

CITY OF GRAYSON, KENTUCKY

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2015

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	4-7
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements -	
Statement of Net Position.....	8
Statement of Activities.....	9
Fund Financial Statements -	
Balance Sheet - Governmental Funds.....	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	11
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	13
Statement of Net Position - Proprietary Fund	14
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund.....	15
Statement of Cash Flows - Proprietary Fund.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	17
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Special Revenue Fund-Grant	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Special Revenue Fund-Municipal Road Aid.....	19
Notes to Financial Statements.....	20-32
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of City's Proportionate Share of the Net Pension Liability	33
Schedule of Pension Contributions.....	34
Notes to Required Supplementary Information	35
INDEPENDENT AUDITOR'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 <i>GOVERNMENT AUDITING STANDARDS</i>.....	36-37

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
City Council
City of Grayson
Grayson, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Grayson, Kentucky (the "City") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Grayson, Kentucky as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for each major fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 11 to the financial statements, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 4 through 7 and the Schedules of Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions on pages 33 through 35 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 the appropriate operational, economic, and historical context. We have applied certain limited procedures, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency in management's responses to our inquiries, the basic financial statements, and 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 any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
January 25, 2016

**City of Grayson, Kentucky
Management's Discussion and Analysis
Year Ended June 30, 2015**

The discussion and analysis of the City of Grayson, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2015. This information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the Government exceeded its liabilities at the end of the fiscal year by \$17,986,371 (net position). Governmental activities' unrestricted net position was (\$136,640) and is used to meet the Government's ongoing obligations. Business-type activities' unrestricted net position was \$2,353,922.
- The Government's total net position increased by \$236,205. Net position of governmental activities increased by \$194,425 and net position of business-type activities increased by \$41,780.
- At June 30, 2015, the governmental activities had \$5,020,952 in assets and deferred outflows and \$2,908,472 in liabilities and deferred inflows. Business-type activities had \$22,310,555 in assets and \$6,436,664 in liabilities.
- The City implemented GASB 68 this year. The source of the pension liabilities with which the City's employees are covered is the Kentucky County Employee Retirement System. Under this system the City's share of the pension liabilities was \$853,000, as of June 30, 2014. The City does not believe these disclosures will have a major impact on their day to day operations or the financial health of the City.

OVERVIEW OF 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 comprise three components: 1) government-wide financial statements, 2) fund financial statements, 3) budgetary comparisons, and 4) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private - sector business.

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

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position 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 only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include public safety, public works, recreation, and community development. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8 - 9 of this report.

Fund 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 fund financial statements can be found on pages 10 - 19 of this report.

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 fund financial statements. The notes to the financial statements can be found on pages 20 - 32 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$17,986,371 at the close of the most recent fiscal year. The City's net position increased 1.3% percent which is reported as the change in net position in the statement of activities.

City of Grayson, Kentucky's Net Position

			(As restated)	
	Government-type Activities	Business-type Activities	Government-type Activities	Business-type Activities
	2015	2015	2014	2014
Current assets	\$ 874,021	\$ 3,643,768	\$ 835,866	\$ 3,486,585
Capital assets	4,026,040	18,666,787	4,189,006	19,069,465
Total assets	<u>4,900,061</u>	<u>22,310,555</u>	<u>5,024,872</u>	<u>22,556,050</u>
Deferred outflows	120,891	-	120,000	-
Current liabilities	259,205	656,156	345,870	808,564
Long-term liabilities	2,554,267	5,780,508	2,880,947	5,915,375
Total liabilities	<u>2,813,472</u>	<u>6,436,664</u>	<u>3,226,817</u>	<u>6,723,939</u>
Deferred inflows	95,000	-	-	-
Net position:				
Net investment in capital assets	2,149,510	12,532,751	2,143,882	12,775,249
Restricted	99,610	987,218	6,905	965,876
Unrestricted	(136,640)	2,353,922	(232,732)	2,090,986
Total net position	<u>\$ 2,112,480</u>	<u>\$ 15,873,891</u>	<u>\$ 1,918,055</u>	<u>\$ 15,832,111</u>

By far the largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets still outstanding. The City uses these capital assets to provide services to citizens and consumers; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate those liabilities.

City of Grayson, Kentucky's Changes in Net Position

	<u>Government- type Activities</u> 2015	<u>Business-type Activities</u> 2015	<u>Government- type Activities</u> 2014	<u>Business-type Activities</u> 2014
Revenues:				
Charges for services	\$ 2,634	\$ 5,231,582	\$ 2,565	\$ 5,291,469
Tax levies	1,780,127	-	1,782,806	-
Licenses, fees and permits	321,019	-	163,285	-
Franchise fees	18,294	-	18,191	-
Grants/contributions	630,556	92,333	270,352	59,136
Investment earnings	339	3,138	603	3,076
Miscellaneous	68,128	-	205,958	1,200
Total revenues	<u>2,821,097</u>	<u>5,327,053</u>	<u>2,443,760</u>	<u>5,354,881</u>
Expenses:				
General government	660,266	-	355,273	-
Fire	340,626	-	379,787	-
Police	999,063	-	1,003,233	-
Highways and streets	406,619	-	500,850	-
Parks and recreation	119,506	-	69,745	-
Emergency management	30,422	-	28,977	-
Debt service	70,170	-	86,209	-
Utilities	-	5,285,273	-	5,764,131
Total expenses	<u>2,626,672</u>	<u>5,285,273</u>	<u>2,424,074</u>	<u>5,764,131</u>
Change in net position	<u>194,425</u>	<u>41,780</u>	<u>19,686</u>	<u>(409,250)</u>
Net position, beginning of year, as restated	<u>1,918,055</u>	<u>15,832,111</u>	<u>1,898,369</u>	<u>16,241,361</u>
Net position, ending of year	<u>\$ 2,112,480</u>	<u>\$ 15,873,891</u>	<u>\$ 1,918,055</u>	<u>\$ 15,832,111</u>

Government-type activity. Government-type activity net position increased by \$194,425 or 10.1% primarily due an increase in alcohol revenues and occupational license fee revenue.

