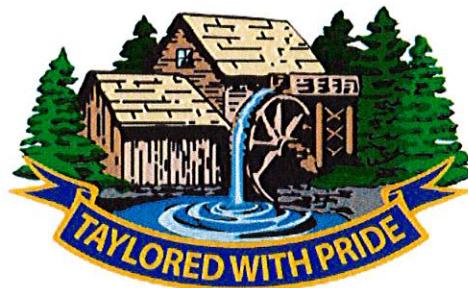


CITY OF TAYLOR MILL, KENTUCKY

June 30, 2017

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

City of Taylor Mill



CITY OF TAYLOR MILL, KENTUCKY

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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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2017, 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.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
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, 2017. 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 2017 are as follows:

- The assets and deferred outflows or resources of the City exceeded its liabilities and deferred inflows of resources by \$3,936,706 (net position) at June 30, 2017. The City's total net position decreased by \$155.
- As of June 30, 2017, the City's governmental funds reported combined ending fund balances of \$4,120,680; an increase of \$227,553.
- As of June 30, 2017, unassigned fund balance for the general fund was \$538,178.

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, 2017
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, 2017.

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 (4.5%) represents resources that are subject to restrictions on how they may be used.

Table 2 reflects the change in net position for fiscal years 2017 and 2016.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
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 \$5.0 million and expenditures of approximately \$4.8 million. While revenues decreased 3.5%, expenses increased by 1.9%.

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 \$1,892,759.

For the general fund, actual revenues, in the amount of approximately \$4.9 million were slightly higher than budgeted revenues of approximately \$4.7 million.

Expenditures were budgeted at approximately \$4.4 million while actual expenditures were approximately \$4.1 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2017, the City had approximately \$3.7 million net investment in capital assets, all in governmental activities.

Table 3 reflects fiscal year 2017 balances compared to fiscal year 2016.

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

	Governmental Activities	
	2017	2016
Land	\$ 924,751	\$ 924,751
Construction in Progress	252,086	216,033
Buildings and Improvements	546,807	547,744
Infrastructure	1,437,991	1,422,696
Equipment	345,984	322,341
Vehicles	176,788	188,962
	<u>\$ 3,684,407</u>	<u>\$ 3,622,527</u>

Outstanding Debt

At June 30, 2017, the City had an obligation for unpaid sick time to employees totaling \$108,827.

**CITY OF TAYLOR MILL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
UNAUDITED
(Continued)**

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 in the impacted area such as Church Street, Faye Drive, Primrose, and Valley View North to name just a few. Construction that was to begin in construction season 2017 was delayed by SD1. This delay ultimately pushed back our road paving endeavor and it is now slated to begin in the spring/summer of 2018, subsequently the City Commission added Sunset Drive to the list of street repairs necessary in conjunction with the project. Other paving projects, involved slip repairs on Mason Road and Old Taylor Mill Road and the assessment of a road reconstruction project on Rosewood Drive. Road paving projects and the stabilization of roadways adjacent to steep embankments throughout the entire community remain a high priority of the City Commission as infrastructure continues to deteriorate due to age and weather related issues.

In 2017 the City of Taylor Mill was excited to celebrate our 60th anniversary since incorporation and continuing to provide outstanding service to the citizens of our community. This celebration included a variety of recreation opportunities for residents such as a 60th Anniversary Medallion Hunt and a carnival type celebration at Pride Park.

In December of 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 hopes to continue to grow the funds set aside and earmarked for this endeavor until such a time as the project moves forward.

The City experienced some staff changes with more anticipated as the result of the natural transition of individuals in the work place but also the anticipation of the retirement of several long-term staff members, thus opening the door for the potential advancement of individuals currently employed with us and the addition of new highly trained individuals to our team. Specifically, in an effort to retain and recruit police officers the City Commission allocated mid-year salary increased to several police officers employed by us but who are retirees from other public agencies. This \$5,000 annual increase was used as a tool for retention and we currently employ the maximum number of retired police officers for an agency our size. The benefit of this retention helps us retained qualified staff members, defrays our training expenses, and cuts down on our pension contribution expenses. Along similar lines, the City Commission made new appointments to several key board positions as the result of resignations and worked collaboratively to appoint new Board of Adjustment Members, and our Representatives to the Kenton County Planning Commission, and the Telecommunications Board of N. KY. There was no shortage of volunteers for these positions which was refreshing and indicated lots of people had an interest in becoming more involved in their community and local government as a whole.

