

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JUN 1 2017

PUBLIC SERVICE  
COMMISSION

IN THE MATTER OF:

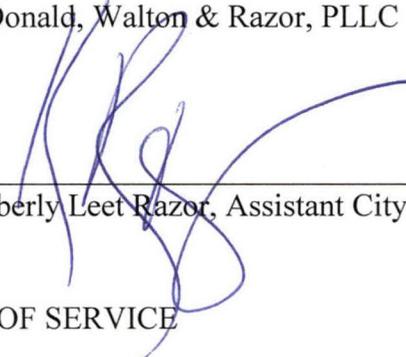
CITY OF FLEMINGSBURG AND CITY OF )  
FLEMINGSBURG UTILITY SYSTEM )  
ALLEGED FAILURE TO COMPLY WITH )  
KRS 278.495 AND 49 CFR PART 192.605 (a); )  
49 CFR PART 192.721; 49 CFR PART 199.105: )  
AND 49 CFR 199.225 )

CASE NO. 2017-00079

**RESPONSE OF CITY OF FLEMINGSBURG AND FLEMINGSBURG  
UTILITY SYSTEM TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

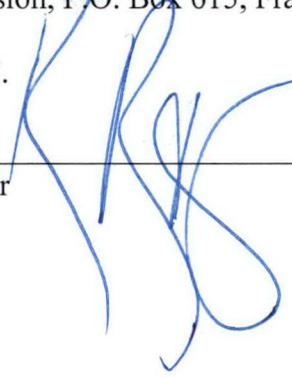
Please see the attached Affidavit of Joetta Marshall, City Clerk, City of Flemingsburg, Kentucky in response to the Commission Staff's First Request for Information dated May 25, 2017.

MacDonald, Walton & Razor, PLLC

By:   
\_\_\_\_\_  
Kimberly Leet Razor, Assistant City Attorney

CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing Response, Affidavit, and requested documentation was filed with the Commission by express mailing the original and ten copies to Talina R. Matthews, Executive Director, Public Service Commission, P.O. Box 615, Frankfort, KY 40602, and to parties of record this 31 day of May, 2017. <sup>211 Sonar Blvd.</sup>

\_\_\_\_\_  
Kimberly Leet Razor 

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BEFORE THE PUBLIC SERVICE COMMISSION

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IN THE MATTER OF:

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49 CFR PART 192.721; 49 CFR PART 199.105: )  
AND 49 CFR 199.225 )

CASE NO. 2017-00079

AFFIDAVIT

Comes the affiant, Joetta Marshall, and after first being duly sworn, states as follows:

1. My name is Joetta Marshall.

2. I am the City Clerk for the City of Flemingsburg, Kentucky and the custodian of records for the City of Flemingsburg, Kentucky.

3. On May 25, 2017, the Commission Staff requested, and I am responding as set forth below:

a) The audited financial statements for the city of Flemingsburg for the years 2013, 2014, 2015 and 2016.

Attached hereto are the original (and ten copies) of audited financial statements for the years 2013, 2014, 2015 and 2016 as prepared by Morgan-Franklin, LLC.

b) Any separate additional financial statements or supplemental financial reports that accompany the audited financial statements for the city of Flemingsburg for the years 2013, 2014, 2015 and 2016:

There are no separate or supplemental financial reports other than what are contained in the response to (a) above.

c) Any separate financial statements or supplemental financial reports concerning the Flemingsburg Utility System prepared by Flemingsburg's auditors, or external accountants during the period from January 1, 2014, to the present.

There are no separate or supplemental financial reports concerning the Flemingsburg Utility System prepared by auditors, or external accountants from January 1, 2014 to the present other than what is contained in the response to (a) above.

Further the affiant sayeth naught this 30 day of May, 2017.

Joetta Marshall  
Joetta Marshall  
City Clerk  
City of Flemingsburg

STATE OF KENTUCKY  
COUNTY OF FLEMING

Before me personally appeared Joetta Marshall, personally known to me, who signed and acknowledged the foregoing Affidavit to be her free act and deed for all purposes therein contained.

Witness my hand and official seal this 30 day of May, 2017.

[Signature]  
Notary Public, State at Large  
My Comm. Expires: 11/14/17

Prepared by:

[Signature]  
KIMBERLY LEET RAZOR  
MACDONALD, WALTON & RAZOR, PLLC  
129 WEST WATER STREET  
FLEMINGSBURG, KY 41041

**CITY OF FLEMINGSBURG,  
KENTUCKY**

**AUDITED FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2013**

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# *Morgan-Franklin, LLC*

*Certified Public Accountants*

749 Broadway Street

P.O. Box 428

West Liberty, KY 41472

Brenda K. Morgan, CPA

Jody B. Franklin, CPA

Phone: (606) 743-1884

Fax: (606) 743-1895

[www.morganfranklincpa.com](http://www.morganfranklincpa.com)

## **INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and Council Members  
City of Flemingsburg, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of City of Flemingsburg, Kentucky, as of and for the year ended June 30, 2013, 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 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 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 auditors consider 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 opinions.

Honorable Mayor and City Council Members  
City of Flemingsburg, Kentucky

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of City of Flemingsburg, Kentucky, as of June 30, 2013, 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 budgetary comparison information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Flemingsburg, Kentucky's 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 States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information 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. The 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Honorable Mayor and City Council Members  
City of Flemingsburg, Kentucky

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2013, on our consideration of the City of Flemingsburg, 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 Flemingsburg, Kentucky's internal control over financial reporting and compliance.

*Morgan - Frankli, LLC*

West Liberty, Kentucky  
November 1, 2013

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
As of June 30, 2013

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 742,870	\$ 1,123,148	\$ 1,866,018
Receivables:			
Customers	21,596	165,937	187,533
Unbilled		95,755	95,755
Allowance - Uncollectibles		(12,642)	(12,642)
Grants	126,694		126,694
Interest	114		114
Prepaid Expenses	72,587	466,205	538,792
Due from Other Funds	36,389		36,389
Natural Gas Inventory		50,070	50,070
Refinancing Fees		11,648	11,648
Restricted Cash and Cash Equivalents		463,940	463,940
<b>Total Current Assets</b>	<b>1,000,250</b>	<b>2,364,061</b>	<b>3,364,311</b>
Noncurrent Assets:			
Capital Assets - Net of Accum. Depreciation			
Land	457,474	345,572	803,046
Construction In Progress	985,276	3,044,159	4,029,435
Land Improvements	122,277		122,277
Buildings and Improvements	980,272	50,707	1,030,979
Water Utility Plant		2,252,077	2,252,077
Waste Water Plant		1,428,717	1,428,717
Gas Utility		947,516	947,516
Machinery and Equipment	69,094	274,493	343,587
Office Furniture and Equipment	1,550	2,794	4,344
Vehicles	474,845	46,083	520,928
Infrastructure	279,388		279,388
<b>Total Noncurrent Assets</b>	<b>3,370,176</b>	<b>8,392,118</b>	<b>11,762,294</b>
<b>Total Assets</b>	<b>4,370,426</b>	<b>10,756,179</b>	<b>15,126,605</b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
As of June 30, 2013

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>LIABILITIES</b>			
Current Liabilities:			
Accrued Payroll Expenses	21,891		21,891
Accounts Payable - Trade	160,004	26,840	186,844
Accounts Payable - Construction	30,000	666,565	696,565
Accrued Compensated Absences	109,388	50,601	159,989
Customer Deposits		58,975	58,975
Sales Tax Payable		3,902	3,902
School Tax Payable		17,457	17,457
Loan	47,155		47,155
Due to Other Funds		36,389	36,389
<b>Total Current Liabilities</b>	<b>368,438</b>	<b>860,729</b>	<b>1,229,167</b>
Noncurrent Liabilities:			
Loans	214,197	776,308	990,505
<b>Total Noncurrent Liabilities</b>	<b>214,197</b>	<b>776,308</b>	<b>990,505</b>
<b>Total Liabilities</b>	<b>582,635</b>	<b>1,637,037</b>	<b>2,219,672</b>
<b>NET POSITION</b>			
Invested in Capital Assets, Net of Related Debt	3,078,824	6,949,245	10,028,069
Restricted for:			
Capital Projects	405	429,622	430,027
Depreciation Reserve		34,318	34,318
Unrestricted	708,562	1,705,957	2,414,519
<b>Total Net Position</b>	<b>\$ 3,787,791</b>	<b>\$ 9,119,142</b>	<b>\$ 12,906,933</b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**For The Year Ended June 30, 2013**

Functions/Programs	Expenses	Program Revenues Received			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government:</b>							
Governmental Activities:							
General Government	\$ 486,357	\$ 262,930	\$	\$ 184,251	\$ (39,176)	\$	\$ (39,176)
Public Safety and Health	505,786	13,908	25,550		(466,328)		(466,328)
Streets and Roads	495,166			82,842	(412,324)		(412,324)
Parks and Recreation	42,822				(42,822)		(42,822)
Interest on Long Term Debt	3,168				(3,168)		(3,168)
Unallocated Depreciation	205,582				(205,582)		(205,582)
CATV/Cable Board	16,751				(16,751)		(16,751)
<b>Total Governmental Activities</b>	<b>1,755,632</b>	<b>276,838</b>	<b>25,550</b>	<b>267,093</b>	<b>(1,186,151)</b>		<b>(1,186,151)</b>
Business-type Activities:							
Utilities	1,956,624	2,344,333		1,283,444		1,671,153	1,671,153
<b>Total Primary Government</b>	<b>\$ 3,712,256</b>	<b>\$ 2,621,171</b>	<b>\$ 25,550</b>	<b>\$ 1,550,537</b>	<b>(1,186,151)</b>	<b>1,671,153</b>	<b>485,002</b>
<b>General Revenues, Transfers, and Special Items:</b>							
Taxes							
Real Property Taxes					161,437		161,437
Personal Property Taxes					35,150		35,150
Insurance Premium Taxes					252,923		252,923
Licenses							
Occupational Licenses					592,195		592,195
Other Licenses					101,589		101,589
Franchise Fees					122,509		122,509
Miscellaneous					45,273		45,273
Interest Earned					4,480	4,796	9,276
<b>Total General Revenues, Transfers and Special Items</b>					<b>1,315,556</b>	<b>4,796</b>	<b>1,320,352</b>
<b>Change in Net Position</b>					<b>129,405</b>	<b>1,675,949</b>	<b>1,805,354</b>
<b>Net Position - Beginning (Restated)</b>					<b>3,658,386</b>	<b>7,443,193</b>	<b>11,101,579</b>
<b>Net Position - Ending</b>					<b>\$ 3,787,791</b>	<b>\$ 9,119,142</b>	<b>\$ 12,906,933</b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
As of June 30, 2013

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Community Television Access Board</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 692,338	\$ 11,189	\$ 39,343	\$ 742,870
Receivables	23,400	124,890		148,290
Interest Receivable		114		114
Prepaid Expenses	72,587			72,587
Due from Other Funds	194,331	141		194,472
<b>TOTAL ASSETS</b>	<b>982,656</b>	<b>136,334</b>	<b>39,343</b>	<b>1,158,333</b>
<b>LIABILITIES</b>				
Accounts Payable - Trade	158,806		1,198	160,004
Accounts Payable - Construction	30,000			30,000
Accrued Payroll Expenses	21,891			21,891
Accrued Compensated Absenses	109,388			109,388
Due to Other Funds		158,083		158,083
<b>TOTAL LIABILITIES</b>	<b>320,085</b>	<b>158,083</b>	<b>1,198</b>	<b>479,366</b>
<b>FUND BALANCES</b>				
Fund Balances:				
Nonspendable	72,587			72,587
Committed for CTA			38,145	38,145
Restricted for Capital Projects		(21,749)		(21,749)
Unassigned	589,984			589,984
<b>TOTAL FUND BALANCES</b>	<b>\$ 662,571</b>	<b>\$ (21,749)</b>	<b>\$ 38,145</b>	<b>\$ 678,967</b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**As of June 30, 2013**

**Reconciliation to Statement of Changes in Net Position:**

Total Governmental Fund Balances	\$ 678,967
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital Assets Used in Governmental Activities of \$5,883,206, Net of Accumulated Depreciation of \$2,513,030, are Not Financial Resources and, Therefore, are Not Reported in the Funds.	3,370,176
Long-term Debt is Not Due and Payable in the Current Period and, Therefore, is Not Reported in the Funds.	<u>(261,352)</u>
<b>Net Position of Governmental Activities</b>	<b><u><u>\$ 3,787,791</u></u></b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**For The Year Ended June 30, 2013**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Community Television Access Board</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 452,435	\$	\$	\$ 452,435
Licenses & Permits	790,096		26,199	816,295
Intergovernmental Revenues	120,778	124,891		245,669
Charges for Services	271,347			271,347
Fines and Forfeitures	916			916
Other Revenue	93,903			93,903
<b>Total Revenues</b>	<u>1,729,475</u>	<u>124,891</u>	<u>26,199</u>	<u>1,880,565</u>
<b>EXPENDITURES</b>				
<b>Current</b>				
General Government	486,357			486,357
Public Safety and Health	505,786			505,786
Streets and Roads	495,166			495,166
Parks and Recreation	42,822			42,822
CATV / Cable Board			16,752	16,752
<b>Total Expenditures</b>	<u>1,530,131</u>	<u></u>	<u>16,752</u>	<u>1,546,883</u>
Excess (Deficiency) of Revenues over Expenditures Before Transfers and Other Financing Sources (Uses)	199,344	124,891	9,447	333,682
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital Outlay	(450,757)	(151,460)		(602,217)
Debt Proceeds	200,000			200,000
Debt Service	(47,295)			(47,295)
Interest Expense	(3,168)			(3,168)
Interest Income	4,322	106	50	4,478
<b>Total Other Financial Sources (Uses)</b>	<u>(296,898)</u>	<u>(151,354)</u>	<u>50</u>	<u>(448,202)</u>
Net Change in Fund Balances	(97,554)	(26,463)	9,497	(114,520)
Fund Balances, Beginning - Restated	<u>760,125</u>	<u>4,714</u>	<u>28,648</u>	<u>793,487</u>
Fund Balances, Ending	<u>\$ 662,571</u>	<u>\$ (21,749)</u>	<u>\$ 38,145</u>	<u>\$ 678,967</u>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For The Year Ended June 30, 2013**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances-Total Governmental Funds	\$	(114,520)
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Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense:

Capital Outlay		602,217
Depreciation Expense		(205,584)

The Issuance of Long-Term Debt Provides Current Financial Resources to Governmental Funds While Lease and Bond Principal Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources. These Transactions; However, Have No Effect on Net Position.

Long-Term Debt Proceeds		(200,000)
Long-Term Debt Principal Payments		47,295

Rounding		(3)
----------	--	-----

Change in Net Position of Governmental Activities	\$	<u>129,405</u>
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The accompanying notes are an integral part of the financial statements.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF FUND NET POSITION - PROPRIETARY FUND**  
**As of June 30, 2013**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	1,123,148
Receivables:		
Customers		165,937
Unbilled		95,755
Allowance - Uncollectibles		(12,642)
Prepaid Expenses & Misc A/R		466,205
Restricted Assets:		
Cash and Cash Equivalents		463,940
Natural Gas Inventory		50,070
Refinancing Fees		11,648
		11,648

Total Current 2,364,061

Noncurrent Assets:

Capital Assets-Net of Accum. Depr.		
Land		345,572
Construction in Progress		3,044,159
Buildings and Improvements		50,707
Water Utility Plant		2,252,077
Waste Water Plant		1,428,717
Gas Utility		947,516
Machinery and Equipment		274,493
Office Furniture and Equipment		2,794
Vehicles		46,083
		46,083

Total Noncurrent Assets 8,392,118

Total Assets 10,756,179

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF FUND NET POSITION - PROPRIETARY FUND**  
**As of June 30, 2013**

**LIABILITIES**

Current Liabilities

Accounts Payable - Trade	26,840
Customer Deposits	58,975
Sales Tax Payable	3,902
School Tax Payable	17,457
Accrued Compensated Absences	50,601
Due to Other Funds	36,389
Accounts Payable - Construction	<u>666,565</u>

Total Current Liabilities 860,729

Noncurrent Liabilities

Loan	<u>776,308</u>
------	----------------

Total Noncurrent Liabilities 776,308

Total Liabilities 1,637,037

**NET POSITION**

Invested in Capital Assets, Net of Related Debt 6,949,245

Restricted for:

Depreciation Reserve	34,318
Capital Projects	429,622

Unrestricted 1,705,957

Total Net Position \$ 9,119,142

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET POSITION - PROPRIETARY FUND**  
**For the Year Ended June 30, 2013**

	Water Fund	Waste Water Fund	Gas Fund	Total
<b>OPERATING REVENUES</b>				
Charges for Services	\$ 760,467	\$ 607,717	\$ 921,003	\$ 2,289,187
Other Revenue	14,924	40,222		55,146
Total Operating Revenues	775,391	647,939	921,003	2,344,333
<b>OPERATING EXPENSES</b>				
Gas Purchases			429,014	429,014
Water Purchases	209,747			209,747
Salaries and Wages	92,587	102,435	123,541	318,563
Fringe Benefits	53,423	45,078	58,709	157,210
Contractual Services	68,083	116,978	19,239	204,300
Materials and Supplies	145,592	49,291	27,937	222,820
Other Charges	7,276	7,247	13,530	28,053
Amortization	1,159			1,159
Depreciation	129,052	189,763	64,551	383,366
Total Operating Expenses	706,919	510,792	736,521	1,954,232
<b>NET OPERATING INCOME (LOSS)</b>	68,472	137,147	184,482	390,101
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest Income				4,796
Loss on Disposal of Assets				(283)
Interest Expense				(2,109)
Total Non-Operating Revenues (Expenses)				2,404
<b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>				392,505
Contributions in Aid of Construction				1,283,444
Change in Net Position				1,675,949
<b>NET POSITION - BEGINNING OF YEAR (Restated)</b>				7,443,193
<b>NET POSITION - END OF YEAR</b>				\$ 9,119,142

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**For the Year Ended June 30, 2013**

<b>Cash flows from Operating Activities:</b>	
Payments Received from Customers	\$ 2,251,134
Other Revenues	55,146
Payments to Suppliers	(1,140,044)
Payments for Salaries and Benefits	(471,482)
Net Cash Provided (Used) by Operating Activities	<u>694,754</u>
<b>Cash Flows from NonCapital Financing Activities:</b>	
Increase in Net Cash Due to Other Funds	36,976
Increase in Restricted Cash	(11,851)
Net Cash Provided (Used) by NonCapital Financing Activities	<u>25,125</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Grants Received	883,444
Debt Proceeds	693,218
Capital Asset Purchases	(1,783,835)
Interest Paid on Debt	(2,109)
Net Cash Provided (Used) by Financing Activities	<u>(209,282)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest Income	4,796
Net Cash Provided (Used) by Investing Activities	<u>4,796</u>
Net Increase (Decrease) in Cash	515,393
Cash at Beginning of Year	607,755
Cash at End of Year	<u><u>\$ 1,123,148</u></u>
<b>Reconciliation of Operating Income to Net Cash Used</b>	
<b>by Operating Activities</b>	
Operating Income (Loss)	\$ 390,101
Adjustment to Reconcile Operating Income to	
Cash Provided (Used) by Operating Activities	
Depreciation	383,366
Amortization	1,159
Changes in Assets and Liabilities:	
Customer Receivable	(36,188)
Prepaid Insurance	(62,781)
Accounts Payable - Trade	(19,100)
Natural Gas Inventory	28,558
Customer Deposits	(1,865)
Accrued Liabilities	7,213
Payroll Liabilities	4,291
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 694,754</u></u>
<b>Significant Noncash Transaction:</b>	
Forgiveness of Debt	\$ 297,093

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

Financial Reporting Entity

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

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

The financial statements of the City of Flemingsburg include the funds, agencies, boards, and entities for which the City is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Auditing Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the city is financially accountable or the organization's exclusion would cause the city's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefit the primary government even though it does not provide services directly to it or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Community Television Access Board – This component unit was created by an interlocal agreement and has jointly appointed board members. The revenue is generated primarily from City cable franchise fees. Due to the special financing arrangement and the ability to significantly influence operations, this has been included as a blended component unit.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Government-Wide and Fund Financial Statements

In March 2009, the Governmental Accounting Standard Board (GASB) issued Statement No. 54 – *Fund Balance Reporting and Government Fund Type Definitions*. This Statement established fund balance classifications based primarily on the extent to which the city is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance classification policies and procedures. The City implemented this standard effective July 1, 2010.

