

CITY OF WILLIAMSTOWN, KENTUCKY

June 30, 2017

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, 2017, 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, 2017, 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 February 27, 2018 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

February 27, 2018

City of Williamstown, Kentucky
Statement of Net Position
June 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 248,039	\$ 560,544	\$ 808,583
Receivables:			
Taxes	105,721	0	105,721
Accounts	0	2,441,872	2,441,872
Intergovernmental	2,327	0	2,327
Due from other funds	102,925	1,347,687	1,450,612
Other current assets			-
Restricted cash	39,711	112,652	152,363
Capital assets, net of depreciation	3,453,405	35,213,494	38,666,899
Total assets	3,952,128	39,676,249	43,628,377
Deferred outflows of resources:			
Related to pensions	476,444	707,921	1,184,365
Total assets and deferred outflows of resources	4,428,572	40,384,170	44,812,742
Liabilities:			
Accounts payable	59,914	355,958	415,872
Payroll related liabilities	7,447	60,168	67,615
Compensated absences	26,980	55,163	82,143
Customer deposits		227,777	227,777
Other current liabilities	3,448	19,548	22,996
Due to other funds	145,680	1,349,773	1,495,453
Net pension liability	1,731,410	2,716,201	4,447,611
Due within one year	35,325	1,174,010	1,209,335
Due in more than one year	571,880	22,908,817	23,480,697
Total liabilities	2,582,084	28,867,415	31,449,499
Deferred inflows of resources:			
Related to pensions	142,798	86,941	229,739
Total liabilities and deferred inflows of resources	2,724,882	28,954,356	31,679,238
Net position:			
Net investment in capital assets	2,846,200	11,130,667	13,976,867
Restricted	117,457	112,652	230,109
Unrestricted	(1,259,967)	186,495	(1,073,472)
Total net position	\$ 1,703,690	\$ 11,429,814	\$ 13,133,504

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
Statement of Activities
For the Year Ended June 30, 2017

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	\$ 778,681	\$ 0	\$ 79,841	\$ 0	\$ (698,840)	\$ 0	\$ (698,840)
Police	783,784	0	37,862	0	(745,922)	0	(745,922)
Fire	243,583	0	5,244	0	(238,339)	0	(238,339)
Public works	499,355	0	76,398	0	(422,957)	0	(422,957)
Cemetery	0	41,590	0	0	41,590	0	41,590
Recreation	15,291	0	0	0	(15,291)	0	(15,291)
Sanitation	162,107	166,793	0	0	4,686	0	4,686
Depreciation - unallocated	144,125	0	0	0	(144,125)	0	(144,125)
Total governmental activities	2,626,926	208,383	199,345	0	(2,219,198)	0	(2,219,198)
Business-type activities:							
Utility	7,685,402	7,687,568	0	1,049,014	0	1,051,180	1,051,180
Sewer	1,808,942	1,891,826	0	0	0	82,884	82,884
Total business-type activities	9,494,344	9,579,394	0	1,049,014	0	1,134,064	1,134,064
Total primary government	\$ 12,121,270	\$ 9,787,777	\$ 199,345	\$ 1,049,014	(2,219,198)	1,134,064	(1,085,134)
General revenues:							
Property and other taxes					621,718	0	621,718
Insurance premium tax					316,054	0	316,054
Motor vehicle tax					84,700	0	84,700
TIF revenue					267,415	0	267,415
Other revenue					142,524	0	142,524
Transfers					625,000	(625,000)	0
Investment income					3,061	3,187	6,248
Total general revenues					2,060,472	(621,813)	1,438,659
Change in net position					(158,726)	512,251	353,525
Net position - beginning					1,862,416	10,917,562	12,779,978
Net position - ending					\$ 1,703,690	\$ 11,429,813	\$ 13,133,503

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
 Balance Sheet
 Governmental Funds
 June 30, 2017

