

CITY OF PROSPECT  
AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2014

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William A. Talley  
Jon D. Chesser  
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Kentucky Offices:  
Louisville  
Brandenburg  
Bardstown

**INDEPENDENT AUDITORS' REPORT**

Mayor and Members of the City Council  
City of Prospect  
Prospect, Kentucky

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities of City of Prospect, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City of Prospect, Kentucky, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 14 the 2013 financial statements have been restated to reflect a change in accounting principle.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 23 through 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Prospect, Kentucky's basic financial statements. The introductory section, combining and individual nonmajor 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 budgetary comparison information – special revenue fund, balance sheet – special revenue fund and statement of revenues, expenses, and changes in fund balances – special revenue fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information – special revenue fund, balance sheet – special revenue fund and statement of revenues, expenses, and changes in fund balances – special revenue fund are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2014, on our consideration of the City of Prospect, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Prospect, Kentucky's internal control over financial reporting and compliance.

*Richardson, Pennington & Skinner, PSC*

Louisville, Kentucky  
September 11, 2014

**CITY OF PROSPECT  
STATEMENT OF NET POSITION  
June 30, 2014**

	<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
Current assets:	
Cash	\$ 811,953
Certificates of deposit	1,036,575
Receivables:	
Property taxes	53,642
Other receivables	3,805
Prepaid insurance	35,446
Total current assets	1,941,421
Noncurrent assets:	
Restricted cash	439,092
Capital assets (Note 6):	
Land	805,642
Depreciable buildings, property, and equipment (net)	1,692,321
Total capital assets	2,497,963
Total noncurrent assets	2,937,055
<b>TOTAL ASSETS</b>	<b>\$ 4,878,476</b>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 25,757
Accrued wages	1,955
Accrued expenses	500
Clean up deposits	12,678
Total current liabilities	40,890
Noncurrent liabilities:	
Compensated absences	33,404
Total noncurrent liabilities	33,404
<b>TOTAL LIABILITIES</b>	74,294
<u>NET POSITION</u>	
Invested in capital assets	2,497,963
Restricted for:	
Street maintenance	439,092
Unrestricted	1,867,127
TOTAL NET POSITION	4,804,182
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 4,878,476</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF PROSPECT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>TOTAL</u>	<u>GENERAL GOVERNMENT</u>	<u>POLICE</u>	<u>SOLID WASTE</u>	<u>PUBLIC WORKS</u>
<b>EXPENSES:</b>					
Personnel	\$ 1,064,801	\$ 330,246	\$ 734,555		
Professional services	172,724	139,799	1,107		\$ 31,818
Maintenance and repairs	425,029	55,333			369,696
Travel and training	12,867	1,366	11,501		
Utilities	152,608	152,608			
Postage	6,824	6,824			
Rental and leasing	1,107	1,107			
Insurance	52,479	21,468	31,011		
Materials and supplies	75,002	8,669	61,580		4,753
Information and communication	49,929	49,929			
Solid waste	690,653			\$ 690,653	
Depreciation	196,879	41,703	46,299	5,214	103,663
Total expenses	<u>2,900,902</u>	<u>809,052</u>	<u>886,053</u>	<u>695,867</u>	<u>509,930</u>
<b>PROGRAM REVENUES:</b>					
Operating grants and contributions	40,738	11,918	28,820		
Capital grants and contributions	112,985	0-			112,985
Net program expense	<u>\$ 2,747,179</u>	<u>\$ 797,134</u>	<u>\$ 857,233</u>	<u>\$ 695,867</u>	<u>\$ 396,945</u>
<b>GENERAL REVENUES:</b>					
Taxes:					
Property	\$ 1,698,902				
Bank deposit	57,543				
Interest	812				
License fees	1,115,955				
Other fees	42,035				
Other licenses	19,242				
Contributions	9,535				
Miscellaneous	10,002				
Total general revenues	<u>2,954,026</u>				
Change in net position	<u>206,847</u>				
Net Position, Beginning of the Year as Previously Stated	4,839,544				
Prior Period Adjustment - Change in Accounting Principle	<u>(242,209)</u>				
Net Position, Beginning of the Year as Restated	<u>4,597,335</u>				
Net Position End of Year	<u>\$ 4,804,182</u>				

The notes to the financial statements are an integral part of this statement.

