

CITY OF WILLIAMSTOWN, KENTUCKY

June 30, 2016

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

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MADDOX & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

City of Williamstown, Kentucky
400 North Main Street
Williamstown, Kentucky 41097

To the Honorable Mayor
and Members of City Council

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 Williamstown, Kentucky (City) as of and for the year ended June 30, 2016, 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. 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.

Opinion

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 Williamstown, Kentucky, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison, listed in the table of contents, to supplement the basic financial statements. Although this information is not a part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 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 City's internal control over financial reporting and compliance.

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky

November 17, 2016

City of Williamstown, Kentucky
Statement of Net Position
June 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 470,819	\$ 1,839,360	\$ 2,310,179
Receivables:			
Taxes	148,735	0	148,735
Accounts	0	2,404,922	2,404,922
Intergovernmental	4,493	0	4,493
Due from other funds	99,281	1,267,342	1,366,623
Other current assets			-
Restricted cash	33,507	112,652	146,159
Capital assets, net of depreciation	3,359,465	29,168,576	32,528,041
Total assets	4,116,300	34,792,852	38,909,152
Deferred outflows of resources:			
Related to pensions	372,039	487,051	859,090
Total assets and deferred outflows of resources	4,488,339	35,279,903	39,768,242
Liabilities:			
Accounts payable	17,105	356,853	373,958
Payroll related liabilities	40,303	55,303	95,606
Compensated absences	29,354	66,801	96,155
Accrued interest payable			-
Customer deposits	0	208,836	208,836
Other current liabilities	8,285	18,264	26,549
Due to other funds	145,680	1,222,076	1,367,756
Net pension liability	1,654,252	2,262,917	3,917,169
Due within one year	7,825	1,162,063	1,169,888
Due in more than one year	619,324	18,866,211	19,485,535
Total liabilities	2,522,128	24,219,324	26,741,452
Deferred inflows of resources:			
Related to pensions	103,795	143,017	246,812
Total liabilities and deferred inflows of resources	2,625,923	24,362,341	26,988,264
Net position:			
Net investment in capital assets	2,732,316	9,140,302	11,872,618
Restricted	117,457	112,652	230,109
Unrestricted	(987,357)	1,664,608	677,251
Total net position	\$ 1,862,416	\$ 10,917,562	\$ 12,779,978

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 414,785	\$ 21,220	\$ 36,010	\$ 0	\$ (357,555)	\$ 0	\$ (357,555)
Police	669,818	0	28,075	0	(641,743)	0	(641,743)
Fire	215,024	0	4,121	0	(210,903)	0	(210,903)
Public works	462,689	0	77,135	0	(385,554)	0	(385,554)
Cemetery	0	28,664	0	0	28,664	0	28,664
Recreation	18,480	0	0	0	(18,480)	0	(18,480)
Sanitation	166,372	161,841	0	0	(4,531)	0	(4,531)
Depreciation - unallocated	260,154	0	0	0	(260,154)	0	(260,154)
Total governmental activities	2,207,322	211,725	145,341	0	(1,850,256)	0	(1,850,256)
Business-type activities:							
Utility	6,976,481	7,824,748	0	179,757	0	1,028,024	1,028,024
Sewer	1,610,426	1,743,486	0	0	0	133,060	133,060
Total business-type activities	8,586,907	9,568,234	0	179,757	0	1,161,084	1,161,084
Total primary government	\$ 10,794,229	\$ 9,779,959	\$ 145,341	\$ 179,757	(1,850,256)	1,161,084	(689,172)
General revenues:							
Property and other taxes					670,577	0	670,577
Insurance premium tax					322,341	0	322,341
Motor vehicle tax					76,171	0	76,171
TIF revenue					119,322	0	119,322
Other revenue					54,238	0	54,238
Transfers					719,000	(719,000)	0
Investment income					3,408	4,941	8,349
Total general revenues					1,965,057	(714,059)	1,250,998
Change in net position					114,801	447,025	561,826
Prior period adjustment					(439,611)	684,516	244,905
Net position - beginning					2,187,226	9,786,021	11,973,247
Net position - ending					\$ 1,862,416	\$ 10,917,562	\$ 12,779,978

