

CITY OF FRENCHBURG
Frenchburg, Kentucky

**FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION**
June 30, 2010

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City of Frenchburg, Kentucky

Management's Discussion and Analysis

Our discussion and analysis of the City of Frenchburg financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2010. Please read the following in conjunction with the auditors' report on page 9 and the City's financial statements, which begin to appear on page 10.

OVERVIEW OF THIS ANNUAL REPORT

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

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

GOVERNMENT – WIDE FINANCIAL STATEMENTS

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

The City has two kinds of funds:

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

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

NET ASSETS

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

Table A-1

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total Primary</u> <u>Government</u>
Current and Other Assets	\$ 275,543	\$ 703,934	\$ 979,477
Capital Assets	<u>1,499,238</u>	<u>8,563,287</u>	<u>10,062,525</u>
Total Assets	<u>1,774,781</u>	<u>9,267,221</u>	<u>11,042,002</u>
Long-Term Debt Outstanding	351,665	1,566,354	1,918,019
Current Liabilities	<u>16,802</u>	<u>207,633</u>	<u>224,435</u>
Total Liabilities	<u>368,467</u>	<u>1,773,987</u>	<u>2,142,454</u>
Net Assets:			
Invested in Capital Assets, net of debt	1,137,573	6,966,833	8,104,406
Restricted	92,627	261,533	354,160
Unrestricted	<u>176,114</u>	<u>264,868</u>	<u>440,982</u>
Total Net Assets	<u>\$1,406,314</u>	<u>\$ 7,493,234</u>	<u>\$ 8,899,548</u>

The capital assets of the City's governmental activities are \$ 1,499,238 as of June 30, 2010. The capital assets of the business-type activities are \$ 8,563,287 as of June 30, 2010.

Net assets from one activity generally cannot be used to make up for any deficits in the other activities.

Table A-2

Condensed Statement of Activities

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	Total Primary <u>Government</u>
Program Revenues			
Charges for Service	\$ -	\$ 1,042,573	\$ 1,042,573
Operating Grants & Contributions	69,746	-	69,746
Capital Grants & Contributions	4,000	91,182	95,182
Total revenue	<u>73,746</u>	<u>1,133,755</u>	<u>1,207,501</u>
Program Expenses			
General Administration	111,124	-	111,124
Street department	14,506	-	14,506
Interest on long-term debt	20,598	-	20,598
Utility	-	1,443,520	1,443,520
Total program expenses	<u>146,228</u>	<u>1,443,520</u>	<u>1,589,748</u>
Net revenues (expenses)	<u>(72,482)</u>	<u>(309,765)</u>	<u>(382,247)</u>
General Revenues			
Taxes	\$ 16,862	\$ -	\$ 16,862
License fees	39,810	-	39,810
Investment earnings	523	4,149	4,672
Miscellaneous	-	-	-
Total general revenue	<u>57,195</u>	<u>4,149</u>	<u>61,344</u>
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Net Assets	<u>\$ (15,287)</u>	<u>\$ (305,616)</u>	<u>\$ (320,903)</u>

The City's change in Net Assets above appears to be analogous to the long-standing concept of net revenues, but under the full accrual basis utilized by the Governmental Activities; these numbers include dollars of "paper" depreciation expenses that are not cash expenditures of the City. Therefore, these "paper" bookkeeping entries are never considered as part of the City's budget process. Additionally, the principal portions of debt obligations are excluded from the above but are reflected as debt service expenditures along with capital outlay expenditures in the City's budget for governmental activities.

GOVERNMENTAL ACTIVITIES

Table A-3 details a condensed statement of the fiscal year's governmental activities.

Table A-3

Condensed Governmental Activities – Revenues & Expenditures

	<u>General</u>	<u>Other Gov't Funds</u>	<u>Total</u>
Taxes	\$ 16,862	\$ -	\$ 16,862
Licenses and permits	39,810	-	39,810
Intergovernmental	13,410	13,509	26,919
Other Revenues	<u>47,088</u>	<u>261</u>	<u>47,349</u>
Total Revenues	<u>117,170</u>	<u>13,770</u>	<u>130,940</u>
General Administration	72,692	-	72,692
Public works-Streets	2,235	9,741	11,976
Debt service	30,598	-	30,598
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>105,525</u>	<u>9,741</u>	<u>115,266</u>
Excess (Deficit) Expenditures over Revenues before other financing sources	<u>\$ 11,645</u>	<u>\$ 4,029</u>	<u>\$ 15,674</u>

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

BUDGET HIGHLIGHTS

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

Table A-4
Condensed Governmental Activities –
Revenues

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
Taxes	\$ 17,142	\$ 16,862	\$ (280)
Licenses and permits	43,399	39,810	(3,589)
Intergovernmental	23,227	13,410	(9,817)
Other Revenues	<u>46,900</u>	<u>47,088</u>	<u>188</u>
Total Revenues	<u>\$ 130,668</u>	<u>\$ 117,170</u>	<u>\$ (13,498)</u>

Table A-5
Condensed Governmental Activities – Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
General Government	\$ 87,045	\$ 72,688	\$ (14,357)
Public works-Streets	3,000	2,235	(765)
Capital Outlay	-	-	-
Debt service	<u>30,598</u>	<u>30,598</u>	<u>-</u>
	<u>\$ 120,643</u>	<u>\$ 105,521</u>	<u>\$ (15,122)</u>

The City budgeted for a total of \$130,668 in revenues for 2009-2010, but ended up having revenues of \$117,170. The City was under budget on revenues by approximately 10 percent. A total of \$120,643 was budgeted for expenses, but expenditures only totaled \$105,521 at the end of 2010. The City was under budget on the expenses by approximately 13 percent.