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

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

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

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

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Government-Wide and Fund Financial Statements (Continued)

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

Governmental Funds

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

The primary government reports the following major governmental funds:

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

**Community Development Fund** – This is a Special Revenue fund used to account for the following:

**Community Development Block Grant Program (CDBG)** – CDBG project for low interest housing rehabilitation loans. The funds are no longer restricted to housing rehabilitation loans and are used for community development.

**Lerman Building Project** – CDBG project to renovate a historical downtown retail building for use as elderly residential apartments.

**Streetscape Project** – CDBG project to restore downtown by relocating all utility service lines from sight on Main Street.

Proprietary Funds

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

**Utility Fund** - The utility fund is used to account for the provision of gas, water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the gas, water and sewer system and billing and collection activities. The fund also accounts for the

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Proprietary Funds (Continued)

Utility Fund (Continued) - accumulation of resources for, and the payment of, long-term debt principal and interest for gas, water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

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.

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

Budgeting

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

Encumbrances

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

Inventory

Inventory consists of gas reserves and is stated at cost.

Capital Assets

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

Major additions and improvements are capitalized including extensions to water or sewer lines, sometimes referred to as infrastructure, while cost of normal maintenance and repairs that do not add to

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital Assets (Continued)

the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is capitalized for proprietary funds.

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

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

Cash and Investments

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

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

Use of Estimates

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

Unearned Revenues

The City allows gas customers to prepay for gas during the summer months on a budget plan. The prepayments are included in current year income.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Unbilled Receivables

The City reads meters on approximately the 10<sup>th</sup> of each month for water and sewer, on the 18<sup>th</sup> of each month for gas meters, and garbage is billed for the previous month. The bills for the current reading go out on the first day of the following month. The Unbilled Receivables represents approximately 19 days of water and sewer usage, 11 days of gas usage.

Long-term Obligations

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

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

Fund Equity

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

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

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

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

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Equity (Continued)

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

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

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2013 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

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

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

**NOTE B - DEPOSITS**

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE B - DEPOSITS (CONTINUED)**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the city's deposits may not be returned to it. The city does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2013, the bank balance was \$2,725,937. These deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Deposits Covered By Federal Insurance	\$ 500,000
Deposits Collateralized	<u>2,225,937</u>
Total Bank Balance	<u>\$ 2,725,937</u>

**NOTE C - LONG-TERM DEBT**

Governmental Activities

On September 22, 2008, the City entered into a loan agreement with Peoples Bank for \$112,117 in order to purchase a 2008 garbage truck. Terms of the agreement stipulate a five-year repayment schedule, with monthly principal and interest payments of \$2,075, and an interest rate of 4.2 percent. As of June 30, 2013, the principal balance was \$6,142. Obligation for the remaining year is:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2014	\$ 6,142	\$ 812	\$ 6,954
	<u>\$ 6,142</u>	<u>\$ 812</u>	<u>\$ 6,954</u>

On September 24, 2010, the City entered into a loan agreement with Peoples Bank for \$117,000 in order to purchase a 2011 garbage truck. Terms of the agreement stipulate a five-year repayment schedule, with monthly principal and interest payments of \$2,130, and an interest rate of 3.5 percent. As of June 30, 2013, the principal balance was \$55,210. Obligations for the remaining years are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2014	\$ 24,012	\$ 2,375	\$ 26,387
2015	24,866	1,550	26,416
2016	<u>6,332</u>	<u>696</u>	<u>7,028</u>
	<u>\$ 55,210</u>	<u>\$ 4,621</u>	<u>\$ 59,831</u>

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE C - LONG-TERM DEBT (Continued)**

Governmental Activities (Continued)

In 2012, the City issued \$200,000 in General Obligation Bonds for the purpose of financing the cost (not otherwise provided) of the acquisition of a fire truck for the City. These bonds are scheduled to mature in 2023 and carry an interest rate of 3.375 percent. Semiannual interest payments are required on July 1 and January 1 of each year. As of June 30, 2013, the principal balance was \$200,000. Obligations for the remaining years are:

Year	Principal	Interest	Total Payment
2014	\$ 17,000	\$ 6,176	\$ 23,176
2015	17,500	5,586	23,086
2016	18,500	4,962	23,462
2017	19,000	4,320	23,320
2018	19,500	3,662	23,162
2019-2023	108,500	7,610	116,110
	\$ 200,000	\$ 32,316	\$ 232,316

Business-Type Activities

During the 2012 Fiscal Year, the City entered into a revolving loan agreement with Kentucky Infrastructure Authority for up to \$8,906,000 with an interest rate of 1%. During the fiscal year ended June 30, 2013, draws were made totaling \$990,311; however, \$297,093 of this debt has been forgiven. Total draws to date have been \$1,109,011. Total debt forgiven to date equals \$332,703; leaving a principal balance as of June 30, 2013 of \$776,308.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE D – LONG-TERM LIABILITIES IN THE AGGREGATE**

Governmental Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2014	\$ 47,154	\$ 9,363	\$ 56,517
2015	42,366	7,136	49,502
2016	24,832	5,658	30,490
2017	19,000	4,320	23,320
2018	19,500	3,662	23,162
2019-2023	<u>108,499</u>	<u>7,610</u>	<u>116,109</u>
	<u>\$ 261,351</u>	<u>\$ 37,749</u>	<u>\$ 299,100</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 108,647</u>	<u>\$ 200,000</u>	<u>\$ (47,295)</u>	<u>\$ 261,352</u>	<u>\$ 47,155</u>
Governmental Activities Long-term Liabilities	<u>\$ 108,647</u>	<u>\$ 200,000</u>	<u>\$ (47,295)</u>	<u>\$ 261,352</u>	<u>\$ 47,155</u>
<u>Proprietary Fund Activities:</u>					
Financing Obligations	<u>\$ 83,090</u>	<u>\$ 693,218</u>	<u>\$</u>	<u>\$ 776,308</u>	<u>\$</u>
Proprietary Fund Activities Long-term Liabilities	<u>\$ 83,090</u>	<u>\$ 693,218</u>	<u>\$ 0</u>	<u>\$ 776,308</u>	<u>\$ 0</u>

Interest paid on debt was \$3,169 for governmental activities and \$2,109 for business-type activities for the fiscal year ended June 30, 2013.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE F – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2013, consisted of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets not Being Depreciated:				
Land	\$ 457,474	\$	\$	\$ 457,474
Construction in Progress	767,752	217,524		985,276
Total Capital Assets not Being Depreciated	1,225,226	217,524		1,442,750
Capital Assets, Being Depreciated:				
Land Improvements	146,742			146,742
Buildings and Improvements	1,589,513	10,000		1,599,513
Machinery and Equipment	698,123	11,435		709,558
CTA Equipment	150,504		150,504	0
Office Furniture and Equipment	72,341			72,341
Vehicles	1,181,631	316,881	17,864	1,480,648
Infrastructure	385,277	46,377		431,654
Total Capital Assets Being Depreciated	4,224,131	384,693	168,368	4,440,456
Less Accumulated Depreciation For:				
Land Improvements	14,682	9,783		24,465
Buildings and Improvements	577,810	41,432		619,242
Machinery and Equipment	618,461	22,003		640,464
CTA Equipment	150,504		150,504	0
Office Furniture and Equipment	70,013	778		70,791
Vehicles	918,448	105,219	17,864	1,005,803
Infrastructure	125,896	26,369		152,265
Total Accumulated Depreciation	2,475,814	205,584	168,368	2,513,030
Total Capital Assets, Being Depreciated, Net	1,748,317	179,109		1,927,426
Governmental Activities Capital Assets, Net	\$ 2,973,543	\$ 396,633	\$ 0	\$ 3,370,176

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE F – CAPITAL ASSETS (CONTINUED)**

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 282,912	\$ 62,660	\$	\$ 345,572
Construction in Progress	1,528,992	2,216,125	700,958	3,044,159
Total Capital Assets Not Being Depreciated	1,811,904	2,278,785	700,958	3,389,731
Capital Assets, Being Depreciated:				
Buildings and Improvements	69,139			69,139
Water Utility Plant	3,786,689	705,758		4,492,447
Waste Water Plant	2,333,485			2,333,485
Gas Utility	5,716,215			5,716,215
Machinery and Equipment	717,348	12,200	3,270	726,278
Office Furniture	36,359			36,359
Vehicles (Restated)	187,309	17,985	21,857	183,437
Total Capital Assets Being Depreciated	12,846,544	735,943	25,127	13,557,360
Less Accumulated Depreciation For:				
Buildings and Improvements	14,550	3,882		18,432
Water Utility Plant	2,136,814	103,556		2,240,370
Gas Utility	1,334,939	51,029		1,385,968
Waste Water Plant	4,121,566	165,932		4,287,498
Machinery and Equipment	417,008	37,394	2,616	451,786
Office Furniture	33,213	349		33,562
Vehicles (Restated)	137,986	21,228	21,857	137,357
Total Accumulated Depreciation	8,196,076	383,370	24,473	8,554,973
Total Capital Assets Being Depreciated, Net	4,650,468	352,573	654	5,002,387
Total Utilities Capital Assets, Net	<u>\$ 6,462,372</u>	<u>\$ 2,631,358</u>	<u>\$ 701,612</u>	<u>\$ 8,392,118</u>

Depreciation was charged to business-type activities as follows:

Utilities     \$383,370

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE G - PROPERTY TAX CALENDER**

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

<u>Description</u>	
2% Discount	Upon receipt through October 31
Face value amount payment date	November 1 through December 31
6% Penalty added	January 1
Additional 6% penalty added	February 1

Property taxes collected are recorded as revenues in the fund for which they were levied. Property taxes are attached as an enforceable lien on property as of January 1, 2013. The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.139 per \$100 valuation for real property, \$.139 per \$100 valuation for business personal property and \$.1977 per \$100 valuation for motor vehicles.

**NOTE H - COMPENSATED ABSENCES**

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

**NOTE I - RETIREMENT**

County Employee Retirement System

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

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The City's contributions for nonhazardous covered employees were as follows:

<u>Fiscal Year</u>	<u>Contribution Rate</u>	<u>Contribution Amount</u>
2011	16.93	\$ 91,063
2012	18.96	\$101,295
2013	19.55	\$112,314

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE I - RETIREMENT (Continued)**

County Employee Retirement System (Continued)

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund. The City's contributions for hazardous covered employees were as follows:

<u>Fiscal Year</u>	<u>Contribution Rate</u>	<u>Contribution Amount</u>
2011	33.25	\$71,927
2012	35.76	\$84,898
2013	37.60	\$82,532

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

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

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

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

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

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE I - RETIREMENT (Continued)**

County Employee Retirement System (Continued)

amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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

**NOTE J - INSURANCE COVERAGE**

The City is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The City has purchased certain policies, which include worker's compensation insurance.

**NOTE K - CONSTRUCTION IN PROGRESS**

The City has the following construction projects in progress at June 30, 2013:

*Governmental*

Fire Station	\$ 66,064
Streetscape	<u>919,212</u>
Total Governmental	<u>\$985,276</u>

*Business-type*

Ewing School Sewer Project	\$ 35,113
Sewer Project	2,818,293
Water Project	18,247
Sensus Meter	<u>172,506</u>
Total Business-type	<u>\$3,044,159</u>

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2013**

**NOTE L - RESTRICTIONS ON CASH**

*Depreciation Reserve*

The City maintains a depreciation reserve required by Kentucky Infrastructure Authority for repairs and maintenance to projects, which they funded. At June 30, 2013 the balance in the reserve was \$34,318.

*Reserved for Construction*

The City has \$429,622 in funds restricted for construction projects.

**NOTE M - SUBSEQUENT REVIEW**

Subsequent events have been evaluated through November 1, 2013, which is the date the financial statements were available to be issued.

**NOTE N - PRIOR PERIOD ADJUSTMENT**

The beginning net position at June 30, 2012 has been restated. We have made adjustments to correct compensated absences and fixed assets. Net position was decreased by \$14,237.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULES**  
Required Supplemental Information – Modified Accrual Basis  
For The Year Ending June 30, 2013

	<b>GENERAL FUND</b>			
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b><u>REVENUES</u></b>				
Taxes	\$ 454,000	\$ 454,000	\$ 452,435	\$ (1,565)
Licenses & Permits	742,800	742,800	790,096	47,296
Intergovernmental Revenues	114,364	114,364	120,778	6,414
Charges For Services	267,800	267,800	271,347	3,547
Fines and Forfeitures			916	916
Other Revenue	106,834	106,834	93,903	(12,931)
<b>Total Revenues</b>	<b>1,685,798</b>	<b>1,685,798</b>	<b>1,729,475</b>	<b>43,677</b>
<b><u>EXPENDITURES</u></b>				
General Government	628,265	628,265	486,357	141,908
Public Safety and Health	611,844	611,844	505,786	106,058
Streets and Roads	627,016	627,016	495,166	131,850
Parks and Recreation	84,750	84,750	42,822	41,928
<b>Total Expenditures</b>	<b>1,951,875</b>	<b>1,951,875</b>	<b>1,530,131</b>	<b>421,744</b>
Excess (Deficiency) of Revenues over Expenditures Before Other Financing Sources (Uses) and Transfers	(266,077)	(266,077)	199,344	465,421
<b>Other Financing Sources (Uses)</b>				
Capital Outlay			(450,757)	(450,757)
Debt Proceeds			200,000	200,000
Debt Service			(47,295)	(47,295)
Interest Expense			(3,168)	(3,168)
Interest Income	3,500	3,500	4,322	822
<b>Total Other Financial Sources (Uses)</b>	<b>3,500</b>	<b>3,500</b>	<b>(296,898)</b>	<b>(300,398)</b>
<b>Net Change in Fund Balances</b>	<b>(262,577)</b>	<b>(262,577)</b>	<b>(97,554)</b>	<b>165,023</b>
<b>Fund Balances, Beginning</b>	<b>897,473</b>	<b>897,473</b>	<b>760,125</b>	<b>(137,348)</b>
<b>Fund Balances, Ending</b>	<b>\$ 634,896</b>	<b>\$ 634,896</b>	<b>\$ 662,571</b>	<b>\$ 27,675</b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2013**

**Budgetary Information**

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

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

The City may amend the original budget by transferring appropriations at the activity level. Expenditures may not exceed budgeted appropriations at the activity level. The City was over budget in the Capital Outlay line item.

CITY OF FLEMINGSBURG, KENTUCKY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2013

<u>Program Title</u>	<u>Pass- Through Grantor's Number</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>
<b>U.S. Department of Agriculture</b>			
Rural Housing Services Loan	N/A	10.672	\$ 200,000
Rural Housing Services Grant	N/A	10.672	<u>46,506</u>
Total CFDA # 10.672			246,506
Appalachian Regional Commission Grant Water and Waste Disposal Systems For Rural Communities		10.760	<u>315,296</u>
Total U.S. Department of Agriculture			561,802
<b>Environmental Protection Agency</b>			
Passed through the Kentucky Infrastructure Authority Federally Assisted Wastewater Revolving Loan Fund Program	Unknown	66.458	1,531,916
<b>Federal Highway Administration</b>			
Passed through the Kentucky Department of Transportation Surface Transportation Program	Unknown	20.205	<u>79,755</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 2,173,473</u></u>

CITY OF FLEMINGSBURG, KENTUCKY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2013

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Flemingsburg, Kentucky and is presented on an accrual basis of accounting. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

# Morgan-Franklin, LLC

Certified Public Accountants

749 Broadway Street

P.O. Box 428

West Liberty, KY 41472

Brenda K. Morgan, CPA

Jody B. Franklin, CPA

Phone: (606) 743-1884

Fax: (606) 743-1895

[www.morganfranklincpa.com](http://www.morganfranklincpa.com)

## **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***

Honorable Mayor and City Council Members  
City of Flemingsburg, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financials audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of City of Flemingsburg, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Flemingsburg, Kentucky's basic financial statements, and have issued our report thereon dated November 1, 2013.

### **Internal Control Over Financial Reporting**

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2013-2 and 2013-3 that we consider to be significant deficiencies.

**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)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Flemingsburg, 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2013-1.

**City of Flemingsburg, Kentucky's Response to Findings**

City of Flemingsburg, Kentucky's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City of Flemingsburg, 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.

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC  
West Liberty, Kentucky

November 1, 2013

# *Morgan-Franklin, LLC*

*Certified Public Accountants*

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P.O. Box 428

West Liberty, KY 41472

Brenda K. Morgan, CPA

Jody B. Franklin, CPA

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Fax: (606) 743-1895

[www.morganfranklincpa.com](http://www.morganfranklincpa.com)

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Honorable Mayor and City Council Members  
City of Flemingsburg, Kentucky

### **Report on Compliance for Each Major Federal Program**

We have audited City of Flemingsburg, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Flemingsburg, Kentucky's major federal programs for the year ended June 30, 2013. City of Flemingsburg Kentucky's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of City of Flemingsburg, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. 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 City of Flemingsburg, Kentucky's 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 on compliance for each major federal program. However, our audit does not provide a legal determination of City of Flemingsburg, Kentucky's compliance.

### ***Opinion on Each Major Program***

In our opinion, City of Flemingsburg, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)**

**Report on Internal Control Over Compliance**

Management of City of Flemingsburg, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Flemingsburg, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 City of Flemingsburg, Kentucky's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect or 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly this report is not suitable for any other purpose.

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC  
West Liberty, Kentucky

November 1, 2013

**CITY OF FLEMINGSBURG, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2013**

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of City of Flemingsburg, Kentucky
2. Two significant deficiencies in internal control was disclosed by the audit of the financial statements.
3. One instance of noncompliance material to the financial statements of City of Flemingsburg, Kentucky disclosed during the audit.
4. No material weaknesses in internal control over major federal award programs are reported in the auditors' report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for City of Flemingsburg, Kentucky expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs were Rural Utilities Service Grant Appalachian Regional Commission Water and Waste Disposal Systems for Rural Communities (CFDA #10.760) and Environmental Protection Agency Federally Assisted Wastewater Revolving Loan Fund Program (CFDA #66.458).
8. The threshold for distinguishing between Type A and B programs was \$300,000.
9. City of Flemingsburg, Kentucky does not qualify as a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**STATE LAWS AND REGULATIONS**

**2013-1 The Maintenance And Replacement Reserve Was Not Established As Required By The Federally Assisted Wastewater Revolving Loan Fund Program - Fund A Assistance Agreement**

Condition: The City failed to establish the maintenance and replacement reserve as required by the federally assisted wastewater revolving loan fund program - fund A assistance agreement (the assistance agreement).

Criteria: Per the assistance agreement, the City shall establish a special account identified as a "Maintenance and Replacement Reserve". The annual replacement cost is \$22,250. This amount should be added to the replacement account each December 1 until the balance reaches \$222,500 and maintained for the life of the loan. These amounts may be used for extraordinary maintenance expenses related to the Project or for the unbudgeted costs of replacing worn or obsolete portions of the Project.

Effect: The maintenance and replacement reserve account has not been established and deposits have not been made to the account as required by the assistance agreement. Funds may not be available for extraordinary maintenance expenses.

Cause: The lack of knowledge of the requirements of the assistance agreement.

Recommendation: We recommend that the City establish the maintenance and replacement reserve and deposit funds to meet the current required balance.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2013**

**STATE LAWS AND REGULATIONS (CONTINUED)**

**2013-1 The Maintenance And Replacement Reserve Was Not Established As Required By The Federally Assisted Wastewater Revolving Loan Fund Program - Fund A Assistance Agreement (Continued)**

*City's Response: I confirmed with the BTADD project administrator for the waste water treatment plant project, that it is standard practice to establish a maintenance and replacement reserve account. She confirmed the annual deposit of \$22,250 up to a balance of \$222,500. I have opened a new account at Peoples Bank for this purpose.*

**SIGNIFICANT DEFICIENCIES**

**2013-2 The City Should Strengthen Internal Controls Over Disbursements**

Condition: During our disbursement testing of twenty-five disbursements, we noted the following:

- Reimbursement for expenses at the annual conference included meals for spouses.
- One instance in which an invoice was not paid within thirty days.
- One instance in which an expenditure was not coded correctly.
- Two instances in which purchase orders were not utilized.

Criteria:

- City funds should be used only for public purposes.
- Invoices should be paid within 30 days pursuant to KRS 65.140.
- Purchase orders should be utilized as required by the City's Policy.
- Expenditures should be coded correctly.

Effect: See Condition Section

Cause: Unknown

Recommendation: We recommend the City strengthen internal controls over disbursements.