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
 Balance Sheet
 Governmental Funds
 June 30, 2016

	General Fund	Total Governmental Funds
	<u> </u>	<u> </u>
Assets:		
Cash and cash equivalents	504,326	\$ 504,326
Receivables:		
Taxes	148,735	148,735
Intergovernmental	4,493	4,493
Due from other funds	99,280	99,280
Total assets	<u>\$ 756,834</u>	<u>\$ 756,834</u>
Liabilities:		
Accounts payable	\$ 17,105	\$ 17,105
Payroll liabilities	40,303	40,303
Other liabilities	8,284	8,284
Due to other funds	145,679	145,679
Total liabilities	<u>211,371</u>	<u>211,371</u>
Deferred inflows of resources:		
Unavailable revenue	<u>93,636</u>	<u>93,636</u>
Fund balances:		
Nonspendable	99,280	99,280
Restricted	122,317	122,317
Unassigned	230,230	230,230
Total fund balances	<u>451,827</u>	<u>451,827</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 756,834</u>	<u>\$ 756,834</u>

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
 Reconciliation of Total Governmental Fund Balances
 to Net Position of Governmental Activities
 June 30, 2016

Total governmental fund balances	\$ 451,827
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,359,465
Some assets are not currently available and are therefore not reported in the funds	93,635
Deferred outflows and inflows related to pensions are applicable to future periods and therefore are not reported in the funds	
Deferred outflows related to pensions	372,039
Deferred inflows related to pensions	(103,795)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Compensated absences	(29,354)
Long-term debt	(627,149)
Net pension liability	<u>(1,654,252)</u>
Net position of governmental activities	<u>\$ 1,862,416</u>

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	General Fund	Total Governmental Funds
Revenues		
Property taxes	\$ 649,334	\$ 649,334
Insurance premium taxes	322,341	322,341
Motor vehicle taxes	76,171	76,171
Licenses, permits, and fees	21,220	21,220
Investment income	3,409	3,409
Charges for services	161,841	161,841
Intergovernmental	107,481	107,481
Grants and contributions	40,201	40,201
TIF Revenue	119,322	119,322
Other revenue	82,903	82,903
	<u>1,584,223</u>	<u>1,584,223</u>
Total revenues		
Expenditures		
Current		
General government	457,459	457,459
Public safety - police	646,716	646,716
Public safety - fire	214,744	214,744
Public works	462,222	462,222
Sanitation	166,372	166,372
Recreation	18,480	18,480
Debt service	49,208	49,208
Capital outlay	752,941	752,941
	<u>2,768,142</u>	<u>2,768,142</u>
Total expenditures		
Deficiency of revenues over expenditures	<u>(1,183,919)</u>	<u>(1,183,919)</u>
Other financing sources (uses):		
Sale of assets	2,634	2,634
Proceeds of loans	611,880	611,880
Transfers in (payment in lieu of taxes)	719,000	719,000
Total other financing sources (uses)	<u>1,333,514</u>	<u>1,333,514</u>
Net change in fund balances	149,595	149,595
Priond period adjustment	3,201	3,201
Fund balances - beginning	<u>299,031</u>	<u>299,031</u>
Fund balances - ending	<u>\$ 451,827</u>	<u>\$ 451,827</u>

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the
 Statement of Activities
 For the Year Ended June 30, 2016

Net change in fund balances - total governmental funds	\$ 149,595
Amounts reported for governmental activities in the statement of activities are difference 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.	
Capital outlay	752,941
Depreciation expense	(260,154)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds	18,902
Sales of assets are reported as revenues in the funds but are treated but are not recorded in the statement of activities	(2,634)
Loan proceeds are reported as revenues in the funds but are recorded as long term liabilities in the statement of net position	(611,880)
Expenses reported in the statement of activities that do not require current financial resources are not reported as expenses in the funds	
Compensated absences	(4,149)
Principal payments	28,377
Governmental funds report pension contribution as expenditures. However, in the statement of activities, the cost of pension benefits earned is reported as pension expense	43,803
Change in net position of governmental activities	<u>\$ 114,801</u>