	General Fund	Total Governmental Funds
	<u> </u>	<u> </u>
Assets:		
Cash and cash equivalents	287,750	\$ 287,750
Receivables:		
Taxes	105,721	105,721
Intergovernmental	2,327	2,327
Due from other funds	<u>102,925</u>	<u>102,925</u>
Total assets	<u>\$ 498,723</u>	<u>\$ 498,723</u>
Liabilities:		
Accounts payable	\$ 59,914	\$ 59,914
Payroll liabilities	7,446	7,446
Other liabilities	3,448	3,448
Due to other funds	<u>145,679</u>	<u>145,679</u>
Total liabilities	<u>216,487</u>	<u>216,487</u>
Deferred inflows of resources:		
Unavailable revenue	<u>18,312</u>	<u>18,312</u>
Fund balances:		
Nonspendable	102,925	102,925
Restricted	39,711	39,711
Unassigned	<u>121,288</u>	<u>121,288</u>
Total fund balances	<u>263,924</u>	<u>263,924</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 498,723</u>	<u>\$ 498,723</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, 2017

Total governmental fund balances	\$ 263,924
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.	3,453,405
Some assets are not currently available and are therefore not reported in the funds	18,310
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	476,444
Deferred inflows related to pensions	(142,798)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Compensated absences	(26,980)
Long-term debt	(607,205)
Net pension liability	<u>(1,731,410)</u>
Net position of governmental activities	<u>\$ 1,703,690</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, 2017

	General Fund	Total Governmental Funds
	<u> </u>	<u> </u>
Revenues		
Property taxes	\$ 643,042	\$ 643,042
Insurance premium taxes	370,055	370,055
Motor vehicle taxes	84,700	84,700
Licenses, permits, and fees	60,696	60,696
Investment income	3,061	3,061
Charges for services	208,384	208,384
Intergovernmental	108,429	108,429
Grants and contributions	90,917	90,917
TIF Revenue	267,415	267,415
Other revenue	81,515	81,515
	<u>1,918,214</u>	<u>1,918,214</u>
Total revenues		
Expenditures		
Current		
General government	783,302	783,302
Public safety - police	734,860	734,860
Public safety - fire	243,998	243,998
Public works	456,957	456,957
Sanitation	162,107	162,107
Recreation	14,358	14,358
Debt service	40,773	40,773
Capital outlay	295,074	295,074
	<u>2,731,429</u>	<u>2,731,429</u>
Total expenditures		
Deficiency of revenues over expenditures	<u>(813,215)</u>	<u>(813,215)</u>
Other financing sources (uses):		
Sale of assets	312	312
Proceeds of loans	0	0
Transfers in (payment in lieu of taxes)	625,000	625,000
Total other financing sources (uses)	<u>625,312</u>	<u>625,312</u>
Net change in fund balances	(187,903)	(187,903)
Fund balances - beginning	<u>451,827</u>	<u>451,827</u>
Fund balances - ending	<u>\$ 263,924</u>	<u>\$ 263,924</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, 2017

Net change in fund balances - total governmental funds \$ (187,903)

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	319,035
Depreciation expense	(225,095)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds	(75,325)
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Sales of assets are reported as revenues in the funds but are treated but are not recorded in the statement of activities	-
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Expenses reported in the statement of activities that do not require current financial resources are not reported as expenses in the funds	
Compensated absences	2,374
Principal payments	19,944

Governmental funds report pension contribution as expenditures. However, in the statement of activities, the cost of pension benefits earned is reported as pension expense	(11,756)
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Change in net position of governmental activities	<u>\$ (158,726)</u>
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City of Williamstown, Kentucky
Statement of Net Position
Proprietary Funds
June 30, 2017

	Utility Fund	Sewer Fund	Total
Assets:			
Cash and cash equivalents	\$ 235,735	\$ 324,809	\$ 560,544
Customer receivables	2,175,665	266,207	2,441,872
Due from other funds	756,823	590,864	1,347,687
Restricted cash	112,652		112,652
Capital assets, net of depreciation	<u>19,420,292</u>	<u>15,793,202</u>	<u>35,213,494</u>
Total assets	22,701,167	16,975,082	39,676,249
Deferred outflows of resources:			
Related to pensions	<u>543,093</u>	<u>164,828</u>	<u>707,921</u>
Total assets and deferred outflows of resources	<u>\$ 23,244,260</u>	<u>\$ 17,139,910</u>	<u>\$ 40,384,170</u>
Liabilities:			
Accounts payable	\$ 307,206	\$ -	\$ 307,206
Accrued payroll liabilities	47,230	12,938	60,168
Compensated absences	41,231	13,932	55,163
Customer deposits	227,777		227,777
Due to other funds	674,078	675,695	1,349,773
Other liabilities	17,863	1,685	19,548
Net pension liability	2,083,778	632,423	2,716,201
Long-term obligations			
Due within one year	462,226	711,784	1,174,010
Due in more than one year	<u>11,211,221</u>	<u>11,697,597</u>	<u>22,908,818</u>
Total liabilities	<u>15,072,610</u>	<u>13,746,054</u>	<u>28,818,664</u>
Deferred inflows of resources:			
Related to pensions	<u>66,698</u>	<u>20,243</u>	<u>86,941</u>
Total liabilities and deferred inflows of resources	<u>15,139,308</u>	<u>13,766,297</u>	<u>28,905,605</u>
Net position:			
Net investment in capital assets	7,746,845	3,383,821	11,130,666
Restricted	112,652		112,652
Unrestricted	<u>245,455</u>	<u>(10,208)</u>	<u>235,247</u>
Total net position	<u>8,104,952</u>	<u>3,373,613</u>	<u>11,478,565</u>
Total liabilities and net position	<u>\$ 23,244,260</u>	<u>\$ 17,139,910</u>	<u>\$ 40,384,170</u>

