

CITY OF ALBANY, KENTUCKY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

**CITY OF ALBANY, KENTUCKY
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2016**

	PAGE
DIRECTORY	1
INDEPENDENT AUDITOR'S REPORT	2 - 3
BASIC FINANCIAL STATEMENTS	
GOVERNMENT - WIDE FINANCIAL STATEMENTS	
Statement of Net Position	4
Statement of Activities	5
FUND FINANCIAL STATEMENTS	
Balance Sheet - Governmental Funds	6
Statement of Revenues, Expenditures, and Changes In Fund Balance - Governmental Funds	7
Statement of Net Position - Proprietary Funds	8
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	9
Statement of Cash Flows - Proprietary Funds	10
Notes to the Financial Statements	11 - 29
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison General Fund	30 - 32
Schedule of Proportionate Share of the Net Pension Liability	33
Schedule of Contributions County Employees' Retirement System	34
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	35-36
SCHEDULE OF FINDINGS AND RESPONSES	37-39

CITY OF ALBANY
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ALBANY, KENTUCKY
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CITY OFFICIALS AND OFFICERS

MAYOR

John N. Smith

MEMBERS OF COUNCIL

Steve Lawson
Tony Delk
Leland Hicks
Tonya Thrasher
Brad Thrasher
Frankie Stockton

OFFICERS

Melissa P. Smith
City Clerk/Treasurer

Norbert H. Sohm
City Attorney

Ernest Guffey
Chief of Police

Robert Roeper
Fire Chief

SAMMY K. LEE, P.S.C.

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Albany
Albany, Kentucky 42602

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Albany (hereinafter called "the City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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 City'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 City's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and pension schedules on pages 30–34 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 an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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 provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated February 21, 2017, on my consideration of the City's internal control over financial reporting and on my 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 my 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.

Sammy K. Lee, P.S.C.

Berea, Kentucky
February 21, 2017

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

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Assets			
Current Assets			
Cash and cash equivalents-unrestricted	\$ 106,070	\$ 57,867	\$ 163,937
Cash and cash equivalents-restricted	120,828	-	120,828
Certificates of deposit	202,458	-	202,458
Accounts receivables, net	404,801	544,061	948,862
Interest receivable	-	244	244
Prepaid expenses	-	1,029	1,029
Inventory, net	-	107,377	107,377
Total Current Assets	<u>834,157</u>	<u>710,578</u>	<u>1,544,735</u>
Non-Current Assets			
Restricted cash	87,880	510,519	598,399
Certificates of deposit	167,326	202,957	370,283
Capital assets:			
Non-depreciable	83,086	340,661	423,747
Depreciable, net	1,181,461	27,797,497	28,978,958
Total Non-Current Assets	<u>1,519,753</u>	<u>28,851,634</u>	<u>30,371,387</u>
Total Assets	<u>2,353,910</u>	<u>29,562,212</u>	<u>31,916,122</u>
Deferred Outflows of Resources			
Deferred amounts related to pensions	144,466	273,934	418,400
Liabilities			
Current Liabilities			
Accounts payable	7,888	82,207	90,095
Accrued expenses	50,180	84,586	134,766
Revenue bonds payable	-	214,167	214,167
Notes payable	82,894	8,431	91,325
Accrued interest	-	50,612	50,612
Fire membership payable	-	375,862	375,862
Customer deposits payable	-	188,482	188,482
Total Current Liabilities	<u>140,962</u>	<u>1,004,347</u>	<u>1,145,309</u>
Non-Current Liabilities			
Revenue bonds payable	-	4,440,833	4,440,833
Notes payable	-	215,006	215,006
Net pension liability	569,245	1,328,239	1,897,484
Total Non-Current Liabilities	<u>569,245</u>	<u>5,984,078</u>	<u>6,553,323</u>
Total Liabilities	<u>710,207</u>	<u>6,988,425</u>	<u>7,698,632</u>
Deferred Inflows of Resources			
Deferred amounts related to pensions	11,210	26,157	37,367
Net Position			
Net investment in capital assets	1,181,653	23,259,721	24,441,374
Restricted	208,708	510,519	719,227
Unrestricted	386,598	(948,676)	(562,078)
Total Net Position	<u>\$ 1,776,959</u>	<u>\$ 22,821,564</u>	<u>\$ 24,598,523</u>

The accompanying notes are an integral part of these financial statements.

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contribution	
Government Activities					
General government	\$ 209,136	\$ -	\$ -	\$ -	\$ (209,136)
Police	453,366	-	16,344	-	(437,022)
Fire	172,824	169,725	-	-	(3,099)
Street	297,356	-	-	-	(297,356)
Total Governmental Activities	1,132,682	169,725	16,344	-	(946,613)
Business-Type Activities					
Water	2,869,318	2,098,054	-	-	(771,264)
Sewer	599,564	239,739	-	-	(359,825)
Total Business-Type Activities	3,468,882	2,337,793	-	-	(1,131,089)
Total Activities	\$ 4,601,564	\$ 2,507,518	\$ 16,344	\$ -	\$ (2,077,702)

	Governmental Activities	Business-Type Activities	Total
Change in Net Position			
Net (expense) revenue	\$ (946,613)	\$ (1,131,089)	\$ (2,077,702)
General Revenues			
Taxes	168,346	-	168,346
Licenses and other taxes	730,092	-	730,092
Intergovernmental	79,176	-	79,176
Fines, arrest fees, and permits	11,772	-	11,772
Interest income	4,456	1,845	6,301
Miscellaneous	14,867	96,079	110,946
Total General Revenues	1,008,709	97,924	1,106,633
Change in Net Position	62,096	(1,033,165)	(971,069)
Net Position, Beginning	2,256,459	23,477,312	25,733,771
Prior Period Adjustment	(541,596)	377,417	(164,179)
Net Position, Beginning, as Restated	1,714,863	23,854,729	25,569,592
Net Position, Ending	\$ 1,776,959	\$ 22,821,564	\$ 24,598,523

The accompanying notes are an integral part of these financial statements.

