

CITY OF FRENCHBURG
Frenchburg, Kentucky

FINANCIAL STATEMENTS
June 30, 2015

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INDEPENDENT AUDITORS' REPORT

Mayor and the City Commission
City of Frenchburg
Frenchburg, Kentucky

Report on the Financial Statements

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 and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension schedules on pages 3–10, and 31–34 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Frenchburg, Kentucky's basic financial statements. The Statement of Revenues, Expenses, and Changes in Net Position Water and Sewer Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Statement of Revenues, Expenses, and Changes in Net Position Water and Sewer Fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Revenues, Expenses, and Changes in Net Position Water and Sewer Fund are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2016, on our consideration of the City of Frenchburg, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Frenchburg, Kentucky's internal control over financial reporting and compliance.

RFH

RFH, PLLC

March 23, 2016

City of Frenchburg, Kentucky

Management's Discussion and Analysis

Our discussion and analysis of the City of Frenchburg's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2015. Please read the following in conjunction with the auditors' report on pages 1-2 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 Position 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 position of the City and the changes in them. One can think of the City's net position—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 position 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 Position 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, 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 POSITION

Our analysis begins with a summary of the City's Statement of Net Position, which is presented on Table A-1 followed by an explanation of the results. Changes in net position 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
	<u> </u>	<u> </u>	<u> </u>
Current and Other Assets	\$ 363,800	\$ 628,221	\$ 992,021
Capital Assets and Inventory	1,372,020	7,177,261	8,549,281
Deferred Outflows-Pension	<u> -</u>	<u> 29,088</u>	<u> 29,088</u>
Total Assets & Deferred Outflows	<u>1,735,820</u>	<u>7,834,570</u>	<u>9,570,390</u>
Long-Term Debt Outstanding	320,000	1,633,883	1,953,883
Current Liabilities	11,990	221,623	233,613
Deferred Inflows-Pension	<u> -</u>	<u> 26,400</u>	<u> 26,400</u>
Total Liabilities & Deferred Inflows	<u>331,990</u>	<u>1,881,906</u>	<u>2,213,896</u>
Net Position:			
Invested in Capital Assets, net of debt	1,042,020	5,721,230	6,763,250
Restricted	128,891	-	128,891
Unrestricted	<u>232,919</u>	<u>231,434</u>	<u>464,353</u>
Total Net Position	<u>\$1,403,830</u>	<u>\$ 5,952,664</u>	<u>\$ 7,356,494</u>

The capital assets of the City's governmental activities are \$ 1,372,020 as of June 30, 2015. The capital assets of the business-type activities are \$ 7,125,190 as of June 30, 2015.

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	\$ 16,800	\$ 15,778	\$ (1,022)
Licenses and permits	36,200	46,359	10,159
Intergovernmental	5,500	13,157	7,657
Other Revenues	<u>46,100</u>	<u>45,667</u>	<u>(433)</u>
Total Revenues	<u>\$ 104,600</u>	<u>\$ 120,961</u>	<u>\$ 16,361</u>

Table A-5

Condensed Governmental Activities – Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
General Government	\$ 70,050	\$ 79,568	\$ 9,518
Public works-Streets	2,200	728	(1,472)
Debt service	30,000	28,298	(1,702)
Capital outlay	<u>-</u>	<u>12,235</u>	<u>12,235</u>
Total Expenditures	<u>\$ 102,250</u>	<u>\$ 120,829</u>	<u>\$ 18,579</u>

The City budgeted for a total of \$104,600 in revenues for 2014-2015, but ended up having revenues of \$120,961. The City was over budget on revenues by approximately 16 percent. A total of \$102,250 was budgeted for expenses, but expenditures totaled \$120,829 at the end of 2015.

