysis

Our discussion and analysis of the City of Frenchburg's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2014. Please read the following in conjunction with the auditors' report on pages 9-10 and the City's financial statements, which begin to appear on page 11.

OVERVIEW OF THIS ANNUAL REPORT

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

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

GOVERNMENT – WIDE FINANCIAL STATEMENTS

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

The City has two kinds of funds:

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

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

NET POSITION

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

Table A-1

	Governmental	Business-type	Total Primary
	Activities	Activities	Government
Current and Other Assets	\$ 359,594	\$ 512,923	\$ 872,517
Capital Assets	<u>1,407,388</u>	<u>7,838,397</u>	<u>9,245,785</u>
Total Assets	<u>1,766,982</u>	<u>8,351,320</u>	<u>10,118,302</u>
Long-Term Debt Outstanding	330,000	1,397,657	1,727,657
Current Liabilities	<u>22,973</u>	<u>232,429</u>	<u>255,402</u>
Total Liabilities	<u>352,973</u>	<u>1,630,086</u>	<u>1,983,059</u>
Net Position:			
Invested in Capital Assets, net of debt	1,067,388	6,140,367	7,207,755
Restricted	113,835	202,924	316,759
Unrestricted	<u>232,786</u>	<u>377,943</u>	<u>610,729</u>
Total Net Position	<u>\$1,414,009</u>	<u>\$ 6,721,234</u>	<u>\$ 8,135,243</u>

The capital assets of the City's governmental activities are \$ 1,407,388 as of June 30, 2014. The capital assets of the business-type activities are \$ 7,581,624 as of June 30, 2014.

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

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	Total Primary <u>Government</u>
Program Revenues			
Charges for Service	\$ -	\$ 1,120,330	\$ 1,120,330
Operating Grants & Contributions	67,624	-	67,624
Capital Grants & Contributions	<u>24,745</u>	<u>32,016</u>	<u>56,761</u>
Total revenue	<u>92,369</u>	<u>1,152,346</u>	<u>1,244,715</u>
Program Expenses			
General Administration	118,854	-	118,854
Street department	19,218	-	19,218
Interest on long-term debt	18,758	-	18,758
Utility	-	<u>1,538,143</u>	<u>1,538,143</u>
Total program expenses	<u>156,830</u>	<u>1,538,143</u>	<u>1,694,973</u>
Net revenues (expenses)	<u>(64,461)</u>	<u>(385,797)</u>	<u>(450,258)</u>
General Revenues			
Taxes	\$ 16,893	\$ -	\$ 16,893
License fees	41,526	-	41,526
Investment earnings	810	1,482	2,292
Miscellaneous	-	-	-
Total general revenue	<u>59,229</u>	<u>1,482</u>	<u>60,711</u>
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>\$ (5,232)</u>	<u>\$ (384,315)</u>	<u>\$ (389,547)</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	\$ 16,893	\$ -	\$ 16,893
Licenses and permits	41,527	-	41,527
Intergovernmental	24,745	22,601	47,346
Other Revenues	<u>45,731</u>	<u>101</u>	<u>45,832</u>
Total Revenues	<u>128,896</u>	<u>22,702</u>	<u>151,598</u>
General Administration	78,311	-	78,311
Public works-Streets	1,337	13,053	14,390
Debt service	28,758	-	28,758
Capital outlay	<u>43,236</u>	<u>-</u>	<u>43,236</u>
Total Expenditures	<u>151,642</u>	<u>13,053</u>	<u>164,695</u>
Excess (Deficit)	<u>(22,746)</u>	<u>9,649</u>	<u>(13,097)</u>
Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures over Revenues before other financing sources	<u>\$ (22,746)</u>	<u>\$ 9,649</u>	<u>\$ (13,097)</u>

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

BUDGET HIGHLIGHTS

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

Table A-4

Condensed Governmental Activities – Revenues

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
Taxes	\$ 17,220	\$ 16,893	\$ (327)
Licenses and permits	32,800	41,527	8,727
Intergovernmental	3,480	24,745	21,265
Other Revenues	<u>46,339</u>	<u>45,731</u>	<u>(608)</u>
Total Revenues	<u>\$ 99,839</u>	<u>\$ 128,896</u>	<u>\$ 29,057</u>

Table A-5

Condensed Governmental Activities – Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
General Government	\$ 83,398	\$ 78,311	\$ (5,087)
Public works-Streets	2,200	1,337	(863)
Debt service	28,758	28,758	-
Capital outlay	<u>-</u>	<u>43,236</u>	<u>43,236</u>
Total Expenditures	<u>\$ 114,356</u>	<u>\$ 151,642</u>	<u>\$ 37,286</u>

The City budgeted for a total of \$99,839 in revenues for 2013-2014, but ended up having revenues of \$128,896. The City was over budget on revenues by approximately 29 percent. A total of \$114,356 was budgeted for expenses, but expenditures totaled \$151,642 at the end of 2014.

