



Kelley Galloway
Smith Goolsby, PSC

Certified Public Accountants and Advisors

1200 Corporate Court • P. O. Box 990 • Ashland, Kentucky 41105

• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590

• Web www.ksgscpa.com Member of **Allinial** GLOBAL

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Grayson (the "City") for the year ended June 30, 2016 and have issued our report thereon dated January 25, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 5, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the City adopted Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in 2016. The adoption of this standard did not have a material effect on the City's financial statement. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City of Wurtland's financial statements were:

Estimates used by the actuary in developing the City's obligations for retirement plans as required by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. See Note 7 to the financial statements for a summary of the significant assumptions utilized. We evaluated the key factors and assumptions used to develop the estimate of pension expense and related pension obligations in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimate of the depreciation is based on historical trends and industry standards. We evaluated the key factors and assumptions used to develop the estimate of depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 25, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, Schedule of City's Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the

basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Mayor, City Council, and management of the City of Grayson and is not intended to be and should not be used by anyone other than these specified parties.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
January 25, 2017

CITY OF GRAYSON
PASSED AUDIT ADJUSTMENTS
FOR THE YEAR ENDED JUNE 30, 2016

There were no passed audit adjustments.

CITY OF GRAYSON, KENTUCKY

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2016

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	4-7
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements -	
Statement of Net Position.....	8
Statement of Activities.....	9
Fund Financial Statements -	
Balance Sheet - Governmental Funds.....	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	11
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Net Position - Proprietary Fund	14
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund.....	15
Statement of Cash Flows - Proprietary Fund.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	17
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Special Revenue Fund-Grant	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Special Revenue Fund-Municipal Road Aid	19
Notes to Financial Statements.....	20-33
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of City's Proportionate Share of the Net Pension Liability	34
Schedule of Pension Contributions.....	35
Notes to Required Supplementary Information	36
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>.....	37-38



Kelley **G**alloway
Smith **G**oolsby, PSC

Certified Public Accountants and Advisors

1200 Corporate Court • P. O. Box 990 • Ashland, Kentucky 41105

• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590

• Web www.ksgscpa.com Member of **Allinial** GLOBAL

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Grayson, Kentucky (the "City") as of and for the year ended June 30, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Grayson, Kentucky as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for each major fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 4 through 7 and the Schedules of Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions on pages 34 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, and historical context. We have applied certain limited procedures, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency in management's responses to our inquiries, the basic financial statements, and knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Kelley Dalloway Smith Hobbs, TSC

Ashland, Kentucky
January 25, 2017

**City of Grayson, Kentucky
Management's Discussion and Analysis
Year Ended June 30, 2016**

The discussion and analysis of the City of Grayson, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2016. This information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the Government exceeded its liabilities at the end of the fiscal year by \$17,677,459 (net position). Governmental activities' unrestricted net position was (\$111,729) and is used to meet the Government's ongoing obligations. Business-type activities' unrestricted net position was \$2,279,993.
- The Government's total net position decreased by \$308,912. Net position of governmental activities decreased by \$77,011 and net position of business-type activities decreased by \$231,901.
- At June 30, 2016, the governmental activities had \$5,339,832 in assets and deferred outflows and \$3,304,363 in liabilities and deferred inflows. Business-type activities had \$21,839,953 in assets and \$6,197,963 in liabilities.
- The City implemented GASB 68 in the prior year. The source of the pension liabilities with which the City's employees are covered is the Kentucky County Employee Retirement System. Under this system the City's share of the pension liabilities was \$1,327,353, as of June 30, 2016, an increase of \$474,353 over the prior year. The City does not believe these disclosures will have a major impact on their day to day operations or the financial health of the City.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government- wide financial statements, 2) fund financial statements, 3) budgetary comparisons, and 4) notes to the financial statements.

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

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

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

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

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 33 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$17,677,459 at the close of the most recent fiscal year. The City's net position decreased 1.7% percent which is reported as the change in net position in the statement of activities.

City of Grayson, Kentucky's Net Position

	Government- type Activities	Business-type Activities	(As restated) Government- type Activities	Business-type Activities
	2016	2016	2015	2015
Current assets	\$ 1,086,404	\$ 3,644,295	\$ 874,021	\$ 3,643,768
Capital assets	3,893,971	18,195,658	4,026,040	18,666,787
Total assets	<u>4,980,375</u>	<u>21,839,953</u>	<u>4,900,061</u>	<u>22,310,555</u>
Deferred outflows	<u>359,457</u>	<u>-</u>	<u>120,891</u>	<u>-</u>
Current liabilities	322,743	726,701	259,205	656,156
Net pension liability	1,327,353	-	853,000	-
Long-term liabilities	1,654,267	5,471,262	1,701,267	5,780,508
Total liabilities	<u>3,304,363</u>	<u>6,197,963</u>	<u>2,813,472</u>	<u>6,436,664</u>
Deferred inflows	<u>-</u>	<u>-</u>	<u>95,000</u>	<u>-</u>
Net position:				
Net investment in capital assets	2,043,676	12,354,513	2,149,510	12,532,751
Restricted	103,522	1,007,484	99,610	987,218
Unrestricted	(111,729)	2,279,993	(136,640)	2,353,922
Total net position	<u>\$ 2,035,469</u>	<u>\$ 15,641,990</u>	<u>\$ 2,112,480</u>	<u>\$ 15,873,891</u>

