

CITY OF FRENCHBURG
Frenchburg, Kentucky

FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION
June 30, 2011

CONTENTS

Management's Discussion and Analysis.....	1-8
Independent Auditors' Report	9-10
Government Wide Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements	
Balance Sheet-Governmental Funds	13
Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds	14
Balance Sheet – Proprietary Funds.....	15
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	16
Statement of Cash Flows - Proprietary Funds	17
Notes to Financial Statements	18-26
Required Supplementary Information	27-28
Statement of Revenues, Expenses and Changes In Net Assets-Water and Sewer	29
Reports in Accordance with Government Auditing Standards	30-31

City of Frenchburg, Kentucky

Management's Discussion and Analysis

Our discussion and analysis of the City of Frenchburg financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read the following in conjunction with the auditors' report on pages 9-10 and the City's financial statements, which begin to appear on page 11.

OVERVIEW OF THIS ANNUAL REPORT

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

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

GOVERNMENT – WIDE FINANCIAL STATEMENTS

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

The City has two kinds of funds:

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

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

NET ASSETS

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

Table A-1

	Governmental	Business-type	Total Primary
	Activities	Activities	Government
Current and Other Assets	\$ 291,839	\$ 884,756	\$ 1,176,595
Capital Assets	<u>1,459,525</u>	<u>8,383,987</u>	<u>9,843,512</u>
Total Assets	<u>1,751,364</u>	<u>9,268,743</u>	<u>11,020,107</u>
Long-Term Debt Outstanding	342,398	1,522,854	1,865,252
Current Liabilities	<u>16,200</u>	<u>336,206</u>	<u>352,406</u>
Total Liabilities	<u>358,598</u>	<u>1,859,060</u>	<u>2,217,658</u>
Net Assets:			
Invested in Capital Assets, net of debt	1,107,127	6,822,833	7,929,960
Restricted	110,537	272,191	382,728
Unrestricted	<u>175,102</u>	<u>314,659</u>	<u>489,761</u>
Total Net Assets	<u>\$1,392,766</u>	<u>\$ 7,409,683</u>	<u>\$ 8,802,449</u>

The capital assets of the City's governmental activities are \$ 1,459,525 as of June 30, 2011. The capital assets of the business-type activities are \$ 8,383,987 as of June 30, 2011.

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

Table A-2

Condensed Statement of Activities

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	Total Primary <u>Government</u>
Program Revenues			
Charges for Service	\$ -	\$ 1,074,382	\$ 1,074,382
Operating Grants & Contributions	75,205	-	75,205
Capital Grants & Contributions	<u>7,336</u>	<u>295,950</u>	<u>303,286</u>
Total revenue	<u>82,541</u>	<u>1,370,332</u>	<u>1,452,873</u>
Program Expenses			
General Administration	122,067	-	122,067
Street department	12,903	-	12,903
Interest on long-term debt	20,139	-	20,139
Utility	<u>-</u>	<u>1,458,583</u>	<u>1,458,583</u>
Total program expenses	<u>155,109</u>	<u>1,458,583</u>	<u>1,613,692</u>
Net revenues (expenses)	<u>(72,568)</u>	<u>(88,251)</u>	<u>(160,819)</u>
General Revenues			
Taxes	\$ 16,723	\$ -	\$ 16,723
License fees	41,421	-	41,421
Investment earnings	876	4,700	5,576
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>
Total general revenue	<u>59,020</u>	<u>4,700</u>	<u>63,720</u>
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Net Assets	<u>\$ (13,548)</u>	<u>\$ (83,551)</u>	<u>\$ (97,099)</u>

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

GOVERNMENTAL ACTIVITIES

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

Table A-3

Condensed Governmental Activities – Revenues & Expenditures

	<u>General</u>	<u>Other Gov't Funds</u>	<u>Total</u>
Taxes	\$ 16,723	\$ -	\$ 16,723
Licenses and permits	41,421	-	41,421
Intergovernmental	14,667	15,124	29,791
Other Revenues	<u>53,188</u>	<u>438</u>	<u>53,626</u>
Total Revenues	<u>125,999</u>	<u>15,562</u>	<u>141,561</u>
General Administration	83,636	-	83,636
Public works-Streets	5,957	4,932	10,889
Debt service	30,138	-	30,138
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>119,731</u>	<u>4,932</u>	<u>124,663</u>
Excess (Deficit) Expenditures over Revenues before other financing sources	<u>\$ 6,268</u>	<u>\$ 10,630</u>	<u>\$ 16,898</u>

