

City of Jenkins, Kentucky
Audited Financial Statements
June 30, 2010

CITY OF JENKINS

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Year Ended June 30, 2010

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Jenkins
Jenkins, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jenkins as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Jenkins's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jenkins, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with

accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2010 on our consideration of the City of Jenkins's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The budgetary comparison information on page 21 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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. Our opinion on the basic financial statements is not affected by this missing information.

Welch & Company, CPAs, PSC
Welch & Company, CPAs, PSC
Nicholasville, Kentucky
December 3, 2010

City of Jenkins
Statement of Net Assets
June 30 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash, including time deposits	\$ 494,196	\$ 95,380	\$ 589,576
Investments	37,205	105,796	143,001
Restricted cash	0	750,055	750,055
Accounts receivable, net	18,672	90,474	109,146
Prepaid insurance	55,132	44,685	99,817
Inventory	0	0	0
Total current assets	<u>605,205</u>	<u>1,086,390</u>	<u>1,691,595</u>
Noncurrent Assets:			
Capital assets (net)	<u>1,745,227</u>	<u>4,185,578</u>	<u>5,930,805</u>
Total Assets	<u>2,350,432</u>	<u>5,271,968</u>	<u>7,622,400</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	8,016	19,008	27,024
Payroll related liabilities	0	19,444	19,444
Notes payable	32,192	148,809	181,001
Total current liabilities	<u>40,208</u>	<u>187,261</u>	<u>227,469</u>
Noncurrent Liabilities:			
Water deposits	0	55,000	55,000
Notes payable	45,348	306,583	351,931
Total noncurrent liabilities	<u>45,348</u>	<u>361,583</u>	<u>406,931</u>
Total Liabilities	<u>85,556</u>	<u>548,844</u>	<u>634,400</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,667,687	3,730,186	5,397,873
Restricted	0	750,055	750,055
Unrestricted	597,189	242,883	840,072
Total Net Assets	<u>\$ 2,264,876</u>	<u>\$ 4,723,124</u>	<u>\$ 6,988,000</u>

See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Activities
Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental Activities:					
General government	330,157	0	0	75,200	(254,957)
Depreciation	31,644				(31,644)
Interest	3,864				(3,864)
Public safety	206,298	0	0	0	(206,298)
Depreciation	39,798				(39,798)
Transportation					
Streets	108,512	0	0	0	(108,512)
Cultural and recreation	22,112	0	0	0	(22,112)
Community development	0	0	0	0	0
Total governmental activities	742,385	0	0	75,200	(667,185)
Business-type activities:					
Water	477,748	339,272	0	660,919	522,443
Sewer	439,951	366,653	0	0	(73,298)
Solid waste	212,269	207,080	0	0	(5,189)
Total business-type activities	1,129,968	913,005	0	660,919	443,956
Total	1,872,353	913,005	0	736,119	(223,229)

Changes In Net Assets:

	Governmental Activities	Business-type Activities	Total
Net (expense)/revenue	\$ (667,185)	\$ 443,956	\$ (223,229)
General revenues:			
Taxes:			
Property	271,970	0	271,970
Franchise and public service	42,155	0	42,155
Insurance	107,535	0	107,535
License and permits	13,218	0	13,218
Intergovernmental	264,880	0	264,880
Investment income	10,094	5,462	15,556
Miscellaneous	58,007	0	58,007
Transfers	(160,461)	160,461	0
Total general revenues and transfers	607,398	165,923	773,321
Change in net assets	(59,787)	609,879	550,092
Net assets-beginning	2,324,663	4,113,245	6,437,908
Net assets-ending	\$ 2,264,876	\$ 4,723,124	\$ 6,988,000

See accompanying notes to the basic financial statements.

City of Jenkins
Balance Sheet
Governmental Funds
June 30, 2010

	General Fund	Municipal Road Aid	L.G.E.A.	Total Govern- mental Funds
Assets				
Cash and cash equivalents	\$ 164,929	\$ 48,318	\$ 280,949	\$ 494,196
Investments	37,205	0	0	37,205
Prepaid insurance	55,132			55,132
Receivables, net	18,672	0	0	18,672
Total assets	\$ 275,938	\$ 48,318	\$ 280,949	\$ 605,205
Liabilities and Fund Balances				
Liabilities:				
Payroll liabilities	\$ -	\$ -	\$ -	\$ -
Accounts payable	8,016	0	0	8,016
Total Liabilities	8,016	0	0	8,016
Fund balances:				
Reserved for:				
Unreserved	267,922	48,318	280,949	597,189
Total fund balances	267,922	48,318	280,949	597,189
Total liabilities and fund balances	\$ 275,938	\$ 48,318	\$ 280,949	
Amounts reported for governmental activities in the Statement of Net Assets are different because:				
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.				(77,540)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 337,023				1,745,227
Net assets of governmental activities				\$ 2,264,876