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

City of Grayson, Kentucky's Changes in Net Position

	<u>Government- type Activities</u> 2016	<u>Business-type Activities</u> 2016	<u>Government- type Activities</u> 2015	<u>Business-type Activities</u> 2015
Revenues:				
Charges for services	\$ 2,435	\$ 4,974,425	\$ 2,634	\$ 5,231,582
Tax levies	1,874,474	-	1,780,127	-
Licenses, fees and permits	321,219	-	321,019	-
Franchise fees	17,701	-	18,294	-
Grants/contributions	265,097	58,442	630,556	92,333
Investment earnings	449	3,246	339	3,138
Miscellaneous	52,082	-	68,128	-
Total revenues	<u>2,533,457</u>	<u>5,036,113</u>	<u>2,821,097</u>	<u>5,327,053</u>
Expenses:				
General government	499,328	-	660,266	-
Fire	363,443	-	340,626	-
Police	1,111,881	-	999,063	-
Highways and streets	454,497	-	406,619	-
Parks and recreation	74,555	-	119,506	-
Emergency management	30,891	-	30,422	-
Debt service	75,873	-	70,170	-
Utilities	-	5,268,014	-	5,285,273
Total expenses	<u>2,610,468</u>	<u>5,268,014</u>	<u>2,626,672</u>	<u>5,285,273</u>
Change in net position	<u>(77,011)</u>	<u>(231,901)</u>	<u>194,425</u>	<u>41,780</u>
Net position, beginning of Year	2,112,480	15,873,891	1,918,055	15,832,111
Net position, ending of year	<u>\$ 2,035,469</u>	<u>\$ 15,641,990</u>	<u>\$ 2,112,480</u>	<u>\$ 15,873,891</u>

Government-type activity. Government-type activity net position decreased by \$77,011 or 3.6% primarily due an increase in road expenses.

Business-type activity. Business-type activity net position decreased by \$231,901 or 1.5%.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

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

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

Capital Assets

The City's investment in capital assets for governmental and business-type activities as of June 30, 2016, amounts to \$22,089,629 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment. The increase in the City's investment in capital assets for the current year was 1.5% percent, before current depreciation.

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

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

Debt Administration

At the end of the current fiscal year, the City had total debt outstanding of \$7,691,440 as compared to \$8,010,566 in the prior year. The City issued new debt in the amount of \$392,912 for water line extensions and air packs in the current year. Additional information on the City's long-term debt can be found in Note (6) of the financial statements.

Budget Comparisons

- General fund revenues were \$67,830 less than budgeted. General fund expenditures were \$61,350 less than budgeted.
- Special revenue fund - Municipal Road Aid revenues were \$63 more than budgeted. Expenditures were \$2,022 less than budgeted.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

In considering the City budget for the fiscal year 2017, the City expects no significant changes.

REQUESTS FOR INFORMATION

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

CITY OF GRAYSON, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 595,936	\$ 1,862,267	\$ 2,458,203
Accounts receivable:			
Unbilled receivables	-	235,470	235,470
Customers	-	377,167	377,167
Property taxes	266,981	-	266,981
Interest	-	126	126
Other	137,230	-	137,230
Allowance for doubtful accounts	(17,754)	(14,541)	(32,295)
Prepaid expenses	489	-	489
Inventory for supplies	-	176,322	176,322
Restricted assets -			
Cash and cash equivalents	103,522	1,007,484	1,111,006
Nondepreciable capital assets	1,000,116	1,128,906	2,129,022
Depreciable capital assets	6,077,921	35,844,735	41,922,656
Accumulated depreciation	(3,184,066)	(18,777,983)	(21,962,049)
Total assets	4,980,375	21,839,953	26,820,328
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension contributions	359,457	-	359,457
Total deferred outflows of resources	359,457	-	359,457
LIABILITIES			
Accounts payable	55,982	102,452	158,434
Accrued wages	32,912	51,417	84,329
Other accrued liabilities	37,821	9,754	47,575
Current portion of long-term debt	196,028	514,829	710,857
Accrued interest payable	-	48,249	48,249
Customer deposits	-	144,946	144,946
Net pension liability	1,327,353	-	1,327,353
Long-term debt, net of current portion	1,654,267	5,326,316	6,980,583
Total liabilities	3,304,363	6,197,963	9,502,326
NET POSITION			
Net investment in capital assets	2,043,676	12,354,513	14,398,189
Restricted	103,522	1,007,484	1,111,006
Unrestricted	(111,729)	2,279,993	2,168,264
Total net position	\$ 2,035,469	\$ 15,641,990	\$ 17,677,459