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

BUDGET HIGHLIGHTS

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

Table A-4

**Condensed Governmental Activities –
Revenues**

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
Taxes	\$ 15,962	\$ 16,723	\$ 761
Licenses and permits	40,539	41,421	882
Intergovernmental	38,722	14,667	(24,055)
Other Revenues	<u>50,027</u>	<u>53,188</u>	<u>3,161</u>
Total Revenues	<u>\$ 145,250</u>	<u>\$ 125,999</u>	<u>\$ (19,251)</u>

Table A-5

Condensed Governmental Activities – Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
General Government	\$ 111,813	\$ 83,636	\$ (28,177)
Public works-Streets	2,900	5,957	3,057
Capital Outlay	-	-	-
Debt service	<u>30,138</u>	<u>30,138</u>	<u>-</u>
Total Expenditures	<u>\$ 144,851</u>	<u>\$ 119,731</u>	<u>\$ (25,120)</u>

The City budgeted for a total of \$145,250 in revenues for 2010-2011, but ended up having revenues of \$125,999. The City was under budget on revenues by approximately 13 percent. A total of \$144,851 was budgeted for expenses, but expenditures only totaled \$119,731 at the end of 2011. The City was under budget on the expenses by approximately 10 percent.

CAPITAL ASSETS

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

Table A-6

Capital Assets at Year End Without Depreciation

	Governmental	Business-type	Total Primary
	Activities	Activities	Government
Land	\$ 258,832	\$ -	\$ 258,832
Construction in Progress	-	282,017	282,017
Infrastructure	-	-	-
Buildings	1,286,871	-	1,286,871
Vehicles & Equipment	26,257	313,338	339,595
Land Improvements	101,535	-	101,535
Plant & Sewer System	-	12,972,474	12,972,474
 Total Capital Assets	 <u>\$ 1,673,495</u>	 <u>\$ 13,567,829</u>	 <u>\$ 15,241,324</u>

DEBT

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

Table A-7

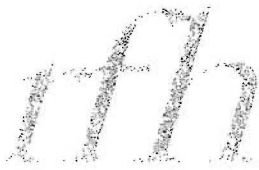
	Governmental	Business-type	Total Primary
<u>Debt Outstanding at Year End</u>	Activities	Activities	Government
Leases	\$ 370,000	\$ -	\$ 370,000
Bonds Payable	-	1,561,154	1,561,154
Notes Payable	-	-	-
Total Debt Outstanding	<u>\$ 370,000</u>	<u>\$ 1,561,154</u>	<u>\$ 1,931,154</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

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

J. Carroll Luby, CPA

Mayor and the City Commission
City of Frenchburg
Frenchburg, Kentucky

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of Frenchburg, Kentucky, as of June 30, 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 a report dated December 1, 2011, on our consideration of the City of Frenchburg's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

230 Lexington Green Circle, Suite 600 • Lexington, Kentucky 40503-3326
Phone: 859-231-1800 • Fax: 859-422-1800 • Toll-Free: 1-800-342-7299
www.rfhco.com

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 8 and 27 through 28 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City Frenchburg's financial statements as a whole. The proprietary combining statement is presented for purposes of additional analysis and is not a required part of the financial statements. The proprietary combining statement is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
December 1, 2011

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2011

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Totals 2010</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 272,725	\$ 342,298	\$ 615,023	\$ 578,070
Receivables (net)	19,114	98,151	117,265	96,807
Grant receivable	-	118,788	118,788	1,437
Internal balances	-	2,101	2,101	2,101
Total current assets	<u>291,839</u>	<u>561,338</u>	<u>853,177</u>	<u>678,415</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	272,191	272,191	261,533
Inventory	-	51,227	51,227	39,529
Capital assets (Note 3)				
Construction in progress	-	282,017	282,017	19,437
Land	258,832	-	258,832	258,832
Plant and sewer system, net	-	8,101,970	8,101,970	8,543,850
Depreciable property, plant, and equipment, net	1,200,693	-	1,200,693	1,240,406
Total noncurrent assets	<u>1,459,525</u>	<u>8,707,405</u>	<u>10,166,930</u>	<u>10,363,587</u>
Total assets	<u>\$ 1,751,364</u>	<u>\$ 9,268,743</u>	<u>\$ 11,020,107</u>	<u>\$ 11,042,002</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 4,099	\$ 53,077	\$ 57,176	\$ 54,402
Construction payable	-	118,788	118,788	1,437
Meter deposits payable	-	73,680	73,680	74,110
Accrued liabilities	-	50,123	50,123	50,016
Internal balances	2,101	-	2,101	2,101
Other liabilities	-	2,238	2,238	2,269
Current portion of long-term obligations (Notes 4 & 5)	10,000	38,300	48,300	40,100
Total current liabilities	<u>16,200</u>	<u>336,206</u>	<u>352,406</u>	<u>224,435</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations (Notes 4 & 5)	342,398	1,522,854	1,865,252	1,918,019
Total Liabilities	<u>358,598</u>	<u>1,859,060</u>	<u>2,217,658</u>	<u>2,142,454</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,107,127	6,822,833	7,929,960	8,104,406
Restricted for				
Bond reserves	-	272,191	272,191	261,533
Other purposes	110,537	-	110,537	92,627
Unrestricted	175,102	314,659	489,761	440,982
Total net assets	<u>1,392,766</u>	<u>7,409,683</u>	<u>8,802,449</u>	<u>8,899,548</u>
Total liabilities and net assets	<u>\$ 1,751,364</u>	<u>\$ 9,268,743</u>	<u>\$ 11,020,107</u>	<u>\$ 11,042,002</u>