See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2010

	General Fund	Municipal Road Aid	L.G.E.A.	Total Govern- mental Funds
Revenues				
Property taxes	\$ 271,970	\$ -	\$ -	\$ 271,970
Franchise taxes	42,155	0	0	42,155
Insurance tax	107,535	0	0	107,535
Fees and fines	3,582	0	0	3,582
Licenses and permits	13,218	0	0	13,218
Intergovernmental	106,838	47,412	185,830	340,080
Charges for services	0	0	0	0
Investment earnings	2,856	1,200	6,038	10,094
Miscellaneous	54,425	0	0	54,425
Total revenues	602,579	48,612	191,868	843,059
Expenditures				
Current:				
General government	137,173	0	192,984	330,157
Police	188,474	0	0	188,474
Road	39,128	69,384	0	108,512
Fire	17,824	0	0	17,824
Parks and recreation	6,496	0	0	6,496
Depot	15,616	0	0	15,616
Refund-Visitor center	0	0	0	0
Community development	0	0	0	0
Debt service:				
Principal	31,155	0	0	31,155
Interest and other charges	3,864	0	0	3,864
Capital outlay	0	0	0	0
Total expenditures	439,730	69,384	192,984	702,098
Excess (deficiency) of revenues over expenditures	162,849	(20,772)	(1,116)	140,961
Other Financing Sources (Uses)				
Transfers in	0	0	0	0
Transfers out	(160,461)	0	0	(160,461)
Grants	0	0	0	0
Total other financing sources and uses	(160,461)	0	0	(160,461)
Net Change in Fund Balances	2,388	(20,772)	(1,116)	(19,500)
Fund Balances-beginning	1,973,508	69,090	282,065	2,324,663
Fund Balances-Ending	\$ 1,975,896	\$ 48,318	\$ 280,949	\$ 2,305,163

See accompanying notes to the basic financial statements.

City of Jenkins
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-
 Governmental Funds to the Statement of Activities**
 Year Ended June 30, 2010

Reconciliation of the change in fund balances-total governmental funds
 to the change in net assets of governmental activities:

Net change in fund balances-total governmental funds	<u>\$ (19,500)</u>
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Amounts reported for governmental activities in the Statement of Activities are
 different because:

Governmental funds report capital outlay as expenditures while governmental
 activities report depreciation expense to allocate those expenditures over
 the life of the assets:

Payments on long term debt	31,155
Capital asset purchases capitalized	0
Depreciation expense	<u>(71,442)</u>
	<u>(40,287)</u>

Change in Net Assets of Governmental Activities	<u><u>\$ (59,787)</u></u>
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See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Net Assets
Proprietary Funds
June 30, 2010

	Enterprise Funds			
	Water	Sewer	Solid Waste	Totals
Assets				
Current assets:				
Cash and cash equivalents	\$ 120,027	\$ 22,558	\$ (47,205)	\$ 95,380
Investments	0	105,796	0	105,796
Restricted cash	282,450	467,605	0	750,055
Receivables, net	36,443	29,784	24,247	90,474
Other current assets	18,000	14,710	11,975	44,685
Total current assets	456,920	640,453	(10,983)	1,086,390
Noncurrent assets:				
Capital assets:				
Land and improvements	1,480,108	2,456,691	0	3,936,799
Distribution and collection systems	3,209,301	2,847,837	0	6,057,138
Buildings and equipment	0	148,543	240,870	389,413
Less accumulated depreciation	(2,504,738)	(3,580,479)	(112,555)	(6,197,772)
Total noncurrent assets	2,184,671	1,872,592	128,315	4,185,578
Total assets	2,641,591	2,513,045	117,332	5,271,968
Liabilities				
Current liabilities				
Accounts payable	10,314	3,341	5,353	19,008
Accrued compensated leave	6,482	6,481	6,481	19,444
Bonds, notes, and loans payable	0	148,809	0	148,809
Total current liabilities	16,796	158,631	11,834	187,261
Noncurrent liabilities:				
Water deposits	55,000	0	0	55,000
Bonds, notes, and loans payable	0	306,583	0	306,583
Total noncurrent liabilities	55,000	306,583	0	361,583
Total liabilities	71,796	465,214	11,834	548,844
Net Assets				
Invested in capital assets, net of related debt	2,184,671	1,417,200	128,315	3,730,186
Restricted for debt service(nonexpendable)	282,450	467,605	0	750,055
Unrestricted	102,674	163,026	(22,817)	242,883
Total net assets	\$2,569,795	\$2,047,831	\$ 105,498	\$4,723,124