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

**CITY OF GRAYSON, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 499,328	\$ -	\$ -	\$ -	\$ (499,328)	\$ -	\$ (499,328)
Fire	363,443	-	38,043	-	(325,400)	-	(325,400)
Police	1,111,881	2,435	112,953	-	(996,493)	-	(996,493)
Highways and streets	454,497	-	114,101	-	(340,396)	-	(340,396)
Parks and recreation	74,555	-	-	-	(74,555)	-	(74,555)
Emergency management	30,891	-	-	-	(30,891)	-	(30,891)
Interest expense	75,873	-	-	-	(75,873)	-	(75,873)
Total governmental activities	<u>2,610,468</u>	<u>2,435</u>	<u>265,097</u>	<u>-</u>	<u>(2,342,936)</u>	<u>-</u>	<u>(2,342,936)</u>
Business-Type Activities							
Utility fund	5,268,014	4,974,425	-	58,442	-	(235,147)	(235,147)
Total business-type activities	<u>5,268,014</u>	<u>4,974,425</u>	<u>-</u>	<u>58,442</u>	<u>-</u>	<u>(235,147)</u>	<u>(235,147)</u>
Total primary government	<u>\$ 7,878,482</u>	<u>\$ 4,976,860</u>	<u>\$ 265,097</u>	<u>\$ 58,442</u>	<u>\$ (2,342,936)</u>	<u>\$ (235,147)</u>	<u>\$ (2,578,083)</u>
General Revenues:							
Payroll tax					\$ 943,888	\$ -	\$ 943,888
Property and other local taxes					930,586	-	930,586
Fines & forfeitures					8,369	-	8,369
Franchise fees					17,701	-	17,701
Licenses, fees and permits					321,219	-	321,219
Rent income					3,800	-	3,800
Interest income					449	3,246	3,695
Other revenues					39,913	-	39,913
Total general revenues					<u>2,265,925</u>	<u>3,246</u>	<u>2,269,171</u>
Change in net position					(77,011)	(231,901)	(308,912)
Net position, June 30, 2015					<u>2,112,480</u>	<u>15,873,891</u>	<u>17,986,371</u>
Net position, June 30, 2016					<u>\$ 2,035,469</u>	<u>\$ 15,641,990</u>	<u>\$ 17,677,459</u>

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

**CITY OF GRAYSON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

		Special Revenue Funds		Total
	General	Grant	Municipal Road Aid	Governmental Funds
Assets				
Cash	\$ 595,936	\$ 8,304	\$ 95,218	\$ 699,458
Taxes receivable	266,981	-	-	266,981
Other receivables	137,230	-	-	137,230
Allowance for uncollectible taxes	(17,754)	-	-	(17,754)
Prepaid expense	489	-	-	489
Total assets	\$ 982,882	\$ 8,304	\$ 95,218	\$ 1,086,404
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 55,982	\$ -	\$ -	\$ 55,982
Accrued wages	32,912	-	-	32,912
Other accrued liabilities	37,821	-	-	37,821
Total liabilities	126,715	-	-	126,715
Fund Balances:				
Restricted	-	8,304	95,218	103,522
Non-spendable	489	-	-	489
Unassigned	855,678	-	-	855,678
Total fund balances	856,167	8,304	95,218	959,689
Total liabilities and fund balances	\$ 982,882	\$ 8,304	\$ 95,218	\$ 1,086,404

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

**CITY OF GRAYSON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2016**

Total fund balance - Governmental Funds		\$ 959,689
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets of \$7,078,037 net of accumulated depreciation of \$3,184,066 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		3,893,971
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred pension investment earnings	11,899	
Deferred differences in pension experience	11,031	
Deferred changes in pension assumptions	133,849	
Deferred changes in differences between share of contributions	118,322	
Deferred pension contributions	<u>84,356</u>	359,457
Long-term liabilities, including net pension liability and bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		<u>(3,177,648)</u>
Net position, end of year - Governmental Activities		<u><u>\$ 2,035,469</u></u>

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

CITY OF GRAYSON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	General	Special Revenue Funds		Total Governmental Funds
		Grant	Municipal Road Aid	
Revenues				
Taxes:				
Insurance	\$ 449,475	\$ -	\$ -	\$ 449,475
Mineral and coal	-	-	30,152	30,152
Motor vehicle	23,191	-	-	23,191
Payroll	943,888	-	-	943,888
Property	457,920	-	-	457,920
Fines & forfeitures	8,369	-	-	8,369
Franchise fees	17,701	-	-	17,701
Intergovernmental revenue:				
Base court	10,097	-	-	10,097
Grants	103,212	-	-	103,212
Alcohol license fees	225,384	-	-	225,384
Other license, fees, & permits	95,835	-	-	95,835
Municipal road aid	-	-	83,949	83,949
Police incentive	37,687	-	-	37,687
Interest income	382	4	63	449
Rental income	3,800	-	-	3,800
Other revenues	33,962	8,386	-	42,348
Total revenues	2,410,903	8,390	114,164	2,533,457
Expenditures				
General government	455,432	-	-	455,432
Fire	475,296	-	-	475,296
Police	1,028,037	6,563	-	1,034,600
Highways and streets	356,654	-	112,079	468,733
Parks and recreation	67,100	-	-	67,100
Emergency management	17,686	-	-	17,686
Total expenditures	2,400,205	6,563	112,079	2,518,847
Excess (deficiency) of revenues over (under) expenditures	10,698	1,827	2,085	14,610
Other Financing Sources (Uses)				
Loan proceeds	155,000	-	-	155,000
Transfers	-	-	-	-
Total other financing sources (uses)	155,000	-	-	155,000
Net change in fund balances	165,698	1,827	2,085	169,610
Fund balance, beginning of year	690,469	6,477	93,133	790,079
Fund balance, end of year	\$ 856,167	\$ 8,304	\$ 95,218	\$ 959,689

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

**CITY OF GRAYSON, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Net change in fund balances - Governmental Funds	\$	169,610
--	----	---------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay expense in the current period.