**CITY OF PROSPECT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2014**

	GOVERNMENTAL FUND TYPES		TOTALS
	GENERAL	SPECIAL REVENUE (SEE PG. 29)	
<b>ASSETS</b>			
Cash	\$ 811,953		\$ 811,953
Restricted cash		\$ 439,092	439,092
Certificates of deposit	1,036,575		1,036,575
Due from other governments	-0-		-0-
Receivables:			
License fees - Insurance	-0-		-0-
Property taxes	53,642		53,642
Other receivables	3,805		3,805
Prepaid expenses	35,446		35,446
<b>TOTAL ASSETS</b>	<b>\$ 1,941,421</b>	<b>\$ 439,092</b>	<b>\$ 2,380,513</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 25,757	\$ -0-	\$ 25,757
Accrued wages	1,955		1,955
Accrued expenses	500		500
Clean up deposits	12,678		12,678
<b>TOTAL LIABILITIES</b>	<b>40,890</b>	<b>-0-</b>	<b>40,890</b>
<b>Fund Balances:</b>			
<b>Fund balances:</b>			
Nonspendable	35,446		35,446
<b>Restricted for:</b>			
Street maintenance		439,092	439,092
Unassigned	1,865,085		1,865,085
<b>TOTAL FUND EQUITY</b>	<b>1,900,531</b>	<b>439,092</b>	<b>2,339,623</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<b>\$ 1,941,421</b>	<b>\$ 439,092</b>	<b>\$ 2,380,513</b>
Total Fund Equity (from above)			\$ 2,339,623
Amounts reported for governmental activities in the statement of net assets (Pg. 6) are different because (see Note 6):			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			2,497,963
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (See Note 1:E)			
Compensated absences		\$ 33,404	(33,404)
Net position of governmental activities (See Pg. 6 & 7)			<u>\$ 4,804,182</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF PROSPECT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014**

	GOVERNMENTAL FUND TYPES		TOTALS
	GENERAL	SPECIAL REVENUE (SEE PG. 30)	
TOTAL REVENUES	\$ 2,994,677	\$ 113,072	\$ 3,107,749
TOTAL EXPENDITURES	2,756,908	93,377	2,850,285
Excess of Revenues Over (Under) Expenditures	237,769	19,695	257,464
Other Financing Sources (Uses):			
Sale of assets	-0-	-0-	-0-
Total other financing sources and uses	-0-	-0-	-0-
Net change in fund balances	237,769	19,695	257,464
Beginning Fund Balance, as previously reported	1,904,971	419,397	2,324,368
Prior Period Adjustment	(242,209)	-0-	(242,209)
Beginning Fund Balance, as restated	1,662,762	419,397	2,082,159
Ending Fund Balance	\$ 1,900,531	\$ 439,092	\$ 2,339,623

Net change in fund balances-total governmental funds (from above) \$ 257,464

Amounts reported for governmental 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. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decreases by the amount of depreciation expense charged for the year.

Capital outlay	\$ 116,873	
Depreciation expense	196,879	
Difference		(80,006)

Compensated absences not payable from current year resources are not reported as expenditures of the current year. In the Statement of Activities, these costs represent expenses of the current year. 29,389

Change in net position of governmental activities (see Pg. 7) \$ 206,847

The notes to the financial statements are an integral part of this statement.

**CITY OF PROSPECT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	GOVERNMENTAL FUND TYPES		TOTALS
	GENERAL	SPECIAL REVENUE (SEE PG. 30)	
<b>REVENUES:</b>			
Property taxes	\$ 1,686,125		\$ 1,686,125
Utility tax	12,777		12,777
Insurance tax	1,115,955		1,115,955
Liquor license	9,802		9,802
Permits	7,012		7,012
Cable television franchise fee	35,023		35,023
Bank deposit tax	57,543		57,543
Business license	9,440		9,440
Community contributions	7,850		7,850
Library contributions	1,685		1,685
LGEA grant	227		227
KLEFPF grant	28,820		28,820
HB 413 (Base court revenue)	11,691		11,691
Interest income	725	\$ 87	812
Records request	970		970
Miscellaneous	6,902		6,902
City property use payments	2,130		2,130
Municipal road aid grants	-0-	112,985	112,985
<b>TOTAL REVENUES</b>	<b>\$ 2,994,677</b>	<b>\$ 113,072</b>	<b>\$ 3,107,749</b>
<b>EXPENDITURES</b>			
Current:			
General government	\$ 796,738		\$ 796,738
Police department	839,754		839,754
Public works	1,053,473	\$ 42,789	1,096,262
Community development		658	658
Total current	2,689,965	43,447	2,733,412
Capital outlay:			
Police department	57,103		57,103
Public works	9,840		9,840
Community development		49,930	49,930
Total capital outlay	66,943	49,930	116,873
<b>TOTAL EXPENDITURES</b>	<b>\$ 2,756,908</b>	<b>\$ 93,377</b>	<b>\$ 2,850,285</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF PROSPECT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

The City of Prospect is a third class city located in Jefferson County, Kentucky. It operates under a councilmanic form of government providing the following types of services: police, sanitation, street maintenance, library, recreation and community development.

The financial statements of the City of Prospect are prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, Financial Accounting Standards Board (FASB) pronouncements, and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements. FASB guidance issued subsequent to this date is not followed.