CAPITAL ASSETS

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

Table A-6

Capital Assets at Year End Without Depreciation

	Governmental Activities	Business-type Activities	Total Primary Government
Land	\$ 258,832	\$ 6,850	\$ 265,682
Construction in Progress	19,079	-	19,079
Infrastructure	20,055	-	20,055
Buildings	1,317,789	-	1,317,789
Vehicles & Equipment	26,255	357,183	383,438
Land Improvements	116,385	-	116,385
Plant & Sewer System	-	13,765,554	13,765,554
Total Capital Assets	<u>\$ 1,758,395</u>	<u>\$ 14,129,587</u>	<u>\$ 15,887,982</u>

DEBT

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

Table A-7

<u>Debt Outstanding at Year End</u>	Governmental Activities	Business-type Activities	Total Primary Government
Leases	\$ 340,000	\$ -	\$ 340,000
Bonds Payable		1,441,257	1,441,257
Notes Payable	-	-	-
Total Debt Outstanding	<u>\$ 340,000</u>	<u>\$ 1,441,257</u>	<u>\$ 1,781,257</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.



Certified Public Accountants and 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, and the aggregate remaining fund information of the City of Frenchburg, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Frenchburg, Kentucky, as of June 30, 2014, 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.

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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 on pages 1–8 and 30–31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Frenchburg, Kentucky's basic financial statements. The Statement of Revenues, Expenses, and Changes in Net Position 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 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 themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Revenues, Expenses, and Changes in Net Position Water and Sewer Fund is fairly stated in all material respects in relation to the basic financial statements as a whole.

Prior-Year Comparative Information

We have previously audited the City's 2013 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information in our report dated January 27, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived, except for the effects of the restatement of net position as described in Note 11.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2015, on our consideration of the City of Frenchburg, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Frenchburg, Kentucky's internal control over financial reporting and compliance.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
January 29, 2015

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business-type Activities	Total	Totals 2013
ASSETS				
Current assets				
Cash and cash equivalents	\$ 358,688	\$ 386,127	\$ 744,815	\$ 710,070
Receivables (net)	11,016	94,627	105,643	101,280
Grant receivable	19,079	2,981	22,060	-
Internal balances	(29,188)	29,188	-	-
Total current assets	<u>359,595</u>	<u>512,923</u>	<u>872,518</u>	<u>811,350</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	202,924	202,924	202,414
Inventory	-	53,849	53,849	52,068
Capital assets (Note 3)				
Construction in progress	19,079	-	19,079	-
Land	258,832	-	258,832	258,832
Plant and sewer system, net	-	7,581,624	7,581,624	8,054,517
Depreciable property, plant, and equipment, net	<u>1,129,476</u>	<u>-</u>	<u>1,129,476</u>	<u>1,150,691</u>
Total noncurrent assets	<u>1,407,387</u>	<u>7,838,397</u>	<u>9,245,784</u>	<u>9,718,522</u>
Total assets	<u>\$ 1,766,982</u>	<u>\$ 8,351,320</u>	<u>\$ 10,118,302</u>	<u>\$ 10,529,872</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 3,858	\$ 58,593	\$ 62,451	\$ 48,732
Construction payable	9,115	2,981	12,096	-
Meter deposits payable	-	69,910	69,910	69,977
Accrued liabilities	-	54,875	54,875	50,855
Other liabilities	-	2,470	2,470	2,962
Current portion of long-term obligations (Notes 4 and 5)	<u>10,000</u>	<u>43,600</u>	<u>53,600</u>	<u>50,800</u>
Total current liabilities	<u>22,973</u>	<u>232,429</u>	<u>255,402</u>	<u>223,326</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations (Notes 4 and 5)	<u>330,000</u>	<u>1,397,657</u>	<u>1,727,657</u>	<u>1,781,756</u>
Total liabilities	<u>352,973</u>	<u>1,630,086</u>	<u>1,983,059</u>	<u>2,005,082</u>
NET POSITION				
Net investment in capital assets	1,067,387	6,140,367	7,207,754	7,631,484
Restricted for				
Bond reserves	-	202,924	202,924	202,414
Other purposes	113,835	-	113,835	104,185
Unrestricted	<u>232,787</u>	<u>377,943</u>	<u>610,730</u>	<u>586,707</u>
Total net position	<u>1,414,009</u>	<u>6,721,234</u>	<u>8,135,243</u>	<u>8,524,790</u>
Total liabilities and net position	<u>\$ 1,766,982</u>	<u>\$ 8,351,320</u>	<u>\$ 10,118,302</u>	<u>\$ 10,529,872</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, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>			<u>Totals 2013</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
Primary government								
Governmental activities								
General administration	\$ 118,854	\$ -	\$ 45,023	\$ 24,745	\$ (49,086)	\$ -	\$ (49,086)	\$ (84,653)
Street department	19,218	-	22,601	-	3,383	-	3,383	(1,440)
Interest on long-term debt	18,758	-	-	-	(18,758)	-	(18,758)	(19,218)
Total governmental activities	156,830	-	67,624	24,745	(64,461)	-	(64,461)	(105,311)
Business-type activities								
Utility	1,538,143	1,120,330	-	32,016	-	(385,797)	(385,797)	(457,664)
Total business-type activities	1,538,143	1,120,330	-	32,016	-	(385,797)	(385,797)	(457,664)
Total primary government	\$ 1,694,973	\$ 1,120,330	\$ 67,624	\$ 56,761	(64,461)	(385,797)	(450,258)	(562,975)