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2011

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>			<u>Totals 2010</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>			
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
Primary government								
Governmental activities								
General administration	\$ 122,067	\$ -	\$ 60,081	\$ 7,336	\$ (54,650)	\$ -	\$ (54,650)	\$ (50,887)
Street department	12,903	-	15,124	-	2,221	-	2,221	(997)
Interest on long-term debt	20,139	-	-	-	(20,139)	-	(20,139)	(20,598)
Total governmental activities	<u>155,109</u>	<u>-</u>	<u>75,205</u>	<u>7,336</u>	<u>(72,568)</u>	<u>-</u>	<u>(72,568)</u>	<u>(72,482)</u>
Business type activities								
Utility	1,458,583	1,074,382	-	295,950	-	(88,251)	(88,251)	(309,765)
Total business-type activities	<u>1,458,583</u>	<u>1,074,382</u>	<u>-</u>	<u>295,950</u>	<u>-</u>	<u>(88,251)</u>	<u>(88,251)</u>	<u>(309,765)</u>
Total primary government	<u>\$ 1,613,692</u>	<u>\$ 1,074,382</u>	<u>\$ 75,205</u>	<u>\$ 303,286</u>	<u>(72,568)</u>	<u>(88,251)</u>	<u>(160,819)</u>	<u>(382,247)</u>

General revenues

Taxes								
Property taxes, levied for general purposes					16,723	-	16,723	16,862
License fees								
Franchise					739	-	739	739
Insurance premiums					40,442	-	40,442	38,271
Occupational					240	-	240	800
Investment earnings					<u>876</u>	<u>4,700</u>	<u>5,576</u>	<u>4,672</u>
Total general revenues					<u>59,020</u>	<u>4,700</u>	<u>63,720</u>	<u>61,344</u>

Change in Net Assets

					(13,548)	(83,551)	(97,099)	(320,903)
Net assets-beginning					<u>1,406,314</u>	<u>7,493,234</u>	<u>8,899,548</u>	<u>9,220,451</u>
NET ASSETS-ENDING					<u>\$ 1,392,766</u>	<u>\$ 7,409,683</u>	<u>\$ 8,802,449</u>	<u>\$ 8,899,548</u>

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

**CITY OF FRENCHBURG, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011**

	General	Other Governmental Funds	Total Governmental Funds	Totals 2010
ASSETS				
Cash and cash equivalents	\$ 169,468	\$ 103,257	\$ 272,725	\$ 266,338
Receivables, net	<u>19,114</u>	<u>-</u>	<u>19,114</u>	<u>9,205</u>
 Total assets	 <u>\$ 188,582</u>	 <u>\$ 103,257</u>	 <u>\$ 291,839</u>	 <u>\$ 275,543</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 4,099	\$ -	\$ 4,099	\$ 4,701
Due to other funds	<u>2,101</u>	<u>-</u>	<u>2,101</u>	<u>2,101</u>
 Total liabilities	 <u>6,200</u>	 <u>-</u>	 <u>6,200</u>	 <u>6,802</u>
Fund balances				
Restricted				
Tourism	7,280		7,280	7,280
Roads		103,257	103,257	92,627
Unassigned	<u>175,102</u>	<u>-</u>	<u>175,102</u>	<u>168,834</u>
 Total fund balances	 <u>182,382</u>	 <u>103,257</u>	 <u>285,639</u>	 <u>268,741</u>
 Total liabilities and fund balances	 <u>\$ 188,582</u>	 <u>\$ 103,257</u>	 <u>\$ 291,839</u>	 <u>\$ 275,543</u>
 Amounts reported for <i>governmental activities</i> in the statement of net assets are different because				
Fund balances reported above			\$ 285,639	\$ 268,741
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			1,459,525	1,499,238
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			(370,000)	(380,000)
Debt issue costs			<u>17,602</u>	<u>18,335</u>
 Net assets of governmental activities			 <u>\$ 1,392,766</u>	 <u>\$ 1,406,314</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, 2011