The following is a summary of the more significant policies:

A. Reporting Entity

The City's financial statements include the operations of all organizations for which the City Council exercises oversight. Responsibility is demonstrated by financial interdependence, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. Based on the aforementioned oversight criteria, the reporting entity has no component units and is confined solely to the operation of the City.

B. Basis of Presentation – Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and statement of activities. These statements report financial information for the City as a whole excluding fiduciary funds and component units that are fiduciary in nature. The focus of the government-wide financial statements is on the primary government. Individual funds are not displayed but the statements distinguish governmental activities that are supported by taxes and City general revenues.

The statement of activities outlines the direct expenses of each of the City's major functions and the program revenues generated by those programs. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program and (2) operating grants and contributions, and (3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City allocates certain indirect costs to be included in the program expense reported for individual functions and activities in the government-wide statements of activities.

**CITY OF PROSPECT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation – Government-Wide and Fund Financial Statements (Continued)**

The accounts of the City are organized into funds, each of which is considered to be a separate accounting entity. Major individual governmental funds are reported in separate columns. The major fund categories are:

Governmental Fund Types:

Governmental funds use the current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available resources during a given period. The following are the City's governmental fund types:

- 1.) General Fund – The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- 2.) Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to specific purposes. These funds make up the non major funds in the government-wide financial statements.

**C. Basis of Accounting**

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied, while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recorded when they become measurable and available to pay liabilities of the current period. Property taxes and insurance license fees are recognized as revenues in the year for which taxes have been levied provided they are collected within 60 days after the year-end. Licenses and permits, fines and forfeitures, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned. Revenues not considered available are recorded as deferred revenues. Expenditures are generally recorded when the liability is incurred.

**CITY OF PROSPECT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. Reconciliation of Government-Wide and Fund Financial Statements

For the governmental funds financial statements, the City considers all revenues susceptible to accrual and recognizes revenue if the accrual criteria are met. Specifically, property taxes, interest, special assessments, and other miscellaneous revenue are all considered to be susceptible to accrual and have been recognized as revenue in the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met.

The governmental fund balance sheet includes reconciliation between fund balances in the governmental funds and net position reported in the government-wide statements. These adjustments reflect the changes necessary to report the governmental fund balances on the economic resources measurement focus and accrual basis of accounting. In addition, capital assets, and long-term debt are added to the governmental funds to compile the long-term view of the governmental activities column.

A similar reconciliation is included on the statement of revenues, expenditures and changes in fund balances for the governmental funds. These adjustments reflect the transition from the modified accrual accounting for governmental funds to the accrual basis of accounting for the statement of activities. Capital outlay is replaced with depreciation expense.

E. Obligation for Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for compensated absences in the City's fund financial statements, but is reported in the government-wide financial statements. The City allows accumulation of vacation pay not to exceed 35 working days except upon completion of ten years employees are allowed to accumulate up to 45 days, which is payable on termination of employment or used by the employee. Sick pay can be accumulated for an unlimited amount of hours. If employees leave in good standing after five years, employees will be paid 10% of accumulated sick leave, and after ten years employees will be paid 25% of accumulated sick leave. Accumulated unpaid vacation is as follows:

**CITY OF PROSPECT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

E. Obligation for Compensated Absences (Continued)

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
	<u>Vacation</u>	<u>Vacation</u>
Police	\$ 21,335	\$ 42,580
Office	<u>12,069</u>	<u>20,212</u>
Total	<u>\$ 33,404</u>	<u>\$ 62,792</u>

F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - BUDGETARY PROCEDURES AND BUDGETARY ACCOUNTING**

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

Normally, prior to June 30, the Mayor submits to the City Council, a proposed operating budget for the General and Special Revenue Funds for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. Deficit budgets are contrary to state law. Public hearings are conducted to obtain citizen comments on the proposed budget and the budget is legally adopted through passage of an appropriation ordinance by City Council.

**CITY OF PROSPECT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 2 - BUDGETARY PROCEDURES AND BUDGETARY ACCOUNTING  
(CONTINUED)**

Actual expenditures and operating transfers out may not legally exceed “budget” appropriations at the individual fund level. Budgetary control, however, is maintained at the departmental level. Appropriations lapse at the close of the fiscal year to the extent that they have not been expended. The City prepares its budget on a basis of accounting that conforms to generally accepted accounting principles (GAAP). The budget (which was not amended) had a first reading on May 20, 2013 and passed on its second reading on June 17, 2013.

**NOTE 3 - CASH EQUIVALENTS, MONEY MARKET AND CERTIFICATES OF DEPOSIT**

The following components of the City’s cash, savings and investments at June 30, 2014 are collateralized with securities pledged by the banks. The City of Prospect considers highly liquid investments (including restricted assets) with an original maturity of one year or less when purchased to be cash equivalents. Restricted assets for cash deposited in bank accounts are reserved for street maintenance projects for the City.

Effective January 1, 1995, the General Assembly enacted KRS 66.480 which limits investments of public funds generally to obligations of the U.S. and certain of its agency and instrumentality, certificates of deposits or other interest-bearing accounts of FDIC insured banks or savings and loan institutions.