General revenues

Taxes				
Property taxes, levied for general purposes	16,893	-	16,893	17,355
License fees				
Franchise	3,896	-	3,896	3,297
Insurance premiums	36,750	-	36,750	35,300
Occupational	880	-	880	680
Investment earnings	810	1,482	2,292	3,013
Total general revenues	59,229	1,482	60,711	59,645
Change in Net Position	(5,232)	(384,315)	(389,547)	(503,330)
Net position-beginning, as restated	1,419,241	7,105,549	8,524,790	9,028,120
NET POSITION-ENDING	\$ 1,414,009	\$ 6,721,234	\$ 8,135,243	\$ 8,524,790

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

CITY OF FRENCHBURG, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Other Governmental Funds	Total Governmental Funds	Totals 2013
ASSETS				
Cash and cash equivalents	\$ 259,703	\$ 98,985	\$ 358,688	\$ 356,375
Grant receivable	19,079	-	19,079	-
Receivables, net	11,016	-	11,016	13,111
Due from other funds	-	14,850	14,850	-
Total assets	<u>\$ 289,798</u>	<u>\$ 113,835</u>	<u>\$ 403,633</u>	<u>\$ 369,486</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 3,858	\$ -	\$ 3,858	\$ 4,954
Construction payable	9,115	-	9,115	-
Due to other funds	44,038	-	44,038	4,814
Total liabilities	<u>57,011</u>	<u>-</u>	<u>57,011</u>	<u>9,768</u>
Fund balances				
Restricted				
Roads	-	113,835	113,835	104,185
Unassigned	232,787	-	232,787	255,533
Total fund balances	<u>232,787</u>	<u>113,835</u>	<u>346,622</u>	<u>359,718</u>
Total liabilities and fund balances	<u>\$ 289,798</u>	<u>\$ 113,835</u>	<u>\$ 403,633</u>	<u>\$ 369,486</u>

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

Fund balances reported above

\$ 346,622 \$ 359,718

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

1,407,387 1,409,523

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

(340,000) (350,000)

Net position of governmental activities

\$ 1,414,009 \$ 1,419,241

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, 2014

	General	Other Governmental Funds	Total Governmental Funds	Totals 2013
REVENUES				
Taxes	\$ 16,893	\$ -	\$ 16,893	\$ 17,355
Licenses and permits	41,527	-	41,527	39,277
Intergovernmental	24,745	22,601	47,346	39,538
Other revenues	45,731	101	45,832	48,166
	<u>128,896</u>	<u>22,702</u>	<u>151,598</u>	<u>144,336</u>
Total revenues				
EXPENDITURES				
Current				
General administration	78,311	-	78,311	103,329
Streets	1,337	13,053	14,390	23,356
Capital outlay	43,236	-	43,236	6,000
Debt service	28,758	-	28,758	29,218
	<u>151,642</u>	<u>13,053</u>	<u>164,695</u>	<u>161,903</u>
Total expenditures				
Excess of Revenues Over (Under) Expenditures	(22,746)	9,649	(13,097)	(17,567)
Other financing sources				
Transfers in (out)	-	-	-	(20,000)
	<u>(22,746)</u>	<u>9,649</u>	<u>(13,097)</u>	<u>(37,567)</u>
Net change in fund balances				
Fund balances - beginning	255,533	104,186	359,719	397,285
Fund balances-ending	<u>\$ 232,787</u>	<u>\$ 113,835</u>	<u>\$ 346,622</u>	<u>\$ 359,718</u>
Reconciliation to government-wide change in net position:				
Net change in fund balances			\$ (13,097)	\$ (37,567)
Add: capital outlay expenditures capitalized			43,236	6,000
Add: debt service expenditures			28,758	29,218
Less: depreciation on governmental activities assets			(45,371)	(46,453)
Less: interest on long term debt			(18,758)	(19,218)
			<u>(5,232)</u>	<u>(68,020)</u>
Change in net position governmental activities			<u>\$ (5,232)</u>	<u>\$ (68,020)</u>

