

**CITY OF FRENCHBURG,
KENTUCKY**

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2021

TABLE OF CONTENTS

Independent Auditor's Report	1
Statement of Net Position	3
Statement of Activities	5
Balance Sheet - Governmental Funds	6
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Fund Net Position - Proprietary Fund	9
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund	11
Statement of Cash Flows - Proprietary Fund	12
Notes to Financial Statements	13
Required Supplementary Information:	
Budgetary Comparison Schedules	36
Schedule of the City's Proportionate Share of the Net Pension Liability	38
Schedule of the City's Proportionate Share of the Net OPEB Liability	39
Schedule of the City's Pension Contributions	40
Schedule of the City's OPEB Contributions	41
Notes to Required Supplementary Information	42
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	44
Comments and Recommendations	46
Appendix A:	
Certification of Compliance - Local Government Economic Assistance and Development Programs	48

Morgan and Associates, LLC

Brenda K. Morgan, CPA

749 Broadway Street
P.O. Box 428
West Liberty, KY 41472

Phone: (606) 743-1884
Fax: (606) 743-1895
www.bkmorgancpa.com

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Commissioners
City of Frenchburg, Kentucky

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Frenchburg, Kentucky, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Frenchburg, Kentucky's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to conduct our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were unable to obtain sufficient appropriate audit evidence to provide an audit opinion on these financial statements.

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

Basis for Disclaimer of Opinion

Detailed records of interfund balances have not been maintained for the current and prior year, and bank reconciliations have not been properly prepared and maintained for the current and prior year. Therefore, we were not able to obtain sufficient appropriate audit evidence about the amounts at which cash, interfund payables and receivables and corresponding expenses are recorded in the financial statements.

Honorable Mayor and City Commissioners
City of Frenchburg, Kentucky

Disclaimer of Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that budgetary comparison information, the schedules of the City's proportionate share of the net pension and OPEB liability, and the schedules of the City's pension and OPEB contributions listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2022, on our consideration of the City of Frenchburg, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Frenchburg, Kentucky's internal control over financial reporting and compliance.

Morgan and Associates, LLC

West Liberty, Kentucky
January 28, 2022

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF NET POSITION
As of June 30, 2021

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 288,068	\$ 321,645	\$ 609,713
Receivables	8,603	179,362	187,965
Prepaid Expenses	3,491	0	3,491
Due To/From Other Funds	18,389	(18,389)	0
Total Current Assets	318,551	482,618	801,169
Noncurrent Assets:			
Restricted Cash and Cash Equivalents		158,505	158,505
Inventory		76,550	76,550
Capital Assets			
CIP		274,778	274,778
Land	257,832	6,850	264,682
Depreciable Property, Plant, and Equipment, net	878,564	4,340,528	5,219,092
Total Capital Assets	1,136,396	4,622,156	5,758,552
Total Noncurrent Assets	1,136,396	4,857,211	5,993,607
Total Assets	1,454,947	5,339,829	6,794,776
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows - Pension		114,744	114,744
Deferred Outflows - OPEB		79,479	79,479
Total Deferred Outflows of Resources		194,223	194,223
Total Assets and Deferred Outflows of Resources	\$ 1,454,947	\$ 5,534,052	\$ 6,988,999

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF NET POSITION
As of June 30, 2021

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 6,195	\$ 51,768	\$ 57,963
Meter Deposits Payable		81,073	81,073
Accrued Liabilities	1,498	6,525	8,023
Current Portion of Long-Term Debt	20,000	72,083	92,083
Total Current Liabilities	27,693	211,449	239,142
Noncurrent Liabilities:			
Noncurrent portion of Long-Term Debt	126,667	913,722	1,040,389
Accrued Leave		15,380	15,380
Net Pension Liability		762,697	762,697
Net OPEB Liability		240,045	240,045
Total Noncurrent Liabilities	126,667	1,931,844	2,058,511
Total Liabilities	154,360	2,143,293	2,297,653
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - Pension		24,385	24,385
Deferred Inflows - OPEB		50,561	50,561
Total Deferred Inflows of Resources		74,946	74,946
NET POSITION			
Net Investment in Capital Assets	989,729	3,636,351	4,626,080
Restricted for Construction		21,519	21,519
Restricted for Debt Service	9,554	136,986	146,540
Unrestricted	301,304	(479,043)	(177,739)
Total Net Position	1,300,587	3,315,813	4,616,400
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 1,454,947	\$ 5,534,052	\$ 6,988,999

