

R.D.

City of Jenkins, Kentucky
Audited Financial Statements
June 30, 2012

Welch & Company, CPAs, PSC
Nicholasville and Georgetown, Kentucky
www.welchcpas.com

CITY OF JENKINS

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Jenkins
Jenkins, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jenkins as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Jenkins's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jenkins, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

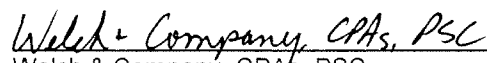
In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2012 on our consideration of the City of Jenkins's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations,

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

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

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

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


Welch & Company, CPAs, PSC
Nicholasville, Kentucky
December 2, 2012

City of Jenkins
Statement of Net Assets
June 30 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash, including time deposits	\$ 577,356	\$ 416,817	\$ 994,173
Investments	37,600	12,000	49,600
Restricted cash	0	56,876	56,876
Accounts receivable, net	17,401	75,240	92,641
Total current assets	632,357	560,933	1,193,290
Noncurrent Assets:			
Capital assets (net)	2,002,254	7,147,320	9,149,574
Total Assets	2,634,611	7,708,253	10,342,864
LIABILITIES			
Current Liabilities:			
Accounts payable	13,502	18,941	32,443
Payroll related liabilities	14,486	19,444	33,930
Notes payable	13,854	0	13,854
Total current liabilities	41,842	38,385	80,227
Noncurrent Liabilities:			
Water deposits	0	55,000	55,000
Notes payable	321,844	450,000	771,844
Total noncurrent liabilities	321,844	505,000	826,844
Total Liabilities	363,686	543,385	907,071
NET ASSETS			
Invested in capital assets, net of related debt	1,666,557	6,697,320	8,363,877
Restricted	0	56,876	56,876
Unrestricted	604,369	410,672	1,015,041
Total Net Assets	\$ 2,270,926	\$ 7,164,868	\$ 9,435,794

See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Activities
Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental Activities:					
General government	470,313	0	0	0	(470,313)
Depreciation	42,578				(42,578)
Interest	12,885				(12,885)
Public safety	232,967	0	0	96,248	(136,719)
Depreciation	39,707				(39,707)
Transportation					
Streets	62,849	0	0	0	(62,849)
Cultural and recreation	25,073	0	0	0	(25,073)
Community development	6,342	0	0	0	(6,342)
Total governmental activities	892,714	0	0	96,248	(796,466)
Business-type activities:					
Water	647,219	358,938	0	1,119,567	831,286
Sewer	279,588	313,163	0	0	33,575
Solid waste	211,768	200,596	0	0	(11,172)
Total business-type activities	1,138,575	872,697	0	1,119,567	853,689
Total	2,031,289	872,697	0	1,215,815	57,223

Changes in Net Assets:

	Governmental Activities	Business-type Activities	Total
Net (expense)/revenue	\$ (796,466)	\$ 853,689	\$ 57,223
General revenues:			
Taxes:			
Property	240,340	0	240,340
Franchise and public service	43,271	0	43,271
Insurance	99,178	0	99,178
License and permits	13,729	0	13,729
Intergovernmental	375,536	0	375,536
Investment income	2,301	2,006	4,307
Miscellaneous	42,999	0	42,999
Transfers	0	0	0
Total general revenues and transfers	817,354	2,006	819,360
Change in net assets	20,888	855,695	876,583
Net assets-beginning	2,250,038	6,309,173	8,559,211
Net assets-ending	\$ 2,270,926	\$ 7,164,868	\$ 9,435,794

See accompanying notes to the basic financial statements.

City of Jenkins
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	Municipal Road Aid	L.G.E.A.	Total Govern- mental Funds
Assets				
Cash and cash equivalents	\$ 231,304	\$ 61,707	\$ 284,345	\$ 577,356
Investments	37,600	0	0	37,600
Receivables, net	17,401	0	0	17,401
Total assets	\$ 286,305	\$ 61,707	\$ 284,345	\$ 632,357
Liabilities and Fund Balances				
Liabilities:				
Payroll liabilities	\$ 2,188	\$ -	\$ -	\$ 2,188
Accounts payable	13,502	0	0	13,502
Total Liabilities	15,690	0	0	15,690
Fund balances:				
Reserved for:				
Unreserved	270,615	61,707	284,345	616,667
Total fund balances	270,615	61,707	284,345	616,667
Total liabilities and fund balances	\$ 286,305	\$ 61,707	\$ 284,345	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Payroll related liabilities-Compensated absences	(12,297)
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.	(335,698)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 465,322	<u>2,002,254</u>

