

City of Jenkins, Kentucky
Audited Financial Statements
June 30, 2011

CITY OF JENKINS

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Year Ended June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Jenkins
Jenkins, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jenkins as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Jenkins's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jenkins, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2011 on our consideration of the City of Jenkins's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations,

contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Our audit was conducted for the purpose of forming opinions of the financial statements that collectively comprise the City of Jenkins' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City of Jenkins. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Welch & Company, CPAs, PSC
Welch & Company, CPAs, PSC
Nicholasville, Kentucky
December 2, 2011

City of Jenkins
Statement of Net Assets
June 30 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash, including time deposits	\$ 579,495	\$ 261,578	\$ 841,073
Investments	37,431	119,512	156,943
Restricted cash	0	7,188	7,188
Accounts receivable, net	18,579	90,475	109,054
Prepaid insurance	55,132	0	55,132
Inventory	0	0	0
Total current assets	<u>690,637</u>	<u>478,753</u>	<u>1,169,390</u>
Noncurrent Assets:			
Capital assets (net)	1,956,166	6,373,806	8,329,972
Total Assets	<u>2,646,803</u>	<u>6,852,559</u>	<u>9,499,362</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	8,016	19,009	27,025
Payroll related liabilities	9,816	19,377	29,193
Notes payable	17,896	0	17,896
Total current liabilities	<u>35,728</u>	<u>38,386</u>	<u>74,114</u>
Noncurrent Liabilities:			
Water deposits	0	55,000	55,000
Notes payable	361,037	450,000	811,037
Total noncurrent liabilities	<u>361,037</u>	<u>505,000</u>	<u>866,037</u>
Total Liabilities	<u>396,765</u>	<u>543,386</u>	<u>940,151</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,577,233	5,923,806	7,501,039
Restricted	0	7,188	7,188
Unrestricted	672,805	378,179	1,050,984
Total Net Assets	<u>\$ 2,250,038</u>	<u>\$ 6,309,173</u>	<u>\$ 8,559,211</u>

See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Activities
Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental Activities:					
General government	266,153	0	0	0	(266,153)
Depreciation	42,686				(42,686)
Interest	848				(848)
Public safety	310,141	0	0	0	(310,141)
Depreciation	30,164				(30,164)
Transportation					
Streets	124,391	0	0	0	(124,391)
Cultural and recreation	27,136	0	0	0	(27,136)
Community development	0	0	0	0	0
Total governmental activities	801,519	0	0	0	(801,519)
Business-type activities:					
Water	509,195	399,712	0	1,654,206	1,544,723
Sewer	366,594	317,663	0	71,459	22,528
Solid waste	195,978	202,235	0	8,728	14,985
Total business-type activities	1,071,767	919,610	0	1,734,393	1,582,236
Total	1,873,286	919,610	0	1,734,393	780,717

Changes In Net Assets:

	Governmental Activities	Business-type Activities	Total
Net (expense)/revenue	\$ (801,519)	\$ 1,582,236	\$ 780,717
General revenues:			
Taxes:			
Property	272,173	0	272,173
Franchise and public service	43,361	0	43,361
Insurance	98,868	0	98,868
License and permits	15,935	0	15,935
Intergovernmental	281,540	0	281,540
Investment income	5,370	3,813	9,183
Miscellaneous	69,434	0	69,434
Transfers	0	0	0
Total general revenues and transfers	786,681	3,813	790,494
Change in net assets	(14,838)	1,586,049	1,571,211
Net assets-beginning	2,264,876	4,723,124	6,988,000
Net assets-ending	\$ 2,250,038	\$ 6,309,173	\$ 8,559,211

See accompanying notes to the basic financial statements.