See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Revenues, Expenses, and Changes In Fund Net Assets
Proprietary Funds
Year Ended June 30, 2010

	Enterprise Funds			
	Water	Sewer	Solid Waste	Totals
Operating revenues:				
Charges for services	\$ 318,532	\$ 346,899	\$ 205,756	\$ 871,187
Miscellaneous	20,740	19,754	1,324	41,818
Total operating revenues	<u>339,272</u>	<u>366,653</u>	<u>207,080</u>	<u>913,005</u>
Operating expenses:				
Cost of goods sold	138,633	48,720	56,219	243,572
Personal services	163,386	103,185	129,397	395,968
Materials and supplies	1,620	29,461	833	31,914
Other services and charges	76,035	28,949	16,151	121,135
Depreciation	98,074	214,896	9,669	322,639
Total operating expenses	<u>477,748</u>	<u>425,211</u>	<u>212,269</u>	<u>1,115,228</u>
Net operating income	<u>(138,476)</u>	<u>(58,558)</u>	<u>(5,189)</u>	<u>(202,223)</u>
Nonoperating revenue (expense):				
Investment income	1,934	3,528	0	5,462
Interest expense	0	(14,740)	0	(14,740)
Grant and Intergovernmental	660,919	0	0	660,919
Total nonoperating revenue (expense)	<u>662,853</u>	<u>(11,212)</u>	<u>0</u>	<u>651,641</u>
Net Income before contributions and transfers	524,377	(69,770)	(5,189)	449,418
Capital contributions	0	0	0	0
Operating transfers in (out)	90,000	0	70,461	160,461
Net income	614,377	(69,770)	65,272	609,879
Net assets-beginning of year	<u>1,955,418</u>	<u>2,117,601</u>	<u>40,226</u>	<u>4,113,245</u>
Net assets-end of year	<u>\$2,569,795</u>	<u>\$2,047,831</u>	<u>\$ 105,498</u>	<u>\$4,723,124</u>

See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2010

	Enterprise Funds			
	Water	Sewer	Solid Waste	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 351,947	\$ 382,742	\$ 192,132	\$ 926,821
Payments to suppliers	(206,508)	(107,130)	(73,203)	(386,841)
Payments to employees	(163,386)	(103,185)	(129,397)	(395,968)
Other	0	0	0	0
Net cash provided (used) by operating activities	(17,947)	172,427	(10,468)	144,012
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers (to) from other funds	90,000	0	70,461	160,461
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Grant receipts	660,919	0	0	660,919
Capital Assets (net)	(368,992)	(44,134)	(93,362)	(506,488)
Loan proceeds	0	0	0	0
Water deposits	55,000	0	0	55,000
Principal paid on capital debt	(60,000)	(137,148)	0	(197,148)
Interest paid on capital debt	0	(14,740)	0	(14,740)
Net cash provided (used) by capital and related financing activities	286,927	(196,022)	(93,362)	(2,457)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest	1,934	3,528	0	5,462
Net increase (decrease) in cash and cash equivalents	360,914	(20,067)	(33,369)	307,478
Balances-beginning of year	41,563	616,026	(13,836)	643,753
Balances-end of year	\$ 402,477	\$ 595,959	\$ (47,205)	\$ 951,231
Cash, including time deposits	120,027	128,354	(47,205)	201,176
Restricted cash, including time deposits	282,450	467,605	0	750,055
Total cash and cash equivalents, end of year	\$ 402,477	\$ 595,959	\$ (47,205)	\$ 951,231
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (138,476)	\$ (58,558)	\$ (5,189)	\$ (202,223)
Adjustments:				
Depreciation expense	98,074	214,896	9,669	322,639
Change in assets and liabilities:				
Other	22,455	16,089	(14,948)	23,596
Net cash provided (used) by operating activities	\$ (17,947)	\$ 172,427	\$ (10,468)	\$ 144,012

See accompanying notes to the basic financial statements.