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues Received			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General Administration	\$ 142,204	\$	\$ 24,723	\$	\$ (117,481)	\$	\$ (117,481)
Street Department	36,282		19,560		(16,722)		(16,722)
Law Enforcement	2,765		2,765				0
Interest on Long-Term Debt	5,867				(5,867)		(5,867)
Total Governmental Activities	187,118		47,048		(140,070)		(140,070)
Business-type Activities:							
Utilities	1,906,009	1,372,636		237,151		(296,222)	(296,222)
Total Primary Government	\$ 2,093,127	\$ 1,372,636	\$ 47,048	\$ 237,151	(140,070)	(296,222)	(436,292)
General Revenues, Transfers, and Special Items:							
Taxes							
Property Taxes, Levied for General Purposes					71,461		71,461
Franchise					268		268
License Fees							
Occupational					660		660
Rent					42,500		42,500
Investment Earnings					533		533
Other Income					1,133	280	1,413
					116,555	280	116,835
Total General Revenues							
Change in Net Position					(23,515)	(295,942)	(319,457)
Net Position - Beginning					1,324,102	3,611,755	4,935,857
Net Position - Ending					\$ 1,300,587	\$ 3,315,813	\$ 4,616,400

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

CITY OF FRENCHBURG, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
As of June 30, 2021

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 200,876	\$ 87,192	\$ 288,068
Receivables	8,603		8,603
Due from Other Funds	25,404	(7,015)	18,389
Prepaid Expenses	3,491		3,491
TOTAL ASSETS	<u>\$ 238,374</u>	<u>\$ 80,177</u>	<u>\$ 318,551</u>
LIABILITIES			
Liabilities			
Accounts Payable & Accr. Liab.	\$ 7,692	\$	\$ 7,692
TOTAL LIABILITIES	7,692		7,692
FUND BALANCES			
Fund Balances:			
Restricted			
Roads		80,177	80,177
Debt Service	9,554		9,554
Unassigned	221,128		221,128
TOTAL FUND BALANCES	<u>230,682</u>	<u>80,177</u>	<u>310,859</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 238,374</u>	<u>\$ 80,177</u>	<u>\$ 318,551</u>

Reconciliation to Statement of Changes in Net Position:

Total Governmental Fund Balances	\$ 310,859
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital Assets Used in Governmental Activities of \$ 1,796,285, Net of Accumulated Depreciation of \$659,889, are Not Financial Resources and, Therefore, are Not Reported in the Funds.	1,136,396
Long-Term Liabilities are Not Due and Payable in the Current Period and Therefore are Not Reported in the Funds	(146,668)
Net Position of Governmental Activities	<u>\$ 1,300,587</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, 2021

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 71,461	\$	\$ 71,461
Licenses & Permits	660		660
Intergovernmental Revenues	3,033	19,560	22,593
Other Revenue	43,633		43,633
Total Revenues	<u>118,787</u>	<u>19,560</u>	<u>138,347</u>
EXPENDITURES			
General Administration	71,518		71,518
Streets	17,541	18,741	36,282
Law Enforcement	2,765		2,765
Debt Service	25,867		25,867
Total Expenditures	<u>117,691</u>	<u>18,741</u>	<u>136,432</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,096	819	1,915
Other Financing Sources (Uses)			
Capital Outlay	(3,998)		(3,998)
Grant Income	24,723		24,723
Grant Expense	(23,131)		(23,131)
Interest Income	453	80	533
Total Other Financial Sources (Uses)	<u>(1,953)</u>	<u>80</u>	<u>(1,873)</u>
Net Change in Fund Balance	(857)	899	42
Fund Balances, Beginning	<u>231,539</u>	<u>79,278</u>	<u>310,817</u>
Fund Balances, Ending	<u>\$ 230,682</u>	<u>\$ 80,177</u>	<u>\$ 310,859</u>

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

CITY OF FRENCHBURG, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2021

Reconciliation to the Statement of Activities:

Net Change in Fund Balances-Total Governmental Funds	\$ 42
Add: Capital Outlay Expenditures Capitalized	3,998
Less: Depreciation Expense	(47,555)
Add: Debt Service Expenditures	<u>20,000</u>
Change in Net Position of Governmental Activities	<u><u>\$ (23,515)</u></u>

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF FUND NET POSITION - PROPRIETARY FUND
As of June 30, 2021

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 321,645
Receivables, Net	179,362
Prepaid Expenses	<u>0</u>

Total Current 501,007

Noncurrent Assets:

Restricted Cash	158,505
Inventory	76,550
Water and Sewer Systems	14,413,752
Less: Accumulated Depreciation	<u>(9,791,596)</u>

Total Noncurrent Assets 4,857,211

Total Assets 5,358,218

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows - Pension	114,744
Deferred Outflows - OPEB	<u>79,479</u>

Total Deferred Outflows of Resources 194,223

Total Assets and Deferred Outflows of Resources **\$ 5,552,441**

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF FUND NET POSITION - PROPRIETARY FUND
As of June 30, 2021

LIABILITIES

Current Liabilities

Accounts Payable	\$ 44,565
Accounts Payable - Construction	7,203
Meter Deposits Payable	81,073
Accrued Liabilities	6,525
Due To/from Other Funds	18,389
Current Portion of Long-Term Liabilities	<u> </u>