City of Jenkins
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Municipal Road Aid	L.G.E.A.	Total Govern- mental Funds
Assets				
Cash and cash equivalents	\$ 157,550	\$ 52,689	\$ 369,256	\$ 579,495
Investments	37,431	0	0	37,431
Prepaid insurance	55,132			55,132
Receivables, net	18,579	0	0	18,579
Total assets	\$ 268,692	\$ 52,689	\$ 369,256	\$ 690,637
Liabilities and Fund Balances				
Liabilities:				
Payroll liabilities	\$ -	\$ -	\$ -	\$ -
Accounts payable	8,016	0	0	8,016
Total Liabilities	8,016	0	0	8,016
Fund balances:				
Reserved for:				
Unreserved	260,676	52,689	369,256	682,621
Total fund balances	260,676	52,689	369,256	682,621
Total liabilities and fund balances	\$ 268,692	\$ 52,689	\$ 369,256	
Amounts reported for governmental activities in the Statement of Net Assets are different because:				
Payroll related liabilities-Compensated absences				(9,816)
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.				(378,933)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 383,037				1,956,166
Net assets of governmental activities				\$ 2,250,038

See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2011

	General Fund	Municipal Road Aid	L.G.E.A.	Total Govern- mental Funds
Revenues				
Property taxes	\$ 272,173	\$ -	\$ -	\$ 272,173
Franchise taxes	43,361	0	0	43,361
Insurance tax	98,868	0	0	98,868
Fees and fines	878	0	0	878
Licenses and permits	15,935	0	0	15,935
Intergovernmental	27,434	46,583	207,523	281,540
Charges for services	0	0	0	0
Sale of assets	60,000	0	0	60,000
Proceeds from leasing	356,512	0	0	356,512
Investment earnings	1,321	638	3,411	5,370
Miscellaneous	68,556	0	0	68,556
Total revenues	945,038	47,221	210,934	1,203,193
Expenditures				
Current:				
General government	143,526	0	122,627	266,153
Police	153,853	0	0	153,853
Road	81,541	42,850	0	124,391
Fire	56,223	0	0	56,223
Parks and recreation	9,766	0	0	9,766
Depot	17,370	0	0	17,370
Community development		0	0	0
Debt service:				
Principal	55,119	0	0	55,119
Interest and other charges	848	0	0	848
Capital outlay	434,038	0	0	434,038
Total expenditures	952,284	42,850	122,627	1,117,761
Excess (deficiency) of revenues over expenditures	(7,246)	4,371	88,307	85,432
Other Financing Sources (Uses)				
Transfers in	0	0	0	0
Transfers out		0	0	0
Grants		0	0	0
Total other financing sources and uses	0	0	0	0
Net Change in Fund Balances	(7,246)	4,371	88,307	85,432
Fund Balances-beginning	267,922	48,318	280,949	597,189
Fund Balances-Ending	\$ 260,676	\$ 52,689	\$ 369,256	\$ 682,621

See accompanying notes to the basic financial statements.

City of Jenkins
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-
 Governmental Funds to the Statement of Activities**
 Year Ended June 30, 2011

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

Net change in fund balances-total governmental funds	<u>\$ 85,432</u>
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Amounts reported for governmental activities in the Statement of Activities are
 different because:

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

Payments on long term debt	55,119
Leasing proceeds	(356,512)
Undepreciated balance on asset sold	(160,093)
Capital asset purchases capitalized	434,038
Depreciation expense	<u>(72,822)</u>

(100,270)