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash equivalents	\$ 811,953	\$ 439,092	\$ 1,251,045
Certificates of deposit	<u>1,036,575</u>	<u>-0-</u>	<u>1,036,575</u>
	<u>\$ 1,848,528</u>	<u>\$ 439,092</u>	<u>\$ 2,287,620</u>

**NOTE 4 - PROPERTY TAXES**

The City’s property tax is levied each fall on the assessed values as of January 1 for all real property located in the City. The City’s property tax rate is .2125 per hundred-dollar valuation.

**NOTE 5 - DUE FROM OTHER GOVERNMENTS AND FUNDS**

Due from other governments is -0- June 30, 2014 .

**CITY OF PROSPECT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

The City's capital assets and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with other capital assets. According to GASB No. 34, since revenues are less than \$10 million, the City of Prospect is only required to report infrastructure acquired after July 1, 2003. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. A summary of changes in general fixed assets follows:

<b>PRIMARY GOVERNMENT</b>	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2014</b>
<b>Nondepreciable assets:</b>				
Putney Pond	\$ 805,642	\$ -0-	\$ -0-	\$ 805,642
<b>Total nondepreciable assets</b>	<b>805,642</b>	<b>-0-</b>	<b>-0-</b>	<b>805,642</b>
<b>Depreciable assets:</b>				
Police equipment	\$ 940,970	\$ 57,103	\$ -0-	\$ 998,073
Office furniture & fixtures	205,778	-0-	-0-	205,778
Buildings	203,217	-0-	-0-	203,217
City Hall	309,889	-0-	-0-	309,889
Equipment	105,668	-0-	-0-	105,668
Sprinkler	100,044	-0-	-0-	100,044
Drainage system	111,188	-0-	-0-	111,188
Infrastructure	1,285,679	59,770	-0-	1,345,449
City Hall additions	1,054,322	-0-	-0-	1,054,322
<b>Total depreciable assets</b>	<b>4,316,755</b>	<b>116,873</b>	<b>-0-</b>	<b>4,433,628</b>
<b>Total capital assets</b>	<b>\$ 5,122,397</b>	<b>\$ 116,873</b>	<b>\$ -0-</b>	<b>\$ 5,239,270</b>
<b>Accumulated depreciation:</b>				
Police equipment	\$ (810,801)	\$ (46,299)	\$ -0-	\$ (857,100)
Office furniture & fixtures	(197,336)	(2,429)	-0-	(199,765)
Buildings	(113,661)	(9,319)	-0-	(122,980)
City Hall	(293,792)	(1,786)	-0-	(295,578)
Equipment	(46,435)	(10,154)	-0-	(56,589)
Sprinkler	(100,044)	-0-	-0-	(100,044)
Drainage system	(61,252)	(5,559)	-0-	(66,811)
Infrastructure	(323,645)	(68,652)	-0-	(392,297)
City Hall additions	(597,462)	(52,681)	-0-	(650,143)
<b>Total accumulated depreciation</b>	<b>(2,544,428)</b>	<b>(196,879)</b>	<b>-0-</b>	<b>(2,741,307)</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 2,577,969</b>	<b>\$ (80,006)</b>	<b>\$ -0-</b>	<b>\$ 2,497,963</b>

**CITY OF PROSPECT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION (CONTINUED)**

Depreciation expense is charged to functions as follows:

**Governmental Activities**

General Government	\$ 41,703
Police	46,299
Solid Waste	5,214
Public Works	<u>103,663</u>
	<u>\$ 196,879</u>

**NOTE 7 - CLEAN UP DEPOSITS FROM BUILDERS**

The City collects a deposit from each builder commencing a project within the City limits to cover the cost of cleanup in the event the builder fails to do so. If the builder cleans up the area satisfactorily, the deposit is refunded. As of June 30, 2014, the balance on deposit was \$12,678.

**NOTE 8 – EMPLOYEE RETIREMENT BENEFITS**

The Government contributes to the Commonwealth of Kentucky's County Employees' Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement System. CERS is a cost-sharing multi-employer public employee retirement system which covers substantially all regular full-time employees of each county and school board and any additional eligible local agencies electing to participate in the System. Beginning October 27, 1975, all eligible full-time employees of the Government were required to participate in CERS. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at (502) 696-8800.

Nonhazardous covered employees are required to contribute 5% of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6% of their salary to the plan. For the year ended June 30, 2014 and 2013, the Government's contribution rate for nonhazardous employees was 18.89% and 19.55%, respectively.

Hazardous covered employees are required to contribute 8% of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9% of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. For the year ended June 30, 2014 and 2013,

**CITY OF PROSPECT  
 NOTES TO FINANCIAL STATEMENTS - CONTINUED  
 FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 8 – EMPLOYEE RETIREMENT BENEFITS (CONTINUED)**

the Government’s contribution rate for hazardous employees was 35.70% and 37.60%, respectively.

