1978 audit

MILLER, MAYER, SULLIVAN & FRANK
CERTIFIED PUBLIC ACCOUNTANTS

The Honorable William Powers, Mayor
and City Council
City of Carlisle, Kentucky

We have examined the financial statements of the various funds of the City of Carlisle, Kentucky, for the year ended December 31, 1978 listed in the foregoing table of contents. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The City has not maintained a record of its general fixed assets or gas utility plant in service, and accordingly a statement of general fixed assets and gas utility plant in service required by generally accepted accounting principles is not included in the financial statements.

Because the gas utility plant in service has not been capitalized, no depreciation has been recorded on the gas utility plant in service and contributions in aid to construction have not been capitalized in current and prior years. The amounts by which the financial statements would change, if these items were included, by which the financial statements would change, if these items were included, cannot be determined (Note 1).

The accompanying statement of revenues and expenditures of the General Fund for the year 1978 does not include a comparison with a formal budget, as required by generally accepted accounting principles.

As described in Note 3, the General Fund had a deficit of $5,456 as of December 31, 1978; the Water, Sewer and Gas Utility Fund has had operating losses for the last four years; and the City has utilized funds of the Water, Sewer and Gas Utility Fund to provide the cash needs of the General Fund. Therefore, there is uncertainty concerning the City's ability to obtain adequate funds to meet its obligations and to continue operations at current levels in the future. The ultimate effect, which may be material, of these matters cannot presently be determined.

In the course of our examination we noted conditions which caused us to believe that there has been a lack of compliance with the water and sewer revenue bond ordinance dated July 1, 1969, as described in Notes 2 and 3.

In our opinion, because of the possible material effect of the uncertainties referred to in the preceding paragraphs and the material effect of the above omissions, which are at variance with generally accepted accounting principles, the aforementioned financial statements do not present fairly the financial position of the abovementioned funds of the City of Carlisle, Kentucky, at December 31, 1978 or the results of operations or changes in fund balance for the year then ended in conformity with generally accepted accounting principles.

The accompanying supplemental schedules are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data. This information, except for the insurance coverage presented on pages 17 and 18, has been subjected to the tests and other auditing procedures applied in the examination of the financial statements mentioned above and, in our opinion, is subject to the limitations as described in the preceding paragraphs.

Miller Mayer Sullivan & Frank

Lexington, Kentucky
March 31, 1979

CITY OF CARLISLE, KENTUCKY
BALANCE SHEET - ALL FUNDS
for the year ended December 31, 1978

	General Fund	% Revenue Sharing Fund	% Water, Sewer and Gas Utility Fund	%
ASSETS				
Cash (overdraft)	$12,028	$ -0-	$ (21,449)	
Investments	49,830	2,263	51,005	
Accounts receivable (Note 1)	10,267		34,492	
Accounts receivable, U.S. Treasury		8,664		
Due from other funds		8,900		
Utility Plant in service			783,268	
Water system (Note 1)			(161,819)	
Accumulated depreciation			921,600	
Sewer system (Note 1)			(299,197)	
Accumulated depreciation			1	
Gas system (Note 1)				
Total assets	25,125	19,827	1,307,901	
LIABILITIES				
Accounts payable	6,339		128,462	
Payroll taxes payable	8,254			
Utility security deposits			5,510	
Due to other funds	5,800		3,100	
Delinquent coupons payable			1,567	
Notes payable	10,000		717,000	
Bonds payable (Note 1)				
Total liabilities	30,393	-0-	855,639	
Reserves and fund balances:				
Reserve for property taxes	188		25,643	
Utility reserve			25,262	
Depreciation reserve				
Bond and interest redemption reserve			345	
			484,385	
Reserve for capital contributions			(83,433)	
fund balance (deficit)	(5,456)	19,827		
Total reserves and fund balance	(5,268)	19,827	452,262	
Total liabilities, reserves and fund balance	$25,125	$19,827	$1,307,901	

CITY OF CARLISLE, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES AND EXPENDITURES
for the year ended December 31, 1978