Change in Net Assets of Governmental Activities	<u><u>\$ (14,838)</u></u>
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See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Enterprise Funds			Totals
	Water	Sewer	Solid Waste	
Assets				
Current assets:				
Cash and cash equivalents	\$ 56,875	\$ 179,816	\$ 24,887	\$ 261,578
Investments	11,957	107,555	0	119,512
Restricted cash	7,188	0	0	7,188
Receivables, net	39,809	32,571	18,095	90,475
Other current assets	0	0	0	-
Total current assets	115,829	319,942	42,982	478,753
Noncurrent assets:				
Capital assets:				
Land and improvements	1,480,108	2,456,691	0	3,936,799
Distribution and collection systems	5,151,388	3,361,878	0	8,513,266
Buildings and equipment	0	148,543	240,870	389,413
Less accumulated depreciation	(2,546,441)	(3,792,340)	(126,891)	(6,465,672)
Total noncurrent assets	4,085,055	2,174,772	113,979	6,373,806
Total assets	4,200,884	2,494,714	156,961	6,852,559
Liabilities				
Current liabilities				
Accounts payable	8,364	6,843	3,802	19,009
Accrued compensated leave	8,488	7,000	3,889	19,377
Bonds, notes, and loans payable	0	0	0	0
Total current liabilities	16,852	13,843	7,691	38,386
Noncurrent liabilities:				
Water deposits	55,000	0	0	55,000
Bonds, notes, and loans payable	450,000	0	0	450,000
Total noncurrent liabilities	505,000	0	0	505,000
Total liabilities	521,852	13,843	7,691	543,386
Net Assets				
Invested in capital assets, net of related debt	3,635,055	2,174,772	113,979	5,923,806
Restricted for debt service(nonexpendable)	7,188	0	0	7,188
Unrestricted	36,789	306,099	35,291	378,179
Total net assets	\$3,679,032	\$2,480,871	\$ 149,270	\$6,309,173

See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Revenues, Expenses, and Changes In Fund Net Assets
Proprietary Funds
Year Ended June 30, 2011

	Enterprise Funds			Totals
	Water	Sewer	Solid Waste	
Operating revenues:				
Charges for services	\$ 367,158	\$ 316,191	\$ 201,409	\$ 884,758
Miscellaneous	32,554	1,472	826	34,852
Total operating revenues	<u>399,712</u>	<u>317,663</u>	<u>202,235</u>	<u>919,610</u>
Operating expenses:				
Cost of goods sold	89,796	44,459	55,362	189,617
Personal services	206,125	95,416	74,358	375,899
Materials and supplies	34,643	21,160	31,897	87,700
Other services and charges	61,395	54,954	20,024	136,373
Depreciation	117,236	136,327	14,337	267,900
Total operating expenses	<u>509,195</u>	<u>352,316</u>	<u>195,978</u>	<u>1,057,489</u>
Net operating income	<u>(109,483)</u>	<u>(34,653)</u>	<u>6,257</u>	<u>(137,879)</u>
Nonoperating revenue (expense):				
Investment income	1,381	1,821	611	3,813
Interest expense	0	(14,278)	0	(14,278)
Grant and Intergovernmental	1,654,206	71,459	8,728	1,734,393
Total nonoperating revenue (expense)	<u>1,655,587</u>	<u>59,002</u>	<u>9,339</u>	<u>1,723,928</u>
Net Income before contributions and transfers	1,546,104	24,349	15,596	1,586,049
Capital contributions	0	0	0	0
Operating transfers in (out)	(436,867)	408,691	28,176	0
Net income	<u>1,109,237</u>	<u>433,040</u>	<u>43,772</u>	<u>1,586,049</u>
Net assets-beginning of year	<u>2,569,795</u>	<u>2,047,831</u>	<u>105,498</u>	<u>4,723,124</u>
Net assets-end of year	<u>\$3,679,032</u>	<u>\$2,480,871</u>	<u>\$ 149,270</u>	<u>\$6,309,173</u>