In terms of Emergency Services, a new Ambulance was custom designed, built, and purchased to replace a unit that had ongoing and significant maintenance issues. The Taylor Mill Police Department continued to seek and achieve CALEA Accreditation resulting in the highest of policing standards and operating guidelines in the industry. During this budget year we also allocated funds to purchase and replace outdated radios both mobile and stationary as part of a county wide replacement effort to better support 911 Dispatching and enhanced safety for emergency responders. The actual purchase of the equipment is anticipated to be in Fiscal Year 2017/2018 with the equipment going online in Fiscal Year 2018/2019.

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities
Assets and Deferred Outflows of Resources	
Current Assets	
Cash and Cash Equivalents	\$ 2,334,016
Short Term Investments	1,244,041
Accounts Receivable - Current Portion	860,867
Accrued Interest Receivable	82
Total Current Assets	<u>4,439,006</u>
Noncurrent Assets	
Accounts Receivable - Long-Term Portion	<u>207,879</u>
Capital Assets	
Land	924,751
Construction in Progress	252,086
Buildings and Improvements	1,342,146
Infrastructure	7,573,027
Equipment	2,470,237
Vehicles	1,710,370
Less Accumulated Depreciation	<u>(10,588,210)</u>
Total Capital Assets	<u>3,684,407</u>
Total Noncurrent Assets	<u>3,892,286</u>
Total Assets	8,331,292
Deferred Outflows of Resources	
Deferred Outflows Related to Pension	<u>1,176,603</u>
Total Assets and Deferred Outflows of Resources	<u>9,507,895</u>
Liabilities and Deferred Inflows of Resources	
Current Liabilities	
Accounts Payable	96,433
Accrued Liabilities	91,724
Compensated Absences	16,309
Unearned Revenue	<u>45,000</u>
Total Current Liabilities	<u>249,466</u>
Noncurrent Liabilities	
Compensated Absences	92,518
Net Pension Liability	<u>5,134,383</u>
Total Noncurrent Liabilities	<u>5,226,901</u>
Total Liabilities	<u>5,476,367</u>
Deferred Inflows of Resources	
Deferred Inflows Related to Pension	<u>94,822</u>
Total Liabilities and Deferred Inflows of Resources	<u>5,571,189</u>
Net Position	
Net Investment in Capital Assets	3,684,407
Restricted for Municipal Aid	176,559
Unrestricted	<u>75,740</u>
Total Net Position	<u>\$ 3,936,706</u>

See accompanying notes.

CITY OF TAYLOR MILL, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	General Fund						
	General	Recreation	Emergency	Community Events	Senior Services	Total General Fund	
Assets							
Cash and Cash Equivalents	\$ (1,378,040)	\$ 1,028,739	\$ 634,500	\$ 129,974	\$ 11,377	\$ 426,550	\$ 2,334,016
Short Term Investments	1,244,041	-	-	-	-	1,244,041	1,244,041
Receivables							
Property Taxes	50,580	-	-	-	-	50,580	50,580
Waste Assessments	11,537	-	-	-	-	11,537	11,537
Accounts	455,239	-	-	-	-	455,239	864,431
Other	386,526	(306,483)	-	-	-	80,043	142,198
Accrued Interest Receivable	82	-	-	-	-	82	82
Total Assets	\$ 769,965	\$ 722,256	\$ 634,500	\$ 129,974	\$ 11,377	\$ 2,268,072	\$ 4,646,885
Liabilities and Fund Balances							
Liabilities							
Accounts Payable	\$ 79,658	\$ 7,218	\$ -	\$ -	\$ 507	\$ 87,383	\$ 96,433
Accrued Liabilities	90,012	1,712	-	-	-	91,724	91,724
Unearned Revenue	62,117	-	-	-	-	62,117	338,048
Total Liabilities	231,787	8,930	-	-	507	241,224	526,205
Fund Balances							
Restricted	-	-	-	-	-	-	129,820
Municipal Aid	-	-	-	-	-	-	-
Committed	-	-	634,500	-	-	634,500	634,500
Emergency	-	-	-	-	-	-	1,964,012
Capital Improvement	-	-	-	-	-	-	-
Assigned	-	713,326	-	-	-	713,326	713,326
Recreation	-	-	-	129,974	-	129,974	129,974
Community Events	-	-	-	-	10,870	10,870	10,870
Senior Services	-	-	-	-	-	-	-
Unassigned	538,178	-	-	-	-	538,178	538,178
General	538,178	713,326	634,500	129,974	10,870	2,026,848	4,120,680
Total Fund Balances	538,178	713,326	634,500	129,974	10,870	2,026,848	4,120,680
Total Liabilities and Fund Balances	\$ 769,965	\$ 722,256	\$ 634,500	\$ 129,974	\$ 11,377	\$ 2,268,072	\$ 4,646,885

See accompanying notes.

