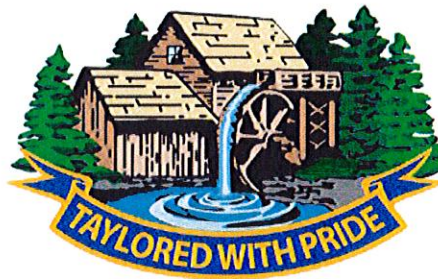


CITY OF TAYLOR MILL, KENTUCKY

June 30, 2016

*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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 and each major fund of the City of Taylor Mill, Kentucky, as of June 30, 2016, 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.

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

Emphasis of Matter

As discussed in the notes to the financial statements, the previously issued financial statements for the year ended June 30, 2015 have been restated for the correction of a material misstatement. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the City's proportionate share of the net pension liability, and the schedule of the City's contributions on pages 1 through 8 and 31 through 35, 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 February 15, 2017, 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.

Fort Wright, Kentucky
February 15, 2017

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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, 2016. 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 2016 are as follows:

- The assets and deferred outflows or resources of the City exceeded its liabilities and deferred inflows of resources by \$3,879,631 (net position) at June 30, 2016. The City's total net position increased by \$37,761.
- As of June 30, 2016, the City's governmental funds reported combined ending fund balances of \$3,882,636; an increase of \$500,474.
- As of June 30, 2016, unassigned fund balance for the general fund was \$760,474.

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, 2016
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 30 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 2016 compared to 2015.

**Table 1
Net Position**

	Governmental Activities	
	2016	2015 (As Restated)
Assets		
Current and Other Assets	\$ 4,325,846	\$ 4,162,817
Capital Assets, Net	3,622,527	3,876,064
Total Assets	7,948,373	8,038,881
Deferred Outflows of Resources	928,152	330,442
Liabilities		
Current and Other Liabilities	171,771	480,079
Long-Term Liabilities	4,825,123	3,685,515
Total Liabilities	4,996,894	4,165,594
Deferred Inflows of Resources	-	361,859
Net Position		
Net Investment in Capital Assets	3,622,527	3,876,064
Restricted for Municipal Aid	185,979	107,108
Unrestricted	71,125	(141,302)
Total Net Position	\$ 3,879,631	\$ 3,841,870

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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 \$3.9 million as of June 30, 2016.

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 (4.8%) represents resources that are subject to restrictions on how they may be used.

Table 2 reflects the change in net position for fiscal years 2016 and 2015.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)**

**Table 2
Change in Net Position**

	Governmental Activities Years Ended June 30,	
	2016	2015 (As Restated)
Revenues		
General Revenues		
Property Taxes	\$ 2,000,097	\$ 1,897,917
Payroll Taxes	922,364	891,037
Insurance Taxes	643,034	593,975
Utility Tax	178,852	152,710
Other Licenses and Permits	346,315	279,865
Fines and Forfeitures	18,105	24,076
Interest	4,141	4,317
Miscellaneous	120,088	104,332
Gain on Disposal of Capital Assets	8,838	17,407
Total General Revenues	<u>4,241,834</u>	<u>3,965,636</u>
Program Revenues		
Charges for Service	463,553	701,805
Operating Grants and Contributions	113,372	127,980
Capital Grants and Contributions	<u>350,793</u>	<u>297,299</u>
Total Program Revenues	<u>927,718</u>	<u>1,127,084</u>
Total Revenues	<u>5,169,552</u>	<u>5,092,720</u>
Program Expenses		
General Government	921,171	845,131
Police	1,204,857	1,213,321
Fire	1,125,605	1,096,832
Public Works	375,126	364,664
Streets	711,733	1,281,574
Recreation	307,530	319,983
Pension Expense	<u>485,769</u>	<u>998,943</u>
Total Program Expenses	<u>5,131,791</u>	<u>6,120,448</u>
Change in Net Position	<u>\$ 37,761</u>	<u>\$ (1,027,728)</u>

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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 \$5.2 million and expenditures of approximately \$4.7 million. While revenues increased 7.4%, expenses decreased by 16.8%.

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 \$1,978,684.

