

CITY OF TAYLOR MILL, KENTUCKY

June 30, 2015

*FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'
REPORT INCLUDING SUPPLEMENTARY INFORMATION*

City of Taylor Mill



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Commission
City of Taylor Mill, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Taylor Mill, Kentucky (the 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.

Managements' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 auditors consider 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Taylor Mill, Kentucky, as of June 30, 2015, and the respective changes in financial position, 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 the Change in Accounting Principles and Restatement note to the financial statements, the City has adopted Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, for the County Employee's Retirement System and Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date effective as of July 1, 2014. The implementation of this new accounting standard resulted in a restatement of prior year net position. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules on pages 1 through 8 and 28 through 32, respectively, 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. We 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 managements' responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated January 13, 2016, on our consideration of the City of Taylor Mill, Kentucky'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 the 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 of Taylor Mill, Kentucky's internal control over financial reporting and compliance.

VonLehman & Company Inc.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED**

Our discussion and analysis of the City of Taylor Mill, Kentucky's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the City's basic financial statements that begin on page 9.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net position and the statement of activities on pages 9 and 10, respectively, provide information about the activities of the City as a whole and present a fair view of the City's finances. Fund financial statements start on page 11. For government activities these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2015 are as follows:

- The assets and deferred outflows or resources of the City exceeded its liabilities and deferred inflows of resources by \$4,035,359 (net position) at June 30, 2015. Of this amount, \$52,187 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$834,239.
- As of June 30, 2015, the City's governmental funds reported combined ending fund balances of \$3,382,162; a decrease of \$812,964.
- As of June 30, 2015, unassigned fund balance for the general fund was \$1,252,665.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, police, fire, public works, parks and recreation. Capital assets and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 9 and 10 of this report.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All activities of the City are included in the governmental funds. The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each fund.

The basic governmental fund financial statements can be found on pages 11 through 14 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 27 of this report.

Government-Wide Financial Analysis

The perspective of the statement of net position is of the City as a whole. Table 1 provides a summary of the City's net position for 2015 compared to 2014.

**Table 1
Net Position**

	Governmental Activities	
	2015	2014 (As Restated)
Assets		
Current and Other Assets	\$ 4,162,817	\$ 4,413,870
Capital Assets, Net	3,876,064	3,867,747
Total Assets	8,038,881	8,281,617
Deferred Outflows of Resources	523,931	525,397
Liabilities		
Current and Other Liabilities	480,079	162,411
Long-Term Liabilities	3,685,515	3,775,005
Total Liabilities	4,165,594	3,937,416
Deferred Inflows of Resources	361,859	-
Net Position		
Net Investment in Capital		
Assets	3,876,064	3,867,747
Restricted for Municipal Aid	107,108	177,841
Unrestricted	52,187	824,010
Total Net Position	\$ 4,035,359	\$ 4,869,598

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows or resources exceeded liabilities and deferred inflows of resources by approximately \$4.0 million as of June 30, 2015.

A large portion of the City's net position reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. These assets are not available for future spending.

The City's financial position is the product of several financial transactions, including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

An additional portion of the City's net position (2.7%) represents resources that are subject to restrictions on how they may be used.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Table 2 reflects the change in net position for fiscal years 2015 and 2014.

**Table 2
Change in Net Position**

	Governmental Activities Years Ended June 30,	
	2015	2014 (As Restated)
Revenues		
General Revenues		
Property Taxes	\$ 1,897,917	\$ 1,716,871
Payroll Taxes	891,037	856,045
Insurance Taxes	593,975	581,190
Utility Tax	152,710	194,633
Other Licenses and Permits	279,865	350,058
Fines and Forfeitures	24,076	16,317
Interest	4,317	6,297
Miscellaneous	104,332	136,910
Gain on Disposal of Capital Assets	17,407	1,475
Total General Revenues	<u>3,965,636</u>	<u>3,859,796</u>
Program Revenues		
Charges for Service	701,805	431,780
Operating Grants and Contributions	127,980	175,705
Capital Grants and Contributions	297,299	163,581
Total Program Revenues	<u>1,127,084</u>	<u>771,066</u>
Total Revenues	<u>5,092,720</u>	<u>4,630,862</u>
Program Expenses		
General Government	845,131	893,032
Police	1,213,321	1,431,352
Fire	1,096,832	1,296,424
Public Works	364,664	402,064
Streets	1,281,574	587,533
Recreation	319,983	283,750
Pension Expense	805,454	525,397
Total Program Expenses	<u>5,926,959</u>	<u>5,419,552</u>
Change in Net Position	<u>\$ (834,239)</u>	<u>\$ (788,690)</u>

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

The City's Funds

The City's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of approximately \$4.8 million and expenditures of approximately \$5.7 million. While revenues increased 5.3%, expenses increased by 24.3%.

General Fund Budgeting Highlights

The City's budget is prepared according to City Charter and is based on accounting for certain transactions on the modified accrual basis of accounting. The general fund beginning fund balance for the beginning of the fiscal year was \$1,595,668.

For the general fund, actual revenues, in the amount of approximately \$4.5 million were slightly higher than budgeted revenues of approximately \$4.4 million.

Expenditures were budgeted at approximately \$4.6 million while actual expenditures were approximately \$4.1 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2015, the City had approximately \$3.9 million net investment in capital assets, all in governmental activities.

Table 3 reflects fiscal year 2015 balances compared to fiscal year 2014.