The contribution requirements and the amounts contributed to CERS were \$181,042, \$187,960, and \$200,438, respectively for the years ended June 30, 2014, 2013 and 2012.

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

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

CERS also provides post-retirement health coverage as follows:

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

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

**NOTE 9 - RISK MANAGEMENT**

The City of Prospect is exposed to various risks and losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City currently carries property and general liability insurance through the Kentucky Municipal Risk Management Association. Workman’s Compensation insurance is carried through the Kentucky League of Cities. The City reports all of its risk management activities in its General Fund.

**CITY OF PROSPECT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 10 – OPERATING LEASE OBLIGATION**

The City entered into a five-year lease agreement with Xerox and Pitney Bowes. Remaining lease payments for the City of Prospect under these agreements are as follows:

For The Year Ended	<u>Xerox</u>	<u>Pitney Bowes</u>	<u>Total</u>
June 30, 2015	\$ 5,546	\$ 792	\$ 6,338
June 30, 2016	5,546	132	5,678
June 30, 2017	2,772	0	2,772
June 30, 2018	0	0	0
June 30, 2019	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL</b>	<b><u>\$ 13,864</u></b>	<b><u>\$ 924</u></b>	<b><u>\$ 14,780</u></b>

**NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following methods and assumptions were used by the City in estimating its fair value disclosures for financial instruments:

- Cash and cash equivalents and certificates of deposit: The carrying amounts reported in the statement of net position approximate fair values because of the short maturities of those instruments.
- Investments: The fair values of investments are based on quoted market prices for those or similar investments.

The estimated fair values of the City's financial instruments are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$ 1,251,045	\$ 1,251,045
Certificates of deposit	1,036,575	1,036,575

**CITY OF PROSPECT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 12 - FUND BALANCES**

The City of Prospect has implemented GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In the fund financial statements, governmental funds report the following classifications of fund balance:

- Nonspendable - includes amounts that cannot be spent because they are either not spendable in form or legally or contractually required to be maintained intact. All amounts reported as nonspendable at June 30, 2013 by the City are nonspendable in form. The City has not reported any amounts that are legally or contractually required to be maintained intact.
- Restricted - includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Committed - includes amounts that can only be used for specific purposes. Committed fund balances are reported pursuant to ordinances passed by the City Council, the City's highest level of decision making authority.
- Assigned - includes amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balances.
- Unassigned - includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. In the Special Revenue Fund, the unassigned classification is only used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

**NOTE 13 - MULTIEMPLOYER PENSION PLAN**

The City contributes to a multiemployer defined benefit pension plan for all employees through County Employee's Retirement System (CERS). It is a cost-sharing multi-employer public employee retirement system which covers substantially all regular full-time employees of each county and school board and any additional eligible local agencies electing to participate in the System. The risks of participating in this multiemployer plan differs from those of single-employer plans in the following respects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, then the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the government chooses to stop participating in some of its multiemployer plans, then it may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

**CITY OF PROSPECT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 13 - MULTIEMPLOYER PENSION PLAN (CONTINUED)**

The cities participation in this plan for the fiscal year ended June 30, 2014, is outlined in the following table. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2014 for the plan's year-end at June 30, 2014. The zone status is based on information that the City of Prospect received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreement to which the plans are subject. The pension plan protection zone status, FIP/RP status pending/implemented, and the expiration date of the collective-bargaining agreement are not applicable to the City of Prospect.

<u>Pension Fund</u>	<u>EIN/Pension Plan Number</u>	<u>Pension Protection Act Zone Status June 30, 2014</u>	<u>FIP/RP Status Pending/ Implemented</u>	<u>City Contributions June 30, 2014</u>	<u>Surcharge Imposed</u>	<u>Expiration Date of Collective- Bargaining Agreement</u>
County Employees Retirement System	61-1431278	Not applicable	Not applicable	\$ 181,042	No	Not applicable

**NOTE 14 – ACCOUNTING CHANGE**

During 2013, the City changed its method of accounting for license fees on insurance premiums. The City believes that the new method more accurately reflects periodic results of operations. As a result of this change, the beginning general fund balance was decreased by (\$242,209).