Total Current Liabilities	157,755
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Noncurrent Liabilities

Noncurrent Portion of Long-Term Liabilities	985,805
Accrued Leave	15,380
Net Pension Liability	762,697
Net OPEB Liability	<u>240,045</u>

Total Noncurrent Liabilities	<u>2,003,927</u>
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Total Liabilities	2,161,682
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows - Pension	24,385
Deferred Inflows - OPEB	<u>50,561</u>

Total Deferred Inflows of Resources	74,946
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NET POSITION

Net Investment in Capital Assets	3,629,148
Restricted for Debt Service	158,505
Unrestricted	<u>(471,840)</u>

Total Net Position	<u>3,315,813</u>
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Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>\$ 5,552,441</u></u>
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The accompanying notes are an integral part of the financial statements.

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION - PROPRIETARY FUND
For the Year Ended June 30, 2021

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Charges for Services	\$ 1,251,687	\$ 93,790	\$ 1,345,477
Penalties	8,185		8,185
Other Revenue	18,974		18,974
Total Operating Revenues	<u>1,278,846</u>	<u>93,790</u>	<u>1,372,636</u>
OPERATING EXPENSES			
Personnel	516,713	4,208	520,921
Water Purchased	520,650		520,650
Maintenance and Repairs	32,871	14,121	46,992
Utilities	16,942	25,820	42,762
Auto	14,544		14,544
Insurance	25,277		25,277
Office Supplies	8,004		8,004
Professional Services	32,982		32,982
Operating Supplies	114,177	17,234	131,411
Rent	36,000		36,000
Postage	13,144		13,144
Other	14,328	48	14,376
Depreciation	315,272	150,700	465,972
Total Operating Expenses	<u>1,660,904</u>	<u>212,131</u>	<u>1,873,035</u>
NET OPERATING INCOME (LOSS)	(382,058)	(118,341)	(500,399)
NON-OPERATING REVENUES (EXPENSES)			
Interest Income	253	27	280
Interest Expense	(27,575)	(5,399)	(32,974)
Total Non-Operating Revenues (Expenses)	<u>(27,322)</u>	<u>(5,372)</u>	<u>(32,694)</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(409,380)	(123,713)	(533,093)
Contributions in Aid of Construction		203,476	203,476
Hook on Fees	33,075	600	33,675
Change in Net Position	<u>\$ (376,305)</u>	<u>\$ 80,363</u>	<u>(295,942)</u>
NET POSITION - BEGINNING OF YEAR			<u>3,611,755</u>
NET POSITION - END OF YEAR			<u>\$ 3,315,813</u>

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2021

Cash flows from Operating Activities:

Payments Received from Customers	\$ 1,380,347
Payments to Suppliers	(842,353)
Payments for Salaries and Benefits	(429,333)
	<hr/>
Net Cash Provided (Used) by Operating Activities	108,661

Cash Flows from NonCapital Financing Activities:

Receipts (Payments) on Interfund Loans	(98,785)
	<hr/>
Net Cash Provided (Used) by NonCapital Financing Activities	(98,785)

Cash Flows from Capital and Related Financing Activities:

Capital Contributions	237,151
Capital Outlay	(274,778)
Principal Paid on Capital Debt	(70,000)
Interest Paid on Capital Debt	(32,974)
	<hr/>
Net Cash Provided (Used) by Financing Activities	(140,601)

Cash Flows from Investing Activities:

Interest Income	280
	<hr/>
Net Cash Provided (Used) by Investing Activities	280

Net Increase (Decrease) in Cash	(130,445)
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Cash at Beginning of Year	610,595
Cash at End of Year	<hr/> <hr/> \$ 480,150

Reconciliation of Operating Income to Net Cash Used

by Operating Activities

Operating Income (Loss)	\$ (500,399)
Adjustment to Reconcile Operating Income to	
Cash Provided (Used) by Operating Activities	
Depreciation	465,972
Net Change in Pension/OPEB Liability	70,102
Changes in Assets and Liabilities:	
Customer Receivable	7,711
Inventory	(11,810)
Accounts and Other Payables	55,599
Accrued Expenses	21,486
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Net Cash Provided (Used) by Operating Activities	<hr/> <hr/> \$ 108,661
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The accompanying notes are an integral part of the financial statements.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Reporting Entity

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

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

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements

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

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

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

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

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

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

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

The primary government reports the following major governmental funds:

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

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

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

Proprietary Funds

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

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

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

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

Encumbrances

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

Inventory

Inventory consists of utility supplies and is stated at cost.

Capital Assets

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

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

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

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments

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

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

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

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

Use of Estimates

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

Receivables

Governmental Funds receivables, which consists of Taxes, Licenses and Fees collected within 60 days of the fiscal year end were \$8,603. There is no allowance for uncollectible because these are fully collectible.