Net assets of governmental activities	<u><u>\$ 2,270,926</u></u>
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See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2012

	General Fund	Municipal Road Aid	L.G.E.A.	Total Govern- mental Funds
Revenues				
Property taxes	\$ 240,340	\$ -	\$ -	\$ 240,340
Franchise taxes	43,271	0	0	43,271
Insurance tax	99,178	0	0	99,178
Fees and fines	2,181	0	0	2,181
Licenses and permits	11,548	0	0	11,548
Intergovernmental	123,480	58,104	193,952	375,536
Charges for services	0	0	0	0
Sale of assets	0	0	0	0
Proceeds from leasing	0	0	0	0
Investment earnings	761	220	1,320	2,301
Miscellaneous	42,999	0	0	42,999
Total revenues	563,758	58,324	195,272	817,354
Expenditures				
Current:				
General government	190,130	0	280,183	470,313
Police	194,815	0	0	194,815
Road	13,543	49,306	0	62,849
Fire	38,152	0	0	38,152
Parks and recreation	8,431	0	0	8,431
Depot	16,642	0	0	16,642
Community development	6,342	0	0	6,342
Debt service:				
Principal	30,350	0	0	30,350
Interest and other charges	12,885	0	0	12,885
Capital outlay	128,365	0	0	128,365
Total expenditures	639,655	49,306	280,183	969,144
Excess (deficiency) of revenues over expenditures	(75,897)	9,018	(84,911)	(151,790)
Other Financing Sources (Uses)				
Transfers in	0	0	0	0
Transfers out	0	0	0	0
Grants	96,248	0	0	96,248
Total other financing sources and uses	96,248	0	0	96,248
				0
Net Change in Fund Balances	20,351	9,018	(84,911)	(55,542)
Fund Balances-beginning	250,264	52,689	369,256	672,209
Fund Balances-Ending	\$ 270,615	\$ 61,707	\$ 284,345	\$ 616,667

See accompanying notes to the basic financial statements.

City of Jenkins
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-
 Governmental Funds to the Statement of Activities**
 Year Ended June 30, 2012

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

Net change in fund balances-total governmental funds \$ (55,542)

Amounts reported for governmental activities in the Statement of Activities are
 different because:

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

Payments on long term debt	30,350
Capital asset purchases capitalized	128,365
Depreciation expense	<u>(82,285)</u>
	<u>76,430</u>

Change in Net Assets of Governmental Activities \$ 20,888

See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Revenues, Expenses, and Changes In Fund Net Assets
Proprietary Funds
Year Ended June 30, 2012

	Enterprise Funds			Totals
	Water	Sewer	Solid Waste	
Operating revenues:				
Charges for services	\$ 337,695	\$ 308,523	\$ 198,251	\$ 844,469
Miscellaneous	21,243	4,640	2,345	28,228
Total operating revenues	<u>358,938</u>	<u>313,163</u>	<u>200,596</u>	<u>872,697</u>
Operating expenses:				
Cost of goods sold	67,229	36,525	63,478	167,232
Personal services	198,612	106,592	113,896	419,100
Materials and supplies	48,097	21,364	16,883	86,344
Other services and charges	80,710	41,463	62	122,235
Depreciation	241,321	73,644	17,449	332,414
Total operating expenses	<u>635,969</u>	<u>279,588</u>	<u>211,768</u>	<u>1,127,325</u>
Net operating income	<u>(277,031)</u>	<u>33,575</u>	<u>(11,172)</u>	<u>(254,628)</u>
Nonoperating revenue (expense):				
Investment income	825	812	369	2,006
Interest expense	(11,250)	0	0	(11,250)
Grant and Intergovernmental	1,119,567	0	0	1,119,567
Total nonoperating revenue (expense)	<u>1,109,142</u>	<u>812</u>	<u>369</u>	<u>1,110,323</u>
Net Income before contributions and transfers	832,111	34,387	(10,803)	855,695
Capital contributions	0	0	0	0
Operating transfers in (out)				0
Net income	<u>832,111</u>	<u>34,387</u>	<u>(10,803)</u>	<u>855,695</u>
Net assets-beginning of year	<u>3,679,032</u>	<u>2,480,871</u>	<u>149,270</u>	<u>6,309,173</u>
Net assets-end of year	<u>\$4,511,143</u>	<u>\$2,515,258</u>	<u>\$ 138,467</u>	<u>\$7,164,868</u>