For the general fund, actual revenues, in the amount of approximately \$5.0 million were slightly higher than budgeted revenues of approximately \$4.7 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 2016, the City had approximately \$3.6 million net investment in capital assets, all in governmental activities.

Table 3 reflects fiscal year 2016 balances compared to fiscal year 2015.

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

	Governmental Activities	
	2016	2015
Land	\$ 924,751	\$ 924,751
Construction in Progress	216,033	195,690
Buildings and Improvements	547,744	572,969
Infrastructure	1,422,696	1,704,343
Equipment	322,341	324,212
Vehicles	188,962	154,099
	<u>\$ 3,622,527</u>	<u>\$ 3,876,064</u>

Outstanding Debt

At June 30, 2016, the City had an obligation for unpaid sick time to employees totaling \$102,920.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)**

Economic Factors and Next Year's Budget

The relocation of KY 16, now also known as Pride Parkway, significantly impacted the Taylor Mill Community during construction and even though now complete still plays a major role in the direction of 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 sf retail/office facility that became 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 brought Lucky Duck Pub and Club Vape to the Shoppes of Taylor Mill, and renovations to the local BP Gas Station. Additionally, the Holland Restaurant Group moved into their completed corporate offices on the third floor of the Trifecta Development. Additional second floor tenants were three individual businesses who serve as certified public accountants. The Taylor Mill City Commission also elected to allow an expansion of the existing multi-family living facilities known as the Farm Apartments, and in 2017 we anticipate 3 additional apartment units to be constructed adjacent to Phase 2 of the existing Farm Development. The City continues to work towards and seek out additional development opportunities involving the Districts of Taylor Mill in general.

In terms of promoting safety and addressing concerns of the residents, the Taylor Mill City Commission successfully lobbied the state for additional traffic signal enhancements on the Parkway within the Taylor Mill City Limits. Which means one (2) much needed traffic signals was installed at the intersection of Wayman Branch, Taylor Mill Road, and Pride Parkway. A second traffic signal is currently under construction at the intersection of Honey Drive (Sawmill Drive), Old Taylor Mill Road, and Pride Parkway and should be operational by the summer of 2017. These signals are sure to 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 safely manner than before.

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 and is in the process of constructing 60 new homes in the High Ridge Park Subdivision. Also, Berling Development has under construction 16 additional homes on lots they had in the Taylor Creek Subdivision, and we anticipate they will be opening up another section and set of lots for sale in the same subdivision adjacent to and near the entrance of Blackstone.

The Taylor Mill City Commission desired to keep tax rates low for all of our 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 ours. We are pleased to say that we were able to hold the Real Property Tax Rate to the same rate as the preceding year.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)**

The City worked previously with the Kentucky Transportation Cabinet on the KY16 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 of Taylor Mill is in the process of installing decorative pedestrian crosswalk equipment at the intersection of Pride Parkway and Honey Drive (aka SawMill). 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 our continued collaboration with 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 2017.

It is important to acknowledge in 2016 we were granted the ability to be a host community for the Vietnam Veterans Moving Wall. The project brought an estimated 15,000 people plus out for approximately 5 days worth of special ceremonies and opportunities to view the wall which was open round the clock and involved over 225 volunteers. In 2017 the City of Taylor Mill looks forward to celebrating our 60th anniversary since incorporation and continuing to provide outstanding service to the citizens of our community.

In 2016 the City remediated some mold issues in a portion of city hall (Administration and Police Department) that resulted from a mechanical failure associated with the heating and AC units. After several weeks of clean up, the replacement of the HVAC Unit, and the roof the building was fully operational again. The City remains committed to designing and building a new municipal center that would replace our 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.

In 2016, the City Commission in an effort to stop turnover in both the Police and Fire Departments gave across the board salary adjustments to make our agency more competitive compensation wise with other agencies our size. While we were able to make great strides in increasing salaries the City Commission felt like additional increases may be necessary in the next budget cycle should funds be available to continue to allow us to be competitive in salary's so we can attract and retain top qualified staff.

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 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. We also are 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.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED
(Continued)**

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 in 2015 we have 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 connects it to other areas in the park that are more heavily utilized. The City is in the process of seeking corporate funds to help construct a future amphitheater.