*City's Response:*

- *Meals reimbursement for spouses at KLC – this is an annual event and pertains to only one meal where the wives of attendees are guests.*
- *Invoice not paid within 30 days – this was a bill payable to Dr. Gehring for a pre-employment physical. His office had billed it to the employee's health insurance rather than the city. It was delinquent when presented to the city for payment.*
- *Expenditure not coded correctly – Ruben & Hayes were the bonding company for the fire truck project and all expenditures pertaining to this project were coded to the same G/L.*

**CITY OF FLEMINGSBURG, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2013**

**SIGNIFICANT DEFICIENCIES (CONTINUED)**

*City's Response (Continued):*

- *Three instances where P.O.s were not utilized – Purchase Orders are used for the purchase of materials. Estep has been contracted to mow the reservoirs and Health Cost Solutions is the city's secondary health insurance provider. Purchase orders are not required. After review it was determined that a P.O. should have been used for the purchase of stamps from the post office. The city may need to develop a more specific policy for purchase order use.*

**2013-3      The City Should Strengthen Internal Controls Over Credit Card Disbursements**

Condition: During our testing of twelve credit card expenditures we noted the following:

- Three instances in which sales tax was paid.
- One instance in which there was no supporting documentation for an expenditure.
- One instance in which the expenditure amount did not agree to supporting documentation.
- An expenditure exceeding \$300 was not authorized by the mayor.

Criteria:

- Local governments are exempt from sales tax.
- All expenditures should have adequate substantiation and agree to such substantiation.
- The City's credit card policy requires expenditures exceeding \$300 to be authorized by the mayor.

Effect: See Condition Section

Cause: Failure to follow established procedures.

Recommendation: We recommend the City strengthen internal control over credit card expenditures.

*City's Response:*

- *3 instance where sales tax was paid – The city paid Walmart 2 times for sales tax because the person making the purchase failed to take the sales tax exempt card to Walmart and they will not credit the sales tax after the fact. The tax exempt card has to be presented before making the purchase. The third instance was a purchase from Dell and we've learned from experience that even though we submit our tax exempt form they still charge us tax and will not remove it. We have opted not to buy directly from them. Employees will be reminded to be more cautious about providing the tax exempt form when making purchases and not purchase from companies that will not accept it.*
- *No supporting documentation – The A/P clerk had noted that an invoice was needed but, after confirming with the police chief that it was a legitimate expense, she paid the bill without it so that the credit card account would not be delinquent. The police chief, who made the purchase, contacted Whitmer Public Safety and they provided a copy of the invoice.*

**CITY OF FLEMINGSBURG, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2013**

**SIGNIFICANT DEFICIENCIES (CONTINUED)**

**2013-3 The City Should Strengthen Internal Controls Over Credit Card Disbursements  
(Continued)**

*City's Response (Continued):*

- *The expenditure amount did not match the P.O. – this was due to a partial shipment billed on one invoice and the balance billed on another – Chief Supply Co.*
- *Expenditure exceeding \$300 not authorized by mayor – the mayor approves anything not routine. This purchase was for the annual software updates from SAGE and is routine in nature.*

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

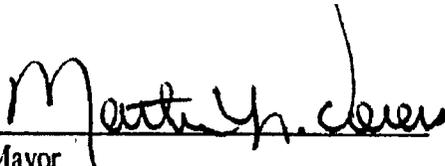
NONE

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**

NONE

**CITY OF FLEMINGSBURG, KENTUCKY  
CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
AND DEVELOPMENT PROGRAM  
June 30, 2013**

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

  
\_\_\_\_\_  
Mayor  
City of Flemingsburg, KY

**CITY OF FLEMINGSBURG,  
KENTUCKY**

**AUDITED FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2014**

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# *Morgan-Franklin, LLC*

*Certified Public Accountants*

749 Broadway Street

P.O. Box 428

West Liberty, KY 41472

Brenda K. Morgan, CPA

Jody B. Franklin, CPA

Phone: (606) 743-1884

Fax: (606) 743-1895

[www.morganfranklincpa.com](http://www.morganfranklincpa.com)

## **INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and Council Members  
City of Flemingsburg, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of the City of Flemingsburg, Kentucky, as of and for the year ended June 30, 2014, 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 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 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 auditors consider 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 opinions.

Honorable Mayor and City Council Members  
City of Flemingsburg, Kentucky

***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 and each major fund of the City of Flemingsburg, Kentucky, as of June 30, 2014, 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 budgetary comparison information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Flemingsburg, Kentucky's 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 States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information 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. The 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Honorable Mayor and City Council Members  
City of Flemingsburg, Kentucky

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014, on our consideration of the City of Flemingsburg, 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 Flemingsburg, Kentucky's internal control over financial reporting and compliance.

*Morgan - Frankli, LLC*

West Liberty, Kentucky  
September 30, 2014

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
As of June 30, 2014

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 708,571	\$ 2,037,355	\$ 2,745,926 ✓
Receivables:			
Customers	27,807	183,369	211,176
Unbilled		95,755	95,755
Allowance - Uncollectibles		(14,368)	(14,368)
Miscellaneous		2,854	2,854
Interest	113		113
Prepaid Expenses	2,000		2,000
Due from Other Funds	(20,208)	20,208	0
Natural Gas Inventory		89,784	89,784
Refinancing Fees (Net of Accumulated Amortization)		10,489	10,489
Restricted Cash and Cash Equivalents		500,201 ✓	500,201
<b>Total Current Assets</b>	<b>718,283</b>	<b>2,925,647</b>	<b>3,643,930</b>
Noncurrent Assets:			
Capital Assets - Net of Accum. Depreciation			
Land	457,474	350,572	808,046
Construction In Progress	182,285	9,884,801	10,067,086
Land Improvements	118,468		118,468
Buildings and Improvements	929,060	46,825	975,885
Water Utility Plant		2,162,948	2,162,948
Waste Water Plant		2,489,361	2,489,361
Gas Utility		896,488	896,488
Machinery and Equipment	51,286	417,005	468,291
Office Furniture and Equipment	774	2,448	3,222
Vehicles	415,175	48,136	463,311
Infrastructure	1,268,605		1,268,605
<b>Total Noncurrent Assets</b>	<b>3,423,127</b>	<b>16,298,584</b>	<b>19,721,711</b>
<b>Total Assets</b>	<b>4,141,410</b>	<b>19,224,231</b>	<b>23,365,641</b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
As of June 30, 2014

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>LIABILITIES</b>			
Current Liabilities:			
Accrued Payroll Expenses	22,367		22,367
Accounts Payable - Trade	3,976	70,173	74,149
Accounts Payable - Construction	14,130	1,478,563	1,492,693
Accrued Compensated Absences	115,226	57,028	172,254
Customer Deposits		69,289	69,289
Sales Tax Payable		4,125	4,125
School Tax Payable		22,011	22,011
Loan	42,366	238,588	280,954
<b>Total Current Liabilities</b>	<b>198,065</b>	<b>1,939,777</b>	<b>2,137,842</b>
Noncurrent Liabilities:			
Loans	171,819	5,573,560	5,745,379
<b>Total Noncurrent Liabilities</b>	<b>171,819</b>	<b>5,573,560</b>	<b>5,745,379</b>
<b>Total Liabilities</b>	<b>369,884</b>	<b>7,513,337</b>	<b>7,883,221</b>
<b>NET POSITION</b>			
Invested in Capital Assets, Net of Related Debt	3,194,812	9,007,873	12,202,685
Restricted for:			
Capital Projects		443,468	443,468
Depreciation Reserve		56,733	56,733
Unrestricted	576,714	2,202,820	2,779,534
<b>Total Net Position</b>	<b>\$ 3,771,526</b>	<b>\$ 11,710,894</b>	<b>\$ 15,482,420</b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**For The Year Ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues Received			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government:</b>							
Governmental Activities:							
General Government	\$ 536,372	\$ 265,892	\$	\$	\$ (270,480)	\$	\$ (270,480)
Public Safety and Health	544,512	8,696	33,372	157,102 ✓	(345,342)		(345,342)
Streets and Roads	570,506			66,820 ✓	(503,686)		(503,686)
Parks and Recreation	34,786			8,820 ✓	(25,966)		(25,966)
Interest on Long Term Debt	8,045				(8,045)		(8,045)
Unallocated Depreciation	218,039				(218,039)		(218,039)
CATV/Cable Fund	19,016				(19,016)		(19,016)
<b>Total Governmental Activities</b>	<b>1,931,276</b>	<b>274,588</b>	<b>33,372</b>	<b>232,742</b>	<b>(1,390,574)</b>		<b>(1,390,574)</b>
Business-type Activities:							
Utilities	2,400,010	2,543,464		2,442,550		2,586,004	2,586,004
<b>Total Primary Government</b>	<b>\$ 4,331,286</b>	<b>\$ 2,818,052</b>	<b>\$ 33,372</b>	<b>\$ 2,675,292</b>	<b>(1,390,574)</b>	<b>2,586,004</b>	<b>1,195,430</b>
<b>General Revenues, Transfers, and Special Items:</b>							
Taxes							
Real Property Taxes					156,134 ✓		156,134
Personal Property Taxes					37,761 ✓		37,761
Insurance Premium Taxes					242,803		242,803
Licenses							
Occupational Licenses					630,049		630,049
Other Licenses					100,683		100,683
Franchise Fees					131,236		131,236
Miscellaneous					34,159	840	34,999
Interest Earned					2,901	4,908	7,809
<b>Total General Revenues, Transfers and Special Items</b>					<b>1,335,726</b>	<b>5,748</b>	<b>1,341,474</b>
<b>Change in Net Position</b>					<b>(54,848)</b>	<b>2,591,752</b>	<b>2,536,904</b>
<b>Net Position - Beginning (Restated)</b>					<b>3,826,374</b>	<b>9,119,142</b>	<b>12,945,516</b>
<b>Net Position - Ending</b>					<b>\$ 3,771,526</b>	<b>\$ 11,710,894</b>	<b>\$ 15,482,420</b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
As of June 30, 2014

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Community Television Access Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 650,591	\$ 11,249	\$ 46,731	\$ 708,571
Receivables	27,807			27,807
Interest Receivable		113		113
Prepaid Expenses	2,000			2,000
Due from Other Funds	20,534	141		20,675
<b>TOTAL ASSETS</b>	<b>700,932</b>	<b>11,503</b>	<b>46,731</b>	<b>759,166</b>
<b>LIABILITIES</b>				
Accounts Payable - Trade	3,976			3,976
Accounts Payable - Construction	14,130			14,130
Accrued Payroll Expenses	22,367			22,367
Accrued Compensated Absences	115,226			115,226
Due to Other Funds		39,545	1,337	40,882
<b>TOTAL LIABILITIES</b>	<b>155,699</b>	<b>39,545</b>	<b>1,337</b>	<b>196,581</b>
<b>FUND BALANCES</b>				
Fund Balances:				
Nonspendable	2,000			2,000
Committed for CTA			45,394	45,394
Unassigned	543,233	(28,042)		515,191
<b>TOTAL FUND BALANCES</b>	<b>\$ 545,233</b>	<b>\$ (28,042)</b>	<b>\$ 45,394</b>	<b>\$ 562,585</b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
As of June 30, 2014

**Reconciliation to Statement of Changes in Net Position:**

Total Governmental Fund Balances	\$ 562,585
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital Assets Used in Governmental Activities of \$6,073,888, Net of Accumulated Depreciation of \$2,650,761, are Not Financial Resources and, Therefore, are Not Reported in the Funds.	3,423,127
Long-term Debt is Not Due and Payable in the Current Period and, Therefore, is Not Reported in the Funds.	(214,185)
Rounding Difference	<u>(1)</u>
<b>Net Position of Governmental Activities</b>	<u><u>\$ 3,771,526</u></u>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**For The Year Ended June 30, 2014**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Community Television Access Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 436,698	\$	\$	\$ 436,698
Licenses & Permits	838,684		26,198	864,882
Intergovernmental Revenues	107,377			107,377
Charges for Services	281,822			281,822
Fines and Forfeitures	1,031			1,031
Other Revenue	181,717			181,717
Total Revenues	<u>1,847,329</u>		<u>26,198</u>	<u>1,873,527</u>
<b>EXPENDITURES</b>				
Current				
General Government	489,136			489,136
Economic Development	48,818			48,818
Police	492,298 ✓			492,298
Streets and Roads	438,778 ✓			438,778
Maintenance	100,896 ✓			100,896
Parks and Recreation	34,786 ✓			34,786
Fire Department	52,214 ✓			52,214
CATV/Cable			19,016	19,016
Total Expenditures	<u>1,656,926</u>		<u>19,016</u>	<u>1,675,942</u>
Excess (Deficiency) of Revenues over Expenditures Before Transfers and Other Financing Sources (Uses)	190,403		7,182	197,585
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital Outlay	(255,303) ✓			(255,303)
Debt Service	(47,167) ✓			(47,167)
Interest Expense	(8,045) ✓			(8,045)
Interest Income	2,774 ✓	60	67	2,901
Total Other Financial Sources (Uses)	<u>(307,741)</u>	<u>60</u>	<u>67</u>	<u>(307,614)</u>
Net Change in Fund Balances	(117,338)	60	7,249	(110,029)
Fund Balances, Beginning - Restated	<u>662,571</u>	<u>(28,102)</u>	<u>38,145</u>	<u>672,614</u>
Fund Balances, Ending	<u>\$ 545,233</u>	<u>\$ (28,042)</u>	<u>\$ 45,394</u>	<u>\$ 562,585</u>

*Book  
less depreciation*

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For The Year Ended June 30, 2014**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances-Total Governmental Funds	\$	(110,029)
--	----	-----------

Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense:

Capital Outlay		255,303
Loss On Disposal Of Fixed Assets		(29,250)
Depreciation Expense		(218,039)

The Issuance of Long-Term Debt Provides Current Financial Resources to Governmental Funds While Lease and Bond Principal Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources. These Transactions; However, Have No Effect on Net Position.

Long-Term Debt Principal Payments		<u>47,167</u>
-----------------------------------	--	---------------

Change in Net Position of Governmental Activities	\$	<u>(54,848)</u>
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The accompanying notes are an integral part of the financial statements.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF FUND NET POSITION - PROPRIETARY FUND**  
**As of June 30, 2014**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	2,037,355
Receivables:		
Customers		183,369
Unbilled		95,755
Allowance - Uncollectibles		(14,368)
Miscellaneous Accounts Receivable		2,854
Restricted Assets:		
Cash and Cash Equivalents		500,201
Due from Other Funds		20,208
Natural Gas Inventory		89,784
Refinancing Fees (Net of Accumulated Amortization)		<u>10,489</u>

Total Current 2,925,647

Noncurrent Assets:

Capital Assets-Net of Accum. Depr.		
Land		350,572
Construction in Progress		9,884,801
Buildings and Improvements		46,825
Water Utility Plant		2,162,948
Waste Water Plant		2,489,361
Gas Utility		896,488
Machinery and Equipment		417,005
Office Furniture and Equipment		2,448
Vehicles		<u>48,136</u>

Total Noncurrent Assets 16,298,584

Total Assets 19,224,231

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF FUND NET POSITION - PROPRIETARY FUND**  
**As of June 30, 2014**

**LIABILITIES**

Current Liabilities

Accounts Payable - Trade	70,173
Customer Deposits	69,289
Sales Tax Payable	4,125
School Tax Payable	22,011
Accrued Compensated Absences	57,028
Accounts Payable - Construction	1,478,563
Loan	238,588
	<hr/>

Total Current Liabilities 1,939,777

Noncurrent Liabilities

Loan	5,573,560
	<hr/>

Total Noncurrent Liabilities 5,573,560

Total Liabilities 7,513,337

**NET POSITION**

Invested in Capital Assets, Net of Related Debt 9,007,873

Restricted for:

Depreciation Reserve	56,733
Capital Projects	443,468

Unrestricted 2,202,820

Total Net Position \$ 11,710,894

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET POSITION - PROPRIETARY FUND**  
**For the Year Ended June 30, 2014**

	<b>Water Fund</b>	<b>Waste Water Fund</b>	<b>Gas Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>				
Charges for Services	\$ 755,724	\$ 730,529	\$ 1,008,561	\$ 2,494,814 ✓
Other Revenue	6,618	36,610	5,422	48,650
Total Operating Revenues	762,342	767,139	1,013,983	2,543,464
<b>OPERATING EXPENSES</b>				
Gas Purchases			610,276	610,276
Water Purchases	325,319			325,319
Salaries and Wages	91,186	106,502	137,809	335,497
Fringe Benefits	52,008	54,537	73,050	179,595
Contractual Services	100,007	122,741	26,539	249,287
Materials and Supplies	135,984	53,313	22,979	212,276
Other Charges	3,283	1,997	1,481	6,761
Depreciation and Amortization	135,061	223,131	81,006	439,198 ✓
Total Operating Expenses	842,848	562,221	953,140	2,358,209
<b>NET OPERATING INCOME (LOSS)</b>	\$ (80,506)	\$ 204,918	\$ 60,843	185,255
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest Income				4,908
Gain on Disposal of Assets				840
Loss on Disposal of Assets				(8,358)
Debt Service				(33,443) ✓
Total Non-Operating Revenues (Expenses)			<i>ww + A Bond</i>	(36,053)
<b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>				149,202
Contributions in Aid of Construction				2,442,550
Change in Net Position				2,591,752
<b>NET POSITION - BEGINNING OF YEAR</b>				9,119,142
<b>NET POSITION - END OF YEAR</b>				\$ 11,710,894

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**For the Year Ended June 30, 2014**

<b>Cash flows from Operating Activities:</b>	
Payments Received from Customers	\$ 2,467,540
Other Revenues	512,001
Payments to Suppliers	(1,395,522)
Payments for Salaries and Benefits	(508,665)
Net Cash Provided (Used) by Operating Activities	<u>1,075,354</u>
<b>Cash Flows from NonCapital Financing Activities:</b>	
Decrease in Net Cash Due to Other Funds	(34,715)
Increase in Restricted Cash	(36,260)
Net Cash Provided (Used) by NonCapital Financing Activities	<u>(70,975)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Grants Received	2,442,550 ✓
Debt Proceeds	5,035,836
Capital Asset Purchases	(7,540,023)
Interest Paid on Debt	(33,443)
Net Cash Provided (Used) by Financing Activities	<u>(95,080)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest Income	<u>4,908</u>
Net Cash Provided (Used) by Investing Activities	<u>4,908</u>
Net Increase (Decrease) in Cash	914,207
Cash at Beginning of Year	<u>1,123,148</u>
Cash at End of Year	<u><u>\$ 2,037,355</u></u>
<b>Reconciliation of Operating Income to Net Cash Used</b>	
<b>by Operating Activities</b>	
Operating Income (Loss)	\$ 185,255
Adjustment to Reconcile Operating Income to	
Cash Provided (Used) by Operating Activities	
Depreciation	438,039
Amortization	1,159
Changes in Assets and Liabilities:	
Customer Receivable	(37,588)
Prepaid Expenses and Miscellaneous Receivables	463,351
Accounts Payable - Trade	43,334
Natural Gas Inventory	(39,714)
Customer Deposits	10,314
Accrued Liabilities	4,777
Payroll Liabilities	6,427
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 1,075,354</u></u>
<b>Significant Noncash Transaction:</b>	
Forgiveness of Debt	\$ 2,001,831

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

Financial Reporting Entity

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

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

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Government-Wide and Fund Financial Statements

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

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

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

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

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

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Governmental Funds

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

The primary government reports the following major governmental funds:

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

**Community Development Fund** – This is a Special Revenue fund used to account for the following:

Streetscape Project – CDBG project to restore downtown by relocating all utility service lines from sight on Main Street.

**Community Television Access Fund** – The primary source of revenue is generated from City cable franchise fees. The fund provides local programming for City residents.

Proprietary Funds

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

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Proprietary Funds (Continued)

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

Budgeting

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

Encumbrances

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

Inventory

Inventory consists of gas reserves and is stated at cost.

Capital Assets

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

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

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital Assets (Continued)

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

Cash and Investments

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

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

Use of Estimates

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

Unearned Revenues

The City allows gas customers to prepay for gas during the summer months on a budget plan. The prepayments are netted with accounts receivable.