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
Statement of Net Position
Proprietary Funds
June 30, 2016

	Utility Fund	Sewer Fund	Total
Assets:			
Cash and cash equivalents	\$ 1,440,329	\$ 399,031	\$ 1,839,360
Customer receivables	2,168,592	236,330	2,404,922
Due from other funds	676,478	590,864	1,267,342
Restricted cash	112,652	0	112,652
Capital assets, net of depreciation	12,995,590	16,172,986	29,168,576
Total assets	17,393,641	17,399,211	34,792,852
Deferred outflows of resources:			
Related to pensions	382,243	104,808	487,051
Total assets and deferred outflows of resources	\$ 17,775,884	\$ 17,504,019	\$ 35,279,903
Liabilities:			
Accounts payable	\$ 355,958	\$ 895	\$ 356,853
Accrued payroll liabilities	44,068	11,235	55,303
Compensated absences	53,620	13,181	66,801
Customer deposits	208,836	0	208,836
Due to other funds	674,078	547,998	1,222,076
Other liabilities	16,579	1,685	18,264
Net pension liability	1,775,960	486,957	2,262,917
Long-term obligations			
Due within one year	450,279	711,784	1,162,063
Due in more than one year	6,456,829	12,409,382	18,866,211
Total liabilities	10,036,207	14,183,117	24,219,324
Deferred inflows of resources:			
Related to pensions	112,241	30,776	143,017
Total liabilities and deferred inflows of resources	10,148,448	14,213,893	24,362,341
Net position:			
Net investment in capital assets	6,088,482	3,051,820	9,140,302
Restricted	112,652	0	112,652
Unrestricted	1,426,302	238,306	1,664,608
Total net position	7,627,436	3,290,126	10,917,562
Total liabilities and net position	\$ 17,775,884	\$ 17,504,019	\$ 35,279,903

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2016

	Utility Fund				Sewer Fund Total	Total
	Electric System	Water System	Cable TV and Internet	Total		
OPERATING REVENUES						
Charges for services	\$ 4,257,999	\$ 1,797,440	\$ 1,615,165	\$ 7,670,604	\$ 1,675,486	\$ 9,346,090
Other revenue	154,144	0	0	154,144	68,000	222,144
TOTAL OPERATING REVENUES	4,412,143	1,797,440	1,615,165	7,824,748	1,743,486	9,568,234
OPERATING EXPENSES						
Personnel services						
Salaries and wages	243,222	413,105	327,067	983,394	269,691	1,253,085
Employee retirement	(6,652)	77,290	63,969	134,607	44,686	179,293
Medical insurance	46,808	117,627	61,410	225,845	64,096	289,941
Employers FICA	17,501	29,523	24,352	71,376	19,605	90,981
Workers compensation	4,301	10,773	6,981	22,055	7,288	29,343
Unemployment insurance	192	576	449	1,217	513	1,730
Total personnel services	305,372	648,894	484,228	1,438,494	405,879	1,844,373
Contractual services						
Utility purchases	2,714,205			2,714,205	0	2,714,205
Distribution		54,985		54,985	0	54,985
Repairs and maintenance	3,513	32,146	6,519	42,178	81,135	123,313
Utilities	45,475	117,947	50,625	214,047	197,965	412,012
Other contract services	59,042	38,705	55,963	153,710	61,147	214,857
Education and training	5,684	5,058	(543)	10,199	785	10,984
Lab tests		12,520		12,520	20,777	33,297
Communications and postage	7,182	6,552	10,057	23,791	8,143	31,934
Insurance	13,752	20,465	16,497	50,714	42,266	92,980
Advertising and printing		1,157		1,157	0	1,157
Professional fees	2,689	8,428	12,596	23,713	4,206	27,919
Royalties			577,474	577,474	0	577,474
Internet expenses			266,688	266,688	0	266,688
Vehicle expense	15,937	18,421	12,687	47,045	15,765	62,810
Total contractual services	2,867,479	316,384	1,008,563	4,192,426	432,189	4,624,615
Materials and supplies						
Equipment parts	4,391	4,155	7,197	15,743	3,480	19,223
Technical supplies	577		78,073	78,650	150	78,800
Uniforms	2,020	847	1,313	4,180	785	4,965
Chemicals and chlorine		146,717		146,717	16,617	163,334
Lab materials		3,036		3,036	959	3,995
Construction materials	38,742		16,099	54,841		54,841
Office supplies	8,026		5,377	13,403	0	13,403
Total materials and supplies	53,756	154,755	108,059	316,570	21,991	338,561
Miscellaneous						
Dues and subscriptions	1,310	1,473		2,783	23	2,806
Miscellaneous	3,861	6,821	9,173	19,855	5,652	25,507
Total miscellaneous	5,171	8,294	9,173	22,638	5,675	28,313
TOTAL OPERATING EXPENSES	3,231,778	1,128,327	1,610,023	5,970,128	865,734	6,835,862
OPERATING PROFIT BEFORE DEPRECIATION	1,180,365	669,113	5,142	1,854,620	877,752	2,732,372
Depreciation	541,894	130,567	207,138	879,599	580,890	1,460,489
OPERATING PROFIT	\$ 638,471	\$ 538,546	\$ (201,996)	975,021	296,862	1,271,883
NON-OPERATING REVENUE AND (EXPENSES)						
Interest Income				4,178	763	4,941
Grants and contributions				179,757	0	179,757
Interest expense				(126,754)	(163,802)	(290,556)
Transfers out				(719,000)		(719,000)
TOTAL NON-OPERATING REVENUE AND (EXPENSES)				(661,819)	(163,039)	(824,858)
Change in net position				313,202	133,823	447,025
Prior period adjustment				576,627	107,889	684,516
Net position - beginning				6,737,607	3,048,414	9,786,021
Net position - ending				\$ 7,627,436	\$ 3,290,126	\$ 10,917,562