Revenues:		
Property taxes		$ 66,514
Refuse collection		32,435
Occupational licenses		15,782
Police court fines		5,596
City auto stickers		7,745
Franchise, Kentucky Utilities		9,303
Franchise, Cable T.V.		200
Interest		2,531
Rental		3,694
Sales, reimbursements and other		9,386
Total revenues		153,186
Expenditures:		
General government		50,373
Public safety:		
Police department		72,173
Fire department		8,678
Refuse collection		29,038
Public works, streets		24,991
Total expenditures		185,253
Excess expenditures over revenues before transfers		(32,067)
Transfers:		
Transfer from Revenue Sharing Fund		3,649
Transfer from Utility Funds		102,598
Excess revenues and transfers over expenditures		$ 74,180

CITY OF CARLISLE, KENTUCKY
GENERAL FUND
STATEMENT OF CHANGES IN FUND BALANCE
for the year ended December 31, 1978

Balance (deficit), beginning of year	$(79,636)
Excess revenues (expenditures)	74,180
Balance (deficit), end of year	$ (5,456)

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

This is the most recent audit of the City of Carlisle

CITY OF CARLISLE, KENTUCKY
WATER, SEWER AND GAS UTILITY FUND
STATEMENT OF CHANGES IN RESERVES AND FUND BALANCE
for the year ended December 31, 1978

	Utility Reserve	Depreciation Reserve	Bond and Interest Redemption Reserve	Reserve for Capital Contributions	Deficit	Total
Balance, December 31, 1977 as previously reported	$ 36,770	$38,382	$1,162	$ -0-	$(43,122)	$ 33,142
Adjustments (Note 1)				519,878		519,878
Balance, as restated	36,770	38,332	1,162	519,878	(43,122)	553,020
Net loss for year					(100,758)	(100,758)
Depreciation for the year				(35,493)	35,493	
Transfers, net	(11,127)	(12,970)	(817)		24,914	
Balance, December 31, 1978	$ 25,643	$25,362	$ 345	$484,385	$(83,473)	$452,262

CITY OF CARLISLE, KENTUCKY
REVENUE SHARING FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCE
for the year ended December 31, 1978

Revenues:	
U.S. entitlements	$ 33,770
Interest	483
Total revenues	34,253
Expenditures:	
Public safety	3,650
Transportation - bachoe	15,000
Transportation - paving	24,268
Parks and recreation	3,000
Library	-0-
Public works	10,850
Total expenditures	56,768
Excess revenues (expenditures)	(22,515)
Fund balance, beginning of year	42,342
Fund balance, end of year	$ 19,827

CITY OF CARLISLE, KENTUCKY
WATER, SEWER AND GAS UTILITY FUND
STATEMENT OF INCOME
for the year ended December 31, 1978

Operating income:	
Gas, water and sewer service	$ 676,455
Other income	9,794
Total operating income	686,249
Operating expenses:	
Gas purchased	429,590
Salaries	97,195
Supplies, meters and parts	40,287
Professional services	31,540
Maintenance and repairs	24,000
Electrical service	21,036
Insurance	12,907
Gas and oil	2,261
Utility billings	2,196
Postage	781
Telephone	529
Other expenses	7,683
Total operating expenses	670,005
Operating income before depreciation	16,244
Depreciation expense	(35,493)
Operating loss	(19,249)
Non-operating income (expense) and (transfers):	
Interest expense	(33,830)
Federal and state grants	25,026
Interest earned	278
Contributions, lines	29,615
Transfers to General Fund	(102,598)
Excess non-operating expense and transfers	(81,509)
Net loss	$(100,758)

CITY OF CARLISLE, KENTUCKY
WATER, SEWER AND GAS UTILITY FUND
STATEMENT OF CHANGES IN FINANCIAL POSITION
for the year ended December 31, 1978