Unbilled Receivables

The City reads meters on approximately the 10<sup>th</sup> of each month for water and sewer, on the 18<sup>th</sup> of each month for gas meters, and garbage is billed for the previous month. The bills for the current reading go out on the first day of the following month. The Unbilled Receivables represents approximately 19 days of water and sewer usage, 11 days of gas usage.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Long-term Obligations

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

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

Fund Equity

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

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

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

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

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

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

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2014 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

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

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

**NOTE B - DEPOSITS**

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

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the city's deposits may not be returned to it. The city does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2014, the bank balance was \$3,296,731. These deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Deposits Covered By Federal Insurance	\$ 592,829
Deposits Collateralized	<u>2,703,902</u>
Total Bank Balance	<u>\$ 3,296,731</u>

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE C - COMPENSATED ABSENCES**

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

**NOTE D – INTERIM FINANCING**

On June 12, 2014, the City entered into a Trust Indenture with Kentucky Rural Water Finance Corporation and Regions Bank as interim financing for the Water Plant Improvement project in the maximum amount of \$1,995,000. Principal and interest payments at a rate of 2.50% are required on the earlier of (i) the business day following the receipt of the proceeds of permanent financing in the form of bonds purchased by Rural Development or (ii) the maturity date of August 1, 2014. As of June 30, 2014, the principal balance outstanding was \$238,588.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Proprietary Fund Activities:</u>					
Interim Financing	\$	\$ 238,588	\$	\$ 238,588	\$ 238,588
<u>Proprietary Fund Activities</u>					
Current Liabilities	\$ 0	\$ 238,588	\$ 0	\$ 238,588	\$ 238,588

**NOTE E - LONG-TERM DEBT**

Governmental Activities

1. On September 22, 2008, the City entered into a loan agreement with Peoples Bank for \$112,117 in order to purchase a 2008 garbage truck. Terms of the agreement stipulate a five-year repayment schedule, with monthly principal and interest payments of \$2,075, and an interest rate of 4.2 percent. As of June 30, 2014, this loan was paid in full.
2. On September 24, 2010, the City entered into a loan agreement with Peoples Bank for \$117,000 in order to purchase a 2011 garbage truck. Terms of the agreement stipulate a five-year repayment schedule, with monthly principal and interest payments of \$2,130, and an interest rate of 3.5 percent. As of June 30, 2014, the principal balance was \$31,185. Obligations for the remaining years are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2015	\$ 24,866	\$ 1,550	\$ 26,416
2016	6,319	696	7,015
	<u>\$ 31,185</u>	<u>\$ 2,246</u>	<u>\$ 33,431</u>

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE E - LONG-TERM DEBT (Continued)**

3. In 2012, the City issued \$200,000 in General Obligation Bonds for the purpose of financing the cost (not otherwise provided) of the acquisition of a fire truck for the City. These bonds are scheduled to mature in 2023 and carry an interest rate of 3.375 percent. Semiannual interest payments are required on July 1 and January 1 of each year. As of June 30, 2014, the principal balance was \$183,000. Obligations for the remaining years are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2015	\$ 17,500	\$ 6,176	\$ 23,676
2016	18,500	5,586	24,086
2017	19,000	4,961	23,961
2018	19,500	4,320	23,820
2019	20,000	3,662	23,662
2020-2023	<u>88,500</u>	<u>7,611</u>	<u>96,111</u>
	<u>\$ 183,000</u>	<u>\$ 32,316</u>	<u>\$ 215,316</u>

Business-Type Activities

1. During the 2012 fiscal year, the City entered into a revolving loan agreement with Kentucky Infrastructure Authority for up to \$8,906,000 with an interest rate of 1%. During the fiscal year ended June 30, 2014, draws were made totaling \$6,609,616; however, \$1,982,884 of this debt has been forgiven. Total draws to date have been \$7,718,625. Total debt forgiven to date equals \$2,315,587; leaving a principal balance as of June 30, 2014 of \$5,403,038.
2. During the 2012 fiscal year, the City entered into a revolving loan agreement with Kentucky Infrastructure Authority for up to \$500,000 with an interest rate of 1%. During the fiscal year ended June 30, 2014, draws were made totaling \$189,466; however, \$18,946 of this debt has been forgiven. Total draws to date have been \$189,464. Total debt forgiven to date equals \$18,964; leaving a principal balance as of June 30, 2014 of \$170,518.

**NOTE F - LONG-TERM LIABILITIES IN THE AGGREGATE**

Governmental Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2015	\$ 42,366	\$ 7,726	\$ 50,092
2016	24,819	6,282	31,101
2017	19,000	4,961	23,961
2018	19,500	4,320	23,820
2019	20,000	3,662	23,662
2020-2023	<u>88,500</u>	<u>7,611</u>	<u>96,111</u>
	<u>\$ 214,185</u>	<u>\$ 34,562</u>	<u>\$ 248,747</u>

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE G - CHANGES IN LONG-TERM LIABILITIES AND INTERST PAID**

<b>Primary Government:</b>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Financing Obligations	\$ 261,352 ✓	\$	\$ (47,167)	\$ 214,185 ✓	\$ 42,366
Governmental Activities Long-term Liabilities	<u>\$ 261,352 ✓</u>	<u>\$ 0</u>	<u>\$ (47,167)</u>	<u>\$ 214,185</u>	<u>\$ 42,366</u>
<u>Proprietary Fund Activities:</u>					
Financing Obligations	\$ 776,308	\$ 4,797,252 ✓	\$	\$ 5,573,560 ✓	\$
Proprietary Fund Activities Long-term Liabilities	<u>\$ 776,308</u>	<u>\$ 4,797,252</u>	<u>\$ 0</u>	<u>\$ 5,573,560</u>	<u>\$ 0</u>

Interest paid on debt was \$8,044 for governmental activities and \$25,680 for business-type activities for the fiscal year ended June 30, 2014.

**NOTE H - PROPERTY TAX CALENDAR**

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

Description

2% Discount	Upon receipt through October 31
Face value amount payment date	November 1 through December 31
6% Penalty added	January 1
Additional 6% penalty added	February 1

Property taxes collected are recorded as revenues in the fund for which they were levied. Property taxes are attached as an enforceable lien on property as of January 1, 2013. The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.1404 per \$100 valuation for real property, \$.1404 per \$100 valuation for business personal property and \$.1977 per \$100 valuation for motor vehicles.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE I – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2014, consisted of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets not Being Depreciated:				
Land	\$ 457,474	\$	\$	\$ 457,474
Construction in Progress	985,276	116,221	919,212	182,285
Total Capital Assets not Being Depreciated	1,442,750	116,221	919,212	639,759
Capital Assets, Being Depreciated:				
Land Improvements	146,742	7,467		154,209
Buildings and Improvements	1,599,513	21,544	39,000	1,582,057
Machinery and Equipment	709,558	2,975	12,000	700,533
Office Furniture and Equipment	72,341			72,341
Vehicles	1,480,648	23,924	61,766	1,442,806
Infrastructure	479,799	1,002,384		1,482,183
Total Capital Assets Being Depreciated	4,488,601	1,058,294	112,766	5,434,129
Less Accumulated Depreciation for:				
Land Improvements	24,465	11,276		35,741
Buildings and Improvements	619,242	43,506	9,750	652,998
Machinery and Equipment	640,464	20,783	12,000	649,247
Office Furniture and Equipment	70,791	776		71,567
Vehicles	1,005,803	83,594	61,766	1,027,631
Infrastructure	155,475	58,103		213,578
Total Accumulated Depreciation	2,516,240	218,038	83,516	2,650,762
Total Capital Assets, Being Depreciated, Net	1,972,361	840,256	29,250	2,783,367
Governmental Activities Capital Assets, Net	<u>\$ 3,415,111</u>	<u>\$ 956,477</u>	<u>\$ 948,462</u>	<u>\$ 3,423,126</u>

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE I – CAPITAL ASSETS (CONTINUED)**

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 345,572	\$ 5,000		\$ 350,572
Construction in Progress	3,044,158	8,278,721	1,438,078	9,884,801
Total Capital Assets Not Being Depreciated	3,389,730	8,283,721	1,438,078	10,235,373
Capital Assets, Being Depreciated:				
Buildings and Improvements	69,139			69,139
Water Utility Plant	4,492,447	14,797		4,507,244
Gas Utility	2,333,485			2,333,485
Waste Water Plant	5,716,215	1,265,987	40,000	6,942,202
Machinery and Equipment	726,278	197,334		923,612
Office Furniture	36,359			36,359
Vehicles (Restated)	183,437	29,102		212,539
Total Capital Assets Being Depreciated	13,557,360	1,507,220	40,000	15,024,580
Less Accumulated Depreciation For:				
Buildings and Improvements	18,432	3,882		22,314
Water Utility Plant	2,240,370	103,926		2,344,296
Gas Utility	1,385,968	51,029		1,436,997
Waste Water Plant	4,287,498	196,985	31,642	4,452,841
Machinery and Equipment	451,786	54,821		506,607
Office Furniture	33,562	349		33,911
Vehicles	137,354	27,049		164,403
Total Accumulated Depreciation	8,554,970	438,041	31,642	8,961,369
Total Capital Assets Being Depreciated, Net	5,002,390	1,069,179	8,358	6,063,211
Total Utilities Capital Assets, Net	\$ 8,392,120	\$ 9,352,900	\$ 1,446,436	\$ 16,298,584

Depreciation was charged to business-type activities as follows:

Utilities \$483,041

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE J - RETIREMENT**

County Employee Retirement System

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

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The City's contributions for nonhazardous covered employees were as follows:

<u>Fiscal Year</u>	<u>Contribution Rate</u>	<u>Contribution Amount</u>
2012	18.96	\$101,295
2013	19.55	\$112,314
2014	18.89	\$112,645

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund. The City's contributions for hazardous covered employees were as follows:

<u>Fiscal Year</u>	<u>Contribution Rate</u>	<u>Contribution Amount</u>
2012	35.76	\$84,898
2013	37.60	\$82,532
2014	35.70	\$88,924

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

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE J - RETIREMENT (Continued)**

County Employee Retirement System (Continued)

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

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

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

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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

**NOTE K - RESTRICTIONS ON CASH**

*Depreciation Reserves*

The City maintains a depreciation reserve required by Kentucky Infrastructure Authority for repairs and maintenance to projects, which they funded. At June 30, 2014 the balance in the reserve was \$34,481. The City also maintains a depreciation reserve required by the Environmental Protection Agency for repairs and maintenance on the Wastewater Treatment Plant funded by federal loans. The balance in this reserve was \$22,252 at June 30, 2014.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE K - RESTRICTIONS ON CASH (Continued)**

*Reserved for Construction*

The City has \$443,468 in funds restricted for construction projects.

**NOTE L - INSURANCE COVERAGE**

The City is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The City has purchased certain policies, which include worker's compensation insurance.

**NOTE M - CONSTRUCTION IN PROGRESS**

The City has the following construction projects in progress at June 30, 2014:

*Governmental*

Fire Station	<u>\$ 182,285</u>
--------------	-------------------

*Business-type*

Ewing School Sewer Project	\$1,199,165
Sewer Project	8,379,551
Water Project	<u>306,085</u>
Total Business-type	<u>\$9,884,801</u>

**NOTE N - SUBSEQUENT REVIEW**

Subsequent events have been evaluated through September 30, 2014, which is the date the financial statements were available to be issued.

**NOTE O - PRIOR PERIOD ADJUSTMENT**

The beginning net position at June 30, 2013 has been restated. We have made adjustments to correct fixed asset errors. Net position was increased by \$38,583.

**NOTE P - CONTINGENT LIABILITY**

The City issued bearer bonds in 1968. The People's Bank is the paying agent for the bonds. During the fiscal year ended June 30, 2014, the City paid \$7,763 to retire a portion of these bonds. The City only knows the amount owed as the bonds are presented. No liability has been included on the financial statements for these bearer bonds as of June 30, 2014 as the liability could not be determined.

CITY OF FLEMINGSBURG, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE  
 Required Supplemental Information – Modified Accrual Basis  
 For The Year Ending June 30, 2014

	<b>GENERAL FUND</b>			
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b><u>REVENUES</u></b>				
Taxes	\$ 451,000	\$ 451,000	\$ 436,698	\$ (14,302)
Licenses & Permits	753,000	753,000	838,684	85,684
Intergovernmental Revenues	108,700	108,700	107,377	(1,323)
Charges For Services	270,900	270,900	281,822	10,922
Fines and Forfeitures			1,031	1,031
Other Revenue	1,097,389	1,097,389	181,717	(915,672)
<b>Total Revenues</b>	<b>2,680,989</b>	<b>2,680,989</b>	<b>1,847,329</b>	<b>(833,660)</b>
<b><u>EXPENDITURES</u></b>				
General Government	474,452	474,452	489,136	(14,684)
Economic Development/Chamber	46,650	46,650	48,818	(2,168)
Police	525,159	525,159	492,298	32,861
Streets and Roads	547,305	547,305	438,778	108,527
Maintenance	70,819	70,819	100,896	(30,077)
Parks and Recreation	68,229	68,229	34,786	33,443
Fire Department	1,120,367	1,120,367	52,214	1,068,153
<b>Total Expenditures</b>	<b>2,852,981</b>	<b>2,852,981</b>	<b>1,656,926</b>	<b>1,196,055</b>
Excess (Deficiency) of Revenues over Expenditures Before Other Financing Sources (Uses) and Transfers	(171,992)	(171,992)	190,403	362,395
<b>Other Financing Sources (Uses)</b>				
Capital Outlay			(255,303)	(255,303)
Debt Service			(47,167)	(47,167)
Interest Expense			(8,045)	(8,045)
Interest Income	3,500	3,500	2,774	(726)
<b>Total Other Financial Sources (Uses)</b>	<b>3,500</b>	<b>3,500</b>	<b>(307,741)</b>	<b>(311,241)</b>
<b>Net Change in Fund Balances</b>	<b>(168,492)</b>	<b>(168,492)</b>	<b>(117,338)</b>	<b>51,154</b>
<b>Fund Balances, Beginning</b>	<b>683,735</b>	<b>683,735</b>	<b>662,571</b>	<b>(21,164)</b>
<b>Fund Balances, Ending</b>	<b>\$ 515,243</b>	<b>\$ 515,243</b>	<b>\$ 545,233</b>	<b>\$ 29,990</b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2014**

**Budgetary Information**

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

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

The City may amend the original budget by transferring appropriations at the activity level. Expenditures may not exceed budgeted appropriations at the activity level.

Debt proceeds and capital outlay were not budgeted.

The City was over budget in the following line items:

- General Government
- Economic Development
- Maintenance

CITY OF FLEMINGSBURG, KENTUCKY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2014

<u>Program Title</u>	<u>Pass- Through Grantor's Number</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>
<b>U.S. Department of Agriculture</b>			
Rural Housing Services Loan	N/A	10.672	\$ 302,635
Appalachian Regional Commission Grant Water and Waste Disposal Systems For Rural Communities	N/A	10.760	<u>269,609</u> ✓
	<i>Sewer lines</i>		
Total U.S. Department of Agriculture			572,244
<b>U. S. Environmental Protection Agency</b>			
Passed through the Kentucky Infrastructure Authority Federally Assisted Wastewater Revolving Loan Fund Program	Unknown	66.458	7,009,199
	<i>WW Plant</i>		
Passed through Fleming County Fiscal Court Congressionally Mandated Projects	Unknown	66.202	<u>201,732</u>
	<i>Evening Sewer</i>		
Total Environmental Protection Agency			7,210,931
<b>U.S. Department of Housing and Urban Development</b>			
Passed through the Kentucky Department for Local Government Community Development Block Grant	Unknown	14.228	<u>116,221</u>
	<i>fire station</i>		
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 7,899,396</u></u>

CITY OF FLEMINGSBURG, KENTUCKY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2014

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Flemingsburg, Kentucky and is presented on an accrual basis of accounting. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

# Morgan-Franklin, LLC

*Certified Public Accountants*

749 Broadway Street

P.O. Box 428

West Liberty, KY 41472

Brenda K. Morgan, CPA

Jody B. Franklin, CPA

Phone: (606) 743-1884

Fax: (606) 743-1895

[www.morganfranklincpa.com](http://www.morganfranklincpa.com)

## **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***

Honorable Mayor and City Council Members  
City of Flemingsburg, 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 each major fund of the City of Flemingsburg, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Flemingsburg, Kentucky's basic financial statements and have issued our report thereon dated September 30, 2014.

### **Internal Control Over Financial Reporting**

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

**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)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Flemingsburg, 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2014-1.

**City of Flemingsburg, Kentucky's Response to the Finding**

The City of Flemingsburg, Kentucky's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Flemingsburg, Kentucky's response was 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.

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC  
West Liberty, Kentucky

September 30, 2014

# *Morgan-Franklin, LLC*

*Certified Public Accountants*

749 Broadway Street

P.O. Box 428

West Liberty, KY 41472

Brenda K. Morgan, CPA

Jody B. Franklin, CPA

Phone: (606) 743-1884

Fax: (606) 743-1895

[www.morganfranklincpa.com](http://www.morganfranklincpa.com)

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Honorable Mayor and City Council Members  
City of Flemingsburg, Kentucky

### **Report on Compliance for Each Major Federal Program**

We have audited the City of Flemingsburg, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Flemingsburg, Kentucky's major federal programs for the year ended June 30, 2014. The City of Flemingsburg, Kentucky's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Flemingsburg, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Flemingsburg, Kentucky's 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Flemingsburg, Kentucky's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the City of Flemingsburg, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)**

**Report on Internal Control Over Compliance**

Management of the City of Flemingsburg, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Flemingsburg, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Flemingsburg, Kentucky's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC  
West Liberty, Kentucky

September 30, 2014

**CITY OF FLEMINGSBURG, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2014**

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Flemingsburg, Kentucky
2. No material weaknesses in internal control were disclosed by the audit of the financial statements.
3. One instance of noncompliance material to the financial statements of the City of Flemingsburg, Kentucky disclosed during the audit.
4. No material weaknesses in internal control over major federal award programs are reported in the auditors' report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for City of Flemingsburg, Kentucky expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs were Rural Housing Services Loan (CFDA #10.672) and Environmental Protection Agency Federally Assisted Wastewater Revolving Loan Fund Program (CFDA #66.458).
8. The threshold for distinguishing between Type A and B programs was \$300,000.
9. City of Flemingsburg, Kentucky does not qualify as a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**STATE LAWS AND REGULATIONS**

**2014-1 The Maintenance And Replacement Reserve Has Not Been Funded As Required By The Federally Assisted Wastewater Revolving Loan Fund Program - Fund A Assistance Agreement.**

Condition: The City established the maintenance and replacement reserve on November 13, 2013 as required by the federally assisted wastewater revolving loan fund program - fund A assistance agreement (the assistance agreement). However, only \$22,250 has been deposited in this account as of June 30, 2014. As the assistance agreement was dated October 1, 2011 the reserve fund should currently have three (3) yearly deposits of \$22,250 for a total of \$66,750.

Criteria: Per the assistance agreement, the City shall establish a special account identified as a "Maintenance and Replacement Reserve". The annual replacement cost is \$22,250. This amount should be added to the replacement account each December 1 until the balance reaches \$222,500 and maintained for the life of the loan. These amounts may be used for extraordinary maintenance expenses related to the Project or for the unbudgeted costs of replacing worn or obsolete portions of the Project.

Effect: Deposits have not been made to the account as required by the assistance agreement. Funds may not be available for extraordinary maintenance expenses.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2014**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

**STATE LAWS AND REGULATIONS (CONTINUED)**

Cause: The lack of knowledge of the requirements of the assistance agreement.

Recommendation: We recommend that the City deposit funds to meet the current required balance.

*City Clerk's Response: I thought the deposits were to be made once the project started. Deposits have now been made to bring this into compliance with the assistance agreement.*

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

NONE

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**

NONE

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

**City of Flemingsburg, Kentucky**

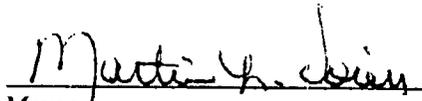
**For the Fiscal Year Ended  
June 30, 2014**

**Appendix A**

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

**June 30, 2014**

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



Mayor  
City of Flemingsburg, KY

**CITY OF FLEMINGSBURG,  
KENTUCKY**

**AUDITED FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2015**

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*Morgan-Franklin, LLC*  
*Certified Public Accountants*

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

Brenda K. Morgan, CPA  
Jody B. Franklin, CPA

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

**INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and Council Members  
City of Flemingsburg, Kentucky

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Flemingsburg, 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 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 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 auditors consider 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 opinions.

