

PART III - ENTERPRISE FUNDS					
Revenue Source (a)	Water & Sewer (b)	Sanitation (c)	(d)	(e)	Nonmajor funds (See instructions) (f)
<b>12. Less Restricted Retained Earnings:</b>					
a. Depreciation reserves					
b. Maintenance & operating reserves					
c. Debt services reserves					
d. Capital projects reserves					
e. Construction reserves					
<b>f. Total Restricted Retained Earnings</b>			0	0	0
<b>13. Unrestricted Retained Earnings (Line 11 minus line 12f)</b>	1,674,633	335,589	0	0	0

PART IV - ENTERPRISE FUNDS CASH FLOW					
Revenue Source (a)	Water & Sewer (b)	Sanitation (c)	(d)	(e)	Nonmajor funds (See instructions) (f)
<b>1. Net cash provided from operating activities</b>	-3,256	-35,151			
<b>2. Cash flows from capital financing activities:</b>					
a. Bond proceeds ( net of issuance costs)					
b. Payment of bond/note principal	-32,700				
c. Payment of bond/note interest	-80,215				
d. Proceeds from sale of fixed assets					
e. Acquisition of equipment	G91 -72,812	G80	G--	G--	G--
f. Acquisition of real property	G91	G80	G--	G--	G--
g. Capital contributions	F91	F80	F--	F--	F--
h. Other					
<b>i. Net cash flows from capital financing</b>	(185,727)	0	0	0	0
<b>3. Cash flows from noncapital financing:</b>					
a. Operating transfers in					
b. Operating transfers out					
c. Federal grants	81,362				
d. State grants					
e. Other					
<b>f. Net cash flows from noncapital financing</b>	81,362	0	0	0	0

<b>PART IV - ENTERPRISE FUNDS CASH FLOW</b>					
<b>Revenue Source</b>	<b>Water &amp; Sewer</b>	<b>Sanitation</b>			<b>Nonmajor funds (See instructions)</b>
<b>4. Cash Flows from Investing Activities:</b>					
a. Purchase of investments	-55,005				
b. Proceeds from sale/maturities of investments	107,505				
c. Investment income	4,743	351			
<b>d. Net cash flows from investing activities</b>	<b>57,243</b>	<b>351</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>5. Net Increase (Decrease) in cash balances (Line 1 plus line 2i plus line 3f plus line 4d)</b>	<b>(50,378)</b>	<b>(34,800)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>6. Cash balances, July 1, 2004</b>	<b>254,183</b>	<b>45,619</b>			
<b>7. Cash balances, June 30, 2005 (Line 5 plus line 6)</b>	<b>203,805</b>	<b>10819</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash balances in Part IV should match cash balances in Part V</b>					
Remarks:					

**PART V - ENTERPRISE FUND CASH & INVESTMENTS**

Describe (a)	Unrestricted Balances (b)	Operating Reserves (c)	Debt Service Reserves (d)	Depreciation Reserves (e)	Capital Project Reserves (f)	Construction Funds (g)
<b>1. Water &amp; Sewer Funds</b>						
1. Cash, checking accounts and savings	203,805					
2. Certificates of deposit	55,005					
3. U S Government obligations						
4. Bankers acceptances						
5. Commercial paper						
6. Commonwealth of Ky bonds						
7. Local government bonds						
8. Mutual funds						
9. Repurchase agreements						
10. Ky League of Cities investment pool						
11. Other						
<b>12. Total Water &amp; Sewer Fund Cash &amp; Inves</b>	W61 258,810	W61 0	W01 0	0	W31 0	W31 0
<b>3. Sanitation Funds</b>						
1. Cash, checking accounts and savings	10,819					
2. Certificates of deposit	176,047					
3. U S Government obligations						
4. Bankers acceptances						
5. Commercial paper						
6. Commonwealth of Ky bonds						
7. Local government bonds						
8. Mutual funds						
9. Repurchase agreements						
10. Ky League of Cities investment pool						
11. Other						
<b>12. Total Sanitation Fund Cash &amp; Investmer</b>	W61 186,866	W61 0	W01 0	0	W31 0	W31 0
<b>5. Funds (Specify)</b>						
1. Cash, checking accounts and savings						
2. Certificates of deposit						
3. U S Government obligations						
4. Bankers acceptances						
5. Commercial paper						
6. Commonwealth of Ky bonds						
7. Local government bonds						
8. Mutual funds						
9. Repurchase agreements						
10. Ky League of Cities investment pool						
11. Other local government investment pools						
<b>12. Total Fund Cash &amp; Investments</b>	W61 0	W61 0	W01 0	0	W31 0	W31 0

**PART V - ENTERPRISE FUND CASH & INVESTMENTS**

Describe (a)	Unrestricted Balances (b)	Operating Reserves (c)	Debt Service Reserves (d)	Depreciation Reserves (e)	Capital Project Reserves (f)	Construction Funds (g)
<b>D. Funds (Specify)</b>						
1. Cash, checking accounts and savings						
2. Certificates of deposit						
3. U S Government obligations						
4. Bankers acceptances						
5. Commercial paper						
6. Commonwealth of Ky bonds						
7. Local government bonds						
8. Mutual funds						
9. Repurchase agreements						
10. Ky League of Cities investment pool						
11. Other local government investment pools						
	W61	W61	W01		W31	W31
<b>12. Total Fund Cash &amp; Investments</b>	0	0	0	0	0	0
<b>NonMajor Funds</b>						
1. Cash, checking accounts and savings						
2. Certificates of deposit						
3. U S Government obligations						
4. Bankers acceptances						
5. Commercial paper						
6. Commonwealth of Ky bonds						
7. Local government bonds						
8. Mutual funds						
9. Repurchase agreements						
10. Ky League of Cities investment pool						
11. Other local government investment pools						
	W61	W61	W01		W31	W31
<b>12. Total Non Major Fund Cash &amp; Investments</b>	0	0	0	0	0	0

Remarks:

**PART VI - NEW INDEBTEDNESS**

1. Bond issue title		6. Original issue principal	
2. Year of issue		7. Average interest rate	
3. Bond proceeds intended use		8. Bond rating	
		a. S & P	
4. Bond type (check appropriate box) General obligation----- Public property corp----- Utility revenue----- Other (describe)-----		b. Moody's	
		9. Source of debt service	
5. Call Provisions		10. Fund responsible for debt service	
No-----			
Yes (specify interval)-----			
<b>Debt service requirements</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payments</b>
11. Paid in FY 2004-2005			0
<b>FUTURE PAYMENTS</b>			
12. FY 2005-2006			0
13. FY 2006-2007			0
14. FY 2007-2008			0
15. FY 2008-2009			0
16. FY 2009-2010			0
Cumulative years			
17. FY 2010-2014			0
18. FY 2015-2019			0
19. FY 2020-2024			0
20. FY 2025-2029			0
21. FY 2030-2044			0
22. Total Amount Outstanding (sum of future payments)	0	0	0
			Amount - omit cents 200
Report the total expenditures for salaries and wages from all funds-----			
Remarks:			

PART VII - NEW CAPITAL LEASE AGREEMENTS OVER \$50,000			
1. Item leased			
2. Date of initial lease			
3. Length of lease - Years			
4. Original lease principal			
5. Average interest rate %			
6. Fund responsible for lease payments			
7. Source of revenue for lease payments			
8. Identity of lessor			
<b>Lease Payment Requirements</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payments</b>
9. Paid in FY 2004-2005			0
<b>FUTURE PAYMENTS</b>			
10. FY 2005-2006			0
11. FY 2006-2007			0
12. FY 2007-2008			0
13. FY 2008-2009			0
14. FY 2009-2010			0
Cumulative years			
15. FY 2010-2014			0
16. FY 2015-2019			0
17. FY 2020-2024			0
18. FY 2025-2029			0
19. FY 2030-2044			0
20. Total Amount Outstanding (sum of future payments)	0	0	0
Remarks:			

# Rate Analysis

CITY OF BURKESVILLE  
WATER AND SEWER DIVISIONS

Prepared

JUNE 2005

by



Kentucky Rural Water Association  
Helping Water and Wastewater Systems Help Themselves

Carryn Lee

## Executive Summary

The Kentucky Rural Water Association ("KRWA") has prepared the following rate study for the City of Burkesville ("Burkesville"). The City provides water service to customers located both inside and outside the city limits. Sewer service is provided to customers inside the city limits. It should be noted that this study is based on budgeted expenses for 2005. A review of each item was made based on expenses actually incurred to date and the budget appears to be an accurate projection of expenses. No adjustments have been made for projected increases in normal operating and maintenance expense including increases in salaries, chemical costs, testing or insurance expense.

It should also be noted that Burkesville has not included any depreciation expense in its budget. According to the last audit report, depreciation expense for the water is \$116,911 and depreciation expense for the sewer division is \$64,193. This means that Burkesville should be collecting this amount each year to fund the replacement or rehabilitation of aging assets.

In its budget, Burkesville reports a depreciation fund, which is used to pay a portion of its debt expense. Without a depreciation fund or capital improvement fund Burkesville will have to borrow the funds for replacement of lines and other assets such as vehicles, pumps, tank repair and painting and other equipment that must be replaced or repaired on a regular basis. It is recommended that in the next two years, Burkesville revisit its financial condition and consider placing funds into an account to fund emergency and planned repairs to its system.

**REVENUE REQUIREMENT**

	Water	Sewer
Operating Expenses	\$492,066	\$245,619
Operating Income	322,580	246,184
Increase Needed	\$169,486	\$0

**INSIDE CITY - WATER RATES – CURRENT AND RECOMMENDED**

	Current	Recommended
First 2,000	\$10.75	\$17.60
Next 13,000	3.59	6.45
Next 15,000	3.13	5.79
Over 30,000	2.85	5.32
Wholesale	2.09	2.16

**OUTSIDE CITY - WATER RATES – CURRENT AND RECOMMENDED**

	Current	Recommended
First 2,000	\$21.31	\$28.60
Next 3,000	5.33	7.60
Next 5,000	4.31	6.40
Over 10,000	2.66	5.32

INSIDE CITY - WATER RATES – IMPACT ON CUSTOMER BILLS

	Current Cost	New Cost	\$ Inc.
1,000	\$10.75	\$17.60	\$6.85
3,000	14.34	24.05	9.71
5,000	21.52	36.95	15.43
10,000	39.47	69.20	29.73

OUTSIDE CITY - WATER RATES – IMPACT ON CUSTOMER BILLS

	Current Cost	New Cost	\$ Inc.
1,000	\$21.31	\$28.60	\$7.29
3,000	26.64	36.20	11.56
5,000	37.30	51.40	14.10
10,000	58.85	83.40	24.55

The remainder of this report is divided into three sections. The first section shows the current water revenue received. The second section shows the budgeted expenses for water and the rates required to fund the expenses. The third and final section contains the sewer budget and the rate required to fund the expenses. No increase is needed for the sewer division.

NOTICE OF BOND SALE

The City of Burkesville, Kentucky, will until 7:00 P.M., C.S.T., on March 17, 1989 receive in the office of the City Clerk, City Hall, Burkesville, Kentucky 42717, sealed competitive bids for \$387,000 of its Water and Sewer Revenue Bonds, Series of 1989; said Bonds mature as to principal on March 1 in each of the years 1991 through 2028, and are subject to redemption prior to the stated maturities at any time without premium.

The United States Department of Agriculture, Farmers Home Administration ("FmHA") will submit a bid for the purchase of said Bonds; provided, however, that in the event bids from non-governmental lenders are received which provide interest rates and terms deemed by FmHA to be reasonable, the bid of FmHA will be withdrawn.

Reference should be made to the Official Terms and Conditions of Bond Sale and Statement of Essential Facts for details and bidding conditions which may be obtained from the undersigned. Sale on tax-exempt basis, subject to approving Legal Opinion of Henry M. Reed III, Bond Counsel, Louisville, Kentucky, which opinion will be qualified as to certain recipients of interest. Right to reject bids or waive informalities reserved.

CITY OF BURKESVILLE, KENTUCKY

By s/ Vickie Pruitt  
City Clerk

OFFICIAL TERMS AND CONDITIONS OF BOND SALE

\$387,000  
CITY OF BURKESVILLE (KENTUCKY)  
WATER AND SEWER REVENUE BONDS  
SERIES OF 1988

Sealed bids will be received by the City Council of the City of Burkesville, Kentucky at the office of the City Clerk, City Hall, Burkesville, Kentucky, until 7:00 P.M., C.S.T., on February 2, 1989, for the purchase of \$387,000 principal amount of its Water and Sewer Revenue Bonds, to be issued for the purpose of financing the costs, not otherwise provided, of constructing improvements to the City's combined and consolidated Water and Sewer System (the "System").

In addition to the proceeds of the Bonds, the City has obtained a Grant in the amount of \$363,000 from the U. S. Department of Agriculture, Farmers Home Administration ("FmHA"). The City will contribute \$128,000 from its own funds.

Upon completion of the improvements to the System financed from the proceeds of the Bonds the System will have approximately 843 water users and 762 sewer users.

AUTHORITY AND SECURITY

The Bonds are to be issued pursuant to the provisions of Sections 58.010 through 58.140 of the Kentucky Revised Statutes and are to be payable from the income and revenues of the System as noted in the following paragraph.

The Bonds and the interest thereon are payable from the income and revenues derived from the operation of the System; provided, however, that the pledge of the income and revenues securing the Bonds are inferior and subordinate to prior pledges securing certain bonds of the City dated March 1, 1964 outstanding in the principal amount of \$230,000 and August 20, 1980 outstanding in the principal amount of \$236,000. The City has covenanted in accordance with the terms of the Bond Ordinance to charge sufficient rates for the services provided by the System in order to amortize its outstanding Series 1964 Bonds, Series 1980 Bonds, the \$387,000 of Bonds being currently issued and provide for sufficient reserves and operation and maintenance of the System.

BOND MATURITIES AND PROVISIONS FOR PRIOR REDEMPTION

The Bonds will be dated as of the date of their delivery and will bear interest (payable semiannually) at the rate or rates specified in the accepted bid and will be issued, in fully registered form only.

The Bonds mature as to principal in varying amounts on March 1 in each of the years 1991 through 2028, as follows:

<u>Maturity Date</u>	<u>Principal</u>	<u>Maturity Date</u>	<u>Principal</u>
March 1, 1991	\$ 4,000	March 1, 2010	9,000
1992	4,000	2011	10,000
1993	4,000	2012	10,000
1994	4,000	2013	11,000
1995	4,000	2014	11,000
1996	5,000	2015	12,000
1997	5,000	2016	12,000
1998	5,000	2017	13,000
1999	5,000	2018	13,000
2000	6,000	2019	14,000
2001	6,000	2020	15,000
2002	6,000	2021	16,000
2003	6,000	2022	16,000
2004	7,000	2023	17,000
2005	7,000	2024	18,000
2006	7,000	2025	19,000
2007	8,000	2026	20,000
2008	8,000	2027	20,000
2009	9,000	2028	21,000

The Bonds will be subject to redemption on any interest payment date on or after March 1, 1991 without premium.

Bond Counsel will render an Opinion that the Bonds will be legal and valid obligations of the City in accordance with their terms and that same will be exempt from Kentucky ad valorem taxation and that the interest thereon will be exempt from Federal and Kentucky income taxation except as noted under "Tax Exemption" hereinafter set forth.

#### BIDDING CONDITIONS AND RESTRICTIONS

Bids should be submitted in envelopes marked "Bid for Water and Sewer System Revenue Bonds" in accordance with the following conditions:

(A) Bidders are required to bid a cash price of not less than par value of the Bonds.

(B) Interest rates must be in multiples of 1/8 or 1/20 of 1%, with no more than one interest rate per maturity being stipulated by any bidder.

(C) Bids will be considered only for the entire issue.

(D) Bidders (except FmHA) are required to make a good faith deposit by cashier's check or certified check payable to the City, which check shall accompany each bid, in the minimum amount of 2% of the face amount of said Bonds. Checks of the unsuccessful bidders will be returned promptly.

(E) The lowest net interest cost will be determined by deducting the total amount of any premium bid from the aggregate amount of interest upon said Bonds, computed from the first day of the month following the date of sale of said Bond (even though the Bond will bear interest only from the date of delivery) to final maturity.

(F) Bidders shall be advised that the FmHA has entered into a Loan Resolution with the City whereunder FmHA has agreed to purchase the Bonds offered hereunder under certain terms and conditions; provided, however, FmHA reserves the right to withdraw its bid in the event other bids are received on terms which FmHA considers reasonable.

(G) The City expects to deliver, and the successful bidder must be prepared to accept delivery of and pay for, the said Bonds at the office of the City Clerk within forty-five (45) days after notice is given of the award. If said Bonds are not ready for delivery and payment within forty-five (45) days from the aforesaid date of sale, the successful bidder(s) shall be relieved of any liability to accept delivery of the Bonds. In the event FmHA is the successful bidder, it is anticipated that delivery of the Bonds will be made at the time the extensions, additions and improvements to the City's combined and consolidated municipal utilities system are substantially complete and the City's failure to deliver said Bond within forty-five (45) days from said date of sale shall not relieve FmHA of its obligation to accept said Bonds.

(H) The City reserves the right, subject to the determination of FmHA that credit is not available elsewhere at rates determined reasonable by FmHA, to determine the best bid or bids, to waive any informality or irregularity and to reject any or all bids.

(I) The Bonds will be tendered within said forty-five (45) day period and the successful bidder will receive the approving Legal Opinion of Henry M. Reed III, Bond Counsel, Louisville, Kentucky, as to the legality of said Bonds, subject to which said Bond is offered for sale without additional cost to the successful bidder.

(J) In the event that there is no bid or that all bids are rejected, the City may re-advertise the sale.

TAX EXEMPTION

Bond Counsel is of the opinion that the Bonds are "qualified tax-exempt obligations" within the meaning of the Internal Revenue Code of 1986, as amended, and therefore advises as follows:

(A) The Bonds and the interest thereon are exempt from income and ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions.

(B) The interest income from the Bonds is excludable from the gross income of the recipients for Federal income tax purposes under existing law; provided, that the corporate entities noted below are advised of certain tax consequences as follows:

(1) In the computation of the corporate minimum tax, earnings and profits may include otherwise tax-exempt interest on the Bonds; this provision applies to corporations only.

(2) Property and casualty insurance companies may be denied certain loss reserve deductions to the extent of otherwise tax-exempt interest on the Bonds.

(C) As a result of designations and certifications by the City, indicating the issuance of less than \$5,000,000 of qualified tax-exempt obligations during the calendar year ending December 31, 1989 (or such calendar year in which said Bonds are actually delivered), the Bonds may be treated by financial institutions as if they were acquired before August 8, 1986.

(D) The interest income from the Bonds is excludable from the gross income of the recipients for Federal income tax purposes under existing law for individuals; however, said income must be included in the calculation of "modified adjusted gross income" in the determination of whether and to what extent Social Security benefits are subject to Federal income taxation.