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF PROSPECT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-**  
**GENERAL FUND - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2014**

<u>REVENUES</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance - Over (Under)</u>
Property taxes	\$ 1,690,000	\$ 1,686,125	\$ (3,875)
Utility tax	8,150	12,777	4,627
Insurance tax	1,101,000	1,115,955	14,955
Liquor licenses	11,000	9,802	(1,198)
Permits	4,500	7,012	2,512
Cable television franchise fee	35,000	35,023	23
Bank deposit tax	55,000	57,543	2,543
Business licenses	8,700	9,440	740
Community contributions	10,000	7,850	(2,150)
Library contributions	2,400	1,685	(715)
LGEA grant	250	227	(23)
KLEFPF grant	37,000	28,820	(8,180)
Base court revenue	16,000	11,691	(4,309)
Matching fund grants	500	-0-	(500)
Interest income	1,600	725	(875)
Records request	4,500	970	(3,530)
Miscellaneous revenue	-0-	6,902	6,902
City property use payments	450	2,130	1,680
<b>TOTAL REVENUES</b>	<b>2,986,050</b>	<b>2,994,677</b>	<b>8,627</b>
<u>EXPENDITURES</u>			
<b>GENERAL GOVERNMENT</b>			
<b>PERSONNEL</b>			
Salaries - administrative	233,318	252,534	19,216
FICA	17,849	18,641	792
Overtime	1,500	653	(847)
Pensions	44,074	39,814	(4,260)
Health insurance	36,919	25,505	(11,414)
Workers comp insurance	18,000	13,464	(4,536)
Life insurance	1,278	3,009	1,731
Salaries - legislative & other admin	7,200	6,015	(1,185)
<b>TOTAL PERSONNEL</b>	<b>360,138</b>	<b>359,635</b>	<b>(503)</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF PROSPECT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-**  
**GENERAL FUND - BUDGET AND ACTUAL (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Over (Under)</u>
<b>PROFESSIONAL SERVICES</b>			
Legal - city attorney	\$ 42,000	\$ 41,764	\$ (236)
Engineering services	5,000	171	(4,829)
Surveyors/architects	500	-0-	(500)
Audit	6,200	6,800	600
Contract bookkeeping	17,000	22,729	5,729
Computer services	10,000	21,668	11,668
PVA assessment	39,000	39,084	84
Ordinance codification	2,500	-0-	(2,500)
Bank charges	50	33	(17)
Liens/lien releases	950	382	(568)
Transcription	6,000	7,168	1,168
TOTAL PROFESSIONAL SERVICES	<u>129,200</u>	<u>139,799</u>	<u>10,599</u>
<b>MAINTENANCE AND REPAIR</b>			
Office cleaning	4,000	4,550	550
Service contracts - office equipment	24,000	14,199	(9,801)
Pest control	400	400	-0-
Facilities & vehicle maintenance	18,000	36,184	18,184
TOTAL MAINTENANCE AND REPAIRS	<u>46,400</u>	<u>55,333</u>	<u>8,933</u>
<b>TRAVEL AND TRAINING</b>			
Lodging/meals	300	-0-	(300)
Mileage & parking	2,500	394	(2,106)
Registration fees	1,000	972	(28)
TOTAL TRAVEL AND TRAINING	<u>3,800</u>	<u>1,366</u>	<u>(2,434)</u>
<b>UTILITIES</b>			
LG&E/street lighting	120,000	131,507	11,507
Water	20,000	16,260	(3,740)
Telephone - local service & long distance	7,800	4,054	(3,746)
Telephone - cellular	900	787	(113)
TOTAL UTILITIES	<u>148,700</u>	<u>152,608</u>	<u>3,908</u>
<b>POSTAGE</b>			
Stamps - general office & police	1,850	2,408	558
Postage - tax bills	1,000	1,000	-0-
Postage - newsletter	4,700	3,416	(1,284)
Other bulk mailings	450	-0-	(450)
TOTAL POSTAGE	<u>8,000</u>	<u>6,824</u>	<u>(1,176)</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF PROSPECT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-**  
**GENERAL FUND - BUDGET AND ACTUAL (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	Budget	Actual	Variance - Over (Under)
<b>RENTAL AND LEASING</b>			
Postage meter leasing	\$ 1,100	\$ 792	\$ (308)
Self storage lease	315	315	-0-
TOTAL RENTAL AND LEASING	1,415	1,107	(308)
<b>INSURANCE</b>			
General liability	11,750	8,585	(3,165)
Public officials E & O	4,350	10,027	5,677
Employee bonds	2,500	1,919	(581)
Property/contents	6,400	937	(5,463)
TOTAL INSURANCE	25,000	21,468	(3,532)
<b>MATERIALS AND SUPPLIES</b>			
General office supplies	4,000	5,414	1,414
Plaques and signs	250	1,338	1,088
Other book purchases - outside contract	1,500	1,774	274
Reading center operations supplies	300	143	(157)
Computer services - library	300	-0-	(300)
Reading center special purchases	300	-0-	(300)
TOTAL MATERIALS AND SUPPLIES	6,650	8,669	2,019
<b>INFORMATION AND COMMUNICATION</b>			
Dues	3,000	3,464	464
Subscriptions	275	456	181
Printing minutes- newsletter paper	2,000	834	(1,166)
Legal advertising	3,500	1,856	(1,644)
Community celebrations	45,000	25,617	(19,383)
Bereavement/get well	300	662	362
Mayor's contingency account	5,000	5,142	142
Information & communication website	1,500	1,000	(500)
Reading center book & lease purchase	8,900	9,240	340
Reading center comp. license & maintenance	829	1,658	829
TOTAL INFORMATION AND COMMUNICATION	70,304	49,929	(20,375)
TOTAL GENERAL GOVERNMENT	799,607	796,738	(2,869)
<b>CAPITAL OUTLAY</b>			
Office equipment	1,000	-0-	(1,000)
Computer hardware/software	1,000	-0-	(1,000)
TOTAL CAPITAL OUTLAY	2,000	-0-	(2,000)
TOTAL GENERAL GOVERNMENT AND CAPITAL OUTLAY -GENERAL GOVERNMENT	801,607	796,738	(4,869)