Honorable Mayor and City Council Members  
City of Flemingsburg, Kentucky

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

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

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Flemingsburg, Kentucky's 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 States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information 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. The 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Honorable Mayor and City Council Members  
City of Flemingsburg, Kentucky

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2015, on our consideration of the City of Flemingsburg, 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 Flemingsburg, Kentucky's internal control over financial reporting and compliance.

*Morgan - Frankli, LLC*

West Liberty, Kentucky  
September 25, 2015

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
As of June 30, 2015

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 654,984	\$ 1,956,223	\$ 2,611,207
Receivables:			
Customers	25,342	182,236	207,578
Unbilled		95,755	95,755
Allowance - Uncollectibles		(14,508)	(14,508)
Miscellaneous		9,499	9,499
Interest	113		113
Prepaid Expenses	4,000		4,000
Due from Other Funds	13,728	(13,728)	0
Natural Gas Inventory		41,186	41,186
Refinancing Fees (Net of Accumulated Amortization)		9,330	9,330
Restricted Cash and Cash Equivalents		578,598	578,598
<b>Total Current Assets</b>	<b>698,167</b>	<b>2,844,591</b>	<b>3,542,758</b>
Noncurrent Assets:			
Capital Assets - Net of Accum. Depreciation			
Land	457,474	350,572	808,046
Construction In Progress		14,775,285	14,775,285
Land Improvements	107,192		107,192
Buildings and Improvements	1,929,783	42,943	1,972,726
Water Utility Plant		2,059,022	2,059,022
Waste Water Plant		2,494,555	2,494,555
Gas Utility		861,407	861,407
Machinery and Equipment	35,158	404,349	439,507
Office Furniture and Equipment		2,099	2,099
Vehicles	397,222	56,394	453,616
Infrastructure	1,214,372		1,214,372
<b>Total Noncurrent Assets</b>	<b>4,141,201</b>	<b>21,046,626</b>	<b>25,187,827</b>
<b>Total Assets</b>	<b>4,839,368</b>	<b>23,891,217</b>	<b>28,730,585</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Contributions	140,703	56,796	197,499

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
As of June 30, 2015

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>LIABILITIES</b>			
Current Liabilities:			
Accrued Payroll Expenses	23,462		23,462
Accounts Payable - Trade	26,359	34,239	60,598
Accounts Payable - Construction	5,000	62,333	67,333
Accrued Compensated Absences	119,897	57,252	177,149
Customer Deposits		70,881	70,881
Sales Tax Payable		4,544	4,544
School Tax Payable		23,500	23,500
Loans/Bonds	24,809		24,809
<b>Total Current Liabilities</b>	<b>199,527</b>	<b>252,749</b>	<b>452,276</b>
Noncurrent Liabilities:			
Net Pension Liability	995,640	438,360	1,434,000
Loans/Bonds	462,000	9,622,467	10,084,467
<b>Total Noncurrent Liabilities</b>	<b>1,457,640</b>	<b>10,060,827</b>	<b>11,518,467</b>
<b>Total Liabilities</b>	<b>1,657,167</b>	<b>10,313,576</b>	<b>11,970,743</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Net Difference Between Projected and Actual			
Investment Earnings on Pension Plan Investments	103,120	48,880	152,000
<b>NET POSITION</b>			
Invested in Capital Assets, Net of Related Debt	3,649,392	11,361,826	15,011,218
Restricted for:			
Capital Projects		452,019	452,019
Depreciation Reserve		126,579	126,579
Unrestricted	(429,608)	1,645,133	1,215,525
<b>Total Net Position</b>	<b>\$ 3,219,784</b>	<b>\$ 13,585,557</b>	<b>\$ 16,805,341</b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**For The Year Ended June 30, 2015**

Functions/Programs	Expenses	Program Revenues Received			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government:</b>							
Governmental Activities:							
General Government	\$ 476,232	\$ 5,299			\$ (470,933)	\$	\$ (470,933)
Public Safety and Health	543,955	278,885	71,230	568,528	374,688		374,688
Streets and Roads	547,421			65,916	(481,505)		(481,505)
Parks and Recreation	31,201	2,675		1,448	(27,078)		(27,078)
Interest on Long Term Debt	4,660				(4,660)		(4,660)
Unallocated Depreciation	245,846				(245,846)		(245,846)
CATV/Cable Fund	15,817				(15,817)		(15,817)
<b>Total Governmental Activities</b>	<b>1,865,132</b>	<b>286,859</b>	<b>71,230</b>	<b>635,892</b>	<b>(871,151)</b>		<b>(871,151)</b>
Business-type Activities:							
Utilities	2,341,648	2,569,405		2,084,644		2,312,401	2,312,401
<b>Total Primary Government</b>	<b>\$ 4,206,780</b>	<b>\$ 2,856,264</b>	<b>\$ 71,230</b>	<b>\$ 2,720,536</b>	<b>(871,151)</b>	<b>2,312,401</b>	<b>1,441,250</b>
<b>General Revenues, Transfers, and Special Items:</b>							
Taxes							
Real Property Taxes					158,325		158,325
Personal Property Taxes					37,346		37,346
Insurance Premium Taxes					245,445		245,445
Licenses							
Occupational Licenses					639,877		639,877
Other Licenses					86,900		86,900
Franchise Fees					138,512		138,512
Miscellaneous					29,950	9,825	39,775
Interest Earned					3,654	4,837	8,491
<b>Total General Revenues, Transfers and Special Items</b>					<b>1,340,009</b>	<b>14,662</b>	<b>1,354,671</b>
<b>Change in Net Position</b>					<b>468,858</b>	<b>2,327,063</b>	<b>2,795,921</b>
<b>Net Position - Beginning (Restated)</b>					<b>2,750,926</b>	<b>11,258,494</b>	<b>14,009,420</b>
<b>Net Position - Ending</b>					<b>\$ 3,219,784</b>	<b>\$ 13,585,557</b>	<b>\$ 16,805,341</b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
As of June 30, 2015

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Community Television Access Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 585,229	\$ 11,294	\$ 58,461	\$ 654,984
Receivables	25,242		100	25,342
Interest Receivable		113		113
Prepaid Expenses	4,000			4,000
Due from Other Funds	55,732	141		55,873
<b>TOTAL ASSETS</b>	<b>670,203</b>	<b>11,548</b>	<b>58,561</b>	<b>740,312</b>
<b>LIABILITIES</b>				
Accounts Payable - Trade	26,349		10	26,359
Accounts Payable - Construction	5,000			5,000
Accrued Payroll Expenses	23,462			23,462
Accrued Compensated Absences	119,897			119,897
Due to Other Funds		39,545	2,600	42,145
<b>TOTAL LIABILITIES</b>	<b>174,708</b>	<b>39,545</b>	<b>2,610</b>	<b>216,863</b>
<b>FUND BALANCES</b>				
Fund Balances:				
Nonspendable	4,000			4,000
Committed for CTA			55,951	55,951
Unassigned	491,495	(27,997)		463,498
<b>TOTAL FUND BALANCES</b>	<b>\$ 495,495</b>	<b>\$ (27,997)</b>	<b>\$ 55,951</b>	<b>\$ 523,449</b>

**Reconciliation to Statement of Changes in Net Position:**

Total Governmental Fund Balances	\$ 523,449
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital Assets Used in Governmental Activities of \$6,975,156, Net of Accumulated Depreciation of \$2,833,955, are Not Financial Resources and, Therefore, are Not Reported in the Funds.	4,141,201
Long-term Debt is Not Due and Payable in the Current Period and, Therefore, is Not Reported in the Funds.	(486,809)
Net Pension Liability	(995,640)
Deferred Outflows	140,703
Deferred Inflows	(103,120)
<b>Net Position of Governmental Activities</b>	<b>\$ 3,219,784</b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**For The Year Ended June 30, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Community Television Access Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 441,116			\$ 441,116
Licenses & Permits	843,360		26,198	869,558
Intergovernmental Revenues	108,338			108,338
Charges for Services	270,131			270,131
Fines and Forfeitures	414			414
Other Revenue	640,678		100	640,778
Total Revenues	<u>2,304,037</u>		<u>26,298</u>	<u>2,330,335</u>
<b>EXPENDITURES</b>				
Current				
General Government	420,127			420,127
Economic Development	50,960			50,960
Police	482,308			482,308
Streets and Roads	447,470			447,470
Maintenance	105,097			105,097
Parks and Recreation	31,201			31,201
Fire Department	61,647			61,647
CATV/Cable			15,817	15,817
Total Expenditures	<u>1,598,810</u>		<u>15,817</u>	<u>1,614,627</u>
Excess (Deficiency) of Revenues over Expenditures Before Transfers and Other Financing Sources (Uses)	705,227		10,481	715,708
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital Outlay	(963,919)			(963,919)
Deferred Outflows (Retirement Contributions)	(140,703)			(140,703)
Deferred Inflows Kentucky Retirement	103,120			103,120
Debt Proceeds	315,000			315,000
Debt Service	(42,375)			(42,375)
Interest Expense	(4,660)			(4,660)
Interest Income	3,532	45	77	3,654
Total Other Financial Sources (Uses)	<u>(730,005)</u>	<u>45</u>	<u>77</u>	<u>(729,883)</u>
Net Change in Fund Balances	(24,778)	45	10,558	(14,175)
Fund Balances, Beginning, Restated	<u>520,273</u>	<u>(28,042)</u>	<u>45,393</u>	<u>537,624</u>
Fund Balances, Ending	<u>\$ 495,495</u>	<u>\$ (27,997)</u>	<u>\$ 55,951</u>	<u>\$ 523,449</u>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For The Year Ended June 30, 2015**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances-Total Governmental Funds	\$	(14,175)
<p>Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense:</p>		
Capital Outlay		974,977
Basis of Asset Disposals		(10,886)
Depreciation Expense		(246,018)
Deferred Outflows		140,703
Deferred Inflows		(103,120)
<p>The Issuance of Long-Term Debt Provides Current Financial Resources to Governmental Funds While Lease and Bond Principal Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources. These Transactions; However, Have No Effect on Net Position.</p>		
Long-Term Debt Proceeds		(315,000)
Long-Term Debt Principal Payments		42,375
Rounding Difference		2
		2
Change in Net Position of Governmental Activities	\$	468,858

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF FUND NET POSITION - PROPRIETARY FUND**  
**As of June 30, 2015**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	1,956,223
Receivables:		
Customers		182,236
Unbilled		95,755
Allowance - Uncollectibles		(14,508)
Miscellaneous Accounts Receivable		9,499
Restricted Assets:		
Cash and Cash Equivalents		578,598
Due from Other Funds		(13,728)
Natural Gas Inventory		41,186
Deferred Outflows		56,796
Refinancing Fees (Net of Accumulated Amortization)		9,330

Total Current 2,901,387

Noncurrent Assets:

Capital Assets-Net of Accum. Depr.		
Land		350,572
Construction in Progress		14,775,285
Buildings and Improvements		42,943
Water Utility Plant		2,059,022
Waste Water Plant		2,494,555
Gas Utility		861,407
Machinery and Equipment		404,349
Office Furniture and Equipment		2,099
Vehicles		56,394

Total Noncurrent Assets 21,046,626

Total Assets 23,948,013

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF FUND NET POSITION - PROPRIETARY FUND**  
**As of June 30, 2015**

<b>Current Liabilities</b>	
Accounts Payable - Trade	34,239
Customer Deposits	70,881
Sales Tax Payable	4,544
School Tax Payable	23,500
Accrued Compensated Absences	57,252
Accounts Payable - Construction	<u>62,333</u>
<b>Total Current Liabilities</b>	<b>252,749</b>
 <b>Noncurrent Liabilities</b>	
Deferred Inflows	48,880
Net Pension Liability	438,360
Loans/Bonds	<u>9,622,467</u>
<b>Total Noncurrent Liabilities</b>	<b><u>10,109,707</u></b>
 <b>Total Liabilities</b>	 <b>10,362,456</b>
 <b>NET POSITION</b>	
Invested in Capital Assets, Net of Related Debt	11,361,826
Restricted for:	
Depreciation Reserve	126,579
Capital Projects	452,019
Unrestricted	<u>1,645,133</u>
 <b>Total Net Position</b>	 <b><u><u>\$ 13,585,557</u></u></b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET POSITION - PROPRIETARY FUND**  
**For the Year Ended June 30, 2015**

	<b>Water Fund</b>	<b>Waste Water Fund</b>	<b>Gas Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>				
Charges for Services	\$ 758,972	\$ 732,466	\$ 1,010,302	\$ 2,501,740
Other Revenue			67,665	67,665
Total Operating Revenues	758,972	732,466	1,077,967	2,569,405
<b>OPERATING EXPENSES</b>				
Gas Purchases			558,209	558,209
Water Purchases	335,925			335,925
Salaries and Wages	92,987	115,782	132,265	341,034
Fringe Benefits	44,848	46,627	56,795	148,270
Contractual Services	71,319	157,375	46,373	275,067
Materials and Supplies	129,401	58,142	26,840	214,383
Other Charges	10,932	9,815	5,745	26,492
Depreciation and Amortization	133,989	228,579	79,700	442,268
Total Operating Expenses	819,401	616,320	905,927	2,341,648
<b>NET OPERATING INCOME (LOSS)</b>	\$ (60,429)	\$ 116,146	\$ 172,040	227,757
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest Income				4,837
Gain on Disposal of Assets				9,825
Total Non-Operating Revenues (Expenses)				14,662
<b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>				242,419
Contributions in Aid of Construction				2,084,644
Change in Net Position				2,327,063
<b>NET POSITION - BEGINNING OF YEAR (Restated)</b>				11,258,494
<b>NET POSITION - END OF YEAR</b>				\$ 13,585,557

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**For the Year Ended June 30, 2015**

<b>Cash flows from Operating Activities:</b>	
Payments Received from Customers	\$ 2,497,820
Other Revenues	67,665
Payments to Suppliers	(1,395,504)
Payments for Salaries and Benefits	(496,996)
Net Cash Provided (Used) by Operating Activities	<u>672,985</u>
<b>Cash Flows from NonCapital Financing Activities:</b>	
Decrease in Net Cash Due to Other Funds	33,936
Increase in Restricted Cash	(78,397)
Net Cash Provided (Used) by NonCapital Financing Activities	<u>(44,461)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Grants Received	2,084,644
Debt Proceeds	5,934,175
Principal Debt Payments	(2,123,850)
Capital Asset Purchases	(6,513,076)
Interest Paid on Debt	(96,386)
Net Cash Provided (Used) by Financing Activities	<u>(714,493)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest Income	4,837
Net Cash Provided (Used) by Investing Activities	<u>4,837</u>
Net Increase (Decrease) in Cash	(81,132)
Cash at Beginning of Year	<u>2,037,355</u>
Cash at End of Year	<u>\$ 1,956,223</u>
<b>Reconciliation of Operating Income to Net Cash Used</b>	
<b>by Operating Activities</b>	
Operating Income (Loss)	\$ 227,757
Adjustment to Reconcile Operating Income to	
Cash Provided (Used) by Operating Activities	
Depreciation	441,109
Amortization	1,159
Changes in Assets and Liabilities:	
Customer Receivable	(5,512)
Accounts Payable - Trade	(35,934)
Natural Gas Inventory	48,598
Customer Deposits	1,592
Accrued Liabilities	1,908
Net Change in Deferred Inflows/Outflows	(7,916)
Payroll Liabilities	224
Net Cash Provided (Used) by Operating Activities	<u>\$ 672,985</u>
<b>Significant Noncash Transaction:</b>	
Forgiveness of Debt	\$ 803,088

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

Financial Reporting Entity

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

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

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Government-Wide and Fund Financial Statements

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

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

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

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

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

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Governmental Funds

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

The primary government reports the following major governmental funds:

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

**Community Development Fund** – This is a Special Revenue fund used to account for the following:

Streetscape Project – CDBG project to restore downtown by relocating all utility service lines from sight on Main Street.

**Community Television Access Fund** – The primary source of revenue is generated from City cable franchise fees. The fund provides local programming for City residents.

Proprietary Funds

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

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

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Budgeting

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

Encumbrances

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

Inventory

Inventory consists of gas reserves and is stated at cost.

Capital Assets

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

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

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

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash and Investments

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

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

Use of Estimates

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

Unearned Revenues

The City allows gas customers to prepay for gas during the summer months on a budget plan. The prepayments are netted with accounts receivable.

Unbilled Receivables

The City reads meters on approximately the 10<sup>th</sup> of each month for water and sewer, on the 18<sup>th</sup> of each month for gas meters, and garbage is billed for the previous month. The bills for the current reading go out on the first day of the following month. The Unbilled Receivables represents approximately 19 days of water and sewer usage, 11 days of gas usage.

Long-term Obligations

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

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Equity

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

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

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

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

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

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

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

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2015 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accrued Liabilities and Long-Term Obligations (Continued)

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

**NOTE B - DEPOSITS**

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

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the city's deposits may not be returned to it. The city does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2015, the bank balance was \$3,369,984. These deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Deposits Covered By Federal Insurance	\$ 593,206
Deposits Collateralized	<u>2,776,778</u>
 Total Bank Balance	 <u>\$ 3,369,984</u>

**NOTE C - COMPENSATED ABSENCES**

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE D – LINE OF CREDIT**

On October 23, 2014, the City of Flemingsburg entered into a line of credit promissory note with People’s Bank of Kentucky, Inc. in anticipation of a loan with Rural Development for \$315,000. A single payment of principal and accrued interest of 2.590 percent is due on October 23, 2015. As of June 30, 2015, the principal balance outstanding was \$0.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Line of Credit	\$	\$ 300,000	\$ (300,000)	\$ 0	\$
Governmental Activities Current Liabilities	\$ 0	\$ 300,000	\$ (300,000)	\$ 0	\$ 0

**NOTE E – INTERIM FINANCING**

On June 12, 2014, the City entered into a Trust Indenture with Kentucky Rural Water Finance Corporation and Regions Bank as interim financing for the Water Plant Improvement project in the maximum amount of \$1,995,000. Principal and interest payments at a rate of 2.5 percent are required on the earlier of (i) the business day following the receipt of the proceeds of permanent financing in the form of bonds purchased by Rural Development or (ii) the maturity date of August 1, 2014. As of June 30, 2015, the principal balance outstanding was \$0.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Proprietary Fund Activities:</u>					
Interim Financing	\$ 238,588	\$ 1,885,262	\$(2,123,850)	\$ 0	
Proprietary Fund Activities Current Liabilities	\$ 238,588	\$ 1,885,262	\$(2,123,850)	\$ 0	\$ 0

**NOTE F - LONG-TERM DEBT**

Governmental Activities

- On September 24, 2010, the City entered into a loan agreement with Peoples Bank for \$117,000 in order to purchase a 2011 garbage truck. Terms of the agreement stipulate a five-year repayment schedule, with monthly principal and interest payments of \$2,130, and an interest rate of 3.5 percent. As of June 30, 2015, the principal balance was \$6,309. Obligations for the remaining years are:

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE F - LONG-TERM DEBT (Continued)**

1. (Continued)

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2016	\$ 6,309	\$ 696	\$ 7,005
	<u>\$ 6,309</u>	<u>\$ 696</u>	<u>\$ 7,005</u>

2. In 2012, the City issued \$200,000 in General Obligation Bonds for the purpose of financing the cost (not otherwise provided) of the acquisition of a fire truck for the City. These bonds are scheduled to mature in 2023 and carry an interest rate of 3.375 percent. Semiannual interest payments are required on July 1 and January 1 of each year. As of June 30, 2015, the principal balance was \$165,500. Obligations for the remaining years are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2016	\$ 18,500	\$ 5,586	\$ 24,086
2017	19,000	4,961	23,961
2018	19,500	4,320	23,820
2019	20,000	3,662	23,662
2020	21,000	2,987	23,987
2021-2023	67,500	4,624	72,124
	<u>\$ 165,500</u>	<u>\$ 26,140</u>	<u>\$ 191,640</u>

3. In March 2014, the City issued \$315,000 in General Obligation Bonds for the purpose of financing the cost (not otherwise provided) of the construction of a fire station for the City. These bonds are scheduled to mature in 2054 and carry an interest rate of 3.125 percent. Semiannual interest payments are required on July 1 and January 1 of each year. As of June 30, 2015, the principal balance was \$315,000. Obligations for the remaining years are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2016	\$	\$ 9,844	\$ 9,844
2017	4,500	9,844	14,344
2018	4,500	9,704	14,204
2019	4,500	9,562	14,062
2020	5,000	9,422	14,422
2021-2025	26,500	44,722	71,222
2026-2030	31,000	40,298	71,298
2031-2035	36,000	35,140	71,140
2036-2040	42,000	29,172	71,172
2041-2045	49,000	22,204	71,204
2046-2050	57,500	14,000	71,500
2051-2054	54,500	4,406	58,906
	<u>\$ 315,000</u>	<u>\$ 238,318</u>	<u>\$ 553,318</u>