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

Cash flows from operating activities	
Change in net assets	\$ 1,131,541
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Amortization and depreciation	1,460,489
Decrease in current and other assets	(1,578,096)
Decrease in current and other liabilities	<u>(219,294)</u>
Net cash provided by operating activities	<u>794,640</u>
Cash flows from capital financing activities	
Acquisition of capital assets	(1,568,854)
Proceeds from long term obligations	2,163,696
Principal payments on long term obligations	<u>(1,267,427)</u>
Net cash used by capital financing activities	<u>(672,585)</u>
Net increase in cash	122,055
Cash - beginning	<u>1,717,305</u>
Cash - ending	<u><u>\$ 1,839,360</u></u>
Supplemental disclosures of cash flow information:	
Cash paid during the year for interest expense	<u><u>\$ 290,556</u></u>

The accompanying notes are an integral part of these financial statements

City of Williamstown
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance
Fund balance - beginning	\$ 80,600	\$ 80,600	\$ 302,232	\$ 221,632
Revenues				
Taxes	991,700	991,700	1,047,846	56,146
Licenses and permits	12,700	12,700	21,220	8,520
Intergovernmental revenues	120,400	120,400	107,481	(12,919)
Charges for services	180,000	180,000	161,841	(18,159)
Other revenue	137,500	137,500	860,349	722,849
Total revenues	<u>1,442,300</u>	<u>1,442,300</u>	<u>2,198,737</u>	<u>756,437</u>
Total resources	<u>1,522,900</u>	<u>1,522,900</u>	<u>2,500,969</u>	<u>978,069</u>
Expenditures				
General government	453,900	453,900	457,459	(3,559)
Police	780,100	780,100	685,571	94,529
Fire	237,350	237,350	214,744	22,606
Streets and cemetery	472,400	472,400	462,222	10,178
Parks and recreation	11,650	11,650	18,480	(6,830)
Garbage and sanitation	180,000	180,000	166,372	13,628
Debt service	0	0	49,208	(49,208)
Capital outlay	192,800	192,800	752,941	(560,141)
Total expenditures	<u>2,328,200</u>	<u>2,328,200</u>	<u>2,806,997</u>	<u>(478,797)</u>
Deficiency of revenues over expenditures	<u>(805,300)</u>	<u>(805,300)</u>	<u>(306,028)</u>	
Other financing sources (uses)	<u>925,000</u>	<u>925,000</u>	<u>719,000</u>	
Budgetary fund balance - end of year	<u>\$ 119,700</u>	<u>\$ 119,700</u>	<u>\$ 412,972</u>	