CITY OF BURKESVILLE, KENTUCKY

By s/ Vickie Pruitt  
City Clerk

**City of Burkesville-Water/Sewer Depts**  
**Profit & Loss**  
 July 1, 2004 through June 29, 2005

Jul 1, '04 - Jun 29, 05

<b>Ordinary Income/Expense</b>	
<b>Income</b>	
4000 · Revenue	
4110 · Water Revenue	322,339.05
4111 · Sewer Revenue	230,547.27
4112 · Cumberland Co Bd of Ed Tax	1,299.02
4113 · Sales & Usage Tax	169.12
4114 · Penalty Income	8,037.56
4115 · Misc. Income	2,726.70
4116 · Customer Deposits	10,627.53
4442 · Tap-On Fees	3,090.00
4456 · Interest Income Per Bank	1,084.56
<b>Total 4000 · Revenue</b>	<b>579,920.81</b>
<b>Total Income</b>	<b>579,920.81</b>
<b>Expense</b>	
5223 KY SALES AND USE TAX	185.75
5224 SCHOOL TAX	1,263.70
5000 · Water Dept Expenses	
5110 Salaries	204,002.53
5118 · Employer's Share of FICA	2,636.76
5119 · Retirement Expense	4,302.92
5120 · Unemployment Expense	241.14
5121 · Worker's Comp Expense	196.96
5122 · Medical Insurance	29,759.03
5126 · Uniforms	4,976.34
5130 · Utilities	48,585.21
5225 · Travel & Training	4,223.04
5235 · Telephone & Fax	3,297.89
5236 · Postage & Box Rent	2,237.45
5240 · Truck Expense	2,388.57
5299 · Property & Liability Insurance	2,601.00
5305 · Chemicals	8,597.42
5312 · Easement Cost	5,950.00
5340 · Gas & Oil	5,483.73
5342 · Audit Services	2,850.00
5350 · Repairs, Parts & Supplies	56,774.73
5491 · Lab Analysis	7,794.95
5492 · Refund Meter Deposit	961.70
5499 · Miscellaneous	9,167.48
5612 · 1980 Sinking Fund	16,520.92
5614 · 1989 Sinking Fund	25,350.00
5616 · 1997 Sinking Fund	13,000.00
5726 · 1997 Deprecation	2,496.00
<b>Total 5000 · Water Dept Expenses</b>	<b>464,395.77</b>
6000 · Sewer Department Expense	
6118 · Employer's Share of FICA	229.09
6119 · Retirement Expense	293.31
6120 · Unemployment Expense	18.20
6126 · Uniforms	562.27
6130 · Utilities	23,494.16
6223 · Sludge Disposal	3,054.23
6224 · Membership Dues	270.00
6225 · Travel & Training	293.00
6235 · Telephone & Fax	1,154.81
6236 · Postage & Box Rent	780.34
6240 · Truck Expense	88.50
6305 · Chemicals	12,419.21
6342 · Audit Services	3,548.04
6350 · Repairs Parts & Supplies	73,157.42
6491 · Lab Analysis	4,139.94
6499 · Miscellaneous	322.00

8:37 AM

06/29/09

Accrual Basis

## City of Burkesville-Water/Sewer Depts

### Profit & Loss

July 1, 2004 through June 29, 2005

	Jul 1, '04 - Jun 29, 05
6613 · 1992 Sinking Fund	76,982.78
6724 · 1992 Depreciation Fund	6,540.00
Total 6000 · Sewer Department Expense	<u>207,347.30</u>
Total Expense	<u>673,192.52</u>
Net Ordinary Income	<u>-93,271.71</u>
Net Income	<u><u>-93,271.71</u></u>

3:41 AM  
 06/29/09  
 Accrual Basis

**City of Burkesville-Water/Sewer Depts**  
**Profit & Loss**  
 July 1, 2008 through June 29, 2009

Jul 1, '08 - Jun 29, 09

Ordinary Income/Expense	
Income	
4000 · Revenue	
4110 · Water Revenue	374,643.56
4111 · Sewer Revenue	242,592.22
4112 · Cumberland Co Bd of Ed Tax	508.49
4113 · Sales & Usage Tax	1,713.13
4114 · Penalty Income	10,043.39
4115 · Misc. Income	2,768.88
4116 · Customer Deposits	11,800.00
4117 · Other	-1,067.12
4442 · Tap-On Fees	950.00
4456 · Interest Income Per Bank	3,682.21
Total 4000 · Revenue	647,634.76
Total Income	647,634.76
Expense	
5000 · Water Dept Expenses	
5110 Salaries	164,115.49
5118 · Employer's Share of FICA	12,289.42
5119 · Retirement Expense	22,297.67
5120 · Unemployment Expense	35.87
5121 · Worker's Comp Expense	8,488.35
5122 · Medical Insurance	22,924.75
5124 · Dues & Subscription	625.65
5126 · Uniforms	2,374.10
5128 · Legal Fees	525.00
5130 · Utilities	32,264.65
5213 · Building Maintenance	350.00
5225 · Travel & Training	2,450.71
5234 · Office Supplies	25.00
5235 · Telephone & Fax	1,147.55
5236 · Postage & Box Rent	1,125.44
5237 · Purchase and Lease of Equipment	283.49
5240 · Truck Expense	1,497.16
5299 · Property & Liability Insurance	9,477.66
5305 · Chemicals	13,361.54
5306 · Publication Cost	441.00
5307 · Street Repair for Leaks	4,745.84
5312 · Easement Cost	170.00
5340 · Gas & Oil	6,874.89
5342 · Audit Services	1,550.00
5350 · Repairs, Parts & Supplies	23,534.68
5490 · Backhoe Expense	57.90
5491 · Lab Analysis	7,126.10
5492 · Refund Meter Deposit	2,426.27
5493 · Return Check	1,401.46
5494 · Penalty	1,750.00
5499 · Miscellaneous	0.01
5612 · 1980 Sinking Fund	12,630.00
5614 · 1989 Sinking Fund	99,561.00
5650 · Miscellaneous Payroll	510.56
Total 5000 · Water Dept Expenses	458,439.21

8:41 AM  
06/29/09  
Accrual Basis

City of Burkesville-Water/Sewer Depts  
**Profit & Loss**  
July 1, 2008 through June 29, 2009

Jul 1, '08 - Jun 29, 09

6000 · Sewer Department Expense	
6110 · Salaries	44,896.93
6118 · Employer's Share of FICA	3,302.89
6119 · Retirement Expense	6,146.50
6120 · Unemployment Expense	7.81
6121 · Workers Comp Expense	851.96
6122 · Medical Insurance	9,169.90
6124 · Dues & Subscription	166.25
6126 · Uniforms	630.72
6128 · Legal Fees	525.00
6130 · Utilities	56,939.47
6213 · Building Maintenance	525.00
6223 · Sludge Disposal	4,297.00
6225 · Travel & Training	71.01
6235 · Telephone & Fax	1,621.31
6236 · Postage & Box Rent	789.89
6237 · Purchase and Lease of Equipment	283.49
6240 · Truck Expense	1,247.15
6299 · Property & Liability Insurance	13,607.27
6305 · Chemicals	1,837.56
6340 · Gas & Oil	70.51
6342 · Audit Services	1,550.00
6350 · Repairs Parts & Supplies	24,632.64
6491 · Lab Analysis	6,136.10
6499 · Miscellaneous	668.00
Total 6000 · Sewer Department Expense	179,974.36
6560 · Payroll Expenses	510.56
Total Expense	638,924.13
Net Ordinary Income	8,710.63
Net Income	<u>8,710.63</u>

9:10 AM  
 06/29/09  
 Accrual Basis

**City of Burkesville-Water/Sewer Depts**  
**Trial Balance**  
**As of June 30, 2005**

	Jun 30, 05	
	Debit	Credit
Cash-1980 Depreciation	30,149.00	
Cash-1989 Depreciation	29,478.00	
Cash-1992 Depreciation	94,216.00	
Cash-Water Treatment Expansion	5,500.00	
Cash In Bank Water/Sewer	20,449.65	
Water-1980 Sinking Fund	7,608.00	
Water-1989 Sinking Fund	2,150.00	
Water-1992 Sinking Fund	0.00	
Water-1997 Depreciation Fund	12,763.00	
Water-1997 Sinking Fund	1,491.00	
Water CD #14	55,005.00	
Accoounts Receivable-Sewer	21,879.00	
Accounts Receivable-Engineer	12,500.00	
Accounts Receivable-Water	28,820.00	
Allowance for Doubtful Accounts	0.00	
Grant Receivable	12,000.00	
Interest Receivable	1,210.00	
Prepaid Expenses	44,097.00	
Unbilled Receivable	28,390.00	
1790 Accumulated Depreciation		1,144,265.00
1791 Accumulated Depreciation		1,574,140.00
1792 Accumulated Depreciation		219,780.00
1793 Accumulated Depreciation		120,322.00
1794 Accumulated Depreciation		11,255.00
Building and Improvements	26,979.00	
Equipment	303,555.00	
Land	30,000.00	
Sanitary Sewer Extension	159,108.00	
Utility Plant in Service	1,723,388.00	
Water Treatment Facility	3,527,967.00	
Work in Progress Construction	209,362.00	
2000 · Accounts Payable		3,021.17
Accoounts Payable-Grant	0.00	
Accounts Payable-Water & Sewer	0.00	
Accured Bond INTERest		2,517.00
Accured C.E.R.S.	0.00	
Accured Social Security	0.00	
Accured Wages		1,653.00
Compensated Absences		2,878.00
Customer Deposits		18,081.00
Deferred Revenue Grant		12,500.00
Due to General Fund	0.00	
Due to Sanitation Fund		12,664.07
Sales Tax Payable		175.00
Bonds Payable		1,590,200.00
Contribution in Aid		2,432,280.00
Fund Balance	656,633.95	
3900 · Retained Earnings	2,418.34	
Grant Proceeds		63,362.00
Unbilled Water Revenue		1,045.00
4000 · Revenue:4110 · Water Revenue		325,609.05
4000 · Revenue:4111 · Sewer Revene		233,737.27
4000 · Revenue:4112 · Cumberland Co Bd of Ed Tax		1,299.02
4000 · Revenue:4113 · Sales & Usage Tax		169.12
4000 · Revenue:4114 · Penalty Income		8,037.56
4000 · Revenue:4115 · Misc. Income		2,726.70
4000 · Revenue:4116 · Customer Deposits	0.47	
4000 · Revenue:4442 · Tap-On Fees		3,090.00
4000 · Revenue:4456 · Interest Income Per Bank		4,235.70
5223 KY SALES AND USE TAX	185.75	
5224 SCHOOL TAX		0.30
Water-Interest	73,754.00	
5000 · Water Dept Expenses	177,260.00	
5000 · Water Dept Expenses:5110 Salaries	177,556.99	

9:10 AM

06/29/09

Accrual Basis

City of Burkesville-Water/Sewer Depts

Trial Balance

As of June 30, 2005

	Jun 30, 05	
	Debit	Credit
5000 · Water Dept Expenses:5118 · Employer's Share of FICA	11,720.94	
5000 · Water Dept Expenses:5119 · Retirement Expense	14,524.86	
5000 · Water Dept Expenses:5120 · Unemployment Expense	241.14	
5000 · Water Dept Expenses:5121 · Worker's Comp Expense	196.96	
5000 · Water Dept Expenses:5122 · Medical Insurance	22,474.03	
5000 · Water Dept Expenses:5126 · Uniforms	4,976.34	
5000 · Water Dept Expenses:5130 · Utilities	48,454.21	
5000 · Water Dept Expenses:5225 · Travel & Training	4,223.04	
5000 · Water Dept Expenses:5235 · Telephone & Fax	3,241.89	
5000 · Water Dept Expenses:5236 · Postage & Box Rent	2,433.18	
5000 · Water Dept Expenses:5240 · Truck Expense	2,055.57	
5000 · Water Dept Expenses:5299 · Property & Liability Insura...	28,479.00	
5000 · Water Dept Expenses:5305 · Chemicals	8,597.42	
5000 · Water Dept Expenses:5312 · Easement Cost	5,950.00	
5000 · Water Dept Expenses:5340 · Gas & Oil	5,483.73	
5000 · Water Dept Expenses:5342 · Audit Services	2,850.00	
5000 · Water Dept Expenses:5350 · Repairs, Parts & Supplies	31,190.73	
5000 · Water Dept Expenses:5491 · Lab Analysis	7,654.95	
5000 · Water Dept Expenses:5492 · Refund Meter Deposit	961.70	
5000 · Water Dept Expenses:5499 · Miscellaneous	3,287.48	
5000 · Water Dept Expenses:5612 · 1980 Sinking Fund		0.08
5000 · Water Dept Expenses:5614 · 1989 Sinking Fund	0.00	
5000 · Water Dept Expenses:5616 · 1997 Sinking Fund	0.00	
5000 · Water Dept Expenses:5726 · 1997 Deprecation	0.00	
6000 · Sewer Department Expense	5,612.00	
6000 · Sewer Department Expense:6118 · Employer's Share of...	830.39	
6000 · Sewer Department Expense:6119 · Retirement Expense	1,115.43	
6000 · Sewer Department Expense:6120 · Unemployment Exp...	18.20	
6000 · Sewer Department Expense:6126 · Uniforms	562.27	
6000 · Sewer Department Expense:6130 · Utilities	22,546.16	
6000 · Sewer Department Expense:6223 · Sludge Disposal	3,054.23	
6000 · Sewer Department Expense:6224 · Membership Dues	270.00	
6000 · Sewer Department Expense:6225 · Travel & Training	293.00	
6000 · Sewer Department Expense:6235 · Telephone & Fax	1,154.81	
6000 · Sewer Department Expense:6236 · Postage & Box Rent	780.34	
6000 · Sewer Department Expense:6240 · Truck Expense	88.50	
6000 · Sewer Department Expense:6305 · Chemicals	12,419.21	
6000 · Sewer Department Expense:6342 · Audit Services	3,548.04	
6000 · Sewer Department Expense:6350 · Repairs Parts & Sup...	47,650.42	
6000 · Sewer Department Expense:6491 · Lab Analysis	3,906.94	
6000 · Sewer Department Expense:6499 · Miscellaneous	322.00	
6000 · Sewer Department Expense:6613 · 1992 Sinking Fund		0.22
6000 · Sewer Department Expense:6724 · 1992 Depreciation F...	0.00	
<b>TOTAL</b>	<b><u>7,789,043.26</u></b>	<b><u>7,789,043.26</u></b>

9:10 AM

06/29/09

Accrual Basis

City of Burkesville-Water/Sewer Depts

Trial Balance

As of June 30, 2009

	Jun 30, 09	
	Debit	Credit
ARC Grant	24,902.54	
Cash-1980 Depreciation	0.00	
Cash-1989 Depreciation	0.00	
Cash-1992 Depreciation	0.00	
Cash-Water Treatment Expansion	0.00	
Cash In Bank Water/Sewer	78,472.32	
Water-1980 Sinking Fund	24,346.97	
Water-1989 Sinking Fund	123,928.11	
Water-1992 Sinking Fund	0.00	
Water-1997 Depreciation Fund	86,542.17	
Water-1997 Sinking Fund	0.00	
Water CD #14		1,624.33
Accounts Receivable-Sewer	22,020.83	
Accounts Receivable-Engineer	0.00	
Accounts Receivable-Water	25,499.73	
Allow. for Doubt Accts		8,584.49
Allowance for Doubtful Accounts	0.00	
BH608 Loan Cash Account	1,153,969.80	
DUE FROM PAYROLL	5,726.67	
Grant Receivable	0.00	
Interest Receivable	1,344.80	
Prepaid Expenses	10,314.00	
Prepaid Insurance	0.00	
Unbilled Receivable	21,468.60	
1790 Accumulated Depreciation		1,245,269.00
1791 Accumulated Depreciation		1,926,937.00
1792 Accumulated Depreciation		274,130.00
1793 Accumulated Depreciation		137,158.00
1794 Accumulated Depreciation		17,329.00
Building and Improvements	37,254.00	
Equipment	303,555.00	
Land	30,000.00	
Sanitary Sewer Extension	159,108.00	
Utility Plant in Service	1,723,388.00	
Water Treatment Facility	3,527,967.00	
Work in Progress Construction	472,681.85	
2000 · Accounts Payable		22.26
Accounts Payable-Grant	275,400.00	
Accounts Payable-Water & Sewer		7,002.90
Accured Bond Interest		24,365.00
Accured C.E.R.S.	0.00	
Accured City Taxes	0.00	
Accured Social Security		1,865.54
Accured Wages		4,515.56
Compensated Absences		19,870.23
Customer Deposits		16,694.64
Deferred Revenue Grant	0.00	
Due to General Fund	0.00	
Due to Sanitation Fund	2,667.62	
Sales Tax Payable		291.45
Utility Tax Payable		717.83
1760 · Unamort. Loan Issue Costs	34,801.20	
1761 · Unamortized Premium		19,240.26
5611 · Loan Interest Expense	1,528.88	
Bonds Payable		2,547,181.50
Contribution in Aid		2,432,280.00
Fund Balance	661,812.04	
3000 · Opening Bal Equity	0.00	
3900 · Retained Earnings	299,472.84	
Grant Proceeds		302.54
4000 · Revenue		304,556.46
4000 · Revenue:4110 · Water Revenue		374,643.56
4000 · Revenue:4111 · Sewer Revenue		242,592.22
4000 · Revenue:4112 · Cumberland Co Bd of Ed Tax		508.49

9:10 AM

City of Burkesville-Water/Sewer Depts

Trial Balance

As of June 30, 2009

06/29/09

Accrual Basis

	Jun 30, 09	
	Debit	Credit
4000 · Revenue:4113 · Sales & Usage Tax		1,713.13
4000 · Revenue:4114 · Penalty Income		10,043.39
4000 · Revenue:4115 · Misc. Income		2,768.88
4000 · Revenue:4116 · Customer Deposits		11,800.00
4000 · Revenue:4117 · Other	1,067.12	
4000 · Revenue:4442 · Tap-On Fees		950.00
4000 · Revenue:4456 · Interest Income Per Bank		3,682.21
5223 KY SALES AND USE TAX	805.65	
5000 · Water Dept Expenses:5110 Salaries	164,115.49	
5000 · Water Dept Expenses:5118 · Employer's Share of FICA	12,289.42	
5000 · Water Dept Expenses:5119 · Retirement Expense	22,297.67	
5000 · Water Dept Expenses:5120 · Unemployment Expense	35.87	
5000 · Water Dept Expenses:5121 · Worker's Comp Expense	8,488.35	
5000 · Water Dept Expenses:5122 · Medical Insurance	22,924.75	
5000 · Water Dept Expenses:5124 · Dues & Subscription	625.65	
5000 · Water Dept Expenses:5126 · Uniforms	2,374.10	
5000 · Water Dept Expenses:5128 · Legal Fees	525.00	
5000 · Water Dept Expenses:5130 · Utilities	32,264.65	
5000 · Water Dept Expenses:5213 · Building Maintenance	350.00	
5000 · Water Dept Expenses:5225 · Travel & Training	2,450.71	
5000 · Water Dept Expenses:5234 · Office Supplies	25.00	
5000 · Water Dept Expenses:5235 · Telephone & Fax	1,147.55	
5000 · Water Dept Expenses:5236 · Postage & Box Rent	1,125.44	
5000 · Water Dept Expenses:5237 · Purchase and Lease of Eq...	283.49	
5000 · Water Dept Expenses:5240 · Truck Expense	1,497.16	
5000 · Water Dept Expenses:5299 · Property & Liability Insura...	9,477.66	
5000 · Water Dept Expenses:5305 · Chemicals	13,361.54	
5000 · Water Dept Expenses:5306 · Publication Cost	441.00	
5000 · Water Dept Expenses:5307 · Street Repair for Leaks	4,745.84	
5000 · Water Dept Expenses:5312 · Easement Cost	170.00	
5000 · Water Dept Expenses:5340 · Gas & Oil	6,874.89	
5000 · Water Dept Expenses:5342 · Audit Services	1,550.00	
5000 · Water Dept Expenses:5350 · Repairs, Parts & Supplies	23,534.68	
5000 · Water Dept Expenses:5490 · Backhoe Expense	57.90	
5000 · Water Dept Expenses:5491 · Lab Analysis	7,126.10	
5000 · Water Dept Expenses:5492 · Refund Meter Deposit	2,426.27	
5000 · Water Dept Expenses:5493 · Return Check	1,401.46	
5000 · Water Dept Expenses:5494 · Penalty	1,750.00	
5000 · Water Dept Expenses:5499 · Miscellaneous	0.01	
5000 · Water Dept Expenses:5612 · 1980 Sinking Fund	12,630.00	
5000 · Water Dept Expenses:5614 · 1989 Sinking Fund	99,561.00	
5000 · Water Dept Expenses:5650 · Miscellaneous Payroll	510.56	
6000 · Sewer Department Expense:6110 · Salaries	44,896.93	
6000 · Sewer Department Expense:6118 · Employer's Share of...	3,302.89	
6000 · Sewer Department Expense:6119 · Retirement Expense	6,146.50	
6000 · Sewer Department Expense:6120 · Unemployment Exp...	7.81	
6000 · Sewer Department Expense:6121 · Workers Comp Exp...	851.96	
6000 · Sewer Department Expense:6122 · Medical Insurance	9,169.90	
6000 · Sewer Department Expense:6124 · Dues & Subscription	166.25	
6000 · Sewer Department Expense:6126 · Uniforms	630.72	
6000 · Sewer Department Expense:6128 · Legal Fees	525.00	
6000 · Sewer Department Expense:6130 · Utilities	56,939.47	
6000 · Sewer Department Expense:6213 · Building Maintenance	525.00	
6000 · Sewer Department Expense:6223 · Sludge Disposal	4,297.00	
6000 · Sewer Department Expense:6225 · Travel & Training	71.01	
6000 · Sewer Department Expense:6235 · Telephone & Fax	1,621.31	
6000 · Sewer Department Expense:6236 · Postage & Box Rent	789.89	
6000 · Sewer Department Expense:6237 · Purchase and Leas...	283.49	
6000 · Sewer Department Expense:6240 · Truck Expense	1,247.15	
6000 · Sewer Department Expense:6299 · Property & Liability ...	13,607.27	
6000 · Sewer Department Expense:6305 · Chemicals	1,837.56	
6000 · Sewer Department Expense:6340 · Gas & Oil	70.51	
6000 · Sewer Department Expense:6342 · Audit Services	1,550.00	
6000 · Sewer Department Expense:6350 · Repairs Parts & Sup...	24,632.64	