**Table 3
Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2015	2014
Land	\$ 924,751	\$ 924,751
Construction in Progress	195,690	195,690
Buildings and Improvements	572,969	598,395
Infrastructure	1,704,343	1,562,946
Equipment	324,212	408,018
Vehicles	154,099	177,947
	\$ 3,876,064	\$ 3,867,747

Outstanding Debt

At June 30, 2015, the City had an obligation for unpaid sick time to employees totaling \$92,541.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Economic Factors and Next Year's Budget

The City of Taylor Mill is pleased to report that the reconstruction of KY 16 (Pride Parkway) is complete and the community celebrated with a Ceremonial Ribbon Cutting held on November 16, 2015 at the Trifecta Development. The Ceremony was presided over by the Lieutenant Governor Crit Luallen and recognized many officials in our state and local government who worked diligently to make the project a reality. Special acknowledgements were made to Senator Damon Thayer, Representative Tom Kerr, Representative Arnold Simpson, and the many engineers, planners and staffers at the Kentucky Transportation Cabinet. The KY 16 Reconstruction Project was necessary to move 40,000 plus vehicles a day that traveled the existing KY 16, a dangerous two lane highway that was designated with a roadway rating equal to gridlock. A change of this magnitude is always difficult but the progress and safety enhancements it has brought to our community will be unparalleled in the long term.

The Taylor Mill City Commission was successful in a majority of their efforts to lobby the state for additional traffic signal enhancements on the Parkway within the Taylor Mill City limits. Two much needed traffic signals will be installed at the intersection of Wayman Branch, Taylor Mill Road, and Pride Parkway; and at the intersection of Honey Drive (Sawmill Drive), Old Taylor Mill Road, and Pride Parkway in the very near future. These signals will help ease the movement of traffic along the corridor creating breaks in traffic flow allowing residents traveling from adjacent side roads the opportunity to exit onto the parkway in a more safe manner than before.

The Pride Parkway project has changed the flow of traffic significantly within the community. The commencement of the reconstruction project was also the impetus for the creation of a plan for Downtown Taylor Mill, aka the Districts of Taylor Mill.

The Districts of Taylor Mill is a synergistic mix of downtown retail, commercial, and office development opportunities. These designated downtown development areas offer the City the ability to manage commercial growth opportunities resulting from the construction of the new highway and thus ensuring the continued stability of our residential environment. In response to this opportunity, the Holland Restaurant Group constructed a 35,000 square foot retail/office facility that is home to Larosa's Pizzeria, Skyline Chili, and Graeter's Ice Cream and Bakery Shop that opened in late 2014. In 2015, we welcomed the Golf Exchange to the same development and saw significant renovations occur under new management to the local Taylor Mill McDonalds. 2016 is slated to bring the arrival of Lucky Duck Pub and Club Vape to the Shoppes of Taylor Mill and renovations to the local BP Gas Station. Additionally, the Holland Rosen Group is anticipated to move into their nearly completed corporate offices on the third floor of the Trifecta Development in the Spring. We look for future announcements about tenants who will be occupying the second floor office and retail space in the same building during the later part of 2016, as well as, more information about the Districts of Taylor Mill in general.

Improvements to the residential housing market brought developers who were eager to begin and finalize new and existing developments. For example: Custom Home builders Gerdes and Flesch platted plans to develop 60 new homes in the High Ridge Park Subdivision. Also, Berling Development platted plans to build an additional 16 homes on lots they had in the Taylor Creek Subdivision, and the remaining lots on Morning Glory sold with new homes popping up within months bringing that development to near completion.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

The Taylor Mill City Commission desired to keep tax rates low for all residents and business owners. That task is difficult at best when having to balance the ever increasing needs and cost affiliated with the provision of essential emergency service operations (Police, Fire, and Public Works) affiliated with a full service governmental entity such as the City's. The City was able to hold the Real Property Tax Rate to the lowest compensating rate possible. Unfortunately though, the city had to pass along to residents an increase in the cost of Trash and Recycling Collection Services. This increase was the result of an unavoidable direct increase in the cost of the service from the City's vendor, Rumpke of Northern Kentucky. The City hopes to reduce that cost next year when the services are put out to bid in the spring of 2016. Additionally, the City Commission eliminated the Vehicle Registration Tax this fiscal year saving residents \$10.00 annually for each vehicle registered to a Taylor Mill address. Every increase and every savings adds up, and the City Commission is truly dedicated to keep the services effective and tax dollars as low as possible by spending a significant amount of time analyzing and reviewing the annual budget on a regular basis with key staff members.

The City worked previously with the Kentucky Transportation Cabinet on the KY 16 Reconstruction Project to have a turn lane constructed at the intersection of Honey Drive and Old Taylor Mill Road, along with underground utilities in the area, and conduit for pedestrian street lighting along a portion of the corridor within our business district. In addition to traditional streetscape fixtures (trash cans, benches, signage, lighting, etc.) that remain forthcoming, the City installed decorative mast arm traffic signal posts and decorative pedestrian crosswalk equipment at the intersection of Pride Parkway and existing KY 16. This same type of signal posts and crosswalk equipment was installed at the intersection of the newly constructed Holland Drive, existing KY 16 and Old Taylor Mill Road, and we are currently in the process of constructing a street light project from Taylor Creek along Pride Parkway in phases to light the area for both vehicular and pedestrian traffic. The poles and fixtures are decorative in nature and meant to enhance the aesthetics of the area also.

The City also is looking forward to its collaboration with the Sanitation District No. 1 to separate the combined Sanitary and Storm Sewer System in the Church Street area. Completion of this project will lead to repaving many streets in need such as Church Street, Faye Drive, Primrose, and Valley View North to name just a few potentially in the construction season of 2016.

