

CITY OF WILLIAMSTOWN, KENTUCKY

June 30, 2015

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

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MADDOX & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

To the Honorable Mayor
and Members of City Council

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Williamstown, Kentucky (City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the City of Williamstown, Kentucky, as of June 30, 2015, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2015, the City adopted the provisions of Governmental Accounting Standard No. 68, *Accounting and Financial Reporting for Pensions*. We did not modify our opinion regarding this matter.

Other Matters**Required Supplementary Information**

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky

October 1, 2015

City of Williamstown, Kentucky
Statement of Net Position
June 30, 2015

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
Assets:			
Cash and cash equivalents	\$ 386,063	\$ 1,717,305	\$ 2,103,368
Receivables:			
Taxes	121,558	0	121,558
Accounts	0	1,314,201	1,314,201
Intergovernmental	4,680	0	4,680
Due from other funds	106,565	1,267,342	1,373,907
Restricted cash		112,328	112,328
Capital assets, net of depreciation	2,869,312	29,060,211	31,929,523
Total assets	3,488,178	33,471,387	\$ 36,959,565
Liabilities:			
Accounts payable	55,960	364,303	420,263
Payroll related liabilities	34,737	46,411	81,148
Compensated absences	25,205	50,687	75,892
Customer deposits	0	185,989	185,989
Other current liabilities	8,724	21,751	30,475
Due to other funds	145,680	1,228,223	1,373,903
Deferred inflows	88,000	267,000	355,000
Net pension liability	899,000	2,389,000	3,288,000
Due within one year	28,377	1,044,418	1,072,795
Due in more than one year	15,269	18,087,584	18,102,853
Total liabilities	1,300,952	23,685,366	24,986,318
Net position:			
Net investment in capital assets	2,825,666	9,928,209	12,753,875
Restricted	27,588	27,589	55,177
Unrestricted	(666,028)	(169,777)	(835,805)
Total net position	\$ 2,187,226	9,786,021	\$ 11,973,247

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 531,765	\$ 0	\$ 5,311	\$ 0	\$ (526,454)	\$ 0	\$ (526,454)
Police	866,571	121,000	0	0	(745,571)	0	(745,571)
Fire	174,877	0	0	0	(174,877)	0	(174,877)
Streets	427,731	0	0	0	(427,731)	0	(427,731)
Cemetery	0	29,749	0	0	29,749	0	29,749
Recreation	14,734	0	117,435	0	102,701	0	102,701
Sanitation	152,711	153,680	0	0	969	0	969
Depreciation - unallocated	254,285	0	0	0	(254,285)	0	(254,285)
Total governmental activities	<u>2,422,674</u>	<u>304,429</u>	<u>122,746</u>	<u>0</u>	<u>(1,995,499)</u>	<u>0</u>	<u>(1,995,499)</u>
Business-type activities:							
Water	7,926,011	7,711,525	0	90,600	0	(123,886)	(123,886)
Sewer	1,613,112	1,705,052	0	0	0	91,940	91,940
Total business-type activities	<u>9,539,123</u>	<u>9,416,577</u>	<u>0</u>	<u>90,600</u>	<u>0</u>	<u>(31,946)</u>	<u>(31,946)</u>
Total primary government	<u>\$ 11,961,797</u>	<u>\$ 9,721,006</u>	<u>\$ 122,746</u>	<u>\$ 90,600</u>	<u>(1,995,499)</u>	<u>(31,946)</u>	<u>(2,027,445)</u>
General revenues:							
Property and other taxes					706,019	0	706,019
Insurance premium tax					370,392	0	370,392
Other revenues					239,600	0	239,600
Transfers (payment in lieu of taxes)					555,000	(555,000)	0
Transfers					62,854	(62,854)	0
Investment income					471	4,211	4,682
Total general revenues					<u>1,934,336</u>	<u>(613,643)</u>	<u>1,320,693</u>
Change in net position					(61,163)	(645,589)	(706,752)
Prior period adjustment					(868,669)	(2,383,660)	(3,252,329)
Net position - beginning					<u>3,117,058</u>	<u>12,815,270</u>	<u>15,932,328</u>
Net position - ending					<u>\$ 2,187,226</u>	<u>\$ 9,786,021</u>	<u>\$ 11,973,247</u>