Business-type activity. Business-type activity net position increased by \$41,780 or .3%.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the Government's operations in more detail than the government-wide statements by providing information about the Government's most significant funds. Two types of funds are presented in the fund financial statements: governmental funds and proprietary funds.

Governmental funds. Most of the Government's basic services are reported in the governmental funds. These statements provide a short-term view of general government operations and how these services are financed as well as the balances left at year end that are available for future spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash.

Proprietary funds. The City's proprietary fund provides the same type of information found in government-wide financial statements, but in more detail.

Enterprise fund. The Utility Enterprise Fund accounts for operations in a manner similar to a private business enterprise. Operations are accounted for in such a manner as to show net income or loss and the funds are intended to be predominately self supported from user charges.

Capital Assets

The City's investment in capital assets for governmental and business-type activities as of June 30, 2015, amounts to \$22,692,827 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment. The increase in the City's investment in capital assets for the current year was 1.6% percent, before current depreciation.

Major capital asset events during the current fiscal year included water line extensions and the purchase of land.

Additional information on the City's capital assets can be found in Note (5) of the financial statements.

Debt Administration

At the end of the current fiscal year, the City had total debt outstanding of \$8,010,566 as compared to \$8,339,340 in the prior year. The City issued new debt in the amount of \$348,949 for water line extensions in the current year. Additional information on the City's long-term debt can be found in Note (6) of the financial statements.

Budget Comparisons

- General fund revenues were \$7,297 less than budgeted. General fund expenditures were \$7,361 more than budgeted.
- Special revenue fund - Municipal Road Aid revenues were \$10,952 less than budgeted. Expenditures were \$103,608 less than budgeted.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

In considering the City budget for the fiscal year 2016, the City expects no significant changes.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, customers, investors, and creditors, with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need any additional information, contact George Steele, Mayor or Cindy Stratton, City Clerk at 302 East Main St., Grayson, Kentucky 41143 or phone (606) 474-6651.

CITY OF GRAYSON, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 379,397	\$ 1,947,253	\$ 2,326,650
Accounts receivable:			
Unbilled receivables	-	199,824	199,824
Customers	-	350,853	350,853
Property taxes	260,053	-	260,053
Interest	-	126	126
Other	149,619	-	149,619
Allowance for doubtful accounts	(12,641)	(12,575)	(25,216)
Prepaid expenses	489	-	489
Inventory for supplies	-	171,069	171,069
Restricted assets -			
Cash and cash equivalents	97,104	987,218	1,084,322
Nondepreciable capital assets	1,000,116	978,489	1,978,605
Depreciable capital assets	5,822,077	35,613,073	41,435,150
Accumulated depreciation	(2,796,153)	(17,924,775)	(20,720,928)
Total assets	4,900,061	22,310,555	27,210,616
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension contributions	120,891	-	120,891
Total deferred outflows of resources	120,891	-	120,891
LIABILITIES			
Accounts payable	51,713	50,379	102,092
Accrued wages	25,853	52,096	77,949
Other accrued liabilities	6,376	8,573	14,949
Current portion of long-term debt	175,263	498,490	673,753
Accrued interest payable	-	46,618	46,618
Customer deposits	-	144,962	144,962
Net pension liability	853,000	-	853,000
Long-term debt, net of current portion	1,701,267	5,635,546	7,336,813
Total liabilities	2,813,472	6,436,664	9,250,136
DEFERRED INFLOWS OF RESOURCES			
Deferred pension investment earnings	95,000	-	95,000
Total deferred inflows of resources	95,000	-	95,000
NET POSITION			
Net investment in capital assets	2,149,510	12,532,751	14,682,261
Restricted	99,610	987,218	1,086,828
Unrestricted	(136,640)	2,353,922	2,217,282
Total net position	\$ 2,112,480	\$ 15,873,891	\$ 17,986,371