	General	Other Governmental Funds	Total Governmental Funds	Totals 2010
REVENUES				
Taxes	\$ 16,723	\$ -	\$ 16,723	\$ 16,862
Licenses and permits	41,421	-	41,421	39,810
Intergovernmental	14,667	15,124	29,791	26,919
Other revenues	53,188	438	53,626	47,349
Total revenues	125,999	15,562	141,561	130,940
EXPENDITURES				
Current				
General administration	83,636	-	83,636	72,692
Streets	5,957	4,932	10,889	11,976
Capital outlay	-	-	-	-
Debt service	30,138	-	30,138	30,598
Total expenditures	119,731	4,932	124,663	115,266
Change in Net Assets	6,268	10,630	16,898	15,674
Fund balances - Beginning	176,114	92,627	268,741	253,067
FUND BALANCES - JUNE 30, 2011	\$ 182,382	\$ 103,257	\$ 285,639	\$ 268,741
Reconciliation to government-wide change in net assets:				
Net change in fund balances			\$ 16,898	\$ 15,674
Add: Capital outlay expenditures capitalized			-	-
Add: Debt service expenditures			30,138	30,598
Less: depreciation on governmental activities assets			(39,712)	(40,229)
Less: interest on long term debt			(20,139)	(20,598)
Less: amortization on lease issuance costs			(733)	(733)
Change in net assets Governmental Activities			\$ (13,548)	\$ (15,288)

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

CITY OF FRENCHBURG, KENTUCKY
BALANCE SHEET
PROPRIETARY FUND
June 30, 2011

	Business Type Activities Water & Sewer Fund	Totals 2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 342,298	\$ 311,732
Receivables (net)	98,151	87,602
Grant receivable	118,788	1,437
Internal balances	2,101	2,101
Total current assets	561,338	402,872
Noncurrent assets		
Restricted cash and cash equivalents	272,191	261,533
Inventory	51,227	39,529
Construction in progress	282,017	19,437
Water and sewer systems	13,285,812	13,274,379
Less accumulated depreciation	(5,183,842)	(4,730,529)
Total noncurrent assets	8,707,405	8,864,349
Total assets	\$ 9,268,743	\$ 9,267,221
LIABILITIES		
Current liabilities		
Accounts payable	\$ 53,077	\$ 49,701
Meters deposits payable	73,680	74,110
Construction payable	118,788	1,437
Accrued liabilities	14,202	13,258
Accrued interest	35,921	36,758
Other liabilities	2,238	2,269
Bonds, notes, and loans payable	38,300	30,100
Total current liabilities	336,206	207,633
Noncurrent liabilities		
Bonds, notes, and loans payable	1,522,854	1,566,354
Total noncurrent liabilities	1,522,854	1,566,354
Total liabilities	1,859,060	1,773,987
NET ASSETS		
Invested in capital assets, net of related debt	6,822,833	6,966,833
Restricted for debt service	117,804	116,198
Restricted for depreciation	154,387	145,335
Unrestricted	314,659	264,868
Total net assets	7,409,683	7,493,234
Total liabilities and net assets	\$ 9,268,743	\$ 9,267,221

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
for the year ended June 30, 2011

	Business Type Activities Water & Sewer Fund	Totals 2010
OPERATING REVENUES		
Charges for services	\$ 1,043,075	\$ 1,004,293
Penalties	17,557	16,814
Other revenues	13,750	21,466
Total operating revenues	1,074,382	1,042,573
OPERATING EXPENSES		
Personnel	297,025	287,066
Water purchased	397,311	398,486
Bad debt	6,200	7,817
Maintenance and repairs	2,868	8,398
Utilities	44,160	36,471
Auto	14,482	6,764
Insurance	15,292	15,112
Office supplies	3,693	5,008
Professional services	25,035	26,616
Chemicals	3,600	2,180
Operating services	70,105	62,712
Rent	36,000	36,000
Postage	9,941	9,923
Other	6,878	6,982
Depreciation	453,313	459,777
Total operating expenses	1,385,903	1,369,312
OPERATING INCOME (LOSS)	(311,521)	(326,739)
Non-operating income (expense)		
Interest income	4,700	4,149
Interest expense	(72,680)	(74,208)
NET INCOME (LOSS)	(379,501)	(396,798)
CAPITAL CONTRIBUTIONS		
Hook on fees	25,135	35,412
Grants	270,815	55,770
CHANGE IN NET ASSETS	(83,551)	(305,616)
Net assets - Beginning of the year	7,493,234	7,798,850
NET ASSETS - END OF YEAR	\$ 7,409,683	\$ 7,493,234