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
Balance Sheet
Governmental Funds
June 30, 2015

	General Fund	Total Governmental Funds
Assets:		
Cash and cash equivalents	386,063	\$ 386,063
Receivables:		
Taxes	121,558	121,558
Intergovernmental	4,680	4,680
Due from other funds	106,566	106,566
Total assets	<u>\$ 618,867</u>	<u>\$ 618,867</u>
Liabilities:		
Accounts payable	\$ 55,960	\$ 55,960
Payroll liabilities	34,737	34,737
Other liabilities	8,724	8,724
Due to other funds	145,679	145,679
Total liabilities	<u>245,100</u>	<u>245,100</u>
Deferred inflows of resources:		
Unavailable revenue	<u>74,736</u>	<u>74,736</u>
Fund balances:		
Nonspendable	106,566	106,566
Restricted	27,588	27,588
Unassigned	164,877	164,877
Total fund balances	<u>299,031</u>	<u>299,031</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 618,867</u>	<u>\$ 618,867</u>

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
June 30, 2015

Total governmental fund balances	\$ 299,031
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,869,312
Some assets are not currently available and are therefore not reported in the funds	74,734
Deferred inflows related to pension	-88000
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Compensated absences	(25,205)
Long-term debt	(43,646)
Net pension liability	<u>(899,000)</u>
Net position of governmental activities	<u>\$ 2,187,226</u>

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

	General Fund	Total Governmental Funds
Revenues		
Property taxes	\$ 618,743	\$ 618,743
Insurance premium taxes	325,090	325,090
Motor vehicle taxes	70,472	70,472
Licenses, permits, and fees	16,194	16,194
Investment income	471	471
Charges for services	274,680	274,680
Intergovernmental	136,848	136,848
Grants and contributions	17,047	17,047
Other revenue	65,295	65,295
Total revenues	<u>1,524,840</u>	<u>1,524,840</u>
Expenditures		
Current		
General government	403,241	403,241
Public safety - police	750,674	750,674
Public safety - fire	172,247	172,247
Streets	430,114	430,114
Sanitation	152,711	152,711
Recreation	14,734	14,734
Debt service	114,560	114,560
Capital outlay	204,880	204,880
Total expenditures	<u>2,243,161</u>	<u>2,243,161</u>
Deficiency of revenues over expenditures	<u>(718,321)</u>	<u>(718,321)</u>
Other financing sources (uses):		
Proceeds of loans	157,120	157,120
Transfers in (payment in lieu of taxes)	555,000	555,000
Total other financing sources (uses)	<u>712,120</u>	<u>712,120</u>
Net change in fund balances	(6,201)	(6,201)
Fund balances - beginning	<u>305,232</u>	<u>305,232</u>
Fund balances - ending	<u>\$ 299,031</u>	<u>\$ 299,031</u>

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2015

Net change in fund balances - total governmental funds	\$ (6,201)
Amounts reported for governmental activities in the statement of activities are difference because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	189,852
Depreciation expense	(254,285)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds	61,696
Expenses reported in the statement of activities that do not require current financial resources are not reported as expenses in the funds	
Compensated absences	6,715
Principal payments	59,391
Governmental funds report pension contribution as expenditures. However, in the statement of activities, the cost of pension benefits earned is reported as pension expense	(118,331)
Change in net position of governmental activities	<u>\$ (61,163)</u>

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
Statement of Net Position
Proprietary Funds
June 30, 2015