CAPITAL ASSETS

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

Table A-6

Capital Assets at Year End Without Depreciation

	Governmental	Business-type	Total Primary
	Activities	Activities	Government
Land	\$ 258,832	\$ 6,850	\$ 265,682
Construction in Progress	-	19,437	19,437
Infrastructure	-	-	-
Buildings	1,286,871	-	1,286,871
Vehicles & Equipment	26,257	313,338	339,595
Land Improvements	101,535	-	101,535
Plant & Sewer System	-	12,954,191	12,954,191
Total Capital Assets	<u>\$ 1,673,495</u>	<u>\$ 13,293,816</u>	<u>\$ 14,967,311</u>

DEBT

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

Table A-7

	Governmental	Business-type	Total Primary
<u>Debt Outstanding at Year End</u>	Activities	Activities	Government
Leases	\$ 380,000	\$ -	\$ 380,000
Bonds Payable	-	1,596,454	1,596,454
Notes Payable	-	-	-
Total Debt Outstanding	<u>\$ 380,000</u>	<u>\$ 1,596,454</u>	<u>\$ 1,976,454</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Mayor and City Commission consider many factors when setting the fiscal year budget. Some of the factors are the local economy, expected grant money, and anticipated tax revenue. Major expenditures that will impact next fiscal year's budget include: purchase of water from the Cave Run Water Commission, expenditure of grant revenues Wastewater Belt Press Project, and the expenditures of radio read meters.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens of the City, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Melissa Gravett, City Clerk/Treasurer, PO Box 113, Frenchburg, KY, 40322.

r f h Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

Stephen R. Allen, CPA/PFS
Dennis H. England, CPA
Michael D. Foley, CPA
Lyman Hager, Jr., CPA
Jerry W. Hensley, CPA

Mayor and the City Commission
City of Frenchburg
Frenchburg, Kentucky

J. Carroll Luby, CPA

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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 opinion.

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

The management's discussion and analysis and budgetary comparison information on pages 1 through 8 and 26 through 27 are not a required part of the basic financial statements but are 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 methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with **Government Auditing Standards**, we have also issued a report dated January 10, 2011, on our consideration of the City of Frenchburg's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting and compliance. 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.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Frenchburg, Kentucky, basic financial statements. The supplemental schedule on page 29 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
January 10, 2011

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CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2010

	Governmental Activities	Business-type Activities	Total	Totals 2009
ASSETS				
Current assets				
Cash and cash equivalents	\$ 266,338	\$ 311,732	\$ 578,070	\$ 509,681
Receivables (net)	9,205	87,602	96,807	100,667
Grant receivable	-	1,437	1,437	331,748
Internal balances	-	2,101	2,101	2,101
	<u>275,543</u>	<u>402,872</u>	<u>678,415</u>	<u>944,197</u>
Total current assets				
Noncurrent assets				
Restricted cash and cash equivalents	-	261,533	261,533	280,250
Inventory	-	39,529	39,529	36,000
Capital assets (Note 3)				
Construction in progress	-	19,437	19,437	2,171,816
Land	258,832	-	258,832	258,832
Plant and sewer system, net	-	8,543,850	8,543,850	6,748,121
Depreciable property, plant, and equipment, net	1,240,406	-	1,240,406	1,280,635
	<u>1,499,238</u>	<u>8,864,349</u>	<u>10,363,587</u>	<u>10,775,654</u>
Total noncurrent assets				
Total assets				
	<u>\$ 1,774,781</u>	<u>\$ 9,267,221</u>	<u>\$ 11,042,002</u>	<u>\$ 11,719,851</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 4,701	\$ 49,701	\$ 54,402	\$ 49,979
Construction payable	-	1,437	1,437	331,748
Meter deposits payable	-	74,110	74,110	75,150
Accrued liabilities	-	50,016	50,016	42,380
Internal balances	2,101	-	2,101	2,101
Other liabilities	-	2,269	2,269	2,156
Current portion of long-term obligations (Notes 4 & 5)	10,000	30,100	40,100	38,500
	<u>16,802</u>	<u>207,633</u>	<u>224,435</u>	<u>542,014</u>
Total current liabilities				
Noncurrent liabilities				
Noncurrent portion of long-term obligations (Notes 4 & 5)	351,665	1,566,354	1,918,019	1,957,386
	<u>368,467</u>	<u>1,773,987</u>	<u>2,142,454</u>	<u>2,499,400</u>
Total Liabilities				
NET ASSETS				
Invested in capital assets, net of related debt	1,137,573	6,966,833	8,104,406	8,463,518
Restricted for				
Bond reserves	-	261,533	261,533	245,465
Other purposes	92,627	-	92,627	123,383
Unrestricted	176,114	264,868	440,982	388,085
	<u>1,406,314</u>	<u>7,493,234</u>	<u>8,899,548</u>	<u>9,220,451</u>
Total net assets				
Total liabilities and net assets				
	<u>\$ 1,774,781</u>	<u>\$ 9,267,221</u>	<u>\$ 11,042,002</u>	<u>\$ 11,719,851</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, 2010