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

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents-unrestricted	\$ 106,070	\$ -	\$ 106,070
Certificates of deposit	369,784	-	369,784
Accounts receivable, net	404,801	-	404,801
Restricted cash	169,248	39,460	208,708
Total Assets	\$ 1,049,903	\$ 39,460	\$ 1,089,363
 Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 7,888	\$ -	\$ 7,888
Accrued expenses	50,180	-	50,180
Notes payable	82,894	-	82,894
Total Liabilities	140,962	-	140,962
 Fund Balances			
Restricted	169,248	39,460	208,708
Unassigned	739,693	-	739,693
Total Fund Balances	908,941	39,460	948,401
 Total Liabilities and Fund Balances	 \$ 1,049,903	 \$ 39,460	 \$ 1,089,363

Amounts reported for *governmental activities* in the Statement of Net Position are different because:

Fund balances reported above	\$ 948,401
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,264,547
Net deferred inflows/outflows related to the long-term net pension liability are not reported in the funds.	133,256
All long-term liabilities are reported in the Statement of Net Position whereas in governmental funds, long term liabilities are not due and payable are not due and payable in the current period and therefore are not reported	
Net pension liability	(569,245)
Net Position of Governmental Activities	\$ 1,776,959

The accompanying notes are an integral part of these financial statements.

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

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 168,346	\$ -	\$ 168,346
Licenses and other taxes	730,092	-	730,092
Intergovernmental	46,979	48,541	95,520
Service charges	169,725	-	169,725
Fines, arrest fees, and permits	11,772	-	11,772
Other	19,323	-	19,323
Total Revenues	1,146,237	48,541	1,194,778
Expenditures			
Current:			
General and administration department	217,232	-	217,232
Police department	520,983	-	520,983
Fire department	118,017	-	118,017
Street department	200,413	71,415	271,828
Capital outlay	123,549	-	123,549
Debt service:			
Principal	80,387	-	80,387
Interest	2,863	-	2,863
Total Expenditures	1,263,444	71,415	1,334,859
Excess (deficiency) of revenues over (under) expenditures	(117,207)	(22,874)	(140,081)
Other Financing Sources			
Issuance of debt	106,743	-	106,743
Total Other Financing Sources	106,743	-	106,743
Net Change in Fund Balance	(10,464)	(22,874)	(33,338)
Fund Balance, Beginning	1,389,091	62,334	1,451,425
Fund Balance, Ending	\$ 1,378,627	\$ 39,460	\$ 1,418,087

Net changes in fund balances - total governmental funds **\$ (33,338)**

Amounts reported for *government activities* in the statement of activities are different because:

Proceeds of certain notes payable are reported as financing sources in governmental funds and thus contribute to the increase in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Outstanding loan balance at beginning of the year was \$56,538 compared to \$82,894 at end of year. (26,356)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay of \$123,549 exceeds depreciation expense of \$111,012 in the current period. 12,537

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. Change in pension expense of governmental activities 109,253

Change in net position of governmental activities **\$ 62,096**

CITY OF ALBANY, KENTUCKY
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2016

Assets	
Current Assets	
Cash and cash equivalents	\$ 57,867
Accounts receivables, net	
Customers	541,701
Other	2,360
Interest receivable	244
Prepaid expenses	1,029
Inventory, net	107,377
Total Current Assets	<u>710,578</u>
Non-Current Assets	
Restricted cash	510,519
Certificates of deposit	202,957
Capital assets:	
Non-depreciable	340,661
Depreciable, net	27,797,497
Total Non-Current Assets	<u>28,851,634</u>
Total Assets	<u>29,562,212</u>
Deferred Outflows of Resources	
Deferred amounts related to pensions	<u>273,934</u>
Liabilities	
Current Liabilities	
Accounts payable	82,207
Accrued expenses	84,586
Revenue bonds payable	214,167
Notes payable	8,431
Accrued interest	50,612
Fire membership payable	375,862
Customer deposits payable	188,482
Total Current Liabilities	<u>1,004,347</u>
Non-Current Liabilities	
Revenue bonds payable	4,440,833
Notes payable	215,006
Net pension liability	1,328,239
Total Non-Current Liabilities	<u>5,984,078</u>
Total Liabilities	<u>6,988,425</u>
Deferred Inflows of Resources	
Deferred amounts related to pensions	<u>26,157</u>
Net Position	
Net investment in capital assets	23,259,721
Restricted	510,519
Unrestricted	(948,676)
Total Net Position	<u>\$ 22,821,564</u>

The accompanying notes are an integral part of these financial statements.

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

Operating Revenues	
Charges for services	\$ 2,337,793
Miscellaneous	96,079
Total Operating Revenues	<u>2,433,872</u>
Operating Expenses	
Salaries	695,690
Employee benefits	509,904
Administration	20,009
Contractual services	15,996
Repairs, parts, and supplies	166,566
Vehicle expense	65,870
Travel and training	5,486
Utilities and telephone	556,224
Labs and supplies	180,611
Insurance	46,400
Depreciation	1,014,314
Bad debt provision	26,220
Miscellaneous	39,667
Penalties and interest	1,131
Total Operating Expenses	<u>3,344,088</u>
Operating Loss	<u>(910,216)</u>
Non-Operating Revenues (Expenses)	
Interest income	1,845
Interest expense	(124,794)
Total Non-Operating Revenue (Expenses)	<u>(122,949)</u>
Change in Net Position	(1,033,165)
Total Net Position, Beginning	23,477,312
Prior Period Adjustment	<u>377,417</u>
Total Net Position, Beginning, as Restated	23,854,729
Total Net Position, Ending	<u><u>\$22,821,564</u></u>

The accompanying notes are an integral part of these financial statements.

