

**CITY OF GRAYSON, KENTUCKY**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2017**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**

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## 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, 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 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, 2017, 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 35 through 37 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, 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 the City's internal control over financial reporting and compliance.

*Kelley Galloway Smith Goolsby, PSC*

Ashland, Kentucky  
January 25, 2018

**City of Grayson, Kentucky  
Management's Discussion and Analysis  
Year Ended June 30, 2017**

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, 2017. 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 \$17,295,641 (net position). Governmental activities' unrestricted net position was (\$233,729) and is used to meet the Government's ongoing obligations. Business-type activities' unrestricted net position was \$2,205,105.
- The Government's total net position decreased by \$381,818. Net position of governmental activities decreased by \$29,311 and net position of business-type activities decreased by \$352,507.
- At June 30, 2017, the governmental activities had \$5,191,960 in assets and deferred outflows and \$3,185,802 in liabilities and deferred inflows. Business-type activities had \$21,079,255 in assets and \$5,789,772 in liabilities.
- The City implemented GASB 68 in fiscal year 2015. 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 \$1,400,663, as of June 30, 2017, an increase of \$73,310 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 - 34 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 \$17,295,641 at the close of the most recent fiscal year. The City's net position decreased 2.2% percent which is reported as the change in net position in the statement of activities.

### City of Grayson, Kentucky's Net Position

	<u>Government- type Activities</u>	<u>Business-type Activities</u>	<u>Government- type Activities</u>	<u>Business-type Activities</u>
	2017	2017	2016	2016
Current assets	\$ 1,064,685	\$ 3,481,530	\$ 1,086,404	\$ 3,644,295
Capital assets	3,744,444	17,597,725	3,893,971	18,195,658
Total assets	<u>4,809,129</u>	<u>21,079,255</u>	<u>4,980,375</u>	<u>21,839,953</u>
Deferred outflows	<u>382,831</u>	<u>-</u>	<u>359,457</u>	<u>-</u>
Current liabilities	288,966	717,293	322,743	726,701
Net pension liability	1,400,663	-	1,327,353	-
Long-term liabilities	1,431,209	5,072,479	1,654,267	5,471,262
Total liabilities	<u>3,120,838</u>	<u>5,789,772</u>	<u>3,304,363</u>	<u>6,197,963</u>
Deferred inflows	<u>64,964</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net position:				
Net investment in capital assets	2,132,598	12,139,595	2,043,676	12,354,513
Restricted	107,289	944,783	103,522	1,007,484
Unrestricted	(233,729)	2,205,105	(111,729)	2,279,993
Total net position	<u>\$ 2,006,158</u>	<u>\$ 15,289,483</u>	<u>\$ 2,035,469</u>	<u>\$ 15,641,990</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>	<u>Business-type Activities</u>	<u>Government- type Activities</u>	<u>Business-type Activities</u>
	2017	2017	2016	2016
<b>Revenues:</b>				
Charges for services	\$ 1,715	\$ 4,984,015	\$ 2,435	\$ 4,974,425
Tax levies	1,891,791	-	1,874,474	-
Licenses, fees and permits	316,884	-	321,219	-
Franchise fees	19,410	-	17,701	-
Grants/contributions	264,358	54,251	265,097	58,442
Investment earnings	588	3,839	449	3,246
Miscellaneous	92,157	-	52,082	-
Total revenues	<u>2,586,903</u>	<u>5,042,105</u>	<u>2,533,457</u>	<u>5,036,113</u>
<b>Expenses:</b>				
General government	424,144	-	499,328	-
Fire	418,814	-	363,443	-
Police	1,135,514	-	1,111,881	-
Highways and streets	482,208	-	454,497	-
Parks and recreation	57,164	-	74,555	-
Emergency management	29,200	-	30,891	-
Debt service	69,170	-	75,873	-
Utilities	-	5,394,612	-	5,268,014
Total expenses	<u>2,616,214</u>	<u>5,394,612</u>	<u>2,610,468</u>	<u>5,268,014</u>
Change in net position	<u>(29,311)</u>	<u>(352,507)</u>	<u>(77,011)</u>	<u>(231,901)</u>
Net position, beginning of Year	2,035,469	15,641,990	2,112,480	15,873,891
Net position, ending of year	<u>\$ 2,006,158</u>	<u>\$ 15,289,483</u>	<u>\$ 2,035,469</u>	<u>\$ 15,641,990</u>

**Government-type activity.** Government-type activity net position decreased by \$29,311 or 1.4%.

**Business-type activity.** Business-type activity net position decreased by \$352,507 or 2.3%.

#### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

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

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

### **Capital Assets**

The City's investment in capital assets for governmental and business-type activities as of June 30, 2017, amounts to \$21,342,169 (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 2.5% percent, before current depreciation.