(132,069)

Governmental funds report CERS contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.

CERS contributions	(36,535)	
Pension expense	<u>(104,252)</u>	(140,787)

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and interest consumes current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.

26,235

Change in net position of Governmental Activities	\$	<u><u>(77,011)</u></u>
---	----	------------------------

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

CITY OF GRAYSON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2016

ASSETS

Cash and cash equivalents	\$ 1,862,267
Accounts receivable:	
Unbilled receivables	235,470
Customers	377,167
Interest	126
Allowance for doubtful accounts	(14,541)
Inventory for supplies	176,322
Restricted assets -	
Cash and cash equivalents	1,007,484
Nondepreciable capital assets	1,128,906
Depreciable capital assets	35,844,735
Accumulated depreciation	<u>(18,777,983)</u>
 Total assets	 <u>21,839,953</u>

LIABILITIES

Accounts payable	102,452
Accrued wages	51,417
Other accrued liabilities	9,754
Current portion of long-term debt	514,829
Accrued interest payable	48,249
Customer deposits	144,946
Long-term debt, net of current portion	<u>5,326,316</u>
 Total liabilities	 <u>6,197,963</u>

NET POSITION

Net investment in capital assets	12,354,513
Restricted	1,007,484
Unrestricted	<u>2,279,993</u>
 Total net position	 <u>\$ 15,641,990</u>

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

CITY OF GRAYSON, KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

OPERATING REVENUES	
Gas	\$ 1,200,504
Sewer	944,781
Water	2,193,593
Garbage	635,547
Total operating revenues	<u>4,974,425</u>
OPERATING EXPENSES	
Gas:	
Gas purchases	574,325
Salaries and benefits	181,633
Contractual services	65,019
Depreciation	80,012
Materials and supplies	80,146
Other operating expenses	129,136
	<u>1,110,271</u>
Sewer:	
Salaries and benefits	309,236
Contractual services	51,799
Depreciation	315,989
Materials and supplies	90,585
Other operating expenses	297,296
	<u>1,064,905</u>
Water:	
Salaries and benefits	714,869
Contractual services	171,121
Depreciation	463,207
Materials and supplies	458,311
Other operating expenses	488,650
	<u>2,296,158</u>
Garbage:	
Contract	623,866
Total operating expenses	<u>5,095,200</u>
OPERATING LOSS	<u>(120,775)</u>
NON-OPERATING REVENUES	
(EXPENSES)	
Interest income	3,246
Interest expense	(172,814)
Grant income	23,792
Total non-operating revenues (expenses)	<u>(145,776)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	<u>(266,551)</u>
CAPITAL CONTRIBUTIONS	<u>34,650</u>
DECREASE IN NET POSITION	<u>(231,901)</u>
NET POSITION, JUNE 30, 2015	<u>15,873,891</u>
NET POSITION, JUNE 30, 2016	<u>\$ 15,641,990</u>

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

**CITY OF GRAYSON, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 4,914,431
Cash payments to suppliers for goods and services	(2,983,434)
Cash payments to employees	(1,205,252)
Net cash provided by operating activities	<u>725,745</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(388,079)
Proceeds from issuance of long-term debt	237,912
Principal paid on long-term debt	(530,803)
Interest paid on long-term debt	(171,183)
Capital contributions	34,650
Capital grants received	23,792
Net cash used for capital and related financing activities	<u>(793,711)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	3,246
Net cash provided by investing activities	<u>3,246</u>
Net decrease in cash and cash equivalents	(64,720)
Cash and cash equivalents, June 30, 2015	<u>2,934,471</u>
Cash and cash equivalents, June 30, 2016	<u>\$ 2,869,751</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (120,775)
Adjustments:	
Depreciation	859,208
Changes in assets and liabilities:	
Increase in accounts receivable	(59,994)
Increase in inventory	(5,253)
Increase in accounts payable	52,073
Decrease in accrued wages	(679)
Increase in other accrued liabilities	1,181
Decrease in customer deposits	(16)
Net cash provided by operating activities	<u>\$ 725,745</u>