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE F - LONG-TERM DEBT (Continued)**

Business-Type Activities

1. During the 2012 fiscal year, the City entered into a revolving loan agreement with Kentucky Infrastructure Authority (KIA) for up to \$8,906,000 with an interest rate of 1%. In January 2013, the City entered a supplemental agreement with KIA to increase the revolving loan agreement amount to \$10,619,600. During the fiscal year ended June 30, 2015, draws were made totaling \$2,586,934; however, \$776,080 of this debt has been forgiven. Total draws to date have been \$10,305,559. Total debt forgiven to date equals \$3,091,667; leaving a principal balance as of June 30, 2015 of \$7,213,890.
2. During the 2012 fiscal year, the City entered into a revolving loan agreement with Kentucky Infrastructure Authority for up to \$500,000 with an interest rate of 1%. During the fiscal year ended June 30, 2015, draws were made totaling \$270,065; however, \$27,007 of this debt has been forgiven. Total draws to date have been \$459,531. Total debt forgiven to date equals \$45,953; leaving a principal balance as of June 30, 2015 of \$413,577.
3. In June 2014, the City issued \$1,995,000 in General Obligation Bonds for the purpose of financing the cost (not otherwise provided) of the construction of extension, additions and improvements to the existing water system of the City. These bonds are scheduled to mature in 2054 and carry an interest rate of 2.0 percent. Semiannual interest payments are required on July 1 and January 1 of each year. As of June 30, 2015, the principal balance was \$1,995,000. Obligations for the remaining years are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2016	\$	\$ 39,900	\$ 39,900
2017	35,500	39,900	75,400
2018	36,500	39,190	75,690
2019	37,000	38,460	75,460
2020	38,000	37,720	75,720
2021-2025	200,500	176,930	377,430
2026-2030	221,000	156,080	377,080
2031-2035	245,000	133,050	378,050
2036-2040	270,000	107,550	377,550
2041-2045	297,500	79,490	376,990
2046-2050	328,500	48,530	377,030
2051-2054	285,500	14,350	299,850
	<u>\$ 1,995,000</u>	<u>\$ 911,150</u>	<u>\$ 2,906,150</u>

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE G – LONG-TERM LIABILITIES IN THE AGGREGATE**

Governmental Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2016	\$ 24,809	\$ 16,126	\$ 40,935
2017	23,500	14,805	38,305
2018	24,000	14,024	38,024
2019	24,500	13,224	37,724
2020	26,000	12,409	38,409
2021-2025	94,000	49,346	143,346
2026-2030	31,000	40,298	71,298
2031-2035	36,000	35,140	71,140
2036-2040	42,000	29,172	71,172
2041-2045	49,000	22,204	71,204
2046-2050	57,500	14,000	71,500
2051-2054	54,500	4,406	58,906
	<u>\$ 486,809</u>	<u>\$ 265,154</u>	<u>\$ 751,963</u>

**NOTE H - CHANGES IN LONG-TERM LIABILITIES AND INTEREST PAID**

<b>Primary Government:</b>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Financing Obligations	\$ 214,185	\$ 315,000	\$ (42,376)	\$ 486,809	\$ 24,809
Governmental Activities Long-term Liabilities	<u>\$ 214,185</u>	<u>\$ 315,000</u>	<u>\$ (42,376)</u>	<u>\$ 486,809</u>	<u>\$ 24,809</u>
<u>Proprietary Fund Activities:</u>					
Financing Obligations	\$ 5,573,556	\$ 4,048,911	\$	\$ 9,622,467	\$
Proprietary Fund Activities Long-term Liabilities	<u>\$ 5,573,556</u>	<u>\$ 4,048,911</u>	<u>\$ 0</u>	<u>\$ 9,622,467</u>	<u>\$ 0</u>

Interest paid on debt was \$4,660 for governmental activities and \$96,385 for business-type activities for the fiscal year ended June 30, 2015. Interest paid of \$96,385 has been capitalized and included in the Construction in Progress for business-type activities.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE I – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2015, consisted of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets not Being Depreciated:				
Land	\$ 457,474	\$	\$	\$ 457,474
Construction in Progress	182,285	877,920	1,060,205	
Total Capital Assets not Being Depreciated	639,759	877,920	1,060,205	457,474
Capital Assets, Being Depreciated:				
Land Improvements	154,209			154,209
Buildings and Improvements	1,582,057	1,071,472		2,653,529
Machinery and Equipment	700,533			700,533
Office Furniture and Equipment	72,341			72,341
Vehicles	1,442,806	81,643	73,709	1,450,740
Infrastructure	1,482,183	4,147		1,486,330
Total Capital Assets Being Depreciated	5,434,129	1,157,262	73,709	6,517,682
Less Accumulated Depreciation for:				
Land Improvements	35,741	11,276		47,017
Buildings and Improvements	652,997	70,749		723,746
Machinery and Equipment	649,247	16,128		665,375
Office Furniture and Equipment	71,567	776		72,343
Vehicles	1,027,629	88,710	62,823	1,053,516
Infrastructure	213,578	58,380		271,958
Total Accumulated Depreciation	2,650,759	246,019	62,823	2,833,955
Total Capital Assets, Being Depreciated, Net	2,783,370	911,243	10,886	3,683,727
Governmental Activities Capital Assets, Net	\$ 3,423,129	\$ 1,789,163	\$ 1,071,091	\$ 4,141,201

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE I – CAPITAL ASSETS (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 350,572	\$	\$	\$ 350,572
Construction in Progress	9,884,801	4,890,484		14,775,285
<b>Total Capital Assets Not Being Depreciated</b>	<b>10,235,373</b>	<b>4,890,484</b>		<b>15,125,857</b>
Capital Assets, Being Depreciated:				
Buildings and Improvements	69,139			69,139
Water Utility Plant	4,507,244			4,507,244
Gas Utility	2,333,485	16,274		2,349,759
Waste Water Plant	6,942,202	208,029		7,150,231
Machinery and Equipment	923,612	51,444	26,401	948,655
Office Furniture	36,359			36,359
Vehicles	212,542	82,345		294,887
<b>Total Capital Assets Being Depreciated</b>	<b>15,024,583</b>	<b>358,092</b>	<b>26,401</b>	<b>15,356,274</b>
Less Accumulated Depreciation For:				
Buildings and Improvements	22,314	3,882		26,196
Water Utility Plant	2,344,296	103,926		2,448,222
Gas Utility	1,436,997	51,355		1,488,352
Waste Water Plant	4,452,841	202,835		4,655,676
Machinery and Equipment	506,607	50,240	12,541	544,306
Office Furniture	33,911	349		34,260
Vehicles	164,403	74,090		238,493
<b>Total Accumulated Depreciation</b>	<b>8,961,369</b>	<b>486,677</b>	<b>12,541</b>	<b>9,435,505</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>6,063,214</b>	<b>(128,585)</b>	<b>13,860</b>	<b>5,920,769</b>
<b>Total Utilities Capital Assets, Net</b>	<b>\$ 16,298,587</b>	<b>\$ 4,761,899</b>	<b>\$ 13,860</b>	<b>\$ 21,046,626</b>

Depreciation was charged to business-type activities as follows:

Utilities     \$441,069

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE J - RETIREMENT**

***County Employee Retirement System***

General Information about the Pension Plan

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

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The City's contributions for nonhazardous covered employees were as follows:

<u>Fiscal Year</u>	<u>Contribution Rate</u>	<u>Contribution Amount</u>
2013	19.55	\$112,314
2014	18.89	\$112,645
2015	17.76	\$108,634

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund. The City's contributions for hazardous covered employees were as follows:

<u>Fiscal Year</u>	<u>Contribution Rate</u>	<u>Contribution Amount</u>
2013	37.60	\$82,532
2014	35.70	\$88,924
2015	34.31	\$88,865

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

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE J - RETIREMENT (Continued)**

***County Employee Retirement System (Continued)***

General Information about the Pension Plan (Continued)

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

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

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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

Pension Liabilities

At June 30, 2015, the City has a liability of \$843,000 and \$591,000 for its proportionate share of the net pension liability for non-hazardous and hazardous retirement, respectively. 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 by the Kentucky Retirement Systems. 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 .025993% for non-hazardous and .049216% for hazardous.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE J - RETIREMENT (Continued)**

*County Employee Retirement System (Continued)*

Pension Liabilities (Continued)

For the year ended June 30, 2015, the City recognized pension expense of \$78,160 in its General Fund and \$34,840 in its Utility Fund. At June 30, 2015 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>NON-HAZARDOUS</b>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference between Projected and Actual Earnings on Pension Plan Investments	\$	\$ 94,000
City Contributions Subsequent to the Measurement Date	<u>108,634</u>	
<b>Total</b>	<u><u>\$ 108,634</u></u>	<u><u>\$ 94,000</u></u>
 <b>HAZARDOUS</b>		
Net Difference between Projected and Actual Earnings on Pension Plan Investments	\$	\$ 58,000
City Contributions Subsequent to the Measurement Date	<u>88,865</u>	
<b>Total</b>	<u><u>\$ 88,865</u></u>	<u><u>\$ 58,000</u></u>

An amount of \$140,703 reported as deferred outflows of resources in the general fund and \$56,796 as deferred outflows in the utility fund resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The collective amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Hazardous</u>	<u>Non-Hazardous</u>
Year 1	\$ (14,543)	\$ (23,534)
Year 2	(14,543)	(23,534)
Year 3	(14,543)	(23,534)
Year 4	(14,543)	(23,534)
Year 5	0	0
Thereafter	0	0

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE J - RETIREMENT (Continued)**

***County Employee Retirement System (Continued)***

Actuarial Methods and Assumptions

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

Inflation	3.5%
Salary Increases	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to 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 Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for Kentucky Retirement Systems. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption 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. 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 timeframe. 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.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE J - RETIREMENT (Continued)**

*County Employee Retirement System (Continued)*

Actuarial Methods and Assumptions (Continued)

Projected future benefit payments for all plan members were projected through 2116.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.50%
Private Equity	7%	1.25%
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 contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75 percent. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

The following presents the net pension liability of the City, calculated using the discount rate of percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate for non-hazardous and hazardous:

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE J - RETIREMENT (Continued)**

*County Employee Retirement System (Continued)*

Discount Rate (Continued)

<b>NON-HAZARDOUS</b>	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
	<hr/>	<hr/>	<hr/>
City's Net Pension Liability	\$ 1,109,704	\$ 843,311	\$ 607,914
<b>HAZARDOUS</b>	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
	<hr/>	<hr/>	<hr/>
City's Net Pension Liability	\$ 773,763	\$ 591,490	\$ 436,726

Deferred Inflows and Outflows

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2015, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

**NOTE K - INSURANCE COVERAGE**

The City is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The City has purchased certain policies, which include worker's compensation insurance.

**NOTE L - CONTINGENT LIABILITY**

The City issued bearer bonds in 1968. The People's Bank is the paying agent for the bonds. The City only knows the amount owed as the bonds are presented. No liability has been included on the financial statements for these bearer bonds as of June 30, 2015 as the liability could not be determined.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE M - PROPERTY TAX CALENDAR**

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

<u>Description</u>	
2% Discount	Upon receipt through October 31
Face value amount payment date	November 1 through December 31
6% Penalty added	January 1
Additional 6% penalty added	February 1

Property taxes collected are recorded as revenues in the fund for which they were levied. Property taxes are attached as an enforceable lien on property as of January 1, 2013. The property tax rates assessed for the year ended June 30, 2015, to finance the General Fund operations were \$.1393 per \$100 valuation for real property, \$.1393 per \$100 valuation for business personal property and \$.1977 per \$100 valuation for motor vehicles.

**NOTE N - RESTRICTIONS ON CASH**

*Depreciation Reserves*

The City maintains a depreciation reserve required by Kentucky Infrastructure Authority for repairs and maintenance to projects, which they funded. At June 30, 2015 the balance in the reserve was \$34,762. The City also maintains a depreciation reserve required by the Environmental Protection Agency for repairs and maintenance on the Wastewater Treatment Plant funded by federal loans. The balance in this reserve was \$91,817 at June 30, 2015.

*Reserved for Construction*

The City has \$452,019 in funds restricted for construction projects.

**NOTE O - CONSTRUCTION IN PROGRESS**

The City has the following construction projects in progress at June 30, 2015:

*Business-type*

Ewing School Sewer Project	\$ 1,590,380
Sewer Project	10,398,119
Sensus Meter Project	3,044
Crestview Waterline Project	42,943
Water Project	<u>2,740,799</u>
 Total Business-type	 <u>\$ 14,775,285</u>

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE P - SUBSEQUENT REVIEW**

Subsequent events have been evaluated through September 25, 2015, which is the date the financial statements were available to be issued.

**NOTE Q - PRIOR PERIOD ADJUSTMENT**

The beginning net position at June 30, 2015 has been restated. We have made adjustments to accommodate the implementation of GASB 68. Beginning net position in the general fund was decreased by \$1,020,600. Beginning net position in the proprietary fund was decreased by \$452,400.

**REQUIRED SUPPLEMENTAL INFORMATION**

**CITY OF FLEMINGSBURG, KENTUCKY**  
**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**Required Supplemental Information**  
**June 30, 2015**

	<u>Non-Hazardous</u>	<u>Hazardous</u>
2014 City's Proportion of the Net Pension Liability (Asset)	.025993%	0.049216%
2014 City's Proportionate Share of the Net Pension Liability (Asset)	\$843,000	\$591,000
2014 City's Covered-Employee Payroll	\$596,320	\$249,278
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	141.37%	237.08%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	63.46%

**CITY OF FLEMINGSBURG, KENTUCKY**  
**SCHEDULE OF THE CITY'S CONTRIBUTIONS**  
**Required Supplemental Information**  
**June 30, 2015**

	<u>Non-Hazardous</u>	<u>Hazardous</u>
2014 Contractually Required Contribution	\$ 112,645	\$ 88,992
2014 Contributions in Relation to the Contractually Required Contribution	<u>112,645</u>	<u>88,924</u>
Contribution Deficiency (Excess)	<u>\$</u>	<u>\$ 68</u>
2014 City's Covered-Employee Payroll	\$ 596,320	\$ 249,278
Contributions as a Percentage of Covered-Employee Payroll	18.89%	35.70%

CITY OF FLEMINGSBURG, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE  
 Required Supplemental Information – Modified Accrual Basis  
 For The Year Ending June 30, 2015

	<b>GENERAL FUND</b>			
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b><u>REVENUES</u></b>				
Taxes	\$ 431,000	\$ 431,000	\$ 441,116	\$ 10,116
Licenses & Permits	821,600	821,600	843,360	21,760
Intergovernmental Revenues	97,094	97,094	108,338	11,244
Charges For Services	264,050	264,050	270,131	6,081
Fines and Forfeitures			414	414
Other Revenue	850,932	850,932	640,678	(210,254)
<b>Total Revenues</b>	<b>2,464,676</b>	<b>2,464,676</b>	<b>2,304,037</b>	<b>(160,639)</b>
<b><u>EXPENDITURES</u></b>				
General Government	518,268	518,268	425,568	92,700
Economic Development/Chamber	47,050	47,050	52,807	(5,757)
Police	545,555	545,555	525,173	20,382
Streets and Roads	635,700	635,700	456,681	179,019
Maintenance	71,516	71,516	108,276	(36,760)
Parks and Recreation	33,563	33,563	31,201	2,362
Fire Department	960,417	960,417	61,647	898,770
<b>Total Expenditures</b>	<b>2,812,069</b>	<b>2,812,069</b>	<b>1,661,353</b>	<b>1,150,716</b>
Excess (Deficiency) of Revenues over Expenditures Before Other Financing Sources (Uses) and Transfers	(347,393)	(347,393)	642,684	990,077
<b>Other Financing Sources (Uses)</b>				
Capital Outlay			(963,919)	(963,919)
Debt Service			(42,375)	(42,375)
Debt Proceeds			315,000	315,000
Interest Expense			(4,660)	(4,660)
Interest Income	2,800	2,800	3,532	732
<b>Total Other Financial Sources (Uses)</b>	<b>2,800</b>	<b>2,800</b>	<b>(692,422)</b>	<b>(695,222)</b>
<b>Net Change in Fund Balances</b>	<b>(344,593)</b>	<b>(344,593)</b>	<b>(49,738)</b>	<b>294,855</b>
Fund Balances, Beginning	635,157	635,157	545,233	(89,924)
<b>Fund Balances, Ending</b>	<b>\$ 290,564</b>	<b>\$ 290,564</b>	<b>\$ 495,495</b>	<b>\$ 204,931</b>

**Reconciliation to the Statement of Revenues, Expenditures, and Changes in Fund Balance**

Total Expenditures - Budgetary Basis	\$ 1,661,353
Add: Pension Expense per Kentucky Retirement Systems	78,160
Subtract: Pension Contributions	(140,703)
<b>Total Expenditures</b>	<b>\$ 1,598,810</b>

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2015**

**Budgetary Information**

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

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

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

The City was over budget in the following line items:

Economic Development  
Maintenance

**CITY OF FLEMINGSBURG, KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2015**

<u>Program Title</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>
<b>U.S. Department of Agriculture</b>			
Rural Utilities Services Loan	N/A	10.672	\$ 1,692,365
Rural Utilities Services Grant	N/A	10.672	<u>762,090</u>
Total CFDA # 10.672			2,454,455
Rural Housing Services Loan	N/A	10.766	315,000
Rural Housing Services Grant	N/A	10.766	<u>50,000</u>
Total CFDA # 10.672			365,000
Appalachian Regional Commission Grant Appalachian Regional Development	N/A	23.001	131,630
Appalachian Regional Commission Grant Water and Waste Disposal Systems For Rural Communities - Ewing School Sewer	N/A	10.760	106,724
Water and Waste Disposal Systems For Rural Communities - Industrial Park		10.760	<u>1,000</u>
Total CFDA # 10.760			<u>107,724</u>
Total U.S. Department of Agriculture			3,058,809
<b>U. S. Environmental Protection Agency</b>			
Passed through the Kentucky Infrastructure Authority	Unknown		
Federally Assisted Wastewater Revolving Loan Fund Program - Ewing School Sewer		66.458	240,432
Federally Assisted Wastewater Revolving Loan Fund Program - Wastewater Treatment Plant		66.458	<u>1,953,859</u>
Total CFDA #66.458			2,194,291
<b>U.S. Department of Housing and Urban Development</b>			
Passed through the Kentucky Department for Local Government	Unknown		
Community Development Block Grant - Fire Station		14.228	377,768
Community Development Block Grant - Crestview		14.228	<u>42,943</u>
Total CFDA #14.228			<u>420,711</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 5,673,811</u></u>

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2015**

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Flemingsburg, Kentucky and is presented on an accrual basis of accounting. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

# Morgan-Franklin, LLC

Certified Public Accountants

749 Broadway Street

P.O. Box 428

West Liberty, KY 41472

Brenda K. Morgan, CPA

Jody B. Franklin, CPA

Phone: (606) 743-1884

Fax: (606) 743-1895

[www.morganfranklincpa.com](http://www.morganfranklincpa.com)

## 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

Honorable Mayor and City Council Members  
City of Flemingsburg, 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 each major fund of the City of Flemingsburg, 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 Flemingsburg, Kentucky's basic financial statements and have issued our report thereon dated September 25, 2015.

### Internal Control Over Financial Reporting

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

**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)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Flemingsburg, 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 is required to be reported under *Government Auditing Standards*.