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Totals 2009				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government						
					Governmental Activities	Business-type Activities		Total			
Primary government											
Governmental activities											
General administration	\$ 111,124	\$ -	\$ 56,237	\$ 4,000	\$ (50,887)	\$ -	\$ (50,887)	\$ (49,920)			
Street department	14,506	-	13,509	-	(997)	-	(997)	7,838			
Interest on long-term debt	20,598	-	-	-	(20,598)	-	(20,598)	(21,008)			
Total governmental activities	146,228	-	69,746	4,000	(72,482)	-	(72,482)	(63,090)			
Business type activities											
Utility	1,443,520	1,042,573	-	91,182	-	(309,765)	(309,765)	1,775,814			
Total business-type activities	1,443,520	1,042,573	-	91,182	-	(309,765)	(309,765)	1,775,814			
Total primary government	\$ 1,589,748	\$ 1,042,573	\$ 69,746	\$ 95,182	(72,482)	(309,765)	(382,247)	1,712,724			
General revenues											
Taxes											
Property taxes, levied for general purposes								16,862	-	16,862	17,325
License fees											
Franchise								739	-	739	739
Insurance premiums								38,271	-	38,271	42,642
Occupational								800	-	800	660
Investment earnings								523	4,149	4,672	4,700
Donation of land								-	-	-	-
Miscellaneous								-	-	-	-
Total general revenues								57,195	4,149	61,344	66,066
Change in Net Assets								(15,287)	(305,616)	(320,903)	1,778,790
Net assets-beginning								1,421,601	7,798,850	9,220,451	7,441,661
NET ASSETS-ENDING								\$ 1,406,314	\$ 7,493,234	\$ 8,899,548	\$ 9,220,451

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

CITY OF FRENCHBURG, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	General	Other Governmental Funds	Total Governmental Funds	Totals 2009
ASSETS				
Cash and cash equivalents	\$ 172,779	\$ 93,559	\$ 266,338	\$ 250,288
Receivables, net	9,205	-	9,205	11,026
Due from other funds	-	-	-	-
Other receivables	-	-	-	1,937
	<u>\$ 181,984</u>	<u>\$ 93,559</u>	<u>\$ 275,543</u>	<u>\$ 263,251</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 3,769	\$ 932	\$ 4,701	\$ 8,084
Construction payable	-	-	-	-
Deferred revenue	-	-	-	-
Due to other funds	2,101	-	2,101	2,101
	<u>5,870</u>	<u>932</u>	<u>6,802</u>	<u>10,185</u>
Fund balances				
Unreserved, reported in				
General fund	176,114	-	176,114	164,468
Special revenue funds	-	92,627	92,627	88,598
	<u>176,114</u>	<u>92,627</u>	<u>268,741</u>	<u>253,066</u>
Total liabilities and fund balances	<u>\$ 181,984</u>	<u>\$ 93,559</u>	<u>\$ 275,543</u>	<u>\$ 263,251</u>

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

Fund balances reported above	\$ 268,741	\$ 253,066
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,499,238	1,539,467
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(380,000)	(390,000)
Debt issue costs	18,335	19,068
Net assets of governmental activities	<u>\$ 1,406,314</u>	<u>\$ 1,421,601</u>

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, 2010

	General	Other Governmental Funds	Total Governmental Funds	Totals 2009
REVENUES				
Taxes	\$ 16,862	\$ -	\$ 16,862	\$ 17,325
Licenses and permits	39,810	-	39,810	44,041
Intergovernmental	13,410	13,509	26,919	48,444
Other revenues	47,088	261	47,349	41,080
Total revenues	117,170	13,770	130,940	150,890
EXPENDITURES				
Current				
General administration	72,692	-	72,692	81,706
Streets	2,235	9,741	11,976	8,281
Capital Outlay	-	-	-	20,305
Debt service	30,598	-	30,598	31,008
Total expenditures	105,525	9,741	115,266	141,300
Change in Net Assets	11,645	4,029	15,674	9,590
Fund balances - Beginning	164,469	88,598	253,067	243,476
FUND BALANCES - JUNE 30, 2009	\$ 176,114	\$ 92,627	\$ 268,741	\$ 253,066
Reconciliation to government-wide change in net assets:				
Net change in fund balances			\$ 15,674	\$ 9,590
Add: Capital outlay expenditures capitalized			-	20,305
Add: Debt service expenditures			30,598	31,008
Less: depreciation on governmental activities assets			(40,229)	(40,154)
Less: interest on long term debt			(20,598)	(21,008)
Less: amortization on lease issuance costs			(733)	(733)
Change in net assets Governmental Activities			\$ (15,288)	\$ (992)