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Business Type Activities Water & Sewer Fund	Totals 2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 386,127	\$ 353,695
Receivables (net)	94,627	88,169
Grant receivable	2,981	-
Internal balances	<u>29,188</u>	<u>4,814</u>
Total current assets	<u>512,923</u>	<u>446,678</u>
Noncurrent assets		
Restricted cash and cash equivalents	202,924	202,414
Inventory	53,849	52,068
Water and sewer systems	14,129,587	14,129,587
Less: accumulated depreciation	<u>(6,547,963)</u>	<u>(6,075,070)</u>
Total noncurrent assets	<u>7,838,397</u>	<u>8,308,999</u>
Total assets	<u>\$ 8,351,320</u>	<u>\$ 8,755,677</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 58,593	\$ 43,778
Meters deposits payable	69,910	69,977
Construction payable	2,981	-
Accrued liabilities	21,812	16,810
Accrued interest	33,063	34,045
Other liabilities	2,470	2,962
Bonds, notes, and loans payable	<u>43,600</u>	<u>40,800</u>
Total current liabilities	<u>232,429</u>	<u>208,372</u>
Noncurrent liabilities		
Bonds, notes, and loans payable	<u>1,397,657</u>	<u>1,441,756</u>
Total noncurrent liabilities	<u>1,397,657</u>	<u>1,441,756</u>
Total liabilities	<u>1,630,086</u>	<u>1,650,128</u>
NET POSITION		
Net investment in capital assets	6,140,367	6,571,961
Restricted for debt service	48,118	48,085
Restricted for depreciation	154,806	154,329
Unrestricted	<u>377,943</u>	<u>331,174</u>
Total net position	<u>6,721,234</u>	<u>7,105,549</u>
Total liabilities and net position	<u>\$ 8,351,320</u>	<u>\$ 8,755,677</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, 2014

	Business-Type Activities Water & Sewer Fund	Totals 2013
OPERATING REVENUES		
Charges for services	\$ 1,085,614	\$ 1,017,409
Penalties	20,266	19,257
Other revenues	14,450	17,283
	<u>1,120,330</u>	<u>1,053,949</u>
OPERATING EXPENSES		
Personnel	317,146	321,996
Water purchased	421,469	396,304
Bad debt	5,802	1,112
Maintenance and repairs	4,442	19,397
Utilities	40,940	38,986
Auto	14,633	15,385
Insurance	17,555	16,987
Office supplies	6,679	5,960
Professional services	25,195	29,540
Chemicals	4,438	3,856
Operating services	65,910	67,311
Rent	36,000	36,000
Postage	12,216	12,062
Other	25,716	21,397
Depreciation	472,893	472,896
	<u>1,471,034</u>	<u>1,459,189</u>
OPERATING (LOSS)	(350,704)	(405,240)
Non-operating income (expense)		
Interest income	1,482	2,354
Interest expense	(67,109)	(69,249)
LOSS BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(416,331)	(472,135)
Capital Contributions		
Hook on fees	13,378	15,200
Grants	18,638	1,625
Transfers in	<u>-</u>	<u>20,000</u>
CHANGE IN NET POSITION	(384,315)	(435,310)
Net position - beginning of the year	<u>7,105,549</u>	<u>7,540,859</u>
NET POSITION - END OF YEAR	<u>\$ 6,721,234</u>	<u>\$ 7,105,549</u>

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, 2014

	Business-Type Activities Water & Sewer Fund	Totals 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,087,717	\$ 1,056,064
Payments to suppliers	(663,758)	(666,966)
Internal activity - payments from other funds	-	20,000
Payments for employee services and benefits	(312,144)	(325,763)
Net cash provided by operating activities	<u>111,815</u>	<u>83,335</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	29,036	36,917
Purchases of capital assets	-	(51,073)
Principal paid on capital debt	(41,300)	(40,300)
Interest paid on capital debt	(68,091)	(70,008)
Net cash (used) by capital and related financing activities	<u>(80,355)</u>	<u>(124,464)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	<u>1,482</u>	<u>2,354</u>
Net cash provided by investing activities	<u>1,482</u>	<u>2,354</u>
Net increase (decrease) in cash and cash equivalents	32,942	(38,775)
Cash and cash equivalents-beginning of the year	<u>556,109</u>	<u>594,884</u>
CASH AND CASH EQUIVALENTS-END OF THE YEAR	<u>\$ 589,051</u>	<u>\$ 556,109</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating (loss)	\$ (350,704)	\$ (405,240)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	472,893	472,896
Internal activity - payments from other funds	-	20,000
Change in assets and liabilities:		
Receivables, net	(32,613)	2,115
Accounts and other payables	17,237	(2,669)
Accrued expenses	<u>5,002</u>	<u>(3,767)</u>
Net cash provided by operating activities	<u>\$ 111,815</u>	<u>\$ 83,335</u>

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014

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 determination of net income, financial position, and changes in cash flows.