9:10 AM  
06/29/09  
Accrual Basis

City of Burkesville-Water/Sewer Depts  
**Trial Balance**  
As of June 30, 2009

	Jun 30, 09	
	Debit	Credit
6000 · Sewer Department Expense:6491 · Lab Analysis	6,136.10	
6000 · Sewer Department Expense:6499 · Miscellaneous	668.00	
6560 · Payroll Expenses	510.56	
7000 · 1980 Sinking Fund		1,718.00
7010 · 1989 Sinking Fund		108,612.00
<b>TOTAL</b>	<b><u>9,748,969.87</u></b>	<b><u>9,748,969.87</u></b>

**CITY OF BURKESVILLE, KENTUCKY**  
**AUDITED FINANCIAL STATEMENTS**  
**Year Ended June 30, 2008**

CITY OF BURKESVILLE, KENTUCKY  
TABLE OF CONTENTS  
For the Year Ended June 30, 2008

	<u>PAGE</u>
DIRECTORY	1
INDEPENDENT AUDITOR'S REPORT	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-10
STATEMENT OF NET ASSETS	11
STATEMENT OF ACTIVITIES	12-13
BALANCE SHEET - GOVERNMENTAL FUNDS	14-15
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	16-17
STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)	18-20
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS	21
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND ASSETS - PROPRIETARY FUNDS	22
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS	23
COMBINING STATEMENT OF NET ASSETS - COMPONENT UNITS	24
COMBINING STATEMENT OF ACTIVITIES - COMPONENT UNITS	25
NOTES TO THE FINANCIAL STATEMENTS	26-42
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND ON OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARD</u>	43-44
CERTIFICATION OF LOCAL GOVERNMENT ECONOMIC ASSISTANCE	45

CITY OF BURKESVILLE  
P.O. BOX 250  
BURKESVILLE, KENTUCKY  
(270) 864-4141

**CITY OFFICIALS AND OFFICERS**

**MAYOR**

Keith Riddle

**MEMBERS OF COUNCIL**

Harvey Graves  
Billy Maxey  
Ricky Branham  
Otis Young  
Kenney Booher  
Kyle Booher

**OFFICERS**

Brenda Spears  
**City Clerk/Treasurer**

Lindsey Bell  
**City Attorney**

Steve Wheat  
**Chief of Police**

Weldon Rowe  
**Fire Chief**

*SAMMY K. LEE, P.S.C.*  
*Certified Public Accountant*

*501 Darby Creek, Unit 24*  
*Lexington, Kentucky 40509*  
*(859) 543-1587*

*Member of American Institute of CPA's*

*Member of Kentucky Society of CPA's*

**INDEPENDENT AUDITOR'S REPORT**

The Honorable Mayor and Members of the City Council  
City of Burkesville, Kentucky  
Burkesville, Kentucky 42717

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Burkesville, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Burkesville, Kentucky management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my 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, the aggregate discretely presented component unit, each major fund, and aggregate remaining fund information of the City of Burkesville, Kentucky, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 10, 2008, on my consideration of the City of Burkesville, Kentucky's internal control over financial reporting and on my 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 the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 10 and 18 through 20, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Burkesville, Kentucky basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining of individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied to the audit of the basic financial statements and, accordingly, I express no opinion on them.

*Sammy K. Lee, P.S.C.*

Lexington, Kentucky  
October 10, 2008

**CITY OF BURKESVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2008**

This discussion and analysis of the City of Burkesville's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the accompanying transmittal letter, the basic financial statements and the accompanying notes to those financial statements.

**Financial Highlights**

The assets of the City exceeded its liabilities by \$2,750,275.

The City's total net assets increased by \$193,277.

The City's total long-term debt decreased by \$38,100 during the fiscal year.

The City's cash increased by \$1,147,173 during the year due primarily to a loan in the amount of \$1,170,000.

**Overview of the financial statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) Fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The Government-Wide Financial Statements present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business type activities separately. These statements include all assets of the City, including infrastructure, as well as all liabilities, including long-term debt.

The Fund Financial Statements include statements for each of the three categories of governmental, business-type, and component units. The governmental activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The business-type activities are prepared using the economic resources measurement focus and the accrual basis of accounting. The reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach.

**Government-Wide Financial Statements**

The *government-wide financial statements* provide a broad view of the City's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the City's financial position, which assists in assessing the City's economic condition at the end of the year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses.

They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *statement of net assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the city's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

CITY OF BURKESVILLE, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
June 30, 2008

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave).

Both of the above financial statements have separate sections for three different types of state programs or activities. These three types of activities are:

*Governmental Activities*- The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with City government fall into this category, including general government, public safety, street, and parks and recreation.

*Business-Type Activities*- These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the City include the operations of water, sewage and sanitation system.

*Discretely Presented Component Units*- These are operations for which the City has financial accountability but they have certain independent qualities as well.

Complete financial statements of the individual component units can be obtained from their respective administrative offices. Addresses and other additional information about the City's component units are presented in the notes to the financial statements.

The government-wide financial statements can be found immediately following this discussion and analysis.

#### **Fund Financial Statements and Major Component Unit Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other city and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. All of the funds of the City can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

*Governmental Funds Financial Statements*-Most of the basic services provided by the City are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the

government-wide financial statements, the governmental fund financial statements focus on near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the City's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the City.

**CITY OF BURKESVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**June 30, 2008**

Because of the focus of governmental funds is narrower than that of the government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

*Proprietary Funds Financial Statements* - These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements used the accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The basic proprietary fund financial statements can be found immediately following the governmental fund financial statements.

*Component Units Financial Statements* - These are operations for which the City has financial accountability but they have certain independent qualities as well, and operate similar to private-sector businesses. These are reported in a single column of the statements of assets and changes in net assets.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the Combining Statement of Activities - Component Unit.

**Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes a reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.

**CITY OF BURKESVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**June 30, 2008**

**Financial Overview - Statement of Net Assets**

Net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets totaled \$2,450,275 at the end of 2008, compared to \$2,556,998 at the end of the previous year.

The largest portion of the City's net assets reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt used to acquire those assets that is still outstanding.

At the end of the current fiscal year, the City is able to report positive balance in the governmental and business-type activities. The same situation held true for prior fiscal year.

	Governmental Activities			
	2008	2007 (restated)	Change	% Change
Current Assets	\$ 350,796	\$ 374,638	\$ (23,842)	-6.36%
Noncurrent Assets	729,147	557,141	172,006	30.87%
<b>Total Assets</b>	<b>1,079,943</b>	<b>931,779</b>	<b>148,164</b>	<b>15.90%</b>
Current Liabilities	111,356	83,885	27,471	32.75%
Noncurrent Liabilities	0	0	0	0.00%
<b>Total Liabilities</b>	<b>111,356</b>	<b>83,885</b>	<b>27,471</b>	<b>32.75%</b>
Invested in Capital Assets, Net	677,186	510,657	166,529	32.61%
Restricted	51,961	29,726	22,235	74.80%
Unrestricted	239,440	307,511	(68,071)	-22.14%
<b>Total Net Assets</b>	<b>\$ 968,587</b>	<b>\$ 847,894</b>	<b>\$ 120,693</b>	<b>14.23%</b>

	Business-Type Activities			
	2008	2007 (restated)	Change	% Change
Current Assets	\$ 432,427	\$ 428,165	\$ 4,262	1.00%
Noncurrent Assets	4,080,758	2,874,427	1,206,331	41.97%
Other Assets	34,801	0	34,801	100.00%
<b>Total Assets</b>	<b>4,547,986</b>	<b>3,302,592</b>	<b>1,245,394</b>	<b>37.71%</b>
Current Liabilities	138,958	114,188	24,770	21.69%
Noncurrent Liabilities	2,608,100	1,479,300	1,128,800	76.31%
Other Liabilities	19,240	0	19,240	100.00%
<b>Total Liabilities</b>	<b>2,766,298</b>	<b>1,593,488</b>	<b>1,172,810</b>	<b>73.60%</b>
Invested in Capital Assets, Net	54,876	2,455,815	(2,400,939)	-97.77%
Restricted	1,376,582	231,675	1,144,907	494.19%
Unrestricted	350,230	(978,386)	1,328,616	-135.80%
<b>Total Net Assets</b>	<b>\$ 1,781,688</b>	<b>\$ 1,709,104</b>	<b>\$ 72,584</b>	<b>4.25%</b>

**CITY OF BURKESVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**June 30, 2008**

**Financial Overview - Statement of Activities**

Approximately 36 percent of the City's total revenue resulted from charges for services, while 20 percent were from taxes. Charges for various sources, investment income and grant income provided 44 percent of the total revenues. The City's expenses cover a range of services. The largest expenses were for public safety, street maintenance, water, and sanitation. Governmental activity revenues exceeded program expenses by \$120,693. Business-type activity revenues exceeded expenses by \$72,584.

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>	<u>2007</u>	<u>Difference</u>
<b>Revenues:</b>					
Charges for Services	\$ 18,164	\$ 760,537	\$ 778,701	\$ 754,048	\$ 24,653
Taxes	429,617	0	429,617	368,437	61,180
Licenses	295,295	0	295,295	266,428	28,867
Investment Earnings	17,575	17,626	35,201	32,007	3,194
Intergovernmental Revenue	374,596	0	374,596	116,444	258,152
Grants	0	236,806	236,806	41,024	195,782
Other	10,932	11,159	22,091	35,151	(13,060)
<b>Total Revenues</b>	<u>1,146,179</u>	<u>1,026,128</u>	<u>2,172,307</u>	<u>1,613,539</u>	<u>558,768</u>
<b>Expenses:</b>					
Administration	155,716	0	155,716	159,321	(3,605)
Police	522,407	0	522,407	464,829	57,578
Fire	75,899	0	75,899	89,819	(13,920)
Street	189,102	0	189,102	175,818	13,284
Park	82,362	0	82,362	85,559	(3,197)
Water	0	629,725	629,725	616,664	13,061
Sewer	0	130,563	130,563	130,625	(62)
Sanitation	0	193,256	193,256	174,752	18,504
<b>Total Expenses</b>	<u>1,025,486</u>	<u>953,544</u>	<u>1,979,030</u>	<u>1,897,387</u>	<u>81,643</u>
Change in Net Assets	120,693	72,584	193,277	(283,848)	477,125
Net Assets, Beginning of Year	847,894	1,709,104	2,556,998	2,840,846	(283,848)
Net Assets, End of Year	<u>\$ 968,587</u>	<u>\$ 1,781,688</u>	<u>\$ 2,750,275</u>	<u>\$ 2,556,998</u>	<u>\$ 193,277</u>

**CITY OF BURKESVILLE, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
June 30, 2008**

**Governmental Activities and Business Type Activities**

Governmental activities increased the City's net assets by \$120,693. This resulted from an increase in and intergovernmental revenues. Business-type activities increased the City's net assets by \$72,584. This resulted from an increase in service revenue and grants.

**Financial Analysis of the City's Funds**

The fund balance at year-end for the City's General Fund increased by \$47,903 primarily due to an increase in tax and licenses and intergovernmental revenues.

The fund balance at year-end for the Special Revenue Fund increased by \$939 primarily due to a decrease in expenses from the prior year.

**General Fund Budgetary Highlights**

The budget was amended in June 2008 to allow for additional expenses.

Appropriations exceeded budgeted revenues for the year causing the City to draw upon existing fund balance.

**CITY OF BURKESVILLE, KENTUCKY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**  
**June 30, 2008**

**Capital Asset and Debt Administration**

**Capital Assets**

The City's capital assets for its governmental and business-type activities as of June 30, 2008, amounts to \$8,369,129, net of accumulated depreciation of \$4,987,767, leaving a net book value of \$3,381,362. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the City's investment in capital assets for the current fiscal year was about 22% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$522,797 for the year. Depreciation charges for the year totaled \$293,716. Additional information on the City's capital assets can be found in Note 9 of the notes to the financial statements of this report.

**Debt Administration**

The City of Burkesville's total debt decreased by \$38,100 during the current fiscal year. No general obligation or revenue bonds were issued during the year. Additional information on the City's long-term debt obligations can be found in Note 4 of the notes to the financial statements of this report.

The city obtained a loan in the amount of \$1,170,000 through the Kentucky Rural Water Finance Corporation and will be repaid on July 1, 2009 through a bond issuance. The purpose of the loan is to provide interim financing to upgrade and improve the raw water intake and the water treatment plant as well as the construction of new water transmission mains.

**Economic Factors and Next Year's Budgets and Rates**

Inflationary trends in the region compare favorably to national indices. The unemployment rate for the City compares favorably to the nation's average unemployment rate. Any economic slow down could result in revenue forecasts having to be revised downward.

Currently, the City does not anticipate an increase in taxes or water rates. Future legislative changes, which can not be anticipated or predicted, will shape future decisions and either increase or decrease options available to the City to serve the community as a municipal power utility.

**Request for Information**

This financial report is designed to provide a general overview of the City of Burkesville's finances for all of the City's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

**City of Burkesville**  
**P.O. Box 250**  
**Burkesville, Kentucky 42717**

**CITY OF BURKESVILLE, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**June 30, 2008**

	<u>Primary Government Activities</u>			<u>Component Unit</u>
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>	
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 52,685	\$ 68,474	\$ 121,159	\$ 6,818
Investments, at cost	262,286	260,962	523,248	0
Accounts receivables, net:				
Customers	1,991	81,268	83,259	0
Other	29,706	18,737	48,443	1,385
Interest receivable	2,396	2,986	5,382	0
Prepaid insurance	1,732	0	1,732	0
<b>Total Current Assets</b>	<u>350,796</u>	<u>432,427</u>	<u>783,223</u>	<u>8,203</u>
<b>Non-current Assets</b>				
Restricted cash	51,961	1,376,582	1,428,543	0
Capital Assets	1,939,094	6,430,035	8,369,129	0
Accumulated depreciation	(1,261,908)	(3,725,859)	(4,987,767)	0
<b>Total Non-current Assets</b>	<u>729,147</u>	<u>4,080,758</u>	<u>4,809,905</u>	<u>0</u>
Unamortized loan issue costs	0	34,801	34,801	0
<b>Total Assets</b>	<u>1,079,943</u>	<u>4,547,986</u>	<u>5,627,929</u>	<u>8,203</u>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable	53,443	12,982	66,425	795
Accrued expenses	57,913	31,616	89,529	7,408
Revenue bonds payable, current	0	41,200	41,200	0
Accrued interest	0	24,365	24,365	0
Customer deposits payable	0	28,795	28,795	0
<b>Total Current Liabilities</b>	<u>111,356</u>	<u>138,958</u>	<u>250,314</u>	<u>8,203</u>
<b>Non-current Liabilities</b>				
Revenue bonds payable, noncurrent	0	1,438,100	1,438,100	0
Notes payable	0	1,170,000	1,170,000	0
<b>Total Non-current Liabilities</b>	<u>0</u>	<u>2,608,100</u>	<u>2,608,100</u>	<u>0</u>
<b>Other Liabilities</b>				
Unamortized premium	0	19,240	19,240	0
<b>Total Liabilities</b>	<u>111,356</u>	<u>2,766,298</u>	<u>2,877,654</u>	<u>8,203</u>
<b>Net Assets</b>				
Investment in capital assets, net	677,186	54,876	732,062	0
Restricted	51,961	1,376,582	1,428,543	0
Unrestricted	239,440	350,230	589,670	0
<b>Total Net Assets</b>	<u>\$ 968,587</u>	<u>\$ 1,781,688</u>	<u>\$ 2,750,275</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

CITY OF BURKESVILLE, KENTUCKY  
STATEMENT OF ACTIVITIES  
June 30, 2008

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Government activities:</b>					
General government	\$ 155,716	\$ 18,164	\$ 0	\$ 0	\$ (137,552)
Police	522,407	0	0	0	(522,407)
Fire	75,899	0	0	0	(75,899)
Street	189,102	0	0	0	(189,102)
Parks & recreation	82,362	0	0	0	(82,362)
<b>Total governmental activities</b>	<b>1,025,486</b>	<b>18,164</b>	<b>0</b>	<b>0</b>	<b>(1,007,322)</b>
<b>Business-type activities:</b>					
Water	629,725	314,289	0	236,806	(78,630)
Sewer	130,563	257,173	0	0	126,610
Sanitation	193,256	189,075	0	0	(4,181)
<b>Total business-type activities</b>	<b>953,544</b>	<b>760,537</b>	<b>0</b>	<b>236,806</b>	<b>43,799</b>
<b>Total activities</b>	<b>\$ 1,979,030</b>	<b>\$ 778,701</b>	<b>\$ 0</b>	<b>\$ 236,806</b>	<b>\$ (963,523)</b>
<b>Component unit:</b>					
Burkesville Tourist and Convention Commission	\$ 13,650	\$ 0	\$ 0	\$ 0	\$ (13,650)

**CITY OF BURKESVILLE, KENTUCKY**  
**STATEMENT OF ACTIVITIES (continued)**  
**June 30, 2008**

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
Change in net assets:				
Net (expense) revenue	\$ (1,007,322)	\$ 43,799	\$ (963,523)	\$ (13,650)
General Revenues:				
Property taxes	106,473	0	106,473	0
Insurance premium taxes	319,029	0	319,029	0
Payments in lieu of taxes	4,116	0	4,116	0
Tourism Tax	0	0	0	9,246
Occupational licenses	248,709	0	248,709	0
Business licenses and permits	24,722	0	24,722	0
Franchise income	21,863	0	21,863	0
Investment income	17,575	17,626	35,201	0
Intergovernmental	374,596	0	374,596	0
Miscellaneous	10,932	11,159	22,091	0
Total general revenues	<u>1,128,015</u>	<u>28,785</u>	<u>1,156,800</u>	<u>9,246</u>
<b>Change in net assets</b>	<b>120,693</b>	<b>72,584</b>	<b>193,277</b>	<b>(4,404)</b>
<b>Net assets - beginning</b>	<b><u>847,894</u></b>	<b><u>1,709,104</u></b>	<b><u>2,556,998</u></b>	<b><u>4,404</u></b>
<b>Net assets - ending</b>	<b><u>\$ 968,587</u></b>	<b><u>\$ 1,781,688</u></b>	<b><u>\$ 2,750,275</u></b>	<b><u>\$ 0</u></b>

See accompanying notes to financial statements.