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, 2017

	Utility Fund				Sewer Fund	
	Electric System	Water System	Cable TV and Internet	Total	Total	Total
OPERATING REVENUES						
Charges for services	\$ 3,816,472	\$ 1,989,396	\$ 1,693,391	\$ 7,499,259	\$ 1,891,826	\$ 9,391,085
Other revenue	188,309	0	0	188,309	0	188,309
TOTAL OPERATING REVENUES	4,004,781	1,989,396	1,693,391	7,687,568	1,891,826	9,579,394
OPERATING EXPENSES						
Personnel services						
Salaries and wages	251,600	406,416	315,827	973,843	306,858	1,280,701
Employee retirement	72,534	122,159	93,682	288,375	131,653	420,028
Medical insurance	49,294	122,898	74,147	246,339	84,289	330,628
Employers FICA	19,652	31,464	24,409	75,525	22,813	98,338
Workers compensation	4,232	10,160	7,316	21,708	4,780	26,488
Unemployment insurance	0			0	0	0
Total personnel services	397,312	693,097	515,381	1,605,790	550,393	2,156,183
Operating expenses						
Utility purchases	2,889,100			2,889,100	235,114	3,124,214
Distribution		46,315		46,315		46,315
Repairs and maintenance	8,451	32,585	9,845	50,881	85,604	136,485
Utilities	60,505	181,362	48,087	289,954		289,954
Other contract services	32,952	19,353	43,962	96,267	53,153	149,420
Education and training	1,237	2,115	180	3,532	1,491	5,023
Lab tests		20,073		20,073	20,443	40,516
Communications and postage	7,498	8,217	9,936	25,651	9,724	35,375
Insurance	16,823	24,102	17,659	58,584	40,969	99,553
Advertising and printing		112		112		112
Professional fees	3,430	3,650	3,669	10,749	7,950	18,699
Royalties and licenses			629,872	629,872		629,872
Internet expenses			301,674	301,674		301,674
Vehicle expense	20,132	19,198	21,383	60,713	18,257	78,970
Total contractual services	3,040,128	357,082	1,086,267	4,483,477	472,705	4,956,182
Materials and supplies						
Equipment parts	7,991	(10,211)	8,768	6,548	1,631	8,179
Technical supplies	272		88,879	89,151	546	89,697
Uniforms	1,925	509	1,247	3,681	1,341	5,022
Chemicals and chlorine		140,894		140,894	15,103	155,997
Lab materials		1,001		1,001	530	1,531
Construction materials	37,402		16,157	53,559		53,559
Office supplies	6,481		7,018	13,499		13,499
Total materials and supplies	54,071	132,193	122,069	308,333	19,151	327,484
Miscellaneous						
Dues and subscriptions	1,140	1,187	115	2,442	150	2,592
Miscellaneous	33,086	4,612	3,762	41,460	12,664	54,124
Total miscellaneous	34,226	5,799	3,877	43,902	12,814	56,716
TOTAL OPERATING EXPENSES	3,525,737	1,188,171	1,727,594	6,441,502	1,055,063	7,496,565
OPERATING PROFIT BEFORE DEPRECIATION	479,044	801,225	(34,203)	1,246,066	836,763	2,082,829
Depreciation	639,973	178,792	199,687	1,018,452	598,555	1,617,007
OPERATING PROFIT	\$ (160,929)	\$ 622,433	\$ (233,890)	227,614	238,208	465,822
NON-OPERATING REVENUE AND (EXPENSES)						
Interest Income				2,584	603	3,187
Grants and contributions				1,049,014	0	1,049,014
Interest expense				(176,696)	(155,324)	(332,020)
Transfers out				(625,000)		(625,000)
TOTAL NON-OPERATING REVENUE AND (EXPENSES)				249,902	(154,721)	95,181
Change in net position				477,516	83,487	561,003
Net position - beginning				7,627,436	3,290,126	10,917,562
Net position - ending				\$ 8,104,952	\$ 3,373,613	\$ 11,478,565