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2015

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current assets			
Cash and cash equivalents	\$ 364,897	\$ 516,812	\$ 881,709
Receivables (net)	10,852	99,460	110,312
Internal balances	(11,949)	11,949	-
Total current assets	<u>363,800</u>	<u>628,221</u>	<u>992,021</u>
Noncurrent assets			
Inventory	-	52,071	52,071
Capital assets (Note 4)			
Construction in progress	5,520	-	5,520
Land	258,832	6,850	265,682
Plant and sewer system, net	-	7,118,340	7,118,340
Depreciable property, plant, and equipment, net	<u>1,107,668</u>	<u>-</u>	<u>1,107,668</u>
Total noncurrent assets	<u>1,372,020</u>	<u>7,177,261</u>	<u>8,549,281</u>
Total assets	<u>1,735,820</u>	<u>7,805,482</u>	<u>9,541,302</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension	-	29,088	29,088
Total assets and deferred outflows of resources	<u>\$ 1,735,820</u>	<u>\$ 7,834,570</u>	<u>\$ 9,570,390</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 1,990	\$ 61,840	\$ 63,830
Meter deposits payable	-	69,510	69,510
Accrued liabilities	-	19,315	19,315
Other liabilities	-	3,490	3,490
Current portion of long-term obligations (Notes 5 and 6)	<u>10,000</u>	<u>67,468</u>	<u>77,468</u>
Total current liabilities	<u>11,990</u>	<u>221,623</u>	<u>233,613</u>
Noncurrent liabilities			
Noncurrent portion of long-term obligations (Notes 5 and 6)	320,000	1,336,492	1,656,492
Net pension liability	-	297,391	297,391
Total noncurrent liabilities	<u>320,000</u>	<u>1,633,883</u>	<u>1,953,883</u>
Total liabilities	<u>331,990</u>	<u>1,855,506</u>	<u>2,187,496</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	-	26,400	26,400
NET POSITION			
Net investment in capital assets	1,042,020	5,721,230	6,763,250
Restricted for			
Other purposes	128,891	-	128,891
Unrestricted	<u>232,919</u>	<u>231,434</u>	<u>464,353</u>
Total net position	<u>1,403,830</u>	<u>5,952,664</u>	<u>7,356,494</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,735,820</u>	<u>\$ 7,834,570</u>	<u>\$ 9,570,390</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, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position Primary Government</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary government							
Governmental activities							
General administration	\$ 122,690	\$ -	\$ 44,947	\$ 13,157	\$ (64,586)	\$ -	\$ (64,586)
Street department	10,898	-	20,636	-	9,738	-	9,738
Interest on long-term debt	18,298	-	-	-	(18,298)	-	(18,298)
Total governmental activities	151,886	-	65,583	13,157	(73,146)	-	(73,146)
Business-type activities							
Utility	1,698,074	1,215,141	-	18,520	-	(464,413)	(464,413)
Total business-type activities	1,698,074	1,215,141	-	18,520	-	(464,413)	(464,413)
Total primary government	\$ 1,849,960	\$ 1,215,141	\$ 65,583	\$ 31,677	(73,146)	(464,413)	(537,559)

General revenues

Taxes			
Property taxes, levied for general purposes	15,778	-	15,778
License fees			
Franchise	3,596	-	3,596
Insurance premiums	42,143	-	42,143
Occupational	620	-	620
Investment earnings	830	2,234	3,064
Total general revenues	62,967	2,234	65,201
Change in Net Position	(10,179)	(462,179)	(472,358)
Net position-beginning, as restated	1,414,009	6,414,843	7,828,852
NET POSITION-ENDING	\$ 1,403,830	\$ 5,952,664	\$ 7,356,494

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

**CITY OF FRENCHBURG, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015**

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 235,132	\$ 129,765	\$ 364,897
Receivables, net	10,852	-	10,852
 Total assets	 \$ 245,984	 \$ 129,765	 \$ 375,749
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 1,990	\$ -	\$ 1,990
Due to other funds	11,075	874	11,949
 Total liabilities	 13,065	 874	 13,939
Fund balances			
Restricted			
Roads	-	128,891	128,891
Unassigned	232,919	-	232,919
 Total fund balances	 232,919	 128,891	 361,810
 Total liabilities and fund balances	 \$ 245,984	 \$ 129,765	 \$ 375,749