**CITY OF BURKESVILLE, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2008**

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 52,685	\$ 0	\$ 52,685
Investments	262,286	0	262,286
Accounts receivable:			
Customers	1,991	0	1,991
Other	26,334	3,372	29,706
Interest receivable	2,396	0	2,396
Prepaid insurance	1,732	0	1,732
Cash and cash equivalents - restricted	5,213	46,748	51,961
<b>Total Assets</b>	<b>\$ 352,637</b>	<b>\$ 50,120</b>	<b>\$ 402,757</b>
 <b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 29,633	\$ 23,810	\$ 53,443
Deferred revenues	0	0	0
Accrued expenses	57,913	0	57,913
<b>Total Liabilities</b>	<b>87,546</b>	<b>23,810</b>	<b>111,356</b>
 <b>Fund Balances</b>			
Reserved	5,213	46,748	51,961
Unreserved	259,878	(20,438)	239,440
<b>Total Fund Balances</b>	<b>265,091</b>	<b>26,310</b>	<b>291,401</b>
 <b>Total Liabilities and Fund Balances</b>	 <b>\$ 352,637</b>	 <b>\$ 50,120</b>	 <b>\$ 402,757</b>

CITY OF BURKESVILLE, KENTUCKY  
RECONCILIATION OF THE BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
June 30, 2008

Total fund balance - total governmental funds	\$	291,401
---	----	---------

Amounts reported for *government activities* in the statement of net assets are different because:

Capital assets of \$1,939,094 net accumulated depreciation of (\$1,261,908), are not financial resources and, therefore are not reported in the funds. See note 9 for details.

677,186

**Net assets of governmental activities**

**\$ 968,587**

**CITY OF BURKESVILLE, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - GOVERNMENTAL FUNDS**  
**June 30, 2008**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>REVENUES</u></b>			
Taxes	\$ 429,617	\$ 0	\$ 429,617
Licenses, permits, & fees	295,295	0	295,295
Intergovernmental	339,234	35,362	374,596
Service charges	18,164	0	18,164
Other	27,697	810	28,507
<b>Total revenues</b>	<b><u>1,110,007</u></b>	<b><u>36,172</u></b>	<b><u>1,146,179</u></b>
<b><u>EXPENDITURES</u></b>			
General & administration department	112,470	0	112,470
Police department	507,679	0	507,679
Fire department	59,190	0	59,190
Street department	409,092	35,233	444,325
Park & recreation department	69,479	0	69,479
<b>Total expenditures</b>	<b><u>1,157,910</u></b>	<b><u>35,233</u></b>	<b><u>1,193,143</u></b>
<b>Net change in fund balance</b>	<b>(47,903)</b>	<b>939</b>	<b>(46,964)</b>
<b>Fund balance, beginning as restated</b>	<b><u>312,994</u></b>	<b><u>25,371</u></b>	<b><u>338,365</u></b>
<b>Fund balance, ending</b>	<b><u>\$ 265,091</u></b>	<b><u>\$ 26,310</u></b>	<b><u>\$ 291,401</u></b>

2008

CITY OF BURKESVILLE, KENTUCKY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
June 30, 2008

Net changes in fund balances - total governmental funds \$ (46,964)

Amounts reported for *government activities* in the statement of activities are different because:

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. This is the amount by which capital outlays of \$274,137 exceeded depreciation of \$106,480 in the current period.

167,657

Change in net assets of governmental activities \$ 120,693



**CITY OF BURKESVILLE, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - CONTINUED**  
**June 30, 2008**

	Original Budget	Revisions	Revised Budget	Total Actual	Variance Favorable (Unfavorable)
<b>EXPENDITURES</b>					
<b>General &amp; Administration:</b>					
Salaries	\$ 48,528	\$ 0	\$ 48,528	\$ 53,868	\$ (5,340)
Employee benefits	18,516	0	18,516	18,199	317
Professional services	5,900	0	5,900	6,400	(500)
Materials and supplies	15,757	0	15,757	9,736	6,021
Insurance	4,930	7,100	12,030	5,944	6,086
Miscellaneous	2,000	0	2,000	11,862	(9,862)
Travel and training	3,500	0	3,500	923	2,577
Utilities	4,000	0	4,000	3,819	181
Telephone	1,500	0	1,500	1,198	302
Community development	0	0	0	521	(521)
Capital outlay	0	0	0	0	0
<b>Total General &amp; Administration</b>	<b>104,631</b>	<b>7,100</b>	<b>111,731</b>	<b>112,470</b>	<b>(739)</b>
<b>Police Department:</b>					
Salaries and Dispatch	270,647	79,000	349,647	311,509	38,138
Employee benefits	126,458	0	126,458	133,575	(7,117)
Materials, uniforms, and supplies	12,200	0	12,200	19,902	(7,702)
Insurance	8,113	0	8,113	22,630	(14,517)
Professional services	1,400	0	1,400	1,955	(555)
Miscellaneous	0	0	0	7,413	(7,413)
Travel & training	300	0	300	545	(245)
Utilities	1,000	0	1,000	2,039	(1,039)
Telephone	3,500	0	3,500	8,111	(4,611)
Capital outlay	0	0	0	0	0
<b>Total Police Department</b>	<b>423,618</b>	<b>79,000</b>	<b>502,618</b>	<b>507,679</b>	<b>(5,061)</b>
<b>Fire Department</b>					
Salaries	21,714	0	21,714	13,505	8,209
Employee benefits	4,086	0	4,086	3,329	757
Materials and supplies	2,600	0	2,600	4,390	(1,790)
Insurance	16,886	0	16,886	18,568	(1,682)
Professional services	1,400	0	1,400	1,320	80
Miscellaneous	1,500	9,500	11,000	11,329	(329)
Utilities	5,000	0	5,000	5,364	(364)
Telephone	1,500	0	1,500	1,385	115
Capital outlay	0	0	0	0	0
<b>Total Fire Department</b>	<b>\$ 54,686</b>	<b>\$ 9,500</b>	<b>\$ 64,186</b>	<b>\$ 59,190</b>	<b>\$ 4,996</b>

See accompanying notes to financial statements.

**CITY OF BURKESVILLE, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - CONTINUED**  
**June 30, 2008**

<u>EXPENDITURES - continued</u>	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<b>Street Department</b>					
Salaries	\$ 59,284	\$ 0	\$ 59,284	\$ 67,246	\$ (7,962)
Employee benefits	31,177	0	31,177	23,489	7,688
Material, uniforms, and supplies	1,895	0	1,895	17,378	(15,483)
Insurance	4,545	0	4,545	8,603	(4,058)
Professional services	1,400	0	1,400	1,155	245
Miscellaneous	700	0	700	1,400	(700)
Travel and training	0	0	0	24	(24)
Utilities	30,300	18,000	48,300	50,726	(2,426)
Telephone	300	0	300	168	132
Capital outlay	40,000	0	40,000	274,136	(234,136)
<b>Total Street Department</b>	<u>169,601</u>	<u>18,000</u>	<u>187,601</u>	<u>444,325</u>	<u>(256,724)</u>
<b>Parks and Recreation</b>					
Salaries	23,781	0	23,781	21,681	2,100
Employee benefits	13,533	0	13,533	8,752	4,781
Materials and supplies	10,798	4,000	14,798	23,105	(8,307)
Insurance	6,227	0	6,227	8,416	(2,189)
Professional services	1,400	0	1,400	1,315	85
Miscellaneous	0	0	0	0	0
Travel and training	0	0	0	0	0
Utilities	5,000	0	5,000	5,867	(867)
Telephone	500	0	500	343	157
Capital outlay	0	0	0	0	0
<b>Total Parks and Recreation</b>	<u>61,239</u>	<u>4,000</u>	<u>65,239</u>	<u>69,479</u>	<u>(4,240)</u>

**CITY OF BURKESVILLE, KENTUCKY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2008**

	<u>Water &amp; Sewer Utilities</u>	<u>Sanitation Utilities</u>	<u>Total Enterprise Funds</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 19,280	\$ 49,194	\$ 68,474
Investments, at cost	61,976	198,986	260,962
Accounts receivables, net:			
Customers	60,406	20,862	81,268
Other	5,728	13,009	18,737
Interest receivable	1,346	1,640	2,986
<b>Total Current Assets</b>	<b><u>148,736</u></b>	<b><u>283,691</u></b>	<b><u>432,427</u></b>
<b>Non-current Assets</b>			
Restricted Cash	1,376,582	0	1,376,582
Capital Assets, net of accumulated depreciation	<u>2,653,131</u>	<u>51,045</u>	<u>2,704,176</u>
<b>Total Non-current Assets</b>	<b><u>4,029,713</u></b>	<b><u>51,045</u></b>	<b><u>4,080,758</u></b>
<b>Other Assets</b>			
Unamortized loan issue costs	<u>34,801</u>	<u>0</u>	<u>34,801</u>
<b>Total Assets</b>	<b><u>4,213,250</u></b>	<b><u>334,736</u></b>	<b><u>4,547,986</u></b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	6,919	6,063	12,982
Accrued expenses	28,321	3,295	31,616
Revenue bonds payable, current	41,200	0	41,200
Accrued interest	24,365	0	24,365
Customer deposits payable	28,795	0	28,795
<b>Total Current Liabilities</b>	<b><u>129,600</u></b>	<b><u>9,358</u></b>	<b><u>138,958</u></b>
<b>Non-current Liabilities</b>			
Revenue bonds payable, noncurrent	1,438,100	0	1,438,100
Notes payable	<u>1,170,000</u>	<u>0</u>	<u>1,170,000</u>
<b>Total Non-current Liabilities</b>	<b><u>2,608,100</u></b>	<b><u>0</u></b>	<b><u>2,608,100</u></b>
<b>Other Liabilities</b>			
Unamortized Premium	<u>19,240</u>	<u>0</u>	<u>19,240</u>
<b>Total Liabilities</b>	<b><u>2,756,940</u></b>	<b><u>9,358</u></b>	<b><u>2,766,298</u></b>
<b>Net Assets</b>			
Investment in capital assets	3,831	51,045	54,876
Restricted	1,376,582	0	1,376,582
Unrestricted	<u>75,897</u>	<u>274,333</u>	<u>350,230</u>
<b>Total Net Assets</b>	<b><u>\$ 1,456,310</u></b>	<b><u>\$ 325,378</u></b>	<b><u>\$ 1,781,688</u></b>

See accompanying notes to financial statements.

**CITY OF BURKESVILLE, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN NET ASSETS - PROPRIETARY FUNDS**  
**June 30, 2008**

	Water Utilities	Sewer Utilities	Sanitation Utilities	Total Enterprise Funds
<b>Operating Revenues</b>				
Charges for services	\$ 314,289	\$ 257,173	\$ 189,075	\$ 760,537
Miscellaneous	11,159	0	0	11,159
<b>Total Operating Revenues</b>	<b>325,448</b>	<b>257,173</b>	<b>189,075</b>	<b>771,696</b>
<b>Operating Expenses</b>				
Salaries	183,552	31,055	41,975	256,582
Employee benefits	66,162	11,851	19,155	97,168
Contractual services	4,420	105	1,980	6,505
Materials and supplies	65,795	18,588	91,994	176,377
Travel and training	1,714	181	0	1,895
Utilities and telephone	48,720	32,276	1,778	82,774
Insurance	27,350	791	14,271	42,412
Depreciation	161,696	7,932	17,608	187,236
Bad debt provision	1,571	1,286	945	3,802
Miscellaneous	6,726	11,376	3,550	21,652
<b>Total Operating Expenses</b>	<b>567,706</b>	<b>115,441</b>	<b>193,256</b>	<b>876,403</b>
<b>Operating Income (Loss)</b>	<b>(242,258)</b>	<b>141,732</b>	<b>(4,181)</b>	<b>(104,707)</b>
<b>Non-operating Revenues (Expenses)</b>				
Interest income	6,390	1,597	9,639	17,626
Interest expense	(62,019)	(15,122)	0	(77,141)
Grant proceeds	236,806	0	0	236,806
<b>Total Non-operating Revenue (expenses)</b>	<b>181,177</b>	<b>(13,525)</b>	<b>9,639</b>	<b>177,291</b>
<b>Change in net assets</b>	<b>(61,081)</b>	<b>128,207</b>	<b>5,458</b>	<b>72,584</b>
<b>Total net assets, beginning</b>	<b>803,074</b>	<b>586,110</b>	<b>319,920</b>	<b>1,709,104</b>
<b>Total net assets, ending</b>	<b>\$ 741,993</b>	<b>\$ 714,317</b>	<b>\$ 325,378</b>	<b>\$ 1,781,688</b>

**CITY OF BURKESVILLE, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS - PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2008**

<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 770,098
Cash received from other sources	11,159
Cash payments to suppliers for goods and services and cash paid employees	<u>(668,680)</u>
<b>Net cash provided by operating activities</b>	<b><u>112,577</u></b>
<b>Cash flows from investing activities</b>	
Cash received from interest income	<u>17,921</u>
<b>Net cash provided by investing activities</b>	<b><u>17,921</u></b>
<b>Cash flows from capital and related financing activities:</b>	
Cash received from grants	236,806
Cash received from loan	1,154,439
Principal and interest paid on revenue bonds	(115,870)
Acquisition and construction of capital assets	<u>(248,660)</u>
<b>Net cash used by capital and related financing activities</b>	<b><u>1,026,715</u></b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,157,213</b>
<b>Cash and cash equivalents at July 1, 2007</b>	<b><u>548,805</u></b>
<b>Cash and cash equivalents at June 30, 2008</b>	<b><u>\$ 1,706,018</u></b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
<b>Operating income (loss)</b>	<b><u>\$ (104,707)</u></b>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	187,236
Changes in assets and liabilities:	
(Increase) decrease in customer accounts receivable	7,750
Increase (decrease) in accounts payable	4,943
Increase (decrease) in accrued expenses	15,544
Increase (decrease) in customer deposits	<u>1,811</u>
<b>Total Adjustments</b>	<b><u>217,284</u></b>
<b>Net cash provided (used) by operating activities:</b>	<b><u>\$ 112,577</u></b>

See accompanying notes to financial statements.

CITY OF BURKESVILLE, KENTUCKY  
 STATEMENT OF NET ASSETS - COMPONENT UNIT  
 June 30, 2008

	BTCC	Total Component Unit
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 6,818	\$ 6,818
Accounts receivables, net: Customers	1,385	1,385
<b>Total Current Assets</b>	<b>8,203</b>	<b>8,203</b>
<b>Non-current Assets</b>		
Capital assets, net of accumulated depreciation	0	0
<b>Total Assets</b>	<b>8,203</b>	<b>8,203</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	795	795
Contingent liabilities	7,408	7,408
<b>Total Current Liabilities</b>	<b>8,203</b>	<b>8,203</b>
<b>Total Liabilities</b>	<b>8,203</b>	<b>8,203</b>
<b>Net Assets</b>		
Restricted	0	0
Unrestricted	0	0
<b>Total Net Assets</b>	<b>\$ 0</b>	<b>\$ 0</b>

**CITY OF BURKESVILLE, KENTUCKY**  
**STATEMENT OF ACTIVITIES - COMPONENT UNIT**  
**June 30, 2008**

	<b>BTCC</b>	<b>Total Component Unit</b>
<b>Expenses:</b>		
Administrative	\$ 36	\$ 36
Special events	2,719	2,719
Depreciation	414	414
Donations & sponsorships	8,568	8,568
Professional fees	1,913	1,913
	<b>13,650</b>	<b>13,650</b>
<b>General revenues:</b>		
Tourism tax	9,246	9,246
Interest income	0	0
	<b>9,246</b>	<b>9,246</b>
<b>Change in Net Assets</b>	<b>(4,404)</b>	<b>(4,404)</b>
<b>Net Assets, beginning</b>	<b>4,404</b>	<b>4,404</b>
<b>Net Assets, ending</b>	<b>\$ 0</b>	<b>\$ 0</b>

See accompanying notes to financial statements.

**CITY OF BURKESVILLE, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Burkesville, Kentucky (the City) operates under a mayor-council form of government and provides the following services: Public Safety - Police and Fire, Public Works - Highways and Streets, Water and Sewer, Sanitation, Community Development, and General Administrative Services.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Other significant governmental accounting policies are described below.

**A. Reporting Entity**

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic, but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the City has one component unit. The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component unit. This component unit is reported as a discretely presented component unit.

***Discretely Presented Component Units***

**City of Burkesville Tourist & Convention Commission**

A public authority created to collect a tourism tax from area hotels. The City appoints its Board of Directors, and must approve any financing of the Commission. During the year, the Commission merged with the Cumberland County Tourist Commission and donated all capital assets to the them. Upon completion of the fiscal year ended June 30, 2008 audited financial statements, the City of Burkesville Tourist & Convention Commission will donate its remaining cash to the Cumberland County Tourist Commission as well. The financial statements reflect these transactions.

**B. Basis of Accounting/Measurement Focus**

The accounts of the City are organized on the basis of funds, each of which is considered a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that its comprise of assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spend and the means by which spending activities are controlled.

CITY OF BURKESVILLE, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
June 30, 2008

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Basis of Accounting/Measurement Focus (continued)**

***Government-Wide Financial Statements***

The City Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to inter-fund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

The City applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. In addition, the City applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

***Governmental Fund Financial Statements***

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the Government-Wide financial statements. The city has presented all major funds that met those requirements.

CITY OF BURKESVILLE, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
June 30, 2008

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**B. Basis of Accounting/Measurement Focus (continued)**

***Governmental Fund Financial Statements (continued)***

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in the net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City are property tax, insurance premium tax, occupational license revenue, business license revenue, franchise fee revenue, intergovernmental revenues, interest, and other taxes. Fines and permits revenues are not susceptible to accrual because they are not measurable until received. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

***Proprietary Fund Financial Statements***

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

**C. Investments**

Investments are stated at cost and all investment activities are conducted through depository banks.

**CITY OF BURKESVILLE, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**June 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**D. Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the City considered all highly liquid investments, with a maturity of three months or less when purchased, to be cash equivalents.

**E. Use of Estimates**

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

**F. Capital Assets**

The City's assets are capitalized at historical cost if historical records are available, and at an estimated historical cost if no historical records exist. Donations or gifts of capital assets are valued at fair market value when received. Renewals and betterments are capitalized, but repairs and maintenance are recorded as expenditures. The sale or disposal of a capital asset is recorded by removing the asset's cost and related accumulated depreciation from the accounts and charging the resulting gain or loss to income.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the City has included the value of its current year infrastructure capital assets into the June 30, 2008 Basic Financial Statements. Infrastructure consists of roads, bridges, curbs, and gutters, streets and sidewalks, drainage systems and lighting systems.

Depreciation is recorded on a straight-line basis, with one-half year's depreciation in the year of acquisition, over the useful lives of the assets as follows:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	15 years
Equipment	5 - 10 years
Water and Sewer System Utility Plants	25 - 40 years
Infrastructure	15 - 40 years

**G. Budgets**

The City Council adopts an annual budget for the General, Special Revenues, and Enterprise Funds. Any revisions that alter the budget must be approved by the City Council. For 2008, the original budget was approved in May 2007 and amended June 2008. The amended budget for the General and Special Revenue Funds is presented in the Statements of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance - Budget and Actual. All annual appropriations lapse at fiscal year-end. Budgets for all funds are adopted on a consistent basis with generally accepted accounting principles.

CITY OF BURKESVILLE, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
June 30, 2008

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**H. Compensated Absences**

The City allows employees to accumulate unused sick leave with no limit and vacation leave to a maximum of 160 hours. Earned vacation time in excess of 120 hours is generally required to be used within one year of accumulation. Upon termination, up to 120 hours of accumulated vacation leave will be paid to the employee. Sick leave is not paid upon termination, but will be paid only upon illness while in the employment of the City.

As of June 30, 2008, the liability for accrued compensated absences is approximately \$62,826. This amount is included as a liability in the Government-Wide financial statements.

**I. Accounts Receivable and Allowance for Doubtful Amounts**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowance for doubtful amounts.

Governmental fund type receivables consist primarily of amounts due from the Federal government. Interest and investment revenue receivable in all funds consist of revenue due on each investment. Taxes receivable in governmental funds represent taxes subject to accrual, primarily property taxes that are collected within sixty days after year-end.