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

CITY OF GRAYSON, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 660,266	\$ -	\$ -	\$ -	\$ (660,266)	\$ -	\$ (660,266)
Fire	340,626	-	38,648	-	(301,978)	-	(301,978)
Police	999,063	2,634	468,369	-	(528,060)	-	(528,060)
Highways and streets	406,619	-	123,539	-	(283,080)	-	(283,080)
Parks and recreation	119,506	-	-	-	(119,506)	-	(119,506)
Emergency management	30,422	-	-	-	(30,422)	-	(30,422)
Interest expense	70,170	-	-	-	(70,170)	-	(70,170)
Total governmental activities	<u>2,626,672</u>	<u>2,634</u>	<u>630,556</u>	<u>-</u>	<u>(1,993,482)</u>	<u>-</u>	<u>(1,993,482)</u>
Business-Type Activities							
Utility fund	<u>5,285,273</u>	<u>5,231,582</u>	<u>-</u>	<u>92,333</u>	<u>-</u>	<u>38,642</u>	<u>38,642</u>
Total business-type activities	<u>5,285,273</u>	<u>5,231,582</u>	<u>-</u>	<u>92,333</u>	<u>-</u>	<u>38,642</u>	<u>38,642</u>
Total primary government	<u>\$ 7,911,945</u>	<u>\$ 5,234,216</u>	<u>\$ 630,556</u>	<u>\$ 92,333</u>	<u>\$ (1,993,482)</u>	<u>\$ 38,642</u>	<u>\$ (1,954,840)</u>
General Revenues:							
Payroll tax					\$ 912,404	\$ -	\$ 912,404
Property and other local taxes					867,723	-	867,723
Fines & forfeitures					14,656	-	14,656
Franchise fees					18,294	-	18,294
Licenses, fees and permits					321,019	-	321,019
Rent income					3,075	-	3,075
Interest income					339	3,138	3,477
Other revenues					50,397	-	50,397
Total general revenues					<u>2,187,907</u>	<u>3,138</u>	<u>2,191,045</u>
Change in net position					194,425	41,780	236,205
Net position, June 30, 2014, as restated					<u>1,918,055</u>	<u>15,832,111</u>	<u>17,750,166</u>
Net position, June 30, 2015					<u>\$ 2,112,480</u>	<u>\$ 15,873,891</u>	<u>\$ 17,986,371</u>

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

CITY OF GRAYSON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	General	Special Revenue Funds		Total Governmental Funds
		Grant	Municipal Road Aid	
Assets				
Cash	\$ 379,397	\$ 6,477	\$ 90,627	\$ 476,501
Taxes receivable	260,053	-	-	260,053
Grant receivable	-	-	2,506	2,506
Other receivables	147,113	-	-	147,113
Allowance for uncollectible taxes	(12,641)	-	-	(12,641)
Prepaid expense	489	-	-	489
Total assets	\$ 774,411	\$ 6,477	\$ 93,133	\$ 874,021
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 51,713	\$ -	\$ -	\$ 51,713
Accrued wages	25,853	-	-	25,853
Other accrued liabilities	6,376	-	-	6,376
Total liabilities	83,942	-	-	83,942
Fund Balances:				
Restricted	-	6,477	93,133	99,610
Non-spendable	489	-	-	489
Unassigned	689,980	-	-	689,980
Total fund balances	690,469	6,477	93,133	790,079
Total liabilities and fund balances	\$ 774,411	\$ 6,477	\$ 93,133	\$ 874,021

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

CITY OF GRAYSON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2015

Total fund balance - Governmental Funds		\$ 790,079
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets of \$6,822,193 net of accumulated depreciation of \$2,796,153 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		4,026,040
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred pension investment earnings	(95,000)	
Deferred pension contributions	<u>120,891</u>	25,891
Long-term liabilities, including net pension liability and bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		<u>(2,729,530)</u>
Net position, end of year - Governmental Activities		<u><u>\$ 2,112,480</u></u>

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

CITY OF GRAYSON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Special Revenue Funds			Total Governmental Funds
	General	Grant	Municipal Road Aid	
Revenues				
Taxes:				
Insurance	\$ 415,446	\$ -	\$ -	\$ 415,446
Mineral and coal	-	-	31,621	31,621
Motor vehicle	24,811	-	-	24,811
Payroll	912,404	-	-	912,404
Property	427,466	-	-	427,466
Fines & forfeitures	14,656	-	-	14,656
Franchise fees	18,294	-	-	18,294
Intergovernmental revenue:				
Base court	11,192	-	-	11,192
Grants	456,040	-	-	456,040
Alcohol license fees	231,381	-	-	231,381
Other license, fees, & permits	89,638	-	-	89,638
Municipal road aid	-	-	91,918	91,918
Police incentive	39,785	-	-	39,785
Interest income	287	3	49	339
Rental income	3,075	-	-	3,075
Other revenues	43,278	9,753	-	53,031
Total revenues	<u>2,687,753</u>	<u>9,756</u>	<u>123,588</u>	<u>2,821,097</u>
Expenditures				
General government	745,200	-	-	745,200
Fire	334,132	-	-	334,132
Police	1,097,082	9,707	-	1,106,789
Highways and streets	338,648	-	30,932	369,580
Parks and recreation	111,932	-	-	111,932
Emergency management	17,558	-	-	17,558
Cemetery	-	-	-	-
Total expenditures	<u>2,644,552</u>	<u>9,707</u>	<u>30,932</u>	<u>2,685,191</u>
Excess (deficiency) of revenues over (under) expenditures	<u>43,201</u>	<u>49</u>	<u>92,656</u>	<u>135,906</u>
Other Financing Sources (Uses)				
Loan proceeds	-	-	-	-
Transfers	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	43,201	49	92,656	135,906
Fund balance, beginning of year	<u>647,268</u>	<u>6,428</u>	<u>477</u>	<u>654,173</u>
Fund balance, end of year	<u>\$ 690,469</u>	<u>\$ 6,477</u>	<u>\$ 93,133</u>	<u>\$ 790,079</u>

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

**CITY OF GRAYSON, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Net change in fund balances - Governmental Funds	\$	135,906
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay expense in the current period.</p>		
		(162,966)
<p>Governmental funds report CERS contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.</p>		
CERS contributions	120,891	
Pension expense	<u>(68,000)</u>	52,891
<p>The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and interest consumes current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		<u>168,594</u>
Change in net position of Governmental Activities	\$	<u><u>194,425</u></u>