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

Cash Flows from Operating Activities	
Cash received from customers	\$ 2,272,557
Cash received from other sources	96,079
Cash payments to suppliers for goods and services	(1,252,918)
Cash payments to employees	(691,114)
	<u>424,604</u>
Net Cash Provided by Operating Activities	<u>424,604</u>
Cash Flows from Capital and Related Financing Activities	
Principal and interest paid on long-term debt	(415,850)
Acquisition and construction of capital assets	(8,528)
	<u>(424,378)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(424,378)</u>
Cash Flows from Investing Activities	
Investment in certificates of deposit	(3,939)
Cash received from interest income	1,829
	<u>(2,110)</u>
Net Cash Used by Investing Activities	<u>(2,110)</u>
Net Decrease in Cash and Cash Equivalents	(1,884)
Cash and Cash Equivalents at July 1, 2015	<u>59,751</u>
Cash and Cash Equivalents at June 30, 2016	<u><u>\$ 57,867</u></u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	<u>\$ (910,216)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	1,014,314
Bad debt provision	26,220
Changes in assets and liabilities:	
(Increase) decrease in customer accounts receivable	65,236
(Increase) decrease in other receivable	2,360
(Increase) decrease in inventory	(2,749)
Increase (decrease) in accounts payable	2,985
Increase (decrease) in accrued expenses	4,576
Increase (decrease) in due to general	24,696
Increase (decrease) in customer deposits	9,001
Increase (decrease) in net pension liability	426,049
Deferred inflow/outflows related to pension	(237,868)
	<u>1,334,820</u>
Total adjustments	<u>1,334,820</u>
Net Cash Provided by Operating Activities	<u><u>\$ 424,604</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Albany, Kentucky (hereinafter the "City") operates under a Mayor-Council form of government. The City's major operations include police and fire protection, streets and roadways, and general administrative services. The City also operates a water and sewer system for its citizens. The citizens of Albany elect a mayor-at-large and six city council members. The accompanying financial statements present the City's primary government unit over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationship with the City (as distinct from a legal relationship).

Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic, but not the only criterion for including a potential component unit within the reporting entity, is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the City has no component unit.

Basis of Presentation

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and user charges.

Government-wide financial statements display information about the reporting government as a whole. These statements focus on the sustainability as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Position and the Statement of Activities.

- *Statement of Net Position* presents information on all of the assets and liabilities, with the difference between the two reported as *net position*.
- *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.

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary or fiduciary, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and detailed in the supplementary information.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule include charges between the business-type activities/enterprise funds and the General Fund. Charges are allocated as reimbursement for services provided by the General Fund in support of those functions based on levels or services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. These charges are included in direct program expenses.

- *General Fund* is the City's primary operating fund. It accounts for all financial operations of the City and except for those required to be accounted for in another designated fund.
- *Other Governmental Funds* are special revenue accounts for financial resources provided by the State of Kentucky through its Municipal Road Aid and Local Government Economic Assistance Funds. These funds are restricted for the use of public safety and street improvements.

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus. The government-wide financial statements and the proprietary funds financial statements are presented on a full accrual basis of accounting with an economic resource measurement focus. An economic resource focus concentrates on an entity or fund's net position. All transactions and events that affect the total economic resources (net position) during the period are reported. An economic resources measurement focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows.

Governmental fund financial statements are presented on a modified accrual basis of accounting with a current financial resource measurement focus. This measurement focus concentrates on the fund's resources available for spending currently or in the near future. Only transactions and events affecting the fund's current financial resources during the period are reported. Similar to the connection between an economic resource measurement focus is inseparable from a modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Measurable means the amount of the transaction can be determined and revenues are considered available when they are collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within 60 days of the end of the current fiscal period. Revenues considered susceptible to accrual are property taxes, state, county and local shared revenues taxes and fees, franchise fees, intergovernmental grants, and investment income.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus and Basis of Accounting – Continued

Unavailable revenue, a deferred inflow of resources, arises on the balance sheets of the governmental funds when potential revenue does not meet both the *measurable* and *available* criteria for recognition in the current period. This *unavailable* revenue consists primarily of uncollected property taxes and assessments not deemed available to finance operation of the current period. In the government-wide Statement of Activities, with a full accrual basis of accounting, revenue must be recognized as soon as it is earned regardless of its availability. Thus, the liability created on the balance sheets of the governmental funds for unavailable revenue is recognized as revenue in the Statement of Activities. Note that unavailable revenues also arise outside the scope of measurement focus and basis of accounting, such as when resources are received before there is legal claim to them. For instance, when grant monies are received prior to the incurrence of qualifying expenditures.

Similar to the way its revenues are recorded, governmental funds only record those expenditures that affect current financial resources. Principal and interest on general long-term debt are recorded as funds liabilities only when due, or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Vested compensated absences are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources. In the government-wide financial statements, however, with a full accrual basis of accounting, all expenditures affecting the economic resource status of the government must be recognized. Thus, the expense and related accrued liability for long-term portions of debt and compensated absences must be included.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is necessary to explain the adjustments needed to transform the fund based financial statements into the governmental column of the government-wide presentation. This reconciliation is part of the financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the City's Water and Sewer Funds are charges to customers for sales and services. The Water and Sewer Funds also recognize System Development Charges (SDC) fees intended to recover the cost of connecting new customers to the utility systems as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and overhead charges, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the policy to use restricted resources first, then unrestricted resources as they are needed.

Budgeting

The City Council adopts an annual budget for the General, Special Revenues, and Proprietary Funds. Any revisions that alter the budget must be approved by the City Council. For 2016, the original budget was approved in June 2015 and amended May 2016. The budget for the General Fund is presented in the Required Supplemental Budgetary Comparison General Fund schedule. All annual appropriations lapse at fiscal year-end. Budgets for all funds are adopted on a consistent basis with generally accepted accounting principles.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Certificates of Deposit

The City considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents. The City considers all cash, both restricted and unrestricted, as cash and cash equivalents for purposes of the Statement of Cash Flows. The City has restricted cash and/or certificates of deposit to satisfy bond issue requirements, including cash restricted for bond payments. Certificates of deposit are reported at cost which approximates fair value. These funds are invested for periods that comply with cash flow requirements of bond ordinances and general government services.