Major capital asset events during the current fiscal year included completion of a sewer sludge press replacement project and road improvements.

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 \$7,069,976 as compared to \$7,691,440 in the prior year. The City issued new debt in the amount of \$141,549 for the sludge press replacement project 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 \$183,518 more than budgeted. General fund expenditures were \$45,592 more than budgeted.
- Special revenue fund - Municipal Road Aid revenues were \$2,936 more than budgeted. Expenditures were \$4,518 more 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 Darlene Simmons, 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, 2017**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 519,393	\$ 1,786,550	\$ 2,305,943
Accounts receivable:			
Unbilled receivables	-	225,705	225,705
Customers	-	379,824	379,824
Property taxes	262,107	-	262,107
Interest	-	126	126
Other	195,559	-	195,559
Allowance for doubtful accounts	(20,152)	(23,891)	(44,043)
Prepaid expenses	489	-	489
Inventory for supplies	-	168,433	168,433
Restricted assets -			
Cash and cash equivalents	107,289	944,783	1,052,072
Nondepreciable capital assets	1,000,116	572,950	1,573,066
Depreciable capital assets	6,325,950	36,712,369	43,038,319
Accumulated depreciation	(3,581,622)	(19,687,594)	(23,269,216)
<b>Total assets</b>	<b>4,809,129</b>	<b>21,079,255</b>	<b>25,888,384</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - pension related	382,831	-	382,831
<b>Total deferred outflows of resources</b>	<b>382,831</b>	<b>-</b>	<b>382,831</b>
<b>LIABILITIES</b>			
Accounts payable	24,780	75,676	100,456
Accrued wages	33,637	53,220	86,857
Other accrued liabilities	49,912	10,456	60,368
Current portion of long-term debt	180,637	532,628	713,265
Accrued interest payable	-	45,313	45,313
Customer deposits	-	146,977	146,977
Net pension liability	1,400,663	-	1,400,663
Long-term debt, net of current portion	1,431,209	4,925,502	6,356,711
<b>Total liabilities</b>	<b>3,120,838</b>	<b>5,789,772</b>	<b>8,910,610</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - pension related	64,964	-	64,964
<b>Total deferred outflows of resources</b>	<b>64,964</b>	<b>-</b>	<b>64,964</b>
<b>NET POSITION</b>			
Net investment in capital assets	2,132,598	12,139,595	14,272,193
Restricted	107,289	944,783	1,052,072
Unrestricted	(233,729)	2,205,105	1,971,376
<b>Total net position</b>	<b>\$ 2,006,158</b>	<b>\$ 15,289,483</b>	<b>\$ 17,295,641</b>