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

CITY OF GRAYSON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015

ASSETS	
Cash and cash equivalents	\$ 1,947,253
Accounts receivable:	
Unbilled receivables	199,824
Customers	350,853
Interest	126
Allowance for doubtful accounts	(12,575)
Inventory for supplies	171,069
Restricted assets -	
Cash and cash equivalents	987,218
Nondepreciable capital assets	978,489
Depreciable capital assets	35,613,073
Accumulated depreciation	<u>(17,924,775)</u>
 Total assets	 <u>22,310,555</u>
 LIABILITIES	
Accounts payable	50,379
Accrued wages	52,096
Other accrued liabilities	8,573
Current portion of long-term debt	498,490
Accrued interest payable	46,618
Customer deposits	144,962
Long-term debt, net of current portion	<u>5,635,546</u>
 Total liabilities	 <u>6,436,664</u>
 NET POSITION	
Net investment in capital assets	12,532,751
Restricted	987,218
Unrestricted	<u>2,353,922</u>
 Total net position	 <u><u>\$ 15,873,891</u></u>

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

CITY OF GRAYSON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015

OPERATING REVENUES	
Gas	\$ 1,584,739
Sewer	903,810
Water	2,131,514
Garbage	611,519
Total operating revenues	<u>5,231,582</u>
OPERATING EXPENSES	
Gas:	
Gas purchases	856,752
Salaries and benefits	177,582
Contractual services	32,732
Depreciation	95,964
Materials and supplies	60,024
Other operating expenses	99,915
	<u>1,322,969</u>
Sewer:	
Salaries and benefits	283,827
Contractual services	48,679
Depreciation	317,927
Materials and supplies	121,776
Other operating expenses	322,367
	<u>1,094,576</u>
Water:	
Salaries and benefits	659,917
Contractual services	140,565
Depreciation	452,604
Materials and supplies	397,125
Other operating expenses	435,850
	<u>2,086,061</u>
Garbage:	
Contract	601,196
Total operating expenses	<u>5,104,802</u>
OPERATING INCOME	<u>126,780</u>
NON-OPERATING REVENUES	
(EXPENSES)	
Interest income	3,138
Interest expense	(180,471)
Grant income	34,896
Total non-operating revenues (expenses)	<u>(142,437)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(15,657)
CAPITAL CONTRIBUTIONS	<u>57,437</u>
INCREASE IN NET POSITION	41,780
NET POSITION, JUNE 30, 2014	<u>15,832,111</u>
NET POSITION, JUNE 30, 2015	<u>\$ 15,873,891</u>

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

**CITY OF GRAYSON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 5,277,901
Cash payments to suppliers for goods and services	(3,241,518)
Cash payments to employees	(1,131,434)
Net cash provided by operating activities	<u>904,949</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(463,817)
Proceeds from issuance of long-term debt	348,949
Principal paid on long-term debt	(509,129)
Interest paid on long-term debt	(181,695)
Capital contributions	57,437
Capital grants received	34,896
Net cash used for capital and related financing activities	<u>(713,359)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>3,138</u>
Net cash provided by investing activities	<u>3,138</u>
 Net increase in cash and cash equivalents	 194,728
 Cash and cash equivalents, June 30, 2014	 <u>2,739,743</u>
 Cash and cash equivalents, June 30, 2015	 <u>\$ 2,934,471</u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ 126,780
Adjustments:	
Depreciation	866,495
Changes in assets and liabilities:	
Decrease in accounts receivable	46,319
Increase in inventory	(8,774)
Decrease in accounts payable	(115,763)
Decrease in accrued wages	(11,753)
Decrease in other accrued liabilities	(2,265)
Increase in customer deposits	3,910
Net cash provided by operating activities	<u>\$ 904,949</u>

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

CITY OF GRAYSON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Taxes:					
Property	\$ 427,200	\$ 1,354	\$ 428,554	\$ 452,277	\$ 23,723
License, fees, & permits	1,551,202	121,550	1,672,752	1,667,163	(5,589)
Intergovernmental revenues	160,852	309,154	470,006	468,369	(1,637)
Fines & forfeitures	10,955	756	11,711	14,656	2,945
Charges for services	3,597	347	3,944	2,634	(1,310)
Other revenues	13,725	55,710	69,435	44,006	(25,429)
Total revenues	2,167,531	488,871	2,656,402	2,649,105	(7,297)
Expenditures					
General government	381,063	356,272	737,335	745,200	(7,865)
Fire	328,662	(17,073)	311,589	301,791	9,798
Police	1,120,173	(19,842)	1,100,331	1,097,082	3,249
Highways and streets	315,734	(3,439)	312,295	338,648	(26,353)
Parks and recreation	87,000	38,742	125,742	111,932	13,810
Emergency management	21,999	(4,441)	17,558	17,558	-
Total expenditures	2,254,631	350,219	2,604,850	2,612,211	(7,361)
Excess (deficiency) of revenues over (under) expenditures	(87,100)	138,652	51,552	36,894	(14,658)
Other Financing Sources (Uses)					
Loan proceeds	-	-	-	-	-
Transfers	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	(87,100)	138,652	51,552	36,894	(14,658)
Fund balance, beginning of year	87,100	(87,100)	-	647,268	647,268
Fund balance, end of year	<u>\$ -</u>	<u>\$ 51,552</u>	<u>\$ 51,552</u>	<u>\$ 684,162</u>	<u>\$ 632,610</u>
Adjustments to Generally Accepted Accounting Principles -					
Firemen's fund grant revenues				38,648	
Firemen's fund expenditures				(32,341)	
Fund balance, end of year (GAAP basis)				<u>\$ 690,469</u>	