It is important to acknowledge the many accolades and honors proudly received during 2015 when Taylor Mill was selected as an All Star Community to host events in conjunction with MLB's All Star Baseball Game, which led us to host the Taste of Taylor Mill, the All Star Game Viewing Party, and a children's Baseball Movie/Touch A Truck Event at Pride Park. Additionally, the City was honored to have Pride Park recognized as the Best Park in Northern Kentucky by Northern Kentucky Magazine, and the community ranked 9th Best City in the Tri-State to live in (the first on the list in Kentucky) by Cincinnati Magazine. The City expanded its list of honors in 2016 by being granted the ability to be a host community for Vietnam Veterans Moving Wall. More details will be announced in 2016 about the City's participation in this amazing endeavor to honor those who have made the ultimate sacrifice defending the nation.

The City remains committed to designing and building a new municipal center that would replace the existing dilapidated facilities. However, this project has been put on hold indefinitely until the City realizes some further commercial growth within the Districts of Taylor Mill zones. The City will continue to grow the funds set aside and earmarked for this endeavor until such a time as the project moves forward.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Other issues that continue to impact the budget during future fiscal years are: the need to implement anticipated increases to employer contribution requirements of the City Employee Retirement System (CERS); the consideration of salary increases in the Police and Fire Department to attract and retain qualified staff; the continued replacement of capital equipment in the Police, Fire/EMS, and Maintenance Departments in accordance with the depreciation schedule, as well as, ongoing and planned maintenance and improvements to Pride Park. The City is also endeavoring to continue construction of sidewalk along existing KY 16 in an effort to link residents adjacent to this corridor to shopping and recreational activities, and recently received a grant to further efforts in this area.

The City also is continuing to work with Human Nature, Inc. to implement components of a master plan for Pride Park and Park Place that was previously adopted. As part of this process the City has removed the amphitheater and worked with Lawrence Construction and KYTC to accept approximately 25,000 cubic yards of dirt from the KY 16 project that will be utilized to fill in the valley the amphitheater originally set in. The City anticipates that by raising this area up and leveling it out it will create more useable space that can better accommodate the construction of a new amphitheater and reflecting pond. These modifications to the park make it more ADA accessible and better connect it to other areas in the park that are more heavily utilized.

The City of Taylor Mill works diligently to limit the amount of debt incurred, and as a result, is working towards addressing the needs of the community by planning for all projects, events, and future needs in a manner that continues to protect the assets and interests of the City and the residents of the community.

Contacting the City's Financial Management

This financial report is designed to provide the citizens, taxpayers, investors, and creditors of the City with a general overview of the City's finances and to reflect the City's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to the City Administrator's office, City of Taylor Mill, 5225 Taylor Mill Road, Taylor Mill, Kentucky 41015.

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2015

	Governmental Activities
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 1,379,019
Short Term Investments	1,238,207
Accounts Receivable - Current Portion	934,882
Accrued Interest Receivable	204
Total Current Assets	3,552,312
Noncurrent Assets	
Accounts Receivable - Long-Term Portion	610,505
Capital Assets	
Land	924,751
Construction in Progress	195,690
Buildings and Improvements	1,317,489
Infrastructure	7,309,036
Equipment	2,215,277
Vehicles	1,545,737
Less Accumulated Depreciation	(9,631,916)
Total Capital Assets	3,876,064
Total Noncurrent Assets	4,486,569
Total Assets	8,038,881
Deferred Outflows of Resources	
Contributions After Measurement Date	523,931
Total Assets and Deferred Outflows of Resources	8,562,812
Liabilities	
Current Liabilities	
Accounts Payable	304,510
Accrued Liabilities	59,652
Unearned Revenue	115,917
Total Current Liabilities	480,079
Noncurrent Liabilities	
Compensated Absences	92,541
Net Pension Liability	3,592,974
Total Noncurrent Liabilities	3,685,515
Total Liabilities	4,165,594
Deferred Inflows of Resources	
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	361,859
Total Liabilities and Deferred Inflows of Resources	4,527,453
Net Position	
Net Investment in Capital Assets	3,876,064
Restricted for Municipal Aid	107,108
Unrestricted	52,187
Total Net Position	\$ 4,035,359

See accompanying notes.

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
					<u>Primary Government Total Governmental Activities</u>
Primary Government					
Governmental Activities					
General Government	\$ 845,131	\$ 279,382	\$ -	\$ -	\$ (565,749)
Police	1,213,321	-	116,254	-	(1,097,067)
Fire	1,096,832	118,662	11,726	8,250	(958,194)
Public Works	364,664	-	-	-	(364,664)
Streets	1,281,574	263,131	-	289,049	(729,394)
Recreation	319,983	40,630	-	-	(279,353)
Pension Expense	805,454	-	-	-	(805,454)
Total Primary Government	\$ 5,926,959	\$ 701,805	\$ 127,980	\$ 297,299	(4,799,875)
General Revenues					
Property Taxes					1,897,917
Payroll Taxes					891,037
Insurance Tax					593,975
Utility Tax					152,710
Other Licenses and Permits					279,865
Fines and Forfeitures					24,076
Interest					4,317
Miscellaneous					104,332
Gain on Sale of Capital Assets					17,407
Total General Revenues					<u>3,965,636</u>
Change in Net Position					(834,239)
Net Position as of July 1, 2014 (As Restated)					<u>4,869,598</u>
Net Position as of June 30, 2015					<u>\$ 4,035,359</u>

See accompanying notes.