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, 2017**

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
<b>Governmental Activities</b>							
General government	\$ 424,144	\$ -	\$ -	\$ -	\$ (424,144)	\$ -	\$ (424,144)
Fire	418,814	-	47,688	-	(371,126)	-	(371,126)
Police	1,135,514	1,715	102,254	-	(1,031,545)	-	(1,031,545)
Highways and streets	482,208	-	114,416	-	(367,792)	-	(367,792)
Parks and recreation	57,164	-	-	-	(57,164)	-	(57,164)
Emergency management	29,200	-	-	-	(29,200)	-	(29,200)
Interest expense	69,170	-	-	-	(69,170)	-	(69,170)
Total governmental activities	<u>2,616,214</u>	<u>1,715</u>	<u>264,358</u>	<u>-</u>	<u>(2,350,141)</u>	<u>-</u>	<u>(2,350,141)</u>
<b>Business-Type Activities</b>							
Utility fund	<u>5,394,612</u>	<u>4,984,015</u>	<u>-</u>	<u>54,251</u>	<u>-</u>	<u>(356,346)</u>	<u>(356,346)</u>
Total business-type activities	<u>5,394,612</u>	<u>4,984,015</u>	<u>-</u>	<u>54,251</u>	<u>-</u>	<u>(356,346)</u>	<u>(356,346)</u>
Total primary government	<u>\$ 8,010,826</u>	<u>\$ 4,985,730</u>	<u>\$ 264,358</u>	<u>\$ 54,251</u>	<u>\$ (2,350,141)</u>	<u>\$ (356,346)</u>	<u>\$ (2,706,487)</u>
<b>General Revenues:</b>							
Payroll tax					\$ 955,826	\$ -	\$ 955,826
Property and other local taxes					935,965	-	935,965
Fines & forfeitures					7,111	-	7,111
Franchise fees					19,410	-	19,410
Licenses, fees and permits					316,884	-	316,884
Rent income					4,550	-	4,550
Interest income					588	3,839	4,427
Other revenues					80,496	-	80,496
Total general revenues					<u>2,320,830</u>	<u>3,839</u>	<u>2,324,669</u>
Change in net position					(29,311)	(352,507)	(381,818)
Net position, June 30, 2016					<u>2,035,469</u>	<u>15,641,990</u>	<u>17,677,459</u>
Net position, June 30, 2017					<u>\$ 2,006,158</u>	<u>\$ 15,289,483</u>	<u>\$ 17,295,641</u>

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

**CITY OF GRAYSON, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017**

	General	Special Revenue Funds		Total Governmental Funds
		Grant	Municipal Road Aid	
<b>Assets</b>				
Cash	\$ 519,393	\$ 13,653	\$ 93,636	\$ 626,682
Taxes receivable	262,107	-	-	262,107
Other receivables	195,559	-	-	195,559
Allowance for uncollectible taxes	(20,152)	-	-	(20,152)
Prepaid expense	489	-	-	489
<b>Total assets</b>	<b>\$ 957,396</b>	<b>\$ 13,653</b>	<b>\$ 93,636</b>	<b>\$ 1,064,685</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 24,780	\$ -	\$ -	\$ 24,780
Accrued wages	33,637	-	-	33,637
Other accrued liabilities	49,912	-	-	49,912
<b>Total liabilities</b>	<b>108,329</b>	<b>-</b>	<b>-</b>	<b>108,329</b>
<b>Fund Balances:</b>				
Restricted	-	13,653	93,636	107,289
Non-spendable	489	-	-	489
Unassigned	848,578	-	-	848,578
<b>Total fund balances</b>	<b>849,067</b>	<b>13,653</b>	<b>93,636</b>	<b>956,356</b>
<b>Total liabilities and fund balances</b>	<b>\$ 957,396</b>	<b>\$ 13,653</b>	<b>\$ 93,636</b>	<b>\$ 1,064,685</b>

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, 2017**

Total fund balance - Governmental Funds		\$ 956,356
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets of \$7,326,066 net of accumulated depreciation of \$3,581,622 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		3,744,444
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	131,676	
Deferred differences in pension experience	6,115	
Deferred changes in pension assumptions	74,200	
Deferred changes in differences between share of contributions	6,218	
Deferred pension contributions	99,658	317,867
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.		(3,012,509)
Net position, end of year - Governmental Activities		\$ 2,006,158

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, 2017**

	General	Special Revenue Funds		Total Governmental Funds
		Grant	Municipal Road Aid	
<b>Revenues</b>				
Taxes:				
Insurance	\$ 460,079	\$ -	\$ -	\$ 460,079
Mineral and coal	-	-	28,860	28,860
Motor vehicle	17,790	-	-	17,790
Payroll	955,826	-	-	955,826
Property	458,096	-	-	458,096
Fines & forfeitures	7,111	-	-	7,111
Franchise fees	19,410	-	-	19,410
Intergovernmental revenue:				
Base court	12,518	-	-	12,518
Grants	91,723	-	-	91,723
Alcohol license fees	210,149	-	-	210,149
Other license, fees, & permits	106,735	-	-	106,735
Municipal road aid	-	-	85,556	85,556
Police incentive	45,701	-	-	45,701
Interest income	494	1	93	588
Rental income	4,550	-	-	4,550
Other revenues	74,837	7,374	-	82,211
Total revenues	<u>2,465,019</u>	<u>7,375</u>	<u>114,509</u>	<u>2,586,903</u>
<b>Expenditures</b>				
General government	391,955	-	-	391,955
Fire	372,524	-	-	372,524
Police	1,072,602	2,026	-	1,074,628
Highways and streets	565,177	-	116,091	681,268
Parks and recreation	52,804	-	-	52,804
Emergency management	17,057	-	-	17,057
Total expenditures	<u>2,472,119</u>	<u>2,026</u>	<u>116,091</u>	<u>2,590,236</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,100)</u>	<u>5,349</u>	<u>(1,582)</u>	<u>(3,333)</u>
<b>Other Financing Sources (Uses)</b>				
Loan proceeds	-	-	-	-
Transfers	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(7,100)	5,349	(1,582)	(3,333)
Fund balance, beginning of year	<u>856,167</u>	<u>8,304</u>	<u>95,218</u>	<u>959,689</u>
Fund balance, end of year	<u>\$ 849,067</u>	<u>\$ 13,653</u>	<u>\$ 93,636</u>	<u>\$ 956,356</u>