The City of Taylor Mill works diligently to limit the amount of debt we incur, 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 of Taylor Mill 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, 2016

	<u>Governmental Activities</u>
Assets and Deferred Outflows of Resources	
Current Assets	
Cash and Cash Equivalents	\$ 1,895,698
Short Term Investments	1,240,098
Accounts Receivable - Current Portion	780,848
Accrued Interest Receivable	<u>10</u>
Total Current Assets	<u>3,916,654</u>
Noncurrent Assets	
Accounts Receivable - Long-Term Portion	<u>409,192</u>
Capital Assets	
Land	924,751
Construction in Progress	216,033
Buildings and Improvements	1,317,489
Infrastructure	7,309,036
Equipment	2,349,307
Vehicles	1,646,672
Less Accumulated Depreciation	<u>(10,140,761)</u>
Total Capital Assets	<u>3,622,527</u>
Total Noncurrent Assets	<u>4,031,719</u>
Total Assets	7,948,373
Deferred Outflows of Resources	
Deferred Outflows Related to Pension	<u>928,152</u>
Total Assets and Deferred Outflows of Resources	<u>8,876,525</u>
Liabilities and Deferred Inflows of Resources	
Current Liabilities	
Accounts Payable	92,650
Accrued Liabilities	<u>79,121</u>
Total Current Liabilities	<u>171,771</u>
Noncurrent Liabilities	
Compensated Absences	102,920
Net Pension Liability	<u>4,722,203</u>
Total Noncurrent Liabilities	<u>4,825,123</u>
Total Liabilities	<u>4,996,894</u>
Net Position	
Net Investment in Capital Assets	3,622,527
Restricted for Municipal Aid	185,979
Unrestricted	<u>71,125</u>
Total Net Position	<u><u>\$ 3,879,631</u></u>

See accompanying notes.

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenue			Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets					
		Charges for Services	Operating Grants and Contributions								
Primary Government											
Governmental Activities											
General Government	\$	921,171	\$	315,710	\$	3,273	\$	-	\$	(602,188)	
Police		1,204,857		-		104,815		-		(1,100,042)	
Fire		1,125,605		109,893		5,284		133,667		(876,761)	
Public Works		375,126		-		-		-		(375,126)	
Streets		711,733		-		-		217,126		(494,607)	
Recreation		307,530		37,950		-		-		(269,580)	
Pension Expense		485,769		-		-		-		(485,769)	
Total Primary Government	\$	5,131,791	\$	463,553	\$	113,372	\$	350,793	\$	(4,204,073)	
General Revenues											
Property Taxes									\$	2,000,097	
Payroll Taxes										922,364	
Insurance Tax										643,034	
Utility Tax										178,852	
Other Licenses and Permits										346,315	
Fines and Forfeitures										18,105	
Interest										4,141	
Miscellaneous										120,088	
Gain on Sale of Capital Assets										8,838	
Total General Revenues										4,241,834	
Change in Net Position										37,761	
Net Position as of July 1, 2015 (As Restated)										3,841,870	
Net Position as of June 30, 2016										\$	3,879,631

See accompanying notes.