The Business-type Funds receivables consist of water and sewer revenues. The City reads meters on approximately the 10th of each month for water and sewer. The bills for the current reading go out on the last business day of the month. The unbilled receivables represents approximately 20 days of water and sewer usage. Billed receivables were \$124,344 and unbilled receivables were \$81,308. The allowance for uncollectible accounts was \$26,290, which are accounts greater than 30 days past due. Net receivables for Business-type activities were \$179,362.

Long-term Obligations

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Obligations (Continued)

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

Fund Equity

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

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

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

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

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

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

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

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2019 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Liabilities and Long-Term Obligations

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

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

NOTE B - DEPOSITS

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

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the city's deposits may not be returned to it. The city does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2021, the bank balance was \$797,069. These deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Deposits Covered By Federal Insurance	\$474,178
Deposits Collateralized	<u>322,891</u>
Total Bank Balance	<u>\$797,069</u>

NOTE C - INSURANCE COVERAGE

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE D - LONG-TERM DEBT

Business-Type Activities

Other Debt

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

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

The principal balance as of June 30, 2021 was \$985,805. Obligations for the remaining years are:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest and Fees</u>	<u>Total Payment</u>
2022	\$ 72,083	\$ 35,483	\$ 107,566
2023	75,000	33,141	108,141
2024	77,083	30,703	107,786
2025	71,667	28,198	99,865
2026	60,000	25,867	85,867
2027-2031	315,833	97,664	413,497
2032-2036	200,833	47,637	248,470
2037-2040	113,306	11,646	124,952
	<u>\$ 985,805</u>	<u>\$ 310,339</u>	<u>\$ 1,296,144</u>

Governmental Activities

Other Debt

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE D - LONG-TERM DEBT (Continued)

Governmental Activities (Continued)

Other Debt (Continued)

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

As of June 30, 2021, the principal balance was \$146,667. Obligations for the remaining years are:

<u>Fiscal Year</u> <u>Ended</u>	<u>Principal</u>	<u>Interest</u> <u>and Fees</u>	<u>Total</u> <u>Payment</u>
2022	\$ 20,000	\$ 4,400	\$ 24,400
2023	20,000	3,800	23,800
2024	20,000	3,200	23,200
2025	20,000	2,600	22,600
2026	20,000	2,000	22,000
2027-2029	<u>46,667</u>	<u>2,312</u>	<u>48,979</u>
	<u>\$ 146,667</u>	<u>\$ 18,312</u>	<u>\$ 164,979</u>

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

<u>Proprietary Fund Activities:</u>	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<i>Other Debt</i>					
Revenue Bonds	\$ 1,055,805	\$	\$ (70,000)	\$ 985,805	\$ 72,083
Proprietary Fund Activities					
Long-term Liabilities	<u>\$ 1,055,805</u>	<u>\$ 0</u>	<u>\$ (70,000)</u>	<u>\$ 985,805</u>	<u>\$ 72,083</u>

Interest paid on debt was \$32,974 for business-type activities for the fiscal year ended June 30, 2021.

<u>Governmental Activities:</u>	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
<i>Other Debt</i>					
Revenue Bonds	\$ 166,667	\$	\$ (20,000)	\$ 146,667	\$ 20,000
Governmental Activities					
Long-term Liabilities	<u>\$ 166,667</u>	<u>\$ 0</u>	<u>\$ (20,000)</u>	<u>\$ 146,667</u>	<u>\$ 20,000</u>

Interest paid on debt was \$5,867 for governmental activities for the fiscal year ended June 30, 2021.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE F - COMPENSATED ABSENCES

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

Vacation (Annual Leave)

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

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

Employees may accrue eighty hours (10 work days) of vacation leave above the annual amount after which additional vacation leave will not be accrued. During the first week of January of each year, the City shall take action to compensate employees for any accrued vacation time in excess of this amount at their regular rate of pay. In the alternative, the employee may transfer excess vacation time into sick leave on a day-for-day basis. Any employee who terminates employment with the city shall be compensated for credited but unused vacation leave time, except employees who resign or are discharged during the original probation period. Accrued leave totaled \$15,380 at June 30, 2021.

Sick Leave

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

NOTE G - RESTRICTIONS ON CASH

Business-type Activities Cash Reserves

Depreciation

The City maintains depreciation reserves required by federal and state financing agencies for repairs and maintenance to projects which they funded. At June 30, 2021, the balance in the reserves was \$136,986.

Construction

At June 30, 2021, the City has \$21,519 reserved for the extension of sewer lines.

Governmental Cash Reserves

Debt Service

As of June 30, 2021, the City has \$9,554 reserved for debt service payments.