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

**CITY OF GRAYSON, KENTUCKY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

Net change in fund balances - Governmental Funds	\$	(3,333)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay expense in the current period.</p>		
		(149,527)
<p>Governmental funds report CERS contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.</p>		
CERS contributions	15,302	
Pension expense	<u>(130,202)</u>	(114,900)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and interest consumes current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		<u>238,449</u>
Change in net position of Governmental Activities	\$	<u><u>(29,311)</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, 2017**

<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,786,550
Accounts receivable:	
Unbilled receivables	225,705
Customers	379,824
Interest	126
Allowance for doubtful accounts	(23,891)
Inventory for supplies	168,433
Restricted assets -	
Cash and cash equivalents	944,783
Nondepreciable capital assets	572,950
Depreciable capital assets	36,712,369
Accumulated depreciation	<u>(19,687,594)</u>
 Total assets	 <u>21,079,255</u>
 <b>LIABILITIES</b>	
Accounts payable	75,676
Accrued wages	53,220
Other accrued liabilities	10,456
Current portion of long-term debt	532,628
Accrued interest payable	45,313
Customer deposits	146,977
Long-term debt, net of current portion	<u>4,925,502</u>
 Total liabilities	 <u>5,789,772</u>
 <b>NET POSITION</b>	
Net investment in capital assets	12,139,595
Restricted	944,783
Unrestricted	<u>2,205,105</u>
 Total net position	 <u>\$ 15,289,483</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, 2017**

OPERATING REVENUES	
Gas	\$ 1,300,533
Sewer	899,163
Water	2,107,516
Garbage	676,803
Total operating revenues	<u>4,984,015</u>
OPERATING EXPENSES	
Gas:	
Gas purchases	678,647
Salaries and benefits	176,938
Contractual services	68,715
Depreciation	90,249
Materials and supplies	72,288
Other operating expenses	135,558
	<u>1,222,395</u>
Sewer:	
Salaries and benefits	298,976
Contractual services	27,464
Depreciation	339,800
Materials and supplies	76,659
Other operating expenses	308,580
	<u>1,051,479</u>
Water:	
Salaries and benefits	749,361
Contractual services	163,628
Depreciation	479,562
Materials and supplies	428,178
Other operating expenses	493,494
	<u>2,314,223</u>
Garbage:	
Contract	653,885
Total operating expenses	<u>5,241,982</u>
OPERATING LOSS	<u>(257,967)</u>
NON-OPERATING REVENUES	
(EXPENSES)	
Interest income	3,839
Interest expense	(152,630)
Grant income	14,152
Total non-operating revenues (expenses)	<u>(134,639)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(392,606)
CAPITAL CONTRIBUTIONS	<u>40,099</u>
DECREASE IN NET POSITION	(352,507)
NET POSITION, JUNE 30, 2016	<u>15,641,990</u>
NET POSITION, JUNE 30, 2017	<u>\$ 15,289,483</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, 2017**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 5,000,473
Cash payments to suppliers for goods and services	(3,125,983)
Cash payments to employees	<u>(1,220,739)</u>
Net cash provided by operating activities	<u>653,751</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(311,678)
Proceeds from issuance of long-term debt	141,549
Principal paid on long-term debt	(524,564)
Interest paid on long-term debt	(155,566)
Capital contributions	40,099
Capital grants received	<u>14,152</u>
Net cash used for capital and related financing activities	<u>(796,008)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	<u>3,839</u>
Net cash provided by investing activities	<u>3,839</u>
 Net decrease in cash and cash equivalents	 (138,418)
 Cash and cash equivalents, June 30, 2016	 <u>2,869,751</u>
 Cash and cash equivalents, June 30, 2017	 <u>\$ 2,731,333</u>
 <b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (257,967)
Adjustments:	
Depreciation	909,611
Changes in assets and liabilities:	
Decrease in accounts receivable	16,458
Decrease in inventory	7,889
Decrease in accounts payable	(26,776)
Increase in accrued wages	1,803
Increase in other accrued liabilities	702
Increase in customer deposits	<u>2,031</u>
Net cash provided by operating activities	<u>\$ 653,751</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, 2017**