**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.

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC  
West Liberty, Kentucky

September 25, 2015

*Morgan-Franklin, LLC*  
*Certified Public Accountants*

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

Brenda K. Morgan, CPA  
Jody B. Franklin, CPA

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
OMB CIRCULAR A-133**

Honorable Mayor and City Council Members  
City of Flemingsburg, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited the City of Flemingsburg, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Flemingsburg, Kentucky's major federal programs for the year ended June 30, 2015. The City of Flemingsburg, Kentucky's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Flemingsburg, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Flemingsburg, Kentucky's 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Flemingsburg, Kentucky's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City of Flemingsburg, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)**

**Report on Internal Control Over Compliance**

Management of the City of Flemingsburg, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Flemingsburg, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Flemingsburg, Kentucky's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC  
West Liberty, Kentucky

September 25, 2015

**CITY OF FLEMINGSBURG, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2015**

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unmodified opinion on the financial statements of City of Flemingsburg, Kentucky.
2. No significant deficiencies or material weaknesses were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of City of Flemingsburg, Kentucky, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for City of Flemingsburg, Kentucky expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were: Environmental Protection Agency Federally Assisted Wastewater Revolving Loan Fund Program (CFDA 66.458); U. S. Department of Agriculture Rural Housing Services Loan and Grants (CFDA 10.766); U. S. Department of Agriculture Rural Utilities Services Loan and Grant (CFDA 10.672); and U. S. Department of Housing and Urban Development Community Development Block Grant (CFDA 14.228).
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. City of Flemingsburg, Kentucky was determined to be low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

NONE

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

NONE

**D. SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**

NONE

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

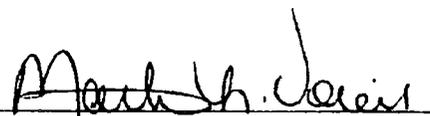
**City of Flemingsburg, Kentucky**

**For the Fiscal Year Ended  
June 30, 2015**

**Appendix A**

**CITY OF FLEMINGSBURG, KENTUCKY  
CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
AND DEVELOPMENT PROGRAM  
June 30, 2015**

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



Mayor  
City of Flemingsburg, KY

**CITY OF FLEMINGSBURG,  
KENTUCKY**

**AUDITED FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2016**

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*Morgan-Franklin, LLC*  
*Certified Public Accountants*

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

Brenda K. Morgan, CPA  
Jody B. Franklin, CPA

Phone: (606) 743-1884  
Fax: (606) 743-1895  
[www.morganfranklincpa.com](http://www.morganfranklincpa.com)

**INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and Council Members  
City of Flemingsburg, Kentucky

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Flemingsburg, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Flemingsburg, Kentucky's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

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 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 auditors consider 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 opinions.

Honorable Mayor and City Council Members  
City of Flemingsburg, Kentucky

***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, and each major fund of the City of Flemingsburg, Kentucky, as of June 30, 2016, 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 budgetary comparison information, the schedule of the City's proportionate share of the net pension liability, and the schedule of the City's contributions listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2016, on our consideration of the City of Flemingsburg, 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 Flemingsburg, Kentucky's internal control over financial reporting and compliance.

*Morgan - Frankli, LLC*

West Liberty, Kentucky  
October 18, 2016

Honorable Mayor and City Council Members  
City of Flemingsburg, Kentucky

***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, and each major fund of the City of Flemingsburg, Kentucky, as of June 30, 2016, 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 budgetary comparison information, the schedule of the City's proportionate share of the net pension liability, and the schedule of the City's contributions listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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*Morgan - Frankli, LLC*

West Liberty, Kentucky  
October 18, 2016

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
As of June 30, 2016

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 540,458	\$ 2,303,875	\$ 2,844,333
Receivables:			
Customers	30,388	177,275	207,663
Unbilled		95,755	95,755
Allowance - Uncollectibles		(20,629)	(20,629)
Miscellaneous		10,664	10,664
Interest	113		113
Prepaid Expenses	178,951		178,951
Due from Other Funds	(49,202)	49,202	0
Natural Gas Inventory		45,069	45,069
Refinancing Fees (Net of Accumulated Amortization)		8,171	8,171
Restricted Cash and Cash Equivalents		638,512	638,512
<b>Total Current Assets</b>	<b>700,708</b>	<b>3,307,894</b>	<b>4,008,602</b>
Noncurrent Assets:			
Capital Assets - Net of Accum. Depreciation			
Land	457,474	350,572	808,046
Construction In Progress	33,098	3,044	36,142
Land Improvements	95,916		95,916
Buildings and Improvements	1,891,666	39,061	1,930,727
Water Utility Plant		4,814,588	4,814,588
Waste Water Plant		14,152,041	14,152,041
Gas Utility		828,880	828,880
Machinery and Equipment	51,749	367,352	419,101
Office Furniture and Equipment	18,512	1,750	20,262
Vehicles	492,387	31,138	523,525
Infrastructure	1,155,992		1,155,992
<b>Total Noncurrent Assets</b>	<b>4,196,794</b>	<b>20,588,426</b>	<b>24,785,220</b>
<b>Total Assets</b>	<b>4,897,502</b>	<b>23,896,320</b>	<b>28,793,822</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Contributions	337,603	166,540	504,143

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF NET POSITION**  
As of June 30, 2016

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable - Trade	7,422	34,968	42,390
Accrued Interest	7,202	26,006	33,208
Accrued Wages	18,426	13,505	31,931
Accrued Payroll Taxes	3,166		3,166
Accrued Retirement	18,884		18,884
Accrued Compensated Absences	118,206	70,105	188,311
Customer Deposits		72,720	72,720
Sales Tax Payable		5,972	5,972
School Tax Payable		25,461	25,461
Loans/Bonds	49,177	35,500	84,677
<b>Total Current Liabilities</b>	<b>222,483</b>	<b>284,237</b>	<b>506,720</b>
Noncurrent Liabilities:			
Net Pension Liability	1,298,537	607,325	1,905,862
Loans/Bonds	503,860	9,445,677	9,949,537
<b>Total Noncurrent Liabilities</b>	<b>1,802,397</b>	<b>10,053,002</b>	<b>11,855,399</b>
<b>Total Liabilities</b>	<b>2,024,880</b>	<b>10,337,239</b>	<b>12,362,119</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Net Difference Between Projected and Actual			
Investment Earnings on Pension Plan Investments	0	0	0
<b>NET POSITION</b>			
Invested in Capital Assets, Net of Related Debt	3,636,555	11,081,243	14,717,798
Restricted for:			
Capital Projects		489,191	489,191
Depreciation Reserve		149,321	149,321
Unrestricted	(426,330)	2,005,866	1,579,536
<b>Total Net Position</b>	<b>\$ 3,210,225</b>	<b>\$ 13,725,621</b>	<b>\$ 16,935,846</b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**For The Year Ended June 30, 2016**

Functions/Programs	Expenses	Program Revenues Received			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government:</b>							
Governmental Activities:							
General Government	\$ 477,372	\$ 7,833	\$	\$	\$ (469,539)	\$	\$ (469,539)
Public Safety and Health	530,660	321,384	82,766	39,003	(87,507)		(87,507)
Streets and Roads	550,687			59,560	(491,127)		(491,127)
Parks and Recreation	27,967				(27,967)		(27,967)
Interest on Long Term Debt	24,572				(24,572)		(24,572)
Unallocated Depreciation	268,271				(268,271)		(268,271)
CATV/Cable Fund	22,076				(22,076)		(22,076)
<b>Total Governmental Activities</b>	<b>1,901,605</b>	<b>329,217</b>	<b>82,766</b>	<b>98,563</b>	<b>(1,391,059)</b>		<b>(1,391,059)</b>
Business-type Activities:							
Utilities	2,675,681	2,286,137		406,056		16,512	16,512
<b>Total Primary Government</b>	<b>\$ 4,577,286</b>	<b>\$ 2,615,354</b>	<b>\$ 82,766</b>	<b>\$ 504,619</b>	<b>(1,391,059)</b>	<b>16,512</b>	<b>(1,374,547)</b>
<b>General Revenues, Transfers, and Special Items:</b>							
Taxes							
Real Property Taxes					158,635		158,635
Personal Property Taxes					41,967		41,967
Insurance Premium Taxes					259,832		259,832
Licenses							
Occupational Licenses					611,385		611,385
Other Licenses					106,832		106,832
Franchise Fees					154,262		154,262
Miscellaneous					45,963	118,265	164,228
Interest Earned					2,624	5,287	7,911
<b>Total General Revenues, Transfers and Special Items</b>					<b>1,381,500</b>	<b>123,552</b>	<b>1,505,052</b>
<b>Change in Net Position</b>					<b>(9,559)</b>	<b>140,064</b>	<b>130,505</b>
<b>Net Position - Beginning</b>					<b>3,219,784</b>	<b>13,585,557</b>	<b>16,805,341</b>
<b>Net Position - Ending</b>					<b>\$ 3,210,225</b>	<b>\$ 13,725,621</b>	<b>\$ 16,935,846</b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
As of June 30, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Community Television Access Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 466,116	\$ 11,339	\$ 63,003	\$ 540,458
Receivables	30,388			30,388
Interest Receivable		113		113
Prepaid Expenses	178,951			178,951
Due from Other Funds	41,493	141		41,634
<b>TOTAL ASSETS</b>	<b>716,948</b>	<b>11,593</b>	<b>63,003</b>	<b>791,544</b>
<b>LIABILITIES</b>				
Accounts Payable - Trade	7,422			7,422
Accrued Interest	7,202			7,202
Accrued Wages	18,426			18,426
Accrued Payroll Taxes	3,166			3,166
Accrued Retirement Expense	18,884			18,884
Accrued Compensated Absences	118,206			118,206
Due to Other Funds	49,343	39,593	1,900	90,836
<b>TOTAL LIABILITIES</b>	<b>222,649</b>	<b>39,593</b>	<b>1,900</b>	<b>264,142</b>
<b>FUND BALANCES</b>				
Fund Balances:				
Nonspendable	178,951			178,951
Committed for CTA			61,103	61,103
Unassigned	315,348	(28,000)		287,348
<b>TOTAL FUND BALANCES</b>	<b>\$ 494,299</b>	<b>\$ (28,000)</b>	<b>\$ 61,103</b>	<b>\$ 527,402</b>

**Reconciliation to Statement of Changes in Net Position:**

Total Governmental Fund Balances	\$ 527,402
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital Assets Used in Governmental Activities of \$7,178,103, Net of Accumulated Depreciation of \$2,981,309, are Not Financial Resources and, Therefore, are Not Reported in the Funds.	4,196,794
Long-term Debt is Not Due and Payable in the Current Period and, Therefore, is Not Reported in the Funds.	(553,037)
Net Pension Liability	(1,298,537)
Deferred Outflows	337,603
<b>Net Position of Governmental Activities</b>	<b>\$ 3,210,225</b>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**For The Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Community Television Access Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 460,434	\$	\$	\$ 460,434
Licenses & Permits	850,202		26,207	876,409
Intergovernmental Revenues	153,202			153,202
Charges for Services	314,482			314,482
Other Revenue	59,609		930	60,539
Total Revenues	<u>1,837,929</u>		<u>27,137</u>	<u>1,865,066</u>
<b>EXPENDITURES</b>				
Current				
General Government	427,622			427,622
Economic Development	49,750			49,750
Police	473,985			473,985
Streets and Roads	442,321	48		442,369
Maintenance	108,318			108,318
Parks and Recreation	27,967			27,967
Fire Department	56,675			56,675
CATV/Cable			22,076	22,076
Total Expenditures	<u>1,586,638</u>	<u>48</u>	<u>22,076</u>	<u>1,608,762</u>
Excess (Deficiency) of Revenues over Expenditures Before Transfers and Other Financing Sources (Uses)	251,291	(48)	5,061	256,304
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital Outlay	(323,865)			(323,865)
Deferred Outflows (Retirement Contributions)	(131,672)			(131,672)
Deferred Inflows Kentucky Retirement	134,549			134,549
Debt Proceeds	134,013			134,013
Debt Service	(67,786)			(67,786)
Grant Proceeds	24,358			24,358
Interest Expense	(24,572)			(24,572)
Interest Income	2,488	45	91	2,624
Total Other Financial Sources (Uses)	<u>(252,487)</u>	<u>45</u>	<u>91</u>	<u>(252,351)</u>
Net Change in Fund Balances	(1,196)	(3)	5,152	3,953
Fund Balances, Beginning	<u>495,495</u>	<u>(27,997)</u>	<u>55,951</u>	<u>523,449</u>
Fund Balances, Ending	<u>\$ 494,299</u>	<u>\$ (28,000)</u>	<u>\$ 61,103</u>	<u>\$ 527,402</u>

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For The Year Ended June 30, 2016**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances-Total Governmental Funds	\$	3,953
<p>Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense:</p>		
Capital Outlay		323,865
Depreciation Expense		(268,271)
Deferred Outflows		131,672
Deferred Inflows		(134,549)
<p>The Issuance of Long-Term Debt Provides Current Financial Resources to Governmental Funds While Lease and Bond Principal Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources. These Transactions; However, Have No Effect on Net Position.</p>		
Long-Term Debt Proceeds		(134,013)
Long-Term Debt Principal Payments		67,786
Rounding Difference		(2)
		(2)
Change in Net Position of Governmental Activities	\$	(9,559)

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF FUND NET POSITION - PROPRIETARY FUND**  
**As of June 30, 2016**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 2,303,875
Receivables:	
Customers	177,275
Unbilled	95,755
Allowance - Uncollectibles	(20,629)
Miscellaneous Accounts Receivable	10,664
Restricted Assets:	
Cash and Cash Equivalents	638,512
Due from Other Funds	49,343
Natural Gas Inventory	45,069
Deferred Outflows	166,540
Refinancing Fees (Net of Accumulated Amortization)	8,171

Total Current 3,474,575

Noncurrent Assets:

Capital Assets-Net of Accum. Depr.	
Land	350,572
Construction in Progress	3,044
Buildings and Improvements	39,061
Water Utility Plant	4,814,588
Waste Water Plant	14,152,041
Gas Utility	828,880
Machinery and Equipment	367,352
Office Furniture and Equipment	1,750
Vehicles	31,138

Total Noncurrent Assets 20,588,426

Total Assets 24,063,001

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF FUND NET POSITION - PROPRIETARY FUND**  
As of June 30, 2016

**LIABILITIES**

Current Liabilities

Accounts Payable - Trade	34,968
Due To Other Funds	141
Customer Deposits	72,720
Sales Tax Payable	5,972
School Tax Payable	25,461
Accrued Compensated Absences	70,105
Accrued Interest	26,006
Accrued Wages	13,505
	13,505

Total Current Liabilities 248,878

Noncurrent Liabilities

Net Pension Liability	607,325
Loans/Bonds	9,481,177
	9,481,177

Total Noncurrent Liabilities 10,088,502

Total Liabilities 10,337,380

**NET POSITION**

Invested in Capital Assets, Net of Related Debt 11,093,744

Restricted for:

Depreciation Reserve	149,321
Capital Projects	489,191

Unrestricted 1,993,365

Total Net Position \$ 13,725,621

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET POSITION - PROPRIETARY FUND**  
**For the Year Ended June 30, 2016**

	<b>Water Fund</b>	<b>Waste Water Fund</b>	<b>Gas Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>				
Charges for Services	\$ 735,202	\$ 709,017	\$ 841,918	\$ 2,286,137
Other Revenue	20,902	72,870	24,168	117,940
Total Operating Revenues	756,104	781,887	866,086	2,404,077
<b>OPERATING EXPENSES</b>				
Gas Purchases			302,656	302,656
Water Purchases	293,696			293,696
Salaries and Wages	113,686	137,718	154,839	406,243
Fringe Benefits	63,683	67,934	67,927	199,544
Contractual Services	103,395	189,926	38,302	331,623
Materials and Supplies	166,006	85,916	19,864	271,786
Other Charges	8,923	4,868	16,499	30,290
Depreciation and Amortization	205,670	407,640	78,665	691,975
Total Operating Expenses	955,059	894,002	678,752	2,527,813
<b>NET OPERATING INCOME (LOSS)</b>	\$ (198,955)	\$ (112,115)	\$ 187,334	(123,736)
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest Income				5,287
Interest Expense				(147,868)
Gain on Disposal of Assets				325
Total Non-Operating Revenues (Expenses)				(142,256)
<b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>				(265,992)
Contributions in Aid of Construction				406,056
Change in Net Position				140,064
<b>NET POSITION - BEGINNING OF YEAR</b>				13,585,557
<b>NET POSITION - END OF YEAR</b>				\$ 13,725,621

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**For the Year Ended June 30, 2016**

<b>Cash flows from Operating Activities:</b>	
Payments Received from Customers	\$ 2,297,893
Other Revenues	117,940
Payments to Suppliers	(1,229,815)
Payments for Salaries and Benefits	(569,089)
Net Cash Provided (Used) by Operating Activities	<u>616,929</u>
<b>Cash Flows from NonCapital Financing Activities:</b>	
Decrease in Net Cash Due to Other Funds	(62,930)
Increase in Restricted Cash	(59,914)
Net Cash Provided (Used) by NonCapital Financing Activities	<u>(122,844)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Grants Received	406,056
Debt Proceeds	52,578
Principal Debt Payments	(193,869)
Capital Asset Purchases	(294,623)
Interest Paid on Debt	(121,862)
Net Cash Provided (Used) by Financing Activities	<u>(151,720)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest Income	<u>5,287</u>
Net Cash Provided (Used) by Investing Activities	<u>5,287</u>
Net Increase (Decrease) in Cash	347,652
Cash at Beginning of Year	<u>1,956,223</u>
Cash at End of Year	<u>\$ 2,303,875</u>
<b>Reconciliation of Operating Income to Net Cash Used</b>	
<b>by Operating Activities</b>	
Operating Income (Loss)	\$ (123,736)
Adjustment to Reconcile Operating Income to	
Cash Provided (Used) by Operating Activities	
Depreciation	690,816
Amortization	1,159
Changes in Assets and Liabilities:	
Customer Receivable	9,917
Accounts Payable - Trade	729
Natural Gas Inventory	(3,883)
Customer Deposits	1,839
Accrued Liabilities	3,389
Net Change in Deferred Outflows for Retirement	10,341
Accrued Wages	13,505
Payroll Liabilities	12,853
Net Cash Provided (Used) by Operating Activities	<u>\$ 616,929</u>
<b>Significant Noncash Transaction:</b>	
Forgiveness of Debt	\$ 22,533

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

Financial Reporting Entity

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

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

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Government-Wide and Fund Financial Statements

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

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

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

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

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

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Governmental Funds

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

The primary government reports the following major governmental funds:

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

**Community Development Fund** – This is a Special Revenue fund used to account for the following:

Streetscape Project – CDBG project to restore downtown by relocating all utility service lines from sight on Main Street.

**Community Television Access Fund** – The primary source of revenue is generated from City cable franchise fees. The fund provides local programming for City residents.

Proprietary Funds

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

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

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Budgeting

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

Encumbrances

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

Inventory

Inventory consists of gas reserves and is stated at cost.

Capital Assets

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

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

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

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash and Investments

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

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

Use of Estimates

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

Unearned Revenues

The City allows gas customers to prepay for gas during the summer months on a budget plan. The prepayments are netted with accounts receivable.

Unbilled Receivables

The City reads meters on approximately the 10<sup>th</sup> of each month for water and sewer, on the 18<sup>th</sup> of each month for gas meters, and garbage is billed for the previous month. The bills for the current reading go out on the first day of the following month. The Unbilled Receivables represents approximately 19 days of water and sewer usage, 11 days of gas usage.