CITY OF FRENCHSBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE H – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2021, consisted of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets not Being Depreciated:				
Land	\$ 257,832	\$	\$	\$ 257,832
Total Capital Assets not Being Depreciated	257,832			257,832
Capital Assets, Being Depreciated:				
Land Improvements	189,854			189,854
Buildings and Improvements	1,290,289	3,998		1,294,287
Vehicles & Equipment	34,257			34,257
Infrastructure	20,055			20,055
Total Capital Assets Being Depreciated	1,534,455	3,998		1,538,453
Less Accumulated Depreciation for:				
Land Improvements	(109,701)	(12,454)		(122,155)
Buildings and Improvements	(456,028)	(33,737)		(489,765)
Vehicles	(26,550)	(1,364)		(27,914)
Infrastructure	(20,055)			(20,055)
Total Accumulated Depreciation	(612,334)	(47,555)		(659,889)
Total Capital Assets, Being Depreciated, Net	922,121	(43,557)		878,564
Governmental Activities Capital Assets, Net	\$ 1,179,953	\$ (43,557)	\$ 0	\$ 1,136,396

Depreciation was charged to governmental activities as follows: \$47,555

CITY OF FRENCHSBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE H – CAPITAL ASSETS (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 6,850	\$	\$	\$ 6,850
CIP - Sewer Line Extension		274,778		274,778
Total Capital Assets Not Being Depreciated	6,850	274,778		281,628
Capital Assets, Being Depreciated:				
Water Utility Plant	9,305,779			9,305,779
Waste Water Plant	4,480,323			4,480,323
Vehicles, Machinery & Equipment	346,023			346,023
Total Capital Assets Being Depreciated	14,132,125			14,132,125
Less Accumulated Depreciation For:				
Water Utility Plant	(5,862,495)	(310,124)		(6,172,619)
Waste Water Plant	(3,139,037)	(149,344)		(3,288,381)
Vehicles, Machinery & Equipment	(324,096)	(6,504)		(330,600)
Total Accumulated Depreciation	(9,325,628)	(465,972)		(9,791,600)
Total Capital Assets Being Depreciated, Net	4,806,497	(465,972)		4,340,525
Total Utilities Capital Assets, Net	\$ 4,813,347	\$ (191,194)	\$ 0	\$ 4,622,153

Depreciation was charged to business-type activities as follows:

Water	\$ 315,272
Sewer	150,700
	<u>\$ 465,972</u>

NOTE I - PROPERTY TAX CALENDAR

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

Description

Face value amount payment date
10% Penalty added

November 1 through March 1
March 2

CITY OF FRENCHSBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE I - PROPERTY TAX CALENDAR (Continued)

Property taxes collected are recorded as revenues in the fund for which they were levied. Property taxes are attached as an enforceable lien on property as of January 1, 2016. The property tax rates assessed for the year ended June 30, 2021, to finance the General Fund operations were \$0.05 per \$100 valuation for real property, and \$0.05 per \$100 valuation for business personal property.

NOTE J - RETIREMENT

General Information about the Pension Plan

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

Nonhazardous covered employees are required to contribute five (5) percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six (6) percent of their salary to be allocated as follows: 5% will go to the member's account and 1% will go to the Kentucky Public Pension Authority (KPPA) insurance fund. The City's contribution rate for nonhazardous employees was 24.06 percent.

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

The City's contributions are as follows:

<u>Fiscal Year</u>	<u>Contribution Amount</u>
2019	\$68,504
2020	\$67,626
2021	\$61,283

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

CITY OF FRENCHSBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE J - RETIREMENT (Continued)

General Information about the Pension Plan (Continued)

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

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

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

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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

Pension Liabilities

At June 30, 2021, the City has a liability of \$762,697 for its proportionate share of the net pension liability for non-hazardous retirement. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date by the Kentucky Public Pension Authority. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 31, 2021, the City's proportion was .009944%.

For the year ended June 30, 2021, the City recognized pension expense of \$118,295 which includes the amortized portion of pension expense as calculated by Kentucky Public Pension Authority and health insurance remitted to Kentucky Public Pension Authority. At June 30, 2021 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF FRENCHSBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE J - RETIREMENT (Continued)

Pension Liabilities (Continued)

Schedule of Deferred Outflows and Inflows

NON-HAZARDOUS	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Liability Experience	\$ 19,019	\$
Assumption Changes	29,782	
Investment Experience	33,060	13,975
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	2,133	10,410
City Contributions Subsequent to the Measurement Date	<u>30,750</u>	
Total	<u>\$ 114,744</u>	<u>\$ 24,385</u>

The deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

	<u>Non-Hazardous</u>
Year 1	\$ 27,896
Year 2	\$ 15,496
Year 3	\$ 8,553
Year 4	\$ 7,664
Year 5	\$ 0
Thereafter	\$ 0

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

For financial reporting, the actuarial valuation as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

The Board of Trustees adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled "Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018". The total pension liability as of June 30, 2020, was determined using these updated assumptions.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE J - RETIREMENT (Continued)

Pension Liabilities (Continued)