Uses of working capital:		
For operations:		
Net income	$(100,758)	
Add depreciation which did not affect working capital	35,493	$ (65,265)
Revenue bonds retired	(32,000)	
Increase in fixed assets	(10,468)	(42,468)
Total uses of working capital		(107,733)
Decrease in working capital		(107,733)
Working capital, beginning of year		33,142
Working capital, end of year		$ (74,591)
The increases (decreases) in the components of working capital consist of:		
Current assets:		
Cash	$ 7,582	
Investments	(24,097)	
Accounts receivable	24,322	
Due from other funds	(76,438)	$ (68,631)
Current liabilities:		
Accounts payable	(64,794)	
Utility security deposits	(455)	
Due to other funds	26,300	
Delinquent coupons payable	(153)	(39,102)
Decrease in working capital		$(107,733)

CITY OF CARLISLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the year ended December 31, 1978

Accounting Policies

The City maintains its records on the cash basis; however, the financial statements have been prepared on the accrual basis of accounting from memorandum records. Water, sewer and gas service revenue is recognized when billed.

Expenditures in the Utility Fund for supplies are expensed when purchased and are not inventoried and reflected in the balance sheet of the funds.

Investments are stated at cost.

General fixed assets records have not been maintained.

As of January 1, 1978, the City adopted the generally accepted accounting policies of capitalizing water and sewer utility property and equipment, and charging depreciation thereon. The effect of these changes is to decrease net income for the year ended December 31, 1978 by $35,205 and to increase reserve for capital contributions by $484,385 as of December 31, 1978.

There are no records available in the gas utility property and equipment, therefore, these assets and related depreciation are not included in the accompanying financial statements.

Water and Sewer Bonded Debt Requirements

A water and sewer revenue bond ordinance, dated July 1, 1969, requires that certain reserves be accumulated and minimum balances be maintained as follows:

a. Flow of Revenues: Bond and Interest Redemption Fund of 1964 (Sinking Fund). Revenues shall first be used to pay into this fund each month, an amount sufficient to pay at least one-sixth of the next interest installment and at least one-twelfth of the amount of principal (if any) becoming due on the next succeeding January 1, on the bonds herein authorized, the Utility (Water, Sewer and Gas) Revenue Bonds, dated January 1, 1964, and January 1, 1967, and on any parity bonds as may be outstanding until all of the bonds are retired. In any event the deposits made into this fund shall be sufficient to pay all interest, due each January 1 and July 1, and all principal due January 1.

b. Utility Project Reserve Fund: (Within Sinking Fund). There shall be set aside monthly sums sufficient to accumulate within five years from the date of issuance of these bonds a reserve equal to the maximum annual principal and interest requirements on this issue of bonds, and on the Utility (Water, Sewer and Gas) Revenue Bonds, dated January 1, 1964, and January 1, 1967. If additional parity bonds are issued in the future, provisions shall be made for adjustment of the amounts to be deposited into this account so that within five years from their issuance, a reserve of one year's maximum requirements will be accumulated.

The balance of the reserve at December 31, 1978 was $25,643, which is not in compliance with bond ordinance agreements.

c. Operation and Maintenance Fund: Seventy percent of the remaining revenues shall next be used to pay into this fund the proper cost of operating, maintaining, and insuring the Utility System (Water, Sewer and Gas). Payments in excess of current operating costs need not be made into this account after accumulation of six months' normal requirements, but are then earmarked for Sinking Fund Reserve or for Depreciation Reserve until all required reserves are accumulated.

d. Depreciation Fund: Four hundred dollars ($400.00) per month minimum of the revenues shall next be set aside into this fund and shall be used to set up reasonable reserves for renewals, replacements, new construction and contingencies in the operation of the Utility System (Water, Sewer and Gas). Payments need not be made into this account after accumulation and maintenance of a $38,000 balance.

The balance of the Depreciation Fund at December 31, 1978 was $25,362 which is not in compliance with ordinance agreements.

e. Surplus Revenues: After all funds have been accumulated to the maximum requirements under a through d above, and there is a balance in the Revenue Fund in excess of three months' estimated future requirements, such excess may be used (1) to retire or redeem bonds in advance of maturity, (2) to make extensions and improvements to the combined systems, and (3) for any lawful purpose.

Balances at December 31, 1978 were for the abovementioned reserves and are included on the accompanying balance sheet.