Utilities receivable in enterprise funds represents water and sewer charges due at year-end, net of an allowance for doubtful amounts. The doubtful amounts are based on collection experience and a review of the status of existing receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

**J. Fund Balance/Budget Deficits**

At June 30, 2008, the City had no funds with a deficit fund balance. However, the following funds had an excess of expenditures over appropriation revenues:

General Fund	\$ (47,903)
Water Fund	<u>(61,081)</u>
Total:	<u>\$ (108,984)</u>

**CITY OF BURKESVILLE, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**June 30, 2008**

**NOTE 2. CASH DEPOSITS AND INVESTMENTS**

At June 30, 2008, the carrying amounts of the City's cash deposit and investment accounts (including certificates of deposits), both restricted and unrestricted were \$2,079,768. The bank balances at June 30, 2008, were \$2,121,100 which were either insured or collateralized with securities held by pledging financial institutions in the City's name. Cash and investments, both restricted and unrestricted, at June 30, 2008, consisted of the following:

<u>Account</u>	<u>Interest Bearing</u>	<u>General</u>	<u>Water and Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Operating	Yes	\$ 56,871	\$ 19,280	\$ 49,194	\$ 125,345
Police Fund	No	5,213	0	0	5,213
LGEAF	Yes	14,437	0	0	14,437
MRA	Yes	32,311	0	0	32,311
Payroll	Yes	(4,186)	0	0	(4,186)
Component Unit	No	6,818	0	0	6,818
1980 Sinking Fund	Yes	0	24,168	0	24,168
1989 Sinking Fund	Yes	0	112,469	0	112,469
1997 Depreciation Fund	Yes	0	85,975	0	85,975
BH608 Loan Project Fund	No	0	1,153,970	0	1,153,970
Certificates of Deposit	Yes	262,286	61,976	198,986	523,248
Total:		<u>\$ 373,750</u>	<u>\$ 1,457,838</u>	<u>\$ 248,180</u>	<u>\$ 2,079,768</u>

**Interest Rate Risk:** Is the risk that changes in interest rates will adversely affect the fair value of an investment. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Management believes the City is not exposed to significant interest rate risk on investments.

**Credit Risk:** Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City does not have a policy regarding the types of authorized investments that would ensure preservation of assets, only certificates of deposit and money market accounts are permitted. Management believes the City is not exposed to a significant credit risk.

**Custodial Credit Risk (For deposits, the risk that the Authority's deposits may not be returned in the event of bank failure):** The Authority maintains its deposits with a financial institution insured by Federal Deposit Insurance Corporation (FDIC). As of June 30, 2008, the City's bank accounts in the amount of \$1,621,100 were not covered by FDIC insurance, but were covered by securities pledged at market.

**Concentration of Credit Risk:** Is the risk of loss attributed to the magnitude of investment in a single issuer. Management does not believe the City is exposed to a significant concentration of credit risk.

**CITY OF BURKESVILLE, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**June 30, 2008**

**NOTE 3. PROPERTY TAXES**

The City elects to use the annual property assessment prepared by the County Property Valuation Administrator (PVA) as its base to apply the property tax rate. Property taxes of the City are billed each October on the basis of the preceding January property assessment values and are due no later than the following December. Property taxes are recorded as receivables and deferred revenues at the time the tax levy is billed. Revenues are recognized as the related ad valorem taxes are collected.

Property tax is levied each October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the City. Taxable assessed value represents the appraisal value less applicable exemptions authorized by the City Council. Appraised values are established by the Appraisal Board of Review at 100% for estimated fair market value.

Taxes are due on November 1 immediately following the levy date and are delinquent after the following December 31. Tax liens are automatic on January 1 each year. The tax lien is part of a law suit for property that can be filed any time after taxes become delinquent. The City usually waits until July 1 to file suits on real estate property. A collection cost may be added to all delinquent accounts. Current collections for the year ended June 30, 2008 were at 99% of the tax levy.

Property taxes are recorded as receivables and deferred revenues at the time the tax levy is billed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible within sixty days following the close of the fiscal year, and therefore susceptible to accrual in accordance with accounting principles generally accepted in the United States of America, have been recognized as revenue. The city charter of the City of Burkesville, Kentucky does not provide for a debt limit, therefore, no computation can be made.

**Property Tax Calendar**

Lien Date	January 1
Levy Date	July 1 to June 30
Due Dates	November 1
Delinquent Dates	December 31

**NOTE 4. BONDED DEBT**

***Revenue Bonds***

The following is a description of the City's bonds outstanding as of June 30, 2008:

Issue	Interest Rates	Issue Date	Maturity Date	Original Amount	Retired in 2008	Bonds Outstanding 6/30/2008
01 - 334802	5.0%	08/01/80	03/01/19	\$ 255,000	\$ 8,000	\$ 127,000
91 - 03	5.0%	01/09/90	03/01/28	387,000	8,000	286,000
92 - 05	5.0%	07/15/93	03/01/32	1,091,000	19,000	892,000
91 - 07	4.5%	01/13/98	03/01/35	200,000	3,100	174,300
Totals				<u>\$ 1,933,000</u>	<u>\$ 38,100</u>	<u>\$ 1,479,300</u>

**CITY OF BURKESVILLE, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**June 30, 2008**

**NOTE 4. BONDED DEBT - CONTINUED**

Water and Sewer Revenue Bonds with par value of 255,000 were issued in 1980 and mature annually on March 1, and September 1, with an interest rate of 5.0%. In accordance with the bond ordinance, all transfers to the sinking fund were made during the year.

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2008 for the payment of bond principal and interest are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements of</u>		<u>Total Annual Requirements</u>	<u>Bond Numbers</u>
	<u>Principal</u>	<u>Interest</u>		
2009	9,000	6,350	15,350	121-128
2010	9,000	5,900	14,900	129-137
2011	10,000	5,450	15,450	138-146
2012	10,000	4,950	14,950	147-156
2013	11,000	4,450	15,450	157-166
2014	11,000	3,900	14,900	167-177
2015	12,000	3,350	15,350	178-188
2016	13,000	2,750	15,750	189-200
2017	13,000	2,100	15,100	241-255
2018	14,000	1,450	15,450	189-200
2019	15,000	750	15,750	241-255
Totals	<u>\$ 127,000</u>	<u>\$ 41,400</u>	<u>\$ 168,400</u>	

**CITY OF BURKESVILLE, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**June 30, 2008**

**NOTE 4. BONDED DEBT - CONTINUED**

Water and Sewer Revenue Bonds with par value of 387,000 were issued in 1989 and mature annually on March 1, with a final maturity scheduled for the year 2028. Annual interest payments are due on March 1, and September 1, with an interest rate of 5.0%. In accordance with the bond ordinance, all transfers to the sinking fund were made during the year.

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2008 for the payment of bond principal and interest are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements of Principal</u>	<u>Interest</u>	<u>Total Annual Requirements</u>
2009	9,000	14,300	23,300
2010	9,000	13,850	22,850
2011	10,000	13,400	23,400
2012	10,000	12,900	22,900
2013	11,000	12,400	23,400
2014	11,000	11,850	22,850
2015	12,000	11,300	23,300
2016	12,000	10,700	22,700
2017	13,000	10,100	23,100
2018	13,000	9,450	22,450
2019	14,000	8,800	22,800
2020	15,000	8,100	23,100
2021	16,000	7,350	23,350
2022	16,000	6,550	22,550
2023	17,000	5,750	22,750
2024	18,000	4,900	22,900
2025	19,000	4,000	23,000
2026	20,000	3,050	23,050
2027	20,000	2,050	22,050
2028	21,000	1,050	22,050
Totals	<u>\$ 286,000</u>	<u>\$ 171,850</u>	<u>\$ 457,850</u>

**CITY OF BURKESVILLE, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**June 30, 2008**

**NOTE 4. BONDED DEBT - CONTINUED**

Water and Sewer Revenue Bonds with par value of 1,091,000 were issued in 1992 and mature annually on March 1, with a final maturity scheduled for the year 2032. Annual interest payments are due on March 1, and September 1, with an interest rate of 5.0%. In accordance with the bond ordinance, all transfers to the sinking fund were made during the year.

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2008 for the payment of bond principal and interest are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements of</u>		<u>Total Annual</u>
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2009	20,000	44,600	64,600
2010	21,000	43,600	64,600
2011	22,000	42,550	64,550
2012	23,000	41,450	64,450
2013	24,000	40,300	64,300
2014	26,000	39,100	65,100
2015	27,000	37,800	64,800
2016	28,000	36,450	64,450
2017	30,000	35,050	65,050
2018	31,000	33,550	64,550
2019	33,000	32,000	65,000
2020	34,000	30,350	64,350
2021	36,000	28,650	64,650
2022	38,000	26,850	64,850
2023	40,000	24,950	64,950
2024	42,000	22,950	64,950
2025	44,000	20,850	64,850
2026	46,000	18,650	64,650
2027	48,000	16,350	64,350
2028	51,000	13,950	64,950
2029	53,000	11,400	64,400
2030	56,000	8,750	64,750
2031	59,000	5,950	64,950
2032	60,000	3,000	63,000
Totals	<u>\$ 892,000</u>	<u>\$ 659,100</u>	<u>\$ 1,551,100</u>

**CITY OF BURKESVILLE, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**June 30, 2008**

**NOTE 4. BONDED DEBT - CONTINUED**

Water and Sewer Revenue Bonds with par value of 200,000 were issued in 1998 and mature annually on March 1, with a final maturity scheduled for the year 2036. Annual interest payments are due on March 1, and September 1, with an interest rate of 4.5%. In accordance with the bond ordinance, all transfers to the sinking fund were made during the year.

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2008 for the payment of bond principal and interest are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements of Principal</u>	<u>Interest</u>	<u>Total Annual Requirements</u>
2009	3,200	7,843	11,043
2010	3,400	7,700	11,100
2011	3,500	7,547	11,047
2012	3,700	7,389	11,089
2013	3,900	7,223	11,123
2014	4,000	7,047	11,047
2015	4,200	6,867	11,067
2016	4,400	6,678	11,078
2017	4,600	6,480	11,080
2018	4,800	6,273	11,073
2019	5,000	6,057	11,057
2020	5,300	5,832	11,132
2021	5,500	5,594	11,094
2022	5,700	5,346	11,046
2023	6,000	5,090	11,090
2024	6,300	4,820	11,120
2025	6,500	4,536	11,036
2026	6,900	4,244	11,144
2027	7,100	3,933	11,033
2028	7,500	3,614	11,114
2029	7,800	3,276	11,076
2030	8,200	2,925	11,125
2031	8,500	2,556	11,056
2032	8,900	2,174	11,074
2033	9,300	1,773	11,073
2034	9,700	1,355	11,055
2035	10,200	918	11,118
2036	10,200	459	10,659
Totals	<u>\$ 174,300</u>	<u>\$ 135,549</u>	<u>\$ 309,849</u>

**CITY OF BURKESVILLE, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**June 30, 2008**

**NOTE 4. BONDED DEBT - CONTINUED**

***Revenue Bonds and Covenants***

The government issues revenue bonds to provide for the acquisition and construction of major capital facilities. The original amount of revenue bonds issued in prior years, for the items listed below, was \$1,933,000. No general obligation bonds were issued during the current year.

Revenue bonds are pledged by revenues and by the full faith and credit of the government. These bonds are issued as 10 to 40 year serial bonds with varying amounts of principal maturing each year. The bond covenants include the maintenance of sinking fund to set aside resources for the payment of future debt service obligations. Interest rates range from 4.5% to 5.0%.

Annual debt service requirements to maturity for the revenue bonds are as follows:

Year Ending June 30,	Principal	Interest
2009	41,200	73,093
2010	42,400	71,050
2011	45,500	68,947
2012	46,700	66,689
2013	49,900	64,373
2014 - 2018	288,000	282,245
2019 - 2023	301,500	208,019
2024 - 2028	363,300	128,947
2029 - 2033	270,700	41,804
2034 - 2036	30,100	2,732
Totals	<u>\$ 1,479,300</u>	<u>\$ 1,007,899</u>

***Notes Payable***

During the year, the city obtained a loan in the amount of \$1,170,000 through the Kentucky Rural Water Finance Corporation that will be repaid on July 1, 2009 through a bond issuance. The purpose of the loan is to provide interim financing to upgrade and improve the raw water intake and the water treatment plant as well as the construction of new water transmission mains.

The following is a summary of debt transactions of the City for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due Within One Year
Revenue Bonds	\$ 1,517,400	\$ 0	\$ 38,100	\$ 1,479,300	\$ 41,200
Notes Payable	0	1,170,000	0	1,170,000	0
Total	<u>\$ 1,517,400</u>	<u>\$ 1,170,000</u>	<u>\$ 38,100</u>	<u>\$ 2,649,300</u>	<u>\$ 41,200</u>

**CITY OF BURKESVILLE, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**June 30, 2008**

**NOTE 5. RETIREMENT PLANS**

All of the City's full-time employees participate in the County Employees Retirement System (CERS). The CERS is a multiple employer cost sharing, defined benefit pension plan, which covers substantially all full-time employees of each county, school board, and any additional eligible local agencies electing to participate in the plan. The plan provides retirement, disability, and death benefits. Funding for the plan is provided through non-hazardous payroll withholdings of 5.00% and the City's contribution of 16.17% of the employee's total compensation subject to contribution. Funding for the plan is also provided through hazardous payroll withholdings of 8.00% and a City's contribution of 33.87% of the employee's total compensation subject to contribution.

Covered employees are required to contribute 5.00% and 8.00% of their compensation to the CERS. The City contributes an amount equal to 16.17% of non-hazardous compensation and 33.87% of hazardous compensation for the year ended June 30, 2008. Total contributions made during the fiscal year were as follows:

	June 30, 2008	June 30, 2007
City's total payroll per financial statements	724,391	628,902
Payroll for employees covered under CERS	612,479	616,223
CERS contributions:		
Employees	35,811	36,762
Employer	129,645	111,072

Testing in a retirement benefit begins immediately upon entry into the system. CERS participants have a fully vested interest after completion of sixty (60) months of service, twelve (12) of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually through June 30, 1981, and then 6% through June 30, 1986, and then 4% thereafter.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

Financial statements for CERS are present as stand alone financial statements. A complete copy of the annual report may be obtained by writing or calling:

**Kentucky Retirement Systems**  
**Perimeter Park West**  
**1260 Louisville Road**  
**Frankfort, KY 40601 - 6124**  
**(502) 564 - 4646**

**CITY OF BURKESVILLE, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**June 30, 2008**

**NOTE 6. CONTINGENCIES**

The City receives funding from federal, state, and local government agencies. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of grants advanced, or refuse to reimburse the City for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the City's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their program.

As of June 30, 2008, the City is involved in a pending lawsuit. At this time the City's legal counsel has not determined any potential liability; therefore no loss has been recorded in the financial statements.

**NOTE 7. DEPRECIATION FUND - PROPRIETARY FUNDS**

The bond ordinances state that the Enterprise Fund is to create a special fund designated as the "Depreciation Fund". All hookup fees, proceeds from property damage insurance, sale of surplus or worn-out equipment, and a sum equal to not less than one twelfth (1/12) of five percent (5%) of the annual gross income and revenue of the public water and sewer project of the previous fiscal year, should be deposited into the Depreciation Fund. The Water Company transferred its required amounts into all Depreciation Funds.

**NOTE 8. RISK MANAGEMENT**

The City is exposed to various forms of asset losses associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. As of June 30, 2008, the City was sufficiently insured.

**NOTE 9. INTERFUND RECEIVABLE / PAYABLE AND TRANSFERS**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Such interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

Allocation of resources between funds of the reporting entity are classified as interfund transfers. Such interfund transfers between funds are eliminated in the Statement of Activities.

Interfund transfers for the year ended June 30, 2008 consist of the following:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 24,605	\$ 43,931
Water & Sewer	5,727	0
Sanitation	13,009	0
Tourist Commission	1,385	795
	<u>\$ 44,726</u>	<u>\$ 44,726</u>

CITY OF BURKESVILLE, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
June 30, 2008

**NOTE 10. SUMMARY OF CHANGES IN CAPITAL ASSETS**

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
<b>Governmental activities:</b>				
Land	\$ 130,319	\$ 0	\$ 0	\$ 130,319
Buildings	287,427	0	0	287,427
Machinery & Equipment	623,741	22,146	7,332	638,555
Furniture & Fixtures	60,137	0	0	60,137
Improvements	570,665	251,991	0	822,656
Construction in Progress	0	0	0	0
Infrastructure	0	0	0	0
<b>Total</b>	<b>\$ 1,672,289</b>	<b>\$ 274,137</b>	<b>\$ 7,332</b>	<b>\$ 1,939,094</b>
	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
<b>Accumulated Depreciation for Governmental activities:</b>				
Land	\$ 0	\$ 0	\$ 0	\$ 0
Buildings	235,450	19,161	0	254,611
Machinery & Equipment	506,681	45,090	6,204	545,567
Furniture & Fixtures	60,045	92	0	60,137
Improvements	359,456	42,137	0	401,593
Construction in Progress	0	0	0	0
Infrastructure	0	0	0	0
<b>Total</b>	<b>\$ 1,161,632</b>	<b>\$ 106,480</b>	<b>\$ 6,204</b>	<b>\$ 1,261,908</b>
<b>Total Capital Assets, net of Accumulated Depreciation</b>				<b>\$ 677,186</b>

**CITY OF BURKESVILLE, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**June 30, 2008**

**NOTE 10. SUMMARY OF CHANGE IN CAPITAL ASSETS - CONTINUED**

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>
<b>Business-Type Activities:</b>				
Utility Plant in Service	\$ 1,723,388	\$ 0	\$ 0	\$ 1,723,388
Waste Treatment Facility	3,527,967	0	0	3,527,967
Sanitary Sewer Extension	159,108	0	0	159,108
Equipment	479,636	0	0	479,636
Buildings	33,754	3,500	0	37,254
Land	30,000	0	0	30,000
Construction in Progress	227,522	245,160	0	472,682
<b>Total</b>	<b>\$ 6,181,375</b>	<b>\$ 248,660</b>	<b>\$ 0</b>	<b>\$ 6,430,035</b>

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>
<b>Accumulated Depreciation for</b>				
<b>Business-Type Activities:</b>				
Utility Plant in Service	\$ 1,211,602	\$ 33,668	\$ 0	\$ 1,245,270
Waste Treatment Facility	1,809,338	117,599	0	1,926,937
Sanitary Sewer Extension	131,546	5,612	0	137,158
Equipment	371,128	28,037	0	399,165
Buildings	15,009	2,320	0	17,329
Land	0	0	0	0
Construction in Progress	0	0	0	0
<b>Total</b>	<b>\$ 3,538,623</b>	<b>\$ 187,236</b>	<b>\$ 0</b>	<b>\$ 3,725,859</b>

**Total Capital Assets, net of Accumulated Depreciation** **\$ 2,704,176**

**NOTE 11. PRIOR PERIOD ADJUSTMENT**

During the year ended June 30, 2008, various adjustments were made with a net increase in net assets of \$1,128. This adjustment was due to combining the payroll account with the general fund.

**CITY OF BURKESVILLE, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**June 30, 2008**

**NOTE 12. RECLASSIFICATION AND RESTATEMENTS**

Certain reclassifications have been made to the June 30, 2007 information to make them comparable to June 30, 2008.

**NOTE 13. ALLOWANCE FOR DOUBTFUL AMOUNTS**

At year end, the City analyzes the balance in billed receivables and utilizes prior history in determining the adequacy of the allowance for potential losses. At June 30, 2008 the allowance was at 12% of past due amounts.

	Total Billings	Bad Debts	Percentage of Bad Debts to Billings
June 30, 2008	\$ 760,537	\$ 3,802	1/2%

Based on the consistency of the amounts with prior years and no significant change in the customer base or local economic conditions, in my opinion, the allowance at year-end appears adequate for any potential losses.

**NOTE 14. SUBSEQUENT EVENTS**

Currently, the City of Burkesville is entered into a partnership with Cumberland County Water District in the development of a Shared Water Treatment Plant. The future cost of the new Water Treatment Plant is expected to be \$5,365,000. The City's contribution will be financed by grants from various federal and state programs.

**NOTE 15. RESERVATION OF FUND BALANCE**

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation of legally restricted for specified purposes. The General Fund reserve for restricted purposes includes net assets resulting from state aid exclusively restricted for the police and street funds.