Receivables

Recorded property taxes receivable that are collected within 60 days after year-end are considered measurable and available and, therefore, are recognized as revenue. An allowance for doubtful accounts is not deemed necessary by management, as uncollectible taxes become a lien on the property. Property taxes are levied and become a lien on July 1. Receivables of the proprietary funds are recognized as revenue when earned, including services provided but not billed. Other receivables consist of amounts due at year end from other state, local and federal governments. Interest and investment revenue receivable in all funds consist of revenue due on each investment. Allowances for uncollectible accounts are maintained on all types of receivables that historically experience uncollectible amounts. Allowances are based on collection experience and management's evaluation of the current status of existing receivables.

Internal Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds," Short-term inter-fund loans are reported as "inter-fund receivables and payables." Long-term inter-fund loans (non-current portion) are reported as "advances from and to other funds." Inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

Property Tax Calendar

Property taxes for fiscal year 2016 were levied in November 2015, respectively, on the assessed property located in the City of Albany as of the preceding January 1. The rate for real estate was 18 cents per one hundred dollars of assessed value. The rate for auto and boats was 20 cents and other tangible property was 20 cents per one hundred dollars, respectively. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

- | | |
|---|------------------------------|
| 1. Due date for payment of taxes, 2% discount | November 30 |
| 2. Face value payment period | December 1 to December 31 |
| 3. Past due date, 10% penalty | January 1 |
| 4. Interest charge | 12% per annum from January 1 |

These taxes are collected by the City Clerk. Vehicle taxes are collected by the County Clerk of Clinton County and are due and collected in the birth month of the licensee.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Inventory

Inventories of materials and supplies in all funds are stated at cost on a first-in, first-out basis and charged to expenses as used.

Restricted Assets

Cash and certificates of deposit which may only be used for construction of capital assets or debt service principal and interest payments in accordance with applicable laws and regulations have been reported as restricted cash and investments on the Government-Wide Statement of Net Position and the Proprietary Fund Statement of Net Position.

Capital Assets

Capital assets that are purchased or constructed are recorded at historical cost. Donated assets are recorded at estimated market value at the time of donation. The City defines capital assets as assets with an individual cost of more than \$500, and an estimated useful life of more than one year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives are not capitalized. When assets are retired or otherwise disposed of, the costs are removed from the asset accounts and a gain or loss is recorded. In the Fund Financial Statements, capital assets used in government fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	15 years
Equipment	5-10 years
Water and Sewer System Utility Plants	25-40 years
Infrastructure	15-40 years

Compensated Absences

The City allows employees to accumulate unused sick leave with no limit and vacation leave to a maximum of 160 hours. Accumulated vacation time in excess of 120 hours is generally required to be used within one year of accumulation. Upon termination, up to 120 hours of accumulated vacation leave will be paid to the employee. Sick leave is not paid upon termination, but will be paid only upon illness while in the employment of the City.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. The City has one item that meets this criterion, as related to pensions reported in the Statement of Net Position. This represents the effect of the net change in the City's proportion of the collective net pension liability and difference during the measurement period between the City's contributions and its proportion share of total contributions to the pension systems not included in pension expense. In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The City has only one item that meet the criterion for this category as related to pensions reported in the Statement of Net Position.

Pensions

The City participates in a cost-sharing multiple-employer plan to provide pension benefits to employees. Each cost-sharing government reports its proportionate share of the cumulative net pension liability. For the purposes of measuring the net pension liability, deferred outflows or inflows of resources related to pension, and pension expense, information about the fiduciary net positions of the Kentucky "County Employer Retirement System" (CERS), have been determined by the same basis as they are reported by CERS.

Net Position/Fund Balances

Net position in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net position represent constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or b) imposed by law through state statute. In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraint placed on how fund balance can be spent. The governmental fund types classify fund balances as follows:

Non-spendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – This classification includes revenue sources that are restricted to specific purposes externally imposed by creditors, grantors or imposed by law.

Committed – Portion of fund balance that can only be used for specific purposes imposed by majority vote of the City Council Members. Any changes or removal of specific purposes requires majority action by them.

Assigned – Portion of fund balance that has been budgeted by the City Council.

Unassigned – Portion of fund balance that has not been restricted, committed or assigned for specific purpose.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing and producing goods and/or services in connection with the Enterprise Funds. Operating expenses include administrative expenses, supplies, personnel costs, utilities, professional fees, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses and may include interest, grants, and gain or loss on disposition of capital assets.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND CERTIFICATES OF DEPOSIT

Deposits, both restricted and unrestricted at June 30, 2016 consisted of the following:

Account	Interest Bearing	Governmental	Water and Sewer	Total
Operating	Yes	\$ 36,459	\$ 57,867	\$ 94,326
LGEAF	Yes	1,024	-	1,024
Municipal Road Aid	Yes	38,437	-	38,437
Dare Program	Yes	16	-	16
Drug Ratification	Yes	33,843	-	33,843
Fire Membership Fees	Yes	69,610	-	69,610
Depreciation Fund	Yes	-	9,988	9,988
Improvement and Refunding	Yes	-	78,154	78,154
Raw Water Intake Exec Order	Yes	-	176	176
US Highway 127 Highway Relocation	Yes	-	25,910	25,910
Sinking Fund - KY Bond Corporation	Yes	-	143,155	143,155
KLC-Cash	Yes	14,561	21,764	36,325
DSRF - KY Bond Corporation	Yes	-	231,372	231,372
Total		<u>\$ 193,950</u>	<u>\$ 568,386</u>	<u>\$ 762,336</u>

Certificates of deposit at June 30, 2016 consisted of the following:

Account	Interest Bearing	Governmental	Water and Sewer	Total
Certificates of deposit	Yes	490,612	202,957	693,569
Total		<u>\$ 490,612</u>	<u>\$ 202,957</u>	<u>\$ 693,569</u>

Credit Risk

Under Kentucky Revised statute 66.480, the City is allowed to invest in obligations of the U.S. and of its agencies, obligations backed by the full faith and credit of the U.S. or a U.S. government agency, obligations of any corporation of the U.S. government, certificates of deposit or other interest-bearing accounts issued by institutions insured by the Federal Deposit Insurance Corporation (FDIC) or similarly collateralized institutions, and bonds and securities of states, local governments, or related agencies in the U.S. rated in one of the three highest categories by a nationally recognized rating agency.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 2 – DEPOSITS AND CERTIFICATES OF DEPOSIT – CONTINUED

Custodial Credit Risk

Custodial Credit Risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest.