See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011

	Enterprise Funds			
	Water	Sewer	Solid Waste	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 396,346	\$ 314,876	\$ 208,387	\$ 919,609
Payments to suppliers	(167,778)	(101,842)	(99,860)	(369,480)
Payments to employees	(206,125)	(95,416)	(73,950)	(375,491)
Other	0	0	0	0
Net cash provided (used) by operating activities	22,443	117,618	34,577	174,638
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers (to) from other funds	(436,867)	408,691	28,176	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Grant receipts	1,654,206	71,459	8,728	1,734,393
Capital Assets (net)	(2,017,620)	(438,507)	0	(2,456,127)
Loan proceeds	450,000	0	0	450,000
Water deposits	0	0	0	0
Principal paid on capital debt	0	(455,392)	0	(455,392)
Interest paid on capital debt	0	(14,278)	0	(14,278)
Net cash provided (used) by capital and related financing activities	86,586	(836,718)	8,728	(741,404)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest	1,381	1,821	611	3,813
Net increase (decrease) in cash and cash equivalents	(326,457)	(308,588)	72,092	(562,953)
Balances-beginning of year	402,477	595,959	(47,205)	951,231
Balances-end of year	\$ 76,020	\$ 287,371	\$ 24,887	\$ 388,278
Cash, including time deposits	56,875	287,371	24,887	369,133
Restricted cash, including time deposits	19,145	0	0	19,145
Total cash and cash equivalents, end of year	\$ 76,020	\$ 287,371	\$ 24,887	\$ 388,278
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (109,483)	\$ (34,653)	\$ 6,257	\$ (137,879)
Adjustments:				
Depreciation expense	117,236	136,327	14,337	267,900
Change in assets and liabilities:				
Other	14,690	15,944	13,983	44,617
Net cash provided (used) by operating activities	\$ 22,443	\$ 117,618	\$ 34,577	\$ 174,638

See accompanying notes to the basic financial statements.

City of Jenkins, Kentucky
Notes To Financial Statements
 June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

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

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

Blended Component Units

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

Blended Component Units

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

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

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2011

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

Government-wide Financial Statements:

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

Fund Financial Statements:

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

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

The funds of the financial reporting entity are described below:

Government Funds

General Fund

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

Municipal Road Aid

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

L.G.E.A. Fund

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

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2011

Proprietary Fund

Enterprise Fund

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

Major and Nonmajor Funds

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

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

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

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

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

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

Basis of Accounting

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

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2011

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

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

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

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

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

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

Interfund Receivables and Payables

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

Receivables

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

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

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2011

Inventories

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

Fixed Assets

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

Government-wide Statements

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

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

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

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

Fund Financial Statements

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

Restricted Assets

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

Long-term Debt

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

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

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2011

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

Compensated Leave

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

Equity Classifications

Government-wide Statements

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

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

Fund Statements

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

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

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

Insurance Premium Tax

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

Operating Revenues and Expenses

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

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2011

Expenditures/Expenses

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

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

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

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

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

Interfund Transfers

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

1.F. USE OF ESTIMATES

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

NOTE 2. DEPOSITS

It is the City's objective for deposits to be 100 percent secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The City's policy is to confine all investments to certificates of deposit. The table presented below is designed to disclose the level of custody credit risk assumed by the City based upon how its deposits were insured or secured with collateral at June 30, 2011. The categories of credit risk are defined as follows:

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

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

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

City of Jenkins, Kentucky
Notes To Financial Statements
 June 30, 2011

As of June 30, 2011 the City's deposits (\$1,005,204) were insured by the FDIC-Category 1 and Category 2.

Note 3. ACCOUNTS RECEIVABLE

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Accounts receivable	\$18,579	\$151,475	\$170,054
Allowance for doubtful accounts	0	61,000	61,000
Net accounts receivable	\$18,579	\$ 90,475	\$ 109,054

NOTE 4. CAPITAL ASSETS

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

	<u>Balance at July 1, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2011</u>
Governmental activities:				
General	\$2,082,250	\$442,538	\$185,584	\$2,339,204
Totals	\$2,082,250	442,538	185,584	\$2,339,204
Less accumulated depreciation	337,023	72,822	(26,807)	383,038
Net	\$1,745,227			\$1,956,166
Business-type activities	<u>Balance at July 1, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2011</u>
Land and improvements	\$3,936,799			\$3,936,799
Distribution and collection system	6,057,138	2,456,128		8,513,266
Buildings and equipment	389,413			389,413
Less accumulated depreciation	(6,197,772)	267,900		(6,465,672)
Net	\$4,185,578			\$6,373,806

NOTE 5. COMMITMENTS

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

NOTE 6. RELATED PARTY TRANSACTIONS

There were no related party transactions.