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

CITY OF GRAYSON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - GRANT
FOR THE YEAR ENDED JUNE 30, 2015

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Interest income	\$ -	\$ -	\$ -	\$ 3	\$ 3
Other revenues	-	-	-	9,753	9,753
Total revenues	-	-	-	9,756	9,756
Expenditures					
Police	-	-	-	9,707	(9,707)
Total expenditures	-	-	-	9,707	(9,707)
Net change in fund balance	-	-	-	49	49
Fund balance, beginning of year	-	-	-	6,428	6,428
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,477</u>	<u>\$ 6,477</u>

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

CITY OF GRAYSON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - MUNICIPAL ROAD AID
JUNE 30, 2015

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Taxes					
Mineral and coal	\$ 27,050	\$ 6,835	\$ 33,885	\$ 31,621	\$ (2,264)
Intergovernmental revenues					
Grants	-	-	-	-	-
Municipal road aid	95,600	5,055	100,655	91,918	(8,737)
Interest income	-	-	-	49	49
Other revenues	-	-	-	-	-
Total revenues	<u>122,650</u>	<u>11,890</u>	<u>134,540</u>	<u>123,588</u>	<u>(10,952)</u>
Expenditures					
Highways and streets	122,650	11,890	134,540	30,932	103,608
Total expenditures	<u>122,650</u>	<u>11,890</u>	<u>134,540</u>	<u>30,932</u>	<u>103,608</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,656</u>	<u>92,656</u>
Other financing sources (uses)					
Loan proceeds	-	-	-	-	-
Transfers	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,656</u>	<u>92,656</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>477</u>	<u>477</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,133</u>	<u>\$ 93,133</u>

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

focus and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major Governmental Funds:

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.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Grant Fund and Municipal Road Aid Funds are Special Revenue Funds that are major funds.

The City reports the following major Proprietary Fund:

Utility Fund - The Utility Fund is used to account for gas, water, wastewater (sewer) and garbage services for the City and surrounding communities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City Utility Fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's Enterprise Funds, are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budget and Budgetary Accounting

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

1. Prior to May 1, the City Clerk obtains estimates from the department heads in order to prepare the proposed budget.
2. Prior to June 30, the City Clerk submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The proposed budget

includes proposed operating and capital expenditures and the means of financing them.

3. Public hearings are conducted at council meetings in order to review the proposed budget and to obtain comments from taxpayers and other interested parties.
4. Prior to the first day beginning the fiscal year, the budget is legally adopted through the passage of an ordinance for the General Fund, all Special Revenue Funds, and all Enterprise Funds, and a separate budgetary report is prepared for utilization by the City, and for informational purposes for the general public.
5. The City Clerk is authorized to transfer budgeted amounts within departments of any fund; however, any revisions that alter the total expenditures of any department or fund must be approved by the City Council. Therefore, the level of control on budgetary items is maintained at the department level.
6. Budgets for the Special Revenue Funds are adopted on the modified accrual basis. Budgets for all Enterprise Funds are adopted on the accrual basis. Both methods are consistent with Generally Accepted Accounting Principles (GAAP). Budgeted amounts are as originally adopted, or as amended periodically by the City Council. Departmental revisions were not material in relation to the original appropriations which were amended. All appropriations lapse at the end of the fiscal year, even if encumbered.
7. Budgetary Basis of Accounting: The City's General Fund budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is that the firemen's fund is not budgeted in the General Fund, since those accounting records are maintained by the Fire Department and the activity added to the General Fund at year-end to include in the audit.

E. Deposits and Investments

Investments are stated at amortized cost which approximates fair value. Kentucky Revised Statute 66.480 permits the City to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial banks' certificates of deposit, savings and loan deposits, Commonwealth of Kentucky investment pool and the Kentucky League of Cities investment pool.

F. Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market.

G. Capital Assets and Depreciation

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated with the exception of land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Gas System	22 years
Water and Sewer Systems	40-50 years
Equipment & Vehicles	3-10 years
Buildings	40 years

The City is required by GASB 34 to prospectively report general infrastructure assets in the statement of net position. During the 2015 fiscal year, there were no additions considered to be infrastructure assets.

H. Encumbrances

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

I. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers.

J. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds."

K. Compensated Absences

The City's accrued liabilities for future compensated absences are recorded to the extent the future leaves (1) relate to rights attributable to employee services already rendered, (2) relate to rights that vest or accumulate, (3) where payment is probable, and (4) where amounts can be reasonably estimated. Amounts that normally would be paid with expendable available financial resources are recorded in the Governmental Fund financial statements. Amounts paid or payable within 60 days are deemed to be payable from expendable available financial resources. Liabilities for compensated absences are recorded in full in the Government-wide and Proprietary Fund financial statements.

L. Fund Balances

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance-amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance-amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance-amounts constrained to specific purposes by the City itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the City takes the action to remove or change the constraint;
- Assigned fund balance-amounts the City intends to use for a specific purpose (such as encumbrances); intent can be expressed by the City Council or by an official or body to which the City delegates the authority;
- Unassigned fund balance-amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

When committed, assigned and unassigned resources are available for use, it is the City's policy to use committed and assigned resources first, then unassigned resources as they are needed.

M. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Proprietary Funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

N. Allowance for Doubtful Accounts

The allowance for doubtful accounts is estimated using accounts receivable past due more than 60 days.