Long-term Obligations

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

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Equity

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

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

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

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

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

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

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

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2016 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accrued Liabilities and Long-Term Obligations (Continued)

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

**NOTE B - DEPOSITS**

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

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the city’s deposits may not be returned to it. The city does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2016, the bank balance was \$3,694,384. These deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Deposits Covered By Federal Insurance	\$ 595,619
Deposits Collateralized	<u>3,098,765</u>
 Total Bank Balance	 <u>\$ 3,694,384</u>

**NOTE C - COMPENSATED ABSENCES**

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE D - LONG-TERM DEBT**

Governmental Activities

1. On September 24, 2010, the City entered into a loan agreement with Peoples Bank for \$117,000 in order to purchase a 2011 garbage truck. Terms of the agreement stipulate a five-year repayment schedule, with monthly principal and interest payments of \$2,130, and an interest rate of 3.5 percent. As of June 30, 2016, the principal balance was paid in full.
2. In 2012, the City issued \$200,000 in General Obligation Bonds for the purpose of financing the cost (not otherwise provided) of the acquisition of a fire truck for the City. These bonds are scheduled to mature in 2023 and carry an interest rate of 3.375 percent. Semiannual interest payments are required on July 1 and January 1 of each year. As of June 30, 2016, the principal balance was \$125,707. Obligations for the remaining years are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2017	\$ 19,000	\$ 4,961	\$ 23,961
2018	19,500	4,320	23,820
2019	20,000	3,662	23,662
2020	21,000	2,987	23,987
2021	21,500	2,278	23,778
2022-2023	<u>24,707</u>	<u>2,346</u>	<u>27,053</u>
	<u>\$ 125,707</u>	<u>\$ 20,554</u>	<u>\$ 146,261</u>

3. On November 11, 2015, the City entered into a loan agreement with Peoples Bank for \$134,013 in order to purchase a garbage truck. Terms of the agreement stipulate a five-year repayment schedule, with monthly principal and interest payments of \$2,406, and an interest rate of 2.97 percent. As of June 30, 2016, the principal balance was \$117,251. Obligations for the remaining years are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2017	\$ 25,677	\$ 3,198	\$ 28,875
2018	26,450	2,425	28,875
2019	27,246	1,629	28,875
2020	28,067	808	28,875
2021	<u>9,811</u>	<u>88</u>	<u>9,899</u>
	<u>\$ 117,251</u>	<u>\$ 8,148</u>	<u>\$ 125,399</u>

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE D - LONG-TERM DEBT (Continued)**

Governmental Activities (Continued)

4. In March 2014, the City issued \$315,000 in General Obligation Bonds for the purpose of financing the cost (not otherwise provided) of the construction of a fire station for the City. These bonds are scheduled to mature in 2054 and carry an interest rate of 3.125 percent. Semiannual interest payments are required on July 1 and January 1 of each year. As of June 30, 2016, the principal balance was \$310,078. Obligations for the remaining years are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2017	\$ 4,500	\$ 4,922	\$ 9,422
2018	4,500	4,852	9,352
2019	4,500	4,781	9,281
2020	5,000	4,711	9,711
2021	5,000	4,633	9,633
2022-2026	27,500	21,947	49,447
2027-2031	32,000	19,664	51,664
2032-2036	37,000	17,008	54,008
2037-2041	43,000	13,930	56,930
2042-2046	51,000	10,336	61,336
2047-2051	59,000	6,102	65,102
2052-2054	<u>37,078</u>	<u>1,351</u>	<u>38,429</u>
	<u>\$ 310,078</u>	<u>\$ 114,237</u>	<u>\$ 424,315</u>

Business-Type Activities

1. During the 2012 fiscal year, the City entered into a revolving loan agreement with Kentucky Infrastructure Authority (KIA) for up to \$8,906,000 with an interest rate of 1%. In January 2013, the City entered a supplemental agreement with KIA to increase the revolving loan agreement amount to \$10,619,600. During the fiscal year ended June 30, 2016, draws were made totaling \$75,111; however, \$22,533 of this debt has been forgiven. Total draws to date have been \$10,380,670. Total debt forgiven to date equals \$3,114,200. A principal payment of \$164,553 was made; leaving a principal balance as of June 30, 2016 of \$7,101,916.
2. During the 2012 fiscal year, the City entered into a revolving loan agreement with Kentucky Infrastructure Authority for up to \$500,000 with an interest rate of 1%. During the fiscal year ended June 30, 2016, no draws were made. Total draws to date have been \$459,530. Total debt forgiven to date equals \$45,953. A principal payment of \$9,366 was made, leaving a principal balance as of June 30, 2016 of \$404,211.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE D - LONG-TERM DEBT (Continued)**

Business-Type Activities (Continued)

3. In June 2014, the City issued \$1,995,000 in General Obligation Bonds for the purpose of financing the cost (not otherwise provided) of the construction of extension, additions and improvements to the existing water system of the City. These bonds are scheduled to mature in 2054 and carry an interest rate of 2.0 percent. Semiannual interest payments are required on July 1 and January 1 of each year. As of June 30, 2016, the principal balance was \$1,975,050. Obligations for the remaining years are:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2017	\$ 35,500	\$ 19,950	\$ 55,450
2018	36,500	19,595	56,095
2019	37,000	19,230	56,230
2020	38,000	18,860	56,860
2021	38,500	18,480	56,980
2022-2026	204,500	86,460	290,960
2027-2031	225,500	75,830	301,330
2032-2036	250,000	64,075	314,075
2037-2041	275,000	51,075	326,075
2042-2046	303,500	36,770	340,270
2047-2051	335,500	20,980	356,480
2052-2054	195,550	4,320	199,870
	<u>\$ 1,975,050</u>	<u>\$ 435,625</u>	<u>\$ 2,410,675</u>

**NOTE E - LONG-TERM LIABILITIES IN THE AGGREGATE**

Governmental Activities

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2017	\$ 49,177	\$ 13,081	\$ 62,258
2018	50,450	11,597	62,047
2019	51,746	10,072	61,818
2020	54,067	8,506	62,573
2021	36,311	6,999	43,310
2022-2026	52,207	24,293	76,500
2027-2031	32,000	19,664	51,664
2032-2036	37,000	17,008	54,008
2037-2041	43,000	13,930	56,930
2042-2046	51,000	10,336	61,336
2047-2051	59,000	6,102	65,102
2052-2054	37,078	1,351	38,429
	<u>\$ 553,036</u>	<u>\$ 142,939</u>	<u>\$ 695,975</u>

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE H – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2016, consisted of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets not Being Depreciated:				
Land	\$ 457,474	\$	\$	\$ 457,474
Construction in Progress		33,098		33,098
<b>Total Capital Assets not Being Depreciated</b>	<b>457,474</b>	<b>33,098</b>		<b>490,572</b>
Capital Assets, Being Depreciated:				
Land Improvements	154,209			154,209
Buildings and Improvements	2,653,529	33,181		2,686,710
Machinery and Equipment	700,533	40,900		741,433
Office Furniture and Equipment	72,341	23,140		95,481
Vehicles	1,450,740	193,546	120,918	1,523,368
Infrastructure	1,486,330			1,486,330
<b>Total Capital Assets Being Depreciated</b>	<b>6,517,682</b>	<b>290,767</b>	<b>120,918</b>	<b>6,687,531</b>
Less Accumulated Depreciation for:				
Land Improvements	47,017	11,276		58,293
Buildings and Improvements	723,746	71,298		795,044
Machinery and Equipment	665,375	24,308		689,683
Office Furniture and Equipment	72,343	4,628		76,971
Vehicles	1,053,516	98,382	120,918	1,030,980
Infrastructure	271,958	58,380		330,338
<b>Total Accumulated Depreciation</b>	<b>2,833,955</b>	<b>268,272</b>	<b>120,918</b>	<b>2,981,309</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>3,683,727</b>	<b>22,495</b>		<b>3,706,222</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 4,141,201</b>	<b>\$ 55,593</b>	<b>\$ 0</b>	<b>\$ 4,196,794</b>

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE H – CAPITAL ASSETS (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 350,572	\$	\$	\$ 350,572
Construction in Progress	14,775,285	187,271	14,959,512	3,044
Total Capital Assets Not Being Depreciated	15,125,857	187,271	14,959,512	353,616
Capital Assets, Being Depreciated:				
Buildings and Improvements	69,139			69,139
Water Utility Plant	4,507,244	2,931,478		7,438,722
Gas Utility	2,349,759	19,478		2,369,237
Waste Water Plant	7,150,231	12,038,758		19,188,989
Machinery and Equipment	948,655	15,300		963,955
Office Furniture	36,359			36,359
Vehicles	294,887			294,887
Total Capital Assets Being Depreciated	15,356,274	15,005,014		30,361,288
Less Accumulated Depreciation For:				
Buildings and Improvements	26,196	3,883		30,079
Water Utility Plant	2,448,222	175,910		2,624,132
Gas Utility	1,488,352	52,005		1,540,357
Waste Water Plant	4,655,676	381,273		5,036,949
Machinery and Equipment	544,306	52,298		596,604
Office Furniture	34,260	349		34,609
Vehicles	238,496	25,252		263,748
Total Accumulated Depreciation	9,435,508	690,970		10,126,478
Total Capital Assets Being Depreciated, Net	5,920,766	14,314,044		20,234,810
Total Utilities Capital Assets, Net	\$ 21,046,623	\$ 14,501,315	\$ 14,959,512	\$ 20,588,426

Depreciation was charged to business-type activities as follows:

Utilities     \$690,970

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE I - RETIREMENT**

*County Employee Retirement System*

General Information about the Pension Plan

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

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% (nonhazardous) and 8% (hazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (nonhazardous) and 7.5% (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The City's contributions for nonhazardous covered employees were as follows:

<u>Fiscal Year</u>	<u>Contribution Rate</u>	<u>Contribution Amount</u>
2014	18.89	\$112,645
2015	17.76	\$108,634
2016	17.06	\$145,670

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8 percent will go to the member's account and 1 percent will go to the KRS insurance fund. The City's contributions for hazardous covered employees were as follows:

<u>Fiscal Year</u>	<u>Contribution Rate</u>	<u>Contribution Amount</u>
2014	35.70	\$ 88,924
2015	34.31	\$ 88,865
2016	32.95	\$114,836

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE I - RETIREMENT (Continued)**

*County Employee Retirement System (Continued)*

General Information about the Pension Plan (Continued)

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

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

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

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

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

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE I - RETIREMENT (Continued)**

***County Employee Retirement System (Continued)***

Pension Liabilities

At June 30, 2016, the City has a liability of \$1,128,547 and \$777,315 for its proportionate share of the net pension liability for non-hazardous and hazardous retirement, respectively. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date by the Kentucky Retirement Systems. 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, 2015, the City's proportion was .026248% for non-hazardous and .050636% for hazardous.

For the year ended June 30, 2016, the City recognized pension expense of \$134,549 in its General Fund and \$69,740 in its Utility Fund. At June 30, 2016 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Schedule of Deferred Outflows and Inflows**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<b>NON-HAZARDOUS</b>		
Differences Between Expected and Actual Experience	\$ 9,379	\$
Changes in Assumptions	113,802	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	10,117	
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	6,582	
City Contributions and Cash Balance Subsequent to the Measurement Date	<u>145,590</u>	
Total	<u>\$ 285,470</u>	<u>\$ 0</u>
<b>HAZARDOUS</b>		
Differences Between Expected and Actual Experience	\$ 16,883	\$
Changes in Assumptions	67,173	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	4,881	
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	14,900	
City Contributions and Cash Balance Subsequent to the Measurement Date	<u>114,836</u>	
Total	<u>\$ 218,673</u>	<u>\$ 0</u>

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE I - RETIREMENT (Continued)**

***County Employee Retirement System (Continued)***

Pension Liabilities (Continued)

The collective amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

		Hazardous		Non-Hazardous
Year 1	\$	19,144	\$	45,663
Year 2	\$	19,144	\$	45,663
Year 3	\$	19,143	\$	21,617
Year 4	\$	31,506	\$	20,352
Year 5	\$	0	\$	0
hereafter	\$	0	\$	0

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary Increases	4.0%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for Kentucky Retirement Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption 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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE I - RETIREMENT (Continued)**

***County Employee Retirement System (Continued)***

Actuarial Methods and Assumptions (Continued)

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. 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 timeframe. 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.

Projected future benefit payments for all plan members were projected through 2117.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.25%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50 percent. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

The following presents the net pension liability of the City, calculated using the discount rate of percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.50 percent) or one-percentage-point higher (8.50 percent) than the current rate for non-hazardous and hazardous:

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE I - RETIREMENT (Continued)**

***County Employee Retirement System (Continued)***

Discount Rate (Continued)

<b>NON-HAZARDOUS</b>	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's Net Pension Liability	\$ 1,440,721	\$ 1,128,547	\$ 861,184
 <b>HAZARDOUS</b>	 1% Decrease (6.50%)	 Current Discount Rate (7.50%)	 1% Increase (8.50%)
City's Net Pension Liability	\$ 994,991	\$ 777,315	\$ 596,968

Deferred Inflows and Outflows

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2016, is based on the June 30, 2015, actuarial valuation. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

**NOTE J - INSURANCE COVERAGE**

The City is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The City has purchased certain policies, which include worker's compensation insurance.

**NOTE K - CONTINGENT LIABILITY**

The City issued bearer bonds in 1968. The People's Bank is the paying agent for the bonds. The City only knows the amount owed as the bonds are presented. No liability has been included on the financial statements for these bearer bonds as of June 30, 2016 as the liability could not be determined.

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE L - RESTRICTIONS ON CASH**

*Depreciation Reserves*

The City maintains a depreciation reserve required by Kentucky Infrastructure Authority for repairs and maintenance to projects, which they funded. At June 30, 2016 the balance in the reserve was \$35,093. The City also maintains a depreciation reserve required by the Environmental Protection Agency for repairs and maintenance on the Wastewater Treatment Plant funded by federal loans. The balance in this reserve was \$114,228 at June 30, 2016.

*Reserved for Construction*

The City has \$489,191 in funds restricted for construction projects.

**NOTE M - CONSTRUCTION IN PROGRESS**

The City has the following construction projects in progress at June 30, 2016:

*Business-type:*

Sensus Meter Project                   \$    3,044

Total Business-type                   \$    3,044

*Governmental:*

Sidewalks                                 \$    33,098

Total Governmental                   \$    33,098

**NOTE N - SUBSEQUENT REVIEW**

Subsequent events have been evaluated through October 18, 2016, which is the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTAL INFORMATION**

**CITY OF FLEMINGSBURG, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**Required Supplemental Information – Modified Accrual Basis**  
**For the Year Ending June 30, 2016**

	<b>GENERAL FUND</b>			
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b><u>REVENUES</u></b>				
Taxes	\$ 429,000	\$ 429,000	\$ 460,434	\$ 31,434
Licenses & Permits	846,689	846,689	850,202	3,513
Intergovernmental Revenues	141,243	141,243	153,202	11,959
Charges For Services	308,988	308,988	314,482	5,494
Other Revenue	45,740	45,740	59,609	13,869
<b>Total Revenues</b>	<b>1,771,660</b>	<b>1,771,660</b>	<b>1,837,929</b>	<b>66,269</b>
<b><u>EXPENDITURES</u></b>				
General Government	507,710	507,710	424,284	83,426
Economic Development/Chamber	49,745	49,745	49,750	(5)
Police	610,445	610,445	479,983	130,462
Streets and Roads	579,495	579,495	438,210	141,285
Maintenance	112,148	112,148	106,892	5,256
Parks and Recreation	47,630	47,630	27,967	19,663
Fire Department	121,815	121,815	56,675	65,140
<b>Total Expenditures</b>	<b>2,028,988</b>	<b>2,028,988</b>	<b>1,583,761</b>	<b>445,227</b>
Excess (Deficiency) of Revenues over Expenditures Before Other Financing Sources (Uses) and Transfers	(257,328)	(257,328)	254,168	511,496
<b>Other Financing Sources (Uses)</b>				
Capital Outlay			(323,865)	(323,865)
Debt Service			(67,786)	(67,786)
Debt Proceeds			134,013	134,013
Grant Proceeds			24,358	24,358
Interest Expense			(24,572)	(24,572)
Interest Income	2,800	2,800	2,488	(312)
<b>Total Other Financial Sources (Uses)</b>	<b>2,800</b>	<b>2,800</b>	<b>(255,364)</b>	<b>(258,164)</b>
<b>Net Change in Fund Balances</b>	<b>(254,528)</b>	<b>(254,528)</b>	<b>(1,196)</b>	<b>253,332</b>
<b>Fund Balances, Beginning</b>	<b>573,053</b>	<b>573,053</b>	<b>495,495</b>	<b>(77,558)</b>
<b>Fund Balances, Ending</b>	<b>\$ 318,525</b>	<b>\$ 318,525</b>	<b>\$ 494,299</b>	<b>\$ 175,774</b>
<b>Reconciliation to the Statement of Revenues, Expenditures, and Changes in Fund Balance</b>				
Total Expenditures - Budgetary Basis			\$ 1,583,761	
Add: Expense per Kentucky Retirement Systems			134,549	
Subtract: Pension Contributions			(131,672)	
<b>Total Expenditures</b>			<b>\$ 1,586,638</b>	

**CITY OF FLEMINGSBURG, KENTUCKY**  
**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**Required Supplemental Information**  
**June 30, 2016**

<i>(Actuarial Valuation Report Year)</i>	<b>Non-Hazardous</b>	
	2014	2015
City's Proportion of the Net Pension Liability (Asset)	0.025993%	0.026248%
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 843,000	\$ 1,128,547
City's Covered-Employee Payroll	\$ 596,320	\$ 556,976
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	141.37%	202.62%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	59.97%

<i>(Actuarial Valuation Report Year)</i>	<b>Hazardous</b>	
	2014	2015
City's Proportion of the Net Pension Liability (Asset)	0.049216%	0.050636%
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 591,000	\$ 777,315
City's Covered-Employee Payroll	\$ 249,278	\$ 259,099
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	237.08%	300.01%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.46%	57.52%

**Note:**

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**SCHEDULE OF THE CITY'S CONTRIBUTIONS**  
**Required Supplemental Information**  
**June 30, 2016**

<i>(Actuarial Valuation Report Year)</i>	<b>Non-Hazardous</b>	
	2014	2015
Contractually Required Contribution	\$ 112,645	\$ 78,368
Contributions in Relation to the Contractually Required Contribution	<u>112,645</u>	<u>105,212</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ (26,844)</u>
City's Covered-Employee Payroll	\$ 596,320	\$ 556,976
Contributions as a Percentage of Covered- Employee Payroll	18.89%	14.07%
<i>(Actuarial Valuation Report Year)</i>	<b>Hazardous</b>	
	2014	2015
Contractually Required Contribution	\$ 88,992	\$ 54,723
Contributions in Relation to the Contractually Required Contribution	<u>88,992</u>	<u>88,865</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ (34,142)</u>
City's Covered-Employee Payroll	\$ 249,278	\$ 259,099
Contributions as a Percentage of Covered- Employee Payroll	35.70%	21.12%

**Note:**

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

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2016**

**Note 1. Budgetary Information**

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

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

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

**Note 2. Actuarially Determined Pension Contributions**

**A. Changes in Benefit Terms**

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

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

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

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

**B. Changes of Assumption**

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

**2015:**

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

**CITY OF FLEMINGSBURG, KENTUCKY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2016**

**Note 2. Actuarially Determined Pension Contributions (Continued)**

**B. Changes of Assumption (Continued)**

**2015 (Continued):**

- The assumed rates of Retirement, Withdrawal, and Disability were updated to more accurately reflect experience.
- 

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

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

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

*Morgan-Franklin, LLC*  
*Certified Public Accountants*

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

Brenda K. Morgan, CPA  
Jody B. Franklin, CPA

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

**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***

Honorable Mayor and City Council Members  
City of Flemingsburg, 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 each major fund of the City of Flemingsburg, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Flemingsburg, Kentucky's basic financial statements, and have issued our report thereon dated October 18, 2016.

**Internal Control Over Financial Reporting**

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Flemingsburg, 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*.

**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.

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC  
West Liberty, Kentucky

October 18, 2016

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

**City of Flemingsburg, Kentucky**

**For the Fiscal Year Ended  
June 30, 2016**

**Appendix A**

**CITY OF FLEMINGSBURG, KENTUCKY  
CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
AND DEVELOPMENT PROGRAM  
June 30, 2016**

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



Mayor  
City of Flemingsburg, KY

**CITY OF FLEMINGSBURG, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**

**NOTE F - CHANGES IN LONG-TERM LIABILITIES AND INTERST PAID**

<b>Primary Government:</b>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Financing Obligations	\$ 486,810	\$ 134,013	\$ (67,786)	\$ 553,037	\$ 49,177
Governmental Activities Long-term Liabilities	<u>\$ 486,810</u>	<u>\$ 134,013</u>	<u>\$ (67,786)</u>	<u>\$ 553,037</u>	<u>\$ 49,177</u>
<u>Proprietary Fund Activities:</u>					
Financing Obligations	\$ 9,622,468	\$ 52,578	\$ (193,869)	\$ 9,481,177	\$ 35,500
Proprietary Fund Activities Long-term Liabilities	<u>\$ 9,622,468</u>	<u>\$ 52,578</u>	<u>\$ (193,869)</u>	<u>\$ 9,481,177</u>	<u>\$ 35,500</u>

Interest paid on debt was \$17,370 for governmental activities and \$121,863 for business-type activities for the fiscal year ended June 30, 2016.

**NOTE G - PROPERTY TAX CALENDAR**

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

Description

2% Discount	Upon receipt through October 31
Face value amount payment date	November 1 through December 31
6% Penalty added	January 1
Additional 6% penalty added	February 1

Property taxes collected are recorded as revenues in the fund for which they were levied. Property taxes are attached as an enforceable lien on property as of January 1, 2015. The property tax rates assessed for the year ended June 30, 2016, to finance the General Fund operations were \$.1397 per \$100 valuation for real property, \$.1397 per \$100 valuation for business personal property and \$.1977 per \$100 valuation for motor vehicles.