The City has not maintained adequate balances in the Utility Project Reserve Fund (deficient by $41,680) and Depreciation Fund (deficient by $12,638) as described in paragraphs b and d above. Further, the City has not adhered to the requirements for distribution of surplus revenues as outlined in paragraph e above.

3. Uncertainties

The General Fund had a deficit of $5,456 as of December 31, 1978. The deficit is partially due to the lack of property tax revenues for 1977 (which are to be collected in 1979). However, the general fund has had (which are to be collected in 1979). However, the general fund has had expenditures in excess of revenues for each of the last four years (excluding transfers). There is uncertainty concerning the City's ability to continue operations at current levels in the future without obtaining additional sources of funds.

The Water, Sewer and Gas Utility Fund, has experienced net losses for each of the last four years. The continued operation of the utility project is dependent upon obtaining sufficient revenues to insure continuation of operations.

CITY OF CARLISLE, KENTUCKY
SUMMARY OF BONDS PAYABLE
December 31, 1978

The requirements for bonds and interest outstanding are as follows:

Year Payable January 1,	Principal	Interest	Total Requirements
1979	$ 34,000.00	$ 32,146.50	$ 66,146.50
1980	37,000.00	30,322.50	67,322.50
1981	37,000.00	29,046.50	66,046.50
1982	18,000.00	29,381.50	47,381.50
1983	19,000.00	27,669.00	46,669.00
1984	20,000.00	26,908.50	46,908.50
1985	21,000.00	26,109.00	47,109.00
1986	22,000.00	25,270.50	47,270.50
1987	23,000.00	24,381.50	47,381.50
1988	24,000.00	23,441.50	47,441.50
1989	25,000.00	22,441.50	47,441.50
1990	26,000.00	21,441.50	47,441.50
1991	27,000.00	20,381.50	47,381.50
1992	28,000.00	19,267.50	47,267.50
1993	29,000.00	18,099.00	47,099.00
1994	30,000.00	16,889.50	46,889.50
1995	32,000.00	15,618.50	47,618.50
1996	33,000.00	14,175.00	47,175.00
1997	30,000.00	12,600.00	42,600.00
1998	30,000.00	11,025.00	41,025.00
1999	30,000.00	9,450.00	39,450.00
2000	30,000.00	7,875.00	37,875.00
2001	40,000.00	6,037.50	46,037.50
2002	40,000.00	3,937.50	43,937.50
2003	40,000.00	1,837.50	41,837.50
2004	15,000.00	393.75	15,393.75
	$717,000.00	$475,167.25	$1,192,167.25

This summary schedule includes the principal and interest obligation for the City's Water, Sewer and Gas Utility Fund. The detail of the individual issues is included on pages 14, 15, and 16.

CITY OF CARLISLE, KENTUCKY
REDEMPTION FUND REQUIREMENTS
UTILITY REVENUE BONDS 2.75% - 4.10%
SERIES 1964

The requirements for bonds and interest outstanding are as follows:

Year Payable	Bond Numbers	Interest Rate	Requirements Principal	Requirements Interest
1979	153-172	3.80%	$ 16,000.00	$ 15,357.00
1980	173-189	3.80%	17,000.00	14,730.00
1981	190-206	3.80%	17,000.00	14,084.00
1982	207-224	3.80%	18,000.00	13,419.00
1983	225-243	3.90%	19,000.00	12,706.50
1984	244-263	3.90%	20,000.00	11,946.00
1985	264-284	3.90%	21,000.00	11,168.50
1986	285-306	4.00%	22,000.00	10,308.00
1987	307-329	4.00%	23,000.00	9,418.00
1988	330-353	4.00%	24,000.00	8,479.00
1989	354-378	4.00%	25,000.00	7,499.00
1990	379-404	4.00%	26,000.00	6,479.00
1991	405-431	4.00%	27,000.00	5,418.00
1992	432-459	4.10%	28,000.00	4,305.00
1993	460-488	4.10%	29,000.00	3,136.50
1994	489-518	4.10%	30,000.00	1,907.00
			32,000.00	656.00
			$394,000.00	$151,016.50

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This is the 1976-77 audit for the City of Carlisle

MILLER, MAYER, SULLIVAN & FRANK
CERTIFIED PUBLIC ACCOUNTANTS

The Honorable William Powers, Mayor
and City Council
City of Carlisle, Kentucky

We have examined the financial statements of the various funds of the City of Carlisle, Kentucky, for the years ended December 31, 1977 and 1976, listed in the foregoing table of contents. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The City has not maintained a record of its general fixed assets or utility plant in service, and accordingly a statement of general fixed assets and utility plant in service required by generally accepted accounting principles is not included in the financial statements.