O. Bond Issuance Costs

Debt issuance costs are expensed in the period they are incurred.

P. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for uncollectible accounts and the useful lives used to depreciate capital assets. Actual results could differ from estimated amounts.

Q. Pension

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

R. Accounting Pronouncements

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which requires employers participating in a multiple-employer cost-sharing plan to report net pension liability on the entity-wide statements for their proportionate share of the liability. See Note (11) for the effect of this adoption on beginning net position.

(2) CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents at June 30, 2015 consisted of the following:

	Total	Unrestricted	Restricted
Petty cash	\$ 382	\$ 382	\$ -
Cash in banks	2,782,590	2,326,268	456,322
Certificates of deposit	628,000	-	628,000
	<u>\$ 3,410,972</u>	<u>\$ 2,326,650</u>	<u>\$ 1,084,322</u>

At June 30, 2015, the carrying amounts of the City's deposits were \$3,410,972 (cash in banks and certificates of deposits above) and the bank balances were \$3,540,368. Of the bank balances, \$989,736 was covered by the Deposit Insurance Fund and \$2,550,632 was collateralized with pledged securities held by the depositories in the City's name.

(3) PROPERTY TAX REVENUES

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the City. Real property, tangible and public utility property taxes are levied prior to December 31 of each year based upon the assessed value as of January 1. Per KRS 91.487, the lien date for assessed taxes is January 1 of each fiscal year. The City imposes penalties of 2% for January and 6% thereafter.

Real property and tangible property taxes are due and payable by December 31 of each year. Public utility taxes are due and payable within thirty days from the date the bills are mailed. Assessed values are established by State Law at 100% of fair value. Real property and tangible property taxes are recognized as revenue on the modified accrual basis. Public utility taxes are not accrued at June 30, since assessed amounts are not available until the subsequent fiscal year.

Motor vehicle property taxes are assessed as of January 1 of each year and are collected by the County Clerk and remitted to the City. These taxes are not accrued, as amounts are payable upon the birth dates of the owners of the vehicles.

The 2015 assessed value for real and tangible property was \$189,485,799. The tax rate adopted was \$.193 per \$100 valuation.

(4) RESTRICTED ASSETS

Sinking and Debt Service Reserve Funds for Bond and Note Retirement

“Bond and Note Sinking Funds” and “Debt Service Reserve Funds” are being maintained as required by various bond and note documents. Deposits into Bond and Note Sinking Funds are made monthly in order to accumulate funds for payment of bond and note principal and interest. A Debt Service Reserve Fund is required for the purpose of having monies available in order to prevent a default in the payment of the principal or interest. A Debt Service Replacement Reserve Fund in the amount of \$491,000 is being invested in various federally insured banks (See Note 2). In addition, sinking funds are maintained on Rural Development bonds in the amount of \$359,218 as required.

Reserve for Depreciation

The “Depreciation Fund” is being maintained as required by various bond and loan documents. These funds are required to be deposited into separate accounts for the purpose of maintaining the water, sewer and gas systems. The amount deposited in these accounts was \$137,000 at June 30, 2015.

(5) CAPITAL ASSETS

A summary of changes in the City’s capital assets is as follows:

<i>Governmental Activities</i>	June 30, 2014	Increases	Decreases	June 30, 2015
Capital Assets, Not Depreciated:				
Land	\$ 925,116	\$ 375,000	\$ 300,000	\$ 1,000,116
Capital Assets, Depreciated:				
City Hall	159,414	-	-	159,414
Leasehold improvements	26,979	-	-	26,979
Administrative office & equipment	67,673	11,529	-	79,202
Street equipment	932,352	14,000	-	946,352
Fire equipment & vehicles	1,541,322	52,124	-	1,593,446
Fire department buildings	1,586,614	-	-	1,586,614
Parks and recreation	108,788	-	-	108,788
Emergency management equipment	87,852	-	-	87,852
Police building	637,385	-	-	637,385
Police equipment & vehicles	527,469	68,576	-	596,045
Totals	6,600,964	521,229	300,000	6,822,193

Less: Accumulated Depreciation	<u>2,411,958</u>	<u>384,195</u>	<u>-</u>	<u>2,796,153</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 4,189,006</u>	<u>\$ 137,034</u>	<u>\$ 300,000</u>	<u>\$ 4,026,040</u>

Business-type Activities

Capital Assets, Not Depreciated:

Land	\$ 572,950	\$ -	\$ -	\$ 572,950
Construction in progress	56,590	348,949	-	405,539

Capital Assets, Depreciated:

Cooks Wastewater Plant	2,023,385	-	-	2,023,385
General Equipment and vehicles	4,593,188	-	-	4,593,188
Water System	15,471,146	67,057	-	15,538,203
Gas System	3,591,549	-	-	3,591,549
Sewer System	9,818,937	47,811	-	9,866,748

Totals	<u>36,127,745</u>	<u>463,817</u>	<u>-</u>	<u>36,591,562</u>
Less: Accumulated Depreciation	<u>17,058,280</u>	<u>866,495</u>	<u>-</u>	<u>17,924,775</u>

Business-type Activities

Capital Assets, Net	<u>\$ 19,069,465</u>	<u>\$ (402,678)</u>	<u>\$ -</u>	<u>\$ 18,666,787</u>
----------------------------	----------------------	---------------------	-------------	----------------------

Depreciation expense was allocated to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 12,449
Police	73,315
Fire	192,317
Street	85,314
Park	7,574
Emergency management	13,226
	<u>\$ 384,195</u>