CITY OF TAYLOR MILL, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	<u>General Fund</u>					<u>Total General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Capital Improve- ment Fund</u>	<u>Total Govern- mental Fund</u>
	<u>General</u>	<u>Recreation</u>	<u>Emergency</u>	<u>Community Events</u>	<u>Senior Services</u>				
Assets									
Cash and Cash Equivalents	\$ (382,943)	\$ 328,046	\$ 586,850	\$ 21,735	\$ 11,748	\$ 565,436	\$ 89,604	\$ 723,979	\$ 1,379,019
Short Term Investments	1,238,207	-	-	-	-	1,238,207	-	-	1,238,207
Receivables									
Property Taxes	49,754	-	-	-	-	49,754	-	-	49,754
Waste Assessments	14,004	-	-	-	-	14,004	-	-	14,004
Accounts	412,103	-	-	-	-	412,103	-	811,818	1,223,921
Other	240,100	(205,277)	-	-	-	34,823	17,608	-	52,431
Accrued Interest Receivable	204	-	-	-	-	204	-	-	204
Total Assets	<u>\$ 1,571,429</u>	<u>\$ 122,769</u>	<u>\$ 586,850</u>	<u>\$ 21,735</u>	<u>\$ 11,748</u>	<u>\$ 2,314,531</u>	<u>\$ 107,212</u>	<u>\$ 1,535,797</u>	<u>\$ 3,957,540</u>
Liabilities and Fund Balances									
Liabilities									
Accounts Payable	\$ 80,757	\$ 13,765	\$ -	\$ 747	\$ 1,251	\$ 96,520	\$ 104	\$ 2,609	\$ 99,233
Accrued Liabilities	58,332	1,320	-	-	-	59,652	-	-	59,652
Unearned Revenue	179,675	-	-	-	-	179,675	-	236,818	416,493
Total Liabilities	<u>318,764</u>	<u>15,085</u>	<u>-</u>	<u>747</u>	<u>1,251</u>	<u>335,847</u>	<u>104</u>	<u>239,427</u>	<u>575,378</u>
Fund Balances									
Restricted									
Municipal Aid	-	-	-	-	-	-	107,108	-	107,108
Committed									
Emergency	-	-	586,850	-	-	586,850	-	-	586,850
Capital Improvement	-	-	-	-	-	-	-	1,296,370	1,296,370
Assigned									
Recreation	-	107,684	-	-	-	107,684	-	-	107,684
Community Events	-	-	-	20,988	-	20,988	-	-	20,988
Senior Services	-	-	-	-	10,497	10,497	-	-	10,497
Unassigned									
General	1,252,665	-	-	-	-	1,252,665	-	-	1,252,665
Total Fund Balances	<u>1,252,665</u>	<u>107,684</u>	<u>586,850</u>	<u>20,988</u>	<u>10,497</u>	<u>1,978,684</u>	<u>107,108</u>	<u>1,296,370</u>	<u>3,382,162</u>
Total Liabilities and Fund Balances	<u>\$ 1,571,429</u>	<u>\$ 122,769</u>	<u>\$ 586,850</u>	<u>\$ 21,735</u>	<u>\$ 11,748</u>	<u>\$ 2,314,531</u>	<u>\$ 107,212</u>	<u>\$ 1,535,797</u>	<u>\$ 3,957,540</u>

See accompanying notes.

**CITY OF TAYLOR MILL, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2015**

Total Fund Balance - Governmental Funds \$ 3,382,162

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in the governmental funds.

Cost of Capital Assets	\$	13,507,980	
Accumulated Depreciation		<u>9,631,916</u>	
			3,876,064

Other long-term assets are not available to pay for current-period expenditures and therefore are unearned in the governmental funds.

Assessment Receivable			236,818
Property Tax Receivable			63,758

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.

Compensated Absences			(92,541)
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Contributions After Measurement Date			523,931
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments			(361,859)

Long-term liabilities, including net pension obligations and notes payable, are not due and payable in the current period, and therefore, are not reported as liabilities in governmental funds.

Net Pension Liability			<u>(3,592,974)</u>
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Net Position of Governmental Activities in the Statement of Net Position			\$ <u><u>4,035,359</u></u>
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See accompanying notes.

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended June 30, 2015

	General Fund					Total General Fund	Municipal Road Aid Fund	Capital Improve- ment Fund	Total Govern- mental Fund
	General	Recreation	Emergency	Community Events	Senior Services				
Revenues									
Taxes	\$ 2,783,002	\$ -	\$ -	\$ -	\$ -	\$ 2,783,002	\$ -	\$ -	\$ 2,783,002
Licenses and Permits	1,026,550	-	-	-	-	1,026,550	-	-	1,026,550
Intergovernmental	140,234	-	-	-	-	140,234	289,049	-	429,283
Charges for Services	396,571	40,725	-	-	-	437,296	-	26,313	463,609
Fines and Forfeitures	24,076	-	-	-	-	24,076	-	-	24,076
Interest	4,239	-	-	-	-	4,239	78	-	4,317
Miscellaneous	68,475	31	-	42,918	6,226	117,650	-	-	117,650
Total Revenues	4,443,147	40,756	-	42,918	6,226	4,533,047	289,127	26,313	4,848,487
Expenditures									
Current									
General Government	903,543	-	-	-	-	903,543	-	-	903,543
Police	1,315,921	-	-	-	-	1,315,921	-	-	1,315,921
Fire	1,239,525	-	-	-	-	1,239,525	-	-	1,239,525
Public Works	361,940	-	-	-	-	361,940	-	6,590	368,530
Streets	-	-	-	-	-	-	52,233	-	52,233
Recreation	-	194,946	-	86,579	7,634	289,159	-	-	289,159
Capital Outlay	34,164	5,495	-	284	-	39,943	262,769	1,189,828	1,492,540
Total Expenditures	3,855,093	200,441	-	86,863	7,634	4,150,031	315,002	1,196,418	5,661,451
Excess (Deficit) of Revenues Over Expenditures	588,054	(159,685)	-	(43,945)	(1,408)	383,016	(25,875)	(1,170,105)	(812,964)
Fund Balance as of July 1, 2014	664,611	267,369	586,850	64,933	11,905	1,595,668	132,983	2,466,475	4,195,126
Fund Balance as of June 30, 2015	\$ 1,252,665	\$ 107,684	\$ 586,850	\$ 20,988	\$ 10,497	\$ 1,978,684	\$ 107,108	\$ 1,296,370	\$ 3,382,162