See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2012

	Enterprise Funds			Totals
	Water	Sewer	Solid Waste	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 366,854	\$ 319,012	\$ 202,066	\$ 887,932
Payments to suppliers	(196,103)	(99,352)	(80,424)	(375,879)
Payments to employees	(198,545)	(106,592)	(113,896)	(419,033)
Other	0	0	0	0
Net cash provided (used) by operating activities	(27,794)	113,068	7,746	93,020
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers (to) from other funds				0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Grant receipts	1,119,567	0	0	1,119,567
Loan proceeds	0	0	0	0
Water deposits	0	0	0	0
Fixed asset additions	(1,105,928)	0	0	(1,105,928)
Principal paid on capital debt	0	0	0	0
Interest paid on capital debt	(11,250)	0	0	(11,250)
Net cash provided (used) by capital and related financing activities	2,389	0	0	2,389
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest	825	812	369	2,006
Net increase (decrease) in cash and cash equivalents	(24,580)	113,880	8,115	97,415
Balances-beginning of year	76,020	287,371	24,887	388,278
Balances-end of year	\$ 51,440	\$ 401,251	\$ 33,002	\$ 485,693
Cash, including time deposits	51,440	344,375	33,002	428,817
Restricted cash, including time deposits	0	56,876	0	56,876
Total cash and cash equivalents, end of year	\$ 51,440	\$ 401,251	\$ 33,002	\$ 485,693
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (277,031)	\$ 33,575	\$ (11,172)	\$ (254,628)
Adjustments:				
Depreciation expense	241,321	73,644	17,449	332,414
Change in assets and liabilities:				
Change in accounts receivable	7,916	5,849	1,470	15,235
Change in accounts payable	(67)	0	(1)	(68)
Change in compensated leave	67	0	0	67
Net cash provided (used) by operating activities	\$ (27,794)	\$ 113,068	\$ 7,746	\$ 93,020

See accompanying notes to the basic financial statements.

City of Jenkins, Kentucky
Notes To Financial Statements
 June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

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

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

Blended Component Units

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

Blended Component Units

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

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

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2012

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

Government-wide Financial Statements:

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

Fund Financial Statements:

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

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

The funds of the financial reporting entity are described below:

Government Funds

General Fund

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

Municipal Road Aid

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

L.G.E.A. Fund

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

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2012

Proprietary Fund

Enterprise Fund

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

Major and Nonmajor Funds

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

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

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Measurement Focus

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

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

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

Basis of Accounting

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

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2012

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

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

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

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

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

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

Interfund Receivables and Payables

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

Receivables

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

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

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2012

Inventories

The Jenkins Water and Sewer Funds maintain on hand quantities of supplies and materials. These supplies and materials are not considered material and a value has not been placed on the items.

Fixed Assets

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

Government-wide Statements

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

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

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

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

Fund Financial Statements

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

Restricted Assets

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

Long-term Debt

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

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

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2012

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

Compensated Leave

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

Equity Classifications

Government-wide Statements

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

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

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements, as of June 30, 2012 the proprietary funds had restricted Net Assets of \$56,876 to fund future maintenance and ongoing construction costs. This amount is not available for ordinary use.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

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

Insurance Premium Tax

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

Operating Revenues and Expenses

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

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2012

Expenditures/Expenses

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

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

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

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

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

Interfund Transfers

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

1.F. USE OF ESTIMATES

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

NOTE 2. DEPOSITS

It is the City's objective for deposits to be 100 percent secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The City's policy is to confine all investments to certificates of deposit. The table presented below is designed to disclose the level of custody credit risk assumed by the City based upon how its deposits were insured or secured with collateral at June 30, 2012. The categories of credit risk are defined as follows:

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

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

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

City of Jenkins, Kentucky
Notes To Financial Statements
 June 30, 2012

As of June 30, 2012 the City's deposits (\$1,100,649) were insured by the FDIC-Category 1 and Category 2.