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

Fund balances reported above	\$ 361,810
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,372,020
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(330,000)

Net position of governmental activities	\$ 1,403,830
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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, 2015

	General	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 15,778	\$ -	\$ 15,778
Licenses and permits	46,359	-	46,359
Intergovernmental	13,157	20,636	33,793
Other revenues	45,667	110	45,777
 Total revenues	 120,961	 20,746	 141,707
EXPENDITURES			
Current			
General administration	79,568	-	79,568
Streets	728	5,690	6,418
Capital outlay	12,235	-	12,235
Debt service	28,298	-	28,298
 Total expenditures	 120,829	 5,690	 126,519
 Excess of Revenues Over (Under) Expenditures	 132	 15,056	 15,188
 Fund balances - beginning	 232,787	 113,835	 346,622
 Fund balances-ending	 \$ 232,919	 \$ 128,891	 \$ 361,810
 Reconciliation to government-wide change in net position:			
Net change in fund balances			\$ 15,188
Add: capital outlay expenditures capitalized			12,235
Add: debt service expenditures			28,298
Less: depreciation on governmental activities assets			(47,602)
Less: interest on long term debt			(18,298)
 Change in net position governmental activities			 \$ (10,179)

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015

	Business-Type Activities Water & Sewer Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 516,812
Receivables (net)	99,460
Internal balances	<u>11,949</u>
Total current assets	<u>628,221</u>
Noncurrent assets	
Inventory	52,071
Water and sewer systems	14,148,127
Less: accumulated depreciation	<u>(7,022,937)</u>
Total noncurrent assets	<u>7,177,261</u>
Total assets	<u>7,805,482</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension	<u>29,088</u>
Total assets and deferred outflows of resources	<u>\$ 7,834,570</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 61,840
Meters deposits payable	69,510
Accrued liabilities	19,315
Other liabilities	3,490
Bonds, notes, and loans payable	<u>67,468</u>
Total current liabilities	<u>221,623</u>
Noncurrent liabilities	
Bonds, notes, and loans payable	1,336,492
Net pension liability	<u>297,391</u>
Total noncurrent liabilities	<u>1,633,883</u>
Total liabilities	<u>1,855,506</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension	<u>26,400</u>
NET POSITION	
Net investment in capital assets	5,721,230
Unrestricted	<u>231,434</u>
Total net position	<u>5,952,664</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 7,834,570</u>

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
for the year ended June 30, 2015

	Business-Type Activities Water & Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 1,127,834
Penalties	20,665
Other revenues	<u>66,642</u>
 Total operating revenues	 <u>1,215,141</u>
OPERATING EXPENSES	
Personnel	334,831
Water purchased	445,382
Maintenance and repairs	4,403
Utilities	37,324
Auto	11,373
Insurance	16,093
Office supplies	7,608
Professional services	25,855
Chemicals	860
Operating services	108,420
Rent	39,000
Postage	13,278
Other	74,451
Depreciation	<u>474,974</u>
 Total operating expenses	 <u>1,593,852</u>
OPERATING (LOSS)	(378,711)
Non-operating income (expense)	
Interest income	2,234
Bond issue costs	(48,956)
Interest expense	<u>(55,266)</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(480,699)
Capital Contributions	
Hook on fees	<u>18,520</u>
CHANGE IN NET POSITION	(462,179)
Net position - beginning of the year, as restated	<u>6,414,843</u>
NET POSITION - END OF YEAR	<u>\$ 5,952,664</u>