CITY OF TAYLOR MILL, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	General Fund						
	General	Recreation	Emergency	Community Events	Senior Services	Total General Fund	
Assets							
Cash and Cash Equivalents	\$ (1,091,025)	\$ 588,453	\$ 627,450	\$ 168,417	\$ 10,821	\$ 304,116	\$ 1,895,698
Short Term Investments	1,240,098	-	-	-	-	1,240,098	1,240,098
Receivables							
Property Taxes	48,586	-	-	-	-	48,586	48,586
Waste Assessments	12,348	-	-	-	-	12,348	12,348
Accounts	432,534	-	-	-	-	432,534	1,043,039
Other	322,284	(251,193)	-	-	-	71,091	86,067
Accrued Interest Receivable	10	-	-	-	-	10	10
Total Assets	\$ 964,835	\$ 337,260	\$ 627,450	\$ 168,417	\$ 10,821	\$ 2,108,783	\$ 4,325,846
Liabilities and Fund Balances							
Liabilities							
Accounts Payable	\$ 65,860	\$ 18,519	\$ -	\$ 1,775	\$ 306	\$ 86,460	\$ 92,650
Accrued Liabilities	77,567	1,554	-	-	-	79,121	79,121
Unearned Revenue	60,934	-	-	-	-	60,934	271,439
Total Liabilities	204,361	20,073	-	1,775	306	226,515	443,210
Fund Balances							
Restricted	-	-	-	-	-	-	185,979
Municipal Aid	-	-	-	-	-	-	-
Committed	-	-	627,450	-	-	627,450	627,450
Emergency	-	-	-	-	-	-	1,814,389
Capital Improvement	-	-	-	-	-	-	-
Assigned	-	317,187	-	-	-	317,187	317,187
Recreation	-	-	-	166,642	-	166,642	166,642
Community Events	-	-	-	-	10,515	10,515	10,515
Senior Services	-	-	-	-	-	-	-
Unassigned	760,474	-	-	-	-	760,474	760,474
Total Fund Balances	760,474	317,187	627,450	166,642	10,515	1,882,268	3,882,636
Total Liabilities and Fund Balances	\$ 964,835	\$ 337,260	\$ 627,450	\$ 168,417	\$ 10,821	\$ 2,108,783	\$ 4,325,846

See accompanying notes.

**CITY OF TAYLOR MILL, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2016**

Total Fund Balance - Governmental Funds **\$ 3,882,636**

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	\$ 13,763,288	
Accumulated Depreciation	<u>10,140,761</u>	
		3,622,527

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

Assessment Receivable	210,505
Property Tax Receivable	60,934

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	(102,920)
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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.

Deferred Outflows Related to Pension	928,152
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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>(4,722,203)</u>
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Net Position of Governmental Activities in the Statement of Net Position	\$ <u>3,879,631</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, 2016

	General Fund						
	General	Recreation	Emergency	Community Events	Senior Services	Total General Fund	
Revenues							
Taxes	\$ 2,923,630	\$ -	\$ -	\$ -	\$ -	\$ 2,923,630	\$ -
Licenses and Permits	1,168,201	-	-	-	-	1,168,201	-
Intergovernmental	246,438	-	-	-	-	246,438	217,126
Charges for Services	427,258	38,159	-	-	-	465,417	-
Fines and Forfeitures	18,105	-	-	-	-	18,105	-
Interest	3,929	-	-	-	-	3,929	212
Miscellaneous	88,779	70	-	46,497	4,808	140,154	66
Total Revenues	4,876,340	38,229	-	46,497	4,808	4,965,874	217,404
Expenditures							
Current							
General Government	1,085,273	-	-	-	-	1,085,273	-
Police	1,236,880	-	-	-	-	1,236,880	-
Fire	1,121,370	-	-	-	-	1,121,370	-
Public Works	354,452	-	-	-	-	354,452	-
Streets	-	-	-	-	-	-	38,996
Recreation	-	177,389	-	100,843	4,790	283,022	-
Capital Outlay	25,491	1,337	-	-	-	26,828	249,537
Total Expenditures	3,823,466	178,726	-	100,843	4,790	4,107,825	288,533
Excess (Deficit) of Revenues Over Expenditures	1,052,874	(140,497)	-	(54,346)	18	858,049	(71,129)
Other Financing (Uses) Sources							
Transfers In	-	350,000	40,600	200,000	-	590,600	150,000
Transfers Out	(1,545,065)	-	-	-	-	(1,545,065)	-
Total Other Financing (Uses) Sources	(1,545,065)	350,000	40,600	200,000	-	(954,465)	150,000
Net Change in Fund Balances	(492,191)	209,503	40,600	145,654	18	(96,416)	78,871
Fund Balance as of July 1, 2015	1,252,665	107,684	586,850	20,988	10,497	1,978,684	107,108
Fund Balance as of June 30, 2016	\$ 760,474	\$ 317,187	\$ 627,450	\$ 166,642	\$ 10,515	\$ 1,882,268	\$ 185,979
							\$ 1,814,389
							\$ 3,882,636

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, 2016**

Change in Fund Balances - Total Governmental Funds **\$ 500,474**

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 depreciation exceed capital outlays in the period.