Actuarial Methods and Assumptions for Determining the Total Pension Liability and Net Pension Liability (Continued)

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the total pension liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

The actuarial assumptions are:

Inflation	2.30%
Payroll Growth Rate	2.0%
Salary Increases	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%

The mortality table used for active members is PUB-2010 General Mortality table projected with ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

Discount Rate

The projection of cash flows used to determine the discount rate of 6.25% for the CERS non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

The following presents the net pension liability of the City, calculated using the discount rate of percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.25 percent) or one-percentage-point higher (7.25 percent) than the current rate for non-hazardous:

NON-HAZARDOUS	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
	<hr/>	<hr/>	<hr/>
City's Net Pension Liability	\$ 940,571	\$ 762,697	\$ 615,410

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE J - RETIREMENT (Continued)

Pension Liabilities (Continued)

Actuarial Methods and Assumptions Used to Determine the Actuarially Determined Contributions Effective for Fiscal Year Ending June 30, 2020

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2020:

Valuation Date	June 30, 2018
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	25 Years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized
Inflation	2.30%
Salary Increases	3.30% to 11.55%, varies by service
Investment Return	6.25%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

Deferred Inflows and Outflows

The Deferred Inflows and Outflows of Resources, and Pension Expense included in the Schedule of Pension Amounts by Employer include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule of Pension Amounts by Employer does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2021 is based on the June 30, 2020 actuarial valuation rolled forward. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are amortized over a closed five-year period.

Long-Term Expected Rate of Return

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

NOTE J - RETIREMENT (Continued)

Pension Liabilities (Continued)

Long-Term Expected Rate of Return (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	14.50%	
Core Bond	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Expected Real Return	0.00%	3.96%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolios		6.26%

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

Plan Description

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

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

For financial reporting the actuarial valuation as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

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

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

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2020:

Inflation	2.30%
Payroll Growth Rate	2.00%
Salary Increases	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post – 65	Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Mortality	
Pre-retirement	PUB-2010 General Mortality table' for the Non-Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates form MP-2014 mortality improvement scale using a base year of 2019.
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

Discount Rate

The projection of cash flows used to determine the discount rate of 5.34% for CERS non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and the municipal bond rate 2.45%, as reported in Fidelity Index's "20-Yar Municipal GO AA Index" as of June 30, 2020. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payment associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Long-Term Expected Rate of Return

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

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

Long-Term Expected Rate of Return (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
 Liquidity	 14.50%	
Core Bond	13.50%	-0.25%
Cash	1.00%	-0.75%
 Diversifying Strategies	 23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
 Expected Real Return	 0.00%	 3.96%
Long Term Inflation Assumption		2.30%
 Expected Nominal Return for Portfolios		 6.26%

Deferred Inflows and Outflows of Resources

The deferred inflows and outflows of resources and OPEB Expense columns included in the Schedule of OPEB Amounts by Employer include only certain categories of deferred inflows of resources and deferred outflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule of OPEB Amounts by Employer does not include deferred inflows/outflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net OPEB liability as of June 30, 2021 is based on the June 30, 2020 actuarial valuation rolled forward. Deferred inflows and outflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period.

Sensitivity of the Net OPEB to Changes in the Discount Rate

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.34%) or one percentage point higher (6.34%) follows:

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

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

Sensitivity of the Net OPEB to Changes in the Discount Rate (Continued)

NON-HAZARDOUS	1% Decrease (4.34%)	Current Discount Rate (5.34%)	1% Increase (6.34%)
City's Net OPEB Liability	\$ 308,387	\$ 240,045	\$ 135,356

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

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

NON-HAZARDOUS	1% Decrease	Current Healthcare Rate	1% Increase
City's Net OPEB Liability	\$ 185,855	\$ 240,045	\$ 305,806

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

At June 30, 2021, the City reported a liability of \$240,045 (non-hazardous) for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2020 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2020. This method is to be reflective of the employers' long-term contribution effort. At June 30, 2021, the City's proportion was 0.009941%, non-hazardous.

For the year ended June 30, 2021, the City recognized OPEB expense of \$31,714 nonhazardous. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

NON-HAZARDOUS	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability Experience	\$ 40,106	\$ 40,138
Assumption Changes	41,754	254
Investment Experience	12,877	4,898
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	1,861	5,271
City Contributions Subsequent to the Measurement Date	(17,119)	
Total	\$ 79,479	\$ 50,561

CITY OF FRENCHBURG, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

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

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

The deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows or resources and deferred inflows of resources will be recognized in OPEB expense as follows:

		<u>Non-Hazardous</u>
2019	\$	12,362
2020	\$	14,723
2021	\$	10,200
2022	\$	9,373
2023	\$	(620)
Thereafter	\$	0

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

NOTE L – SUBSEQUENT REVIEW

Subsequent events have been evaluated through January 28, 2022, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF FRENCHBURG, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
Required Supplemental Information – Modified Accrual Basis
For the Year Ending June 30, 2021