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2011

	Business Type Activities Water & Sewer Fund	Totals 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,052,135	\$ 1,039,146
Payments to suppliers	(632,650)	(615,590)
Payments for employee services and benefits	<u>(296,081)</u>	<u>(288,184)</u>
 Net cash provided by operating activities	 <u>123,404</u>	 <u>135,372</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	178,599	421,493
Purchases of capital assets	(11,433)	(103,127)
Purchases of construction in progress	(145,229)	(330,311)
Bond issuance		
Principal paid on capital debt	(35,300)	(28,500)
Interest paid on capital debt	<u>(73,517)</u>	<u>(65,454)</u>
 Net cash provided (used) by capital and related financing activities	 <u>(86,880)</u>	 <u>(105,899)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	<u>4,700</u>	<u>4,149</u>
 Net cash provided by investing activities	 <u>4,700</u>	 <u>4,149</u>
 Net increase in cash and cash equivalents	 41,224	 33,622
Balances-beginning of the year	<u>573,265</u>	<u>539,643</u>
 BALANCES-END OF THE YEAR	 <u>\$ 614,489</u>	 <u>\$ 573,265</u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (311,521)	\$ (326,739)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	453,313	459,777
Change in assets and liabilities:		
Receivables, net	(22,247)	(3,427)
Accounts and other payables	2,915	6,879
Accrued expenses	<u>944</u>	<u>(1,118)</u>
 Net cash provided by operating activities	 <u>\$ 123,404</u>	 <u>\$ 135,372</u>

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Basis of Presentation

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

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

Basic Financial Statements
Government-wide financial statements
Fund financial statements
Notes to the financial statements

Government-wide Financial Statements

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

Fund Financial Statements

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation, continued

Fund Financial Statements, continued

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

The following funds are used by the City of Frenchburg:

Governmental Funds

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

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

Proprietary Funds

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

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

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

C. Basis of Accounting

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

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting, continued

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

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

D. Fund Balances

As of June 30, 2011, the City of Frenchburg implemented GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions. Fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spend either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the City Commissioners. The Commission is the highest level of decision-making authority for the City of Frenchburg. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Commission.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The City has designated the Mayor to carry the intent of the City Commission.

Unassigned – all other spendable amounts.

It is the policy of the City to spend restricted funds first when both restricted and unrestricted funds are available. Once restricted funds are spend, the City will use committed funds first, assigned funds second and unassigned funds last.

E. Budgeting

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

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Other Accounting Policies

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

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

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

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

Accounts receivables are stated net of an allowance of doubtful accounts of \$13,706 in the proprietary fund and \$5,096 in the general fund.

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

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

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

2. CASH AND INVESTMENTS

Statutory Requirements

The City's deposits and investments at June 30, 2011 were entirely covered by federal depository insurance or by collateral held by the custodial banks in the City's name.

FDIC – demand deposits	\$ 250,000
Collateralized by securities held by the bank in the City's name	<u>639,057</u>
Total	<u>\$ 889,057</u>

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

2. CASH AND INVESTMENTS, continued

Statement of Cash Flows

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

Cash	\$ 342,298
Cash - restricted	<u>272,191</u>
	<u>\$ 614,489</u>

3. CAPITAL ASSETS

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

	<u>Balance</u> <u>July 01, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2011</u>
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 258,832	\$ -	\$ -	\$ 258,832
Capital assets being depreciated:				
Buildings and Improvements	1,286,871	-	-	1,286,871
Land Improvements	101,535	-	-	101,535
Vehicles & Equipment	<u>26,257</u>	<u>-</u>	<u>-</u>	<u>26,257</u>
Totals	<u>1,414,663</u>	<u>-</u>	<u>-</u>	<u>1,414,663</u>
Total Non-Infrastructure Assets	<u>1,673,495</u>	<u>-</u>	<u>-</u>	<u>1,673,495</u>
Total Capital Assets	<u>1,673,495</u>	<u>-</u>	<u>-</u>	<u>1,673,495</u>
Less Accumulated Depreciation:				
Buildings and Improvements	131,527	33,705	-	165,232
Land Improvements	26,899	3,993	-	30,892
Vehicles & Equipment	<u>15,832</u>	<u>2,014</u>	<u>-</u>	<u>17,846</u>
Totals	<u>174,258</u>	<u>39,712</u>	<u>-</u>	<u>213,970</u>
Capital Assets, net	<u>\$ 1,499,237</u>	<u>\$ (39,712)</u>	<u>\$ -</u>	<u>\$ 1,459,525</u>
Business Type Activities:				
Capital assets not depreciated:				
Land	\$ 6,850	\$ -	\$ -	\$ 6,850
Construction in Process	19,437	262,580	-	282,017
Total	<u>26,287</u>	<u>262,580</u>	<u>-</u>	<u>288,867</u>
Capital assets being depreciated:				
Plant & Sewer System	12,954,191	11,433	-	12,965,624
Vehicles & Equipment	313,338	-	-	313,338
Total	<u>13,267,529</u>	<u>11,433</u>	<u>-</u>	<u>13,278,962</u>
Less Accumulated Depreciation:	<u>4,730,529</u>	<u>453,313</u>	<u>-</u>	<u>5,183,842</u>
Capital assets being depreciated, net:	<u>8,537,000</u>	<u>(441,880)</u>	<u>-</u>	<u>8,095,120</u>
Capital Assets, net	<u>\$ 8,563,287</u>	<u>\$ (179,300)</u>	<u>\$ -</u>	<u>\$ 8,383,987</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