The City's bank deposits were entirely covered by federal depository insurance or by collateral held by the custodial bank in the City's name. The carrying amount of the City's deposits and certificates of deposit totaled \$1,411,981 and the bank balances totaled \$1,516,296. At June 30, 2016, \$219,884 of collateral was pledged to the City by the custodial bank and \$1,296,413 by FDIC insurance.

NOTE 3 – RECEIVABLES

Receivables, including accrued interest, as of year-end for the City's individual major and non-major funds in the aggregate, including applicable allowances for doubtful accounts are as follows:

	<u>General</u>	<u>Water & Sewer</u>	<u>Total</u>
Accounts receivables			
Customers	\$ -	\$ 826,616	\$ 826,616
Other	28,939	2,360	31,299
Fire memberships	375,862	-	375,862
Gross receivables	404,801	828,976	1,233,777
Less allowance for bad debt	-	(284,915)	(284,915)
Net total receivables	<u>\$ 404,801</u>	<u>\$ 544,061</u>	<u>\$ 948,862</u>

NOTE 4 – INTER-FUND RECEIVABLE/PAYABLE AND TRANSFERS

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Such inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Reallocation of resources between funds of the reporting entity is classified as inter-fund transfers. Such inter-fund transfers between funds are eliminated in the Statement of Activities. There were no fund transfers for the year ended June 30, 2016.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS

The following table summarizes the changes in capital assets:

	Beginning Beginning Balance 6/30/2015	Increases	Decreases	Ending Ending Balance 6/30/2016
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 83,086	\$ -	\$ -	\$ 83,086
Total capital assets, not being depreciated:	83,086	-	-	83,086
Capital assets, being depreciated:				
Buildings	945,265	-	-	945,265
Trucks & Equipment	1,195,589	109,815	228,331	1,077,073
Furniture & Fixtures	54,318	996	1,803	53,511
Street Repair	488,000	12,738	-	500,738
Landscaping	12,643	-	-	12,643
Total capital assets, being depreciated:	2,695,815	123,549	230,134	2,589,230
Less accumulated depreciation for				
Buildings	232,442	26,035	-	258,477
Trucks & Equipment	966,914	51,014	224,766	793,162
Furniture & Fixtures	54,078	1,058	1,803	53,333
Street Repair	257,249	32,905	-	290,154
Landscaping	12,643	-	-	12,643
Total accumulated depreciation	1,523,326	111,012	226,569	1,407,769
Capital assets, being depreciated, net	1,172,489			1,181,461
Governmental activities capital assets, net	\$ 1,255,575			\$ 1,264,547

Depreciation expense for governmental activities is charged to functions as follows:

	2016
General	\$ 7,210
Police	8,144
Fire	48,113
Street	47,545
Total	\$ 111,012

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 5 – SUMMARY OF CHANGES IN CAPITAL ASSETS – CONTINUED

	Beginning Balance <u>6/30/2015</u>	Increases	Decreases	Ending Balance <u>6/30/2016</u>
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 340,661	\$ -	\$ -	\$ 340,661
Total capital assets, not being depreciated:	<u>340,661</u>	<u>-</u>	<u>-</u>	<u>340,661</u>
Capital assets, being depreciated:				
Buildings	106,670	-	-	106,670
Office Equipment	35,442	-	-	35,442
Sewer Trucks & Equipment	107,655	-	-	107,655
Sewer Utility Plant	14,083,639	3,303	-	14,086,942
Water House & Building	87,907	-	-	87,907
Water Trucks & Equipment	445,852	5,225	20,530	430,547
Water Utility Plant and Transmission Lines	27,321,115	-	-	27,321,115
Total capital assets, being depreciated:	<u>42,188,280</u>	<u>8,528</u>	<u>20,530</u>	<u>42,176,278</u>
Less accumulated depreciation for				
Buildings	30,666	2,667	-	33,333
Office Equipment	34,604	152	-	34,756
Sewer Trucks & Equipment	74,646	4,271	-	78,917
Sewer Utility Plant	2,301,662	327,334	-	2,628,996
Water House & Building	56,313	2,784	-	59,097
Water Trucks & Equipment	396,364	10,111	18,480	387,995
Water Utility Plant and Transmission Lines	10,488,692	666,995	-	11,155,687
Total accumulated depreciation	<u>13,382,947</u>	<u>1,014,314</u>	<u>18,480</u>	<u>14,378,781</u>
Capital assets, being depreciated, net	<u>28,805,333</u>			<u>27,797,497</u>
Business-type activities capital assets, net	<u>\$ 29,145,994</u>			<u>\$ 28,138,158</u>

Depreciation expense for business-type activities of \$1,014,314 was incurred during the year.

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 6 – LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2016:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Due Within</u> <u>One Year</u>
Governmental-type					
Notes Payable	\$ 56,538	\$ 106,743	\$ 80,387	\$ 82,894	\$ 82,894
Net Pension Liability	576,810	-	7,565	569,245	-
Business-type					
Revenue Bonds	4,940,000	-	285,000	4,655,000	214,167
Notes Payable	231,868	-	8,431	223,437	8,134
Net Pension Liability	902,190	426,049	-	1,328,239	-
	<u>\$ 6,707,406</u>	<u>\$ 532,792</u>	<u>\$ 381,383</u>	<u>\$ 6,858,815</u>	<u>\$ 305,195</u>

Revenue Bonds and Covenants

The government issues revenue bonds to provide for the acquisition and construction of major capital facilities. The original amount of revenue bonds issued in prior years, for the items listed below, was \$5,595,000. No general obligation bonds were issued during the current year. Revenue bonds are pledged by revenues and by the full faith and credit of the government. This bond was issued as a 25 year serial bond with varying amounts of principal maturing each year. The bond covenants include the maintenance of sinking fund to set aside resources for the payment of future debt service obligations. Interest rates range from 2% to 3.25%. The debt reserve requirement was in compliance for the fiscal year.