	GENERAL FUND			
	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>REVENUES</u>				
Taxes	\$ 57,200	\$ 59,900	\$ 71,461	\$ 11,561
Licenses & Permits	800	800	660	(140)
Intergovernmental Revenues	51,500	46,500	3,033	(43,467)
Other Revenue	500	1,000	43,633	42,633
Total Revenues	110,000	108,200	118,787	10,587
<u>EXPENDITURES</u>				
General Government	76,850	71,300	71,518	(218)
Law Enforcement	5,500	5,500	17,541	(12,041)
Streets and Roads			2,765	(2,765)
Debt Service	25,000	25,000	25,867	(867)
Total Expenditures	107,350	101,800	117,691	(15,891)
Excess (Deficiency) of Revenues over Expenditures Before Other Financing Sources (Uses) and Transfers	2,650	6,400	1,096	(5,304)
Other Financing Sources (Uses)				
Capital Outlay			(3,998)	(3,998)
Grant Income			24,723	24,723
Grant Expense			(23,131)	(23,131)
Interest Income	400	400	453	53
Total Other Financial Sources (Uses)	400	400	(1,953)	(2,353)
Net Change in Fund Balances	3,050	6,800	(857)	(7,657)
Fund Balances, Beginning	145,000	112,560	221,080	108,520
Fund Balances, Ending	\$ 148,050	\$ 119,360	\$ 220,223	\$ 100,863

CITY OF FRENCHBURG, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
Required Supplemental Information – Modified Accrual Basis
For the Year Ending June 30, 2021

	SPECIAL REVENUE FUNDS			
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 16,000	\$ 18,000	\$ 19,560	\$ 1,560
Total Revenues	16,000	18,000	19,560	1,560
EXPENDITURES				
Streets and Roads	20,000		18,741	(18,741)
Public Utilities	20,000			0
Public Affairs		30,000		30,000
Total Expenditures	40,000	30,000	18,741	11,259
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(24,000)	(12,000)	819	12,819
OTHER FINANCING SOURCES (USES)				
Interest Income	100		80	80
Total Other Financing Sources (Uses)	100		80	80
Net Changes in Fund Balance	(23,900)	(12,000)	899	12,899
Fund Balance - Beginning	88,000	97,110	79,278	(17,832)
Fund Balance - Ending	\$ 64,100	\$ 85,110	\$ 80,177	\$ (4,933)

CITY OF FRENCHBURG, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Required Supplemental Information
June 30, 2021

<i>(Actuarial Valuation Report Year)</i>	Non-Hazardous							
	2013	2014	2015	2016	2017	2018	2019	2020
City's Proportion of the Net Pension Liability (Asset)	0.009%	0.009%	0.010%	0.010%	0.010%	0.010%	0.010%	0.010%
City's Proportionate Share of the Net Pension Liability	\$ 306,391	\$ 297,391	\$ 420,422	\$ 474,642	\$ 583,282	\$ 622,855	\$ 718,566	\$ 762,697
City's Covered-Employee Payroll	\$ 217,705	\$ 210,227	\$ 228,142	\$ 229,966	\$ 242,625	\$ 253,481	\$ 263,527	\$ 269,477
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	140.74%	141.46%	184.28%	206.40%	240.40%	245.72%	272.67%	283.03%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	61.22%	66.80%	59.97%	55.50%	53.30%	53.54%	50.45%	47.81%

Note: This schedule will eventually cover the 10 most recent fiscal years; however, this is the information available as of the implementation of GASB 68.

CITY OF FRENCHBURG, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Required Supplemental Information
June 30, 2021

<i>(Actuarial Valuation Report Year)</i>	Non-Hazardous			
	2017	2018	2019	2020
City's Proportion of the Net OPEB Liability (Asset)	0.010000%	0.010000%	0.010227%	0.000099%
City's Proportionate Share of the Net OPEB Liability (Asset)	\$ 200,331	\$ 181,578	\$ 171,795	\$ 240,045
City's Covered-Employee Payroll	\$ 242,625	\$ 253,481	\$ 263,527	\$ 269,477
City's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Its Covered-Employee Payroll	82.57%	71.63%	65.19%	89.08%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	52.40%	57.62%	60.44%	51.67%

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

CITY OF FRENCHBURG, KENTUCKY
SCHEDULE OF THE CITY'S PENSION CONTRIBUTIONS
Required Supplemental Information
June 30, 2021

	Non-Hazardous							
<i>(Actuarial Valuation Report Year)</i>	2013	2014	2015	2016	2017	2018	2019	2020
Contractually Required Pension Contribution	\$ 27,474	\$ 28,885	\$ 29,088	\$ 28,562	\$ 33,846	\$ 36,704	\$ 41,800	\$ 49,158
Contributions in Relation to the Contractually Required Pension Contribution	27,474	28,885	29,088	28,562	33,846	36,704	41,800	49,158
Pension Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
City's Covered-Employee Payroll	\$ 217,705	\$ 210,227	\$ 228,142	\$ 229,966	\$ 242,625	\$ 253,481	\$ 263,527	\$ 269,477
Contributions as a Percentage of Covered-Employee Payroll	12.62%	13.74%	12.75%	12.42%	13.95%	14.48%	15.86%	18.24%

Note: This schedule will eventually cover the 10 most recent fiscal years; however, this is the information available as of the implementation of GASB 68.