Because the utility plant in service has not been capitalized, no depreciation has been recorded on utility plant in service and contributions in aid to construction have not been capitalized in current and prior years. The amounts by which the financial statements would change, if these items were included, cannot be determined (Note 1).

The accompanying statement of revenues and expenditures of the General Fund for the years 1977 and 1976 does not include a comparison with a formal budget, as required by generally accepted accounting principles.

As described in Note 3, the General Fund had a deficit of $79,636 as of December 31, 1977; the Water, Sewer and Gas Utility Fund has had operating losses for the last three years; and the City has utilized funds of the General Fund. Therefore, Gas Utility Fund to provide the cash needs of the General Fund. there is uncertainty concerning the City's ability to obtain adequate funds to meet its obligations and to continue operations at current levels in the future. The ultimate effect, which may be material, of these matters cannot presently be determined.

In the course of our examination we noted conditions which caused us to believe that there has been a lack of compliance with the water and sewer revenue bond ordinance dated July 1, 1969, as described in Notes 2 and 3.

In our opinion, because of the possible material effect of the uncertainties referred to in the preceding paragraphs and the material effect of the above omissions, which are at variance with generally accepted accounting principles, the aforementioned financial statements do not present fairly the financial position of the abovementioned funds of the City of Carlisle, Kentucky, at December 31, 1977 and 1976, or the results of operations or changes in fund balance for the years then ended in conformity with generally accepted accounting principles.

The accompanying supplemental schedules are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data. This information, except for the insurance coverage presented on pages 17 and 18, has been subjected to the tests and other auditing procedures applied in the examination of the financial statements mentioned above and, in our opinion, is subject to the limitations as described in the preceding paragraphs.

Miller Mayer Sullivan & Frank

Lexington, Kentucky
October 11, 1978

CITY OF CARLISLE, KENTUCKY
BALANCE SHEET - ALL FUNDS
for the years ended December 31, 1977 and 1976

	General Fund 1977	General Fund 1976	Revenue Sharing Fund 1977	Revenue Sharing Fund 1976	Water, Sewer and Gas Utility Fund 1977	Water, Sewer and Gas Utility Fund 1976
ASSETS						
Cash	$ 5,435	$ 5,001	$ -0-	$ 610	$(29,039)	$ 44,234
Investments			325	31,485	75,102	121,416
Accounts receivable (Note 1)	2,703	2,730			10,170	56,335
Property taxes receivable	200	2,524	8,368	7,090		
Receivable, U.S. Treasury			33,649	1,600	76,438	20,591
Due from other funds	-0-	7,700			749,000	781,000
Bonds to be provided (Note 1)						
Total assets	$ 8,338	$ 17,955	$42,342	$40,785	$881,679	$1,023,576
LIABILITIES						
Accounts payable	1,555	3,317			63,668	76,554
Payroll taxes payable	5,532	-0-			5,055	5,450
Utility security deposits					29,400	7,700
Due to other funds	80,687	22,191			1,414	1,231
Delinquent coupons payable					749,000	781,000
Bonds payable (Note 1)						
Total liabilities	87,774	25,508			848,537	871,935
Reserves and fund balances:						
Reserve for property taxes	200	200			36,770	83,252
Utility reserve					38,332	38,165
Depreciation reserve					1,162	29,571
Bond and interest redemption reserve			42,342	40,785	(43,172)	703
Fund balance (deficit)	(79,636)	(7,753)			33,142	151,641
Total reserves and fund balances	(79,436)	(7,553)	42,342	40,785	33,142	151,641
Total liabilities, reserves and fund balances	$ 8,338	$ 17,955	$42,342	$40,785	$881,679	$1,023,576