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

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2015

	Business-Type Activities Water & Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,232,306
Payments to suppliers	(783,161)
Payments for employee services and benefits	<u>(349,016)</u>
Net cash provided by operating activities	<u>100,129</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	18,520
Purchases of capital assets	(18,540)
Proceeds from issuance of revenue bonds	1,439,975
Principal paid on capital debt	(1,476,872)
Payment of bond issue costs	(48,956)
Interest paid on capital debt	<u>(88,729)</u>
Net cash (used) by capital and related financing activities	<u>(174,602)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>2,234</u>
Net cash provided by investing activities	<u>2,234</u>
Net (decrease) in cash and cash equivalents	(72,239)
Cash and cash equivalents-beginning of the year	<u>589,051</u>
CASH AND CASH EQUIVALENTS-END OF THE YEAR	<u>\$ 516,812</u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating (loss)	\$ (378,711)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	474,974
Change in assets and liabilities:	
Receivables, net	17,165
Accounts and other payables	886
Accrued expenses	(2,497)
Net pension liability	<u>(11,688)</u>
Net cash provided by operating activities	<u>\$ 100,129</u>

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

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Frenchburg, Kentucky (the City) 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

Government-wide Financial Statements

The government-wide financial statements include a statement of net position 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. 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.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (continued)

Fund Financial Statements (continued)

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 Fund – 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:

Water and Sewer- 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 Position 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, 2015

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.

D. Fund Balances

The City of Frenchburg has 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 spent 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. 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 spent, the City will use committed funds first, assigned funds second and unassigned funds last.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The City's actual expenditures in the General Fund exceeded its adopted budget by \$18,579. The City did not budget for capital outlay which totaled \$12,235.

F. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

G. 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.

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 \$15,073 in the proprietary fund and \$6,240 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 position.

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.

The City has evaluated and considered the need to recognize or disclose subsequent events through March 23, 2016 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, 2015, have not been evaluated by the city.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

2. CASH AND INVESTMENTS

Statutory Requirements

The City's deposits and investments at June 30, 2015, were entirely covered by federal depository insurance or by collateral held by the custodial banks in the City's name.

FDIC – demand deposits	\$ 405,119
Collateralized by securities held by the bank in the City's name	<u>478,371</u>
Total	<u>\$ 883,490</u>

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

Statement of Cash Flows

The proprietary fund Statement of Cash Flows includes as cash and cash equivalents all cash restricted or unrestricted as follows:

Cash	\$ 516,812
Cash - restricted	<u>-</u>
	<u>\$ 516,812</u>

3. RECEIVABLES

Receivables at year end of the City's major individual funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund
Governmental Funds:	
Taxes	\$ 6,240
Licenses and fees	9,605
Intergovernmental	<u>1,247</u>
Gross receivables	\$ 17,092
Less: allowance for uncollectible	<u>(6,240)</u>
Net receivables	<u>\$ 10,852</u>
	Water & Sewer Fund
Proprietary Fund:	
Customer	\$ 114,533
Less: allowance for uncollectible	<u>(15,073)</u>
Net Receivables	<u>\$ 99,460</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

4. CAPITAL ASSETS

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

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 258,832	\$ -	\$ -	\$ 258,832
Construction in progress	<u>19,079</u>	<u>5,520</u>	<u>(19,079)</u>	<u>5,520</u>
Total	<u>277,911</u>	<u>5,520</u>	<u>(19,079)</u>	<u>264,352</u>
Capital assets being depreciated:				
Buildings and improvements	1,317,785	-	-	1,317,785
Land improvements	116,385	25,794	-	142,179
Vehicles and equipment	26,257	-	-	26,257
Infrastructure	<u>20,055</u>	<u>-</u>	<u>-</u>	<u>20,055</u>
Totals	<u>1,480,482</u>	<u>25,794</u>	<u>-</u>	<u>1,506,276</u>
Total capital assets	<u>1,758,393</u>	<u>31,314</u>	<u>(19,079)</u>	<u>1,770,628</u>
Less accumulated depreciation:				
Buildings and improvements	269,076	34,942	-	304,018
Land improvements	47,208	8,180	-	55,388
Vehicles and equipment	22,690	469	-	23,159
Infrastructure	<u>12,032</u>	<u>4,011</u>	<u>-</u>	<u>16,043</u>
Totals	<u>351,006</u>	<u>47,602</u>	<u>-</u>	<u>398,608</u>
Capital assets, net	<u>\$ 1,407,387</u>	<u>\$ (16,288)</u>	<u>\$ (19,079)</u>	<u>\$ 1,372,020</u>
Business-type Activities:				
Capital assets not depreciated:				
Land	\$ 6,850	\$ -	\$ -	\$ 6,850
Capital assets being depreciated:				
Plant and sewer system	13,765,555	-	-	13,765,555
Vehicles and equipment	<u>357,183</u>	<u>18,540</u>	<u>-</u>	<u>375,723</u>
Totals	14,122,738	18,540	-	14,141,278
Less accumulated depreciation:	<u>6,547,964</u>	<u>474,974</u>	<u>-</u>	<u>7,022,938</u>
Capital depreciable assets, net:	<u>7,574,774</u>	<u>(456,434)</u>	<u>-</u>	<u>7,118,340</u>
Capital assets, net	<u>\$ 7,581,624</u>	<u>\$ (456,434)</u>	<u>\$ -</u>	<u>\$ 7,125,190</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

4. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the Governmental functions as follows:

General government	\$ 43,122
Streets	<u>4,480</u>
Total depreciation expense	<u>\$ 47,602</u>

Under GASB, the City 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

5. BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT

Kentucky Bond Corporation Financing Program Revenue Bonds First Series 2014 E

On December 3, 2014 the City issued \$1,420,000 of general obligation revenue bonds through a pooled financing transaction with the Kentucky Bond Corporation. The proceeds were used to refund all previously issued water and sewer revenue bonds. Payments on the Series 2014 E Revenue Bonds are scheduled to be paid over a period of twenty-five years, with monthly principal and interest payments which began in January 2015. The new debt issue will decrease debt service payments by \$309,007 and has a net economic gain of \$162,749. The bonds have a net interest cost of 3.32% over the repayment term.

The total business-type activity debt is summarized as follows:

Current portion of revenue bonds	\$ <u>67,468</u>
Total current portion of long-term obligations	<u>\$ 67,468</u>
Unamortized bond premium	\$ 19,575
Long-term portion of revenue bonds	1,316,917
Net pension liability	<u>297,391</u>
Long-term portion of long-term obligations	<u>\$ 1,633,883</u>

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

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015
Revenue Bonds	\$ 1,441,257	\$ 1,420,000	\$ 1,476,872	\$ 1,384,385
Unamortized bond premium	19,975	-	400	19,575
Net pension liability	<u>306,391</u>	<u>-</u>	<u>9,000</u>	<u>297,391</u>
Total	<u>\$ 1,767,623</u>	<u>\$ 1,420,000</u>	<u>\$ 1,486,272</u>	<u>\$ 1,701,351</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

5. BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (CONTINUED)

The minimum obligation for the Series 2014 E Revenue Bonds at June 30, 2015, is as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 67,468	\$ 46,483	\$ 113,951
2017	65,000	44,597	109,597
2018	65,000	43,134	108,134
2019	65,000	41,672	106,672
2020	67,083	39,939	107,022
2021-2025	365,833	165,006	530,839
2026-2030	314,167	108,595	422,762
2031-2035	222,500	59,624	282,124
2036-2040	<u>152,334</u>	<u>18,229</u>	<u>170,563</u>
Total	<u>\$ 1,384,385</u>	<u>\$ 567,279</u>	<u>\$ 1,951,664</u>

6. 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, 2015 totaled \$330,000.

The changes in general long-term debt is as follows:

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015
Leases Payable	<u>\$ 340,000</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 330,000</u>

The annual requirements to amortize all governmental long-term debt outstanding at June 30, 2015, is as follows:

Year Ending June 30,	Principal	Total Interest and Fees	Total Payment
2016	\$ 10,000	\$ 17,838	\$ 27,838
2017	10,000	17,285	27,285
2018	10,000	16,818	26,818
2019	10,000	16,308	26,308
2020	10,000	15,798	25,798
2021-2025	75,000	68,775	143,775
2026-2030	90,000	48,465	138,465
2031-2035	<u>115,000</u>	<u>21,745</u>	<u>136,745</u>
Total	<u>\$ 330,000</u>	<u>\$ 223,032</u>	<u>\$ 553,032</u>