CITY OF TAYLOR MILL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	General Fund								
	General	Recreation	Emergency	Community Events	Senior Services	Total General Fund	Municipal Road Aid Fund	Capital Improvement Fund	Total Governmental Fund
Revenues									
Taxes	\$ 3,059,910	\$ -	\$ -	\$ -	\$ -	\$ 3,059,910	\$ -	\$ -	\$ 3,059,910
Licenses and Permits	1,084,961	-	-	-	-	1,084,961	-	-	1,084,961
Intergovernmental	136,620	-	-	-	-	136,620	128,929	-	265,549
Charges for Services	436,576	42,156	-	-	-	478,732	-	26,313	505,045
Fines and Forfeitures	16,793	-	-	-	-	16,793	-	-	16,793
Interest	13,267	-	-	-	-	13,267	667	-	13,934
Miscellaneous	65,690	35	-	5,815	7,182	78,722	(21)	-	78,701
Total Revenues	4,813,817	42,191	-	5,815	7,182	4,869,005	129,575	26,313	5,024,893
Expenditures									
Current									
General Government	1,020,332	-	-	-	-	1,020,332	-	120	1,020,452
Police	1,249,670	-	-	-	-	1,249,670	-	-	1,249,670
Fire	1,275,158	-	-	-	-	1,275,158	-	-	1,275,158
Public Works	350,232	-	-	-	-	350,232	-	158,353	508,585
Streets	-	-	-	-	-	-	44,382	-	44,382
Recreation	-	145,341	-	42,370	6,827	194,538	-	-	194,538
Capital Outlay	6,423	711	-	113	-	7,247	141,352	355,956	504,555
Total Expenditures	3,901,815	146,052	-	42,483	6,827	4,097,177	185,734	514,429	4,797,340
Excess (Deficit) of Revenues Over Expenditures	912,002	(103,861)	-	(36,668)	355	771,828	(56,159)	(488,116)	227,553
Other Financing (Uses) Sources									
Transfers In	-	500,000	7,050	-	-	507,050	-	637,739	1,144,789
Transfers Out	(1,144,789)	-	-	-	-	(1,144,789)	-	-	(1,144,789)
Total Other Financing (Uses) Sources	(1,144,789)	500,000	7,050	-	-	(637,739)	-	637,739	-
Net Change in Fund Balances	(232,787)	396,139	7,050	(36,668)	355	134,089	(56,159)	149,623	227,553
Fund Balance as of July 1, 2016 (As Restated)	770,965	317,187	627,450	166,642	10,515	1,892,759	185,979	1,814,389	3,893,127
Fund Balance as of June 30, 2017	\$ 538,178	\$ 713,326	\$ 634,500	\$ 129,974	\$ 10,870	\$ 2,026,848	\$ 129,820	\$ 1,964,012	\$ 4,120,680

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)

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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
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.

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.

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, 2017, 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 5 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 924,751	\$ -	\$ -	\$ 924,751
Construction in Progress	216,033	56,396	20,343	252,086
 Total Capital Assets Not Being Depreciated	 1,140,784	 56,396	 20,343	 1,176,837
Depreciable Capital Assets				
Buildings and Improvements	1,317,489	24,657	-	1,342,146
Infrastructure	7,309,036	263,991	-	7,573,027
Equipment	2,349,307	133,027	12,097	2,470,237
Vehicles	1,646,672	63,698	-	1,710,370
 Total Depreciable Capital Assets	 12,622,504	 485,373	 12,097	 13,095,780
 Total Capital Assets at Historical Cost	 13,763,288	 541,769	 32,440	 14,272,617
Less Accumulated Depreciation				
Buildings and Improvements	769,745	25,594	-	795,339
Infrastructure	5,886,340	248,696	-	6,135,036
Equipment	2,026,966	109,384	12,097	2,124,253
Vehicles	1,457,710	75,872	-	1,533,582
 Total Accumulated Depreciation	 10,140,761	 459,546	 12,097	 10,588,210
 Depreciable Capital Assets, Net	 2,481,743	 25,827	 -	 2,507,570
 Governmental Activities Capital Assets - Net	 \$ 3,622,527	 \$ 82,223	 \$ 20,343	 \$ 3,684,407

Depreciation was charged to functions as follows for the year ended June 30, 2017:

General Government	\$ 14,799
Police	60,619
Fire	70,456
Public Works	39,489
Streets	248,696
Recreation	25,487
 Total	 <u>\$ 459,546</u>

NOTE 7 - PENSION PLAN (Continued)

Benefit Formula for Tier 1

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.		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).