The accompanying notes are an integral part of these financial statements

NOTE 1 – ACCOUNTING POLICIES

Kentucky Revised Statutes and Ordinances of the City Council of City of Williamstown, Kentucky (City) designate the purpose, function and restrictions of the various funds. The financial statements included herein consist of the General, Utility and Sewer Enterprise Funds.

The Reporting Entity

The City operates under a City Council government comprised of the Mayor and six council members. The financial statements of the City include all of the funds for which the Mayor and City Council are financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards was determined on the basis of the City's ability to significantly influence operations, select the governing authority, participate in fiscal management, and the scope of public services. The City has no component units or entities for which the government is considered to be financially accountable.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements – The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to determine legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds, if any, are presented in a single column.

Proprietary funds distinguish operating revenue 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 operation. The principal operating revenues of the City's proprietary funds are charges for services. Operating expenses for the proprietary funds include

personnel and other expenses related to water and sewer operations. All revenues not meeting these definitions are reported as nonoperating revenues and expenses.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and proprietary.

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or may not be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, deferred outflow, liabilities, and deferred inflows is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Kentucky.

Proprietary Funds – Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds – The enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Utility Fund – This fund accounts for the operations of providing utility services to customers and to maintain the local water systems.

Sewer Fund – This fund accounts for the operations of providing sewer services to customers and to maintain the sewer systems.

Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows and current liabilities and deferred inflows are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (e.g. revenues and other financing sources) and uses (e.g. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which governmental activities of the government –wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the financial statements for governmental funds.

Like the government-wide financial statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of these funds included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and deferred outflows, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty days of year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, and grants. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, for which the City must provide local resources to be used for a specified purpose, and expenditure requirements, for which the resources are provided to the City on a reimbursement basis.

On the modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: state-levied locally shared taxes.

Deferred Inflows of Resources and Deferred Outflows of Resources – A deferred inflow of resources is an acquisition of net position by the City that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the City that is applicable to a future operating period.

Taxes not received within the available period are recorded as deferred inflows in the governmental fund financial statements.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on the decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such

as depreciation, are not recognized in governmental funds.

Budgetary Data

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

- 1) In accordance with City code, prior to June 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) Public hearings are conducted to obtain taxpayer comment.
- 3) Prior to June 30, the budget is legally enacted through passage of an ordinance.
- 4) The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the City Council explaining any variance from the approved budget.
- 5) Appropriations continue in effect until a new budget is adopted.
- 6) The City Council may authorize supplemental appropriations during the year.

Expenditures may not legally exceed budgeted appropriations at the function level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the City Council.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date of ninety days or less.

Capital Assets

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. The City's infrastructure consists of sidewalks, streets, and water and sewer lines. Infrastructure acquired prior to the implementation of GASB Statement No. 34 has been reported. Capital assets utilized by the proprietary funds are reported in both 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 disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000 with the exception of computers and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value to the asset or materially extend an asset's life are not.

All reported capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund capital assets:

<u>Description</u>	<u>Estimated Lives</u>
Building and Building Improvements	10 – 40 Years
Infrastructure	15 – 25 Years
General Equipment	5 – 15 Years
Water System	5 – 50 Years
Electric System	5 – 30 Years
Cable T.V. System	5 – 30 Years
Sewer System	5 – 30 Years

Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and retirement incentives that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital lease obligations are recognized as a liability on the governmental fund financial statements when due.

Restricted Assets

Certain cash accounts have been classified as restricted assets to indicate that they have been earmarked for a specific use.