See accompanying notes.

**CITY OF TAYLOR MILL, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2015**

Change in Fund Balances - Total Governmental Funds \$ (812,964)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.

Depreciation Expense	\$ (569,009)	
Capital Outlays	<u>577,326</u>	8,317

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned. 244,243

In the statement of activities, compensated absences (sick leave) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The additional expense reported in the statement of activities is a result of the change in long-term accumulated sick leave. 7,688

Governmental funds report City pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

City Pension Contributions - June 30, 2014		(525,397)
City Pension Contributions - June 30, 2015		523,931
Cost of Benefits Earned Net of Employee Contributions		<u>(280,057)</u>

Change in Net Position - Governmental Activities \$ (834,239)

See accompanying notes.

**CITY OF TAYLOR MILL, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

Kentucky Revised Statutes and Ordinances of the City Commission of the City of Taylor Mill, Kentucky (the City) designate the purpose, function and restrictions of the various funds. The financial statements included herein consist of the General Fund (General, Recreation, Emergency, Community Event and Senior Services), Municipal Aid, and Capital Improvement Funds.

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City of Taylor Mill, Kentucky.

The City of Taylor Mill, Kentucky is a Charter City, in which citizens elect the mayor at large and four commissioners whom together form the City Commission. The accompanying financial statements present the City's primary government. Component units are those over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). The City has no component units.

Basis of Presentation

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 City has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues 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 governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements - Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balance, which reports on the changes in net total position.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City has the following funds:

Governmental Fund Types

- (A) The General Fund is the main operating fund of the City. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is a major fund of the City and is comprised of the General, Recreation, Emergency, Community Events and Senior Services components.
- (B) The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The Municipal Road Aid Fund is a major special revenue fund of the City.
- (C) The Capital Project Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for capital projects. The Capital Improvement Fund is a major capital project fund of the City.

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.

Revenues – Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and 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 sixty days of the fiscal year end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations 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, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

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 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.

Capital Assets

General capital assets are assets that 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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for general capital assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings	40 Years
Building Improvements	10 – 20 Years
Public Domain Infrastructure	25 – 40 Years
Vehicles	5 – 10 Years
Equipment	3 – 5 Years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

- Non-Spendable – Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
- Restricted – Amounts that can be spent only for specific purposes because of the City Charter, the City Code, state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed – Amounts that can be used only for specific purposes determined by a formal action by City Commission ordinance or resolution.
- Assigned – Amounts that are designated by the Mayor for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by City Commission.
- Unassigned – All amounts not included in other spendable classifications.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications-committed and then assigned fund balances before using unassigned fund balances.

Pensions

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires the use of estimates and assumptions regarding certain types of assets, liabilities, designated fund balances, revenues and expenditures. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results could differ from estimated amounts.

Cash and Cash Equivalents

The City considers demand deposits, money market funds, and other investments with an original maturity of ninety days or less, to be cash equivalents.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net position.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused sick pay benefits. There is a liability for unpaid accumulated sick leave since the City does have a policy to pay specified amounts when employees separate from service with the City. All sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured.

Property Taxes

Property taxes include amounts levied on real property. Property values were assessed on January 1st and property taxes were due on December 31st.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

- a) In accordance with City ordinance, by May 31, the Mayor submits to the City Commission, a proposed operating budget on the modified accrual basis of accounting 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.
- b) A public meeting is conducted to obtain citizen comment.
- c) By July 1, the budget is legally enacted through passage of an ordinance.
- d) The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the Commission explaining any variance from the approved budget.
- e) Appropriations continue in effect until a new budget is adopted.
- f) The Commission 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 Commission.

NOTE 3 - DEPOSITS AND INVESTMENTS

It is the policy of the City to invest public funds in a manner that will provide the highest investment return 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:

- a) 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.
- b) 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.
- c) Obligations of any corporation of the United States government.
- d) 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 or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by the Kentucky Revised Statutes.

Deposits

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 Federal Deposit Insurance Corporation (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, the City's deposits are entirely insured and/or collateralized with securities held by the financial institutions on the City's behalf and the FDIC insurance.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Investments

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City had no custodial credit risk at June 30, 2015.

Credit risk - investments. The City's investments are subject to minimal credit risk because they are invested in Federal Agency securities which are generally considered free of default risk due to the perceived stability of the U.S. Government.

At June 30, 2015, the City's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
Certificate of Deposit	\$ 1,238,207	March 15, 2016

NOTE 4 - SALE OF UTILITY SYSTEM

The City entered into an agreement dated November 10, 2003 for the sale of the utility system to the Northern Kentucky Water District. The system officially transferred on March 31, 2004. Based on the terms of the agreement, the Northern Kentucky Water District will pay the City the sum of \$3,000,000 according to an installment plan set out in the agreement. The City received \$125,000 at the closing, and the remaining balance of the agreement as of June 30, 2015 is \$575,000. This receivable is reflected in the capital improvement fund. The following schedule shows the remaining payments for the purchase.