City of Jenkins, Kentucky
Notes To Financial Statements
 June 30, 2011

NOTE 7. DEFICIT OPERATING BALANCES

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

General Fund	\$7,246
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NOTE 8. LONG-TERM DEBT

<u>Proprietary Funds</u>	<u>June 30, 2010</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2011</u>
KIA A95-02-Sewer	\$300,603	\$0	\$300,603	\$0
KIA A89-02-Sewer	\$154,789	\$0	\$154,789	\$0
USDA-RD-Water improvements	\$0	\$450,000	\$0	\$450,000
Total Proprietary Funds	\$455,392	\$450,000	\$455,392	\$450,000

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$0	\$11,250	\$11,250
2013	7,000	11,250	18,250
2014	7,500	11,075	18,575
2015	7,500	10,888	18,388
2016	8,000	10,700	18,700
2017-2021	42,000	50,463	92,463
2022-2026	47,500	44,926	92,426
2027-2031	53,500	38,727	92,227
2032-2036	61,000	31,664	92,664
2037-2041	68,500	23,663	92,163
2042-2046	78,000	14,639	92,639
2047-2051	<u>69,500</u>	<u>4,426</u>	<u>73,926</u>
Totals	<u>\$450,000</u>	<u>\$263,671</u>	<u>\$713,671</u>

The USDA-RD loan is initially calculated at an annual interest rate of 2.5% with annual payments of approximately \$18,000. The City will pay interest only for the first two years and begin principal reduction in the fiscal year 2013.

Governmental Funds

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2011</u>
PNC Leasing-Fire truck	\$44,685	\$0	\$44,685	\$0
Kentucky League of Cities-Fire Station	32,855	0	10,434	22,421
Kentucky League of Cities-City Hall	0	127,774	1,837	125,937
First State Bank Leasing-Fire truck	0	230,575	0	230,575
Totals	\$77,540	\$358,349	\$56,956	\$378,933

City of Jenkins, Kentucky
Notes To Financial Statements
 June 30, 2011

Debt Service for the Years Ended June 30,	Fire Station	City Hall	Fire Truck
2012	\$10,789	\$9,508	\$24,060
2013	10,813	9,508	24,060
2014	1,319	9,508	24,060
2015		9,508	24,060
2016		9,508	24,060
2017-2021		47,540	120,300
2022-2026		47,540	120,300
2027-2031		47,540	120,300
Totals	\$22,921	\$190,160	\$481,200

Fire Station: Composite interest rate of 2.23%, the fire station is the collateral for the lease.
 City Hall: Effective interest rate of 4.27% after considering all monthly fees. Payable monthly at \$792.34
 Fire Truck: Effective interest rate of \$6.88%, payable semiannually at \$12,030 per payment or \$24,060 per year.

NOTE 9. RISK MANAGEMENT

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

NOTE 10. CONTINGENCIES

The City is a recipient of several state grants. These programs and grants are subject to a variety of financial and compliance audits by the grantors or their representatives. The City's compliance with applicable requirements for 2011 will be established at a future date.

NOTE 11. RETIREMENT BENEFITS

The City participates in a retirement plan through the Commonwealth of Kentucky. The City is currently contributing to the employees' accounts.

NOTE 12. EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 2, 2011, the date which the financial statements were available to be issued. The evaluation has disclosed the following events:

Council approved the continuation of Phase 2 Water and Phase 3 Sewer funding and construction and the application to KIA for additional funding sources.