<u>Issue</u>	<u>Interest</u> <u>Rates</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Original</u> <u>Amount</u>	<u>Outstanding</u> <u>6/30/2016</u>
2012E	2% - 3.25%	11/28/12	02/01/38	5,595,000	4,655,000
			Totals	<u>\$ 5,595,000</u>	<u>\$ 4,655,000</u>

The following are principal and interest maturities for long-term debt outstanding as of June 30, 2016:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Annual</u> <u>Requirements</u>
2017	\$ 305,195	\$ 110,619	\$ 415,814
2018	228,431	115,435	343,866
2019	230,514	111,035	341,549
2020	235,514	106,593	342,107
2021	240,514	102,052	342,566
2022-2026	1,211,740	428,835	1,640,575
2027-2031	1,092,152	287,739	1,379,891
2032-2036	955,495	138,636	1,094,131
2037-2041	448,831	14,544	463,375
2042-2043	12,945	-	12,945
Total	<u>\$4,961,331</u>	<u>\$1,415,488</u>	<u>\$ 6,376,819</u>

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016**

NOTE 6 – LONG-TERM DEBT – CONTINUED

Assuming the bonds are not called prior to maturity, the minimum obligations of the City's funds at June 30, 2016 for the payment of bond principal and interest are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Annual Requirements</u>
2017	214,167	110,619	324,786
2018	220,000	115,435	335,435
2019	222,083	111,035	333,118
2020	227,083	106,593	333,676
2021	232,083	102,052	334,135
2022	230,833	97,410	328,243
2023	229,167	92,559	321,726
2024	237,083	81,403	318,486
2025	242,083	81,819	323,902
2026	230,419	75,644	306,063
2027	212,085	69,592	281,677
2028	219,162	63,912	283,074
2029	212,500	57,653	270,153
2030	199,165	51,277	250,442
2031	207,081	45,303	252,384
2032	193,335	39,087	232,422
2033	172,084	33,197	205,281
2034	179,166	27,851	207,017
2035	187,084	22,226	209,310
2036	181,666	16,277	197,943
2037	190,384	10,372	200,756
2038	216,287	4,172	220,459
Totals	<u>\$ 4,655,000</u>	<u>\$ 1,415,488</u>	<u>\$ 6,070,488</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 6 – LONG-TERM DEBT – CONTINUED

Notes Payable

Notes payable consists of a loan in the original amount of \$749,947 from Kentucky Infrastructure Authority. This is an interest free loan. Principal payments are made bi-annually. The maturity date is December 1, 2042. Note payables to Community Trust Bank were retired this year. Payments on the notes over the next five years are estimated as follows:

<u>Fiscal Year</u>	<u>Annual Requirements of</u>		<u>Total Annual</u>
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2017	\$ 8,431	\$ -	\$ 8,431
2018	8,431	-	8,431
2019	8,431	-	8,431
2020	8,431	-	8,431
2021	8,431	-	8,431
2022	8,431	-	8,431
2023	8,431	-	8,431
2024	8,431	-	8,431
2025	8,431	-	8,431
2026	8,431	-	8,431
2027	8,431	-	8,431
2028	8,432	-	8,432
2029	8,432	-	8,432
2030	8,432	-	8,432
2031	8,432	-	8,432
2032	8,432	-	8,432
2033	8,432	-	8,432
2034	8,432	-	8,432
2035	8,432	-	8,432
2036	8,432	-	8,432
2037	8,432	-	8,432
2038	8,432	-	8,432
2039	8,432	-	8,432
2040	8,432	-	8,432
2041	8,432	-	8,432
2042	8,432	-	8,432
2043	4,216	-	4,216
Totals	<u>\$ 223,437</u>	<u>\$ -</u>	<u>\$ 223,437</u>

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 6 – LONG-TERM DEBT – CONTINUED

Notes Payable – Continued

Notes payable consists of a loan in the amount of \$82,894, to the Monticello Banking Company for the fire department. The interest rate is 2.25% over the term of the note. The loan is to be retired in one principal payment plus interest on September 6, 2016. The loan is collateralized by certificate of deposit.

COMPLIANCE WITH RESERVE REQUIREMENTS

The City of Albany is required to maintain the following funds and accounts related to the bond issuance and loan agreement with Kentucky Bond Corporation (KBC).

Depreciation Fund – The bond ordinance requires the creation of a depreciation fund that shall be available and shall be utilized to make repairs and replacements to the system and to pay the costs of constructing additions, extensions, betterments, and improvements to the System which will either increase income and revenues or provide a higher degree of service. At June 30, 2016, the depreciation fund had a balance of \$9,988.

Sinking Fund – The sinking fund is maintained for the payment of principal and interest on bonds. The City is required to make a monthly transfer to the reserve of 1/6 of the next interest due and 1/12 of the next principal. As of June 30, 2016, the sinking fund had a balance of \$143,155.

Debt Service Reserve – The debt service reserve is set up to accumulate 1/48 of the maximum debt service requirements. As of June 30, 2016, the debt service reserve had a balance of \$231,372.

NOTE 7 – RETIREMENT PLAN

The City of Albany is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description – CERS is a cost sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Contributions – Plan members were required to contribute 5% of their annual creditable compensation for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545 (33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined, on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2016, participating employers contributed 17.06% (non-hazardous) and 32.95% (hazardous) of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016**

NOTE 7 – RETIREMENT PLAN – CONTINUED

Plan members who began participating on, or after, January 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each members' salary. Each month, when employer contribution are received, an employer pay credit is deposited to the members account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers based on hire date:

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

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

For the fiscal year ended June 30, 2016 the City's covered payroll for non-hazardous positions was \$1,127,273. There are no employees subject to the hazardous job classification contribution requirements.

