

**CITY OF FRENCHBURG,
KENTUCKY**

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2025

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Commissioners
City of Frenchburg, Kentucky

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Frenchburg, Kentucky, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the City of Frenchburg, Kentucky'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.

Auditor's Responsibility

Our responsibility is to conduct 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. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were unable to obtain sufficient appropriate audit evidence to provide an audit opinion on these financial statements.

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.

Basis for Disclaimer of Opinion

We were not able to obtain sufficient appropriate audit evidence about the amounts at which cash, interfund payables and receivables and corresponding expenses are recorded in the financial statements. Deposits and disbursements did not appear to be recorded accurately and completely when comparing bank reconciliations to bank statements and general ledger.

Honorable Mayor and City Commissioners
City of Frenchburg, Kentucky

Disclaimer of Opinion

We do not express an opinion on the financial statements of the City of Frenchburg, Kentucky referred to in the first paragraph. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that, the schedules of the City's proportionate share of the net pension and OPEB liability, and the schedules of the City's pension and OPEB contributions listed in 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.

Management has omitted the budgetary comparison information and management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2025, 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 solely 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.

Morgan and Associates, LLC

West Liberty, Kentucky
March 13, 2025

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF NET POSITION
As of June 30, 2025

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 246,455	\$ 350,923	\$ 597,378
Receivables	8,880	190,376	199,256
Prepaid Expenses	3,491		3,491
Due To/From Other Funds	(7,555)		(7,555)
Total Current Assets	251,271	541,299	792,570
Noncurrent Assets:			
Restricted Cash and Cash Equivalents		187,911	187,911
Inventory		78,857	78,857
Capital Assets			
CIP	131,225	527,337	658,562
Land	457,832	6,850	464,682
Depreciable Property, Plant, and Equipment, net	811,665	2,853,737	3,665,402
Total Capital Assets	1,400,722	3,387,924	4,788,646
Total Noncurrent Assets	1,400,722	3,654,692	5,055,414
Total Assets	1,651,993	4,195,991	5,847,984
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows - Pension/OPEB		201,143	201,143
Total Deferred Outflows of Resources		201,143	201,143
Total Assets and Deferred Outflows of Resources	\$ 1,651,993	\$ 4,397,134	\$ 6,049,127

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF NET POSITION
As of June 30, 2025

	Primary Government		Total
	Governmental Activities	Business-type Activities	
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 14,508	\$ 77,272	\$ 91,780
Meter Deposits Payable		103,040	103,040
Accrued Liabilities	270	12,400	12,670
Due To/From Other Funds		14,423	14,423
Current Portion of Long-Term Debt	86,667	80,859	167,526
Total Current Liabilities	<u>101,445</u>	<u>287,994</u>	<u>389,439</u>
Noncurrent Liabilities:			
Noncurrent portion of Long-Term Debt	113,333	855,985	969,318
Accrued Leave		41,727	41,727
Net Pension Liability		609,106	609,106
Net OPEB Liability		(17,635)	(17,635)
Total Noncurrent Liabilities	<u>113,333</u>	<u>1,489,183</u>	<u>1,602,516</u>
Total Liabilities	<u>214,778</u>	<u>1,777,177</u>	<u>1,991,955</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - Pension		140,697	140,697
Deferred Inflows - OPEB		194,317	194,317
Total Deferred Inflows of Resources		<u>335,014</u>	<u>335,014</u>
NET POSITION			
Net Investment in Capital Assets	1,200,722	2,451,080	3,651,802
Restricted for:			
Restricted for Depreciation		187,911	187,911
Restricted for Roads	101,293		101,293
Restricted for Debt Service	9,438		9,438
Unrestricted	125,762	(354,048)	(228,286)
Total Net Position	<u>1,437,215</u>	<u>2,284,943</u>	<u>3,722,158</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 1,651,993</u>	<u>\$ 4,397,134</u>	<u>\$ 6,049,127</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, 2025

Functions/Programs	Expenses	Program Revenues Received			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General Administration	\$ 137,136	\$	\$	\$ 47,966	\$ (89,170)	\$	\$ (89,170)
Street Department	23,912		27,362		3,450		3,450
Law Enforcement	53,805				(53,805)		(53,805)
Interest on Long-Term Debt	3,267				(3,267)		(3,267)
Total Governmental Activities	218,120		27,362	47,966	(142,792)		(142,792)
Business-type Activities:							
Utilities	2,126,907	1,874,576		53,850		(198,481)	(198,481)
Total Primary Government	\$ 2,345,027	\$ 1,874,576	\$ 27,362	\$ 101,816	(142,792)	(198,481)	(341,273)
General Revenues, Transfers, and Special Items:							
Taxes							
Property Taxes, Levied for General Purposes					91,878		91,878
License Fees							
Occupational					9,085		9,085
Transfers In					38,333	56,987	95,320
Transfers Out					(56,987)	(38,333)	(95,320)
Rent					36,000		36,000
Investment Earnings					899	1,789	2,688
Balancing Entry					(15,392)	4,348	(11,044)
Other Income					12,876		12,876
					116,692	24,791	141,483
Total General Revenues							
Change in Net Position					(26,100)	(173,690)	(199,790)
Net Position - Beginning					1,463,315	2,458,633	3,921,948
Net Position - Ending					\$ 1,437,215	\$ 2,284,943	\$ 3,722,158

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

CITY OF FRENCHBURG, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
As of June 30, 2025

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 145,162	\$ 101,293	\$ 246,455
Receivables	8,880		8,880
Due to/from Other Funds	(7,555)		(7,555)
Prepaid Expenses	3,491		3,491
TOTAL ASSETS	\$ 149,978	\$ 101,293	\$ 251,271
LIABILITIES			
Liabilities			
Accounts Payable & Accr. Liab.	\$ 14,778	\$	\$ 14,778
TOTAL LIABILITIES	14,778		14,778
FUND BALANCES			
Fund Balances:			
Restricted			
Roads		101,293	101,293
Debt Service	9,438		9,438
Unassigned	125,762		125,762
TOTAL FUND BALANCES	135,200	101,293	236,493
TOTAL LIABILITIES AND FUND BALANCES	\$ 149,978	\$ 101,293	\$ 251,271

Reconciliation to Statement of Changes in Net Position:

Total Governmental Fund Balances	\$ 236,493
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital Assets Used in Governmental Activities of \$ 2,249,824, Net of Accumulated Depreciation of \$849,102 are Not Financial Resources and, Therefore, are Not Reported in the Funds.	1,400,722
Long-Term Liabilities are Not Due and Payable in the Current Preiod and Therefore are Not Reported in the Funds	(200,000)
Net Position of Governmental Activities	\$ 1,437,215