3. CAPITAL ASSETS, continued

Depreciation Expense was charged to the Governmental functions as follows:

General government	\$ 37,698
Streets	<u>2,014</u>
 Total Depreciation Expense	 <u>\$ 39,712</u>

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

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

4. BUSINESS-TYPE ACTIVITIES LONG TERM DEBT

Bonds payable at June 30, 2011 consist of the following:

	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Maturity Date</u>	<u>Balance as of June 30, 2011</u>
1985 Water Revenue Bond	5.0%	\$ 375,000	01/01/2025	\$ 241,254
1990A Sewer Revenue Bonds	5.0%	150,000	01/01/2031	110,800
1991 Sewer Revenue Bonds	5.0%	244,000	01/01/2031	179,000
1992 Water Revenue Bonds	5.0%	166,000	01/01/2032	126,100
1995 Sewer Revenue Bonds	4.5%	119,000	01/01/2034	95,100
1997 Water Revenue Bonds	4.5%	188,000	01/01/2037	157,500
1999 Sewer Revenue Bonds	4.5%	124,000	01/01/2039	108,200
2001 Water Revenue Bonds	4.5%	100,000	01/01/2041	90,400
2008 Water & Sewer Revenue Bonds	4.125%	458,000	01/01/2049	<u>452,800</u>
 Total Long-Term Debt				 <u>\$ 1,561,154</u>

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

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>
Revenue Bonds	<u>\$ 1,596,454</u>	<u>\$ -</u>	<u>\$ 35,300</u>	<u>\$ 1,561,154</u>

BOND ORDINANCE REQUIREMENTS

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

Sinking Fund Reserve - This reserve is required to receive a monthly transfer of one-sixth of the next interest payment and one-twelfth of the next principal payment. The reserve has a balance of \$117,804 as of June 30, 2011.

Depreciation reserve - This reserve is required to receive a monthly transfer of \$205 after provision for bonds and interest until a balance of \$24,600 is established. This reserve is for balancing depreciation in the system. The reserve has a balance of \$154,387 as of June 30, 2011.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

4. BUSINESS-TYPE ACTIVITIES LONG TERM DEBT, continued

The annual requirements to amortize all debt outstanding as of June 30, 2011 are as follows:

Year Ending	<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$	38,300	\$ 69,957	\$ 108,257
2013		40,100	68,219	108,319
2014		41,000	66,397	107,397
2015		43,600	64,538	108,138
2016		46,400	62,556	108,956
2017-2021		271,100	278,982	550,082
2022-2026		323,654	210,344	533,998
2027-2031		289,900	141,769	431,669
2032-2036		181,600	83,684	265,284
2037-2041		129,500	48,609	178,109
2042-2046		94,600	25,767	120,367
2047-2049		<u>61,400</u>	<u>10,770</u>	<u>72,170</u>
Total	\$	<u>1,561,154</u>	<u>\$1,131,592</u>	<u>\$ 2,692,746</u>

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT

The City entered into a long-term lease agreement with the KADD Financing Trust on June 28, 2005. The purpose of the lease was to consolidate a long-term debt agreement with Traditional Bank, Inc. to finance land acquisition and a lease purchase agreement with the KADD Financing Trust for three sanitation trucks, and to finance the purchase of a tract of land with a building on it for the amount of \$45,000. The total lease obligation was \$415,000 and the lease comes due in fiscal year 2035. The lease requires two semi-annual interest and fee payments and one annual principle payment. The interest rate of the lease fluctuates from 3.40-5.25%. The balance of the lease at June 30, 2011 is \$370,000.