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016**

NOTE 7 – RETIREMENT PLAN – CONTINUED

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

At June 30, 2016, the City reported a liability of \$1,897,484 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the net pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the City's proportion was .044 percent for non-hazardous.

At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 15,769	\$ -
Changes of assumptions	191,341	-
Net difference between projected and actual earnings on plan investments	17,009	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	37,367
City contributions subsequent to the measurement date	194,281	-
Total	<u>\$ 418,400</u>	<u>\$ 37,367</u>

The \$194,281 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,

2017	\$	46,688
2018	\$	46,688
2019	\$	46,688
2020	\$	46,688

CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016

NOTE 7 – RETIREMENT PLAN – CONTINUED

Actuarial Methods and Assumptions

The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement.

Valuation date	June 30, 2015
Experience study	July 1, 2008-June 30, 2013
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28
Asset valuation method	5-year smooth 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 (setback for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (setback four 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. Several factors are considered in evaluating the long-term rate or return assumptions 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 weighing the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016**

NOTE 7 – RETIREMENT PLAN – CONTINUED

The target allocation and best estimates of nominal real rates of return for each major asset class are summarized in the following table:

<u>Asset Clas</u>	<u>Target Allocations</u>	<u>Long-Term Nominal Real Rate of Return</u>
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	2%	-0.25%
Total	100%	

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 local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

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 new 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>Discount Rate</u>	<u>City's Proportionate Share of Net Pension Liability</u>
1% Decrease	6.50%	\$ 2,422,352
Current Discount	7.50%	\$ 1,897,484
1% Increase	8.50%	\$ 1,447,948

Payable to the Pension Plan – At June 30, 2016, the City reported no outstanding liability amount to the pension plan.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The City receives funding from federal, state, and local government agencies. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of grants advanced, or refuse to reimburse the City for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the City's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their program. As of June 30, 2016 there were no pending litigation, unasserted claims nor assessments against the City.

**CITY OF ALBANY, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
JUNE 30, 2016**

NOTE 9 – RISK MANAGEMENT

The City is exposed to various forms of asset losses associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. As of June 30, 2016, the City was sufficiently insured.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

As described in Note 7 regarding the City's participation in the County Employee's Retirement Plan, the Government Accounting Standards Board's Statement No. 68 became effective for Fiscal year 2015. That amount was under calculated in the amount of \$85,470 for governmental activities and \$112,611 for business-type activities as of June 30, 2016.

In addition, the City recognized an asset held by Kentucky League of Cities in the amount of \$13,560 for governmental activities and \$20,342 for business-type activities.

Lastly, the City wrote-off prior interfund transfers in the amount of \$469,686 for governmental activities and \$469,686 for business-type activities.

NOTE 11 – DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through February 21, 2017, which is the date the financial statements were available to be issued.

**CITY OF ALBANY, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 135,000	\$ 135,000	\$ 168,346	\$ (33,346)
Licenses and other taxes	793,000	793,000	730,092	62,908
Intergovernmental	97,000	97,000	95,520	1,480
Service charges	140,000	140,000	169,725	(29,725)
Fines, arrest fees, and permits	9,000	9,000	11,772	(2,772)
Interest revenue	-	-	4,456	(4,456)
Other	11,400	11,400	14,867	(3,467)
Total Revenues	<u>1,185,400</u>	<u>1,185,400</u>	<u>1,194,778</u>	<u>(9,378)</u>
Expenditures				
Current:				
General and administration department	249,611	257,111	217,232	39,879
Police department	522,437	522,437	520,983	1,454
Fire department	129,300	189,300	118,017	71,283
Street department	253,450	253,450	271,828	(18,378)
Capital outlay	-	-	123,549	(123,549)
Debt service:				
Principal	60,000	60,000	80,387	(20,387)
Interest	-	-	2,863	(2,863)
Total Expenditures	<u>1,214,798</u>	<u>1,282,298</u>	<u>1,334,859</u>	<u>(52,561)</u>
Excess (deficiency) of revenues over (under) expenditures	(29,398)	(96,898)	(140,081)	43,183
Other Financing Sources				
Issuance of debt	-	-	106,743	(106,743)
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>106,743</u>	<u>(106,743)</u>
Net Change in Fund Balance	(29,398)	(96,898)	(33,338)	(63,560)
Fund Balance, Beginning	<u>1,179,236</u>	<u>1,179,236</u>	<u>1,451,425</u>	<u>599,499</u>
Fund Balance, Ending	<u>\$1,149,838</u>	<u>\$ 1,082,338</u>	<u>\$1,418,087</u>	<u>\$ 535,939</u>

**CITY OF ALBANY, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON GENERAL FUND-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
General & Administrative				
Salaries	\$ 134,000	\$ 134,000	\$ 117,973	\$ 16,027
Employee benefits	54,111	54,111	45,456	8,655
Professional services	11,000	11,000	8,186	2,814
Insurance	11,500	11,500	8,386	3,114
Office expense	3,000	3,000	8,309	(5,309)
Telephone & utilities	8,500	8,500	4,504	3,996
Travel & training	3,000	3,000	2,159	841
Repairs & maintenance	12,500	12,500	286	12,214
Park maintenance	-	7,500	21,000	(13,500)
Miscellaneous	12,000	12,000	973	11,027
Total General & Administration	<u>\$ 249,611</u>	<u>\$ 257,111</u>	<u>\$ 217,232</u>	<u>\$ 39,879</u>
Police Department				
Salaries (including incentive pay)	273,000	273,000	318,155	(45,155)
Employee benefits	140,137	140,137	113,467	26,670
Vehicle expense	41,800	41,800	28,597	13,203
Insurance	27,000	27,000	23,385	3,615
Professional fees	2,500	2,500	2,049	451
Uniform, supplies & equipment	8,000	8,000	16,759	(8,759)
Dispatching	15,000	15,000	4,125	10,875
Telephone & utilities	8,000	8,000	10,424	(2,424)
Travel & training	5,000	5,000	2,901	2,099
Miscellaneous	2,000	2,000	1,121	879
Total Police Department	<u>\$ 522,437</u>	<u>\$ 522,437</u>	<u>\$ 520,983</u>	<u>\$ 1,454</u>