The notes to the financial statements are an integral part of this statement.

**CITY OF PROSPECT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-**  
**GENERAL FUND - BUDGET AND ACTUAL (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	Budget	Actual	Variance - Over (Under)
<b>POLICE DEPARTMENT</b>			
<b>PERSONNEL SERVICES</b>			
Salaries	\$ 471,000	\$ 456,480	\$ (14,520)
Overtime	8,000	4,281	(3,719)
Pensions	147,290	141,228	(6,062)
Life insurance	1,821	832	(989)
Health insurance	60,737	45,516	(15,221)
FICA	36,028	34,683	(1,345)
Workers comp. insurance	30,000	28,209	(1,791)
KLEPPF pay	29,000	23,204	(5,796)
<b>TOTAL PERSONNEL SERVICES</b>	<b>783,876</b>	<b>734,555</b>	<b>(49,321)</b>
 <b>PROFESSIONAL SERVICES</b>			
Computer services	2,500	1,107	(1,393)
Legal expense - police	1,000	-0-	(1,000)
<b>TOTAL PROFESSIONAL SERVICES</b>	<b>3,500</b>	<b>1,107</b>	<b>(2,393)</b>
 <b>UNIFORMS, TRAVEL AND TRAINING</b>			
Equipment maintenance	4,800	5,135	335
Uniform allowance	5,400	4,841	(559)
Travel expenses	400	252	(148)
Per diem reimbursement	1,100	720	(380)
Tuition/class fees	500	399	(101)
Training materials and supplies	500	154	(346)
<b>TOTAL UNIFORMS, TRAVEL AND TRAINING</b>	<b>12,700</b>	<b>11,501</b>	<b>(1,199)</b>
 <b>POLICE INSURANCE</b>			
Police officer's liability	24,000	15,993	(8,007)
Vehicle and property coverage	18,000	15,018	(2,982)
<b>TOTAL POLICE INSURANCE</b>	<b>42,000</b>	<b>31,011</b>	<b>(10,989)</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF PROSPECT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-**  
**GENERAL FUND - BUDGET AND ACTUAL (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	Budget	Actual	Variance - Over (Under)
<b>MATERIALS AND SUPPLIES</b>			
Police supplies	\$ 1,600	\$ 668	\$ (932)
Office supplies - police	2,450	1,775	(675)
Facility maintenance - police	5,000	5,435	435
Police vehicle maintenance	19,000	8,995	(10,005)
Motor fuels	40,000	27,954	(12,046)
Community oriented policing materials	1,300	861	(439)
Telephone - local & long-distance - police	400	2,726	2,326
Telephone - cellular - police	4,000	2,757	(1,243)
Police equipment	13,000	10,409	(2,591)
TOTAL MATERIALS AND SUPPLIES	86,750	61,580	(25,170)
TOTAL POLICE DEPARTMENT	928,826	839,754	(89,072)
<b>CAPITAL OUTLAY</b>			
New police vehicles	64,000	57,103	(6,897)
TOTAL CAPITAL OUTLAY	64,000	57,103	(6,897)
TOTAL POLICE DEPARTMENT AND CAPITAL OUTLAY POLICE DEPART.	992,826	896,857	(95,969)
<b>PUBLIC WORKS</b>			
<b>SOLID WASTE</b>			
Garbage and recycling	686,532	690,653	4,121
TOTAL SOLID WASTE	686,532	690,653	4,121
<b>MAINTENANCE</b>			
Street maintenance & repair	9,000	1,189	(7,811)
Existing sign replace/repair	2,500	1,210	(1,290)
TOTAL MAINTENANCE	11,500	2,399	(9,101)

The notes to the financial statements are an integral part of this statement.