<u>Years Ending June 30,</u>	
2016	\$ 175,000
2017	175,000
2018	175,000
2019	<u>50,000</u>
	<u>\$ 575,000</u>

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

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

	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2015</u>
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 924,751	\$ -	\$ -	\$ 924,751
Construction in Progress	195,690	-	-	195,690
Total Capital Assets Not Being Depreciated	<u>1,120,441</u>	<u>-</u>	<u>-</u>	<u>1,120,441</u>
Depreciable Capital Assets				
Buildings and Improvements	1,317,489	-	-	1,317,489
Infrastructure	6,820,422	488,614	-	7,309,036
Equipment	2,180,281	35,626	630	2,215,277
Vehicles	1,566,392	53,086	73,741	1,545,737
Total Depreciable Capital Assets	<u>11,884,584</u>	<u>577,326</u>	<u>74,371</u>	<u>12,387,539</u>
Total Capital Assets at Historical Cost	<u>13,005,025</u>	<u>577,326</u>	<u>74,371</u>	<u>13,507,980</u>
Less Accumulated Depreciation				
Buildings and Improvements	719,094	25,426	-	744,520
Infrastructure	5,257,476	347,217	-	5,604,693
Equipment	1,772,263	119,432	630	1,891,065
Vehicles	1,388,445	76,934	73,741	1,391,638
Total Accumulated Depreciation	<u>9,137,278</u>	<u>569,009</u>	<u>74,371</u>	<u>9,631,916</u>
Depreciable Capital Assets, Net	<u>2,747,306</u>	<u>8,317</u>	<u>-</u>	<u>2,755,623</u>
Governmental Activities				
Capital Assets - Net	<u>\$ 3,867,747</u>	<u>\$ 8,317</u>	<u>\$ -</u>	<u>\$ 3,876,064</u>

Depreciation was charged to functions as follows for the year ended June 30, 2015:

General Government	\$ 7,839
Police	80,270
Fire	65,872
Public Works	36,256
Streets	347,217
Recreation	31,555
Total	<u>\$ 569,009</u>

NOTE 6 - LONG-TERM DEBT

Compensated Absences

The following is a summary of the City's long-term debt transactions for the year ended June 30, 2015.

	June 30, 2014	Additions	Retired	June 30, 2015
Compensated Absences	\$ 100,229	\$ -	\$ (7,688)	\$ 92,541

NOTE 7 - PENSION PLAN

General Information about the Pension Plan

Plan description: County Employees Retirement System (CERS) consists of two plans, Nonhazardous and Hazardous. Each plan is a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed in nonhazardous and hazardous duty positions of each participating county, city, and any additional eligible local agencies electing to participate in CERS.

Benefits provided: These systems provide for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

Retirement Eligibility for Members Whose Participation Began Before 09/01/2008

Age	Years of Service	Allowance Reduction
65	4	None
Any	27	None
55	5	6.5% per year for first five years, and 4.5% for the next five years before age 65 or 27 years of service.
Any	25	6.5% per year for first five years, and 4.5% for the next five years before age 65 or 27 years of service.

Retirement Eligibility for Members Whose Participation Began On or After 09/01/2008

Age	Years of Service	Allowance Reduction
65	5	None
57	Rule of 87	None
60	10	6.5% per year for first five years, and 4.5% for the next five years before age 65 or Rule of 87 (age plus years of service).

NOTE 7 - PENSION PLAN (Continued)

Benefit Formula

<u>Final Compensation</u>	X	<u>Benefit Factor</u>	X	<u>Years of Service</u>
Average of the five highest if participation began before September 1, 2008.		2.20% if:	Member begins participating prior to August 1, 2004.	Includes earned service, purchased service, prior service, and sick leave (if the member's employer participates in an approved sick leave program).
		2.00% if:	Member begins participating on or after August 1, 2004 and before September 1, 2008.	
Average of the last complete five if participation began on or after September 1, 2008.		Increasing percent based on service at retirement* plus 2.00% for each year of service over 30 if:	Member begins participating on or after September 1, 2008.	

* **Service (and Benefit Factor): 10 years or less (1.10%); 10 - 20 years (1.30%); 20 - 26 years (1.50%); 26 - 30 years (1.75%)**

For post-retirement death benefits, if the member is receiving a monthly benefit based on at least four (4) years of creditable service, the retirement system will pay a \$5,000 death benefit payment to the beneficiary named by the member specifically for this benefit.

For disability benefits, members participating before August 1, 2004 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the benefit formula. Members participating on or after August 1, 2004 but before January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed at the highest of 20% of Final Rate of Pay or the amount calculated under the Benefit Formula based upon actual service. Members participating on or after January 1, 2014 may retire on account of disability provided the member has at least 60 months of service credit. The hypothetical account which includes member contributions, employer contributions, and interest credits can be withdrawn from the System as a lump sum or an annuity equal to the largest of 20% of the member's monthly final rate of pay or the annuitized hypothetical account into a single life annuity option. Members disabled as a result of a single duty-related injury or act of violence related to their job may be eligible for special benefits.

For pre-retirement death benefits, the beneficiary of a deceased active member will be eligible for a monthly benefit if the member was: (1) eligible for retirement at the time of death or, (2) under the age of 55 with at least 60 months of service credit and currently working for a participating agency at the time of death or (3) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump sum payment of the member's contributions and any accumulated interest.