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, 2025

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 91,878		\$ 91,878
Licenses & Permits	9,085		9,085
Intergovernmental Revenues	1,305	27,362	28,667
Other Revenue	47,571		47,571
Total Revenues	<u>149,839</u>	<u>27,362</u>	<u>177,201</u>
EXPENDITURES			
General Administration	86,357		86,357
Streets		23,912	23,912
Law Enforcement	53,805		53,805
Debt Service	3,267		3,267
Total Expenditures	<u>143,429</u>	<u>23,912</u>	<u>167,341</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	6,410	3,450	9,860
Other Financing Sources (Uses)			
Capital Outlay	(268,240)		(268,240)
Grant Income	47,966		47,966
Loan Proceeds	133,333		133,333
Loan Payments	(20,000)		(20,000)
Transfers Out	(56,987)		(56,987)
Transfers In	38,333		38,333
Balancing Entry	(15,392)		(15,392)
Interest Income	569	330	899
Total Other Financial Sources (Uses)	<u>(140,418)</u>	<u>330</u>	<u>(140,088)</u>
Net Change in Fund Balance	(134,008)	3,780	(130,228)
Fund Balances, Beginning	<u>269,208</u>	<u>97,513</u>	<u>366,721</u>
Fund Balances, Ending	<u>\$ 135,200</u>	<u>\$ 101,293</u>	<u>\$ 236,493</u>

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

CITY OF FRENCHBURG, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2025

Reconciliation to the Statement of Activities:

Net Change in Fund Balances-Total Governmental Funds	\$ (130,228)
Add: Capital Outlay Expenditures Capitalized	268,240
Less: Depreciation Expense	(50,779)
Less: Debt Proceeds	(133,333)
Add: Debt Service Expenditures	<u>20,000</u>
Change in Net Position of Governmental Activities	<u>\$ (26,100)</u>

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF FUND NET POSITION - PROPRIETARY FUND
As of June 30, 2025

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 350,923
Receivables, Net	190,376
Total Current	541,299

Noncurrent Assets:

Restricted Cash	187,911
Inventory	78,857
Water and Sewer Systems	14,708,607
Less: Accumulated Depreciation	<u>(11,320,683)</u>
Total Noncurrent Assets	3,654,692
Total Assets	4,195,991

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows - Pension and OPEB	<u>201,143</u>
Total Deferred Outflows of Resources	201,143
Total Assets and Deferred Outflows of Resources	<u><u>\$ 4,397,134</u></u>

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF FUND NET POSITION - PROPRIETARY FUND
As of June 30, 2025

Current Liabilities		
Accounts Payable	\$	77,272
Meter Deposits Payable		103,040
Accrued Liabilities		12,400
Due to/from Other Funds		14,423
Current Portion of Long-Term Liabilities		<u>80,859</u>
Total Current Liabilities		287,994
Noncurrent Liabilities		
Noncurrent Portion of Long-Term Liabilities		855,985
Accrued Leave		41,727
Net Pension Liability		609,106
Net OPEB Liability		<u>(17,635)</u>
Total Noncurrent Liabilities		<u>1,489,183</u>
Total Liabilities		1,777,177
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows - Pension		140,697
Deferred Inflows - OPEB		<u>194,317</u>
Total Deferred Inflows of Resources		335,014
NET POSITION		
Net Investment in Capital Assets		2,451,080
Unrestricted		<u>(166,137)</u>
Total Net Position		<u>2,284,943</u>
Total Liabilities, Deferred Inflows of Resources and Net Position		<u><u>\$ 4,397,134</u></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 FUND
For the Year Ended June 30, 2025

	Water	Sewer	Total
OPERATING REVENUES			
Charges for Services	\$ 1,682,965	\$ 114,083	\$ 1,797,048
Penalties	28,007	990	28,997
Other Revenue	48,531		48,531
Total Operating Revenues	1,759,503	115,073	1,874,576
OPERATING EXPENSES			
Personnel	638,473		638,473
Water Purchased	590,720		590,720
Maintenance and Repairs	12,382	6,059	18,441
Utilities	18,988	28,265	47,253
Auto	20,919		20,919
Insurance	15,572	2,248	17,820
Office Supplies	27,889	5,921	33,810
Operating Supplies	129,789	15,817	145,606
Rent	36,000		36,000
Postage	18,811		18,811
Other	158,028		158,028
Depreciation	204,826	151,855	356,681
Total Operating Expenses	1,872,397	210,165	2,082,562
NET OPERATING INCOME (LOSS)	(112,894)	(95,092)	(207,986)
NON-OPERATING REVENUES (EXPENSES)			
Interest Income	1,652	137	1,789
Balancing Entry		4,348	4,348
Interest Expense	(30,695)	(13,650)	(44,345)
Total Non-Operating Revenues (Expenses)	(29,043)	(9,165)	(38,208)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS			
	(141,937)	(104,257)	(246,194)
Transfer In	56,987		56,987
Transfer Out	(28,333)	(10,000)	(38,333)
Hook on Fees	53,850		53,850
Change in Net Position	\$ (59,433)	\$ (114,257)	\$ (173,690)
NET POSITION - BEGINNING OF YEAR			2,458,633
NET POSITION - END OF YEAR			2,284,943

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2025

Cash flows from Operating Activities:

Payments Received from Customers	\$ 1,797,048
Payments to Suppliers	(745,277)
Payments for Salaries and Benefits	(781,843)
	269,928
Net Cash Provided (Used) by Operating Activities	269,928

Cash Flows from Capital and Related Financing Activities:

Capital Contributions	53,850
Capital Outlay	(86,456)
Principal Paid on Capital Debt	(89,828)
Interest Paid on Capital Debt	(44,345)
	(166,779)
Net Cash Provided (Used) by Financing Activities	(166,779)

Cash Flows from Investing Activities:

Interest Income	1,789
	1,789
Net Cash Provided (Used) by Investing Activities	1,789

Net Increase (Decrease) in Cash 104,938

Cash at Beginning of Year 433,896

Cash at End of Year \$ 538,834

**Reconciliation of Operating Income to Net Cash Used
by Operating Activities**

Operating Income (Loss)	\$ (207,986)
Adjustment to Reconcile Operating Income to	
Cash Provided (Used) by Operating Activities	
Depreciation	356,681
Net Change in Pension/OPEB Liability	(143,370)

Changes in Assets and Liabilities:

Customer Receivable	4,334
Inventory	
Accounts and Other Payables	7,094
Accrued Expenses	253,175
	269,928

Net Cash Provided (Used) by Operating Activities \$ 269,928

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the City of Frenchburg, Kentucky (the City) is presented to assist in understanding the City's financial statements. The financial statements and notes are representations of the City's management, who are responsible for their integrity and objectivity. These accounting policies, as applied to the aforementioned financial statements, conform to generally accepted accounting principles applicable to governmental units.