City of Jenkins, Kentucky
Notes To Financial Statements
 June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

Primary Government:	City of Jenkins, Kentucky
Blended Component Units:	Jenkins Water Fund Jenkins Sewer Fund Jenkins Solid Waste

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity," and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation.

Blended Component Units

Component units that are blended into the reporting activity types of the City's report are presented below:

Component Unit	Brief Description/Inclusion Criteria	Reporting
Jenkins Water	Created to finance, develop, and operate the water activities. The current City Council serves as entire governing body. Any issuances of debt would require the approval of the City Council.	Enterprise Fund
Jenkins Sewer	Created to finance develop, and operate the sewer activities. The current City Council serves as entire governing body. Any issuances of debt would require the approval of the City Council.	Enterprise Fund

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2010

Jenkins Solid Waste	Created to finance develop, and operate the Collection of solid waste activities. The current City Council serves as entire governing body. Any issuances of debt would require the approval of the City Council.	Enterprise Fund
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1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are a least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Government Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Municipal Road Aid

The Municipal Road Aid Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

L.G.E.A. Fund

The L.G.E.A. Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2010

Proprietary Fund

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Jenkins Water and Sewer Enterprise Funds and the Jenkins Solid Waste Enterprise Fund.

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

Fund	Brief Description
Major: General	See above for description
Special Revenue	Accounts for revenues and expenditures of funds allocated for street improvements.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2010

incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include property taxes, franchise taxes, and grants. Business-type activities report utilities and interest earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2010

Inventories

The Jenkins Water and Sewer Funds maintain on hand quantities of supplies and materials. These supplies and materials are valued based on the first-in-first-out method, thus the values are at current costs.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to December 31, 2005.

The City has chosen not to value infrastructure assets acquired prior to June 30, 2004 in accordance with provisions for small cities.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	25-50 years
Improvements	10-50 years
Machinery and equipment	3-20 years
Utility system	25-50 years
Infrastructure	25-50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to bond covenants and utility meter deposits.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists of bonds payable.

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2010

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Leave

The City grants all full time employees vacation based on years of service. After one year the employee earns two weeks vacation, after ten years three weeks, after fifteen years eighteen days. Each full time employee on January 1st earns 48 hours of sick leave.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt-Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets-Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets-All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements, as of June 30, 2010 the proprietary funds had restricted Net Assets of \$750,055 to fund future maintenance and ongoing construction costs. This amount is not available for ordinary use.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

Under State law, municipalities are limited in their ability to levy a property tax. Property taxes are levied on October 1, based on assessments as of January 1 of the current year, and are due and payable on or before December 31, of the current year. All unpaid taxes become delinquent on January 1, of the following year. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end.

Insurance Premium Tax

The City levies a tax on insurance premiums for property damage insurance written within the City limits. The City uses the tax to supplement the fire department.

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2010

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds-By Character:	Current (further classified by function)
	Debt Service
	Capital Outlay
Proprietary Fund-By Operating and Nonoperating	

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The City Treasurer and Mayor prepare the budget for the current fiscal year. The budget is presented to the Council in the form of an ordinance and must comply with all requirements of an ordinance. The budget contains a detail of the expected revenue from all money for specific programs, functions, activities or objectives of the City.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

1.F. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOTE 2. DEPOSITS

It is the City's objective for deposits to be 100 percent secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The City's policy is to confine all investments to certificates of deposit. The table presented below is designed to disclose the level of custody credit risk assumed by the City based upon how its deposits were insured or secured with collateral at June 30, 2010. The categories of credit risk are defined as follows:

Category 1-Insured by FDIC or collateralized with securities held by the City or by its agent in its name.

Category 2-Uninsured by collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

City of Jenkins, Kentucky
Notes To Financial Statements
 June 30, 2010

Category 3-Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name; or collateralized with not written or approved collateral agreement.

As of June 30, 2010 the City's deposits (\$1,482,632) were insured by the FDIC-Category 1 and Category 2.

Note 3. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consists of utilities receivable. Accounts receivable of the governmental activities consists of property tax.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Accounts receivable	\$18,672	\$151,474	\$170,146
Allowance for doubtful accounts	0	61,000	61,000
Net accounts receivable	\$18,672	\$ 90,474	\$ 109,146

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	<u>Balance at July 1, 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2010</u>
Governmental activities:				
General	\$2,082,250	0	\$0	\$2,082,250
Totals	\$2,082,250	0	0	\$2,082,250
Less accumulated depreciation	265,581	71,442	0	337,023
Net	\$1,8,66,509	\$(71,442)		\$1,745,227
Business-type activities	<u>Balance at July 1, 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2010</u>
Land and improvements	\$3,936,799			\$3,936,799
Distribution and collection system	5,644,012	413,126		6,057,138
Buildings and equipment	296,051	93,362		389,413
Less accumulated depreciation	(5,875,133)	322,639		(6,197,772)
Net	\$4,001,729	183,849	-0-	\$4,185,578

NOTE 5. COMMITMENTS

The City maintains contractual relationships relating to services provided for the benefit of the City. These commitments include annual contractual obligations for maintenance services. All contracts are current.