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>					
Taxes:					
Property	\$ 422,520	\$ -	\$ 422,520	\$ 475,886	\$ 53,366
License, fees, & permits	1,701,325	-	1,701,325	1,752,199	50,874
Intergovernmental revenues	92,260	-	92,260	102,254	9,994
Fines & forfeitures	5,812	-	5,812	7,111	1,299
Charges for services	2,890	-	2,890	1,715	(1,175)
Other revenues	9,006	-	9,006	78,166	69,160
<b>Total revenues</b>	<b>2,233,813</b>	<b>-</b>	<b>2,233,813</b>	<b>2,417,331</b>	<b>183,518</b>
<b>Expenditures</b>					
General government	398,586	-	398,586	391,955	6,631
Fire	239,971	-	239,971	326,276	(86,305)
Police	1,089,800	-	1,089,800	1,072,602	17,198
Highways and streets	464,201	64,466	528,667	565,177	(36,510)
Parks and recreation	103,295	-	103,295	52,804	50,491
Emergency management	19,960	-	19,960	17,057	2,903
<b>Total expenditures</b>	<b>2,315,813</b>	<b>64,466</b>	<b>2,380,279</b>	<b>2,425,871</b>	<b>(45,592)</b>
Excess (deficiency) of revenues over (under) expenditures	(82,000)	(64,466)	(146,466)	(8,540)	137,926
<b>Other Financing Sources (Uses)</b>					
Transfers	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>(82,000)</b>	<b>(64,466)</b>	<b>(146,466)</b>	<b>(8,540)</b>	<b>137,926</b>
Fund balance, beginning of year	82,000	-	82,000	856,167	774,167
Fund balance, end of year	<u>\$ -</u>	<u>\$ (64,466)</u>	<u>\$ (64,466)</u>	<u>\$ 847,627</u>	<u>\$ 912,093</u>
Adjustments to Generally Accepted Accounting Principles -					
Firemen's fund grant revenues				47,688	
Firemen's fund expenditures				(46,248)	
Fund balance, end of year (GAAP basis)				<u>\$ 849,067</u>	

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

**CITY OF GRAYSON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**SPECIAL REVENUE FUND - GRANT**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>					
Interest income	\$ -	\$ -	\$ -	\$ 1	\$ 1
Other revenues	-	-	-	7,374	7,374
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,375</u>	<u>7,375</u>
<b>Expenditures</b>					
Police	-	-	-	2,026	(2,026)
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,026</u>	<u>(2,026)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,349</u>	<u>5,349</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,304</u>	<u>8,304</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,653</u>	<u>\$ 13,653</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**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>					
Taxes					
Mineral and coal	\$ 27,573	\$ -	\$ 27,573	\$ 28,860	\$ 1,287
Intergovernmental revenues					
Grants	-	-	-	-	-
Municipal road aid	84,000	-	84,000	85,556	1,556
Interest income	-	-	-	93	93
Other revenues	-	-	-	-	-
<b>Total revenues</b>	<u>111,573</u>	<u>-</u>	<u>111,573</u>	<u>114,509</u>	<u>2,936</u>
<b>Expenditures</b>					
Highways and streets	111,573	-	111,573	116,091	(4,518)
<b>Total expenditures</b>	<u>111,573</u>	<u>-</u>	<u>111,573</u>	<u>116,091</u>	<u>(4,518)</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	-	(1,582)	(1,582)
<b>Other financing sources (uses)</b>					
Loan proceeds	-	-	-	-	-
Transfers	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	(1,582)	(1,582)
Fund balance, beginning of year	-	-	-	95,218	95,218
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,636</u>	<u>\$ 93,636</u>

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

**CITY OF GRAYSON, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**(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 2017 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. Debt 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. 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. The adoption of this standard did not have a material effect on the City's financial statements.