Financial Reporting Entity

The City is governed by a five-member group composed of the Mayor and four Commissioners. These individuals have oversight responsibilities over all activities related to the operations of the City of Frenchburg, its infrastructure, roads, sewer and water system, etc. The City receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the City is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Commissioners are elected by the public and has decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The City, for financial purposes, includes all of the funds and account groups relevant to the operation of the City. The financial statements presented herein do not include funds of groups and organizations, which although associated with the City, have not originated within the City itself.

The financial statements of the City of Frenchburg include the funds, agencies, boards, and entities for which the City is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Auditing Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Legally separate organizations are reported as component units if either the city is financially accountable or the organization's exclusion would cause the city's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefit the primary government even though it does not provide services directly to it or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the City. The effect of interfund activities has been removed from these statements. The purpose of interfund transfers is to move resources to and from the general fund and other funds, for budgetary purposes, to the funds that will expend them. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

The statement of net position presents the City's assets and deferred outflows and liabilities and deferred inflows, the difference between the two being reported as net position. Net position is reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net position - resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net position - those assets that do not meet the definition of restricted net position or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major funds. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, and expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The city may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. Debt service expenditures are recorded only when payment is due.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the City. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function. Activities include general administration of the city and the street maintenance department.

Municipal Road Aid Fund. – This is a Special Revenue fund used to account for funds received from the Commonwealth of Kentucky and to be used for streets.

Local Government Economic Assistance Fund- This is a Special Revenue fund used to account for funds received from the LGFA and used in accordance with KAR 10:010.0.

Proprietary Funds

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of operating income and changes in net position, financial position and cash flows. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary fund:

Utility Fund - The utility fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water, and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

The City prepares budgets annually. These budgets are adopted on a modified accrual basis of accounting and are used as a management control device.

Encumbrances

The City does not use a system of encumbrances in their accounting and reporting methods.

Inventory

Inventory consists of utility supplies and is stated at cost.

Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities columns of the government-wide financial statements and in the fund financial statements for proprietary funds. Such assets are recorded at acquisition or construction cost or estimated historical cost when purchased or constructed. Donated assets are recorded at fair market value at the date of donation.

Major additions and improvements are capitalized including extensions to water or sewer lines, sometimes referred to as infrastructure, while cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is capitalized for proprietary funds.

Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

<u>Category</u>	<u>Useful Lives</u> <u>Years</u>
Buildings	40
Water and Sewer Lines & Improvements	40
Equipment and Vehicles	7-10
Infrastructure	40-50

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, money market funds, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of these financial statements, cash and cash equivalents of the proprietary funds consist of unrestricted and restricted cash in bank.

KRS 66.480 authorizes the city to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GASB Statement No. 72, Fair Value Measurement and Application, became effective in fiscal year 2016 which requires the measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques.

The carrying amount of the following financial instruments approximate fair value because of the short maturity of the instruments: cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Receivables

Governmental Funds receivables, which consists of Taxes, Licenses and Fees collected within 60 days of the fiscal year end were \$8,880. There is no allowance for uncollectible because these are fully collectible.

The Business-type Funds receivables consist of water and sewer revenues. The City reads meters on approximately the 10th of each month for water and sewer. The bills for the current reading go out on the last business day of the month. The unbilled receivables represent approximately 20 days of water and sewer usage. Billed receivables were \$148,099 and unbilled receivables were \$77,527. The allowance for uncollectible accounts was \$35,250, which are accounts greater than 30 days past due. Net receivables for business-type activities were \$190,376.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

Fund Equity

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the city council – the government’s highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the city council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the city’s “intent” to be used for specific purposes, but are neither restricted nor committed. The city council and mayor have authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the city’s policy to use externally restricted resources first, then unrestricted revenues – committed, assigned, and unassigned - in order as needed.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2025 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payable and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, and the noncurrent portion of capital leases, benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered as being made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

NOTE B - DEPOSITS

The primary government-maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the city and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the city's deposits may not be returned to it. The city does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2025, the bank balance was \$758,019. These deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Deposits Covered By Federal Insurance	\$500,000
Deposits Collateralized	<u>258,019</u>
Total Bank Balance.	<u>\$758,019</u>

NOTE C - INSURANCE COVERAGE

The City is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The City has purchased certain policies, which include worker's compensation insurance. Settlement amounts have not exceeded insurance coverage for the current fiscal year or the three prior fiscal years.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE D - RESTRICTIONS ON CASH

Business-type Activities Cash Reserves

Depreciation

The City maintains depreciation reserves required by federal and state financing agencies for repairs and maintenance to projects which they funded. At June 30, 2025, the balance in the reserves was \$187,911.

Governmental Cash Reserves

Debt Service

As of June 30, 2025, the City has \$9,438 reserved for debt service payments.

NOTE E - LONG-TERM DEBT

Business-Type Activities

Other Debt

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

Whenever any Event of Default has occurred and is continuing, the Lessor may, without any further demand or notice, take one or any combination of the remedial steps as listed in Section 27 of the bond document.

The principal balance as of June 30, 2025 was \$689,859. Obligations for the remaining years are:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Payment</u>
2026	\$ 60,000	\$ 25,867	\$ 85,867
2027	60,000	23,888	83,888
2028	62,083	21,831	83,914
2029	65,000	19,679	84,679
2030	67,083	15,792	82,875
2031-2035	222,500	65,299	287,799
2036-2040	153,193	846	154,039
	<u>\$ 689,859</u>	<u>\$ 173,202</u>	<u>\$ 863,061</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE E - LONG-TERM DEBT (Continued)

Business-Type Activities (Continued)

Other Debt (Continued)

2. During the 2021 fiscal year, the City entered into an interim loan agreement with Kentucky Infrastructure Authority for the planning and design of capital improvements, with an interest rate of 2.5%. As of June 30, 2025, \$223,650 has been disbursed on the loan. Payments have not been scheduled to begin as of June 30, 2025.