CITY OF CARLISLE, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES AND EXPENDITURES
for the years ended December 31, 1977 and 1976

	1977	1976
Revenues:		
Property taxes (Note 4)	$ -0-	$ 40,398
Refuse collection	32,395	20,012
Monthly rental	2,686	8,953
Occupational licenses	18,502	15,001
Police court fines	6,669	9,223
City auto stickers	8,115	8,082
Municipal aid, Commonwealth of Kentucky	8,534	-0-
Franchise, Kentucky Utilities	7,563	7,749
Parking meters	3,370	3,909
Interest	2,531	1,266
Rental	3,578	2,805
Sales, reimbursements and other	7,401	6,603
Total revenues	101,344	132,001
Expenditures:		
General government	40,232	37,279
Public safety:		
Police department	56,340	61,153
Fire department	9,573	9,094
Refuse collection	26,415	23,529
Public works, streets	40,667	24,232
Total expenditures	173,227	155,287
Excess expenditures over revenues	$ 71,883	$ 23,286

CITY OF CARLISLE, KENTUCKY
GENERAL FUND
STATEMENT OF CHANGES IN FUND BALANCE
for the years ended December 31, 1977 and 1976

	1977	1976
Balance (deficit), beginning of year	$ (7,753)	$ 15,533
Excess revenues (expenditures)	(71,883)	(23,286)
Balance (deficit), end of year	$(79,636)	$ (7,753)

CITY OF CARLISLE, KENTUCKY
REVENUE SHARING FUND
STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCE
for the years ended December 31, 1977 and 1976

	1977	1976
Revenues:		
U.S. entitlements	$ 29,851	$ 28,101
Interest	998	2,023
Total revenues	30,849	30,124
Expenditures:		
Public safety	2,585	5,077
Transportation - truck	-0-	5,775
Transportation - paving	23,649	19,487
Transportation -	-0-	1,228
Administrative	500	1,500
Library	2,558	-0-
Public works		
Total expenditures	29,292	33,067
Excess revenues (expenditures)	1,557	(2,943
Fund balance, beginning of year	40,785	43,728
Fund balance, end of year	$ 42,342	$ 40,785

CITY OF CARLISLE, KENTUCKY
WATER, SEWER AND GAS UTILITY FUND
STATEMENT OF REVENUE AND EXPENSE
for the years ended December 31, 1977 and 1976

	1977	1976
Operating revenue:		
Gas, water and sewer service	$613,866	$475,652
Other revenue	24,751	11,120
Total operating revenue	538,617	486,772
Operating expense:		
Gas purchased	390,932	317,103
Salaries	72,724	54,887
Supplies, meters and parts	52,090	43,086
Monthly rental	2,686	8,953
Electrical service	14,856	12,387
Maintenance and repairs	38,938	35,363
Professional services	17,343	14,651
Insurance	3,201	3,829
Utility billings	12,024	4,118
Gas and oil	2,093	1,620
Postage	1,243	1,696
Telephone	838	606
Other	11,942	7,049
Total operating expense	624,290	510,428
Operating income (loss)	(85,673)	(23,656)
Non-operating income(expense):		
Interest expense	(35,184)	(39,164)
Federal and state grants	11,017	8,129
Interest earned	3,241	3,200
Contributions, lines	20,000	-0-
Excess non-operating expense	(826)	(27,835)
Net loss	$(86,499)	$(51,491)

CITY OF CARLISLE, KENTUCKY
WATER, SEWER AND GAS UTILITY FUND
STATEMENT OF CHANGES IN RESERVES AND FUND BALANCE
for the years ended 1977 and 1976

	Utility Reserve	Depreciation Reserve	Bond and Interest Redemption Reserve	Fund Balance (A)	Total
Balance, December 31, 1975	$ 69,076	$38,165	$ 67,210	$ 77,681	$252,132
Excess expense				(51,491)	(51,491)
Transfers	14,176		11,311	(25,487)	
Bonds retired			(49,000)		(49,000)
Balance, December 31, 1976	83,252	38,165	29,521	703	151,641
Excess expense				(86,499)	(86,499)
Transfers	(46,482)	167	3,641	42,674	
Bonds retired			(32,000)		(32,000)
Balance, December 31, 1977	$ 36,770	$38,332	$ 1,162	$(43,122)	$ 33,142

(A) Consists of Utility Revenue and Operation and Maintenance accounts.