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

CITY OF FRENCHBURG, KENTUCKY
BALANCE SHEET
PROPRIETARY FUND
June 30, 2010

	Business Type Activities Water & Sewer	
	Fund 2010	Totals 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 311,732	\$ 259,393
Receivables (net)	87,602	87,704
Grant receivable	1,437	331,748
Internal balances	2,101	2,101
Total current assets	402,872	680,946
Noncurrent assets		
Restricted cash and cash equivalents	261,533	280,250
Inventory	39,529	36,000
Construction in progress	19,437	2,171,816
Water and sewer systems	13,274,379	11,018,873
Less accumulated depreciation	(4,730,529)	(4,270,752)
Total noncurrent assets	8,864,349	9,236,187
Total assets	\$ 9,267,221	\$ 9,917,133
LIABILITIES		
Current liabilities		
Accounts payable	\$ 49,701	\$ 41,895
Meters deposits payable	74,110	75,150
Construction payable	1,437	331,748
Accrued liabilities	13,258	14,376
Accrued interest	36,758	28,004
Other liabilities	2,269	2,156
Bonds, notes, and loans payable	30,100	28,500
Total current liabilities	207,633	521,829
Noncurrent liabilities		
Bonds, notes, and loans payable	1,566,354	1,596,454
Total noncurrent liabilities	1,566,354	1,596,454
Total liabilities	1,773,987	2,118,283
NET ASSETS		
Invested in capital assets, net of related debt	6,966,833	7,294,983
Restricted capital projects	-	34,785
Restricted for debt service	116,198	109,930
Restricted for depreciation	145,335	135,535
Unrestricted	264,868	223,617
Total net assets	7,493,234	7,798,850
Total liabilities and net assets	\$ 9,267,221	\$ 9,917,133

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
for the year ended June 30, 2010

	Business Type Activities Water & Sewer Fund 2010	Totals 2009
OPERATING REVENUES		
Charges for services	\$ 1,004,293	\$ 970,357
Penalties	16,814	16,215
Other revenues	21,466	15,705
	<u>1,042,573</u>	<u>1,002,277</u>
OPERATING EXPENSES		
Personnel	287,066	291,598
Water purchased	398,486	397,726
Bad Debt	7,817	-
Maintenance and repairs	8,398	6,667
Utilities	36,471	38,880
Auto	6,764	18
Insurance	15,112	16,521
Office supplies	5,008	4,359
Professional services	26,616	28,425
Chemicals	2,180	5,893
Operating services	62,712	81,152
Rent	36,000	37,320
Postage	9,923	9,605
Other	6,982	8,454
Depreciation	459,777	386,664
	<u>1,369,312</u>	<u>1,313,282</u>
OPERATING INCOME (LOSS)	(326,739)	(311,005)
Non-operating income (expense)		
Interest income	4,149	3,968
Interest expense	(74,208)	(59,481)
NET INCOME (LOSS)	(396,798)	(366,518)
CAPITAL CONTRIBUTIONS		
Hook on fees	35,412	80,159
Grants	55,770	2,066,141
CHANGE IN NET ASSETS	(305,616)	1,779,782
Net assets - Beginning of the year	<u>7,798,850</u>	<u>6,019,068</u>
NET ASSETS - JUNE 30, 2009	<u>\$ 7,493,234</u>	<u>\$ 7,798,850</u>

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

**CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2010**

	Business Type Activities Water & Sewer Fund 2010	Totals 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,039,146	\$ 1,004,171
Payments to suppliers	(615,590)	(658,058)
Payments for employee services and benefits	<u>(288,184)</u>	<u>(282,078)</u>
 Net cash provided (used) by operating activities	 <u>135,372</u>	 <u>64,035</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	421,493	1,834,116
Purchases of capital assets	(103,127)	(406,601)
Purchases of construction in progress	(330,311)	(1,821,528)
Bond issuance		458,000
Principal paid on capital debt	(28,500)	(28,000)
Interest paid on capital debt	<u>(65,454)</u>	<u>(31,477)</u>
 Net cash provided (used) by capital and related financing activities	 <u>(105,899)</u>	 <u>4,510</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	<u>4,149</u>	<u>3,968</u>
 Net cash provided by investing activities	 <u>4,149</u>	 <u>3,968</u>
 Net (decrease) in cash and cash equivalents	 33,622	 72,513
Balances-beginning of the year	<u>539,643</u>	<u>467,130</u>
 BALANCES-END OF THE YEAR	 <u>\$ 573,265</u>	 <u>\$ 539,643</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (326,739)	\$ (311,005)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	459,777	386,664
Change in assets and liabilities:		
Receivables, net	(3,427)	1,894
Accounts and other payables	6,879	(23,038)
Accrued expenses	<u>(1,118)</u>	<u>9,520</u>
 Net cash provided (used) by operating activities	 <u>\$ 135,372</u>	 <u>\$ 64,035</u>

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Frenchburg conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant accounting policies.

A. Reporting Entity

Generally accepted accounting principles require governmental entities to determine the agencies or entities which comprise the government for financial reporting purposes, the criteria of oversight responsibility over such agencies or entities, special financing relationships and scope of public service provided by the agencies or entities are used. Oversight responsibility is determined by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations and accountability for fiscal matter. Based on these criteria, there are no agencies or entities that should be included.