Capital Leases

1. On May 12, 2022, the City entered a lease agreement for a 2022 Dodge RAM 1500 4x4 Quad Cab with Enterprise FM Trust in the amount of \$17,130. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. Monthly payments of \$509 include imputed interest of 18.598%. The balance of the lease at June 30, 2025 was \$5,108. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Payment</u>
2026	\$ 5,107	\$ 487	\$ 5,594
	<u>\$ 5,107</u>	<u>\$ 487</u>	<u>\$ 5,594</u>

2. On May 12, 2022, the City entered a second lease agreement for a 2022 Dodge RAM 1500 4x4 Quad Cab with Enterprise FM Trust in the amount of \$17,130. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. Monthly payments of \$509 include imputed interest of 18.598%. The balance of the lease at June 30, 2025 was \$5,595. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Payment</u>
2026	\$ 5,107	\$ 487	\$ 5,594
	<u>\$ 5,107</u>	<u>\$ 487</u>	<u>\$ 5,594</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE E - LONG-TERM DEBT (Continued)

Business-Type Activities (Continued)

Capital Leases (Continued)

3. On August 5, 2022, the City entered a third lease agreement for a 2022 Dodge RAM 1500 4x4 Quad Cab with Enterprise FM Trust in the amount of \$17,308. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. Monthly payments of \$510 include imputed interest of 18.148%. The balance of the lease at June 30, 2025 was \$6,388. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Payment</u>
2026	\$ 5,392	\$ 725	\$ 6,117
2027	996	23	1,019
	<u>\$ 6,388</u>	<u>\$ 748</u>	<u>\$ 7,136</u>

4. On September 30, 2022, the City entered a fourth lease agreement for a 2022 Dodge RAM 1500 4x4 Quad Cab with Enterprise FM Trust in the amount of \$17,130. Payments begin on the delivery date of the vehicle and end 60 months after the first full monthly rental payment date with an option to continue month-to-month for an unlimited period of time. Monthly payments of \$509 include imputed interest of 19.673%. The balance of the lease at June 30, 2025 was \$6,732. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Payment</u>
2026	\$ 5,251	\$ 868	\$ 6,119
2027	1,481	49	1,530
	<u>\$ 6,732</u>	<u>\$ 917</u>	<u>\$ 7,649</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE E - LONG-TERM DEBT (Continued)

Governmental Activities

Other Debt

1. In June 2005, the City entered into a long-term lease agreement with KADD Financing Trust. The purpose of the lease was to consolidate a long-term debt agreement with Traditional Bank, Inc. to finance land acquisition and lease purchase agreement with the KADD Financing Trust for the three sanitation trucks, and to finance the purchase of a tract of land with a building on it for the amount of \$45,000. On May 18, 2016 Revenue Bonds in the amount of \$230,000 bearing interest at 3% were issued through a pooled financing transaction with the KBC. Proceeds from the bonds along with a \$100,000 contribution made by the City paid in full the lease agreement with the KADD Financing Trust. On June 1, 2016 the city entered into a financing agreement with the KBC to repay over a period of 13 years the associated debt by making monthly principal and interest payments beginning July 1, 2016 with the final monthly payment scheduled to be made on February 1, 2029.

Whenever any Event of Default has occurred and is continuing, the Lessor may, without any further demand or notice, take one or any combination of the remedial steps as listed in Section 27 of the bond document.

As of June 30, 2025, the principal balance was \$66,667. Obligations for the remaining years are:

Fiscal Year Ended	Principal	Interest and Fees	Total Payment
2026	\$ 20,000	\$ 2,000	\$ 22,000
2027	22,083	1,400	23,483
2028	18,750	738	19,488
2029	5,834	175	6,009
	\$ 66,667	\$ 4,313	\$ 70,980

2. On March 1, 2025, the City entered into an agreement with Lawson Trucking, Inc. to purchase land in the amount of \$200,000, interest free. One third of the purchase prices (66,667) was paid at the time of the agreement with the remainder to be paid in two equal payments, due March 1, 2026 and March 1, 2024. Whenever there is a default the entire principal balance and all other existing or hereafter created or arising liabilities, indebtedness, and obligation of Maker to Holder shall, at the option of Holder, become due and payable with 30 days written notice from Holder to Maker. The balance of the agreement at June 30, 2025 was \$133,333. Payments for the remaining years are as follows:

Fiscal Year Ended	Principal
2026	\$ 66,667
2027	66,666
	\$ 133,333

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE F - CHANGES IN LONG-TERM LIABILITIES AND INTERST PAID

<u>Proprietary Fund Activities:</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Other Debt</i>					
Revenue Bonds	\$ 761,527	\$	\$ (71,667)	\$ 689,860	\$ 60,000
KIA Loan	223,650			223,650	
Capital Leases	41,496		(18,162)	23,334	20,859
<hr/>					
Proprietary Fund Activities Long-term Liabilities	<u>\$ 1,026,673</u>	<u>\$ 0</u>	<u>\$ (89,829)</u>	<u>\$ 936,844</u>	<u>\$ 80,859</u>

Interest paid on debt was \$40,577 for business-type activities for the fiscal year ended June 30, 2025.

<u>Governmental Activities:</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Other Debt</i>					
Revenue Bonds	\$ 86,667	\$	\$ (20,000)	\$ 66,667	\$ 20,000
Land Purchase		133,333		133,333	\$ 66,667
<hr/>					
Governmental Activities Long-term Liabilities	<u>\$ 86,667</u>	<u>\$ 133,333</u>	<u>\$ (20,000)</u>	<u>\$ 200,000</u>	<u>\$ 86,667</u>

Interest paid on debt was \$3,267 for governmental activities for the fiscal year ended June 30, 2025.

NOTE G - PROPERTY TAX CALENDAR

The City levies real estate taxes on all real property on a calendar year basis, at a rate enacted by the City on the assessed value of property (except public utility property) as determined by the County Property Valuation Administrator. All property is assessed at 100 percent of fair market value and reassessed each year as of January 1. The due date and collection periods for property taxes are as follows:

Description

Face value amount payment date	November 1 through March 1
10% Penalty added	March 2

Property taxes collected are recorded as revenues in the fund for which they were levied. Property taxes are attached as an enforceable lien on property as of January 1, 2016. The property tax rates assessed for the year ended June 30, 2025, to finance the General Fund operations were \$0.08 per \$100 valuation for real property, and \$0.08 per \$100 valuation for business personal property.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE H- CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2025, consisted of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets not Being Depreciated:				
Land	\$ 257,832	\$ 200,000	\$.	\$ 457,832
Construction In Progress	131,225	.	.	131,225
Total Capital Assets not Being Depreciated	389,057	200,000	.	589,057
Capital Assets, Being Depreciated:				
Land Improvements	189,854	33,750	.	223,604
Buildings and Improvements	1,294,287	34,490	.	1,328,777
Vehicles & Equipment	88,332	.	.	88,332
Infrastructure	20,055	.	.	20,055
Total Capital Assets Being Depreciated	1,592,528	68,240	.	1,660,768
Less Accumulated Depreciation for:				
Land Improvements	(157,053)	(8,539)	.	(165,592)
Buildings and Improvements	(589,856)	(33,497)	.	(623,353)
Vehicles	(31,357)	(8,744)	.	(40,101)
Infrastructure	(20,055)	.	.	(20,055)
Total Accumulated Depreciation	(798,321)	(50,780)	.	(849,101)
Total Capital Assets, Being Depreciated, Net	794,207	17,460	.	811,667
Governmental Activities Capital Assets, Net	<u>\$ 1,183,264</u>	<u>\$ 217,460</u>	<u>\$ 0</u>	<u>\$ 1,400,724</u>