Interfund Balances

On the fund financial statements, unpaid amounts for interfund services are reported as “due from/to other funds”. These amounts are eliminated in the governmental and business-type activity columns of the statement of net position, except any net residual amounts due between governmental and business-type activities, which are presented as “internal balances”.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance) of City Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of City Council.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within restricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any unrestricted fund balance classifications could be used.

Use of Estimates

The preparation of financial statements in conformity GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component of “net investment in capital assets”, consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net position restricted for other purposes consists primarily of programs to enhance the security of persons and property.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year.

NOTE 2 – DEPOSITS

It is the policy of the City to invest public funds in a manner that will provide the highest investment with the maximum security of principal while meeting the daily cash flow demands of the City and conforming to all state statutes and city regulations governing the investments of public funds.

The City is authorized to invest in:

- 1) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.
- 2) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.
- 3) Obligations of any corporation of the United States government.
- 4) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by the Kentucky Revised Statutes.

Custodial Credit Risk – Deposits. For deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. The City maintains deposits with financial institutions insured by the FDIC. As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2016 all of the City's deposits are insured by the FDIC.

For purposes of the cash flows statement, cash includes cash in checking accounts and short-term deposits with an initial maturity of ninety days or less. Restricted cash held in escrow for the purpose of debt service is not included in cash for this statement.

NOTE 3 – PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible property located in the City. Property taxes attached as an enforceable lien on property as of January 1, 2015. Taxes were levied on August 1, 2015, and were due and payable at that time. All unpaid taxes levied in August become delinquent January 1 of the following year.

NOTE 4 – INTERFUND TRANSACTIONS

Interfund transfers for the fiscal year ended June 30, 2016, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Utility Fund	General Fund	\$719,000

NOTE 5 – RECEIVABLES

Receivables at June 30, 2016, consisted of taxes, intergovernmental, and accounts are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account.

The City begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for doubtful accounts based on the City's collection history, the financial stability and recent payment history of the customer, and other pertinent factors.

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NOTE 6 – PROPERTY AND EQUIPMENT

Capital Asset activity for the fiscal year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities				
Land	\$ 537,390	\$ 0	\$ 0	\$ 537,390
Street improvements	920,180	0	0	920,180
Buildings and improvements	2,242,858	0	0	2,242,858
Infrastructure	0	695,317	0	695,317
Furniture and fixtures	44,287	0	0	44,287
General equipment	1,413,431	54,990	(2,634)	1,471,055
Total capital assets	<u>5,158,146</u>	<u>750,307</u>	<u>(2,634)</u>	<u>5,911,087</u>
Less accumulated depreciation				
Street improvements	383,794	43,664	0	427,458
Buildings and improvements	761,724	62,381	0	824,105
Infrastructure	0	13,906	0	13,906
Furniture and fixtures	41,372	694	0	42,066
General equipment	1,101,944	139,509	(2,634)	1,244,087
Total accumulated depreciation	<u>2,288,834</u>	<u>260,154</u>	<u>(2,634)</u>	<u>2,551,622</u>
Net governmental capital assets	<u>\$ 2,869,312</u>	<u>\$ 490,153</u>	<u>\$ 0</u>	<u>\$ 3,359,465</u>
Business-Type Activities				
Construction in progress	\$ 1,041,998	\$ 0	\$ 0	\$ 1,041,998
Water system	17,562,719	1,063,643	0	18,626,362
Electric system	4,709,746	294,048	0	5,003,794
Cable TV system	4,062,708	82,140	0	4,144,848
Sewer system	25,080,939	129,023	0	25,209,962
Total capital assets	<u>52,458,110</u>	<u>1,568,854</u>	<u>0</u>	<u>54,026,964</u>
Less accumulated depreciation				
Water system	10,692,442	541,894	0	11,234,336
Electric system	3,122,177	130,567	0	3,252,744
Cable TV system	1,916,185	207,138	0	2,123,323
Sewer system	7,667,095	580,890	0	8,247,985
Total accumulated depreciation	<u>23,397,899</u>	<u>1,460,489</u>	<u>0</u>	<u>24,858,388</u>
Net business-type capital assets	<u>\$ 29,060,211</u>	<u>\$ 108,365</u>	<u>\$ 0</u>	<u>\$ 29,168,576</u>

Most depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated". Prior to 1980, the City of Williamstown did not maintain a record of general fixed assets and proprietary fund fixed assets. The City conducted an inventory of its property, plant and equipment to determine costs or estimated costs by reviewing contracts, engineering reports, minutes of City Council meetings and actual disbursement records to the extent practical in the circumstances.