B. Basis of Presentation

The City's financial statements are presented in conformity with the provisions of Governmental Accounting Standards Board Statement No 34, "**Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments**" and consist of the following:

Management's discussion and analysis (required supplementary information);

Basic Financial Statements
Government-wide financial statements
Fund financial statements

Notes to the financial statements

Government-wide Financial Statements

The government-wide financial statements include a statement of net assets and the statement of activities. These statements display information about the City as a whole. The statements distinguish between governmental and business-type activities of the City. These financial statements include the financial activities of the City except for fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. The government-wide statement of activities reflects costs of government by function for governmental activities and business-type activities. Program revenues include charges paid by recipient for the goods or services offered by the program and grants or contributions that are restricted to the program. Revenues which are not classified as program revenues are presented as general revenues of the City.

Fund Financial Statements

Fund financial statements report detailed information about the City. The accounts of the City are organized on the basis of funds each of which is considered to be a separate fiscal and accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that is comprised of its assets, liabilities, reserves, fund equity, revenues and expenditures or expenses.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation, continued

Fund Financial Statements, continued

Governmental Funds are those through which most governmental functions are financed. The governmental fund measurement focus is upon determination of financial position and budgetary control over revenues and expenditures. Proprietary Fund Types are used to account for operations that are financed and operated in a manner similar to business enterprises - where intent of the governing body is that costs of providing services are to be financed or recovered primarily through user charges.

The following funds are used by the City of Frenchburg:

Governmental Funds

General Fund - The general operating fund of the City is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - The Municipal Road Aid Fund accounts for funds received from the Commonwealth of Kentucky to be used for streets.

Proprietary Funds

Proprietary Funds are used to account for the ongoing organizations and activities of the City, which are similar to those found in private business enterprises. The measurement focus is upon determination of net income, financial position, and changes in cash flows.

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

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

C. Basis of Accounting

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting, continued

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for individual funds.

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

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and expenses are recognized when they are incurred. The City applies FASB pronouncements that are applicable to its proprietary fund.

D. Budgeting

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

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

E. Other Accounting Policies

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

Property taxes not collected within sixty days of year end are fully reserved.

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

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

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

E. Other Accounting Policies, continued

Accounts receivables are stated net of an allowance of doubtful accounts of \$13,467 in the proprietary fund and \$4,776 in the general fund.

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

In the Government-wide and proprietary fund financial statements, long-term obligations are reported as liabilities in the Statement of Net Assets. Discounts, premiums, and issuance costs related to bonds and notes issued are deferred and amortized over the life of the applicable bond or note using the straight-line method. Bonds and notes payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

2. CASH AND INVESTMENTS

Statutory Requirements

The City's deposits and investments at June 30, 2010 were entirely covered by federal depository insurance or by collateral held by the custodial banks in the City's name.

FDIC – demand deposits	\$ 500,000
Collateralized by securities held by the bank in the City's name	<u>344,189</u>
Total	<u>\$ 844,189</u>

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

Statement of Cash Flows

The propriety fund type statement of Cash Flows includes as cash and cash equivalents all cash restricted or unrestricted as follows:

Cash	\$ 311,732
Cash - restricted	<u>261,533</u>
	<u>\$ 573,265</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

3. CAPITAL ASSETS

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

	Balance <u>July 01, 2009</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2010</u>
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 258,832	\$ -	\$ -	\$ 258,832
Capital assets being depreciated:				
Buildings and Improvements	1,286,871	-	-	1,286,871
Land Improvements	101,535	-	-	101,535
Vehicles & Equipment	26,257	-	-	26,257
	<u>1,414,663</u>	<u>-</u>	<u>-</u>	<u>1,414,663</u>
Totals	<u>1,414,663</u>	<u>-</u>	<u>-</u>	<u>1,414,663</u>
Total Non-Infrastructure Assets	<u>1,673,495</u>	<u>-</u>	<u>-</u>	<u>1,673,495</u>
Total Capital Assets	<u>1,673,495</u>	<u>-</u>	<u>-</u>	<u>1,673,495</u>
Less Accumulated Depreciation:				
Buildings and Improvements	97,821	33,706	-	131,527
Land Improvements	22,906	3,993	-	26,899
Vehicles & Equipment	13,302	2,530	-	15,832
Infrastructure Assets	-	-	-	-
	<u>134,029</u>	<u>40,229</u>	<u>-</u>	<u>174,258</u>
Totals	<u>134,029</u>	<u>40,229</u>	<u>-</u>	<u>174,258</u>
Capital Assets, net	<u>\$ 1,539,466</u>	<u>\$ (40,229)</u>	<u>\$ -</u>	<u>\$ 1,499,237</u>
Business Type Activities:				
Capital assets not depreciated:				
Land	\$ 6,850	\$ -	\$ -	\$ 6,850
Construction in Process	2,171,816	1,437	(2,153,816)	19,437
Total	<u>2,178,666</u>	<u>1,437</u>	<u>(2,153,816)</u>	<u>26,287</u>
Capital assets being depreciated:				
Plant & Sewer System	10,703,344	2,250,847	-	12,954,191
Vehicles & Equipment	308,679	4,659	-	313,338
Total	<u>11,012,023</u>	<u>2,255,506</u>	<u>-</u>	<u>13,267,529</u>
Less Accumulated Depreciation:	<u>4,270,752</u>	<u>459,777</u>	<u>-</u>	<u>4,730,529</u>
Capital assets being depreciated, net:	<u>6,741,271</u>	<u>1,795,729</u>	<u>-</u>	<u>8,537,000</u>
Capital Assets, net	<u>\$ 8,919,937</u>	<u>\$1,797,166</u>	<u>\$(2,153,816)</u>	<u>\$ 8,563,287</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