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

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

C. Basis of Accounting

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

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, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (continued)

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

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

D. Fund Balances

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

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

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

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

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

Unassigned – all other spendable amounts.

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting

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

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

The City's actual expenditures in the General Fund exceeded its adopted budget by \$37,286. The City did not budget for capital outlay which totaled \$43,236.

F. Other Accounting Policies

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

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

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

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

Accounts receivables are stated net of an allowance of doubtful accounts of \$22,036 in the proprietary fund and \$5,927 in the general fund.

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

In the government-wide and proprietary fund financial statements, long-term obligations are reported as liabilities in the statement of net position.

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

The City has evaluated and considered the need to recognize or disclose subsequent events through January 29, 2015 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, 2014, have not been evaluated by the city.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

2. CASH AND INVESTMENTS

Statutory Requirements

The City's deposits and investments at June 30, 2014, were entirely covered by federal depository insurance or by collateral held by the custodial banks in the City's name.

FDIC – demand deposits	\$ 452,924
Collateralized by securities held by the bank in the City's name	<u>503,913</u>
Total	<u>\$ 956,837</u>

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

Statement of Cash Flows

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

Cash	\$ 386,127
Cash - restricted	<u>202,924</u>
	<u>\$ 589,051</u>

3. RECEIVABLES

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

	General Fund
Governmental Funds:	
Taxes	\$ 5,927
Licenses and fees	9,595
Intergovernmental	<u>1,421</u>
Gross receivables	\$ 16,943
Less: allowance for uncollectible	<u>(5,927)</u>
Net receivables	<u>\$ 11,016</u>
	Water & Sewer Fund
Proprietary Fund:	
Customer	\$ 116,663
Less: allowance for uncollectible	<u>(22,036)</u>
Net Receivables	<u>\$ 94,627</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

4. CAPITAL ASSETS

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

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 258,832	\$ -	\$ -	\$ 258,832
Construction in progress	<u>-</u>	<u>19,079</u>	<u>-</u>	<u>19,079</u>
Total	<u>258,832</u>	<u>19,079</u>	<u>-</u>	<u>277,911</u>
Capital assets being depreciated:				
Buildings and improvements	1,308,482	9,307	-	1,317,789
Land improvements	101,535	14,850	-	116,385
Vehicles and equipment	26,255	-	-	26,255
Infrastructure	<u>20,055</u>	<u>-</u>	<u>-</u>	<u>20,055</u>
Totals	<u>1,456,327</u>	<u>24,157</u>	<u>-</u>	<u>1,480,484</u>
Total capital assets	<u>1,715,159</u>	<u>43,236</u>	<u>-</u>	<u>1,758,395</u>
Less accumulated depreciation:				
Buildings and improvements	234,132	34,942	-	269,074
Land improvements	41,608	5,601	-	47,209
Vehicles and equipment	21,874	817	-	22,691
Infrastructure	<u>8,023</u>	<u>4,011</u>	<u>-</u>	<u>12,034</u>
Totals	<u>305,637</u>	<u>45,371</u>	<u>-</u>	<u>351,008</u>
Capital assets, net	<u>\$ 1,409,522</u>	<u>\$ (2,135)</u>	<u>\$ -</u>	<u>\$ 1,407,387</u>
Business-type Activities:				
Capital assets not depreciated:				
Land	\$ 6,850	\$ -	\$ -	\$ 6,850
Capital assets being depreciated:				
Plant and sewer system	13,765,553	-	-	13,765,553
Vehicles and equipment	<u>357,184</u>	<u>-</u>	<u>-</u>	<u>357,184</u>
Totals	14,122,737	-	-	14,122,737
Less accumulated depreciation:	<u>6,075,070</u>	<u>472,893</u>	<u>-</u>	<u>6,547,963</u>
Capital assets being depreciated, net:	<u>8,047,667</u>	<u>(472,893)</u>	<u>-</u>	<u>7,574,774</u>
Capital assets, net	<u>\$ 8,054,517</u>	<u>\$ (472,893)</u>	<u>\$ -</u>	<u>\$ 7,581,624</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

4. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the Governmental functions as follows:

General government	\$ 40,543
Streets	<u>4,828</u>
Total depreciation expense	<u>\$ 45,371</u>

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

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

5. BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT

Bonds payable at June 30, 2014, consist of the following:

	Interest Rate	Original Issue	Maturity Date	Balance as of June 30, 2014
1985 Water Revenue Bond	5.0%	\$ 375,000	01/01/2025	\$ 206,255
1990A Sewer Revenue Bonds	5.0%	150,000	01/01/2031	100,300
1991 Sewer Revenue Bonds	5.0%	244,000	01/01/2031	161,000
1992 Water Revenue Bonds	5.0%	166,000	01/01/2032	115,000
1995 Sewer Revenue Bonds	4.5%	119,000	01/01/2034	87,900
1997 Water Revenue Bonds	4.5%	188,000	01/01/2037	147,001
1999 Sewer Revenue Bonds	4.5%	124,000	01/01/2039	101,900
2001 Water Revenue Bonds	4.5%	100,000	01/01/2041	85,801
2008 Water & Sewer Revenue Bonds	4.125%	458,000	01/01/2049	<u>436,100</u>
Total long-term debt				<u>\$ 1,441,257</u>

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

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
Revenue Bonds	<u>\$ 1,482,557</u>	<u>\$ -</u>	<u>\$ 41,300</u>	<u>\$ 1,441,257</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

BOND ORDINANCE REQUIREMENTS

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

Sinking Fund Reserve - This reserve is required to receive a monthly transfer of one-sixth of the next interest payment and one-twelfth of the next principal payment. The reserve had a balance of \$48,118 at June 30, 2014.

Depreciation reserve - This reserve is required to receive a monthly transfer of \$205 after provision for bonds and interest until a balance of \$24,600 is established. This reserve is for balancing depreciation in the system. The reserve had a balance of \$154,806 at June 30, 2014.

The annual requirements to amortize all debt outstanding at June 30, 2014, is as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 43,600	\$ 64,538	\$ 108,138
2016	46,400	62,556	108,956
2017	48,400	60,448	108,848
2018	50,900	58,253	109,153
2019	54,000	55,937	109,937
2020-2024	318,700	239,971	558,671
2025-2029	288,357	167,612	455,969
2030-2034	240,000	103,897	343,897
2035-2039	151,500	61,199	212,699
2040-2044	97,800	33,839	131,639
2045-2049	<u>101,600</u>	<u>18,769</u>	<u>120,369</u>
Total	<u>\$ 1,441,257</u>	<u>\$ 927,019</u>	<u>\$ 2,368,276</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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. The total lease obligation was \$415,000 and the lease comes due in fiscal year 2035. The lease requires two semi-annual interest and fee payments and one annual principle payment. The interest rate of the lease fluctuates from 3.40-5.25%. The balance of the lease at June 30, 2014 totaled \$340,000.

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

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
Leases Payable	\$ 350,000	\$ -	\$ 10,000	\$ 340,000

The annual requirements to amortize all governmental long-term debt outstanding at June 30, 2014, is as follows:

Year Ending June 30,	Principal	Total Interest and Fees	Total Payment
2015	\$ 10,000	\$ 18,298	\$ 28,298
2016	10,000	17,838	27,838
2017	10,000	17,285	27,285
2018	10,000	16,818	26,818
2019	10,000	16,308	26,308
2020-2024	70,000	72,348	142,348
2025-2029	85,000	52,978	137,978
2030-2034	110,000	27,633	137,633
2035	<u>25,000</u>	<u>1,825</u>	<u>26,825</u>
Total	\$ 340,000	\$ 241,331	\$ 581,331

7. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2014 were levied in November 2013, 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, 2013 |
| 2. Face value amount payment dates | November 1, 2013 to March 1, 2014 |
| 3. 10% penalty delinquent date | March 2, 2014 |

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, 2014

8. RETIREMENT

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

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

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

Contributions – For the year ended June 30, 2014, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2014, participating employers contributed 18.89% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

Year	Required Contribution	Percentage Contributed
2014	\$ 39,744	100%
2013	\$ 42,561	100%
2012	\$ 42,359	100%

9. RISK MANAGEMENT

The City of Frenchburg is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the city also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

10. INTERFUND BALANCES

This table shows interfund balances as of June 30, 2014:

	General Fund	Water & Sewer Fund	Road Aid Fund	Total Due From
General Fund	\$ -	\$ -	\$ -	\$ -
Water & Sewer Fund	29,188	(29,188)	-	-
Road Aid Fund	<u>14,850</u>	<u>-</u>	<u>(14,850)</u>	<u>-</u>
Total due to (from)	<u>\$ 44,038</u>	<u>\$ (29,188)</u>	<u>\$ (14,850)</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.