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

CITY OF GRAYSON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Taxes:					
Property	\$ 422,520	\$ 35,628	\$ 458,148	\$ 481,111	\$ 22,963
License, fees, & permits	1,701,325	110,476	1,811,801	1,732,283	(79,518)
Intergovernmental revenues	92,260	20,115	112,375	112,953	578
Fines & forfeitures	5,812	(262)	5,550	8,369	2,819
Charges for services	2,890	(138)	2,752	2,435	(317)
Other revenues	9,006	41,058	50,064	35,709	(14,355)
Total revenues	2,233,813	206,877	2,440,690	2,372,860	(67,830)
Expenditures					
General government	398,586	48,834	447,420	455,432	(8,012)
Fire	464,201	(35,712)	428,489	428,413	76
Police	1,089,800	(47,143)	1,042,657	1,028,037	14,620
Highways and streets	239,971	115,665	355,636	356,654	(1,018)
Parks and recreation	103,295	19,389	122,684	67,100	55,584
Emergency management	19,960	(2,174)	17,786	17,686	100
Total expenditures	2,315,813	98,859	2,414,672	2,353,322	61,350
Excess (deficiency) of revenues over (under) expenditures	(82,000)	108,018	26,018	19,538	(6,480)
Other Financing Sources (Uses)					
Loan proceeds	-	155,000	155,000	155,000	-
Transfers	-	-	-	-	-
Total other financing sources (uses)	-	155,000	155,000	155,000	-
Net change in fund balance	(82,000)	263,018	181,018	174,538	(6,480)
Fund balance, beginning of year	82,000	(82,000)	-	690,469	690,469
Fund balance, end of year	\$ -	\$ 181,018	\$ 181,018	\$ 865,007	\$ 683,989
Adjustments to Generally Accepted Accounting Principles -					
Firemen's fund grant revenues				38,043	
Firemen's fund expenditures				(46,883)	
Fund balance, end of year (GAAP basis)				\$ 856,167	

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

CITY OF GRAYSON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - GRANT
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Interest income	\$ -	\$ -	\$ -	\$ 4	\$ 4
Other revenues	-	-	-	8,386	8,386
Total revenues	-	-	-	8,390	8,390
Expenditures					
Police	-	-	-	6,563	(6,563)
Total expenditures	-	-	-	6,563	(6,563)
Net change in fund balance	-	-	-	1,827	1,827
Fund balance, beginning of year	-	-	-	6,477	6,477
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,304</u>	<u>\$ 8,304</u>

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

CITY OF GRAYSON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - MUNICIPAL ROAD AID
JUNE 30, 2016

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Taxes					
Mineral and coal	\$ 28,134	\$ 2,018	\$ 30,152	\$ 30,152	\$ -
Intergovernmental revenues					
Grants	-	-	-	-	-
Municipal road aid	90,000	(6,051)	83,949	83,949	-
Interest income	-	-	-	63	63
Other revenues	-	-	-	-	-
Total revenues	118,134	(4,033)	114,101	114,164	63
Expenditures					
Highways and streets	118,134	(4,033)	114,101	112,079	2,022
Total expenditures	118,134	(4,033)	114,101	112,079	2,022
Excess (deficiency) of revenues over (under) expenditures	-	-	-	2,085	2,085
Other financing sources (uses)					
Loan proceeds	-	-	-	-	-
Transfers	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	-	-	-	2,085	2,085
Fund balance, beginning of year	-	-	-	93,133	93,133
Fund balance, end of year	\$ -	\$ -	\$ -	\$ 95,218	\$ 95,218

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

**CITY OF GRAYSON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Grayson (the "City") is a political subdivision of the Commonwealth of Kentucky. It is governed and operated under the Mayor/Council form of government and provides such services as public safety, public works, recreation, and community development. The financial statements of the City include those of separately administered organizations that are controlled by or dependent upon the City. Control or dependence is determined on the basis of funding and appointment of the voting majority of the governing board.

Based upon the foregoing criteria, the financial statements of the City of Grayson, Kentucky Utility Commission are blended into the City's financial statements, although retaining separate legal identity. A brief description of the activities and relationship to the City follows.

The City of Grayson, Kentucky established a Utility Commission in November 2000, for the purpose of managing and directing the various utility operations of the City. The Commission is composed of five members: the Mayor of the City of Grayson, Kentucky and four public members. The Commission has the full power and authority to appoint and remove all employees of the Grayson Utilities and to fix and allow compensation of employees. The Commission also has the power and authority to purchase all supplies, initiate repairs and maintenance and choose depositories for funds. The power and authority to change utility rates and initiate permanent/capital improvements remains with the City Council of the City of Grayson, Kentucky. The Commission is to make recommendations for rate changes and capital projects.

Complete financial statements of the component unit may be obtained at the Commission's administrative office:

City of Grayson, Kentucky Utility Commission
671 S. State Hwy 7
Grayson, Kentucky 41143

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the City and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. The City considers all governmental and proprietary funds to be major funds, due to their belief that all of these funds present financial information which is important to the financial statement users. Thus, individual governmental funds and individual proprietary funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement*

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

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

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

The City reports the following major Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

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

The City reports the following major Proprietary Fund:

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

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

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

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

D. Budget and Budgetary Accounting

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

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

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

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

E. Deposits and Investments

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

F. Inventories

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

G. Capital Assets and Depreciation

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

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

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

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

The City is required by GASB 34 to prospectively report general infrastructure assets in the statement of net position. During the 2016 fiscal year, there were no additions considered to be infrastructure assets.