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

7. RETIREMENT PLAN

CERS

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 publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

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

Contributions – For the year ended June 30, 2015, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 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 78.545(33), 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, 2015, participating employers contributed 17.67% 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.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The City contributed \$29,088 for the year ended June 30, 2015, or 100% of the required contribution.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2015, the City reported a liability of \$297,391 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the City's proportion was .009 percent, which was equal to its proportion measured as of June 30, 2013.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

7. RETIREMENT PLAN (CONTINUED)

For the year ended June 30, 2015, the City recognized pension expense of \$17,400. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on Plan investments	-	26,400
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	29,088	-
Total	<u>\$ 29,088</u>	<u>\$ 26,400</u>

The \$29,088 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,

2016	\$ (6,600)
2017	(6,600)
2018	(6,600)
2019	(6,600)

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%	
Salary increases	4.50%, average, including inflation	
Investment rate of return	7.75%, net of Plan investment expense, including inflation	

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Mortality Table for all other members.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005-June 30, 2008.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

7. RETIREMENT PLAN (CONTINUED)

The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.50%
Private Equity	7%	11.25%
Real Estate	5%	7.00%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	Discount rate	City's proportionate share of net pension liability
1% decrease	6.75%	\$ 391,246
Current discount rate	7.75%	\$ 297,391
1% increase	8.75%	\$ 214,324

Payable to the Pension Plan – At June 30, 2015, the City reported a payable of \$3,908 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015. The payable includes both the pension and insurance contribution allocation.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

8. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2015 were levied in November 2014, 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, 2014 |
| 2. Face value amount payment dates | November 1, 2014 to March 1, 2015 |
| 3. 10% penalty delinquent date | March 2, 2015 |

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.

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. INTERFUND BALANCES

This table shows interfund balances as of June 30, 2015:

	General Fund	Water & Sewer Fund	Road Aid Fund	Total Due From
General Fund	\$ -	\$ -	\$ -	\$ -
Water & Sewer Fund	11,075	(11,949)	874	-
Road Aid Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total due to (from)	<u>\$ 11,075</u>	<u>\$ (11,949)</u>	<u>\$ 874</u>	<u>\$ -</u>

Interfund balances result from goods and services type transactions that have occurred between individual funds that have resulted in amounts owed between funds.

CITY OF FRENCHBURG, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

11. RESTATEMENT OF NET POSITION

Implementation of new accounting standard GASB Statement No. 68

During 2015 the City implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67, Financial Reporting for Pension Plans. The guidance contained in Statement 68 changed how governments calculate and report the costs and obligations associated with pensions. Under the new standards GASB requires that cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 68 to be applied retroactively, which has resulted in a restatement of beginning net position as follows:

	2015
<u>Water & Sewer Fund</u>	
Net position, at beginning of year	\$ 6,721,234
Beginning net pension liability	<u>(306,391)</u>
Net position, at beginning of year, as restated	<u>\$ 6,414,843</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FRENCHBURG, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2015