NOTE 7 – LONG-TERM OBLIGATIONS

A schedule of changes in long-term obligations of the City during the current year is as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Amount Due Within One Year
Governmental Activities					
TIF Bond	\$ 0	\$ 611,880	\$ 0	\$ 611,880	\$ 0
Police cruiser - capital lease obl	22,352	0	7,083	15,269	7,444
Police cruiser - capital lease obl	21,294	0	21,294	0	0
Total governmental activities	\$ 43,646	\$ 611,880	\$ 28,377	\$ 627,149	\$ 7,444
Business-Type Activities					
Series 2012 Bonds	\$ 1,365,000	\$ 0	\$ 140,000	\$ 1,225,000	\$ 145,000
KIA Loan A08-09	13,825,885	0	704,720	13,121,165	711,784
KIA Loan F11-02	1,640,853	0	76,564	1,564,289	78,102
KIA Loan F13-013	1,426,376	1,553,696	155,370	2,824,702	0
KLC Waterline Replacement	247,820	0	19,950	227,870	22,608
KLC Cable Upgrade	486,020	0	47,452	438,568	48,970
Bank of Kentucky	140,051	0	35,117	104,934	36,103
Forcht Bank	0	610,000	88,254	521,746	119,496
Total business-type activities	\$ 19,132,005	\$ 2,163,696	\$ 1,267,427	\$ 20,028,274	\$ 1,162,063

Capital Lease Obligations

Annual principal and interest payments of \$22,572. Fixed rate of 3.40%. Due FY 2016.

Annual principal and interest payments of \$8,223. Due FY 2018.

Utility System Revenue Refunding Bonds, Series 2004

Annual principal and semi-annual interest payments. Variable rates from 2.0% to 5.0%. Due June 1, 2024.

KIA Loan A08-09

Semiannual principal and interest payments of \$420,610. Fixed rate of 1.0%. Due June 1, 2033.

KIA Loan F11-02

Semiannual principal and interest payments at completion of loan. Amortized over 20 years at 1.0% interest.

KLC Waterline Replacement

Monthly principal and interest payments of \$2,218. Variable rates from 2.43% to 3.31%. Due February 1, 2025.

KLC Cable Upgrade

Monthly principal and interest payments of \$62,013. Fixed rate of 3.15%. Due FY 2024.

Bank of Kentucky

Monthly principal and interest payments of \$3,214. Fixed rate of 2.75%. Due April 20, 2019.

Future minimum principal and interest payments are as follows:

Governmental Activities

	TIF Bond		Capital lease obligation		Total
	Principal	Interest	Principal	Interest	
2017	\$ 0	\$ 0	\$ 7,444	\$ 779	\$ 8,223
2018	0	0	7,825	399	8,224
2019	0	0	0	0	0
2020	0	0	0	0	0
2021	0	0	0	0	0
2022 - 2026	0	0	0	0	0
2027 - 2031	0	0	0	0	0
2032 - 2036	611,880	0	0	0	611,880
	<u>\$ 611,880</u>	<u>\$ 0</u>	<u>\$ 15,269</u>	<u>\$ 1,178</u>	<u>\$ 628,327</u>

Business-Type Activities

	Series 2012 Bonds		KIA Loan A08-09	
	Principal	Interest	Principal	Interest
2017	\$ 145,000	\$ 22,500	\$ 711,784	\$ 129,437
2018	150,000	19,800	718,919	122,301
2019	150,000	16,600	726,126	115,094
2020	150,000	14,343	733,405	107,814
2021	160,000	12,375	740,758	100,462
2022 - 2026	470,000	10,031	3,816,683	389,418
2027 - 2031	0	0	4,011,869	194,232
2032 - 2036	0	0	1,661,621	20,822
	<u>\$ 1,225,000</u>	<u>\$ 95,649</u>	<u>\$ 13,121,165</u>	<u>\$ 1,179,580</u>