	Utility Fund	Sewer Fund	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 1,133,391	\$ 583,914	\$ 1,717,305
Customer receivables	1,071,664	242,537	1,314,201
Due from other funds	676,478	590,864	1,267,342
Restricted cash	112,328	0	112,328
Total current assets	2,993,861	1,417,315	4,411,176
Noncurrent assets:			
Capital assets, net of depreciation	12,507,602	16,552,609	29,060,211
Total noncurrent assets	12,507,602	16,552,609	29,060,211
Total assets	<u>\$ 15,501,463</u>	<u>\$ 17,969,924</u>	<u>\$ 33,471,387</u>
Liabilities:			
Accounts payable	\$ 363,408	\$ 895	\$ 364,303
Accrued payroll liabilities	37,188	9,223	46,411
Compensated absences	34,788	15,899	50,687
Customer deposits	185,989	0	185,989
Due to other funds	686,260	541,963	1,228,223
Other liabilities	19,686	2,065	21,751
Deferred inflows	267,000	0	267,000
Net pension liability	1,863,420	525,580	2,389,000
Long-term obligations			
Due within one year	339,699	704,719	1,044,418
Due in more than one year	4,966,418	13,121,166	18,087,584
Total liabilities	8,763,856	14,921,510	23,685,366
Net position:			
Net investment in capital assets	7,201,485	2,726,724	9,928,209
Restricted	112,328	0	112,328
Unrestricted	(576,206)	321,690	(254,516)
Total net position	6,737,607	3,048,414	9,786,021
Total liabilities and net position	<u>\$ 15,501,463</u>	<u>\$ 17,969,924</u>	<u>\$ 33,471,387</u>

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2015

	Utility Fund				Sewer Fund	
	Electric System	Water System	Cable TV and Internet	Total	Total	Total
OPERATING REVENUES						
Charges for services	\$ 4,424,156	\$ 1,480,128	\$ 1,509,273	\$ 7,413,557	\$ 1,645,011	\$ 9,058,568
Other revenue	140,468	157,500	0	297,968	60,041	358,009
TOTAL OPERATING REVENUES	4,564,624	1,637,628	1,509,273	7,711,525	1,705,052	9,416,577
OPERATING EXPENSES						
Personnel services						
Salaries and wages	221,746	393,770	331,039	946,555	273,712	1,220,267
Medical insurance	44,448	91,374	64,945	200,767	57,767	258,534
Employers FICA	16,491	29,493	25,114	71,098	19,914	91,012
Employee retirement	39,251	67,958	64,155	171,364	47,844	219,208
Workers' compensation and unemployment	6,932	11,904	16,599	35,435	7,324	42,759
Total personnel services	328,868	594,499	501,852	1,425,219	406,561	1,831,780
Contractual services						
Utility purchases	3,559,613	0	0	3,559,613	0	3,559,613
Distribution	0	56,596	0	56,596	0	56,596
Repairs and maintenance	11,707	66,176	3,243	81,126	81,227	162,353
Utilities	35,948	113,421	51,136	200,505	168,349	368,854
Other contract services	86,665	27,748	32,841	147,254	44,123	191,377
Education and training	3,518	2,103	5,708	11,329	1,109	12,438
Lab tests	0	19,456	0	19,456	8,604	28,060
Communications and postage	5,892	7,440	9,436	22,768	8,717	31,485
Insurance	15,629	20,681	18,141	54,451	42,559	97,010
Advertising and printing	0	99	0	99	0	99
Professional fees	4,475	17,385	5,185	27,045	7,072	34,117
Royalties	0	0	490,130	490,130	0	490,130
Internet expenses	0	0	227,362	227,362	0	227,362
Vehicle maintenance	12,975	24,677	13,133	50,785	20,534	71,319
Total contractual services	3,736,422	355,782	856,315	4,948,519	382,294	5,330,813
Materials and supplies						
Equipment parts	3,824	8,564	15,457	27,845	7,952	35,797
Technical supplies	68	0	62,080	62,148	364	62,512
Uniforms	2,672	413	2,674	5,759	519	6,278
Chemicals and chlorine	0	107,016	0	107,016	8,468	115,484
Lab materials	0	4,281	0	4,281	4,886	9,167
Construction materials	43,926	0	9,074	53,000	0	53,000
Office supplies	9,009	0	7,090	16,099	0	16,099
Total materials and supplies	59,499	120,274	96,375	276,148	22,189	298,337
Miscellaneous						
Dues and subscriptions	2,282	1,089	1,012	4,383	898	5,281
Miscellaneous	4,678	4,515	9,138	18,331	4,399	22,730
Total miscellaneous	6,960	5,604	10,150	22,714	5,297	28,011
TOTAL OPERATING EXPENSES	4,131,749	1,076,159	1,464,692	6,672,600	816,341	7,488,941
OPERATING PROFIT BEFORE DEPRECIATION	432,875	561,469	44,581	1,038,925	888,711	1,927,636
Depreciation	589,128	134,997	198,848	922,973	564,661	1,487,634
OPERATING PROFIT	\$ (156,253)	\$ 426,472	\$ (154,267)	115,952	324,050	440,002
NON-OPERATING REVENUE AND (EXPENSES)						
Interest income				2,948	1,263	4,211
Grants and contributions				90,600	0	90,600
Interest expense				(118,013)	(172,195)	(290,208)
Payment in lieu of taxes				(362,854)	(255,000)	(617,854)
Pension expense				(212,425)	(59,915)	(272,340)
TOTAL NON-OPERATING REVENUE AND (EXPENSES)				(599,744)	(485,847)	(1,085,591)
Change in net position				(483,792)	(161,797)	(645,589)
Prior period adjustment				(1,917,995)	(465,665)	(2,383,660)
Net position - beginning				9,139,394	3,675,876	12,815,270
Net position - ending				\$ 6,737,607	\$ 3,048,414	\$ 9,786,021