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, 2017

Cash flows from operating activities	
Change in net assets	\$ 561,003
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Amortization and depreciation	1,617,007
Decrease in current and other assets	(338,164)
Increase in current and other liabilities	84,178
Increase in net pension liability	<u>453,284</u>
Net cash provided by operating activities	<u>2,377,308</u>
Cash flows from capital financing activities	
Acquisition of capital assets	(7,661,925)
Proceeds from long term obligations	5,522,428
Principal payments on long term obligations	<u>(1,467,875)</u>
Net cash used by capital financing activities	<u>(3,607,372)</u>
Net increase in cash	(1,230,064)
Cash - beginning	<u>1,839,360</u>
Cash - ending	<u>\$ 609,296</u>
Supplemental disclosures of cash flow information:	
Cash paid during the year for interest expense	<u>\$ 332,019</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:

Description	Estimated Lives
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, 2017, 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, 2016. Taxes were levied on August 1, 2016 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, 2017, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Utility Fund	General Fund	\$ 625,000

NOTE 5 – RECEIVABLES

Receivables at June 30, 2017, 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, 2017 was as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Governmental Activities				
Land	\$ 537,390	\$ 0	\$ 0	\$ 537,390
Street improvements	920,180	170,126	0	1,090,306
Buildings and improvements	2,242,858	18,742	0	2,261,600
Infrastructure	695,317	104,141	0	799,458
Furniture and fixtures	44,287	0	0	44,287
General equipment	1,471,055	26,026	0	1,497,081
Total capital assets	<u>5,911,087</u>	<u>319,035</u>	<u>0</u>	<u>6,230,122</u>
Less accumulated depreciation				
Street improvements	427,458	30,822	0	458,280
Buildings and improvements	824,105	60,978	0	885,083
Infrastructure	13,906	19,668	0	33,574
Furniture and fixtures	42,066	694	0	42,760
General equipment	1,244,087	112,933	0	1,357,020
Total accumulated depreciation	<u>2,551,622</u>	<u>225,095</u>	<u>0</u>	<u>2,776,717</u>
Net governmental capital assets	<u>\$ 3,359,465</u>	<u>\$ 93,940</u>	<u>\$ 0</u>	<u>\$ 3,453,405</u>
Business-Type Activities				
Construction in progress	\$ 1,041,998	\$ 0	\$ 0	\$ 1,041,998
Water system	18,626,362	4,084,010	0	22,710,372
Electric system	5,003,794	174,869	0	5,178,663
Cable TV system	4,144,848	0	0	4,144,848
Sewer system	25,209,962	218,767	0	25,428,729
Total capital assets	<u>54,026,964</u>	<u>4,477,646</u>	<u>0</u>	<u>58,504,610</u>
Less accumulated depreciation				
Water system	11,234,336	636,518	0	11,870,854
Electric system	3,252,744	178,792	0	3,431,536
Cable TV system	2,123,323	199,687	0	2,323,010
Sewer system	8,247,985	598,555	0	8,846,540
Total accumulated depreciation	<u>24,858,388</u>	<u>1,613,552</u>	<u>0</u>	<u>26,471,940</u>
Net business-type capital assets	<u>\$ 29,168,576</u>	<u>\$ 2,864,094</u>	<u>\$ 0</u>	<u>\$ 32,032,670</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, 2016	Additions	Deletions	Balance June 30, 2017	Amount Due Within One Year
Governmental Activities					
TIF Bond	\$ 611,880	\$ 0	\$ 12,500	\$ 599,380	\$ 27,500
Police cruiser - capital lease obl	15,269	0	7,444	7,825	7,825
Police cruiser - capital lease obl	0	0	0	0	0
Total governmental activities	\$ 627,149	\$ 0	\$ 19,944	\$ 607,205	\$ 35,325
Business-Type Activities					
Series 2012 Bonds	\$ 1,225,000	\$ 0	\$ 145,000	\$ 1,080,000	\$ 150,000
KIA Loan A08-09	13,121,165	0	711,784	12,409,381	711,784
KIA Loan F11-02	1,564,289	0	78,102	1,486,187	79,671
KIA Loan F13-013	2,824,702	3,060,607	306,060	5,579,249	0
KLC Waterline Replacement	227,870	0	22,540	205,330	23,364
KLC Cable Upgrade	438,568	0	48,970	389,598	50,537
Bank of Kentucky	104,934	0	36,107	68,827	37,123
Forcht Bank	521,746	0	119,312	402,434	121,531
Rural Development		2,461,821		2,461,821	0
Total business-type activities	\$ 20,028,274	\$ 5,522,428	\$ 1,467,875	\$ 24,082,827	\$ 1,174,010