11. RESTATEMENT OF NET POSITION

Implementation of new accounting standard GASB Statement No. 65

Effective July 1, 2013, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement redefines certain financial elements previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, the Statement changes the method of reporting debt issuance costs. Prior to implementation of GASB Statement No. 65, the City reported debt issuance costs, including costs related to bond insurance, as deferred debt expense which was capitalized and amortized over the life of the debt. Deferred debt expense was reported as a non-current asset on the statement of net position. Under GASB Statement No. 65, bond issuance costs, excluding bond insurance costs which should be treated as a prepaid asset, are to be recognized in the period of the debt issue. This resulted in a restatement of previously reported net position, as follows:

<u>Governmental Activities</u>	2014	2013 Totals
Net position, at beginning of year	\$ 1,435,377	\$ 1,504,130
Bond issuance costs	(16,136)	(16,136)
Amortization expense	<u>-</u>	<u>(733)</u>
Net position, at beginning of year, as restated	<u>\$ 1,419,241</u>	<u>\$ 1,487,261</u>

12. SUBSEQUENT EVENTS

Financial Reporting for Pension Plans

In June 2012, the GASB approved a pair of related Statements that reflect substantial changes to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans*, addresses financial reporting for state and local government pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions*, addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under statement No. 67.

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

12. SUBSEQUENT EVENTS (CONTINUED)

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

Statement No. 68 will take effect for pension plans in fiscal years beginning after June 15, 2014, (that is, for years ended June 30, 2015, or later). The City is currently evaluating the effects of this statement on its financial statements. The City's potential unfunded liability, based on June 30, 2014 plan financial statements, is estimated to be \$405,000. The actual liability for June 30, 2014, could be considerably different due to changes in system assumptions and liabilities.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FRENCHBURG, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2014

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Taxes				
Property taxes	\$ 9,200	\$ 9,200	\$ 9,896	\$ 696
Vehicle taxes	829	829	770	(59)
Bank shares	7,191	7,191	6,227	(964)
Total taxes	<u>17,220</u>	<u>17,220</u>	<u>16,893</u>	<u>(327)</u>
Licenses and permits				
Occupation license	800	800	880	80
Insurance premiums	32,000	32,000	36,751	4,751
Franchise fees	3,297	-	3,896	3,896
Total licenses and permits	<u>36,097</u>	<u>32,800</u>	<u>41,527</u>	<u>8,727</u>
Intergovernmental revenue				
Police	3,480	3,480	5,666	2,186
Other grants	-	-	19,079	19,079
Flex-E grant	9,759	-	-	-
Total intergovernmental	<u>13,239</u>	<u>3,480</u>	<u>24,745</u>	<u>21,265</u>
Other revenues				
Community Center	8,175	8,175	7,200	(975)
Rent	36,000	36,000	36,000	-
Interest income	664	664	708	44
Other	1,500	1,500	1,823	323
Total other	<u>46,339</u>	<u>46,339</u>	<u>45,731</u>	<u>(608)</u>
Total revenue	<u>112,895</u>	<u>99,839</u>	<u>128,896</u>	<u>29,057</u>
EXPENDITURES				
General Government				
Current				
Personnel services	13,038	12,918	13,039	121
Professional fees	8,560	300	7,643	7,343
Dues and subscriptions	6,300	3,700	5,121	1,421
Office	500	500	373	(127)
Utilities	23,895	32,075	24,404	(7,671)
Insurance	8,604	8,605	8,228	(377)
Law /Task force	3,480	5,000	6,164	1,164
Organization	4,250	18,900	8,877	(10,023)
Other expenses	22,647	1,400	4,462	3,062
Total general government	<u>91,274</u>	<u>83,398</u>	<u>78,311</u>	<u>(5,087)</u>
Street maintenance	<u>2,200</u>	<u>2,200</u>	<u>1,337</u>	<u>(863)</u>
Capital Outlay	<u>-</u>	<u>-</u>	<u>43,236</u>	<u>43,236</u>
Debt Service	<u>28,758</u>	<u>28,758</u>	<u>28,758</u>	<u>-</u>
Total expenditures	<u>122,232</u>	<u>114,356</u>	<u>151,642</u>	<u>37,286</u>
Excess (deficiency) revenues over expenditures	<u>\$ (9,337)</u>	<u>\$ (14,517)</u>	<u>\$ (22,746)</u>	<u>\$ (8,229)</u>

CITY OF FRENCHBURG, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
SPECIAL REVENUE FUND
for the year ended June 30, 2014