**NOTE 16. RESTRICTED ASSETS**

Certain proprietary fund and similar component units assets are restricted for debt services and consist of cash and cash equivalents. This includes Municipal Road Aid Fund, LGEA Fund, and Police Cash Account.

**NOTE 17. FAIR VALUES OF FINANCIAL INSTRUMENTS**

The City has a number of financial instruments, none of which are held for trading purposes. The City estimates that the fair value of all financial instruments at June 30, 2008 does not differ material from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the City using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of amounts that the City could realize in a current market exchange.

*SAMMY K. LEE, P.S.C.*  
*Certified Public Accountant*

*501 Darby Creek, Unit 24  
Lexington, Kentucky 40509  
(859) 543-1587*

*Member of American Institute of CPA's*

*Member of Kentucky Society of CPA's*

**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**

The Honorable Mayor and Members of the City Council  
City of Burkesville, Kentucky  
Burkesville, Kentucky 42717

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund of the City of Burkesville, Kentucky as of and for the year then ended June 30, 2008, which collectively comprise the City of Burkesville, Kentucky's basic financial statements and have issued my report thereon dated October 10, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might constitute significant deficiencies or material weaknesses. However, as discussed below, I identified a certain deficiency in internal control over financial reporting that I consider to be a significant deficiency.

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

Due to the small number of administrative and clerical employees at the City, there is an inherent limitation in its ability to segregate cash receipts custodial duties and cash disbursement custodial duties from recordkeeping duties resulting in inadequate segregation of duties within the internal control process over cash receipts and cash disbursements and recordkeeping functions. Due to the cost vs. benefit analysis, it is currently economically unfeasible to rectify this condition.

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Burkesville, Kentucky's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain other matters that I reported to the management of the City of Burkesville, Kentucky in a separate letter dated October 10, 2008.

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

*Pammy K. Lee, P.S.C.*

Lexington, Kentucky  
October 10, 2008

*SAMMY K. LEE, P.S.C.*  
*Certified Public Accountant*

*501 Darby Creek Rd. #24*  
*Lexington, Kentucky 40509*  
*(859) 543-1587*

*Member of American Institute of CPA's*

*Member of Kentucky Society of CPA's*

**CERTIFICATION OF LOCAL GOVERNMENT ECONOMIC ASSISTANCE**

The Honorable Mayor and Members of the City Council  
City of Burkesville, Kentucky  
Burkesville, Kentucky 42717

In accordance with KRS 42.450 – 42.495, I have examined all LGEA disbursements of the City of Burkesville, Kentucky for compliance with the Department of Local Government laws and regulations. Based upon the results of my audit, I certify that the City is in compliance with KRS 42.450 – 42.495.

*Sammy K. Lee, P.S.C.*

Lexington, Kentucky  
October 10, 2008

**CITY OF BURKESVILLE, KENTUCKY**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**June 30, 2008**

**NOTE 4. BONDED DEBT - CONTINUED**

***Revenue Bonds and Covenants***

The government issues revenue bonds to provide for the acquisition and construction of major capital facilities. The original amount of revenue bonds issued in prior years, for the items listed below, was \$1,933,000. No general obligation bonds were issued during the current year.

Revenue bonds are pledged by revenues and by the faith full faith and credit of the government. These bonds are issued as 10 to 40 year serial bonds with varying amounts of principal maturing each year. The bond covenants include the maintenance of sinking fund to set aside resources for the payment of future debt service obligations. Interest rates range from 4.5% to 5.0%.

Annual debt service requirements to maturity for the revenue bonds are as follows:

Year Ending June 30,	Principal	Interest	<i>Debt Service</i>	
2009	41,200	73,093		
2010	42,400	71,050	2010	113,450.00
2011	45,500	68,947	2011	114,447.00
2012	46,700	66,689	2012	113,389.00
2013	49,900	64,373		
2014 - 2018	288,000	282,245		
2019 - 2023	301,500	208,019		
2024 - 2028	363,300	128,947		
2029 - 2033	270,700	41,804		
2034 - 2036	30,100	2,732		
<b>Totals</b>	<b>\$ 1,479,300</b>	<b>\$ 1,007,899</b>		

***Notes Payable***

During the year, the city obtained a loan in the amount of \$1,170,000 through the Kentucky Rural Water Finance Corporation that will be repaid on July 1, 2009 through a bond issuance. The purpose of the loan is to provide interim financing to upgrade and improve the raw water intake and the water treatment plant as well as the construction of new water transmission mains.

The following is a summary of debt transactions of the City for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due Within One Year
Revenue Bonds	\$ 1,517,400	\$ 0	\$ 38,100	\$ 1,479,300	\$ 41,200
Notes Payable	0	1,170,000	0	1,170,000	0
<b>Total</b>	<b>\$ 1,517,400</b>	<b>\$ 1,170,000</b>	<b>\$ 38,100</b>	<b>\$ 2,649,300</b>	<b>\$ 41,200</b>

CITY OF BURKESVILLE  
P. O. BOX 177  
BURKESVILLE, KENTUCKY 42717  
502-864-4141

February 20, 1997

CITY ORDINANCE

NUMBER 1997-3

AN ORDINANCE OF THE CITY OF BURKESVILLE, KENTUCKY, AUTHORIZING THE CONSTRUCTION OF EXTENSIONS, ADDITIONS AND IMPROVEMENTS TO THE CITY'S COMBINED AND CONSOLIDATED WATER AND SEWER SYSTEM; AUTHORIZING THE ISSUANCE OF \$200,000 OF THE CITY'S WATER AND SEWER REVENUE BONDS, SERIES OF 1997, TO PROVIDE PART OF THE COSTS OF SAID CONSTRUCTION; PROVIDING FOR THE TERMS AND CONDITIONS UPON WHICH SAID BONDS ARE TO BE ISSUED; SETTING FORTH THE TERMS AND CONDITIONS UPON WHICH THE CITY'S WATER AND SEWER SYSTEM SHALL BE OPERATED; AND AUTHORIZING CERTAIN OTHER ACTION IN CONNECTION WITH SAID CONSTRUCTION AND THE ISSUANCE OF SAID BONDS.

WHEREAS, it is permitted and provided by Sections 58.010 through 58.140 of the Kentucky Revised Statutes that the City may combine and consolidate its municipal water and sewer system (the "System") and bonds payable from revenues of said combined System may be issued for the purpose of constructing improvements thereto, and the City has by Ordinance heretofore so combined and consolidated said system; and

WHEREAS, the City has determined it is necessary and desirable to construct additions, extensions and improvements to the System (the "Construction Project"); and

WHEREAS, in order to assist in financing the Construction Project the City is to receive a Grant in the amount of approximately \$125,000 from the United States of America, acting through the U.S. Department of Agriculture, Rural Development ("USDARD") and an Appalachian Regional Commission ("ARC") Grant in the amount of \$250,000 to be applied toward to the total cost of \$635,000 of the Construction Project, but the City will be required to contribute the sum of approximately \$200,000 toward said total cost from its own funds through the issuance of its Water and Sewer Revenue Bonds, Series of 1997 (the "Bonds") to USDARD in the event bids are not received from others for said Bonds on a basis USDARD considers reasonable, and the sum of approximately \$60,000 from its own funds other than Bond proceeds, and

NOW, THEREFORE, BE IT AND IT IS HEREBY ORDAINED BY THE CITY COUNCIL OF THE CITY OF BURKESVILLE, KENTUCKY, AS FOLLOWS:

Section I. Definitions: As used in this Ordinance, unless the context requires otherwise:

"Additional Bonds" means bonds issued in the future payable from the income and revenues of the System which may or may not rank on the basis of parity as to security and source of payment with the Outstanding Bonds and the Series 1997 Bonds.

"Agreement" or "Loan Agreement" means the agreement between the KRWFC and the City under which KRWFC will supply interim financing for the Construction Project.

"Beginning Month" means the month following the month in which the Construction Project is completed, as certified by the Engineers.

"The words "bond," "owner," "holder" and "person" shall include the plural as well as the singular number unless the context shall otherwise indicate. The term "bondholder" means and contemplates, unless the context otherwise indicates, the Registered Owners of the Fully Registered Bonds at the time issued and outstanding hereunder, or any of them.

The "Bonds" or "Series 1997 Bonds" means any of the bonds payable from the income and revenues of the System authorized by this Ordinance, specifically the \$200,000 City of Burkesville Water and Sewer Revenue

Bonds, Series of 1997.

"Bond Anticipation Note" or "Notes" means the obligations of the City authorized by this Ordinance to provide interim construction financing or multiple advances pending the delivery of the Series 1997 Bonds.

"City" means the City of Burkesville, Cumberland County, Kentucky.

"City Council" means the governing body of the City.

"Construction Account" means the "City of Burkesville Water and Sewer System Construction Project Account of 1997" established under the provisions of this Ordinance for the purpose of accounting for the disbursements for the Construction Project from the proceeds of the City's Contribution, Bond Anticipation Notes and/or Series 1997 Bonds and the Grants.

"Construction Project" or "Extension Project" means the construction of the extensions, additions and improvements to the City's combined and consolidated water and sewer System, which construction is being financed in part by the Series 1997 Bonds herein authorized.

"Contribution" or "City's Contribution" means the sum of \$60,000 to be made available for the Construction Fund by the City from funds other than Bond proceeds or Grant monies which is a condition precedent to the issuance of any Bond Anticipation Notes or Series 1997 Bonds authorized under the provisions of this Ordinance.

"Date of Closing" means the date upon which the Series 1997 Bonds are delivered to the successful purchaser.

"Depository Bank" means the bank which shall serve as the depository of all of the various funds created or referred to in this Ordinance, which bank is Bank of Cumberland, Burkesville, Kentucky.

"Engineer" or "Engineers" means the Engineers, or any one of them, who prepared the plans and specifications for the Construction Project and who will supervise the construction thereof, and shall be deemed to refer to the firm of GRW Engineers, Inc., Lexington, Kentucky.

"FDIC" means the Federal Deposit Insurance Corporation.

"Fully Registered Bond" shall refer to a single bond or a series of negotiable bonds (subject to the transfer provisions) payable only to the Registered Owner or Owners in substantially the same form set forth as Exhibit A to this Ordinance; fully registered as to both principal and interest.

"Independent Consulting Engineer" means an independent consulting engineer or firm of engineers of recognized excellent reputation in the field of water and sewer system engineering, and such definition includes the Engineers named above.

"KRS" means the Kentucky Revised Statutes.

"KRWFC" means Kentucky Rural Water Finance Corporation.

"Original Purchaser" means the agency, person, firm or firms to which or to whom the Series 1997 Bonds herein authorized are awarded at the public sale of said Series 1997 Bonds, or their successors and such definition shall include USDARD if it is the original purchaser of said Series 1997 Bonds.

"Outstanding Bonds" means the outstanding Prior First Lien Bonds and the outstanding Prior Second Lien

**Bonds.**

"Prior First Lien Bonds" refers to \$233,000 of City of Burkesville (Kentucky) Water and Sewer Revenue Bonds, Series 1979, dated August 20, 1980 held by the Community Program Loan Trust 1987A (the "Trust"). General Electric Capital Corporation acts as master servicer for the Trust as it pertains to the Prior First Lien Bonds.

"Prior Lien Sinking Fund" refers to the "City of Burkesville Public Water and Sewer Project Bond and Interest Redemption Fund of 1964" which was created by the Series 1964 Bond Ordinance, and the same shall continue to be maintained as provided in the Prior First Lien Bond Ordinance, for the purpose of paying the principal of and interest on the Prior First Lien Bonds.

"Prior Second Lien Bonds" refers to the \$387,000 of the City of Burkesville (Kentucky) Water and Sewer Revenue Bonds, Series of 1989, dated January 9, 1990, the \$1,091,000 City of Burkesville (Kentucky) Water and Sewer Revenue Bonds, Series of 1992, with which the \$200,000 City of Burkesville (Kentucky) Water and Sewer Revenue Bonds, Series of 1997 will rank on the basis of parity as to security and source of payment.

"Second Lien Sinking Fund" refers to the "City of Burkesville Water and Sewer System Bond and Interest Redemption Fund of 1989" established by the Ordinance authorizing the Prior Second Lien Bonds to provide for the debt service and reserve requirements of the Series 1989 Bonds, Series 1992 Bonds and Series 1997 Bonds.

"Series 1964 Bonds" refers to the City of Burkesville (Kentucky) Water and Sewer Refunding Revenue Bonds, dated March 1, 1964, which have been paid and retired and are no longer outstanding.

"System" means the water and sewer system of the City as combined and consolidated and which shall include the Construction Project.

"USDARD" means the United States of America, acting through the U.S. Department of Agriculture, Rural Development.

"USDARD Grant" means the grant to the City in the amount of \$125,000 from USDARD.

"U. S. Obligations" means bonds or notes which are the direct obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America.

**Section II. Ratification of Consolidation of Water and Sewer Systems as Single Public Project** That the water and sewer systems of the City as the same now exist and as the same shall be modified, extended and improved, including the Construction Project having heretofore been combined and consolidated as a single revenue producing public project or system (the "System") within the meaning of KRS 58.010 through 58.140; said consolidation is hereby ratified and affirmed, and so long as any of the City's Water and Sewer System Revenue Bonds, Series of 1997 authorized hereunder, the Outstanding Bonds, or any Additional Bonds shall remain outstanding said System shall be owned, controlled, operated and maintained on a revenue producing basis as a combined and consolidated System for the security and source of payment of the Outstanding Bonds and the Series 1997 Bonds and any Additional Bonds. All of the streets, alleys and rights-of-way within the jurisdiction of the City are hereby to the extent required, dedicated to the use of said System.

**Section III. Construction of Extensions, Additions and Improvements: Declaration of Period of Usefulness** The City shall construct the extensions, additions and improvements referred to herein as the Construction Project which is generally described in the plans, specifications and report prepared by the Engineers now on file with the City Clerk, and shall operate said System as a revenue-producing project under the provisions of the Constitution of Kentucky and Chapter 58 of Kentucky Revised Statutes.

The City hereby declares that the period of usefulness of the entire System is more than forty (40) years

from the date of completion of the "Construction Project."

Section IV. Authorization of Series 1997 Bonds: It has been heretofore determined by the City that the total cost of the construction of the extensions, additions and improvements to the System including preliminary expenses, land and rights-of-way, engineering expense, interest during construction, legal and administrative expense, publication costs and all necessary and incidental expenses thereto will not exceed approximately \$635,000, and after deducting \$125,000 representing the USDARD Grant and \$250,000 representing the ARC Grant and the City's Contribution in the amount of \$60,000 it is necessary that the City authorize and issue \$200,000 of Water and Sewer Revenue Bonds, Series of 1997, for the purpose of financing the costs (not otherwise provided) of the aforesaid extensions, additions and improvements under the provisions of Sections 58.010 through 58.140 of Kentucky Revised Statutes. There are hereby authorized to be issued and sold Two Hundred Thousand Dollars (\$200,000) principal amount of "City of Burkesville (Kentucky) Water and Sewer Revenue Bonds, Series of 1997". All of said Series 1997 Bonds shall be dated as of the date of delivery to the purchaser thereof, and shall bear interest from such date at a rate or rates as may be fixed by supplemental Order as a result of the advertised sale and competitive bidding for said Series 1997 Bonds, as hereinafter provided, and shall be issued and delivered only according to the "Form of Fully Registered Bond," as hereinafter prescribed.

Interest shall be payable semi-annually on March 1 and September 1 of each year, provided that the first interest payment period will cover interest only from the date of delivery of the Bonds to the ensuing September 1 or March 1 as the case may be.

Said Bonds shall mature as to principal on March 1 of each of the respective years set forth below. The Registered Owners of said Bonds shall have the right to elect that such Bonds be issued in denominations of from \$100 to \$200,000, in multiples of \$100 consistent with the schedule of principal maturities as follows:

SCHEDULE OF PRINCIPAL MATURITIES, SERIES 1997 BONDS

<u>Maturity Date</u>	<u>Principal Maturity</u>
March 1, 1998	2,100
1999	2,200
2000	2,300
2001	2,400
2002	2,500
2003	2,600
2004	2,700
2005	2,800
2006	3,000
2007	3,100
2008	3,200
2009	3,400
2010	3,500
2011	3,700
2012	3,900
2013	4,000
2014	4,200
2015	4,400
2016	4,600
2017	4,800
2018	5,000
2019	5,300

<u>Maturity Date</u>	<u>Principal Maturity</u>
2020	5,500
2021	5,700
2022	6,000
2023	6,300
2024	6,500
2025	6,900
2026	7,100
2027	7,500
2028	7,800
2029	8,200
2030	8,500
2031	8,900
2032	9,300
2033	9,700
2034	10,200
2035	10,200

Section V. Provisions for Prepayment of Principal. Principal installments due on the Bonds on or after March 1, 1998 shall be subject to prepayment, in whole or in part, on March 1, 1997 and on any interest payment date thereafter, in multiples of \$100 in inverse chronological order of installments, upon terms of the principal amount to be prepaid, plus accrued interest to the date of prepayment but without prepayment penalty.

In the event the City elects to prepay less than all of the Bonds, it shall exchange with the Registered Owner at the expense of the City a new Bond or Bonds representing the correct unpaid principal balance following the partial prepayment. Notwithstanding the foregoing, in the event USDARD is the Registered Owner of Bonds upon which a prepayment is made, the City shall not be required to exchange its new Bonds as indicated in the preceding sentence.

Notice of prepayment shall be given by regular United States mail to the Registered Owner of the Bonds to be prepaid not less than thirty (30) days prior to the date fixed for prepayment.

All principal payments as to which the City exercises the right of redemption and as to which notice shall have been given, and for the prepayment of which, upon the terms aforesaid, funds are duly provided, shall cease to bear interest on the redemption date so designated.

Notwithstanding any of the foregoing provisions as to prepayment Series 1997 Bonds may be redeemed at any time from the proceeds of said Bonds remaining unused at the time the Construction Project is complete upon thirty (30) days written notice to the Registered Owner.

Section VI. Series 1997 Bonds Payable From System Revenues; Priority of Certain Outstanding Bonds. All of said Series 1997 Bonds, together with the interest thereon, and any Additional Bonds that may be issued under the conditions and restrictions hereinafter set forth, shall be payable solely and only out of the "City of Burkesville Water and Sewer System Revenue Bond and Interest Redemption Fund of 1989" (the "Second Lien Sinking Fund"), established under the provisions of the Ordinance authorizing said Prior Second Lien Bonds, and shall be a valid claim of the Registered Owners thereof only against such Second Lien Sinking Fund and the System revenues pledged thereto in accordance with the provisions of Chapter 58 of Kentucky Revised Statutes. Notwithstanding anything contained in this Ordinance to the contrary, the Series 1997 Bonds are issued subject to the vested rights and priorities in favor of the owners of the Prior First Lien Bonds.

Section VII. Form of Fully Registered Bonds; Execution Authorized. Said Fully Registered Bonds referred to herein shall be in substantially the same form as set forth in Exhibit A to this Ordinance, with appropriate insertions, omissions and variations consistent with or as provided or permitted by this Ordinance. The Fully Registered Bonds shall be of a type and composition, shall be on paper of sufficient weight and strength to prevent deterioration until the last principal installment due thereon and shall conform in size to standard bond practices.

The Fully Registered Bonds shall be executed by the manual signature of the Mayor, impressed with the corporate seal of the City and attested by the manual signature of the City Clerk.

The Registered Owner of any Fully Registered Bonds shall have the right, upon written request to the City and within ninety (90) days following such request, at the expense of the Registered Owner, to exchange Fully Registered Bonds for other Fully Registered Bonds in denominations selected by the Registered Owner in multiples of \$100 consistent with the schedule of principal maturities of said Series 1997 Bonds. New Bonds shall be so issued and substituted only for and upon surrender to the City of the corresponding Bonds so exchanged which shall then be immediately canceled by the Treasurer of the City.