Depreciation Expense	\$	(524,114)	
Capital Outlays		<u>284,834</u>	
			(239,280)

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. (29,137)

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. (10,379)

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, 2015		(330,442)	
City Pension Contributions - June 30, 2016		316,109	
Amortization of Deferred Outflows and Inflows of Resources		90,465	
Cost of Benefits Earned Net of Employee Contributions		<u>(245,792)</u>	

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. (14,257)

Change in Net Position - Governmental Activities **\$ 37,761**

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**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.

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:

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Governmental Fund Balances (Continued)**

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.

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, 2016, 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, 2016.

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, 2016, the City's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
Certificate of Deposit	\$ 1,240,098	March 15, 2017

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, 2016 is \$400,000. 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>	
2017	\$ 175,000
2018	175,000
2019	<u>50,000</u>
	<u>\$ 400,000</u>

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 924,751	\$ -	\$ -	\$ 924,751
Construction in Progress	195,690	20,343	-	216,033
 Total Capital Assets Not Being Depreciated	 1,120,441	 20,343	 -	 1,140,784
 Depreciable Capital Assets				
Buildings and Improvements	1,317,489	-	-	1,317,489
Infrastructure	7,309,036	-	-	7,309,036
Equipment	2,215,277	138,333	4,303	2,349,307
Vehicles	1,545,737	126,158	25,223	1,646,672
 Total Depreciable Capital Assets	 12,387,539	 264,491	 29,526	 12,622,504
 Total Capital Assets at Historical Cost	 13,507,980	 284,834	 29,526	 13,763,288
 Less Accumulated Depreciation				
Buildings and Improvements	744,520	25,225	-	769,745
Infrastructure	5,604,693	281,647	-	5,886,340
Equipment	1,891,065	137,718	1,817	2,026,966
Vehicles	1,391,638	79,524	13,452	1,457,710
 Total Accumulated Depreciation	 9,631,916	 524,114	 15,269	 10,140,761
 Depreciable Capital Assets, Net	 2,755,623	 (259,623)	 14,257	 2,481,743
 Governmental Activities				
Capital Assets - Net	\$ 3,876,064	\$ (239,280)	\$ 14,257	\$ 3,622,527

Depreciation was charged to functions as follows for the year ended June 30, 2016:

General Government	\$ 12,633
Police	77,722
Fire	80,132
Public Works	40,728
Streets	281,647
Recreation	31,252
 Total	 <u>\$ 524,114</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, 2016.

	June 30, 2015	Additions	Retired	June 30, 2016
Compensated Absences	\$ 92,541	\$ 10,379	\$ -	\$ 102,920

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.

Nonhazardous Plan:

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 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 next five years before age 65 or 27 years of service.
Retirement Eligibility for Members Whose Participation Began On or After 09/01/2008 but before 01/01/2014		
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 next five years before age 65 or Rule of 87 (age plus years of service).
Retirement Eligibility for Members Whose Participation Began On or After 01/01/2014		
Age	Years of Service	Allowance Reduction
65	5	None
57	Rule of 87	None

NOTE 7 - PENSION PLAN (Continued)

Benefit Formula for Tiers 1 & 2			
Final Compensation	X	Benefit Factor	X Years of Service
Average of the five highest if participation began before 09/01/2008.		2.20% if:	Member begins participating prior to 08/01/2004.
		2.00% if:	Member begins participating on or after 08/01/2004 and before 09/01/2008.
Average of the last complete five if participation began on or after 09/01/2008 but before 01/01/2014.		Increasing percent based on service at retirement* plus 2.00% for each year of service over 30 if:	Member begins participating on or after 09/01/2008.
Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).			

* **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%)**

Tier 3 member begins participating on or after 01/01/2014. Each year that a member is an active contributing member to the System, the member and the member's employer will contribute 5.00% and 4.00% of creditable compensation respectively into a hypothetical account. This hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4.00%. If the System's geometric average net investment return for the previous five years exceeds 4.00%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4.00%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account which includes member contributions, employer contributions, and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

NOTE 7 - PENSION PLAN (Continued)

Hazardous Pan:

Retirement Eligibility for Members Whose Participation Began Before 09/01/2008		
Age	Years of Service	Allowance Reduction
55	5	None
Any	20	None
50	15	6.5% per year for first five years, and 4.5% for next five years before age 55 or 20 years of service.