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Taxes				
Property taxes	\$ 7,600	\$ 9,800	\$ 8,353	\$ (1,447)
Vehicle taxes	700	700	704	4
Bank shares	6,300	6,300	6,721	421
Total taxes	<u>14,600</u>	<u>16,800</u>	<u>15,778</u>	<u>(1,022)</u>
Licenses and permits				
Occupation license	800	200	620	420
Insurance premiums	33,000	33,000	42,143	9,143
Franchise fees	2,500	3,000	3,596	596
Total licenses and permits	<u>36,300</u>	<u>36,200</u>	<u>46,359</u>	<u>10,159</u>
Intergovernmental revenue				
Police	5,500	5,500	5,237	(263)
Other grants	-	-	7,920	7,920
Total intergovernmental	<u>5,500</u>	<u>5,500</u>	<u>13,157</u>	<u>7,657</u>
Other revenues				
Community Center	8,000	9,000	8,550	(450)
Rent	36,000	36,000	36,000	-
Interest income	600	600	720	120
Other	1,000	500	397	(103)
Total other	<u>45,600</u>	<u>46,100</u>	<u>45,667</u>	<u>(433)</u>
Total revenue	<u>102,000</u>	<u>104,600</u>	<u>120,961</u>	<u>16,361</u>
EXPENDITURES				
General Government				
Current				
Personnel services	12,918	13,070	12,404	(666)
Professional fees	300	8,000	6,688	(1,312)
Dues and subscriptions	3,700	7,050	6,394	(656)
Office	500	500	684	184
Utilities	32,075	23,875	24,032	157
Insurance	8,605	4,825	10,691	5,866
Law /Task force	5,000	5,500	5,237	(263)
Organization	18,900	3,700	3,604	(96)
Other expenses	2,982	3,530	9,834	6,304
Total general government	<u>84,980</u>	<u>70,050</u>	<u>79,568</u>	<u>9,518</u>
Street maintenance	<u>2,200</u>	<u>2,200</u>	<u>728</u>	<u>(1,472)</u>
Capital Outlay	<u>-</u>	<u>-</u>	<u>12,235</u>	<u>12,235</u>
Debt Service	<u>28,800</u>	<u>30,000</u>	<u>28,298</u>	<u>(1,702)</u>
Total expenditures	<u>115,980</u>	<u>102,250</u>	<u>120,829</u>	<u>18,579</u>
Excess (deficiency) revenues over expenditures	<u>\$ (13,980)</u>	<u>\$ 2,350</u>	<u>\$ 132</u>	<u>\$ (2,218)</u>

CITY OF FRENCHBURG, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
SPECIAL REVENUE FUND
for the year ended June 30, 2015

	Enacted Budget	Amended Budget	Actual	Variance
REVENUES				
Intergovernmental	\$ 23,500	\$ 18,500	\$ 20,636	\$ 2,136
Other	110	110	110	-
Total revenue	23,610	18,610	20,746	2,136
EXPENDITURES				
Streets				
Utilities	3,600	3,600	3,571	(29)
Maintenance	20,000	20,000	2,119	(17,881)
Total expenditures	23,600	23,600	5,690	(17,910)
Excess (deficiency) revenues over expenditures	\$ 10	\$ (4,990)	\$ 15,056	\$ 20,046

**CITY OF FRENCHBURG, KENTUCKY
 REQUIRED SUPPLEMENTAL SCHEDULE OF
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - NONHAZARDOUS
 Last Two Fiscal Years**

	2014	2015
City's proportion of the net pension liability	0.009%	0.009%
City's proportionate share of the net pension liability (asset)	\$ 306,391	\$ 297,391
City's covered employee payroll	\$ 210,227	\$ 228,142
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	145.74%	130.35%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the last two fiscal years.

**CITY OF FRENCHBURG, KENTUCKY
REQUIRED SUPPLEMENTAL
SCHEDULE OF CONTRIBUTIONS - NONHAZARDOUS
Last Three Fiscal Years**

	2013	2014	2015
Contractually required employer contribution	\$ 30,711	\$ 28,885	\$ 29,088
Contributions relative to contractually required employer contribution	<u>\$ 30,711</u>	<u>\$ 28,885</u>	<u>\$ 29,088</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 217,705	\$ 210,227	\$ 228,142
Employer contributions as a percentage of covered-employee payroll	14.11%	13.74%	12.75%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the last two fiscal years.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

SUPPLEMENTARY INFORMATION

CITY OF FRENCHBURG, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
WATER AND SEWER FUND
for the year ended June 30, 2015