Note 3. ACCOUNTS RECEIVABLE

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
Accounts receivable	\$ 17,401	\$ 136,240	\$ 153,641
Allowance for doubtful accounts	<u>0</u>	<u>(61,000)</u>	<u>(61,000)</u>
Net Accounts Receivable	<u>\$ 17,401</u>	<u>\$ 75,240</u>	<u>\$ 92,641</u>

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	<u>Balance at July 1, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance At June 30, 2012</u>
<u>Governmental activities:</u>				
General	\$ 2,339,204	\$ 128,365	\$ 0	\$ 2,467,569
Less accumulated depreciation	<u>(383,030)</u>	<u>(82,285)</u>	<u>0</u>	<u>(465,315)</u>
Net	<u>\$ 1,956,174</u>	<u>\$ 46,080</u>	<u>\$ 0</u>	<u>\$ 2,002,254</u>
<u>Business-type activities</u>				
Land and improvements	\$ 3,936,799	\$ 0	\$ 0	\$ 3,936,799
Distribution and collection system	8,513,266	1,105,928	0	9,619,194
Buildings and equipment	<u>389,413</u>	<u>0</u>	<u>0</u>	<u>389,413</u>
Total	12,839,478	1,105,928	0	13,945,406
Less accumulated depreciation	<u>(6,465,672)</u>	<u>(332,414)</u>	<u>0</u>	<u>(6,798,086)</u>
Net	<u>\$ 6,373,806</u>	<u>\$ 1,438,342</u>	<u>\$ 0</u>	<u>\$ 7,147,320</u>

NOTE 5. COMMITMENTS

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

City of Jenkins, Kentucky
Notes To Financial Statements
 June 30, 2012

NOTE 6. RELATED PARTY TRANSACTIONS

There were no related party transactions.

NOTE 7. DEFICIT OPERATING BALANCES

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

General Fund	\$(75,897)
L.G.E.A.	\$(84,911)

NOTE 8. LONG-TERM DEBT

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
<u>Governmental Funds</u>					
Kentucky League of Cities:					
Fire Station	\$ 22,421	\$	\$ 22,421	\$ 0	0
City Hall	125,937		4,274	121,663	4,363
First State Bank Leasing					
Fire Truck	230,575		16,540	214,035	9,491
Total	\$ 378,933	\$ 0	\$ 43,235	\$ 335,698	\$ 13,854

Debt Service for the Years Ended June 30,

	Principal	Interest	Total
2013	\$ 13,854	\$ 19,714	\$ 33,568
2014	14,709	18,859	33,568
2015	15,618	17,950	33,568
2016	16,585	16,983	33,568
2017	17,615	15,954	33,569
2018-22	106,001	61,840	167,841
2023-27	119,333	24,448	143,781
2028-32	31,983	2,759	34,742
Totals	\$ 335,698	\$ 178,507	\$ 514,205

City of Jenkins, Kentucky
Notes To Financial Statements
 June 30, 2012

<u>Proprietary Funds</u>	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
USDA-RD-Water improvements	\$ 450,000	\$ 0	\$ 0	\$ 450,000	\$ 0

Debt Service for the Years Ended June 30,

	Principal	Interest	Total
2013	\$ 0	\$ 11,250	\$ 11,250
2014	12,127	5,625	17,752
2015	6,736	11,105	17,841
2016	6,905	10,846	17,751
2017	7,080	10,672	17,752
2018-22	38,160	50,597	88,757
2023-27	43,208	45,549	88,757
2028-32	48,925	39,745	88,670
2033-37	55,394	33,364	88,758
2038-42	62,722	26,037	88,759
2043-47	71,018	17,741	88,759
2048-52	80,411	8,347	88,758
2053-57	17,314	436	17,750
Totals	<u>\$ 450,000</u>	<u>\$ 271,314</u>	<u>\$ 721,314</u>

City Hall: Effective interest rate of 4.27% after considering all monthly fees. Payable monthly at \$792.34
 Fire Truck: Effective interest rate of 6.88%, payable semiannually at \$12,030 per payment or \$24,060 per year.

The USDA-RD loan is initially calculated at an annual interest rate of 2.5% with annual payments of approximately \$18,000. The City will pay interest only for the first two years and begin principal reduction in the fiscal year 2014.

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2012

NOTE 9. RISK MANAGEMENT

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

NOTE 10. CONTINGENCIES

The City is a recipient of several state grants. These programs and grants are subject to a variety of financial and compliance audits by the grantors or their representatives. The City's compliance with applicable requirements for 2012 will be established at a future date.