**CITY OF ALBANY, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON GENERAL FUND - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016**

Expenditures (Continued)	Budget		Actual	Variance with Final Budget
	Original	Final		
Fire Department				
Salaries	\$ 13,000	\$ 13,000	\$ 10,419	\$ 2,581
Employee benefits	1,000	1,000	3,961	(2,961)
Fire personnel allowance	44,000	44,000	47,211	(3,211)
Vehicle expense	28,000	28,000	17,061	10,939
Insurance	5,300	5,300	8,385	(3,085)
Professional fees	-	-	4,663	(4,663)
Travel & training	4,500	4,500	3,544	956
Supplies & equipment	6,500	6,500	4,390	2,110
Telephone & utilities	8,000	8,000	6,008	1,992
Miscellaneous	4,000	4,000	-	4,000
Dispatching contract	15,000	15,000	12,375	2,625
Total Fire Department	\$ 129,300	\$ 129,300	\$ 118,017	\$ 11,283
Street Department				
Salaries	\$ 98,000	\$ 98,000	\$ 96,373	\$ 1,627
Employee benefits	60,450	60,450	43,904	16,546
Vehicle expense	10,000	10,000	-	10,000
Insurance	16,000	16,000	8,385	7,615
Professional fees	-	-	2,929	(2,929)
Travel & training	-	-	7,048	(7,048)
Uniforms & supplies	4,000	4,000	3,985	15
Street lighting	34,000	34,000	87,443	(53,443)
Repairs & maintenance	22,000	22,000	17,761	4,239
Telephone & utilities	-	-	500	(500)
Miscellaneous	9,000	9,000	3,500	5,500
Total Street Department	\$ 253,450	\$ 253,450	\$ 271,828	\$ (18,378)

Notes to the Required Supplementary Information:

Budgetary information is derived from the annual operating budget and is presented using the modified cash basis of accounting for each fund as described in Note 1.

The budgeted amounts include any amendments made.

Appropriations lapse at year end unless specifically carried over.

**CITY OF ALBANY, KENTUCKY
 SCHEDULE OF PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 Last Two Fiscal Years**

	<u>2015</u>	<u>2016</u>
<u>NON-HAZARDOUS</u>		
City's proportion of the net pension liability (asset)	0.045581%	0.044132%
City's proportionate share of the net pension liability (asset)	\$1,479,000	\$1,897,484
City's covered-employee payroll	\$1,027,114	\$1,127,273
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	144.00%	168.33%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%

**CITY OF ALBANY, KENTUCKY
SCHEDULE OF CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM
Last Two Fiscal Years**

	2015	2016
<u>NON-HAZARDOUS</u>		
Contractually required contribution	\$ 181,491	\$ 194,281
Contributions in relation to the contractually required contribution	(181,491)	(194,281)
Contribution deficiency (excess)	\$ -	\$ -
City's covered-employee payroll	\$ 1,027,114	\$1,127,273
Contributions as a percentage of covered-employee payroll	17.67%	17.23%

Notes to Required Supplementary Information:

Valuation dates. Actuarially determined contribution rates are calculated as of July 1st preceding the the fiscal year end in which the contributions are reported.

Changes in benefit terms. There were no benefit changes reported in the June 30, 2015 actuarial report.

Changes in assumptions. There were changes in assumptions and methods reported in the June 30, 2015 actuarial report.

SAMMY K. LEE, P.S.C.
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Member of Kentucky Society of CPA's

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

To the Honorable Mayor and Members of the City Council
City of Albany
Albany, Kentucky 42602

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated February 21, 2017.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of the City's internal control.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that I consider to be material weaknesses as items 2016-001 and 2016-002.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to Findings

The City's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sammy K. Lee, P.S.C.

Berea, Kentucky
February 21, 2017

**CITY OF ALBANY, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016**

MATERIAL WEAKNESS

2016-001 Financial Statement Preparation

Condition:

During my audit procedures, I noted some instances of this objective not being completely achieved.

Criteria:

A key component of internal control is to ensure that personnel, management, or others within the City have the ability to prepare financial statements, including the notes to the financial statements, in accordance with accounting principles generally accepted in the United States of America (GAAP).

Cause:

The City did not prepare a complete set of GAAP financial statements and related note disclosures.

Effect:

Management is responsible establishing and maintaining internal controls for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with accounting principles generally accepted in the United States of America. The City does not internally possess the ability to recognize and implement new authoritative guidance in regards to financial reporting. However, management is knowledgeable in respect to the financial accounting and amounts reported in the financial statements. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures.

Recommendation:

Management should continue to engage the audit firm to prepare a draft of the financial statements including the notes to the financial or hire an accountant to perform their services.

Views of Responsible Officials:

Management agrees with the recommendation.

**CITY OF ALBANY, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016**

MATERIAL WEAKNESS

2016-002 Water and Sewer Fees Collection

Condition:

While conducting my audit procedures to gain an understanding of internal controls over financial reporting, I noted a lack of controls that ensure timely collections and monitoring of water and sewer fees delinquent accounts.

Criteria:

Management should have controls in place to monitor customer delinquency and cutoff procedures for nonpayment.

Cause:

The City does not have controls in place to effectively monitor timely collections.

Effect:

The City's accounts receivable continuously increase each year due to inefficient collection efforts.

Recommendation:

Management should review past due accounts each month and perform necessary cutoff procedures. Management should also consider updating the water and sewer department software in order to prepare and monitor more accurate reports.

Views of Responsible Officials:

Management agrees with the recommendation.