City of Jenkins
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
Resources (inflows)				
4110.00 · Tower Rent	\$ -	\$ -	\$ 200	\$ 200
4111.00 · City Taxes	177,135	177,135	166,971	-10,164
4111.01 · Bank Tax	6,687	6,687	6,918	231
4112.00 · Occupational License	11,232	11,232	15,935	4,703
4114.00 · Cable TV Franchise Fee	35,280	35,280	35,277	-3
4114.01 · AEP Power Franchise	6,875	6,875	8,084	1,209
4116.00 · Base Ct Revenue	10,619	10,619	9,803	-816
4117.00 · Ad Val Tax-Vehicle	37,496	37,496	39,132	1,636
4117.01 · Motor vehicle /watercraft	3,069	3,069	3,979	910
4119.00 · Delinquent Tax	28,235	28,235	28,153	-82
4124.30 · Municipal Aid	47,412	47,412	46,583	-829
4125.00 · Omitted Tangibles	677	677	28	-649
4126.00 · Vehicle Stickers	13,218	13,218	12,140	-1,078
4127.00 · Court Fines/Cita /Summons	3,032	3,032	878	-2,154
4128.00 · Insurance Tax	107,535	107,535	98,868	-8,667
4131.00 · LGEA Coal Sev Inc	98,849	98,849	102,623	3,774
4131.01 · Municipal Mineral Tax	86,981	86,981	104,900	17,919
4133.00 · Grants or Donations	75,200	75,200	1,087	-74,113
4133.10 · Grants Admin	3,894	3,894	8,728	4,834
4134.00 · Public Service Tax	14,067	14,067	14,852	785
4150.20 · Police Incentive	12,708	12,708	8,855	-3,853
4160.10 · Misc Admin	1,247	1,247	41,851	40,604
4160.20 · Misc Police Inc	4,415	4,415	48	-4,367
4161.00 · B & D Income	0	0	7,372	7,372
4169.00 · Building Rental	22,561	22,561	20,389	-2,172
4171.00 · Inc/Property Sale	310	310	0	-310
4172.00 · Parks and Recreation	550	550	730	180
4180.10 · Reim Admin/Revenue Fund	1,420	1,420	7,396	5,976
4180.20 · Reimbursements police	50	50	259	209
4310.10 · Interest Income-Admin	889	889	315	-574
4310.11 · Interest B& D Act	338	338	44	-294
4310.30 · Interest Income Road	1,200	1,200	638	-562
4310.50 · Interest Income Parks and Rec	19	19		-19
4310.70 · Interest Income Downtown Ren	230	230	199	-31
4310.80 · Interest Income Economic Aid	6,038	6,038	3,411	-2,627
4310.90 · Interest Income Revenue Fund	1,454	1,454	763	-691
Total Resources	\$ 820,922	\$ 820,922	\$ 797,409	\$ (23,513)