CITY OF FRENCHBURG, KENTUCKY
SCHEDULE OF THE CITY'S OPEB CONTRIBUTIONS
Required Supplemental Information
June 30, 2021

	Non-Hazardous							
<i>(Actuarial Valuation Report Year)</i>	2013	2014	2015	2016	2017	2018	2019	2020
Contractually Required OPEB Contribution	\$ 15,087	\$ 10,827	\$ 11,225	\$ 10,670	\$ 11,476	\$ 11,914	\$ 13,555	\$ 12,124
Contractually Required OPEB Contribution	<u>15,087</u>	<u>10,827</u>	<u>11,225</u>	<u>10,670</u>	<u>11,476</u>	<u>11,914</u>	<u>13,555</u>	<u>12,124</u>
OPEB Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
City's Covered-Employee Payroll	\$ 217,705	\$ 210,227	\$ 228,142	\$ 229,966	\$ 242,625	\$ 253,481	\$ 263,527	\$ 269,477
Contributions as a Percentage of Covered-Employee Payroll	6.93%	5.15%	4.92%	4.64%	4.73%	4.70%	5.14%	4.50%

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2021

Note 1. Budgetary Information

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

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

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

The City overspent the General Fund budget.

Note 2. Actuarially Determined Pension Contributions

A. Changes in Benefit Terms

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014

B. Changes of Assumption

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

CITY OF FRENCHBURG, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2021

Note 2. Actuarially Determined Pension Contributions (Continued)

B. Changes of Assumption (Continued)

2015 (Continued)

- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal, and Disability were updated to more accurately reflect experience.

C. Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates are determined on an annual basis beginning with the fiscal year ending 2018, determined as of July 1, 2017. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increase	4.00, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

D. Actuarial Methods and Assumptions used to determine the Actuarial Determined Contributions for Fiscal Year 2018

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	27 years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%
Investment Rate of Return	7.50% for CERS Non-hazardous

Morgan and Associates, LLC

Brenda K. Morgan, CPA

749 Broadway Street
P.O. Box 428
West Liberty, KY 41472

Phone: (606) 743-1884
Fax: (606) 743-1895
www.bkmorgancpa.com

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

Honorable Mayor and City Commissioners
City of Frenchburg, Kentucky

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Frenchburg, Kentucky, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Frenchburg, Kentucky's basic financial statements and have issued our report thereon dated January 28, 2022. Our report disclaims an opinion on such financial statements because of lack of accounting records.

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statements of the City of Frenchburg, Kentucky, we considered the City of Frenchburg, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Frenchburg, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Frenchburg, Kentucky's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2021-001, 2021-002, and 2021-003 to be material weaknesses.

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

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the City of Frenchburg, Kentucky, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, instances of noncompliance or other matters may have been identified and reported herein.

City of Frenchburg, Kentucky's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Morgan and Associates, LLC

Morgan and Associates LLC
West Liberty, Kentucky

January 28, 2022

CITY OF FRENCHBURG, KENTUCKY
COMMENTS AND RECOMMENDATIONS
June 30, 2021

MATERIAL WEAKNESSES

2021-01 The City Lacks Controls Over Inter-Fund Accounting

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

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

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

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

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

The City's Response: City clerk will contact someone to come in and help reconcile the accounts each month.

2021-02 The City Lacks Controls Over Journal Entries

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

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

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

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

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

The City's Response: The city will look into a user friendly accounting program, or will train city clerk on current program.

**CITY OF FRENCHBURG, KENTUCKY
COMMENTS AND RECOMMENDATIONS**

June 30, 2021

MATERIAL WEAKNESSES (Continued)

2021-03 The City Lacks Controls Over the Preparation of Bank Reconciliations

Condition: Bank reconciliations do not appear to be made timely or accurately. The bank accounts appear to be materially misstated; however, because the accounting records are inadequate, we were unable to determine the actual cash balances. There are accounts on the Trial Balance that are labeled as cash accounts and that are included in the reconciliation process that are not real bank accounts.

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

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

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

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

The City's Response: The city will see about having someone come in in each month to help reconcile the statements and accounts

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

City of Frenchburg, Kentucky


**For the Fiscal Year Ended
June 30, 2021**

Appendix A

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

June 30, 2021

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



Mayor
City of Frenchburg, Kentucky