The accompanying notes are an integral part of these financial statements

City of Williamstown, Kentucky
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2015

Cash flows from operating activities	
Change in net assets	\$ (645,589)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Amortization and depreciation	1,487,634
Decrease in current assets	83,119
Increase in current liabilities	<u>332,912</u>
Net cash provided by operating activities	<u>1,258,076</u>
Cash flows from capital financing activities	
Acquisition of capital assets	(1,114,478)
Proceeds from long term obligations	906,015
Principal payments on long term obligations	<u>(1,130,450)</u>
Net cash used by capital financing activities	<u>(1,338,913)</u>
Net increase in cash	(80,837)
Cash - beginning	<u>1,798,142</u>
Cash - ending	<u><u>\$ 1,717,305</u></u>
Supplemental disclosures of cash flow information:	
Cash paid during the year for interest expense	<u><u>\$ 357,842</u></u>

The accompanying notes are an integral part of these financial statements

City of Williamstown
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance
Fund balance - beginning	\$ 320,800	\$ 320,800	\$ 305,232	\$ (15,568)
Revenues				
Taxes	915,000	915,000	1,011,305	96,305
Licenses and permits	14,000	14,000	16,194	2,194
Intergovernmental revenues	112,600	112,600	136,848	24,248
Charges for services	284,000	284,000	274,680	(9,320)
Other revenue	92,400	92,400	85,813	(6,587)
Total revenues	<u>1,418,000</u>	<u>1,418,000</u>	<u>1,524,840</u>	<u>106,840</u>
Total resources	<u>1,738,800</u>	<u>1,738,800</u>	<u>1,830,072</u>	<u>91,272</u>
Expenditures				
General government	453,900	453,900	403,241	50,659
Police	810,700	810,700	750,674	60,026
Fire	192,500	192,500	172,247	20,253
Streets and cemetery	474,450	474,450	430,114	44,336
Parks and recreation	11,850	11,850	14,734	(2,884)
Garbage and sanitation	155,000	155,000	152,711	2,289
Debt service	0	0	114,560	(114,560)
Capital outlay	222,500	222,500	204,880	17,620
Total expenditures	<u>2,320,900</u>	<u>2,320,900</u>	<u>2,243,161</u>	<u>77,739</u>
Deficiency of revenues over expenditures	<u>(582,100)</u>	<u>(582,100)</u>	<u>(413,089)</u>	
Other financing sources (uses)	<u>700,000</u>	<u>700,000</u>	<u>712,120</u>	
Budgetary fund balance - end of year	<u>\$ 117,900</u>	<u>\$ 117,900</u>	<u>\$ 299,031</u>	

The accompanying notes are an integral part of these financial statements

NOTE 1 – ACCOUNTING POLICIES

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

The Reporting Entity

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

Basis of Presentation

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

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

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

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

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary funds are charges for services. Operating expenses for the proprietary funds include personnel and other expenses related to water and sewer operations. All revenues not meeting these

definitions are reported as nonoperating revenues and expenses.