The changes in general long term debt is as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>
Leases Payable	\$ 380,000	\$ -	\$ 10,000	\$ 370,000
Less: Deferred charges on Debt Issuance	<u>18,335</u>	<u>-</u>	<u>733</u>	<u>17,602</u>
Total Long-Term Debt, net	<u>\$ 361,665</u>	<u>\$ -</u>	<u>\$ 9,267</u>	<u>\$ 352,398</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

5. GOVERNMENTAL ACTIVITIES LONG TERM DEBT, continued

The annual requirements to amortize all governmental long term debt outstanding as of June 30, 2011 are as follows:

Year Ending <u>June 30,</u>	<u>Principle</u>	Total Interest <u>& Fees</u>	Total <u>Payment</u>
2012	\$ 10,000	\$ 19,678	\$ 29,678
2013	\$ 10,000	19,218	29,218
2014	\$ 10,000	18,758	28,758
2015	\$ 10,000	18,298	28,298
2016	\$ 10,000	17,838	27,838
2017-2021	\$ 55,000	81,535	136,535
2022-2026	\$ 75,000	64,950	139,950
2027-2031	\$ 95,000	43,648	138,648
2032-2035	\$ 95,000	15,060	110,060
Total	<u>\$ 370,000</u>	<u>\$ 298,983</u>	<u>\$ 668,983</u>

6. CONSTRUCTION IN PROGRESS

In September of 2010, the City obtained KIA 2008 House Bill 608 Coal Development Grant for a Belt Filter Press Project in the amount of \$287,390. As of June 30, 2011 the City has incurred expenses of \$264,017 on this project. The City had conducted a feasibility study in prior years in anticipation of future grant funding. The cost of the feasibility study was \$18,000.

7. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2011 were levied in November 2010 on the assessed valuation of property located in the City of Frenchburg as of the preceding January 1, the lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

- | | |
|------------------------------------|-----------------------------------|
| 1. Due date for payment of taxes | November 1, 2010 |
| 2. Face value amount payment dates | November 1, 2010 to March 1, 2011 |
| 3. 10% penalty delinquent date | March 2, 2011 |

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

8. RETIREMENT

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

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

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

8. RETIREMENT, continued

Contributions – For the year ended June 30, 2011, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees fired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2011, participating employers contributed 16.93% of each employee’s wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 34,459	100%
2010	\$ 32,577	100%
2009	\$ 36,553	100%

9. RISK MANAGEMENT

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

10. 2010 Totals

Total amounts for 2010 are presented herein for comparative purpose only and in some instances have been reclassified from the amounts presented in the prior year audited financial statements.

11. Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through December 1, 2011 which represents the date these financials statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2011, have not been evaluated by the city.

SUPPLEMENTAL INFORMATION

CITY OF FRENCHBURG, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2011

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Taxes				
Property taxes	\$ 8,900	\$ 8,700	\$ 9,523	\$ 823
Vehicle taxes	1,000	980	918	(62)
Bank shares	<u>7,242</u>	<u>6,282</u>	<u>6,282</u>	<u>-</u>
	<u>17,142</u>	<u>15,962</u>	<u>16,723</u>	<u>761</u>
Licenses and permits				
Occupation license	660	800	240	(560)
Insurance premiums	42,000	39,000	40,442	1,442
Franchise fees	<u>739</u>	<u>739</u>	<u>739</u>	<u>-</u>
	<u>43,399</u>	<u>40,539</u>	<u>41,421</u>	<u>882</u>
Intergovernmental revenue				
Police	9,500	7,428	7,331	(97)
Revitalization	7,790	7,790	-	(7,790)
Other grants	-	13,504	-	(13,504)
Flex-E grant	<u>-</u>	<u>10,000</u>	<u>7,336</u>	<u>(2,664)</u>
	<u>17,290</u>	<u>38,722</u>	<u>14,667</u>	<u>(24,055)</u>
Other revenues				
Litter Abatement	361	361	-	(361)
Community Center	9,846	12,346	12,808	462
Rent	36,000	36,000	36,000	-
Interest income	400	420	439	19
Other	<u>500</u>	<u>900</u>	<u>3,941</u>	<u>3,041</u>
	<u>47,107</u>	<u>50,027</u>	<u>53,188</u>	<u>3,161</u>
Total revenue	<u>\$ 124,938</u>	<u>\$ 145,250</u>	<u>\$ 125,999</u>	<u>\$ (19,251)</u>
EXPENDITURES				
General Government				
Personnel services	\$ 13,038	\$ 13,038	\$ 13,039	\$ 1
Professional fees	10,000	10,000	7,216	(2,784)
Dues and subscriptions	3,200	3,200	5,326	2,126
Office	100	218	326	108
Utilities	27,722	32,319	25,680	(6,639)
Insurance	5,989	6,622	6,622	-
Law /Task force	9,500	7,428	7,331	(97)
Organization	3,000	3,000	3,050	50
Other expenses	<u>9,751</u>	<u>35,988</u>	<u>15,046</u>	<u>(20,942)</u>
	<u>82,300</u>	<u>111,813</u>	<u>83,636</u>	<u>(28,177)</u>
Streets				
Maintenance	<u>3,000</u>	<u>2,900</u>	<u>5,957</u>	<u>3,057</u>
Capital Outlay				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt Service				
	<u>30,138</u>	<u>30,138</u>	<u>30,138</u>	<u>-</u>
Total expenditures	<u>\$ 115,438</u>	<u>\$ 144,851</u>	<u>\$ 119,731</u>	<u>\$ (25,120)</u>
Excess (deficiency) revenues over expenditures	<u>\$ 9,500</u>	<u>\$ 399</u>	<u>\$ 6,268</u>	<u>\$ 5,869</u>