NOTE 11. RETIREMENT BENEFITS

The City participates in a retirement plan through the Commonwealth of Kentucky. The City is currently not contributing to the employees' accounts.

NOTE 12. EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through December 2, 2012, the date which the financial statements were available to be issued. The evaluation has disclosed the following events:

In November, 2012, the City closed on a direct loan with USDA-RD for \$450,000. The repayment term is for forty years at 3.375% interest. The City will pay interest only for the first two years.

City of Jenkins
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2012

Resources (inflows)	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
	\$	\$	\$	\$
4110.00 · Tower Rent			5,100	5,100
4111.00 · City Taxes	177,135	177,135	165,862	(11,273)
4111.01 · Bank Tax	6,900	6,900	7,042	142
4112.00 · Occupational License	14,200	14,200	13,220	(980)
4114.00 · Cable TV Franchise Fee	35,279	35,279	34,821	(458)
4114.01 · AEP Power Franchise	7,040	7,040	8,450	1,410
4116.00 · Base Ct Revenue	12,330	12,330	8,954	(3,376)
4117.00 · Ad Val Tax <i>Autos</i>	41,700	41,700	41,305	(395)
4117.01 · Motor vehicle <i>watercraft</i>	3,000	3,000	2,287	(713)
4119.00 · Delinquent Tax	28,200	28,200	23,950	(4,250)
4124.30 · Municipal Aid	47,412	47,412	58,104	10,692
4125.00 · Omitted Tangibles			1,072	1,072
4126.00 · Vehicle Stickers	13,500	13,500	11,548	(1,952)
4127.00 · Court Fines/Cita /Summons	4,000	4,000	2,181	(1,819)
4128.00 · Insurance Tax	107,500	107,500	99,178	(8,322)
4131.00 · LGEA Coal Sev Inc	128,781	128,781	104,817	(23,964)
4131.01 · Municipal Mineral Tax	107,720	107,720	89,135	(18,585)
4133.00 · Grants or Donations	0	0	96,248	96,248
4133.10 · Pride Grant	500	500	11,175	10,675
4134.00 · Public Service Tax	14,750	14,750	44,549	29,799
4150.20 · Police Incentive	12,400	12,400	6,004	(6,396)
4160.10 · Misc Admin	1,000	1,000	5,511	4,511
4160.20 · Misc Police Inc			1,073	1,073
4161.00 · B & D Income	2,400	2,400	2,310	(90)
4162.00 · Health Reimburs Transfer Income			4,000	4,000
4169.00 · Building Rental	18,600	18,600	23,825	5,225
4171.00 · Inc/Property Sale			1,007	1,007
4172.00 · Parks and Recreation	500	500	590	90
4173.20 · D.A.R.E	1,186	1,186	0	(1,186)
4180.10 · Reim Admin/Revenue Fund	1,000	1,000	3,603	2,603
4180.20 · Reimbursements police			26	26
4310.10 · Interest Income-Admin	800	800	272	(528)
4310.11 · Interest B& D Act			50	50
4310.20 · Interest Income Police			2	2
4310.30 · Interest Income Road	1,000	1,000	220	(780)
4310.50 · Interest Income Parks and Rec			2	2
4310.70 · Interest Income Downtown Ren			49	49
4310.80 · Interest Income Economic Aid	3,000	3,000	1,320	(1,680)
4310.90 · Interest Income Revenue Fund			386	386
Total Resources	791,833	791,833	879,248	87,415
Charges (outflows)				0
6109.00 · Refunds-3% Insurance Tax			226	(226)
6109.10 · non -employee contract labor			4,249	(4,249)
6109.11 · Refunds			2,822	(2,822)
6110.00 · Payroll Exp	243,500	243,500	226,890	16,610
6110.70 · Payroll Exp LGEA	28,000	28,000	26,414	1,586
6120.00 · Payroll Tax Expense			19,361	(19,361)
6185.10 · AEP Street Lights Admin	34,000	34,000	32,036	1,964