Fund Accounting

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

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

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

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

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

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

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

Measurement Focus

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

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

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

Basis of Accounting

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

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

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

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

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

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

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on the decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Budgetary Data

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

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

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

Cash and Cash Equivalents

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

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. The City's infrastructure consists of sidewalks, streets, and water and sewer lines. Infrastructure acquired prior to the implementation of GASB Statement No. 34 has been reported. Capital assets utilized by the proprietary funds are reported in both the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000 with the exception of computers and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value to the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Building and Building Improvements	10 – 40 Years
Infrastructure	15 – 25 Years

General Equipment	5 – 15	Years
Water System	5 – 50	Years
Electric System	5 – 30	Years
Cable T.V. System	5 – 30	Years
Sewer System	5 – 30	Years

Accrued Liabilities and Long-Term Obligations

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

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

Restricted Assets

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

Interfund Balances

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

Interfund Activity

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

Fund Balance

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

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

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

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

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

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

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

Use of Estimates

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

Net Position

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

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

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City administration

and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year.

NOTE 2 – ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

In the fiscal year, the City implemented GASB Statement No. 68, *“Accounting and Financial Reporting for Pensions”*. The implementation of GASB statement did not have an effect on the financial statements of the City.

NOTE 3 – DEPOSITS

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

The City is authorized to invest in:

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

Custodial Credit Risk – Deposits. For deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned. The City maintains deposits with financial institutions insured by the FDIC. As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2015 all of the City’s deposits are insured by the FDIC.

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

NOTE 3 – PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible property located in the City. Property taxes attached as an enforceable lien on property as of January 1, 2014. Taxes were levied on August 1, 2014, and were due and payable at that time. All unpaid taxes levied in August become delinquent January 1 of the following year.

NOTE 4 – INTERFUND TRANSACTIONS

Interfund transfers for the fiscal year ended June 30, 2015, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Utility Fund	General Fund	\$62,584

NOTE 5 – PAYMENTS IN LIEU OF TAXES (“PILOT”)

Payments on lieu of taxes for the fiscal year ended June 30, 2015, consisted of the following:

<u>PILOT From</u>	<u>PILOT To</u>	<u>Amount</u>
Utility Fund	General Fund	\$300,000
Sewer Fund	General Fund	\$255,000

NOTE 6 – RECEIVABLES

Receivables at June 30, 2015, consisted of taxes, intergovernmental, and accounts are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account. The City begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for doubtful accounts based on the City's collection history, the financial stability and recent payment history of the customer, and other pertinent factors.

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NOTE 7 – PROPERTY AND EQUIPMENT

Capital Asset activity for the fiscal year ended June 30, 2015 was as follows:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Governmental Activities				
Land	\$ 537,390	\$ 0	\$ 0	\$ 537,390
Street improvements	752,548	167,632	0	920,180
Buildings and improvements	2,242,858	0	0	2,242,858
Furniture and fixtures	44,287	0	0	44,287
General equipment	1,360,936	52,495	0	1,413,431
Total capital assets	<u>4,938,019</u>	<u>220,127</u>	<u>0</u>	<u>5,158,146</u>
Less accumulated depreciation				
Street improvements	340,431	43,664	301	383,794
Buildings and improvements	699,343	62,381	0	761,724
Furniture and fixtures	40,678	694	0	41,372
General equipment	954,397	147,547	0	1,101,944
Total accumulated depreciation	<u>2,034,849</u>	<u>254,286</u>	<u>301</u>	<u>2,288,834</u>
Net governmental capital assets	<u>\$ 2,903,170</u>	<u>\$ (34,159)</u>	<u>\$ (301)</u>	<u>\$ 2,869,312</u>
Business-Type Activities				
Construction in progress	\$ 1,041,998	\$ 0	\$ 0	\$ 1,041,998
Water system	16,630,995	1,026,724	95,000	17,562,719
Electric system	4,688,319	34,502	13,075	4,709,746
Cable TV system	3,976,626	86,082	0	4,062,708
Sewer system	25,005,694	75,245	0	25,080,939
Total capital assets	<u>51,343,632</u>	<u>1,222,553</u>	<u>108,075</u>	<u>52,458,110</u>
Less accumulated depreciation				
Water system	10,103,316	589,128	2	10,692,442
Electric system	2,987,180	134,997	0	3,122,177
Cable TV system	1,717,336	198,849	0	1,916,185
Sewer system	7,102,434	564,661	0	7,667,095
Total accumulated depreciation	<u>21,910,266</u>	<u>1,487,635</u>	<u>2</u>	<u>23,397,899</u>
Net business-type capital assets	<u>\$ 29,433,366</u>	<u>\$ (265,082)</u>	<u>\$ 108,073</u>	<u>\$ 29,060,211</u>