Depreciation was charged to governmental activities as follows: \$50,780

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE H – CAPITAL ASSETS (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 6,850	\$	\$	\$ 6,850
CIP - Water Projects	71,394			71,394
CIP - Sewer Line Extension	455,950			455,950
Total Capital Assets Not Being Depreciated	534,194			534,194
Capital Assets, Being Depreciated:				
Water Utility Plant	9,306,871	56,987		9,363,858
Waste Water Plant	4,480,323			4,480,323
Vehicles, Machinery & Equipment	322,160	8,079		330,239
Total Capital Assets Being Depreciated	14,109,354	65,066		14,174,420
Less Accumulated Depreciation For:				
Water Utility Plant	(6,937,173)	(186,365)		(7,123,538)
Waste Water Plant	(3,736,414)	(149,344)		(3,885,758)
Vehicles, Machinery & Equipment	(290,415)	(20,972)		(311,387)
Total Accumulated Depreciation	(10,964,002)	(356,681)		(11,320,683)
Total Capital Assets Being Depreciated, Net	3,145,352	(291,615)		2,853,737
Total Utilities Capital Assets, Net	<u>\$ 3,679,546</u>	<u>\$ (291,615)</u>	<u>\$ 0</u>	<u>\$ 3,387,931</u>

Depreciation was charged to business-type activities as follows:

Water	\$ 204,826
Sewer	151,855
	<u>\$ 356,681</u>

NOTE I - COMPENSATED ABSENCES

The City has adopted sick and annual leave policies that provide for payment upon termination.

Vacation (Annual Leave)

All employees occupying established full-time positions are entitled to vacation leave at full pay at the current rate of pay according to the following schedule:

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE I - COMPENSATED ABSENCES (Continued)

Vacation (Annual Leave) (Continued)

<u>Years of Continuous Service</u>	<u>Annual Leave</u>
0 through 3 years	5 working days
4 through 5 years	10 working days
6 through 15 years	15 working days
16 years and thereafter	20 working days

Employees may accrue eighty hours (10 work days) of vacation leave above the annual amount after which additional vacation leave will not be accrued. During the first week of January of each year, the City shall take action to compensate employees for any accrued vacation time in excess of this amount at their regular rate of pay. In the alternative, the employee may transfer excess vacation time into sick leave on a day-for-day basis. Any employee who terminates employment with the city shall be compensated for credited but unused vacation leave time, except employees who resign or are discharged during the original probation period. Accrued leave totaled \$41,727 which includes vacation and sick leave per GASB 101 – Compensated Absences, at June 30, 2025.

Sick Leave

All employees occupying established full-time positions shall accrue six to eight hours (1 working day) sick leave for each completed calendar month of service. Employees shall be allowed to carry over sick leave hours into a new calendar year. Employees who terminate employment with city shall not be compensated for accrued but unused sick leave hours; however, employees who retire from the city employment and begin participating in the County Employees Retirement System immediately upon separation from the city may use accrued but unused sick leave for retirement purposes.

NOTE J - RETIREMENT

General Information about the Pension Plan

The City has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the County Employees Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five (5) percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six (6) percent of their salary to be allocated as follows: 5% will go to the member’s account and 1% will go to the Kentucky Public Pension Authority (KPPA) insurance fund. The City’s contribution rate for nonhazardous employees was 19.71 percent.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE J - RETIREMENT (Continued)

General Information about the Pension Plan (Continued)

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% (nonhazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The City's contributions are as follows:

<u>Fiscal Year</u>	<u>Contribution Amount</u>
2023	\$85,870
2024	\$91,887
2025	\$84,854

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE J - RETIREMENT (Continued)

General Information about the Pension Plan (Continued)

service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Pension Authority's annual financial report. This report may be obtained by writing the Kentucky Public Pension Authority, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Pension Liabilities

At June 30, 2025, the City has a liability of \$609,106 for its proportionate share of the net pension liability for non-hazardous retirement. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2023 using standard roll-forward techniques. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2025, the City's proportion was .010185%.

For the year ended June 30, 2025, the City recognized pension expense of \$(17,876). At June 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Schedule of Deferred Outflows and Inflows

NON-HAZARDOUS	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability Experience	\$ 29,482	\$
Assumption Changes		27,520
Investment Experience	41,832	80,994
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	79	32,183
City Contributions Subsequent to the Measurement Date	84,854	
Total	\$ 156,247	\$ 140,697

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE J - RETIREMENT (Continued)

Pension Liabilities (Continued)

The \$84,854 (non-hazardous) of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the pension liability in the year ending June 30, 2025. The collective amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Non-Hazardous</u>	
2025	\$	(44,331)
2026	\$	(1,191)
2027	\$	(15,054)
2028	\$	(8,728)
2029	\$	0
Thereafter	\$	0

Actuarial Methods and Assumptions for Determining the Total Pension Liability and Net Pension Liability

For financial reporting, the actuarial valuation as of June 30, 2024, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2024 were based on an actuarial valuation date of June 30, 2023. The total pension liability was rolled-forward from the valuation date (June 30, 2023) to the plan's fiscal year ending June 30, 2024, using generally accepted actuarial principles.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the table below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	60.00%	
Public Equity	50.00%	4.15%
Private Equity	10.00%	9.10%
Fixed Income	20.00%	
Core Bonds	10.00%	2.85%
Specialty Credit/High Yield	10.00%	3.82%
Cash	0.00%	1.39%
Inflation Protected	20.00%	
Real Estate	7.00%	4.99%
Opportunistic		
Real Return	13.00%	5.35%
Expected Real Return	100%	4.69%
Long Term Inflation Assumption		2.50%
Expected Nominal Return for Portfolio		7.19%

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE J - RETIREMENT (Continued)

Pension Liabilities (Continued)

Single Discount Rate

Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the plan's projected fiduciary net position is not sufficient to pay benefits).

A single discount rate of 6.50% was used to measure the total pension liability for the non-hazardous plan for the fiscal year ending June 30, 2024. The single discount rate is based on the expected rate of return on pension plan investments for each plan. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the non-hazardous plan's fiduciary net position and future contributions were separately projected and were each sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability for each plan.