In February 2017, the GASB issued Statement No. 84, *Fiduciary Activities* ("GASB 84"). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. Generally, the focus of the criteria relates to (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate

criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities. Additionally, GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust, or an equivalent arrangement, that meets specific criteria. Finally, it provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB 84 will be effective for the City beginning with its year ending June 30, 2020.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017* ("GASB 85"), which seeks to improve consistency in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB 85 addresses several topics, including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (i.e., pensions and other post-employment benefits (OPEB)). In particular, this Statement covers:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
- Reporting amounts previously reported as goodwill and "negative" goodwill.
- Classifying real estate held by insurance entities.
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

GASB 85 will be effective for the City beginning with its year ending June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* ("GASB 86"), which seeks to (1) improve consistency in accounting and financial reporting for certain debt extinguishments and (2) enhance the decision-usefulness of such information. GASB 86 establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources (i.e., resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the purpose of extinguishing debt. Additionally, it amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an in-substance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, GASB 86 establishes an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired. GASB 86 will be effective for the City beginning with its year ending June 30, 2018.

In June 2017, the GASB issued Statement No. 87, *Leases* ("GASB 87"), which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB 87 (1) increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; and (2) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Additionally, under GASB 87, a

lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 will be effective for the City beginning with its year ending June 30, 2021 and will be applied retroactively by restating financial statements. Management is currently evaluating the impact of this Statement on its financial statements.

**(2) CASH AND CASH EQUIVALENTS AND INVESTMENTS**

Cash and cash equivalents at June 30, 2017 consisted of the following:

	<u>Total</u>	<u>Unrestricted</u>	<u>Restricted</u>
Petty cash	\$ 383	\$ 383	\$ -
Cash in banks	2,729,632	2,305,560	424,072
Certificates of deposit	<u>628,000</u>	<u>-</u>	<u>628,000</u>
	<u>\$ 3,358,015</u>	<u>\$ 2,305,943</u>	<u>\$ 1,052,072</u>

At June 30, 2017, the carrying amounts of the City's deposits were \$3,357,632 (cash in banks and certificates of deposits above) and the bank balances were \$3,477,692. Of the bank balances, \$1,016,924 was covered by the Deposit Insurance Fund and \$2,460,768 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 2017 assessed value for real and tangible property was \$186,291,801. 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 \$309,783 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 \$144,000 at June 30, 2017.

**(5) CAPITAL ASSETS**

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

	June 30, 2016	Increases	Decreases	June 30, 2017
<i>Governmental Activities</i>				
<b>Capital Assets, Not Depreciated:</b>				
Land	\$ 1,000,116	\$ -	\$ -	\$ 1,000,116
<b>Capital Assets, Depreciated:</b>				
City Hall	159,414	-	-	159,414
Leasehold improvements	26,979	-	-	26,979
Administrative office & equipment	79,202	-	-	79,202
Street equipment & improvements	1,045,623	248,029	-	1,293,652
Fire equipment & vehicles	1,750,019	-	-	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	7,078,037	248,029	-	7,326,066
Less: Accumulated Depreciation	3,184,066	397,556	-	3,581,622
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 3,893,971</b>	<b>\$ (149,527)</b>	<b>\$ -</b>	<b>\$ 3,744,444</b>
<i>Business-type Activities</i>				
<b>Capital Assets, Not Depreciated:</b>				
Land	\$ 572,950	\$ -	\$ -	\$ 572,950
Construction in progress	555,956	222,928	(778,884)	-
<b>Capital Assets, Depreciated:</b>				
Cooks Wastewater Plant	2,023,385	-	-	2,023,385
General Equipment and vehicles	4,661,653	18,000	-	4,679,653
Water System	15,682,716	13,000	-	15,695,716
Gas System	3,610,233	57,750	-	3,667,983
Sewer System	9,866,748	-	778,884	10,645,632
Totals	36,973,641	311,678	-	37,285,319
Less: Accumulated Depreciation	18,777,983	909,611	-	19,687,594
<b>Business-type Activities Capital Assets, Net</b>	<b>\$ 18,195,658</b>	<b>\$ (597,933)</b>	<b>\$ -</b>	<b>\$ 17,597,725</b>