Business-Type Activities

	KIA Loan F11-02		KIA Loan F13-013	
	Principal	Interest	Principal	Interest
2017	\$ 78,101	\$ 34,760	\$ 0	\$ 0
2018	79,671	32,993	0	0
2019	80,872	31,592	0	0
2020	82,906	29,354	0	0
2021	84,573	27,477	0	0
2022 - 2026	449,055	107,921	0	0
2027 - 2031	496,036	66,074	0	0
2032 - 2036	213,075	4,096	2,824,702	0
	<u>\$ 1,564,289</u>	<u>\$ 334,267</u>	<u>\$ 2,824,702</u>	<u>\$ 0</u>

Business-Type Activities				
	KLC Waterline Replacement		Bank of Kentucky	
	Principal	Interest	Principal	Interest
2017	\$ 22,608	\$ 3,876	\$ 36,103	\$ 2,465
2018	23,436	3,470	37,123	1,445
2019	24,305	3,041	31,722	406
2020	25,194	2,601	0	0
2021	26,136	2,131	0	0
2022 - 2026	106,191	3,600	0	0
2027 - 2031	0	0	0	0
2032 - 2036	0	0	0	0
	<u>\$ 227,870</u>	<u>\$ 18,719</u>	<u>\$ 104,948</u>	<u>\$ 4,316</u>

Business-Type Activities					
	KLC Cable Upgrade		Forcht Bank		Total
	Principal	Interest	Principal	Interest	
2017	\$ 48,970	\$ 13,043	\$ 119,496	\$ 7,894	\$ 1,376,037
2018	50,537	11,476	121,531	5,859	1,378,561
2019	52,155	9,858	123,601	3,789	1,369,161
2020	53,824	8,189	125,706	1,684	1,335,020
2021	55,546	6,467	31,412	88	1,247,425
2022 - 2026	177,536	8,504	0	0	5,538,939
2027 - 2031	0	0	0	0	4,768,211
2032 - 2036	0	0	0	0	4,724,316
	<u>\$ 438,568</u>	<u>\$ 57,537</u>	<u>\$ 521,746</u>	<u>\$ 19,314</u>	<u>\$ 21,737,670</u>

NOTE 8 – RETIREMENT PLANS

The City's eligible employees are covered by the County Employees Retirement System.

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions—Required contributions by the employee are based on the tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the City as its proportionate share of the net pension liability that was associated with the City were as follows:

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

City's proportionate share of the CERS net pension liability	\$ 3,917,169
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The City's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the City's proportion was .068576% percent.

For the year ended June 30, 2016, the City recognized pension expense of \$334,357 related to CERS. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 46,669	\$ 0
Changes of assumptions	379,821	0
Net difference between projected and actual earnings on pension plan investments	32,288	0
Changes in proportion and differences between City contributions and proportionate share of contributions	0	246,812
City contributions subsequent to the measurement date	400,312	0
	\$ 859,090	\$ 246,812

\$400,312 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	42,393
2018	42,393
2019	42,393
2020	42,393
2021	42,393

Actuarial assumptions—The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS
Inflation	3.25%
Projected salary increases	
Investment returns, net of investment expense & inflation	4.00%
	7.50%

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. 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.

Discount rate—For CERS, 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 employees 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 investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the City, calculated using the discount rates selected by each pension system, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (I calculated the amounts in this schedule:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.50%	7.50%	8.50%
City's proportionate share of net pension liability	\$ 3,394,880	\$ 3,917,169	\$ 4,439,458

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of CERS.

NOTE 9 – CONTINGENCIES

Grants

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



MADDOX & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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*

Honorable Mayor
Members of the City Council
City of Williamstown, 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, each major fund, and the aggregate remaining fund information of the City of Williamstown, Kentucky (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated November 17, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.³

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's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Maddox & Associates CPAs Inc.

November 17, 2016

Fort Thomas, Kentucky