Benefit Formula for Tier 2

Final Compensation X		Benefit Factor	X	Years of Service
Average of the last complete five if participation began on or after 09/01/2008 but before 01/01/2014.	2.00% if:	Member begins participating on or after 08/01/2004 and 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).
	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.		

* **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%)**

Benefit Formula for Tier 3

$$(A-B) = C \times 75\% = D \text{ then } B+D = \text{Interest}$$

A	B	C	D		Total Interest Credited to Members' Accounts
5 Year Geometric Average Return	2016 Rate	Upside Sharing Interest	Interest Rate Earned	Interest Rate Earned (4% + Upside)	
5.16%	4.00%	1.16%	0.87%	4.87%	\$ 672,783

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)

Benefit Formula for Tier 3					
(A-B) = C X 75% = D then B+D = Interest					
A	B	C	D		Total Interest Credited to Members' Accounts
5 Year Geometric Average Return	2016 Rate	Upside Sharing Interest	Interest Rate Earned	Interest Rate Earned (4% + Upside)	
5.34%	4.00%	1.34%	1.01%	5.01%	\$ 147,772

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.

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.

NOTE 7 - PENSION PLAN (Continued)

Change of Benefit Terms: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 are listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

- 1) Tiered structure for benefit accrual rates
- 2) New retirement eligibility requirements
- 3) Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

For the year ended June 30, 2017, the City recognized pension expense of \$585,663. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 64,037	\$ -
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	442,741	-
Changes of Assumptions	290,243	-
Changes In Proportion and Difference Between Employer Contributions and Proportionate Share of Contributions	52,470	94,822
Contributions After Measurement Date	<u>327,112</u>	<u>-</u>
Total	<u>\$ 1,176,603</u>	<u>\$ 94,822</u>

The \$327,112 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, 2018. 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,	
2018	\$ 248,351
2019	248,351
2020	147,282
2021	<u>110,685</u>
Total	<u>\$ 754,669</u>

NOTE 7 - PENSION PLAN (Continued)

Discount rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate. The periods of projected benefit payments for all current plan members were projected through 2117.

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 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Nonhazardous	\$ 1,233,874	\$ 995,726	\$ 781,211
Hazardous	\$ 5,417,116	\$ 4,138,657	\$ 3,400,451

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, 2017 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.

REQUIRED SUPPLEMENTARY INFORMATION

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, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Intergovernmental	\$ 124,500	\$ 165,000	\$ 128,929	\$ (36,071)
Interest	70	275	667	392
Miscellaneous	-	-	(21)	(21)
Total Revenues	<u>124,570</u>	<u>165,275</u>	<u>129,575</u>	<u>(35,700)</u>
Expenditures				
Current				
Streets	81,750	47,750	44,382	3,368
Capital Outlay	250,000	200,000	141,352	58,648
Total Expenditures	<u>331,750</u>	<u>247,750</u>	<u>185,734</u>	<u>62,016</u>
(Deficit) Excess of Revenues Over Expenditures	(207,180)	(82,475)	(56,159)	26,316
Other Financing Sources				
Operating Transfers In	-	-	-	-
Net Change in Fund Balances	(207,180)	(82,475)	(56,159)	26,316
Fund Balance July 1, 2016	<u>185,979</u>	<u>185,979</u>	<u>185,979</u>	<u>-</u>
Fund Balance June 30, 2017	<u>\$ (21,201)</u>	<u>\$ 103,504</u>	<u>\$ 129,820</u>	<u>\$ 26,316</u>

CITY OF TAYLOR MILL, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
June 30, 2017

County Employees Retirement System
Last 3 Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's Proportion of the Net Pension Liability (Asset) - Non Hazardous	0.02%	0.02%	0.02%
Non Hazardous			
Hazardous	0.24%	0.25%	0.25%
City's Proportionate Share of the Net Pension Liability (Asset)			
Non Hazardous	\$ 995,726	\$ 864,635	\$ 640,018
Hazardous	<u>4,138,657</u>	<u>3,857,568</u>	<u>2,952,956</u>
Total City's Proportionate Share of the Net Pension Liability (Asset)	<u>\$ 5,134,383</u>	<u>\$ 4,722,203</u>	<u>\$ 3,592,974</u>
City's Covered - Employee Payroll	\$ 1,746,950	\$ 1,754,629	\$ 1,698,952
City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	293.91%	269.13%	211.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Nonhazardous	59.97%	59.97%	66.80%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - Hazardous	57.52%	57.52%	63.46%

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, 2017, 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 March 14, 2018.

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 a deficiency in internal controls, described below that we consider to be a significant deficiency.