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	
2018	\$ 27,500	\$ 24,708	\$ 7,825	\$ 399	\$ 60,432
2019	35,000	24,156	0	0	59,156
2020	35,000	23,460	0	0	58,460
2021	35,000	22,758	0	0	57,758
2022	37,000	22,032	0	0	59,032
2023 - 2027	215,000	56,364	0	0	271,364
2028 - 2032	214,880	54,492	0	0	269,372
2033 - 2037	0	0	0	0	0
	<u>\$ 599,380</u>	<u>\$ 227,970</u>	<u>\$ 7,825</u>	<u>\$ 399</u>	<u>\$ 835,574</u>

Business-Type Activities				
	Series 2012 Bonds		KIA Loan A08-09	
	Principal	Interest	Principal	Interest
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	160,000	12,375	748,184	93,035
2023 - 2027	310,000	4,303	3,854,945	351,156
2028 - 2032	0	0	4,052,088	154,013
2033 - 2037	0	0	834,956	6,267
	<u>\$ 1,080,000</u>	<u>\$ 79,796</u>	<u>\$ 12,409,381</u>	<u>\$ 1,050,142</u>

Business-Type Activities				
	KIA Loan F11-02		KIA Loan F13-013	
	Principal	Interest	Principal	Interest
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	86,273	25,566	0	0
2023 - 2027	458,080	97,777	0	0
2028 - 2032	506,007	43,861	0	0
2033 - 2037	107,805	1,396	5,579,249	0
	<u>\$ 1,486,187</u>	<u>\$ 290,016</u>	<u>\$ 5,579,249</u>	<u>\$ 0</u>

Business-Type Activities					
	KLC Waterline Replacement		Bank of Kentucky		
	Principal	Interest	Principal	Interest	
2018	\$ 23,436	\$ 3,470	\$ 37,123	\$ 1,445	
2019	24,305	3,041	31,704	406	
2020	25,194	2,601	0	0	
2021	26,136	2,131	0	0	
2022	27,097	1,656	0	0	
2023 - 2027	79,162	1,944	0	0	
2028 - 2032	0	0	0	0	
2033 - 2037	0	0	0	0	
	<u>\$ 205,330</u>	<u>\$ 14,843</u>	<u>\$ 68,827</u>	<u>\$ 1,851</u>	

Business-Type Activities					
	KLC Cable Upgrade		Forcht Bank		Total
	Principal	Interest	Principal	Interest	
2018	\$ 50,537	\$ 11,476	\$ 121,531	\$ 5,859	\$ 1,378,561
2019	52,155	9,858	123,601	3,789	1,369,143
2020	53,824	8,189	125,706	1,684	1,335,020
2021	55,546	6,467	31,396	88	1,247,409
2022	55,546	6,467	0	0	1,216,199
2023 - 2027	121,990	2,037	0	0	5,281,394
2028 - 2032	0	0	0	0	4,755,969
2033 - 2037	0	0	0	0	6,529,673
	<u>\$ 389,598</u>	<u>\$ 44,494</u>	<u>\$ 402,234</u>	<u>\$ 11,420</u>	<u>\$ 23,113,368</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 Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 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, 2017, 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, 2016, 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	\$ 3,994,327
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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, 2016, the City's proportion was .06688% percent.