Most depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

Prior to 1980, the City of Williamstown did not maintain a record of general fixed assets and proprietary fund fixed assets. The City conducted an inventory of its property, plant and equipment to determine costs or estimated costs by reviewing contracts, engineering reports, minutes of City Council meetings and actual disbursement records to the extent practical in the circumstances.

NOTE 8 – LONG-TERM OBLIGATIONS

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

	Balance June 30, 2014	Additions	Disposals	Balance June 30, 2015	Amount Due Within One Year
Governmental Activities					
Street sweeper - capital lease	\$ 31,078	\$ 0	\$ 31,078	\$ 0	\$ 0
Police cruiser - capital lease	0	30,575	8,223	22,352	7,083
Police cruiser - capital lease	41,384	0	20,090	21,294	21,294
Total governmental activities	<u>\$ 72,462</u>	<u>\$ 30,575</u>	<u>\$ 59,391</u>	<u>\$ 43,646</u>	<u>\$ 28,377</u>
Business-Type Activities					
Series 2012 Bonds	\$ 1,500,000	\$ 0	\$ 135,000	\$ 1,365,000	\$ 135,000
KIA Loan A08-09	14,523,609	0	697,724	13,825,885	704,719
KIA Loan F11-02	1,715,907	0	75,054	1,640,853	70,393
KIA Loan F13-013	610,961	906,015	90,600	1,426,376	0
KLC Richmond Pool 2006	30,922	0	30,922	0	30,922
KLC Waterline Replacement	268,842	0	21,022	247,820	21,785
KLC Cable Upgrade	532,000	0	45,980	486,020	47,451
Bank of Kentucky	174,199	0	34,148	140,051	35,103
Total business-type activities	<u>\$ 19,356,440</u>	<u>\$ 906,015</u>	<u>\$ 1,130,450</u>	<u>\$ 19,132,005</u>	<u>\$ 1,045,373</u>

Capital Lease Obligations

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

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

Utility System Revenue Refunding Bonds, Series 2004

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

KIA Loan A08-09

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

KIA Loan F11-02

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

KLC Waterline Replacement

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

KLC Cable Upgrade

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

Bank of Kentucky

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

Future minimum principal and interest payments are as follows:

Governmental Activities					
	Capital lease obligation		Capital lease obligation		Total
	Principal	Interest	Principal	Interest	
2016	\$ 21,294	\$ 1,278	\$ 7,083	\$ 1,140	\$ 30,795
2017	0	0	7,444	779	8,223
2018	0	0	7,825	399	8,224
2019	0	0	0	0	0
2020	0	0	0	0	0
2021 - 2025	0	0	0	0	0
2026 - 2030	0	0	0	0	0
2031 - 2035	0	0	0	0	0
	<u>\$ 21,294</u>	<u>\$ 1,278</u>	<u>\$ 22,352</u>	<u>\$ 2,318</u>	<u>\$ 47,242</u>

Business-Type Activities				
	Series 2012 Bonds		KIA Loan A08-09	
	Principal	Interest	Principal	Interest
2016	\$ 140,000	\$ 25,300	\$ 704,719	\$ 136,501
2017	145,000	22,500	711,784	129,437
2018	150,000	19,800	718,919	122,301
2019	150,000	16,600	726,126	115,094
2020	150,000	14,343	733,405	107,814
2021 - 2025	630,000	22,406	3,778,801	427,300
2026 - 2030	0	0	3,972,049	234,052
2031 - 2035	0	0	2,480,082	43,852
	<u>\$ 1,365,000</u>	<u>\$ 120,949</u>	<u>\$ 13,825,885</u>	<u>\$ 1,316,351</u>