City of Jenkins
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2012

	Original	Final	Amounts	Positive (Negative)
6190.10 · AEP Expense Admin	9,000	9,000	12,212	(3,212)
6190.30 · AEP EXP RD	4,500	4,500	518	3,982
6190.40 · AEP Expense Fire Dept	10,000	10,000	10,780	(780)
6190.50 · AEP Exp Parks and Rec	6,000	6,000	6,821	(821)
6190.60 · AEP Expense Museum	3,000	3,000	2,401	599
6200.10 · AEP Outdoor Lights	3,500	3,500	3,359	141
6200.50 · AEP Outdoor lit Park			548	(548)
6300.00 · AEP Gateway Pk	3,600	3,600	3,351	249
6400.10 · Advertisement Exp Admin	2,000	2,000	4,990	(2,990)
6440.10 · Accounting Fees Admin Exp	9,500	9,500	8,268	1,232
6445.00 · Grant writing expense			1,260	(1,260)
6445.10 · City Attn Retainer	12,000	12,000	5,000	7,000
6445.30 · Legal Fees Admin	5,000	5,000	20,026	(15,026)
6445.32 · B & D EXPENSES	2,400	2,400	2,102	298
6450.10 · Fleet One Admin	3,600	3,600	5,402	(1,802)
6450.20 · Fleet One Police Dept	14,500	14,500	24,821	(10,321)
6450.30 · Fleet One Road	4,500	4,500	3,957	543
6450.40 · Fleet One Fire Dept	14,600	14,600	6,594	8,006
6560.10 · Bank Service Charges			1,020	(1,020)
6600.10 · Mayor Expense Admin			1,235	(1,235)
666.21 · Dare Expense	1,186	1,186	0	1,186
6660.00 · Expenses on buildings	10,731	10,731	22,304	(11,573)
6660.10 · Supplies and Equip Admin	35,887	35,887	8,519	27,368
6660.20 · Supplies and Equip Police	11,000	11,000	78,442	(67,442)
6660.30 · Supplies and Equip Road	22,643	22,643	17,808	4,835
6660.40 · Supplies and Equipment Fire	0	0	6,558	(6,558)
6660.41 · Fire Equip Lease Purchase			12,030	(12,030)
6660.50 · Supplies/ Park & Rec	15,000	15,000	17,772	(2,772)
6660.70 · LGEA Exp pub safety bills	50,000	50,000	0	50,000
6700.10 · Council Member Pay Admin	1,800	1,800	1,800	0
6710.10 · Health Ins Expense Admin	21,422	21,422	21,532	(110)
6710.11 · Health Ins Deductables	11,400	11,400	33,984	(22,584)
6710.20 · HEALTH INS POLICE DEPT	24,078	24,078	15,877	8,201
6710.30 · health Ins Road	4,120	4,120	4,141	(21)
6716.10 · Dental Ins Admin	2,000	2,000	1,018	982
6716.20 · Dental Expense Police	2,000	2,000	904	1,096
6719.10 · Property Ins Admin	16,045	16,045	24	16,021
6720.10 · Gen/Liab Insurance	37,950	37,950	0	37,950
6724.10 · Work/comp Ins Admin	6,630	6,630	0	6,630
6724.30 · Work/Comp Ins Road	2,800	2,800	0	2,800
6740.10 · Bond Ins Admin			878	(878)
6740.20 · Bond Ins Police			407	(407)
6741.21 · Auto Insur Police			1,162	(1,162)
6750.10 · Tax Roll Prep Fee Admin			2,547	(2,547)
6770.10 · Loan Pmt New City Hall	9,500	9,500	6,591	2,909
6770.20 · Main/Repair Police			4,868	(4,868)
6770.30 · Repairs RD Streets/Sidewalks	26,360	26,360	15,557	10,803
6770.31 · Streets /Lgea Fds	20,000	20,000	0	20,000
6770.41 · Debt ser fire dept	24,060	24,060	22,456	1,604
6771.31 · Main/Repair Equip RD			3,925	(3,925)
6784.10 · Main/Repair Rental Bldg			1,200	(1,200)
6796.10 · Training Exp Admin			1,183	(1,183)
6796.20 · Training Exp Police			1,581	(1,581)