CITY OF FRENCHBURG, KENTUCKY
 REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
 SPECIAL REVENUE FUND
 for the year ended June 30, 2011

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Intergovernmental	\$ 13,409	\$ 13,225	\$ 15,124	\$ 1,899
Other	<u>258</u>	<u>433</u>	<u>438</u>	<u>5</u>
	<u>13,667</u>	<u>13,658</u>	<u>15,562</u>	<u>1,904</u>
 Streets				
Utilities	2,762	3,610	2,642	(968)
Maintenance	<u>15,000</u>	<u>10,000</u>	<u>2,290</u>	<u>(7,710)</u>
	<u>17,762</u>	<u>13,610</u>	<u>4,932</u>	<u>(8,678)</u>
 Capital Outlay				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) revenues over expenditures	<u>\$ (4,095)</u>	<u>\$ 48</u>	<u>\$ 10,630</u>	<u>\$ 10,582</u>

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
WATER AND SEWER FUND
for the year ended June 30, 2011

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>2010 Totals</u>
OPERATING REVENUES				
Charges for services	\$ 941,285	\$ 101,790	\$ 1,043,075	\$ 1,004,293
Penalties	2,716	14,841	17,557	16,814
Other revenues	13,139	611	13,750	21,466
Total operating revenues	<u>957,140</u>	<u>117,242</u>	<u>1,074,382</u>	<u>1,042,573</u>
OPERATING EXPENSES				
Personnel	259,093	37,932	297,025	287,066
Water purchased	397,311	-	397,311	398,486
Bad Debt	6,200	-	6,200	7,817
Maintenance and repairs	592	2,276	2,868	8,398
Utilities	29,040	15,120	44,160	36,471
Auto	14,482	-	14,482	6,764
Insurance	13,292	2,000	15,292	15,112
Office supplies	3,659	34	3,693	5,008
Professional services	15,094	9,941	25,035	26,616
Chemicals	3,600	-	3,600	2,180
Operating supplies	64,017	6,088	70,105	62,712
Rent	36,000	-	36,000	36,000
Postage	9,941	-	9,941	9,923
Other	3,756	3,122	6,878	6,982
Depreciation	<u>328,458</u>	<u>124,855</u>	<u>453,313</u>	<u>459,777</u>
Total operating expenses	<u>1,184,535</u>	<u>201,368</u>	<u>1,385,903</u>	<u>1,369,312</u>
OPERATING INCOME (LOSS)	(227,395)	(84,126)	(311,521)	(326,739)
Non-operating revenue (expense)				
Interest income	4,625	75	4,700	4,149
Interest expense	<u>(49,040)</u>	<u>(23,640)</u>	<u>(72,680)</u>	<u>(74,208)</u>
NET INCOME (LOSS)	(271,810)	(107,691)	(379,501)	(396,798)
Capital contributions				
Hook on fees	23,935	1,200	25,135	35,412
Grants	<u>8,235</u>	<u>262,580</u>	<u>270,815</u>	<u>55,770</u>
Change in net assets	<u>\$ (239,640)</u>	<u>\$ 156,089</u>	(83,551)	(305,616)
Beginning net assets			<u>7,493,234</u>	<u>7,798,850</u>
NET ASSETS - Ending			<u>\$ 7,409,683</u>	<u>\$ 7,493,234</u>

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

Mayor and City Commission
City of Frenchburg
Frenchburg, Kentucky

We have audited the financial statements of the City of Frenchburg (the "City") as of and for the year ended June 30, 2011, and have issued our report thereon dated December 1, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be material weaknesses in internal control over financial reporting. (2011-1).

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.

Compliance and Other Matters

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

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

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

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
December 1, 2011

**CITY OF FRENCHBURG
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011**

FINDING:

2011-1

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

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

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

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

RESPONSE:

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