NOTE 7 - PENSION PLAN (Continued)

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. On July 1, 2013, the COLA was not granted. Effective July 1, 2009, and on July 1st of each year thereafter through June 30, 2014, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands.

Each system's assets are used only for the payment of benefits to the members of that system, and a pro rata share of administrative costs in accordance with the provisions of Kentucky Revised Statute Section 78.630.

Contributions: For the fiscal years ended June 30, 2015 and 2014, plan members who began participating prior to September 1, 2008, were required to contribute 5% nonhazardous and 8% hazardous of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate for CERS pensions. Per Kentucky Revised Statute Section CERS 78.545, normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal year ended June 30, 2015, participating employers contributed 17.67% for the nonhazardous system and 34.31% for the hazardous system of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years were a percentage of each employee's creditable compensation. Contributions to the pension plan from the City were \$524,455 for the year ended June 30, 2015.

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 of \$3,592,974 for its proportionate share of the net pension liability. 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. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2015, the City's proportion for the nonhazardous system was 0.02% and for the hazardous system was 0.25%.

For the year ended June 30, 2015, the City recognized pension expense of \$805,454. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 361,859
City contributions subsequent to the measurement date	<u>523,931</u>	<u>-</u>
Total	<u>\$ 523,931</u>	<u>\$ 361,859</u>

NOTE 7 - PENSION PLAN (Continued)

The \$523,931 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 of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	
2016	\$ 72,372
2017	72,372
2018	72,372
2019	72,372
2020	<u>72,371</u>
Total	<u>\$ 361,859</u>

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

Valuation Date	June 30, 2014
Experience Study	July 1, 2005 – June 30, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year Smoothed market
Inflation	3.50%
Salary Increase	4.5%, Average, including inflation
Investment Rate of Return	7.75% Net of pension plan investment expense, including inflation

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. 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, at 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.

NOTE 7 - PENSION PLAN (Continued)

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

Asset Class	Target Allocation	Long Term Expected Nominal Return
Domestic Equity	30.00 %	8.45 %
International Equity	22.00	8.85
Emerging Market Equity	5.00	10.50
Private Equity	7.00	11.25
Real Estate	5.00	7.00
Core U.S. Fixed Income	10.00	5.25
High Yield U.S. Fixed Income	5.00	7.25
Non U.S. Fixed Income	5.00	5.50
Commodities	5.00	7.75
TIPS	5.00	5.00
Cash	1.00	3.25
Total	<u>100.00 %</u>	

Discount rate: 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 members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate: The following presents the City's proportionate share of the net pension liability using the discount rate of 7.75%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Nonhazardous	\$ 842,221	\$ 640,018	\$ 461,367
Hazardous	\$ 3,862,936	\$ 2,952,956	\$ 2,180,309

Payable to the Pension Plan

At June 30, 2015, the CERS reported a payable of \$49,691 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

Deferred Compensation Plan

The City also participates in a 401(k) plan administered by the Kentucky Employees Deferred Compensation Authority. All payments to the Authority are payroll withheld. The City does not contribute to the plan for any employee.

NOTE 8 - 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.

The City Attorney 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 9 - CLAIMS AND JUDGEMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTE 10 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, for the County Employee’s Retirement System and Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to period of employee service. These Statements also require enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope.

The implementation of GASB Statements No. 68 and 71 had the following effect:

Net Position, June 30, 2014	\$	8,018,977
Recognition of Contributions after Measurement Date		525,397
Recognition of Net Pension Liability		<u>(3,674,776)</u>
Restated Net Position, June 30, 2014	\$	<u><u>4,869,598</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				(Unfavorable)
				Favorable
Revenues				
Taxes				
Property	\$ 1,767,400	\$ 1,886,975	\$ 1,878,353	\$ (8,622)
Bank Deposit	12,875	13,500	13,612	112
Payroll	925,000	875,000	891,037	16,037
Licenses and Permits	1,107,250	932,200	1,026,550	94,350
Intergovernmental	120,515	160,575	140,234	(20,341)
Charges for Services	433,300	439,100	437,296	(1,804)
Fines and Forfeitures	11,250	23,100	24,076	976
Interest	5,550	3,800	4,239	439
Miscellaneous	76,090	100,062	117,650	17,588
	<u>4,459,230</u>	<u>4,434,312</u>	<u>4,533,047</u>	<u>98,735</u>
Total Revenues				
Expenditures				
Current				
General Government	940,411	1,022,491	903,543	118,948
Police	1,381,135	1,419,935	1,315,921	104,014
Fire	1,331,121	1,367,071	1,239,525	127,546
Public Works	369,845	383,645	361,940	21,705
Recreation	366,861	380,736	289,159	91,577
Capital Outlay	50,025	54,525	39,943	14,582
	<u>4,439,398</u>	<u>4,628,403</u>	<u>4,150,031</u>	<u>478,372</u>
Total Expenditures				
Excess (Deficit) of Revenues				
Over Expenditures	19,832	(194,091)	383,016	577,107
Other Financing Uses				
Operating Transfers Out	(302,728)	(439,544)	-	(439,544)
	<u>(302,728)</u>	<u>(439,544)</u>	<u>-</u>	<u>(439,544)</u>
Net Change in Fund Balances	(282,896)	(633,635)	383,016	1,016,651
Fund Balance July 1, 2014	<u>1,595,668</u>	<u>1,595,668</u>	<u>1,595,668</u>	<u>-</u>
Fund Balance June 30, 2015	<u>\$ 1,312,772</u>	<u>\$ 962,033</u>	<u>\$ 1,978,684</u>	<u>\$ 1,016,651</u>