Business-type activities:

Utilities	<u>\$ 866,495</u>
-----------	-------------------

(6) DEBT

The following is a summary of changes in long-term debt (including current portions) of the City for the year ended June 30, 2015:

<i>Governmental Activities</i>	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2015</u>
3.13% Kentucky League Of Cities note payable - Fire Station	\$ 1,135,069	\$ -	\$ 51,805	\$ 1,083,264
4.10% Capital Lease - Police station and Sallyport	511,177	-	64,028	447,149
2.88% Capital Lease - Tractor and bush hog	34,780	-	10,352	24,428
3.15% Capital Lease - Street Backhoe	50,948	-	6,698	44,250
3.25% Capital Lease - Street Truck	31,243	-	5,957	25,286
2.85% Capital Lease - New pumper truck	<u>281,907</u>	<u>-</u>	<u>29,754</u>	<u>252,153</u>
Total Governmental Activities	<u>\$ 2,045,124</u>	<u>\$ -</u>	<u>\$ 168,594</u>	<u>\$ 1,876,530</u>

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015
<u>Business-type Activities</u>				
Notes payable	\$ 4,188,216	\$ 348,949	\$ 467,629	\$ 4,069,536
Bonds payable	2,106,000	-	41,500	2,064,500
Total Business-type Activities	\$ 6,294,216	\$ 348,949	\$ 509,129	\$ 6,134,036

Governmental Activities

The annual requirements to amortize the City's Governmental Activities indebtedness as of June 30, 2015 (including interest payments) are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 175,263	\$ 65,381	\$ 240,644
2017	182,178	59,410	241,588
2018	180,593	53,456	234,049
2019	184,145	47,429	231,574
2020	184,784	40,991	225,775
2021-2025	607,862	129,183	737,045
2026-2029	361,705	32,715	394,420
	<u>\$ 1,876,530</u>	<u>\$ 428,565</u>	<u>\$ 2,305,095</u>

Conduit Debt Obligations

From time to time, the City has issued Industrial Revenue Bonds and capital lease obligations to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying loan agreements. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2015, there was one series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of approximately \$4.1 million.

As of June 30, 2015, there were two capital lease obligations outstanding, with an aggregate principal amount payable of approximately \$.4 million.

Business-Type Activities

The Utility Commission's notes payable at June 30, 2015 consisted of the following:

Kentucky Infrastructure Authority, payable in semi-annual installments of \$30,156, including interest of 1.7%, final payment due December 2025, collateralized by all the assets of the Commission's water system.	\$ 577,738
Kentucky Area Development District, payable in varying semi-annual installments, with interest at 2.5% to 5.4%, final payment due October 22, 2022, collateralized by the new utility building and water tower.	205,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program Series 2001H, payable in varying semi-annual installments, with interest at 2.25% to 4.375%, final payment due August 1, 2020, collateralized by all the assets of the Commission's water system.	190,000

Kentucky Infrastructure Authority, payable in semi-annual installments estimated at \$101,855, including interest of 1.8%, final payment due December 2022, collateralized by all the assets of the Commission's water system.	1,757,338
Kentucky Infrastructure Authority, payable in semi-annual installments, amount to be determined upon project completion, including interest of 1.0%, final payment due July 2032, collateralized by a pledge of utility revenues.	364,983
Kentucky Infrastructure Authority, payable in semi-annual installments of \$101,942, including interest of 1.8%, final payment due June 1, 2020, collateralized by all the assets of the Commission's wastewater system.	<u>974,477</u>
Total Utility Fund Notes Payable	<u>\$ 4,069,536</u>

The annual requirements to amortize all Proprietary Fund debt, excluding revenue bonds payable outstanding as of June 30, 2015, including interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 455,990	\$ 77,394	\$ 533,384
2017	462,677	67,835	530,512
2018	474,771	58,156	532,927
2019	481,992	48,095	530,087
2020	489,339	37,906	527,245
2021-2025	1,250,755	89,521	1,340,276
2026-2030	355,907	4,827	360,734
2031-2033	98,105	2,718	100,823
Totals	<u>\$ 4,069,536</u>	<u>\$ 386,452</u>	<u>\$ 4,455,988</u>

Bonds Payable included in long-term debt in the accompanying financial statements includes the following:

Revenue Bonds:	
\$450,000 Utilities Revenue Bonds, 1998A series, maturing through February 1, 2019, with interest at 4.5%	\$ 352,000
\$2,000,000 Utilities Revenue Bonds, 2001 series, maturing through February 1, 2042 with interest at 4.5%	<u>1,712,500</u>
Total Utility Fund Bonds Payable	<u>\$ 2,064,500</u>

Pledge of Utility Fund Revenues

Under the terms of the Ordinance authorizing the Series 1998 and the Ordinance authorizing the Series 1998A Bonds (the "1998A Ordinance"), the Series 1998 Bonds are payable from and secured by a first lien pledge of revenues and income derived from the ownership, operation, and use of services of the Utility's system.

Compliance with Bond Ordinances

The bond ordinances contain significant limitations and restrictions on annual debt reserve requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverage's. Funds held in the various reserves at June 30, 2015 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash and cash equivalents.