City of Jenkins
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2012

	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Positive (Negative)</u>
6796.40 · Training Expense Fire	2,000	2,000	1,080	920
6800.10 · Postage Admin			259	(259)
6803.00 · Pride grt exp			2,041	(2,041)
6810.10 · Misc Exp Admin			10,569	(10,569)
6810.20 · Misc Expense Police			2,757	(2,757)
6810.30 · Misc Expense Road			550	(550)
6810.50 · Misc Parks and Rec			1,062	(1,062)
6837.10 · Jen Festival Expense	5,000	5,000	2,240	2,760
6837.11 · Jenkins Centennial Exp			2,000	(2,000)
6838.60 · Museum Expense			542	(542)
6840.10 · Telephone Admin	5,375	5,375	4,286	1,089
6840.20 · Telephone Police	2,300	2,300	0	2,300
6840.40 · Telephone Fire	800	800	695	105
6840.60 · Telephone Museum	560	560	534	26
6841.10 · Telephone Cell Admin			1,693	(1,693)
6841.11 · TELEPHONE CELL RD	630	630	789	(159)
6841.20 · Telephone Cell Police			2,253	(2,253)
6841.40 · Telephone Cell Fire			217	(217)
6842.10 · Internet Exp			223	(223)
6845.10 · DUES & SUBSCRIPTIONS			2,326	(2,326)
6850.10 · Travel Expense City Admin			4,173	(4,173)
6850.20 · Travel Exp Police			84	(84)
6860.10 · KRADD Admin	1,849	1,849	1,696	153
6865.10 · Rental Equipment Admin			662	(662)
6870.00 · Grt Funds Reimbursement			255	(255)
6870.10 · Reimbursements Admin			2,813	(2,813)
6870.20 · Reimbursement Police			358	(358)
6877.10 · Supplies Admin			6,855	(6,855)
6877.20 · Supplies Police			1,525	(1,525)
6877.30 · Supplies Road			17,457	(17,457)
6880.10 · Office Supplies Admin			85	(85)
6886.10 · Lic/Permit/bonds/ Tags/Deeds			325	(325)
6887.10 · Service Agreement Admin			55	(55)
6896.10 · Computer Programmer Service			1,850	(1,850)
Total Charges	<u>544,826</u>	<u>544,826</u>	<u>589,150</u>	<u>(44,324)</u>
NET CHANGE	<u>\$ 247,007</u>	<u>\$ 247,007</u>	<u>\$ 290,098</u>	<u>\$ 43,091</u>

City of Jenkins, Kentucky

Single Audit Section

Year Ended June 30, 2012

City of Jenkins
Schedule Of Expenditures Of Federal Awards
 For The Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/ Program Title:	Federal CFDA Number	Pass-Through Grantor Number	Expenditures
Department of Housing and Urban Development:			
Passed through Kentucky Governor's Office-Department For Local Government	14.228	08-011	\$ 113,510
United States Department Of Agriculture-Rural Development:			
	10.781	KY-91-01 KY-91-02	\$175,560
Department of The Interior:			
Abandoned Mine Lands Reclamation (AMLR) Program	15.252	KY-SO9AP1537	<u>\$ 805,108</u>
Total Expenditures of Federal Awards			<u>\$1,094,178</u>

See Accompanying notes to schedule of expenditures of federal awards.

City of Jenkins
Notes To The Schedule Of Expenditures Of Federal Awards
For The Year Ended June 30, 2012

Note 1-Basis of Presentation

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

City of Jenkins
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2012

Summary of Audit Results:

1. The auditor's report expresses an unqualified opinion of the basic financial statements of the City of Jenkins.
2. No instances of noncompliance material to the basic financial statements of the City of Jenkins were disclosed during the audit.
3. No instances of significant deficiencies were disclosed during the audit of the major federal award programs.
4. The auditor's report on compliance for the major federal award programs for the City of Jenkins expresses an unqualified opinion.
5. The program tested as major program was:
 - i. Department of The Interior
Abandoned Mine Lands Reclamation (AMLR) Program
CFDA 15.252
6. The City of Jenkins was determined to be a low-risk auditee

Findings and Questioned Costs – Major Federal Award Program:

NONE

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Nicholasville, Kentucky 40356
859.224.8909

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

The Mayor and City Council
City of Jenkins
Jenkins, Kentucky

Compliance

We have audited the compliance of the City of Jenkins, Kentucky, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2012. The City of Jenkins' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Jenkins' management. Our responsibility is to express an opinion of the City of Jenkins' compliance based on our audit.

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

In our opinion, the City of Jenkins complied, in all material respects, with the requirements referred to above that are applicable to each of its major programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

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

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

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

December 2, 2012

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

The Mayor and City Council
City of Jenkins
Jenkins, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jenkins as of and for the year ended June 30, 2012, and have issued our report thereon dated December 2, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance

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

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

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

December 2, 2012