For the year ended June 30, 2017, the City recognized pension expense of \$603,926 related to CERS. At June 30, 2017, 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	\$ 29,928	\$ 0
Changes of assumptions	240,219	0
Net difference between projected and actual earnings on pension plan investments	408,034	0
Changes in proportion and differences between City contributions and proportionate share of contributions	66,558	229,739
City contributions subsequent to the measurement date	439,626	0
	\$ 1,184,365	\$ 229,739

\$439,626 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:	
2018	45,948
2019	45,948
2020	45,948
2021	45,948
2022	45,948

Actuarial assumptions—The total pension liability in the June 30, 2016 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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.50%	7.50%	8.50%
City's proportionate share of net pension liability	\$ 3,854,596	\$ 4,447,611	\$ 5,040,626

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.

Litigation

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City Management the resolution of these matters will not result in a material uninsured liability to the City.

NOTE 10 – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City has obtained insurance coverage through a commercial insurance company. In addition, the City has effectively managed risk through various employee education and prevention programs. All risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2016 will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

NOTE 11 – SUBSEQUENT EVENTS

The City evaluated subsequent events through February 27, 2018, which is the date the financial statements were available to be issued. No subsequent events were identified that required adjustment or disclosure within the 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, 2017

	Original Budget	Final Budget	Actual	Variance
Fund balance - beginning	\$ 158,100	\$ 90,000	\$ 302,232	\$ 212,232
Revenues				
Taxes	1,076,000	1,076,000	1,097,797	21,797
Licenses and permits	41,700	41,700	60,696	18,996
Intergovernmental revenues	115,100	115,100	108,429	(6,671)
Charges for services	162,000	162,000	208,384	46,384
Other revenue	11,550	11,550	442,908	431,358
Total revenues	<u>1,406,350</u>	<u>1,406,350</u>	<u>1,918,214</u>	<u>511,864</u>
Total resources	<u>1,564,450</u>	<u>1,496,350</u>	<u>2,220,446</u>	<u>724,096</u>
Expenditures				
General government	471,100	471,100	783,302	(312,202)
Police	803,800	790,600	734,860	55,740
Fire	263,280	260,150	243,998	16,152
Streets and cemetery	524,300	477,500	456,957	20,543
Parks and recreation	11,850	11,850	14,358	(2,508)
Garbage and sanitation	162,000	168,000	162,107	5,893
Debt service	0	0	40,773	(40,773)
Capital outlay	291,600	186,700	295,074	(108,374)
Total expenditures	<u>2,527,930</u>	<u>2,365,900</u>	<u>2,731,429</u>	<u>(365,529)</u>
Deficiency of revenues over expenditures	<u>(963,480)</u>	<u>(869,550)</u>	<u>(510,983)</u>	
Other financing sources (uses)	<u>975,000</u>	<u>875,000</u>	<u>625,000</u>	
Budgetary fund balance - end of year	<u>\$ 11,520</u>	<u>\$ 5,450</u>	<u>\$ 114,017</u>	

The accompanying notes are an integral part of these financial statements



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, 2017, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated February 27, 2018.

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.

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.

February 27, 2018

Fort Thomas, Kentucky



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE

Honorable Mayor
Members of the City Council
City of Williamstown, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the City of Williamstown, Kentucky's (City) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Maddox & Associates CPAs Inc.

February 27, 2018

Fort Thomas, Kentucky

City of Williamstown, Kentucky
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2017

<u>Federal Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Expenditures</u>
<u>United States Environmental Protection Agency (EPA)</u>			
<i>Passed through the Kentucky Infrastructure Authority</i>			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	F13-013	\$ 1,523,256

City of Williamstown, Kentucky
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Note A – Basis of Presentation

The accompanying schedule of expenditures of Federal awards includes the Federal award activity of the City of Williamstown, Kentucky (City), under programs of the federal government for the year ended June 30, 2017 in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows for the City.

Note B – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87 Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

Section I – Summary of Auditor’s Results

1. The auditor’s report expresses unmodified opinions on the financial statements of the City of Williamstown, Kentucky (City).
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the City which would be required to reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit.
5. The auditor’s report on compliance for the major federal award programs for the City expresses an unmodified opinion on all major programs.
6. There were no audit findings that are required to reported in accordance with Uniform Guidance 516(a).
7. The programs tested as major programs included:

<u>CFDA Number</u>	<u>Federal Program</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. The City did not qualify as a low-risk auditee.

Section II – Financial Statement Findings

No matters were reported.

Section III – Major Federal Award Findings and Questioned Costs

No matters were reported.