Retirement Eligibility for Members Whose Participation Began On or After 09/01/2008 but before 01/01/2014		
Age	Years of Service	Allowance Reduction
60	5	None
Any	25	None
50	15	6.5% per year for first five years, and 4.5% for next five years before age 60 or 25 years of service.

Retirement Eligibility for Members Whose Participation Began On or After 01/01/2014		
Age	Years of Service	Allowance Reduction
60	5	None
Any	25	None

Benefit Formula			
Final Compensation	X	Benefit Factor	X Years of Service
Average of the three highest if participation began before 09/01/2008.		2.50% if: Member begins participating before 09/01/2008.	Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).
Average of the three highest complete years if participation began on or after 09/01/2008.		Increasing percent based on service at retirement* if: Member begins participating on or after 09/01/2008 but before 01/01/2014.	

* **Service (and Benefit Factor): 10 years or less (1.30%); 10 - 20 years (1.50%); 20 - 25 years (2.25%); 25 + years (2.50%)**

Member begins participating on or after 01/01/2014. Each year that a member is an active contributing member to the System, the member and the member's employer will contribute 8.00% and 7.50% of creditable compensation respectively into a hypothetical account. This hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4.00%. If the System's geometric average net investment return for the previous five years exceeds 4.00%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4.00%. All interest credits will be applied to the hypothetical account balance on June 30 based on the account balance as of June 30 of the previous year. Upon retirement the hypothetical account which includes member contributions, employer contributions, and interest credits can be withdrawn from the System as a lump sum or annuitized into a single life annuity option.

NOTE 7 - PENSION PLAN (Continued)**Nonhazardous and Hazardous Plans:**

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 08/01/2004 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 08/01/2004 but before 01/01/2014 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed at the higher of 20% for nonhazardous and 25% for hazardous of Final Rate of Pay or the amount calculated under the Benefit Formula based upon actual service. Members participating on or after 01/01/2014 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 larger of 20% for nonhazardous and 25% for hazardous 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.

Monthly retirement allowances are increased July 1 each year by 1.00% to 1.50%. The Kentucky General Assembly has the authority to increase, suspend, or reduce Cost of Living Adjustments. HB 265 of 2012 eliminated the July 1, 2012 and July 1, 2013 COLAs for all retirees. SB2 of 2013 eliminated all future COLAs unless the State Legislature so authorizes on a biennial basis and either (1) the system is over 100.00% funded or (2) the Legislature appropriates sufficient funds to pay the increased liability for the COLA.

Contributions: For the fiscal years ended June 30, 2016 and 2015, plan members who began participating prior to September 1, 2008, were required to contribute 5% nonhazardous and 8% hazardous of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% for nonhazardous and 9% for hazardous of their annual creditable compensation. The 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund. These members were classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.50%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

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, 2016 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 - PRIOR PERIOD ADJUSTMENT

For the year ended June 30, 2015, 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*.

As a result of the implementation of GASB Statements No. 68 and 71, the City recognized contributions after measurement date of \$523,931 for the year ended June 30, 2015. Those contributions after measurement date included contributions to both the pension fund as well as the insurance fund of the CERS systems. Therefore, the net position was overstated by \$ 193,489 as of June 30, 2015.