	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive (Negative)
Charges (outflows)				
6109.11 · Refunds	\$ 174	\$ 174	\$ 25	\$ 149
6110.00 · Payroll Exp	228,959	228,959	231,723	-2,764
6110.70 · Payroll Exp LGEA	0	0	12,000	-12,000
6120.00 · Payroll Tax Expense	17,515	17,515	17,894	-379
6185.10 · AEP Street Lights Admin	29,150	29,150	34,892	-5,742
6190.10 · AEP Expense Admin	7,353	7,353	8,932	-1,579
6190.30 · AEP EXP RD	3,090	3,090	3,342	-252
6190.40 · AEP Expense Fire Dept	8,966	8,966	9,360	-394
6190.50 · AEP Exp Parks and Rec	3,348	3,348	4,213	-865
6190.60 · AEP Expense Museum	2,252	2,252	2,712	-460
6200.10 · AEP Outdoor Lights	3,441	3,441	4,279	-838
6200.50 · AEP Outdoor lit Park	1,642	1,642	1,664	-22
6300.00 · AEP Gateway Pk	2,561	2,561	2,919	-358
6400.10 · Advertisement Exp Admin	2,366	2,366	1,988	378
6400.20 · Advertisement Exp Police	100	100	0	100
6440.10 · Accounting Fees Admin Exp	9,500	9,500	9,500	0
6445.30 · Legal Fees Admin	17,019	17,019	21,285	-4,266
6445.31 · B & D Legal fees	2,257	2,257	11,307	-9,050
6445.32 · B & D EXPENSES	22,177	22,177	7,410	14,767
6450.10 · Fleet One Admin	1,179	1,179	2,507	-1,328
6450.20 · Fleet One Police Dept	20,729	20,729	15,632	5,097
6450.30 · Fleet One Road	10,123	10,123	3,937	6,186
6450.40 · Fleet One Fire Dept	5,597	5,597	6,886	-1,289
6560.10 · Bank Service Charges	338	338	43	295
6660.10 · Supplies and Equip Admin	3,590	3,590	2,849	741
6660.20 · Supplies and Equip Police	8,335	8,335	5,632	2,703
6660.30 · Supplies and Equip Road	4,941	4,941	9,674	-4,733
6660.50 · Supplies/ Park & Rec	1,756	1,756	4,066	-2,310
6700.10 · Council Member Pay Admin	1,625	1,625	1,975	-350
6710.10 · Health Ins Expense Admin	25,177	25,177	17,597	7,580
6710.11 · Health Ins Deductables	0	0	28,301	-28,301
6710.20 · HEALTH INS POLICE DEPT	24,807	24,807	14,364	10,443
6710.30 · health Ins Road	6,141	6,141	4,010	2,131
6716.10 · Dental Ins Admin	1,064	1,064	1,037	27
6716.20 · Dental Expense Police	622	622	529	93
6740.10 · Bond Ins Admin	368	368	471	-103
6740.20 · Bond Ins Police	305	305	407	-103
6750.10 · Tax Roll Prep Fee Admin	2,511	2,511	2,610	-99
6770.10 · Renovation of New City Hall	0	0	0	0
6770.20 · Main/Repair Police	0	0	975	-975
6770.30 · Maint/Repair Road	27,314	27,314	8,789	18,525
6770.40 · Maint/Repair Fire	1,658	1,658	1,750	-92

	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)
	Original	Final		
6784.10 · Main/Repair Rental Bldg	21,375	21,375	13,415	7,960
6796.10 · Training Exp Admin	162	162	542	-380
6796.20 · Training Exp Police	966	966	1,658	-692
6810.10 · Misc Exp Admin	72,003	72,003	3,597	68,406
6810.20 · Misc Expense Police	1,711	1,711	1,035	676
6810.30 · Misc Expense Road	650	650	180	470
6810.50 · Misc Parks and Rec	50	50	0	50
6837.10 · Jen Festival Expense	5,000	5,000	5,000	0
6840.10 · Telephone Admin	4,154	4,154	4,167	-13
6840.40 · Telephone Fire	766	766	619	147
6840.60 · Telephone Museum	546	546	521	25
6841.10 · Telephone Cell Admin	779	779	789	-10
6841.11 · TELEPHONE CELL RD	510	510	492	18
6841.20 · Telephone Cell Police	2,302	2,302	2,155	147
6841.40 · Telephone Cell Fire	216	216	216	0
6842.10 · Internet Exp	236	236	175	61
6845.10 · DUES & SUBSCRIPTIONS	1,435	1,435	2,523	-1,088
6850.10 · Travel Expense City Admin	0	0	372	-372
6860.10 · KRADD Admin	1,849	1,849	1,949	-100
6865.10 · Rental Equipment Admin	46	46	1,321	-1,275
6870.10 · Reimbursements Admin	236	236	97	139
6877.10 · Supplies Admin	7,506	7,506	7,465	41
6877.20 · Supplies Police	873	873	0	873
6877.30 · Supplies Road	25,308	25,308	22,533	2,775
6880.10 · Office Supplies Admin	175	175	815	-640
6886.10 · Lic/Permit/bonds/ Tags/Deeds	24	24	227	-203
6887.10 · Service Agreement Admin	985	985	350	635
6896.10 · Computer Programmer Service	3,050	3,050	515	2,535
Res Total Charges	\$ 662,964	\$ 662,964	\$ 592,214	\$ 70,750
NET CHANGE IN FUND BALANCE	\$ 157,958	\$ 157,958	\$ 205,195	\$ 47,237