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Intergovernmental	\$ 16,171	\$ 23,500	\$ 22,601	\$ (899)
Other	107	110	101	(9)
Total revenue	<u>16,278</u>	<u>23,610</u>	<u>22,702</u>	<u>(908)</u>
EXPENDITURES				
Streets				
Utilities	3,600	3,600	3,826	226
Maintenance	<u>20,000</u>	<u>25,000</u>	<u>9,227</u>	<u>(15,773)</u>
Total expenditures	<u>23,600</u>	<u>28,600</u>	<u>13,053</u>	<u>(15,547)</u>
Excess (deficiency) revenues over expenditures	<u>\$ (7,322)</u>	<u>\$ (4,990)</u>	<u>\$ 9,649</u>	<u>\$ 14,639</u>

OTHER INFORMATION

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
WATER AND SEWER FUND
for the year ended June 30, 2014

	Water	Sewer	Total	2013 Totals
OPERATING REVENUES				
Charges for services	\$ 986,985	\$ 98,629	\$ 1,085,614	\$ 1,017,409
Penalties	1,671	18,595	20,266	19,257
Other revenues	14,443	7	14,450	17,283
Total operating revenues	1,003,099	117,231	1,120,330	1,053,949
OPERATING EXPENSES				
Personnel	274,387	42,759	317,146	321,996
Water purchased	421,469	-	421,469	396,304
Bad debt	5,802	-	5,802	1,112
Maintenance and repairs	2,116	21,840	23,956	19,397
Utilities	27,385	13,555	40,940	38,986
Auto	14,633	-	14,633	15,385
Insurance	17,555	-	17,555	16,987
Office supplies	6,631	48	6,679	5,960
Professional services	15,202	9,993	25,195	29,540
Chemicals	4,438	-	4,438	3,856
Operating supplies	58,479	7,431	65,910	67,311
Rent	36,000	-	36,000	36,000
Postage	12,216	-	12,216	12,062
Other	5,198	1,004	6,202	21,397
Depreciation	316,638	156,255	472,893	472,896
Total operating expenses	1,218,149	252,885	1,471,034	1,459,189
OPERATING (LOSS)	(215,050)	(135,654)	(350,704)	(405,240)
Non-operating revenue (expense)				
Interest income	1,460	22	1,482	2,354
Interest expense	(45,503)	(21,606)	(67,109)	(69,249)
NET (LOSS)	(259,093)	(157,238)	(416,331)	(472,135)
Capital contributions				
Hook on fees	13,378	-	13,378	15,200
Grants	18,638	-	18,638	1,625
Transfers in (out)	-	-	-	20,000
Change in net position	\$ (227,077)	\$ (157,238)	(384,315)	(435,310)
Net position - Beginning of Year			7,105,549	7,540,859
NET POSITION - End of Year			\$ 6,721,234	\$ 7,105,549



Certified Public Accountants and Consultants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Frenchburg, Kentucky, as of and for the year ended June 30, 2014, 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 29, 2015.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2014-1 and 2014-2.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency: 2014-3.

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.

Compliance and Other Matters

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

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

The City of Frenchburg, Kentucky's Response to Findings

The City of Frenchburg, Kentucky's responses to the findings identified in our audit is 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.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
January 29, 2015

**CITY OF FRENCHBURG
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014**

CURRENT YEAR FINDINGS

2014-1 The City should have internal controls in place that enable it to prepare complete financial statements.

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.

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 take responsibility for 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.

2014-2 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.

Cause: During the year the City Clerk was terminated. The new City Clerk was not provided adequate training that would have ensured all bank accounts would be reconciled on a monthly basis.

Effect: The new City Clerk did not reconcile all bank accounts timely. Multiple bank accounts were not reconciled for several months.

Recommendation: We recommend that the City take steps to ensure that all bank accounts are reconciled monthly and that if the City has turnover in the future at the City Clerk position – that the City ensure the new City Clerk is performing this function timely.

RESPONSE:

The City is aware of these problems and is taking steps to prevent this from happening again. The City Clerk will be attending more training this year to get more familiar with budgeting and accounting processes. She has been in touch with the Kentucky League of Cities and the Department of Local Government for assistance in training.

**CITY OF FRENCHBURG
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014**

CURRENT YEAR FINDINGS (CONTINUED)

2014-3 Expenditures out of each fund should be made in accordance with the City's budget.

Criteria: The City's general ledger software accounts for all funds in the same general ledger. This allows transactions to cross funds and requires monthly transfers to balance funds.

Cause: During the year the City Clerk was terminated. The new City Clerk was not provided adequate training to ensure that all transfers between funds took place.

Effect: Reimbursements to the Water and Sewer Fund from the General Fund for expenditures of the General Fund were not made.

Recommendation: We recommend that all reimbursements between funds take place on a monthly basis and that all funds balance on a monthly basis.

RESPONSE:

The City is aware of these problems and is taking steps to prevent this from happening again. The City Clerk will be attending more training this year to get more familiar with budgeting and accounting processes. She has been in touch with the Kentucky League of Cities and the Department of Local Government for assistance in training.