The items above had the following effect:

Net Position, June 30, 2015	\$ 4, 035,359
Contributions after Measurement Date for Insurance Fund	(193,489)
Restated Net Position, June 30, 2015	\$ 3, 841,870

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Property	\$ 1,921,800	\$ 1,982,800	\$ 1,986,953	\$ 4,153
Bank Deposit	12,875	14,250	14,313	63
Payroll	855,000	760,000	922,364	162,364
Licenses and Permits	928,245	1,138,745	1,168,201	29,456
Intergovernmental	130,450	257,125	246,438	(10,687)
Charges for Services	460,200	455,625	465,417	9,792
Fines and Forfeitures	15,700	17,250	18,105	855
Interest	3,750	2,125	3,929	1,804
Miscellaneous	88,900	68,025	140,154	72,129
Total Revenues	<u>4,416,920</u>	<u>4,695,945</u>	<u>4,965,874</u>	<u>269,929</u>
Expenditures				
Current				
General Government	1,002,296	1,117,620	1,085,273	32,347
Police	1,322,444	1,335,719	1,236,880	98,839
Fire	1,369,272	1,389,022	1,121,370	267,652
Public Works	390,309	393,809	354,452	39,357
Recreation	306,070	330,820	283,022	47,798
Capital Outlay	53,250	49,750	26,828	22,922
Total Expenditures	<u>4,443,641</u>	<u>4,616,740</u>	<u>4,107,825</u>	<u>508,915</u>
(Deficit) Excess of Revenues Over Expenditures	(26,721)	79,205	858,049	778,844
Other Financing Uses				
Operating Transfers Out	<u>(172,075)</u>	<u>(292,400)</u>	<u>(954,465)</u>	<u>662,065</u>
Net Change in Fund Balances	(198,796)	(213,195)	(96,416)	116,779
Fund Balance July 1, 2015	<u>1,978,684</u>	<u>1,978,684</u>	<u>1,978,684</u>	<u>-</u>
Fund Balance June 30, 2016	<u>\$ 1,779,888</u>	<u>\$ 1,765,489</u>	<u>\$ 1,882,268</u>	<u>\$ 116,779</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, 2016

	Budgeted Amounts			Variance with Final Budget (Unfavorable) Favorable
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 124,500	\$ 369,650	\$ 217,126	\$ (152,524)
Interest	70	150	212	62
Miscellaneous	-	-	66	66
Total Revenues	124,570	369,800	217,404	(152,396)
Expenditures				
Current				
Streets	81,200	50,250	38,996	11,254
Capital Outlay	150,000	275,000	249,537	25,463
Total Expenditures	231,200	325,250	288,533	36,717
(Deficit) Excess of Revenues Over Expenditures	(106,630)	44,550	(71,129)	(115,679)
Other Financing Sources				
Operating Transfers In	150,000	150,000	150,000	-
Net Change in Fund Balances	43,370	194,550	78,871	(115,679)
Fund Balance July 1, 2015	107,108	107,108	107,108	-
Fund Balance June 30, 2016	\$ 150,478	\$ 301,658	\$ 185,979	\$ (115,679)

CITY OF TAYLOR MILL, KENTUCKY
SCHEDULE OF THE CITY'S CONTRIBUTIONS
June 30, 2016

County Employees Retirement System
Last 3 Fiscal Years

<u>Nonhazardous</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 59,918	\$ 60,048	\$ 62,302
Contributions in Relation to the Contractually Required Contribution	<u>(59,918)</u>	<u>(60,048)</u>	<u>(62,302)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City's Covered-Employee Payroll	\$ 482,433	\$ 469,244	453,673
Contributions as a Percentage of Covered-Employee Payroll	12.42%	12.80%	13.73%
 <u>Hazardous</u>	 <u>2016</u>	 <u>2015</u>	 <u>2014</u>
Contractually Required Contribution	\$ 256,191	\$ 271,572	\$ 270,957
Contributions in Relation to the Contractually Required Contribution	<u>(256,191)</u>	<u>(271,572)</u>	<u>(270,957)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City's Covered-Employee Payroll	\$ 1,264,517	\$ 1,285,385	\$ 1,245,279
Contributions as a Percentage of Covered-Employee Payroll	20.26%	21.13%	21.76%

See accompanying notes.

OTHER SUPPLEMENTARY INFORMATION

INTENTIONALLY BLANK

**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, 2016, 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 February 15, 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.

Honorable Mayor
Members of City Commission
City of Taylor MillCity of Taylor Mill, Kentucky

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.

We recommend the City have a full review of their internal controls and policies and procedures reviewed for efficiencies and vulnerabilities.

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.

Fort Wright, Kentucky
February 15, 2017