City of Jenkins, Kentucky
Notes To Financial Statements
 June 30, 2010

NOTE 6. RELATED PARTY TRANSACTIONS

There were no related party transactions.

NOTE 7. DEFICIT OPERATING BALANCES

There are no funds of the City that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures and a corresponding reduction of fund equity:

General Fund	\$19,500
Sewer	69,770

NOTE 8. LONG-TERM DEBT

	Year End Balance		Balance Due Each Year As Of June 30,					
	2009	2010	2011	2012	2013	2014	2015	2016-2018
Proprietary Funds								
Kentucky Infrastructure Authority								
Loan A95-02-Principal	\$ 337,716	\$ 300,603	\$ 37,785	\$ 38,468	\$ 39,164	\$ 39,872	\$ 40,593	\$ 104,721
Interest rate: 1.80%		22,096	5,242	4,558	3,863	3,155	2,434	2,844
Sewer assets and revenue are pledged as collateral								
Kentucky Infrastructure Authority								
Loan A89-02-Principal	\$ 254,823	\$ 154,789	\$ 102,551	\$ 52,238				
Interest rate: 2.50%		8,982	5,749	3,233				
Water assets and revenue are pledged as collateral								
U.S. Department of Commerce								
Economic Development Administration								
Project 040100515-01	\$ 15,000							
Interest rate: 4.75%								
Water assets and revenue are pledged as collateral								
Bank loan								
	\$ 45,000							
Total Principal	<u>\$ 652,539</u>	\$ 455,392	\$ 140,336	\$ 90,706	\$ 39,164	\$ 39,872	\$ 40,593	\$ 104,721
Total Interest		<u>31,078</u>	<u>10,991</u>	<u>7,791</u>	<u>3,863</u>	<u>3,155</u>	<u>2,434</u>	<u>2,844</u>

City of Jenkins, Kentucky
Notes To Financial Statements
 June 30, 2010

Total Payment	\$ 486,470 \$ 151,327 \$ 98,497 \$ 43,027 \$ 43,027 \$ 43,027 \$ 107,565
Principal due within 12 months	\$ 140,336
Principal due after 12 months	\$ 315,056
 Total Principal	 \$ 455,392
 Principal due for the years	
2016-2018	\$ 104,721

Governmental Funds

	2009	2010	2011	2012	2013	2014
PNC Leasing, LLC (Capital Lease)						
Fire trucks lease	\$ 65,445	\$ 44,685	\$ 21,798	\$ 22,887		
Interest rate: 4.936%		2,791	1,940	851		
Fire trucks are collateral						
 Kentucky League of Cities						
Funding Trusts (Capital Lease)	\$ 43,926	\$ 32,855	\$ 10,394	\$ 10,789	\$ 10,813	\$ 859
Interest rate: Composite rate of 2.23%		116	62	38	15	1
Fire Station is the collateral						
 Total Principal	\$ 109,371	\$ 77,540	\$ 32,192	\$ 33,676	\$ 10,813	\$ 859
Total Interest		2,907	2,002	889	15	1
 Total Payment		\$ 80,447	\$ 34,194	\$ 34,565	\$ 10,828	\$ 860
 Principal due within 12 months		\$ 32,192				
Principal due after 12 months		45,348				
 Total Principal		\$ 77,540				
 Principal due for the years						
2015-2018		\$ -				

City of Jenkins, Kentucky
Notes To Financial Statements

June 30, 2010

NOTE 9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and natural disasters. The City contracts with the Kentucky League of Cities Insurance Services (KLCIS), a local government risk pool for insurance coverage for these risks. KLCIS was formed for the primary purpose of managing and funding third-party liability claims against its members. As a member of KLCIS, the City is required to make annual contributions sufficient to produce the funds necessary to fund the administrative expenses and the claims and claims expenses, and any deficiencies in the cumulative reserves.