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
MUNICIPAL AID FUND
Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Favorable</u>
Revenues				
Intergovernmental	\$ 154,500	\$ 279,439	\$ 289,049	\$ 9,610
Interest	50	70	78	8
	<u>154,550</u>	<u>279,509</u>	<u>289,127</u>	<u>9,618</u>
Total Revenues				
	<u>154,550</u>	<u>279,509</u>	<u>289,127</u>	<u>9,618</u>
Expenditures				
Current				
Streets	75,950	76,200	52,233	23,967
Capital Outlay	260,000	325,000	262,769	62,231
	<u>335,950</u>	<u>401,200</u>	<u>315,002</u>	<u>86,198</u>
Total Expenditures				
	<u>335,950</u>	<u>401,200</u>	<u>315,002</u>	<u>86,198</u>
Deficit of Revenues Over Expenditures	(181,400)	(121,691)	(25,875)	95,816
Fund Balance July 1, 2014	<u>132,983</u>	<u>132,983</u>	<u>132,983</u>	<u>-</u>
Fund Balance June 30, 2015	<u>\$ (48,417)</u>	<u>\$ 11,292</u>	<u>\$ 107,108</u>	<u>\$ 95,816</u>

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
CAPITAL IMPROVEMENT FUND
Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				(Unfavorable)
				Favorable
Revenues				
Miscellaneous	\$ 195,000	\$ 201,313	\$ 26,313	\$ (175,000)
Expenditures				
Current				
General	15,000	10,000	-	10,000
Public Works	2,080,000	1,785,000	6,590	1,778,410
Capital Outlay	1,188,750	1,205,000	1,189,828	15,172
Total Expenditures	<u>3,283,750</u>	<u>3,000,000</u>	<u>1,196,418</u>	<u>1,803,582</u>
Deficit of Revenues Over Expenditures	(3,088,750)	(2,798,687)	(1,170,105)	1,628,582
Other Financing Sources				
Transfers In	<u>302,728</u>	<u>439,544</u>	-	<u>(439,544)</u>
Net Change in Fund Balance	(2,786,022)	(2,359,143)	(1,170,105)	1,189,038
Fund Balance July 1, 2014	<u>2,466,475</u>	<u>2,466,475</u>	<u>2,466,475</u>	<u>-</u>
Fund Balance June 30, 2015	<u><u>\$ (319,547)</u></u>	<u><u>\$ 107,332</u></u>	<u><u>\$ 1,296,370</u></u>	<u><u>\$ 1,189,038</u></u>

CITY OF TAYLOR MILL, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
June 30, 2015

County Employees Retirement System

City's Proportion of the Net Pension Liability (Asset) - Non Hazardous	0.02%
City's Proportion of the Net Pension Liability (Asset) - Hazardous	0.25%
City's Proportionate Share of the Net Pension Liability (Asset) - Non Hazardous	\$ 640,018
City's Proportionate Share of the Net Pension Liability (Asset) - Hazardous	<u>2,952,956</u>
Total City's Proportionate Share of the Net Pension Liability (Asset)	<u>\$ 3,592,974</u>
City's Covered - Employee Payroll	\$ 1,698,952
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	211.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	193.76%

See accompanying notes.

**CITY OF TAYLOR MILL, KENTUCKY
SCHEDULE OF THE CITY'S CONTRIBUTIONS
June 30, 2015**

**County Employees Retirement System
Last 2 Fiscal Years**

Nonhazardous	2015	2014
Contractually Required Contribution	\$ 83,021	\$ 85,654
Contributions in Relation to the Contractually Required Contribution	(83,021)	(85,654)
Contribution Deficiency (Excess)	\$ -	\$ -
City's Covered-Employee Payroll	\$ 469,244	\$ 453,673
Contributions as a Percentage of Covered-Employee Payroll	17.69%	18.88%
Hazardous		
	2015	2014
Contractually Required Contribution	\$ 441,434	\$ 444,334
Contributions in Relation to the Contractually Required Contribution	(441,434)	(444,334)
Contribution Deficiency (Excess)	\$ -	\$ -
City's Covered-Employee Payroll	\$ 1,285,385	\$ 1,245,279
Contributions as a Percentage of Covered-Employee Payroll	34.34%	35.68%

See accompanying notes.

OTHER SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITORS' 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 City Commission
City of Taylor Mill, 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 and each major fund of the City of Taylor Mill, Kentucky as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Taylor Mill, Kentucky's basic financial statements, and have issued our report thereon dated January 13, 2016.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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. We did identify certain deficiencies in internal control, described below that we consider to be significant deficiencies.

Finding 2016-1

Although the small size of the City's office staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. One of the most critical areas of separation (but not the only one) is cash, where we noted that one person handles incoming checks, prepares the deposit slip, posts receipts to customer accounts, and handles all correspondence with current and delinquent tax payers. The result is the danger that intentional or unintentional errors could be made and not detected. We recommend that another individual opens the mail, prepares a prelist of the cash received, and prepares the deposit slip. The changing of these simple steps would not require the addition of any new employees or add significant time to either employee's time.

Management's Response

The City agrees with the above finding and will implement precautionary procedures whenever possible to increase segregation of duties.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Taylor Mill, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

City of Taylor Mill, Kentucky's Response to Findings

The City of Taylor Mill, Kentucky's response to the finding identified in our audit is described above. The City of Taylor Mill, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance on 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.

VonLehman & Company Inc.