Business-Type Activities				
	KIA Loan F11-02		KIA Loan F13-013	
	Principal	Interest	Principal	Interest
2016	\$ 76,563	\$ 36,490	\$ 0	\$ 0
2017	78,101	34,760	0	0
2018	79,671	32,993	0	0
2019	80,872	31,592	0	0
2020	82,906	29,354	0	0
2021 - 2025	440,207	117,884	0	0
2026 - 2030	486,262	66,074	0	0
2031 - 2035	316,271	12,119	1,426,376	0
	<u>\$ 1,640,853</u>	<u>\$ 361,266</u>	<u>\$ 1,426,376</u>	<u>\$ 0</u>

Business-Type Activities				
	KLC Waterline Replacement		Bank of Kentucky	
	Principal	Interest	Principal	Interest
2016	\$ 21,785	\$ 4,290	\$ 35,103	\$ 3,465
2017	22,608	3,876	36,103	2,465
2018	23,436	3,470	37,123	1,445
2019	24,305	3,041	31,722	406
2020	29,194	2,601	0	0
2021 - 2025	126,492	5,731	0	0
2026 - 2030	0	0	0	0
2031 - 2035	0	0	0	0
	<u>\$ 247,820</u>	<u>\$ 23,009</u>	<u>\$ 140,051</u>	<u>\$ 7,781</u>

Business-Type Activities			
	KLC Cable Upgrade		Total
	Principal	Interest	
2016	\$ 47,451	\$ 14,562	\$ 1,231,667
2017	48,970	13,043	1,235,604
2018	50,537	11,476	1,239,695
2019	52,155	9,858	1,231,913
2020	53,824	8,189	1,203,441
2021 - 2025	233,083	14,973	5,781,904
2026 - 2030	0	0	4,758,437
2031 - 2035	0	0	4,278,700
	<u>\$ 486,020</u>	<u>\$ 72,101</u>	<u>\$ 20,961,361</u>

Note 9 – Retirement Plans

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

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

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

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

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

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

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

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

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

At June 30, 2015, the City reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the City as its proportionate share of the net pension liability that was associated with the City were as follows:

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Board's proportionate share of the CERS net pension liability	\$ 3,288,000
	<u>\$ 3,288,000</u>

The City's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the City's proportion was .074844% percent.

For the year ended June 30, 2015, the City recognized pension expense of \$509,002 related to CERS. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 0
Changes of assumptions	0	0
Net difference between projected and actual earnings on pension plan investments	0	355,000
Changes in proportion and differences between Board contributions and proportionate share of contributions	0	0
Board contributions subsequent to the measurement date	454,671	0
	<u>\$ 454,671</u>	<u>\$ 355,000</u>

\$454,671 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	71,000
2017	71,000
2018	71,000
2019	71,000
2020	71,000

Actuarial assumptions—The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS
Inflation	3.50%
Projected salary increases	4.50%
Investment rate of return, net of investment expense & inflation	7.75%

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

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease	Current Discount	1% Increase
	6.75%	Rate	8.75%
CERS			
Board's proportionate share			
of net pension liability	\$ 2,863,742	\$ 3,288,000	\$ 3,712,258

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

NOTE 10 – CONTINGENCIES

Grants

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

Litigation

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

NOTE 11 – RISK MANAGEMENT

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

Management estimates that the amount of actual or potential claims against the City as of June 30, 2015 will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

NOTE 12 – SUBSEQUENT EVENTS

The City evaluated subsequent events through October 1, 2015, which is the date the financial statements were available to be issued. No subsequent events were identified that required adjustment or disclosure within the financial statements.



MADDOX & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Williamstown, Kentucky (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated October 1, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.³

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Maddox & Associates CPAs Inc.

October 1, 2015

Fort Thomas, Kentucky