Section VIII. City's Contribution as Prerequisite; Interim Financing; Bond Anticipation Notes; KRWFC Interim Loan. The City and USDARD have entered into a Loan Resolution whereby USDARD has agreed to purchase the Series 1997 Bonds herein authorized in the event the City is unable to sell said Series 1997 Bonds (or obtain credit elsewhere) at reasonable rates and terms, taking into consideration prevailing private and corporate rates and terms in the community in accordance with USDARD Regulations. Under the terms of USDARD Regulations, delivery of the Series 1997 Bonds herein authorized and the receipt of the purchase price therefor will not be accomplished until the Construction Project is substantially complete. Therefore, subject to the deposit of the City's Contribution as hereinafter set forth, in order to facilitate the completion of the Construction Project pending the issuance and delivery of the Bonds herein authorized, there are hereby authorized to be executed and delivered for the purpose of providing funds for the expenses of the Construction Project incurred in the interim period from the date of the sale of said Series 1997 Bonds until the issuance and delivery of the Series 1997 Bonds, "City of Burkesville Water and Sewer Revenue Bond Anticipation Notes" in the aggregate principal amount of \$200,000 (hereinafter sometimes referred to as the "Bond Anticipation Notes").

The procedure for the execution of said Bond Anticipation Notes and the disbursement of the proceeds thereof shall be strictly in accordance with the terms of this Ordinance and as set forth in this Section VIII.

There is hereby created a special and separate account of the City which shall be designated as the "City of Burkesville Water and Sewer System Construction Project Account of 1997" (hereinafter sometimes referred to as the "Construction Account"). Said Construction Account shall be established with the Depository Bank and any deposit in said Construction Account in excess of FDIC insurance coverage shall be secured by the Depository Bank in accordance with U.S. Treasury Department Circular No. 176 by a pledge of collateral with a Federal Reserve Bank. Pending the issuance and delivery of the Bonds all monies received in connection with the Construction Project from the Grants, the City's Contribution, and the proceeds of Bond Anticipation Notes shall be deposited in said Construction Account and shall be applied to meet the costs incident to said Construction Project pending the delivery of the Bonds.

The Engineers shall prepare one or more Estimate of Funds Needed, which will show the amount of funds needed during the 30-day period following the submission of such estimate (in a form satisfactory to USDARD), and which Estimates shall be executed by a representative of said Engineers in charge of the Construction Project, stating that the amount requested under said Estimate represents an estimated sum to be earned by and due to contractors under contracts with the City for work performed or materials furnished in connection with said Construction Project. Each Estimate of Funds Needed shall be countersigned by the Mayor. In regard to items of expense in connection with the Construction Project not relating to construction contracts, the Engineer's execution of the Estimate of Funds shall not be necessary and an Estimate of Funds for projected expenses of this type shall be signed only by the Mayor and approved by the duly authorized representative of USDARD.

The Estimate of Funds Needed (properly countersigned) shall be submitted to the Mayor and City Clerk, who, upon the receipt thereof, shall be authorized to execute a Bond Anticipation Note or Notes in accordance with the terms of this Ordinance in the aggregate amount represented by the Estimate of Funds submitted.

Upon the execution of the Bond Anticipation Notes, same shall be delivered to the purchaser thereof, whether said purchaser be a bank or USDARD, and the proceeds received therefrom shall be deposited in the Construction Account and disbursed from said Account in accordance with the terms of this Ordinance.

All requests for disbursements from the Construction Account shall be accompanied by one or more vouchers (Partial Payment Estimates in a form satisfactory to USDARD) executed by a representative of the Engineers in charge of said Construction Project certifying that the amount requested represents a sum actually earned by and due to contractors under a contract with the City for work performed or for materials furnished to the City in connection with said Construction Project. Each such voucher shall likewise be countersigned by the Mayor and approved by the duly authorized representative of USDARD. To the extent a requested disbursement from said Construction Account shall be for items not relating to construction contracts, a voucher (in a form satisfactory to USDARD) for such disbursement signed only by the Mayor and approved by the duly authorized representative of USDARD shall be submitted stating that the requested advance - represents an expenditure which may be properly made under the terms of the USDARD Loan Resolution and is eligible for payment by the City from the proceeds of the Bonds herein authorized.

Disbursements from the Construction Account shall be made by check signed by the City Treasurer countersigned by the duly authorized representative of USDARD and shall be made only upon the Treasurer's receipt of such voucher.

Notwithstanding anything contained in this Ordinance to the contrary, no disbursements shall be made from the Construction Account nor shall any Bond Anticipation Notes be issued and delivered unless and until the City has been deposited in the Construction Account the sum of \$60,000 representing the City's Contribution to the Construction Project from sources other than the Bond/Note or the proceeds of the Grants. The City's Contribution shall be deposited in the Construction Account prior to the advertisement for construction bids for the Construction Project.

The position of City Treasurer (or those officials of the City charged with the responsibilities for the Funds herein established) shall be covered by a Fidelity Bond in the amount of not less the \$100,000 with a surety company approved by USDARD; the City and USDARD shall be named co-obligees in such Bond, and the amount thereof shall not be reduced without the written consent of USDARD. Should the aggregate total of the deposits in the various accounts authorized to be maintained under the provisions of this Ordinance equals more than \$100,000 at any one time during the year, the Fidelity Bond of the City Treasurer will be increased to cover the larger amount so accumulated and if USDARD so requests a special fidelity bond shall be written to cover the Construction Account.

The Bond Anticipation Notes shall be in substantially the same form as the Bond Anticipation Note attached to and made a part of this Ordinance and marked for identification as Exhibit B. The Mayor and City Clerk are hereby authorized to execute said Notes periodically but in an aggregate principal amount not to exceed \$200,000 upon their receipt of the duly executed Estimate of Funds in accordance with the preceding paragraphs of this Section.

Said Bond Anticipation Notes shall be dated as of the date of the execution thereof and shall bear interest payable at maturity. The principal maturity date for all of said Notes shall be on or before two (2) years from the date this Ordinance is adopted. All of said Notes shall be subject to payment prior to their stated maturity without penalty or premium, at any time upon ten (10) days' written notice of such prior redemption to the registered holder thereof.

Notwithstanding the foregoing procedure for the issuance of Bond Anticipation Notes and as an alternative procedure, upon the solicitation of bids from not less than two responsible lenders and a determination that it is in the best interest of City, the City may obtain interim financing from the Kentucky Rural Water Finance Corporation ("KRWFC"). In the event of the utilization of KRWFC, the Mayor and City Clerk are hereby authorized to execute a Loan/Assistance Agreement to provide up to \$200,000 or such lesser amount as the City may determine necessary for interim financing. The KRWFC Loan proceeds shall be deposited with the Trustee for the KRWFC under the KRWFC's Note Indenture and thereafter transferred by said Trustee to the Construction Account herein established and disbursed in accordance with the provisions of this Section VIII. The Estimate of Funds Needed shall be periodically submitted to the Trustee for KRWFC to effect transfers to the City's Construction Account and thereafter disbursed in accordance with the procedure for Partial Payment Estimates under vouchers contemplated by this Section.

The Bond Anticipation Notes herein authorized shall be payable solely from and secured by a first pledge or the proceeds derived from the issuance of the Series 1997 Bonds herein authorized, or the proceeds of other interim financing loans made in anticipation of the issuance of such Bonds.

Said Notes are authorized in strict conformity with the Constitution of the Commonwealth of Kentucky, particular reference being made to Sections 58.010 through 58.150 and 56.513 of the Kentucky Revised Statutes.

The authority hereby delegated to the Mayor and City Clerk in regard to the execution of a total aggregate principal amount of \$200,000 includes the execution of renewal notes in evidence of the renewal and extension of Notes becoming due, providing the aggregate of the principal amount of all such Bond Anticipation Notes outstanding and payable shall not exceed \$200,000 and providing the Note which is renewed or superseded is simultaneously canceled and transmitted to the City. The maximum aggregate principal amount of Bond Anticipation Notes permitted by this Ordinance shall include the interest on said Notes.

Notwithstanding anything contained in this Ordinance to the contrary, the City covenants that no Bond Anticipation Notes shall be issued and delivered unless and until the Bonds have been sold at public sale in accordance with law.

The City further covenants simultaneously with the issuance and delivery of said Bonds to the successful purchaser, all amounts due, owing and unpaid on said Bond Anticipation Notes or KRWFC Loan shall be repaid at said time of delivery, including principal and interest.

In the event there may from time to time be on deposit in said Construction Account funds which are not immediately needed for the payment of construction costs, same may be invested, but only in the manner permitted by USDARD; provided, however, that no deposit in said Construction Account or any other fund provided for hereunder shall be used or invested in any manner which would cause the Bonds to become arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, (the "Code") or any regulations of the U.S. Treasury Department interpreting same; provided, however, that the City by the adoption of this Ordinance, covenants and agrees that it will not issue in excess of \$5,000,000 of its tax-exempt debt obligations during the calendar year in which the Series 1997 Bonds are delivered and hereby designate the Series 1997 Bonds as "qualified tax exempt obligations" pursuant to Code Section 265(b)(3). The City has been advised by Bond Counsel that by virtue of such covenant, the proceeds of the Series 1997 Bonds are exempt from certain restrictions imposed by said Code, including, but not being limited to, the rebate requirements of the Code.

Subsequent to the delivery of the Bonds and the payment in full of the Bond Anticipation Notes or KRWFC Loan, upon certification by the Engineers that the Construction Project is complete in accordance with the plans and specifications and all items of expense have been paid, the balance, if any, remaining in said Construction Account shall be transferred to the Second Lien Sinking Fund and said Construction Account shall be closed.

Section IX. Delivery of the Series 1997 Bonds; Payment of Bond Anticipation Notes or KRWFC Loan; Disbursement of Series 1997 Bond Proceeds. Upon the delivery of the Series 1997 Bonds herein authorized, the following distribution of the proceeds of said Series 1997 Bonds shall be made simultaneously with said delivery and receipt of payment (the "Date of Closing"):

(A) Simultaneously with the delivery of the Series 1997 Bonds, all amounts due and owing by the City on interim construction loans evidenced by the Bond Anticipation Notes or KRWFC Loan, including principal and interest, shall be paid in full and the Notes or KRWFC Loan shall be canceled.

(B) After observing the priority of the disbursement set forth in subparagraph (A) above, and simultaneously with the delivery of the Series 1997 Bonds, the balance of the proceeds of said Bonds remaining shall be transferred to the Construction Account established by Section VIII of this Ordinance.

Section X. Disposition of Water and Sewer System Revenues. From and after the delivery of any of the Series 1997 Bonds authorized under the provisions of this Ordinance, the said combined and consolidated municipal water and sewer System shall be operated on a fiscal year basis and on that basis all income and revenues derived directly or indirectly from the operation of said combined System shall be deposited promptly and as received first to the credit of a separate and special account known as the "City of Burkesville Public Water and Sewer Project Revenue Fund" (the "Revenue Fund"), established by the Ordinance authorizing the City's Series 1964 Bonds which continues to be maintained for the benefit of the Prior First Lien Bonds, the Prior Second Lien Bonds, the Series 1997 Bonds, or any additional bonds ranking on a parity therewith. Such Revenue Fund shall be held separate and apart from all other funds of the City and shall be maintained so long as any of the Outstanding Bonds or the Series 1997 Bonds are outstanding and payment is not provided therefore. The monies so deposited in such Revenue Fund shall be expended only in the manner and order as follows:

(A) Prior Lien Sinking Fund.

A separate and special fund or account of the City designated "City of Burkesville Water and Sewer Project Bond and Interest Redemption Fund of 1964" (the "Prior Lien Sinking Fund"), was created by the Series 1964 Bond Ordinance, and the same (including the Sinking Fund Reserve therein, hereinafter referred to as the "Prior Lien Reserve Fund") shall continue to be maintained as provided in the Prior First Lien Bond Ordinance. The City covenants and agrees that it will continue to deposit therein from the Revenue Fund such amounts are required by the terms of the Prior First Lien Ordinance to be so deposited; and such sums shall be held and applied by the City in the manner as follows:

(1) The monthly transfers to the Prior Lien Sinking Fund shall continue on the basis of an amount equal to one hundred and twenty percent (120%) of the average annual principal and interest requirements on the Prior First Lien Bonds until such time as there is accumulated and maintained in said Prior Lien Sinking Fund a required minimum balance equal to twice the maximum annual principal and interest requirements due in any ensuing twelve-month fiscal period on the Prior First Lien Bonds.

(2) Upon the establishment of the required minimum balance in the Prior Lien Sinking Fund as set forth in subparagraph (1) above, then the amount of the monthly transfers from the Revenue Fund to the Prior Lien Sinking Fund may be reduced to an amount equal to not less than one-twelfth (1/12th) of the actual principal and interest requirements becoming due on all Prior First Lien Bonds then outstanding during the next succeeding twelve (12) months.

The Prior Lien Sinking Fund (including the Prior Lien Reserve Fund portion thereof) shall continue to be maintained at the Depository Bank (or Bank of Cumberland, Burkesville, Kentucky) so long as any of the Prior First Lien Bonds are outstanding.

(B) Second Lien Sinking Fund.

A separate and special fund or account of the City was created by the Ordinance authorizing the Prior Second Lien Bonds, designated as the "City of Burkesville Water and Sewer System Bond and Interest Redemption Fund of 1989" (the "Second Lien Sinking Fund"), which shall be maintained so long as any of the Series 1997 Bonds or any Additional Bonds are outstanding in the Depository Bank, and all monies deposited therein from time to time shall be used, disbursed, and applied, and are hereby irrevocably pledged, solely for the purpose of paying the principal of and interest on all of said Series 1997 Bonds and any Additional Bonds, as well as the Prior Second Lien Bonds.

Until the delivery of the Series 1997 Bonds, there shall continue to be transferred in each month from the Revenue Fund and deposited into the Second Lien Sinking Fund, amounts sufficient to meet the debt service requirements of the Prior Second Lien Bonds as same become due and establish and maintain the required Prior Second Lien Reserve Fund.

Beginning with the month following the delivery of the Series 1997 Bonds, there shall be transferred from the Revenue Fund and deposited into the Second Lien Sinking Fund amounts sufficient to meet the Debt Service and Debt Service Reserve requirements on all the Prior Second Lien Bonds and Series 1997 Bonds on or before the first day of each month, as follows:

- (1) An amount equal to one-sixth (1/6) of the next succeeding six-month interest installment to become due on the Prior Second Lien Bonds and Series 1997 Bonds then outstanding, plus
- (2) A sum equal to one-twelfth (1/12) of the principal of the Prior Second Lien Bonds and Series 1997 Bonds maturing on the next succeeding March 1.
- (3) The amount of not less than \$827.00 per month until there is established within said Second Lien Sinking Fund a required minimum balance of not less than \$99,240.00 as a Debt Service Reserve for the Prior Second Lien Bonds and Series 1997 Bonds. Upon the establishment of the required minimum balance of the Debt Service Reserve within the Second Lien Sinking Fund, no further deposits need be made into said Second Lien Sinking Fund except for monthly principal and interest installments as set forth in subparagraphs (B)(1) and (2) above or to replace any withdrawals.

If the City for any reason shall fail to make any monthly deposits as required, then an amount equal to the deficiency shall be set apart and deposited into the Second Lien Sinking Fund (or the Second Lien Reserve Fund) or Second Lien Sinking Fund (or Debt Service Reserve) out of the first available revenues in the ensuing month or months, which amount shall be in addition to the monthly deposit(s) otherwise required during such succeeding month or months.

On or before the 20th days of August and/or February in each year, the Depository Bank shall transfer from the Second Lien Sinking Fund and from the Debt Service Reserve therein (if necessary) a sum equal to the interest or a sum equal to the principal and interest, as the case may be, becoming due on the Prior Second Lien Bonds and Series 1997 Bonds next following respective September 1 or March 1, and deposit the same in an account hereby created and identified as the "City of Burkesville 1989 Water and Sewer Revenue Bond and Interest Payment Account".

All funds in the Second Lien Sinking Fund and in the Debt Service Reserve therein shall be deposited in the Depository Bank, or such portion of said amounts on deposit in said Fund as is designated by the Governing Body of the City, shall be invested for the benefit of such Fund in Certificates of Time Deposit, savings accounts, (including "money market" accounts) or U.S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for meeting interest and/or principal payments, to mature or be called. To the extent that any amounts on deposit in said Bank shall cause the total deposits of the City in said Bank to exceed the amount insured by Federal Deposit Insurance Corporation ("FDIC") coverage, such excess amount shall be continuously secured by a valid pledge of U.S. Obligations, having an

equivalent market value, in conformity with KRS 66.480. Investments in Certificates of Time Deposit may be made only if a separate USDARD Form 402-4 Agreement is executed, if USDARD has purchased any of the Series 1997 Bonds and as long as USDARD is the Registered Owner of any of the Series 1997 Bonds. Any such investments will be a part of the Fund from which the proceeds invested are derived, and income from such investments will be credited to such Fund.

(C) City to Make Principal and Interest Payments on a Monthly Basis so Long as USDARD Holds any of the Series 1997 Bonds, if Requested by the USDARD.

So long as any of the Series 1997 Bonds are held by USDARD, the City shall, if requested by USDARD, make payments of amounts equal to the total of (1) and (2) of Section X.(B) above, being the total of the monthly principal and interest requirements on the Series 1997 Bonds, in monthly payments directly to the USDARD.

(D) Depreciation Fund.

A separate and special fund or account of the City was created under the Series 1964 Bond Ordinance, which fund was designated "City of Burkesville Public Water and Sewer Project Depreciation Fund of 1964" (the "Depreciation Fund"), which Fund was ratified, confirmed, and ordered to be continued in the Prior First Lien Bond Ordinance, so long as any of the Prior First Lien Bonds, the Prior Second Lien Bonds, and any Additional Bonds (including the Series 1997 Bonds) are outstanding. The Prior First Lien Bond Ordinance and the Prior Second Lien Bond Ordinance required, and it is hereby required, that following the required transfers set forth in paragraphs X(A) and X(B) above, there shall be transferred each month to the Depreciation Fund a sum equal to not less than one-twelfth (1/12) of five percent (5%) of the annual gross income and revenues of the System for the previous fiscal year, but in any event not less than \$765.00 per month until there is established a required minimum balance of \$91,800, which required minimum balance shall be reestablished in the event moneys are utilized for the purposes herein permitted.

Funds in the Depreciation Fund may be invested in the same manner as monies on deposit in the Second Lien Sinking Fund.

In addition to the monthly transfers to said Depreciation Fund, the proceeds from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of further extensions and improvements, and the proceeds from any property damage insurance, are required to be deposited in the Depreciation Fund and used only for the purposes for which such fund is established. Monies in the Depreciation Fund shall be used for making extraordinary maintenance, repairs, renewals, or replacements to the System, which would be necessary to keep the System in good operating condition, only when there is not sufficient money included in the annual budget and in the Operation and Maintenance Fund, or for paying the costs of constructing improvements or extensions to the System which will either enhance its revenue-producing capacity or provide a higher degree of service. Notwithstanding anything contained herein to the contrary, moneys on deposit in the Depreciation Fund shall be available for the principal and interest requirements of the Prior First and Second Lien Bonds and the Series 1997 Bonds if for any reason funds are not available in the Prior Lien Sinking Fund or Second Lien Sinking Fund sufficient to prevent a default.

Notwithstanding anything contained herein to the contrary moneys in the Depreciation Fund may be used for any extensions or improvements to said System costing in excess of \$5,000, only if the Engineers or independent consulting engineers shall supervise the construction work and shall have previously furnished the City a written opinion certifying that such improvements or extensions are economically feasible.

In the event of any withdrawals from the Depreciation Fund the required minimum balance shall be reestablished from transfers from the Revenue Fund.

(E) Operation and Maintenance Fund.

A special and separate Fund of the City was heretofore created by the Series 1964 Bond Ordinance, distinct and apart from all other Funds and accounts of the City, designated and identified as the "City of Burkesville Public

Water and Sewer Project Operation and Maintenance Fund" (the "Operation and Maintenance Fund"), and the same was ratified in the Prior First Lien Bond Ordinance and the Prior Second Lien Bond Ordinance and is hereby ratified and continued for the benefit of the System and any or all bonds payable from the income and revenues of the System. So long as any Prior First Lien Bonds, Prior Second Lien Bonds, Series 1997 Bonds, or any Additional Bonds, remain outstanding and unpaid, there shall continue to be deposited monthly into the Operation and Maintenance Fund, from moneys remaining in the Revenue Fund, after making the transfers required by Subsections (A), (B) and (D) above of this Section X (which are cumulative), sufficient funds to meet the Current Expenses of operating, maintaining, repairing, and insuring the System, pursuant to the Annual Budget, for which provision is hereinafter made.