Sinking Fund Requirements

Sinking Fund requirements are equal to the debt service requirement. The annual requirements to amortize all bonds as of June 30, 2015, including interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 42,500	\$ 94,737	\$ 137,237
2017	45,500	92,870	138,370
2018	47,000	90,912	137,912
2019	48,500	88,865	137,365
2020	51,500	86,750	138,250
2021-2025	291,000	384,726	675,726
2026-2030	364,000	312,277	676,277
2031-2035	454,000	221,784	675,784
2036-2040	513,500	112,028	625,528
2041-2042	207,000	13,972	220,972
Totals	<u>\$ 2,064,500</u>	<u>\$ 1,498,921</u>	<u>\$ 3,563,421</u>

(7) RETIREMENT PLAN

County Employees Retirement System

Plan description: Substantially all full-time classified employees of the City participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Funding for CERS is provided by members who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 18.89% of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

At June 30, 2015, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2014. The City's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2014. At June 30 2014, the City's proportion was 0.026284%.

For the year ended June 30, 2015, the City recognized pension expense of \$68,000. At June 30, 2015, the City reported deferred outflows of resources for City contributions subsequent to the measurement date of \$120,891. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The City reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$95,000. These amounts will be recognized in pension expense as follows:

<u>Year</u>	
2016	\$ 19,000
2017	19,000
2018	19,000
2019	19,000
2020	19,000
	<u>\$ 95,000</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2014. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2005 – June 30, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement. The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30.0%	8.45%
International Equity	22.0%	8.85%
Emerging Market Equity	5.0%	10.50%
Private Equity	7.0%	11.25%
Real Estate	5.0%	7.00%
Core U.S. Fixed Income	10.0%	5.25%
High Yield Fixed Income	5.0%	7.25%
Non US Fixed Income	5.0%	5.5%
Commodities	5.0%	7.75%
TIPS	5.0%	5.00%
Cash	1.0%	3.25%
	<u>100.0%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

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

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate: The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 %, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 %) or 1-percentage-point higher (8.75 %) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current discount rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
City's proportionate share of the net pension liability	\$ 1,122,000	\$ 853,000	\$ 615,000

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan: At June 30, 2015, there were no payables to CERS.

457(b) Retirement Plan

The City of Grayson adopted a 457(b) retirement plan for the Utility Commission employees, as of July 1, 1999. Participation in the plan is on a voluntary basis with eligibility starting after one year of full time

employment. The City has no contract with the administrator of the plan specifying the time period for the vesting of matching funds, therefore, by default, upon participation all plan benefits are fully vested. The Commission contributes three percent of the employees' eligible salary, and the employees are required to match the three percent. Additional employee contributions are permissible up to ten percent of eligible salaries. A third party administrator maintains the plan assets and calculates benefits due. The Commission's contributions to the plan for the year ending June 30, 2015 were \$24,743.

(8) LEGAL CONTINGENCIES

The City is a defendant in various legal actions arising from normal business operations. The City's legal counsel believes these actions are without merit, adequately covered by insurance, or that the ultimate liability, if any, will not materially effect the City's financial position.

(9) RISK MANAGEMENT

Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

(10) ECONOMIC DEPENDENCE

Two of the City's taxpayers provided \$316,127 (35%) of the City's occupational license withholding tax. The total amount paid by these companies represents 11.8% of the General Fund revenues.

(11) CHANGE IN ACCOUNTING PRINCIPLE

Net position of governmental activities as of June 30, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

	<u>Governmental Activities</u>
Net Position as previously reported at June 30, 2014	\$ 2,798,055
Prior period adjustment implementation of GASB 68:	
Net pension liability (measurement date as of June 30, 2013)	(1,000,000)
Deferred outflows City contributions made during fiscal year 2014	<u>120,000</u>
Total prior period adjustment	<u>(880,000)</u>
Net position as restated, June 30, 2014	<u>\$ 1,918,055</u>

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF GRAYSON, KENTUCKY
SCHEDULE OF CITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015**

	Reporting Fiscal Year (Measurement Date)
	2015 (2014)
COUNTY EMPLOYEES RETIREMENT SYSTEM:	
City's proportion of the net pension liability	0.026%
City's proportionate share of the net pension liability	\$ 853,000
City's covered-employee payroll	\$ 635,257
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	134.276%
Plan fiduciary net position as a percentage of the total pension liability	66.800%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**CITY OF GRAYSON, KENTUCKY
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>2015</u>	<u>2014</u>
COUNTY EMPLOYEES RETIREMENT SYSTEM:		
Contractually required contribution	\$ 120,891	\$ 120,000
Contributions in relation to the contractually required contribution	<u>120,891</u>	<u>120,000</u>
Contribution deficiency (excess)	-	-
City's covered-employee payroll	\$ 684,160	\$ 635,257
City's pension contributions as a percentage of its covered-employee payroll	17.67%	18.89%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**CITY OF GRAYSON, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

(1) CHANGES OF ASSUMPTIONS

CERS

There were no changes of assumptions.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

CERS

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal years ended 2015 and 2016, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the contribution rates reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for CERS.



**Kelley Galloway
Smith Goolsby, PSC**
Certified Public Accountants and Advisors

1200 Corporate Court • P. O. Box 990 • Ashland, Kentucky 41102
• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590
• Web www.kgsgcpa.com Member of **PKF North America**

**INDEPENDENT AUDITOR'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
City Council
City of Grayson
Grayson, Kentucky

We have audited 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 the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Grayson (the "City") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Grayson's basic financial statements, and have issued our report thereon dated January 25, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City'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 the internal control over financial reporting 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 the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

This 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 City'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.

Kelley Dalloway Smith Goolsby, PSC

Ashland, Kentucky
January 25, 2016