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

Governmental activities:	
General government	\$ 8,217
Police	65,864
Fire	206,844
Street	100,128
Park	4,360
Emergency management	12,143
	<u>\$ 397,556</u>
Business-type activities:	
Utilities	<u>\$ 909,611</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, 2017:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
<b><u>Governmental Activities</u></b>				
3.13% Kentucky League Of Cities note payable - Fire Station	\$ 1,024,375	\$ -	\$ 61,619	\$ 962,756
4.10% Capital Lease - Police station and Sallyport	385,809	-	64,508	321,301
2.88% Capital Lease – Tractor and bush hog	13,748	-	10,974	2,774
3.15% Capital Lease – Street Backhoe	37,340	-	37,340	-
3.25% Capital Lease – Street Truck	19,134	-	19,134	-
3.49% Capital Lease – Air Packs	148,332	-	13,383	134,949
2.85% Capital Lease - New pumper truck	<u>221,557</u>	<u>-</u>	<u>31,491</u>	<u>190,066</u>
Total Governmental Activities	<u>\$ 1,850,295</u>	<u>\$ -</u>	<u>\$ 238,449</u>	<u>\$ 1,611,846</u>
	Balance			Balance
<b><u>Business-type Activities</u></b>				
Notes payable	\$ 3,819,145	\$ 141,549	\$ 479,064	\$ 3,481,630
Bonds payable	<u>2,022,000</u>	<u>-</u>	<u>45,500</u>	<u>1,976,500</u>
Total Business-type Activities	<u>\$ 5,841,145</u>	<u>\$ 141,549</u>	<u>\$ 524,564</u>	<u>\$ 5,458,130</u>

**Governmental Activities**

The annual requirements to amortize the City's Governmental Activities indebtedness as of June 30, 2017 (including interest payments) are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 180,637	\$ 56,804	\$ 237,441
2019	184,795	50,736	235,531
2020	192,119	44,508	236,627
2021	199,826	37,847	237,673
2022	164,105	31,370	195,475
2023-2027	514,274	93,427	607,701
2028-2029	176,090	8,090	184,180
	<u>\$ 1,611,846</u>	<u>\$ 322,782</u>	<u>\$ 1,934,628</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, 2017, there was one series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of approximately \$3.4 million.

As of June 30, 2017, 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, 2017 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.	\$ 475,462
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.	155,000
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.	102,500
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.	1,463,037
Kentucky Infrastructure Authority, payable in semi-annual Installments estimated at \$20,384, including interest of 1.0%, final payment due December 2036, collateralized by a pledge of utility revenues.	690,501
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>595,130</u>
Total Utility Fund Notes Payable	<u>\$ 3,481,630</u>

The annual requirements to amortize all Proprietary Fund debt, excluding revenue bonds payable outstanding as of June 30, 2017, including interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 485,628	\$ 63,269	\$ 548,897
2019	492,466	53,552	546,018
2020	497,470	43,168	540,638
2021	267,011	34,163	301,174
2022	267,344	33,830	301,174
2023-2027	1,118,808	65,267	1,184,075
2028-2032	181,567	13,597	195,164
2033-2037	171,336	4,312	175,648
Totals	<u>\$ 3,481,630</u>	<u>\$ 311,158</u>	<u>\$ 3,792,788</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%	\$	333,000
\$2,000,000 Utilities Revenue Bonds, 2001 series, maturing through February 1, 2042 with interest at 4.5%		<u>1,643,500</u>
Total Utility Fund Bonds Payable	\$	<u><u>1,976,500</u></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, 2017 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, 2017, including interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 47,000	\$ 88,865	\$ 135,865
2019	48,500	86,750	135,250
2020	51,500	84,330	135,830
2021	53,000	82,013	135,013
2022	56,000	79,582	135,582
2023-2027	318,500	357,658	676,158
2028-2032	397,500	278,483	675,983
2033-2037	495,500	179,574	675,074
2038-2042	509,000	67,477	576,477
Totals	<u>\$ 1,976,500</u>	<u>\$ 1,304,732</u>	<u>\$ 3,281,232</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, 2017, employers were required to contribute 18.68% (13.95% - pension, 4.73% insurance) of the member's salary. During the year ending June 30, 2017, the City contributed \$99,658 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

*Plan description:* CERS health insurance benefits are also subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance coverage based on the retired member's years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member's health insurance premium.