3. CAPITAL ASSETS, continued

Depreciation Expense was charged to the Governmental functions as follows:

General government	\$ 37,699
Streets	<u>2,530</u>
 Total Depreciation Expense	 <u>\$ 40,229</u>

Under GASB 34, the City of Frenchburg has elected to not report major infrastructure retroactively. Capital assets acquired are recorded at cost or estimated cost. Depreciation of capital assets is provided over the estimated useful lives of the respective assets using the straight-line basis. The estimated useful lives are as follows:

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

4. BUSINESS-TYPE ACTIVITIES LONG TERM DEBT

The City issued \$458,000 of City of Frenchburg Water and Sewer Revenue Bonds dated October 27, 2008, bearing interest at the rate of 4.125% to provide funds for the extension on Highway 1274.

Bonds payable at June 30, 2010 consist of the following:

	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Maturity Date</u>	<u>Balance as of June 30, 2010</u>
1985 Water Revenue Bond	5.0%	\$ 375,000	01/01/2025	\$ 251,254
1990A Sewer Revenue Bonds	5.0%	150,000	01/01/2031	114,000
1991 Sewer Revenue Bonds	5.0%	244,000	01/01/2031	184,000
1992 Water Revenue Bonds	5.0%	166,000	01/01/2032	129,500
1995 Sewer Revenue Bonds	4.5%	119,000	01/01/2034	97,300
1997 Water Revenue Bonds	4.5%	188,000	01/01/2037	160,500
1999 Sewer Revenue Bonds	4.5%	124,000	01/01/2039	110,100
2001 Water Revenue Bonds	4.5%	100,000	01/01/2041	91,800
2008 Water & Sewer Revenue Bonds	4.125%	458,000	01/01/2049	<u>458,000</u>
 Total Long-Term Debt				 <u>\$ 1,596,454</u>

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

	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2010</u>
Revenue Bonds	<u>\$ 1,624,954</u>	<u>\$ -</u>	<u>\$ 28,500</u>	<u>\$ 1,596,454</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

4. BUSINESS-TYPE ACTIVITIES LONG TERM DEBT, continued

The annual requirements to amortize all debt outstanding as of June 30, 2010 are as follows:

Fiscal Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 30,100	\$ 71,340	\$ 101,440
2012	38,300	69,957	108,257
2013	40,100	68,219	108,319
2014	41,000	66,397	107,397
2015	43,600	64,538	108,138
2016-2020	257,500	290,677	548,177
2021-2025	332,954	225,471	558,425
2026-2030	277,800	154,460	432,260
2031-2035	211,200	93,096	304,296
2036-2040	140,400	54,648	195,048
2041-2045	96,400	29,765	126,165
2046-2049	<u>87,100</u>	<u>9,163</u>	<u>96,263</u>
 TOTAL	 <u>\$ 1,596,454</u>	 <u>\$ 1,197,731</u>	 <u>\$ 2,794,185</u>

BOND ORDINANCE REQUIREMENTS

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

Sinking Fund Reserve - This reserve is required to receive a monthly transfer of one-sixth of the next interest payment and one-twelfth of the next principal payment. The reserve has a balance of \$116,198 as of June 30, 2010.

Depreciation reserve - This reserve is required to receive a monthly transfer of \$205 after provision for bonds and interest until a balance of \$24,600 is established. This reserve is for balancing depreciation in the system. The reserve has a balance of \$145,335 as of June 30, 2010.

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT

The City entered into a long-term lease agreement with the KADD Financing Trust on June 28, 2005. The purpose of the lease was to consolidate a long-term debt agreement with Traditional Bank, Inc. to finance land acquisition and a lease purchase agreement with the KADD Financing Trust for three sanitation trucks, and to finance the purchase of a tract of land with a building on it for the amount of \$45,000. The total lease obligation was \$415,000 and the lease comes due in fiscal year 2035. The lease requires two semi-annual interest and fee payments and one annual principle payment. The interest rate of the lease fluctuates from 3.40-5.25%. The balance of the lease at June 30, 2010 is \$380,000.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

5. GOVERNMENTAL ACTIVITIES LONG TERM DEBT, continued

The changes in general long term debt is as follows:

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2010</u>
Leases Payable	\$ 390,000	\$ -	\$ 10,000	\$ 380,000
Less: Deferred charges on Debt Issuance	<u>19,068</u>	<u>-</u>	<u>733</u>	<u>18,335</u>
Total Long-Term Debt, net	<u>\$ 370,932</u>	<u>\$ -</u>	<u>\$ 9,267</u>	<u>\$ 361,665</u>