Budget basis	\$ 205,195
Adjustments (net)	
Reveune accruals	18,000
Expenditure accruals	<u>-137,763</u>
GAAP basis	<u>\$ 85,432</u>

City of Jenkins, Kentucky

Single Audit Section

Year Ended June 30, 2011

City of Jenkins
Schedule Of Expenditures Of Federal Awards
 For The Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/ Program Title:	Federal CFDA Number	Pass-Through Grantor Number	Expenditures
Department of Housing and Urban Development:			
Passed through Kentucky Governor's Office-Department For Local Government	14.228	08-011	\$ 634,851
United States Department Of Agriculture-Rural Development:			
	10.781	KY-91-01 KY-91-02	\$1,226,764
Department of The Interior:			
Abandoned Mine Lands Reclamation (AMLR) Program	15.252	KY-SO9AP1537	<u>\$ 235,946</u>
Total Expenditures of Federal Awards			<u><u>\$2,097,561</u></u>

See Accompanying notes to schedule of expenditures of federal awards.

City of Jenkins
Notes To The Schedule Of Expenditures Of Federal Awards
For The Year Ended June 30, 2011

Note 1-Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Jenkins and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

City of Jenkins
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2011

Summary of Audit Results:

1. The auditor's report expresses an unqualified opinion of the basic financial statements of the City of Jenkins.
2. No instances of noncompliance material to the basic financial statements of the City of Jenkins were disclosed during the audit.
3. No instances of significant deficiencies were disclosed during the audit of the major federal award programs.
4. The auditor's report on compliance for the major federal award programs for the City of Jenkins expresses an unqualified opinion.
5. There was one audit finding relative to the major federal awards program to be reported.
6. The program tested as major program was:
 - i. United States Department of Agriculture-Rural Development CFDA # 10.781
7. The City of Jenkins was determined to be a low-risk auditee

Findings and Questioned Costs – Major Federal Award Program:

Compliance with Davis/Bacon Act – The grant administrator determined that the prime contractor had failed to pay required rates resulting in employee underpayment of \$10,750. The federal Department of Labor has ruled that the correct wages were paid but the Kentucky Department of Labor has not ruled on the matter.

Management's Response – The City of Jenkins has withheld from the contractor's last pay request \$10,750 pending the ruling by the Kentucky Department of Labor.

Welch & Company, CPAs, PSC
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Nicholasville, Kentucky 40356
859.224.8909

**Report on Compliance with Requirements Applicable to Each
Major Program and On Internal Control Over
Compliance in Accordance with OMB Circular A-133**

The Mayor and City Council
City of Jenkins
Jenkins, Kentucky

Compliance

We have audited the compliance of the City of Jenkins, Kentucky, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. The City of Jenkins' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Jenkins' management. Our responsibility is to express an opinion of the City of Jenkins' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Jenkins' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Jenkins' compliance with those requirements.

In our opinion, the City of Jenkins complied, in all material respects, with the requirements referred to above that are applicable to each of its major programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the City of Jenkins is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Jenkins' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Jenkins' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operations of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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

December 2, 2011

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

The Mayor and City Council
City of Jenkins
Jenkins, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jenkins as of and for the year ended June 30, 2011, and have issued our report thereon dated December 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

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

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

Compliance

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

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

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

December 2, 2011