The projection of cash flows used to determine the single discount rate for each plan must include an assumption regarding actual employer contributions made each future year. Future contributions are projected assuming that each participating employer in each pension plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy. The provision of House Bill 362 (passed during the 2018 legislative session) are still in effect and limit the increase to the employer contributions rate to 12% over the prior fiscal year through June 30, 2028. However, contribution rates are not currently projected to increase by more than 12% in any given future year. Therefore, for the purposes of the calculation, the provisions of House Bill 362 do not impact the projected employer contributions.

The following presents the net pension liability of the City, calculated using the discount rate of percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.50 percent) or one-percentage-point higher (7.50 percent) than the current rate for non-hazardous:

NON-HAZARDOUS	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
City's Net Pension Liability	\$ 785,237	\$ 609,106	\$ 462,964

Actuarial Methods and Assumptions Used to Determine the Actuarially Determined Contributions Effective for Fiscal Year Ending June 30, 2021

Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized
Amortization Method:	Level Percent of Pay

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE J - RETIREMENT (Continued)

Pension Liabilities (Continued)

Actuarial Methods and Assumptions Used to Determine the Actuarially Determined Contributions Effective for Fiscal Year Ending June 30, 2021 (Continued)

Amortization Period:	30-year closed period at June 30, 2019 <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases</i>
Payroll Growth Rate:	2.00%
Investment Return:	6.25%
Inflation:	2.30%
Salary Increases:	3.30% to 10.30%, varies by service
Mortality:	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Phase-In Provision:	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

Employees of the City are provided hospital and medical insurance through the County Employee Retirement System's (CERS) Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The CERS was created by state statute under Kentucky Revised Statute Section 61.645. The CERS Board of Trustees is responsible for the proper operation and administration of the Insurance Fund. The CERS issues a publicly available financial report that can be obtained by writing the Kentucky Public Pension Authority, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and the Net OPEB Liability

For financial reporting, the actuarial valuation as of June 30, 2024 was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2024 were based on an actuarial valuation date of June 30, 2023. The total OPEB liability was rolled-forward from the valuation date (June 30, 2023) to the plan's fiscal year ending June 30, 2024, using generally accepted actuarial principles. Senate Bill 209 passed during the 2022 legislative session and increased the insurance dollar contribution for members hired on or after July 1, 2003 by \$5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase is first payable January 1, 2023. Senate Bill 209 also allows members receiving the insurance dollar contribution to participate in a medical insurance reimbursement plan that would provide the reimbursement of premiums for health plans other than those administered by KPPA.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and the Net OPEB Liability (Continued)

The total OPEB liability as of June 30, 2024 is determined using these updated provisions. There were no other material plan provision changes and it is the opinion of GRS that the procedures are reasonable and appropriate, and comply with applicable requirements under GASB Statement No. 75.

Based on the June 30, 2022 actuarial valuation report, the actuarial methods and assumptions used to calculate the required contributions are below:

Valuation Date	June 30, 2022
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized
Amortization Method	Level Percent of Pay
Remaining Amortization Period	30-year closed period at June 30, 2019 (<i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases</i>)
Payroll Growth Rate	2.00%
Investment Return	6.25%
Inflation	2.30%
Salary Increases	3.30% to 10.30%, varies by service
Mortality	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 6.20% at January 1, 2024 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2023 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Post – 65	Initial trend starting at 9.00% at January 1, 2024 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2023 premiums were known at the time of the valuation and were incorporated into the liability measurement.

Single Discount Rate

Single discount rates of 5.99% for the CERS non-hazardous insurance plan was used to measure the total OPEB liability as of June 30, 2024. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.50% and a municipal bond rate of 3.97%, as reported in Fidelity Index's "20-Year Municipal GO AA Index) as of June 30, 2024. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, each plan's fiduciary net position and future contributions were projected separately and were sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance pan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the plan's actuarially determined contributions, and it is the understanding of GRS that any cost associated with the implicit subsidy will not be paid out of the plan's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Single Discount Rate (Continued)

The projection of cash flows used to determine the single discount rate must include an assumption regarding actual employer contributions made each future year. Future contributions are projected assuming that each participating employer in each insurance plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy.

Long-Term Expected Rate of Return

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below. The current long-term assumption is 2.30% per annum for non-hazardous.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	60.00%	
Public Equity	50.00%	4.15%
Private Equity	10.00%	9.10%
Fixed Income	20.00%	
Core Bonds	10.00%	2.85%
Specialty Credit/High Yield	10.00%	3.82%
Cash	0.00%	1.39%
Inflation Protected	20.00%	
Real Estate	7.00%	4.99%
Opportunistic		
Real Return	13.00%	5.35%
Expected Real Return	100%	4.69%
Long Term Inflation Assumption		2.50%
Expected Nominal Return for Portfolio		7.19%

Deferred Inflows and Outflows of Resources

The deferred inflows and outflows of resources and OPEB Expense columns included in the Schedule of OPEB Amounts by Employer include only certain categories of deferred inflows of resources and deferred outflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule of OPEB Amounts by Employer does not include deferred inflows/outflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net OPEB liability as of June 30, 2024 is based on the June 30, 2023 actuarial valuation rolled forward. Deferred inflows and outflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Sensitivity of the Net OPEB to Changes in the Discount Rate

The net OPEB liability of the City, as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.99%) or one percentage point higher (6.99%) follows:

NON-HAZARDOUS	1% Decrease (4.99%)	Current Discount Rate (5.99%)	1% Increase (6.99%)
City's Net OPEB Liability	\$ 23,845	\$ (17,635)	\$ (52,512)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the City, as well as what the City’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates follows:

NON-HAZARDOUS	1% Decrease	Current Healthcare Rate	1% Increase
City's Net OPEB Liability	\$ (42,428)	\$ (17,635)	\$ 11,247

OPEB Liabilities, OPEB Expense and Deferred Inflows of Resources Related to OPEB

At June 30, 2025, the City reported a liability of \$(17.635) (non-hazardous) for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2023 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The City’s proportion of the collective net OPEB liability and OPEB expense was determined using the employers’ actual contributions for fiscal year 2023. This method is to be reflective of the employers’ long-term contribution effort. At June 30, 2025, the City’s proportion was 0.010903%, non-hazardous.