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

*Funding policy:* CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the 2016 measurement period, CERS allocated 4.73% of the 18.68% actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1.00% of the contributions by employees hired after September 1, 2008 are allocated to the health insurance plan.

*Contributions:* The City's total payroll for employees covered under CERS for the years ending June 30, 2017, 2016, and 2015 was \$714,394, \$679,215 and \$684,160, respectively. The City's contributions to CERS for the years ending June 30, 2017, 2016, and 2015 were \$33,791, \$31,516, and \$33,661, respectively, and equaled the actually required contributions for the year.

*Funded status:* The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2016 was as follows:

Total medical benefit obligation	<u>000's omitted</u> \$ 2,988,121
Net position available for benefits at actuarial value	(2,079,811)
Unfunded medical benefit obligation	<u>\$ 908,310</u>

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

At June 30, 2017, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2016 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, 2016. At June 30 2016, the City's proportion was 0.028448%.

For the year ended June 30, 2017, the City recognized pension expense of \$114,900. At June 30, 2017, 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 actual experience	\$ 6,115	\$ -
Changes of assumptions	74,200	-
Net difference between projected and actual earnings on investments	131,676	-
Changes in proportion and differences between City contributions and proportionate share of contributions	71,182	64,964
City contributions subsequent to the measurement date	99,658	-
	<u>\$ 382,831</u>	<u>\$ 64,964</u>

The \$99,658 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>	
2018	\$ 81,330
2019	55,261
2020	52,373
2021	29,245
	<u>\$ 218,209</u>

*Actuarial Methods and Assumptions:* The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 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 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	\$ 1,745,000	\$ 1,400,663	\$ 1,105,000

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

*Payables to the pension plan:* At June 30, 2017, the City had payables to CERS in the amount of \$13,399 for June's covered payroll with contributions required to be paid in July.

**(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 \$292,257 (30.6%) of the City's occupational license withholding tax. The total amount paid by these companies represents 11.9% 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, 2017**

	Reporting Fiscal Year (Measurement Date) 2017 (2016)	Reporting Fiscal Year (Measurement Date) 2016 (2015)	Reporting Fiscal Year (Measurement Date) 2015 (2014)
<b>COUNTY EMPLOYEES RETIREMENT SYSTEM:</b>			
City's proportion of the net pension liability	0.028%	0.031%	0.026%
City's proportionate share of the net pension liability	\$ 1,400,663	\$ 1,327,353	\$ 853,000
City's covered-employee payroll	\$ 679,215	\$ 684,160	\$ 635,257
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	206.218%	194.012%	134.276%
Plan fiduciary net position as a percentage of the total pension liability	55.500%	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, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>COUNTY EMPLOYEES RETIREMENT SYSTEM:</b>				
Contractually required contribution	\$ 99,658	\$ 84,356	\$ 87,230	\$ 87,284
Contributions in relation to the contractually required contribution	<u>99,658</u>	<u>84,356</u>	<u>87,230</u>	<u>87,284</u>
Contribution deficiency (excess)	-	-	-	-
City's covered-employee payroll	\$ 714,394	\$ 679,215	\$ 684,160	\$ 635,257
City's pension contributions as a percentage of its covered-employee payroll	13.95%	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, 2017**

**(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.
- 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 2017, determined as of July 1, 2015. 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	27 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.



**K**elley **G**alloway  
**S**mith **G**oolsby, PSC

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**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, 2017, 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, 2018.

**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 a 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 Goolsby, PSC*

Ashland, Kentucky  
January 25, 2018



Kelley Galloway  
Smith Goolsby, PSC

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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, 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 19, 2017. 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. No new accounting policies were adopted and the application of existing policies was not changed during the year. 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 Grayson’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, 2018.

#### *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 information and 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, 2018

**CITY OF GRAYSON**  
**PASSED AUDIT ADJUSTMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

There were no passed audit adjustments.