The annual requirements to amortize all governmental long term debt outstanding as of June 30, 2010 are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principle</u>	<u>Total Interest</u> <u>& Fees</u>	<u>Total</u> <u>Payment</u>
2011	\$ 10,000	\$ 20,138	\$ 30,138
2012	10,000	19,678	29,678
2013	10,000	19,218	29,218
2014	10,000	18,758	28,758
2015	10,000	18,298	28,298
2016-2020	50,000	84,088	134,088
2021-2025	75,000	68,775	143,775
2026-2030	90,000	48,465	138,465
2031-2035	<u>115,000</u>	<u>21,703</u>	<u>136,703</u>
Total	<u>\$ 380,000</u>	<u>\$ 319,121</u>	<u>\$ 699,121</u>

6. CONSTRUCTION IN PROGRESS

During the prior year, the City completed a project funded by a grant from the Kentucky Infrastructure Authority for \$300,000. The grant was to fund the installation of radio read meters, and was begun in fiscal year 2008. The city earned \$85 in grant monies during fiscal year 2010. The total amount received on the grant and capitalized was \$300,000.

During the prior year, the City began a waterline extension on Highway 1274. The total budgeted cost on the project is \$2,224,000. The City received a KIA Coal grant for \$820,000, Rural Development grant for \$374,900, and an ARC grant for \$500,000. In addition, the city issued revenue bonds through Rural Development for \$458,000, and contributed \$71,500 in tap fees collected. As of June 30, 2010 total expenditures capitalized was \$2,190,213. The remaining portion of the project, \$34,801 of tap fees, was used to purchase radio read meters that were capitalized.

In June 2009, the City completed waterline extensions to Hidden Hollow and Cold Iron Fork. The project was financed through a 2008 KIA grant for \$150,000, and part of the remaining portion of a 2005 KIA grant. The total amount earned and expended was \$197,589. During the current year, \$13,683 was used for administrative fees relating to the 2005/2008 KIA grant and \$4,649 was used for radio read meters.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

6. CONSTRUCTION IN PROCESS, continued

In September of 2010, the City obtained KIA 2008 House Bill 608 Coal Development Grant for the Belt Filter Press Project in the amount of \$287,390. The City incurred \$1,437 of administrative fees relating to the grant at June 30, 2010.

7. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2010 were levied in November 2009 on the assessed valuation of property located in the City of Frenchburg as of the preceding January 1, the lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

- | | |
|------------------------------------|-----------------------------------|
| 1. Due date for payment of taxes | November 1, 2009 |
| 2. Face value amount payment dates | November 1, 2009 to March 1, 2010 |
| 3. 10% penalty delinquent date | March 2, 2010 |

These taxes are collected by the City Clerk. Vehicle taxes are collected by the County Clerk of Menifee County and are due and collected in the birth month of the licensee.

8. RETIREMENT

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

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

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

Contributions – For the year ended June 30, 2010, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2010, participating employers contributed 16.16% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2010	\$ 32,577	100%
2009	\$ 36,553	100%
2008	\$ 41,336	100%

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

9. RISK MANAGEMENT

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

10. 2009 Totals

Total amounts for 2009 are presented herein for comparative purpose only and in some instances have been reclassified from the amounts presented in the prior year audited financial statements.

11. Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through January 11, 2011 which represents the date these financials statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2010, have not been evaluated by the city.

SUPPLEMENTAL INFORMATION

CITY OF FRENCHBURG, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2010

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Taxes				
Property taxes	\$ 8,260	\$ 8,900	\$ 8,640	\$ (260)
Vehicle taxes	825	1,000	980	(20)
Bank shares	<u>6,962</u>	<u>7,242</u>	<u>7,242</u>	<u>-</u>
	<u>16,047</u>	<u>17,142</u>	<u>16,862</u>	<u>(280)</u>
Licenses and permits				
Occupation license	840	660	800	140
Insurance premiums	40,000	42,000	38,271	(3,729)
Franchise fees	<u>739</u>	<u>739</u>	<u>739</u>	<u>-</u>
	<u>41,579</u>	<u>43,399</u>	<u>39,810</u>	<u>(3,589)</u>
Intergovernmental revenue				
Police	-	9,500	9,410	(90)
Walking trail	-	1,937	-	(1,937)
Grant	-	4,000	4,000	-
Revitalization	<u>-</u>	<u>7,790</u>	<u>-</u>	<u>(7,790)</u>
	<u>-</u>	<u>23,227</u>	<u>13,410</u>	<u>(9,817)</u>
Other revenues				
Litter Abatement	448	361	361	-
Community Center	-	9,359	9,397	38
Rent	36,000	36,000	36,000	-
Interest income	400	400	423	23
Other	<u>350</u>	<u>780</u>	<u>907</u>	<u>127</u>
	<u>37,198</u>	<u>46,900</u>	<u>47,088</u>	<u>188</u>
Total revenue	<u>\$ 94,824</u>	<u>\$ 130,668</u>	<u>\$ 117,170</u>	<u>\$ (13,498)</u>
EXPENDITURES				
General Government				
Personnel services	\$ 12,000	\$ 12,000	\$ 13,058	\$ 1,058
Professional fees	4,500	12,858	12,199	(659)
Dues and subscriptions	3,050	3,200	3,477	277
Office	150	75	458	383
Utilities	20,163	25,005	22,147	(2,858)
Insurance	4,847	5,989	5,989	-
Law /Task force	-	9,500	5,411	(4,089)
Organization	4,000	3,329	3,329	-
Other expenses	<u>3,688</u>	<u>15,089</u>	<u>6,620</u>	<u>(8,469)</u>
	<u>52,398</u>	<u>87,045</u>	<u>72,688</u>	<u>(14,357)</u>
Streets				
Maintenance	<u>4,000</u>	<u>3,000</u>	<u>2,235</u>	<u>(765)</u>
Capital Outlay				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt Service				
	<u>30,598</u>	<u>30,598</u>	<u>30,598</u>	<u>-</u>
Total expenditures	<u>\$ 86,996</u>	<u>\$ 120,643</u>	<u>\$ 105,521</u>	<u>\$ (15,122)</u>
Excess (deficiency) revenues over expenditures	<u>\$ 7,828</u>	<u>\$ 10,025</u>	<u>\$ 11,649</u>	<u>\$ 1,624</u>