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 1,029,932	\$ 97,902	\$ 1,127,834
Penalties	1,725	18,940	20,665
Other revenues	<u>66,642</u>	<u>-</u>	<u>66,642</u>
 Total operating revenues	 <u>1,098,299</u>	 <u>116,842</u>	 <u>1,215,141</u>
 OPERATING EXPENSES			
Personnel	287,445	47,386	334,831
Water purchased	445,382	-	445,382
Maintenance and repairs	811	3,592	4,403
Utilities	24,056	13,268	37,324
Auto	11,373	-	11,373
Insurance	14,093	2,000	16,093
Office supplies	7,553	55	7,608
Professional services	16,673	9,182	25,855
Chemicals	860	-	860
Operating supplies	99,201	9,219	108,420
Rent	39,000	-	39,000
Postage	13,278	-	13,278
Other	65,740	8,711	74,451
Depreciation	<u>319,287</u>	<u>155,687</u>	<u>474,974</u>
 Total operating expenses	 <u>1,344,752</u>	 <u>249,100</u>	 <u>1,593,852</u>
 OPERATING (LOSS)	 (246,453)	 (132,258)	 (378,711)
 Non-operating revenue (expense)			
Interest income	2,065	169	2,234
Bond issue costs	(37,339)	(11,617)	(48,956)
Interest expense	<u>(40,646)</u>	<u>(14,620)</u>	<u>(55,266)</u>
 NET (LOSS)	 (322,373)	 (158,326)	 (480,699)
 Capital contributions			
Hook on fees	<u>17,920</u>	<u>600</u>	<u>18,520</u>
 Change in net position	 <u>\$ (304,453)</u>	 <u>\$ (157,726)</u>	 (462,179)
 Net position - Beginning of Year, as restated			 <u>6,414,843</u>
 NET POSITION - End of Year			 <u>\$ 5,952,664</u>



**INDEPENDENT AUDITORS' 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**

To the Mayor and City Commission
City of Frenchburg
Frenchburg, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Frenchburg, Kentucky, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Frenchburg, Kentucky's basic financial statements and have issued our report thereon dated March 23, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2015-001 and 2015-002.

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 consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency: 2015-003.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Compliance and Other Matters

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

**INDEPENDENT AUDITORS' 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
(CONTINUED)**

The City of Frenchburg, Kentucky's Response to Findings

The City of Frenchburg, Kentucky's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City of Frenchburg, Kentucky's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

RFH

RFH, PLLC
March 23, 2016

**CITY OF FRENCHBURG
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015**

FINDINGS

2015-001 The City should have internal controls in place that enable it to prepare complete financial statements. This is a repeat finding.

Criteria: 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.

Cause: 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.

Effect: 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.

Recommendation: 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.

2015-002 All bank accounts should be reconciled monthly to the City's financial records. This is a repeat finding.

Criteria: The City's system of internal control requires that all bank accounts are reconciled to the City's financial records monthly.

Cause: In the prior year the City Clerk was terminated. The new City Clerk was not provided adequate training that would have ensured all bank accounts would be reconciled on a monthly basis.

Effect: The City Clerk did not reconcile all bank accounts timely. Multiple bank accounts were not reconciled for several months.

Recommendation: We recommend that the City take steps to ensure that all bank accounts are reconciled monthly and that if the City has turnover in the future at the City Clerk position – that the City ensure the new City Clerk is performing this function timely.

RESPONSE:

The City is aware of these problems. The City Clerk will be working with someone to further help her with these situations and to help her get the funds in balance and on track. She will also be attending further training and workshops.

**CITY OF FRENCHBURG
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015**

FINDINGS (CONTINUED)

2015-003 Expenditures out of each fund should be made in accordance with the City's budget. This is a repeat finding.

Criteria: The City's general ledger software accounts for all funds in the same general ledger. This allows transactions to cross funds and requires monthly transfers to balance funds.

Cause: During the prior year the City Clerk was terminated. The new City Clerk was not provided adequate training to ensure that all transfers between funds took place.

Effect: Reimbursements to the Water and Sewer Fund from the General Fund for expenditures of the General Fund were not made.

Recommendation: We recommend that all reimbursements between funds take place on a monthly basis and that all funds balance on a monthly basis.

RESPONSE:

The City is aware of these problems. The City Clerk will be working with someone to further help her with these situations and to help her get the funds in balance and on track. She will also be attending further training and workshops.