Transfers shall be made monthly from the Revenue Fund to the Operation and Maintenance Fund so that the various operation and maintenance of said System are met and a reserve equal to three (3) months operation and maintenance expenses of such System is accumulated and maintained at all times; such reserve may be used to meet operation and maintenance expenses of such System, but if used, same shall be replaced as soon as possible by additional transfers from the Revenue Fund.

(F) Excess Funds.

Subject to the provisions for the disposition of the income and revenues of the System set forth in Subsections (A), (B), (D) and (E) of this Section X, which provisions are cumulative and the maintenance of the required minimum balances in said Funds, and after paying or providing for the payment of debt service on any subordinate obligations, any excess funds remaining in the Revenue Fund within sixty days after the end of each fiscal year, shall be transferred to the Depreciation Fund.

All payments into the above special funds shall be made on or before the 1st day of each month, except that when the 1st day of any month shall be a Sunday or a legal holiday, then such payment shall be made on the next succeeding business day.

All moneys held in any of the above special funds shall be kept apart from all other City funds and shall be deposited in the Depository Bank, and all such deposits which cause the aggregate of all deposits of the City therein to be in excess of the amount secured by FDIC, shall (unless invested as herein authorized) be secured by a surety bond or bonds or by a pledge of U. S. Obligations, as defined herein, having a market value equivalent to such deposit as aforesaid.

The City covenants to the Original Purchaser of the Series 1997 Bonds herein authorized that it will make no use of the proceeds of such issue of Series 1997 Bonds at any time during the term thereof which, if such use had been reasonably expected on the date of issue of such Series 1997 Bonds, would have caused such Series 1997 Bonds to be "arbitrage bonds". Such covenant shall impose an obligation upon the City to comply with the requirements of Section 148 of the Code.

The City Treasurer shall be responsible for all of the various special funds established by this Ordinance and shall at all times be covered by a Fidelity Bond in accordance with the provisions of this Ordinance.

Notwithstanding anything contained in this Ordinance to the contrary, the City understands and agrees that if at any time it shall appear to USDARD that the City is able to refinance, in whole or in part, any of its debt obligations represented by the Series 1997 Bonds, by obtaining loans from commercial sources at reasonable rates and terms, USDARD shall have the right to request that the City proceed to implement such refinancing within a reasonable time in order to pay and retire all or part of the Series 1997 Bonds then held by USDARD.

Section XI. Additional Parity Bonds. The City covenants and agrees not to issue any additional parity bonds ranking on the basis of parity as to security and source of payment with the outstanding Prior First Lien Bonds unless and until it has received the written consent of the Registered Owners of the Series 1997 Bonds.

The right and privilege of issuing Additional Bonds inferior and subordinate as to the security and source of payment with regard to the income and revenues of the System it is reserved in the City but is likewise subject to

the prior written consent of the Registered Owners of the Series 1997 Bonds; provided, however, that the proceeds of any such Additional Bonds shall be utilized only for extensions, additions, and improvements to the System.

Section XII. General Covenants City. The City of Burkesville, through adoption of this Ordinance, hereby irrevocably covenants and agrees with the Registered Owners of any and all Series 1997 Bonds, that so long as the same or any part thereof remain outstanding and unpaid:

(A) It will faithfully and punctually perform all duties with reference to said System required by the Constitution and laws of the Commonwealth of Kentucky and by the terms and provisions of this Ordinance.

(B) It will at all times operate said System on a revenue-producing basis and will permit no free services to be rendered or afforded thereby to any person, firm or corporation, including the City.

(C) It will maintain the said System in good condition through application of revenues accumulated and set aside for operation and maintenance, as herein provided, and will make renewals and replacements, as the same may be required, through application of revenues accumulated and set aside into the Depreciation Fund.

(D) It will not sell, mortgage, pledge, lease or in any manner dispose of the said System, or any extensions, improvements or additions which may be made thereto, or the revenues thereof, except that if the City shall determine by resolution or ordinance that any identified properties of the System are worn out, obsolete or otherwise no longer useful and needed, the same may be sold or exchanged as the City may order, and if sold for cash, the proceeds shall be deposited in the Depreciation Fund and be available for any authorized purpose of said Fund.

(E) It will establish, enforce and collect rates and charges for services rendered and facilities afforded by said System, and the same shall be reasonable and just, taking into account and consideration the cost and value of the System, the costs of operating the same and maintaining it in good state of repair, proper and necessary allowances for depreciation and for additions and extensions, and the amounts necessary for the orderly retirement of all Outstanding Bonds and the Bonds herein authorized, and the accruing interest thereon and the accumulation of reserves as herein provided, and such rates and charges shall be adequate to meet all such requirements as provided in this Ordinance and shall, if necessary, be adjusted from time to time in order to comply herewith.

On or before the issuance of the Series 1997 Bonds, the City will adopt a budget of Current Expenses for the System for the remainder of the current fiscal year of the System, and thereafter, on or before the first day of each fiscal year so long as any bonds are outstanding it will adopt an Annual Budget of Current Expenses for the ensuing fiscal year and will file a copy of each such Budget and of any amendments thereto in the Office of the City Clerk and furnish copies thereof to the holder of any Bond upon request. The term "Current Expenses," as used herein, includes all reasonable and necessary costs of operating repairing, maintaining and insuring the System, but shall exclude any allowance for depreciation, payments into the Reserve Fund for extensions, improvements and extraordinary repairs and maintenance and payments into the Bond Fund. The City covenants that the Current Expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that it will not expend any amount or incur any obligations for operation, maintenance, and repairs in excess of the amounts provided for Current Expenses in the Annual Budget, except upon order duly adopted by the governing body of the City determining that such expenses are necessary in order to operate and maintain the System. At the same time and in like manner the City agrees that it will prepare an estimate of gross revenues to be derived from operation of the System for each fiscal year and, to the extent that said gross revenues are insufficient to provide for all payments required to be made under Section X hereof during such ensuing fiscal year, it will revise its rates and charges for services rendered by the System so that the same will be adequate to meet all of such requirements.

(F) It will maintain the rates and charges for the services furnished by such System which are in effect at the time of the sale of the Bonds herein authorized which shall not be reduced unless an independent, recognized and reputable Independent Consulting Engineer not in the regular employ of the City gives and files in the office of the City Clerk a statement, based upon a complete examination of the records of such System, certifying in facts and figures that any proposed rate reduction will still maintain current bond service requirements, depreciation requirements, operation and maintenance requirements and their several reserves, and provided those requirements and reserves have been accumulated to the maximum accumulation required by Section X of this Ordinance and

provided further that the net income and revenues of such combined System are maintained at 1.50 times the average annual principal and interest requirements on all Bonds payable from the income and revenues of the System. Such statement shall set forth facts and figures which will support the conclusion reached.

(G) It will at all times segregate the revenues of the System from all other revenues, monies and funds of the City and will promptly and regularly make application and distribution thereof into the special funds provided in this Ordinance in the manner and with due regard for the priorities herein attributed thereto.

(H) It will keep proper books of record and account separate and clearly distinguishable from all other municipal records and accounts, showing complete and correct entries, of all transactions relating to said System, and the same shall be available and open to inspection by any bondholder, and any agent or representative of a bondholder. Additionally, if requested to do so by the Original Purchaser of the Series 1997 Bonds, said City will furnish to such Original Purchaser a monthly statement of income and expenses of the System in reasonable detail and showing all transfers to the special funds referred to in Section X hereof.

(I) It will, within one hundred eighty (180) days after the end of each fiscal year, cause an audit to be made of the books of record and account pertinent to the System, by an independent state-licensed accountant not in the employ of the City on a monthly salary basis, showing all receipts and disbursements, with comments of the auditor concerning whether the books and records are being kept in compliance with this Ordinance and in accordance with recognized accounting practices, and will promptly cause a copy of the audit report to be filed in the Office of the City Clerk where it will be available for public inspection, and will promptly mail a copy thereof to the Original Purchaser. If requested to do so, the City will furnish to any bondholder a condensed form of the Balance Sheet and a condensed form of the Operating Report, in reasonable detail. All expenses incurred in causing such audits to be made, and copies distributed, shall constitute proper expenses of operating and maintaining the System, and may be paid from revenues allocated for such purposes, as herein provided.

(J) Any holder of said Bonds may either at law or in equity, by suit, action, mandamus or other proceedings, enforce and compel performance by said City and its officers and agents of all duties imposed or required by law or this Ordinance in connection with the operation of said System, including the making and collecting of sufficient rates and segregation of the revenues and application thereof.

(K) If there be any default in the payment of the principal of or interest on any of said Bonds, then upon the filing of suit by any holder of said Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the City with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against said System, and for the payment of current expenses, and to apply the revenues in conformity with this Ordinance and the provisions of said statute laws of Kentucky aforesaid.

(L) The City will cause each municipal officer or other person (other than depository banks) having custody of any monies administered under the provisions of this Ordinance to be bonded at all times in an amount at least equal to the maximum amount of such monies in his custody at any time, each such bond to have surety given by a surety corporation qualified to do business in Kentucky and approved by the Mayor, and the premiums for such surety shall constitute a proper expense of operating the System, and may be paid from monies available in the Operation and Maintenance Fund. In the event USDARD is the purchaser of the Bonds, USDARD shall be a co-obligee on said bond.

(M) Pursuant to KRS 96.934, rates and charges for sewer service provided by the System shall be billed simultaneously with rates for water service provided by the System, and water service shall be discontinued to any premises where there is failure to pay any part of the aggregate charges so billed, including such interest, penalties and fees for disconnection and/or reconnection as may be prescribed from time to time.

Section XIII. Covenants of City to Registered Owners of the Prior First Lien Bonds. The City covenants and agrees that (a) the debt and lien evidenced by any Bonds, Notes or Loans authorized herein are junior and subordinate in all respects to the lien(s) securing the debt outstanding to the Community Program Loan Trust 1987A (the "Trust"), and (b) in the event of default under such new loan and prior to the holder thereof taking any action to

foreclose any security interest or lien securing the new loan, such holder will provide written notification to the Trust c/o GE Capital Corporation, master servicer for the Trust, 363 N. Sam Houston Parkway E., Suite 1200, Houston, Texas 77060, or any other address that GE Capital Corporation provides, said notice containing a description of the event of default and of the actions intended to be taken as a result of such default. The City further covenants to supply the Trust a copy of the executed closing documents within thirty (30) days after loan closing.

Section XIV. Registered Owners' Rights to Enforce Covenants. Any holder of the Series 1997 Bonds, either at law or in equity, by suit, action, mandamus or other proceedings, enforce and compel performance by said City and its officers and agents of all duties imposed or required by law or this Ordinance in connection with the operation of said System, including the making and collection of sufficient rates and segregation of the income and revenues and the application thereof.

If there be any default in the payment of the principal of or interest on any of the Series 1997 Bonds, then upon the filing of suit by any holder of said Bonds, any Court having jurisdiction of the action may appoint a receiver to administer the said combined and consolidated System on behalf of the City, with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against such System and for the payment of operating expenses and to apply the income and revenue in conformity with this Ordinance and with the provisions of Chapter 58 of Kentucky Revised Statutes. Reasonable attorneys fees and court costs incurred by any bondholder or bondholders in connection with the appointment of such receiver shall be a proper charge and shall be payable out of the income and revenues from the properties securing the Bonds herein authorized.

Section XV. General Covenants Applicable So Long As USDARD Holds Any Bonds. So long as the USDARD shall hold the any of the Series 1997 Bonds, the City shall comply with such regulations, requirements and requests as have been made by the USDARD, including the furnishing of operating and other financial statements in such form and substance and for such periods as may be requested by the USDARD, the carrying of insurance of such types and in such amounts as the USDARD may specify with insurance carriers acceptable to USDARD, and compliance with all the terms and conditions of the Loan Resolution between the City and USDARD.

In addition, so long as USDARD shall be the Registered Owner of any of the Series 1997 Bonds, the City shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating the security interest of the Registered Owners of any Series 1997 Bonds without provisions for the prompt prepayment of said Series 1997 Bonds.

Section XVI. No Priority Among Series 1997 Bonds. The Bonds authorized herein shall not be entitled to priority one over the other in the application of the income and revenues of the System or with respect to the security for their payment, regardless of the time or times of their issuance, it being the intention that there shall be no priority among the Bonds authorized by this Ordinance regardless of the fact that they may be actually issued in different series and delivered at different times; provided, however, it is acknowledged that said Series 1997 Bonds are inferior and subordinate as to security and source of payment to the Prior First Lien Bonds.

Section XVII. Insurance.

(A) Fire and Extended Coverage. If and to the extent that the System includes structures above ground level (including equipment and machinery but not including water reservoirs, standpipes, elevated tanks and non-combustible materials) the City shall, upon the sale of the Series 1997 Bonds if such insurance is not already in force, procure fire and extended coverage insurance on the insurable portion of all of the facilities of the System.

The foregoing fire and extended coverage insurance shall be maintained so long as any of the Series 1997 Bonds are outstanding and shall be in amounts sufficient to provide for not less than full recovery whenever a loss from perils insured against does not exceed eighty percent (80) of the full insurable value of the damaged facility.

In the event of any damage to or destruction of any part of the System, the City shall promptly arrange for the application of the insurance proceeds for the repair or reconstruction of the facilities so damaged or destroyed

portion.

(B) Liability Insurance on Facilities. Upon the sale of said Series 1997 Bonds, the City shall, if such insurance is not already in force, procure and maintain, so long as any of the Series 1997 Bonds are outstanding public liability insurance relating to the operation of the facilities of the System with limits of not less than \$100,000 for one person and \$500,000 for more than one person involved in one accident, to protect the City from claims for bodily injury and/or death, and not less than \$100,000 from claims for damage to property of others which may arise from the City's operations of the System and any other facilities constituting a portion of the System.

(C) Vehicle Liability Insurance. If and to the extent that the City owns or operates vehicles in the operation of the System, upon receipt of the proceeds of the Series 1997 Bonds, the City shall, if such insurance is not already in force, procure and maintain, so long as any of the Series 1997 Bonds are outstanding vehicular public liability insurance with limits of not less than \$100,000 for one person and \$500,000 for more than one person involved in one accident, to protect the City from claims for bodily injury and/or death, and not less than \$20,000 against claims for damage to property of others which may arise from the operation of such vehicles by the City.

(D) Workmen's Compensation. The City will carry suitable Workmen's Compensation coverage as required by the laws of the Commonwealth of Kentucky.

Section XVIII. Contractual Nature of Bond Ordinance. The provisions of this Ordinance shall constitute a contract between the City and the holders of the Series 1997 Bonds; and after the issuance of any of said Series 1997 Bonds no change, variation or alteration of any kind in the provisions of this Ordinance shall be made in any manner except as herein provided until such time as all of said Series 1997 Bonds and the interest thereon have been paid or provided for in full; provided the City may enact other ordinances for the purpose of curing any ambiguity or of curing, correcting or supplementing any defective or inconsistent provisions contained herein or in any ordinance or other proceedings pertaining hereto, subject to the condition that this Ordinance shall not be so modified in any manner that may adversely affect the rights of any certain holders without similarly affecting the rights of all holders of all Series 1997 Bonds.

Section XIX. Sale of Bonds. The City Clerk is hereby authorized and directed to cause notice for bids for the purchase of said Series 1997 Bonds to be published pursuant to all applicable Kentucky Revised Statutes. Said Notice shall state the name and amount of Series 1997 Bonds to be sold, the time of sale and other details concerning the Series 1997 Bonds and the bidders that further information regarding said Series 1997 Bonds is available from the City Clerk. The City Clerk shall utilize the forms of Notice of Bond Sale and Official Terms and Conditions of Bond Sale prepared by Bond Counsel in substantially the same forms as those attached to this Ordinance as Exhibits D and E, respectively and such Information for Bidders shall include, but not be limited to the following information:

(A) Bidders are required to bid a cash price of not less than par value of the Series 1997 Bonds.

(B) Interest rates must be in multiples of 1/8 or 1/20 of 1%, with not more than one interest rate per maturity being stipulated by any bidder.

(C) Bids will be considered only for the entire issue.

(D) Bidders (except USDARD) are required to make a good faith deposit by cashier's check or certified check payable to the City which check shall accompany the bid, in the minimum amount of 2% of the face amount of the Bonds. Checks of the unsuccessful bidders will be returned promptly after being opened.

(E) The lowest net interest cost will be determined by deducting the total amount of any premium bid from the aggregate amount of interest upon the Series 1997 Bonds, computed from the first day of the month following the date of sale of the Bonds (even though the Bonds will bear interest only from the date of delivery) to final maturity.

(F) Bidders shall be advised that USDARD has entered into a Loan Resolution with the City pursuant to

which said USDARD reserves the right to withdraw its bid in the event bids are received from others on terms which USDARD considers reasonable.

(G) The City expects to deliver, and the successful bidder must be prepared to accept delivery of and pay for, the 1997 Bonds at the office of the City Clerk within forty-five (45) days after notice is given of the award. If said Series 1997 Bonds are not ready for delivery and payment within forty-five (45) days from the aforesaid date of sale, the successful bidder(s) shall be relieved of any liability to accept delivery of any of the 1997 Bonds. In the event USDARD is the successful bidder, it is anticipated that delivery of the Series 1997 Bonds will be made at the time the Construction Project is substantially complete and the City's failure to deliver said Series 1997 Bonds within forty-five (45) days from said date of sale shall not relieve USDARD of its obligation to accept said Series 1997 Bonds.

(H) The City reserves the right, in its discretion, to determine the best bid or bids, to waive any informality or irregularity and to reject any or all bids.

(I) The Series 1997 Bonds will be tendered within said forty-five (45) day period and the successful bidder will receive the approving Legal Opinion of Henry M. Reed III, Bond Counsel, Louisville, Kentucky, as to the legality and tax-exemption of said Series 1997 Bonds, without additional cost to the successful bidder.

(J) Bids may be considered by the Mayor and City Clerk and may be accepted, rejected, or modified without further action by the governing body of the City.

In the event that there is no bid or that all bids are rejected, the City may re-advertise the sale pursuant to this Ordinance.

Section XX. Authorization, Ratification and Confirmation of Approval and Execution of Various Documents. The City Council hereby authorizes, approves, ratifies and confirms the previous action of the officers of the City in approving and executing various documents related to the financing of the Construction Project, including the following:

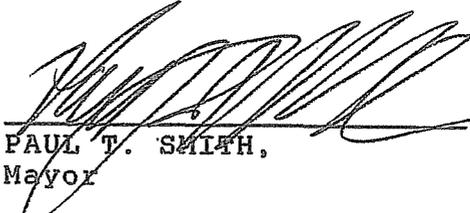
- (A) Legal Services Agreement with Bond Counsel.
- (B) Legal Services Agreement with Local Counsel.
- (C) Letter of Intent to Meet Conditions of USDARD Letter of Conditions (USDARD Form 442-46).
- (D) Loan Resolution (USDARD Form 442-47).
- (E) Agreement for Engineering Services with the Engineers.
- (F) Grant Agreement with USDARD and Grant Agreement with ARC.

Section XXI. Floodplain Construction Prohibited. From and after the adoption of this Ordinance no water service provided by the System shall be made available to any future customer wishing to build within a designated flood plain, including the area served by the Construction Project. Notwithstanding the foregoing, nothing herein shall be construed as a prohibition against the City providing water and sewer service to users of the System existing at the time this Ordinance is adopted.

Section XXII. Severability Clause. If any section, paragraph, clause or provision of this Ordinance shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Ordinance.

Section XXIII. Effective Date of Ordinance. This Ordinance shall be effective after passage, approval and publication of summary thereof as required by law.

Enacted this 20th day of March, 1997.

  
\_\_\_\_\_  
PAUL T. SMITH,  
Mayor

Attest:

  
\_\_\_\_\_  
VICKIE PRUITT, City Clerk