At June 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

NON-HAZARDOUS	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability Experience	\$ 9,784	\$ 138,755
Assumption Changes	15,980	12,444
Investment Experience	15,502	31,595
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	3,630	11,523
Total	\$ 44,896	\$ 194,317

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2025

NOTE K – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

OPEB Liabilities, OPEB Expense and Deferred Inflows of Resources Related to OPEB (Continued)

Other amounts reported as deferred outflows or resources and deferred inflows of resources will be recognized in OPEB expense as follows:

	<u>Non-Hazardous</u>
2025	\$ (57,048)
2026	\$ (47,553)
2027	\$ (41,568)
2028	\$ (3,251)
2029	\$ 0
Thereafter	\$ 0

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period. Those changes in net OPEB liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual expense are amortized over the weighted average remaining service life of all participants in the respective qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they are incurred.

NOTE L – SUBSEQUENT REVIEW

Subsequent events have been evaluated through March 13, 2026, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF FRENCHBURG, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Required Supplemental Information
June 30, 2025

<i>(Actuarial Valuation Report Year)</i>	Non-Hazardous									
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
City's Proportion of the Net Pension Liability (Asset)	0.010%	0.010%	0.010%	0.010%	0.010%	0.010%	0.011%	0.011%	0.011%	0.010%
City's Proportionate Share of the Net Pension Liability	\$ 420,422	\$ 474,642	\$ 583,282	\$ 622,855	\$ 718,566	\$ 762,697	\$ 701,591	\$ 785,866	\$ 699,592	\$ 609,106
City's Covered-Employee Payroll	\$ 228,142	\$ 229,966	\$ 242,625	\$ 253,481	\$ 263,527	\$ 269,477	\$ 295,313	\$ 315,916	\$ 333,459	\$ 343,605
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	184.28%	206.40%	240.40%	245.72%	272.67%	283.03%	237.58%	248.76%	209.80%	177.27%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59.97%	55.50%	53.30%	53.54%	50.45%	47.81%	57.33%	52.42%	57.48%	61.61%

CITY OF FRENCHBURG, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Required Supplemental Information
June 30, 2025

<i>(Actuarial Valuation Report Year)</i>	Non-Hazardous							
	2017	2018	2019	2020	2021	2022	2023	2024
City's Proportion of the Net OPEB Liability (Asset)	0.010%	0.010%	0.010%	0.000%	0.011%	0.011%	0.011%	0.010%
City's Proportionate Share of the Net OPEB Liability (Asset)	\$ 200,331	\$ 181,578	\$ 171,795	\$ 240,045	\$ 210,609	\$ 214,501	\$ (15,053)	\$ (17,635)
City's Covered-Employee Payroll	\$ 242,625	\$ 253,481	\$ 263,527	\$ 269,477	\$ 295,313	\$ 315,916	\$ 333,459	\$ 343,605
City's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Its Covered-Employee Payroll	82.57%	71.63%	65.19%	89.08%	71.32%	67.90%	-4.51%	-5.13%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	52.40%	57.62%	60.44%	51.67%	62.91%	60.95%	104.28%	104.89%

Note: This schedule will eventually cover the 10 most recent fiscal years; however, this is the information available as of the implementation of GASB 75.

CITY OF FRENCHBURG, KENTUCKY
SCHEDULE OF THE CITY'S PENSION CONTRIBUTIONS
Required Supplemental Information
June 30, 2025

<i>(Actuarial Valuation Report Year)</i>	Non-Hazardous									
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Contractually Required Pension Contribution	\$ 29,088	\$ 28,562	\$ 33,846	\$ 36,704	\$ 41,800	\$ 49,158	\$ 54,247	\$ 68,479	\$ 74,601	\$ 74,627
Contributions in Relation to the Contractually Required Pension Contribution	<u>29,088</u>	<u>28,562</u>	<u>33,846</u>	<u>36,704</u>	<u>41,800</u>	<u>49,158</u>	<u>54,247</u>	<u>68,479</u>	<u>74,601</u>	<u>74,627</u>
Pension Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
City's Covered-Employee Payroll	\$ 228,142	\$ 229,966	\$ 242,625	\$ 253,481	\$ 263,527	\$ 269,477	\$ 295,313	\$ 315,916	\$ 333,459	\$ 343,605
Contributions as a Percentage of Covered-Employee Payroll	12.75%	12.42%	13.95%	14.48%	15.86%	18.24%	18.37%	21.68%	22.37%	21.72%

CITY OF FRENCHBURG, KENTUCKY
SCHEDULE OF THE CITY'S OPEB CONTRIBUTIONS
Required Supplemental Information
June 30, 2025

<i>(Actuarial Valuation Report Year)</i>	Non-Hazardous							
	2017	2018	2019	2020	2021	2022	2023	2024
Contractually Required OPEB Contribution	\$ 11,476	\$ 11,914	\$ 13,555	\$ 12,124	\$ 13,379	\$ 12,535	\$ 10,729	\$
Contributions in Relation to the Contractually Required OPEB Contribution	11,476	11,914	13,555	12,124	13,379	12,535	10,729	
OPEB Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
City's Covered-Employee Payroll	\$ 242,625	\$ 253,481	\$ 263,527	\$ 269,477	\$ 295,313	\$ 315,916	\$ 333,459	\$ 343,605
Contributions as a Percentage of Covered-Employee Payroll	4.73%	4.70%	5.14%	4.50%	4.53%	3.97%	3.22%	0.00%

Note: This schedule will eventually cover the 10 most recent fiscal years; however, this is the information available as of the implementation of GASB 75.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2025

Note 1. Budgetary Information

A. Annual budgets are adopted on a modified accrual basis of accounting and according to the laws of Kentucky.

The City Mayor is required to submit estimated receipts and proposed expenditures to the City by June 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the City by July 1.

The City may amend the original budget by transferring appropriations at the activity level. Expenditures may not exceed budgeted appropriations at the activity level. Debt proceeds and capital outlay are not budgeted.

The City overspent the General Fund budget.

Note 2. Actuarially Determined Pension Contributions

June 30, 2023 – Pension and OPEB

The CERS Board of Trustees adopted new actuarial assumptions on May 9, 2023 and include a change in the investment return assumption from 6.25% to 6.50%.

June 30, 2022 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for OPEB:

- The initial healthcare trend rated for pre-65 was changed from 6.40% to 6.30%. The initial healthcare trend rate for post-65 was changed from 2.90% to 6.30%.

December 31, 2021 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The initial healthcare trend rated for pre-65 was changed from 6.40% to 6.30%. The initial healthcare trend rate for post-65 was changed from 2.90% to 6.30%.

December 31, 2020 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rated for pre-65 was changed from 7% to 6.40%. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2025

Note 2. Actuarially Determined Pension Contributions (Continued)

December 31, 2019 – Pension and OPEB

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for pension and OPEB:

- The assumed rate of salary increases was increased from 3.50% to 3.3% to 10.3% on average for non-hazardous.