H. Encumbrances

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

I. Interfund Transactions

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

J. Interfund Receivables and Payables

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

K. Compensated Absences

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

L. Fund Balances

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

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

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

M. Cash and Cash Equivalents

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

N. Allowance for Doubtful Accounts

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

O. Bond Issuance Costs

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

P. Use of Estimates

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

Q. Pension

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

R. Accounting Pronouncements

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"). GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and reduces the GAAP hierarchy to two categories of authoritative GAAP. The adoption of this standard did not have a material effect on the City's financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* ("GASB 75"). GASB 75 replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits ("OPEB"). In addition, GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. GASB 75 will be effective for the City beginning with its year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 82, *Pension Issues* ("GASB 82"). GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the

classification of payments made by employers to satisfy employee (plan member) contribution requirements that arose during the implementation of GASB Statement No. 68. GASB 82 will be effective for the City beginning with its year ending June 30, 2017.

(2) CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents at June 30, 2016 consisted of the following:

	Total	Unrestricted	Restricted
Petty cash	\$ 383	\$ 383	\$ -
Cash in banks	2,940,826	2,457,820	483,006
Certificates of deposit	628,000	-	628,000
	<u>\$ 3,569,209</u>	<u>\$ 2,458,203</u>	<u>\$ 1,111,006</u>

At June 30, 2016, the carrying amounts of the City's deposits were \$3,568,826 (cash in banks and certificates of deposits above) and the bank balances were \$3,696,059. Of the bank balances, \$1,083,033 was covered by the Deposit Insurance Fund and \$2,613,026 was collateralized with pledged securities held by the depositories in the City's name.

(3) PROPERTY TAX REVENUES

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

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

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

The 2016 assessed value for real and tangible property was \$181,500,511. The tax rate adopted was \$.197 per \$100 valuation.

(4) RESTRICTED ASSETS

Sinking and Debt Service Reserve Funds for Bond and Note Retirement

"Bond and Note Sinking Funds" and "Debt Service Reserve Funds" are being maintained as required by various bond and note documents. Deposits into Bond and Note Sinking Funds are made monthly in order to accumulate funds for payment of bond and note principal and interest. A Debt Service Reserve Fund is required for the purpose of having monies available in order to prevent a default in the payment of the principal or interest. A Debt Service Replacement Reserve Fund in the amount of \$491,000 is being invested in various federally insured banks (See Note 2). In addition, sinking funds are maintained on Rural Development bonds in the amount of \$379,484 as required.

Reserve for Depreciation

The "Depreciation Fund" is being maintained as required by various bond and loan documents. These funds are required to be deposited into separate accounts for the purpose of maintaining the water, sewer and gas systems. The amount deposited in these accounts was \$137,000 at June 30, 2016.

(5) CAPITAL ASSETS

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

	June 30, 2015	Increases	Decreases	June 30, 2016
<u>Governmental Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 1,000,116	\$ -	\$ -	\$ 1,000,116
Capital Assets, Depreciated:				
City Hall	159,414	-	-	159,414
Leasehold improvements	26,979	-	-	26,979
Administrative office & equipment	79,202	-	-	79,202
Street equipment	946,352	99,271	-	1,045,623
Fire equipment & vehicles	1,593,446	156,573	-	1,750,019
Fire department buildings	1,586,614	-	-	1,586,614
Parks and recreation	108,788	-	-	108,788
Emergency management equipment	87,852	-	-	87,852
Police building	637,385	-	-	637,385
Police equipment & vehicles	596,045	-	-	596,045
Totals	6,822,193	255,844	-	7,078,037
Less: Accumulated Depreciation	2,796,153	387,913	-	3,184,066
Governmental Activities				
Capital Assets, Net	<u>\$ 4,026,040</u>	<u>\$ (132,069)</u>	<u>\$ -</u>	<u>\$ 3,893,971</u>
<u>Business-type Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 572,950	\$ -	\$ -	\$ 572,950
Construction in progress	405,539	150,417	-	555,956
Capital Assets, Depreciated:				
Cooks Wastewater Plant	2,023,385	-	-	2,023,385
General Equipment and vehicles	4,593,188	74,465	6,000	4,661,653
Water System	15,538,203	144,513	-	15,682,716
Gas System	3,591,549	18,684	-	3,610,233
Sewer System	9,866,748	-	-	9,866,748
Totals	36,591,562	388,079	6,000	36,973,641
Less: Accumulated Depreciation	17,924,775	859,208	(6,000)	18,777,983
Business-type Activities				
Capital Assets, Net	<u>\$ 18,666,787</u>	<u>\$ (471,129)</u>	<u>\$ -</u>	<u>\$ 18,195,658</u>

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

Governmental activities:	
General government	\$ 10,575
Police	70,969
Fire	196,350
Street	89,359
Park	7,455
Emergency management	13,205
	<u>\$ 387,913</u>
Business-type activities:	
Utilities	<u>\$ 859,208</u>