**CITY OF PROSPECT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-  
GENERAL FUND - BUDGET AND ACTUAL (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2014**

	Budget	Actual	Variance - Over (Under)
<b>PROFESSIONAL SERVICES</b>			
Arborist services	\$ 500	\$ 1,140	\$ 640
Parks & public lands	40,000	30,678	(9,322)
<b>TOTAL PROFESSIONAL SERVICES</b>	40,500	31,818	(8,682)
<b>CONTRACTUAL MAINTENANCE</b>			
Mowing/spraying/mulching	172,500	175,038	2,538
Public/street tree planting	10,000	1,570	(8,430)
Tree maintenance and stump removal	8,000	8,433	433
Grounds improvement	45,790	16,728	(29,062)
Snow removal	60,000	59,792	(208)
Sprinkler system - water/repair	4,000	7,813	3,813
Landscaping/planting	40,000	54,002	14,002
Street cleaning	5,500	5,227	(273)
<b>TOTAL CONTRACTUAL MAINTENANCE</b>	345,790	328,603	(17,187)
<b>TOTAL PUBLIC WORKS</b>	1,084,322	1,053,473	(30,849)
<b>CAPITAL OUTLAY</b>			
Paving	100,000	9,840	(90,160)
<b>TOTAL CAPITAL OUTLAY</b>	100,000	9,840	(90,160)
<b>TOTAL PUBLIC WORKS DEPARTMENT AND CAPITAL OUTLAY PUBLIC WORKS</b>	1,184,322	1,063,313	(121,009)
<b>TOTAL EXPENDITURES</b>	2,978,755	2,756,908	(221,847)
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	7,295	237,769	230,474
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of assets	-0-	-0-	-0-
Operating transfers in/out	-0-	-0-	-0-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	-0-	-0-	-0-
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	7,295	237,769	230,474
<b>FUND BALANCE, July 1, 2013, as restated</b>	1,662,762	1,662,762	-0-
<b>FUND BALANCE, JUNE 30, 2014</b>	\$ 1,670,057	\$ 1,900,531	\$ 230,474

The notes to the financial statements are an integral part of this statement.

FUND BALANCE, beginning of the year as previously reported	\$ 1,904,971
Prior-period adjustment-change in accounting principle	(242,209)
FUND BALANCE, beginning of the year as restated	\$ 1,662,762

**CITY OF PROSPECT  
BALANCE SHEET  
SPECIAL REVENUE FUND  
JUNE 30, 2014**

	Municipal Road Aid Fund
<b>ASSETS:</b>	
Cash	\$ 439,092
Total assets	\$ 439,092
<b>FUND EQUITY</b>	
Fund Equity:	
Designated for street repair	\$ 439,092
Total fund equity	439,092
Total liabilities and fund equity	\$ 439,092

The notes to the financial statements are an integral part of this statement.

**CITY OF PROSPECT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE - SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Municipal Road Aid Fund</u>
<b>REVENUES:</b>	
Interest income	\$ 87
Municipal road aid contribution	<u>112,985</u>
Total Revenues	113,072
<b>EXPENDITURES:</b>	
Bank charges	658
Infrastructure	49,930
Salt expense	4,095
Snow removal	<u>38,694</u>
Total Expenditures	<u>93,377</u>
Excess of revenues over (under) expenditures	19,695
Fund Balance, July 1, 2013	<u>419,397</u>
Fund Balance, June 30, 2014	<u><u>\$ 439,092</u></u>

The notes to the financial statements are an integral part of this statement.

William A. Talley  
Jon D. Chesser  
Bob E. Wientjes

Kentucky Offices:  
Louisville  
Brandenburg  
Bardstown

**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**

City Council  
City of Prospect, Kentucky  
Prospect, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Prospect, Kentucky, as and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Prospect, Kentucky's basic financial statements and have issued our report thereon dated September 11, 2014.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Richardson, Pennington & Skinner, PSC*

Louisville, Kentucky  
September 11, 2014

**CITY OF PROSPECT  
LIST OF COUNCIL MEMBERS  
JUNE 30, 2013**

Telephone Number:

(502) 228-1121

<u>NAME</u>	<u>POSITION</u>	<u>ADDRESS</u>	<u>TERM EXPIRES</u>
John Evans	Mayor	Prospect, KY 40059	December 31, 2014
Ann Simms	City Administrator	Prospect, KY 40059	
Frank Fulcher	Member	Prospect, KY 40059	December 31, 2014
Sandra Tucci	Member	Prospect, KY 40059	December 31, 2014
Bill Brab	Member	Prospect, KY 40059	December 31, 2014
Stuart Miles	Member	Prospect, KY 40059	December 31, 2014
Sandra Leonard	Member	Prospect, KY 40059	December 31, 2014
Rob Bowling	Member	Prospect, KY 40059	December 31, 2014

William A. Talley  
Jon D. Chesser  
Bob E. Wientjes

Kentucky Offices:  
Louisville  
Brandenburg  
Bardstown

**CITY OF PROSPECT  
AUDITORS' CERTIFICATION**

**JUNE 30, 2014**

We certify that as part of our examination of the basic financial statements we examined those local government economic assistance funds granted to the City of Prospect, and that those funds were expended for the purpose intended.

*Richardson, Pennington & Skinner, PSC*

Louisville, Kentucky  
September 11, 2014