December 31, 2018 – Pension and OPEB

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018 for either pension or OPEB.

December 31, 2017 – Pension

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%.

December 31, 2016 – Pension and OPEB

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 for either pension or OPEB.

December 31, 2015 – Pension

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

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INDEPENDENT AUDITOR'S 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*

Honorable Mayor and City Commissioners
City of Frenchburg, Kentucky

We were engaged to audit, 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 each major fund, of the City of Frenchburg, Kentucky, as of and for the year ended June 30, 2025, 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 March 13, 2025. Our report disclaims an opinion on such financial statements because of lack of accounting records.

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statements of the City of Frenchburg, Kentucky, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Frenchburg, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Frenchburg, Kentucky's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses.

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 questioned costs as items 2025-001, 2025-002, 2025-003 and 2025-004 to be material weaknesses.

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

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the City of Frenchburg, Kentucky, 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*. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, instances of noncompliance or other matters may have been identified and reported herein.

City of Frenchburg, Kentucky's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an engagement to perform an audit 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.



Morgan and Associates LLC
West Liberty, Kentucky

March 13, 2025

CITY OF FRENCHBURG, KENTUCKY
COMMENTS AND RECOMMENDATIONS
June 30, 2025

MATERIAL WEAKNESSES

2025-001 The City Lacks Control Over the Preparation of Financial Statements

Condition: Financial Statements presented for the audit required significant adjustments and reclassifications. The City's books were inadequately presented for the audit and were missing significant financial data. Receivables were not recorded properly causing the corresponding income statement accounts to be inflated.

Due to the state of the financial statements presented, we will disclaim an opinion on the City's financial statements.

Criteria: Good internal controls dictate that financial statements be presented complete and accurate.

Effect: Faulty financial statements could cause improper financial decisions.

Cause: Lack of proper oversight.

Recommendation: We recommend proper training on accounting software to ensure accurate financial information is presented to the City's governing body.

View of Responsible Official and Planned Corrective Action: Will be seeking outside contractor to make corrections & procedures and to train staff on procedures.

2025-002 The City Lacks Controls Over Inter-Fund Accounting

Condition: Trial Balances were out of balance at fund level because expenses were paid from the wrong funds and journal entries to record interfund payables were posted incorrectly. Because the accounting records are inadequate, we were unable to determine the actual balance of interfund payables and receivables.

Criteria: Anytime an expense is paid by a fund that did not incur the expense, it should be repaid timely and a ledger of the expenditures should be maintained.

Effect: Trial Balances are out of balance at the fund level and restricted funds may be inadvertently used for unallowable expenditures.

Cause: Failure to establish procedures and journal entries for interfund transfers were incorrectly recorded across funds

Recommendation: We recommend that funds be repaid timely when they pay the expenditure for another fund. Inter-fund balances should be tracked so that a comprehensive list of what is owed by fund is maintained. We also recommend that all the accounts used for inter-fund accounting be combined into one account for easier tracking. There are several accounts on the Trial Balance with no current activity that are carrying balances.

CITY OF FRENCHBURG, KENTUCKY
COMMENTS AND RECOMMENDATIONS
June 30, 2025

MATERIAL WEAKNESSES (Continued)

2025-002 The City Lacks Controls Over Inter-Fund Accounting (Continued)

View of Responsible Official and Planned Corrective Action: Will be seeking outside contractor to make corrections & procedures and to train staff on procedures.

2025-003 The City Lacks Controls Over Journal Entries

Condition: Journal Entries were recorded incorrectly and across funds, leading to misstatement of bank accounts and the Trial Balance being out of balance at the fund level.

Criteria: All journal entries should balance within each fund, with each side of the entry posted to the same fund.

Effect: Trial Balances are out of balance at the fund level and bank accounts are misstated.

Cause: Failure to establish procedures and provide adequate training to personnel.

Recommendation: We recommend that city personnel receive training for the accounting software and the preparation of journal entries. After a journal entry is prepared the trial balance should be compared to source documents to ensure the entry was properly made.

View of Responsible Official and Planned Corrective Action: Will be seeking outside contractor to make corrections & procedures and to train staff on procedures.

2025-004 The City Lacks Controls Over the Preparation of Bank Reconciliations

Condition: While the City has hired a CPA to perform bank reconciliations, it does not appear that accurate information is provided from which to complete the reconciliation. We noted substantial "Bank Reconciliation" entries used to balance the accounts. We chose one month with a \$36,671 reconciling entry. We traced deposits and disbursements from the reconciliation (general ledger) to the bank statement and noted the following:

- Deposits per the bank statement were \$42,622 less than the reconciliation (general ledger).
- One payroll totaling \$8,719 cleared the bank, but was not recorded on the reconciliation (general ledger).

While we chose one month with a reconciling entry to trace to supporting documentation, it appeared that five (5) reconciliations had such an entry. Bank reconciliation entries totaled \$208,204 for the five months.

There are accounts on the Trial Balance that are labeled as cash accounts and that are included in the reconciliation process that are not real bank accounts.

CITY OF FRENCHBURG, KENTUCKY
COMMENTS AND RECOMMENDATIONS
June 30, 2025

MATERIAL WEAKNESSES (Continued)

2025-004 The City Lacks Controls Over the Preparation of Bank Reconciliations (Continued)

Criteria: Bank reconciliations should be prepared promptly each month and a copy provided to the mayor and commissioners. The bank statements, including all attachments should be reviewed by someone independent of the reconciliation process. Evidence of the review should be documented by the initials of the person who performed the review along with the date it was done. Bank reconciliations should be compared to the trial balances for accuracy.

Effect: Fraud could occur and not be detected in a timely manner. Also, the financial information presented to the mayor and commissioners could be misstated.

Cause: Failure to establish procedures and provide adequate training to personnel.

Recommendation: We recommend that procedures be developed to implement the controls set forth under the Criteria section.

View of Responsible Official and Planned Corrective Action:

View of Responsible Official and Planned Corrective Action: Will be seeking outside contractor to make corrections & procedures and to train staff on procedures.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

City of Frenchburg, Kentucky

**For the Fiscal Year Ended
June 30, 2025**

Appendix A

**CITY OF FRENCHBURG, KENTUCKY
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
AND DEVELOPMENT PROGRAM**

June 30, 2025

The City of Frenchburg, Kentucky hereby certifies that assistance received from the Local Government Economic Assistance and/or Economic Development Programs were expended for the purpose intended, as dictated by the applicable Kentucky Revised Statutes.



Mayor
City of Frenchburg, Kentucky