CITY OF FRENCHBURG, KENTUCKY
 REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
 SPECIAL REVENUE FUND
 for the year ended June 30, 2010

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Intergovernmental	\$ 13,802	\$ 13,409	\$ 13,509	\$ 100
Other	<u>391</u>	<u>258</u>	<u>261</u>	<u>3</u>
	<u>14,193</u>	<u>13,667</u>	<u>13,770</u>	<u>103</u>
 Streets				
Utilities	2,500	2,762	2,815	53
Maintenance	<u>27,333</u>	<u>3,000</u>	<u>6,926</u>	<u>3,926</u>
	<u>29,833</u>	<u>5,762</u>	<u>9,741</u>	<u>3,979</u>
 Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Excess (deficiency) revenues over expenditures	<u>\$ (15,640)</u>	<u>\$ 7,905</u>	<u>\$ 4,029</u>	<u>\$ (3,876)</u>

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
WATER AND SEWER FUND
for the year ended June 30, 2010

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>2009 Totals</u>
OPERATING REVENUES				
Charges for services	\$ 907,206	\$ 97,087	\$ 1,004,293	\$ 970,357
Penalties	16,814	-	16,814	16,215
Other revenues	21,466	-	21,466	15,705
Total operating revenues	<u>945,486</u>	<u>97,087</u>	<u>1,042,573</u>	<u>1,002,277</u>
OPERATING EXPENSES				
Personnel	250,990	36,076	287,066	291,598
Water purchased	398,486	-	398,486	397,726
Bad Debt	6,603	1,214	7,817	-
Maintenance and repairs	1,304	7,094	8,398	6,667
Utilities	23,702	12,769	36,471	38,880
Auto	6,764	-	6,764	18
Insurance	14,112	1,000	15,112	16,521
Office supplies	4,978	30	5,008	4,359
Professional services	16,497	10,119	26,616	28,425
Chemicals	2,180	-	2,180	5,893
Operating supplies	56,227	6,485	62,712	81,152
Rent	36,000	-	36,000	37,320
Postage	9,923	-	9,923	9,605
Other	4,658	2,324	6,982	8,454
Depreciation	332,604	127,173	459,777	386,664
Total operating expenses	<u>1,165,028</u>	<u>204,284</u>	<u>1,369,312</u>	<u>1,313,282</u>
OPERATING INCOME (LOSS)	(219,542)	(107,197)	(326,739)	(311,005)
Non-operating revenue (expense)				
Interest income	4,101	48	4,149	3,968
Interest expense	(49,686)	(24,522)	(74,208)	(59,481)
NET INCOME (LOSS)	(265,127)	(131,671)	(396,798)	(366,518)
Capital contributions				
Hook on fees	33,812	1,600	35,412	80,159
Grants	54,333	1,437	55,770	2,066,141
Change in net assets	<u>\$ (176,982)</u>	<u>\$ (128,634)</u>	(305,616)	1,779,782
Beginning net assets			<u>7,798,850</u>	<u>6,019,068</u>
NET ASSETS - Ending			<u>\$ 7,493,234</u>	<u>\$ 7,798,850</u>

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

Mayor and City Commission
City of Frenchburg
Frenchburg, Kentucky

We have audited the financial statements of the City of Frenchburg (the "City") as of and for the year ended June 30, 2010, and have issued our report thereon dated January 11, 2011. 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's internal control over financial reporting as a basis for designing our auditing procedures 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be material weaknesses in internal control over financial reporting. (2010-1).

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or 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. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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**.

City of Frenchburg's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City of Frenchburg's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
January 11, 2011

**CITY OF FRENCHBURG
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2010**

FINDING:

2010-1

The City is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

The City lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to take responsibility for the financial statements in conformity with generally accepted accounting principles.

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

RESPONSE:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.