(6) DEBT

The following is a summary of changes in long-term debt (including current portions) of the City for the year ended June 30, 2016:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016
<u>Governmental Activities</u>				
3.13% Kentucky League Of Cities note payable - Fire Station	\$ 1,083,264	\$ -	\$ 58,889	\$ 1,024,375

4.10% Capital Lease - Police station and Sallyport	447,149	-	61,340	385,809
2.88% Capital Lease - Tractor and bush hog	24,428	-	10,680	13,748
3.15% Capital Lease - Street Backhoe	44,250	-	6,910	37,340
3.25% Capital Lease - Street Truck	25,286	-	6,152	19,134
3.49% Capital Lease - Air Packs	-	155,000	6,668	148,332
2.85% Capital Lease - New pumper truck	<u>252,153</u>	<u>-</u>	<u>30,596</u>	<u>221,557</u>
Total Governmental Activities	<u>\$ 1,876,530</u>	<u>\$ 155,000</u>	<u>\$ 181,235</u>	<u>\$ 1,850,295</u>
	Balance			Balance
<u>Business-type Activities</u>	<u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>
Notes payable	\$ 4,069,536	\$ 237,912	\$ 488,303	\$ 3,819,145
Bonds payable	<u>2,064,500</u>	<u>-</u>	<u>42,500</u>	<u>2,022,000</u>
Total Business-type Activities	<u>\$ 6,134,036</u>	<u>\$ 237,912</u>	<u>\$ 530,803</u>	<u>\$ 5,841,145</u>

Governmental Activities

The annual requirements to amortize the City's Governmental Activities indebtedness as of June 30, 2016 (including interest payments) are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 196,028	\$ 64,034	\$ 260,062
2018	194,552	57,968	252,520
2019	198,601	51,448	250,049
2020	199,741	44,507	244,248
2021	207,451	38,331	245,782
2022-2026	583,020	114,457	697,477
2027-2029	270,902	18,430	289,333
	<u>\$ 1,850,295</u>	<u>\$ 389,175</u>	<u>\$ 2,239,471</u>

Conduit Debt Obligations

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

As of June 30, 2016, there was one series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of approximately \$3.8 million.

As of June 30, 2016, there were two capital lease obligations outstanding, with an aggregate principal amount payable of approximately \$.2 million.

Business-Type Activities

The Utility Commission's notes payable at June 30, 2016 consisted of the following:

Kentucky Infrastructure Authority, payable in semi-annual installments of \$30,156, including interest of 1.7%, final payment due December 2025, collateralized by all the assets of the Commission's water system.	\$ 527,033
Kentucky Area Development District, payable in varying semi-annual installments, with interest at 2.5% to 5.4%, final payment due October 22, 2022, collateralized by the new utility building and water tower.	180,000
Kentucky Rural Water Finance Corporation Flexible Term Finance Program Series 2013C, payable in varying semi-annual installments, with interest at 4.03% to 4.28%, final payment due January 1, 2020, collateralized by all the assets of the Commission's water system.	135,000
Kentucky Infrastructure Authority, payable in semi-annual installments estimated at \$101,855, including interest of 1.8%, final payment due December 2022, collateralized by all the assets of the Commission's water system.	1,611,506
Kentucky Infrastructure Authority, payable in semi-annual installments, amount to be determined upon project completion, including interest of 1.0%, final payment due July 2032, collateralized by a pledge of utility revenues.	579,103
Kentucky Infrastructure Authority, payable in semi-annual installments of \$101,942, including interest of 1.8%, final payment due June 1, 2020, collateralized by all the assets of the Commission's wastewater system.	<u>786,503</u>
Total Utility Fund Notes Payable	<u>\$ 3,819,145</u>

The annual requirements to amortize all Proprietary Fund debt, excluding revenue bonds payable outstanding as of June 30, 2016, including interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 469,329	\$ 66,666	\$ 535,995
2018	479,435	56,986	536,421
2019	486,754	47,056	533,810
2020	492,115	36,998	529,113
2021	261,183	28,322	289,505
2022-2026	1,267,075	65,260	1,332,335
2027-2031	207,472	12,662	220,134
2032-2033	155,782	4,314	160,096
Totals	<u>\$ 3,819,145</u>	<u>\$ 318,264</u>	<u>\$ 4,137,409</u>

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

Revenue Bonds:

\$450,000 Utilities Revenue Bonds, 1998A series, maturing through February 1, 2019, with interest at 4.5%	\$ 343,000
\$2,000,000 Utilities Revenue Bonds, 2001 series, maturing through February 1, 2042 with interest at 4.5%	1,679,000
Total Utility Fund Bonds Payable	<u>\$ 2,022,000</u>

Pledge of Utility Fund Revenues

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

Compliance with Bond Ordinances

The bond ordinances contain significant limitations and restrictions on annual debt reserve requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverages. Funds held in the various reserves at June 30, 2016 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash and cash equivalents.