CITY OF CARLISLE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 1977 and 1976

1. Accounting Policies

The City maintains its records on the cash basis; however, the financial statements have been prepared on the accrual basis of accounting from memorandum records. Water, sewer and gas service revenue is recognized when billed.

Expenditures in the Utility fund for supplies are expensed when purchased and are not inventoried and reflected in the balance sheet of the funds.

Investments are stated at cost.

General fixed assets records have not been maintained.

Historical cost records have not been maintained on the utility plant in service (fixed assets) in the water, Sewer and Gas Utility fund. Therefore, the accompanying financial statements presented do not present fairly the financial position and results of operations for the fund do not conform to generally accepted accounting principles as outlined by the AICPA "Audits of State and Local Governments".

2. Water and Sewer Bonded Debt Requirements

A water and sewer revenue bond ordinance, dated July 1, 1969, requires that certain reserves be accumulated and minimum balances be maintained as follows:

A. Flow of Revenues: Bond and Interest Redemption Fund of 1964 (Sinking Fund). Revenues shall first be used to pay into this fund each month, an amount sufficient to pay at least one-sixth of the next interest installment and at least one-twelfth of the amount of principal (if any) becoming due on the next succeeding January 1, on the bonds herein authorized, the Utility (Water, Sewer and Gas) Revenue Bonds, dated January 1, 1964, and January 1, 1967, and on any parity bonds as may be outstanding until all of the bonds are retired. In any event the deposits made into this fund shall be sufficient to pay all interest, due each January 1 and July 1, and all principal due January 1.

B. Utility Project Reserve Fund: (Within Sinking Fund). There shall be set aside monthly sums sufficient to accumulate within five years from the date of issuance of these bonds a reserve equal to the maximum annual principal and interest requirements on this issue of bonds, and on the Utility (Water, Sewer and Gas) Revenue Bonds, dated January 1, 1964, and January 1, 1967. If additional parity bonds are issued in the future, provisions shall be made for adjustment of the amounts to be deposited into this account so that within five years from their issuance, a reserve of one year's maximum requirements will be accumulated.

The balance of the reserve at December 31, 1977; was $36,770, which is not in compliance with bond ordinance agreements.

C. Operation and Maintenance Fund: Seventy percent of the remaining revenues shall next be used to pay into this fund the proper cost of operating, maintaining, and insuring the Utility System (Water, Sewer and Gas). Payments in excess of current operating costs need not be made into this account after accumulation of six months' normal requirements, but are then earmarked for Sinking Fund Reserve or for Depreciation Reserve until all required reserves are accumulated.

D. Depreciation Fund: Four hundred dollars ($400.00) per month minimum of the revenues shall next be set aside into this fund and shall be used to set up reasonable reserves for renewals, replacements, new construction and contingencies in the operation of the Utility System (Water, Sewer and Gas). Payments need not be made into this account after accumulation and maintenance of a $38,000 balance.

The balance of the Depreciation Fund at December 31, 1977, was $38,332.

E. Surplus Revenues: After all funds have been accumulated to the maximum requirements under A through D above, and there is a balance in the Revenue Fund in excess of three months' estimated future requirements, such excess may be used (1) to retire or redeem bonds in advance of maturity, (2) to make extensions and improvements to the combined systems, and (3) for any lawful purpose.

Balances at December 31, 1977 were for the abovementioned reserves and are included on the accompanying balance sheet.

The City has not maintained an adequate balance in the Utility Project Reserve fund as described in paragraph B above. At December 31, 1977 a deficiency of $30,553 existed. Further, the City has not adhered to the requirements for distribution of surplus revenues as outlined in paragraph E above.

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