NOTE 10. CONTINGENCIES

The City is a recipient of several state grants. These programs and grants are subject to a variety of financial and compliance audits by the grantors or their representatives. The City's compliance with applicable requirements for 2010 will be established at a future date.

NOTE 11. RETIREMENT BENEFITS

The City participates in a retirement plan through the Commonwealth of Kentucky. The City is not currently contributing to the employees' accounts.

NOTE 12. EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 3, 2010, the date which the financial statements were available to be issued. The evaluation has disclosed the following events:

1. The City has acquired a bridge loan from Kentucky Rural Water Finance Corporation for \$450,000 to be used for ongoing construction projects. The interest rate is 2.9% and will be paid off with the issuance of permanent financing anticipated to be in January, 2011.
2. The City has authorized the issuance of the City of Jenkins Water and Sewer Revenue Bonds Series 2010 in the amount of \$450,000. The City anticipates the bonds will be sold in January, 2011 and the proceeds will be used to pay off the above bridge loan. The final interest rate will be determined when the bonds are sold, it is anticipated the rate will not exceed 2.5%. The first payment will be approximately one year after the bonds are sold. Using 2.5% as the interest rate the total pay back will be \$725,000.
3. The City has received approval for a Community Development Block Grant (CDBG) in the amount of \$750,000 to be used to finance ongoing construction projects. As of December 3, 2010 the City has drawn \$220,850. The grant is issued under Catalog of Federal Domestic Assistance (CFDA) number 14.228.
4. The City has received approval for a grant from the United States Department of Agriculture-Rural Development in the amount of \$300,000. This grant will be used to finance ongoing construction projects. The CFDA number is 10.781.
5. On August 2, 2010 the City entered into a lease with Republic First National Corporation for the purchase of a new fire truck and to pay off a lease with PNC Leasing, LLC. The payoff was approximately \$47,000 and the total amount of the new lease is for \$360,900. The payments commence August 1, 2011 in the amount of \$12,030 payable semi-annually through February 1, 2026. The interest portion of the lease is \$130,325 and the principal portion is \$230,575. The effective interest rate is 5.9%.

City of Jenkins
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
Resources (inflows)				
Property taxes	\$ 267,925	\$ 267,925	\$ 271,970	\$ 4,045
Franchise taxes	47,934	47,934	42,155	(5,779)
Public Service Tax	14,518	14,518	14,067	
Insurance tax	102,874	102,874	107,535	4,661
Fees and fines	2,144	2,144	3,582	1,438
Licenses and permits	5,550	5,550	13,218	7,668
Intergovernmental	59,903	59,903	106,838	46,935
Charges for services	0	0	0	0
Miscellaneous	28,767	28,767	40,358	11,591
Grant revenue	12,400	12,400	0	(12,400)
KLC loan	0	0	0	0
Interest	6,000	6,000	2,856	(3,144)
Total Resources	<u>\$ 548,015</u>	<u>\$ 548,015</u>	<u>\$ 602,579</u>	<u>\$ 55,015</u>
Charges (outflows)				
General government	\$ 237,353	\$ 237,353	\$ 137,173	\$ 100,180
Police	167,300	167,300	188,474	(21,174)
Road	0	0	39,128	(39,128)
Fire	12,862	12,862	17,824	(4,962)
Parks and recreation	8,000	8,000	6,496	1,504
Depot	15,000	15,000	15,616	(616)
Insurance	84,500	84,500	0	84,500
Community development	5,000	5,000	0	5,000
Debt Service	18,000	18,000	35,019	(17,019)
Transfers	0	0	160,461	(160,461)
Total Charges	<u>\$ 548,015</u>	<u>\$ 548,015</u>	<u>\$ 600,191</u>	<u>\$ (52,176)</u>
Resources more (less) than charges	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,388</u>	<u>\$ 2,839</u>

NET CHANGE IN FUND BALANCE

Budget basis	\$ 600,191
Adjustments (net):	
Revenue accrual-property taxes	18,672
Expenditure accruals	<u>(8,016)</u>
GAAP basis	<u><u>\$ 610,847</u></u>

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**Report on Internal Control Over Financial Reporting And On
Compliance Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Mayor and City Council
City of Jenkins
Jenkins, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jenkins as of and for the year ended June 30, 2010, and have issued our report thereon dated December 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Jenkins's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiencies described as Finding 2009-1 in the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the City of Jenkins's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the organization and City Council and is not intended to be, and should not be, used by anyone other than these specified parties.

Welch + Company, CPAs, PSC
Welch & Company, CPAs, PSC

December 3, 2010