Sinking Fund Requirements

Sinking Fund requirements are equal to the debt service requirement. The annual requirements to amortize all bonds as of June 30, 2016, including interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 45,500	\$ 92,870	\$ 138,370
2018	47,000	90,912	137,912
2019	48,500	88,865	137,365
2020	51,500	86,750	138,250
2021	53,000	82,013	135,013
2022-2026	304,500	371,495	675,995
2027-2031	380,000	295,763	675,763
2032-2036	475,000	201,129	676,129
2037-2041	511,500	89,685	601,185
2042	105,500	4,702	110,202
Totals	<u>\$ 2,022,000</u>	<u>\$ 1,404,184</u>	<u>\$ 3,426,184</u>

(7) RETIREMENT PLAN

County Employees Retirement System

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

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

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

Contributions: Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2016, employers were required to contribute

17.06% (12.42% - pension, 4.64% insurance) of the member's salary. During the year ending June 30, 2016, the City contributed \$84,356 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

CERS - Medical Insurance Plan

In addition to the CERS pension benefits described above, recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years - 0%, 4-9 years - 25%, 10-14 years - 50%, 15-19 years - 75% and 20 or more years - 100%.

As of June 30, 2015, the date of the latest actuarial valuation, the plan had 82,969 active plan participants.

Contribution requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed above.

The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2015 was as follows:

Total medical benefit obligation	<u>000's omitted</u> \$ 2,907,827
Net position available for benefits at actuarial value	(1,997,456)
Unfunded medical benefit obligation	<u>\$ 910,371</u>

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

At June 30, 2016, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2015. An expected total pension liability as of June 30, 2015 was determined using standard roll-forward techniques. The City's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2015. At June 30 2015, the City's proportion was 0.03087%.

For the year ended June 30, 2016, the City recognized pension expense of \$140,787. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 11,031	\$ -
Changes of assumptions	133,849	-
Net difference between projected and actual earnings on investments	11,899	-
Changes in proportion and differences between City contributions and proportionate share of contributions	118,322	-
District contributions subsequent to the measurement date	84,356	-
	<u>\$ 359,457</u>	<u>\$ -</u>

The \$84,356 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.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

<u>Year</u>	
2017	\$ 100,844
2018	100,844
2019	49,475
2020	23,938
	<u>\$ 275,101</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

The following represents the changes in assumptions from the prior valuation to the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. 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 target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	-0.25%
	<u>100.0%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate: The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current discount rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's proportionate share of the net pension liability	\$ 1,694,526	\$ 1,327,353	\$ 1,012,895

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

Payables to the pension plan: At June 30, 2016, the City had no payables to CERS.

457(b) Retirement Plan

The City of Grayson adopted a 457(b) retirement plan for the Utility Commission employees, as of July 1, 1999. Participation in the plan is on a voluntary basis with eligibility starting after one year of full time employment. The City has no contract with the administrator of the plan specifying the time period for the vesting of matching funds, therefore, by default, upon participation all plan benefits are fully vested. The

Commission contributes three percent of the employees' eligible salary, and the employees are required to match the three percent. Additional employee contributions are permissible up to ten percent of eligible salaries. A third party administrator maintains the plan assets and calculates benefits due. The Commission's contributions to the plan for the year ending June 30, 2016 were \$36,491.

(8) LEGAL CONTINGENCIES

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

(9) RISK MANAGEMENT

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

(10) ECONOMIC DEPENDENCE

Two of the City's taxpayers provided \$311,250 (33%) of the City's occupational license withholding tax. The total amount paid by these companies represents 12.9% of the General Fund revenues.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF GRAYSON, KENTUCKY
SCHEDULE OF CITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016**

	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)
	2016 (2015)	2015 (2014)
COUNTY EMPLOYEES RETIREMENT SYSTEM:		
City's proportion of the net pension liability	0.031%	0.026%
City's proportionate share of the net pension liability	\$ 1,327,353	\$ 853,000
City's covered-employee payroll	\$ 684,160	\$ 635,257
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	194.012%	134.276%
Plan fiduciary net position as a percentage of the total pension liability	59.970%	66.800%

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

**CITY OF GRAYSON, KENTUCKY
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
COUNTY EMPLOYEES RETIREMENT SYSTEM:			
Contractually required contribution	\$ 84,356	\$ 87,230	\$ 87,284
Contributions in relation to the contractually required contribution	<u>84,356</u>	<u>87,230</u>	<u>87,284</u>
Contribution deficiency (excess)	-	-	-
City's covered-employee payroll	\$ 679,215	\$ 684,160	\$ 635,257
City's pension contributions as a percentage of its covered-employee payroll	12.42%	12.75%	13.74%

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

**CITY OF GRAYSON, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

(1) CHANGES OF ASSUMPTIONS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015 listed below:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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

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

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for CERS.



Kelley **G**alloway
Smith **G**oolsby, PSC

Certified Public Accountants and Advisors

1200 Corporate Court • P. O. Box 990 • Ashland, Kentucky 41105

• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590

• Web www.ksgcpa.com Member of **Allinial** GLOBAL

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Grayson (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Grayson's basic financial statements, and have issued our report thereon dated January 25, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Kelley Galloway Smith Doolsey, PSC

Ashland, Kentucky
January 25, 2017