

CITY OF TAYLORSVILLE, KENTUCKY

June 30, 2015

*AUDITED FINANCIAL STATEMENTS*



**MADDOX & ASSOCIATES**  
CERTIFIED PUBLIC ACCOUNTANTS

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CITY OF TAYLORSVILLE, KENTUCKY  
GOVERNMENTAL DIRECTORY

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70 Taylorsville Road  
PO Box 279  
Taylorsville, Kentucky 40071  
Telephone (502) 477-3235  
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Email [sbiven@taylorsvillewater.org](mailto:sbiven@taylorsvillewater.org)  
Meetings held 1<sup>st</sup> Tuesday of each month at 5:00pm

<u>Officer</u>	<u>Office</u>	<u>Term Expires</u>
Donald Pay	Mayor / Police and Fire Commissioner	December 31, 2018
Jack Proctor	Water Department Commissioner	December 31, 2016
Ellen Redmon	Sewer Commissioner	December 31, 2016
Beverly Ingram	Streets and Sidewalks Commissioner	December 31, 2016
Kathy Spears	Office Commissioner	December 31, 2016
Steve Biven	City Clerk	Not Applicable
Randy McConnell	City Comptroller	Not Applicable
Phil Crumpton	Police Department	Not Applicable
Nathan Nation	Fire Department	Not Applicable

## INDEPENDENT AUDITORS' REPORT

City of Taylorsville, Kentucky  
70 Taylorsville Road  
Taylorsville, KY 40071

To the City Commission

### **Report on the Financial Statements**

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

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the City of Taylorsville, Kentucky, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

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

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to 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 Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and the schedules of fund activity are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of fund activity are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of fund activity are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

**Maddox & Associates CPAs Inc.**

Fort Thomas, Kentucky

November 23, 2015

**City of Taylorsville, Kentucky**  
**Management and Discussion Analysis**  
**June 30, 2015**

As financial management of the City of Taylorsville, Kentucky, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the City of Taylorsville for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

**Financial Highlights:**

- The assets of the City of Taylorsville exceeded liabilities at June 30, 2015, by \$20,081,192. This is a 7.28% decrease from last year's net assets of \$21,656,608. The decrease is mainly due to the implementation of GASB 68.
- At June 30, 2015, the governmental funds reported combined fund balances of \$781,688.

**Overview of the Financial Statements:**

This discussion and analysis are intended to serve as an introduction to the City of Taylorsville basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional supplementary information.

**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 a government's net assets changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of 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 period.
- Government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The City of Taylorsville's governmental activities include police, contracted fire protection, streets, sanitation, and general government. The City of Taylorsville has one business-type activity, water and sewer service.

**City of Taylorsville, Kentucky**  
**Management and Discussion Analysis**  
**June 30, 2015**

**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 of Taylorsville, like other local governments, uses fund accounting to ensure and demonstrate compliance with financial legal requirements. All of the funds of the City of Taylorsville can be divided into two categories: governmental funds and proprietary funds.

- Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information is useful in evaluating the City of Taylorsville's near-term financing requirements.
- Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information for governmental funds with information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.
- The City of Taylorsville maintains two 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 the General and Municipal Road Aid funds.
- The City of Taylorsville adopts an annual appropriated budget for all of the governmental funds. A budgetary comparison statement for these funds is included in the Audit Report.
- The basic governmental fund financial statements are included in this report.

**Proprietary Fund:**

Proprietary funds provide the same type of information as the government-wide financial statements' business-type activities, only in more detail. The City of Taylorsville maintains one proprietary fund to account for its water and sewer services.

- The basic proprietary fund financial statements are included in this report.

**Notes to the Financial Statements:**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information:**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning funding progress for the City's employee pension obligation.

**City of Taylorsville, Kentucky**  
**Management and Discussion Analysis**  
**June 30, 2015**

**Government-wide Financial Analysis:**

As stated earlier, net assets may serve over time as a useful indicator of a government's financial position. The largest part of the City of Taylorsville's net assets reflects its investment in capital assets (land, buildings and improvements, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Taylorsville uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Taylorsville's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The increase or decrease reported in the business-type activities cannot be used to make up a difference reported in governmental activities. The City generally can only use these net assets to finance the continuing operations of the water and sewer operations.

Following is a summary statement of net position as of June 30, 2015:

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 922,615	\$ 5,834,460	\$ 6,757,075
Capital assets	980,750	22,401,468	23,382,218
Total assets	<u>1,903,365</u>	<u>28,235,928</u>	<u>30,139,293</u>
Current and other liabilities	740,530	1,917,924	2,658,454
Long-term liabilities	<u>0</u>	<u>7,399,647</u>	<u>7,399,647</u>
Total liabilities	740,530	9,317,571	10,058,101
Net position:			
Net investment in capital assets	980,750	15,001,821	15,982,571
Restricted	100,335	4,266,043	4,366,378
Unrestricted	81,750	(349,507)	(267,757)
Total net position	<u>\$ 1,162,835</u>	<u>\$ 18,918,357</u>	<u>\$ 20,081,192</u>

Revenues for the City are generated from three main sources. Occupational License Tax Revenue accounts for approximately 33% of Revenue before Contributions. Insurance Premium Revenue accounts for approximately 19% of Revenue before Contributions. Property Tax Revenue accounts for approximately 18% of Revenue before Contributions. In Total these three sources account for approximately 70% of Total Revenue before Contributions in the General Fund.

**City of Taylorsville, Kentucky**  
**Management and Discussion Analysis**  
**June 30, 2015**

**Financial Analysis of the Government's Funds:**

As noted earlier, the City of Taylorsville uses fund accounting to ensure and demonstrate compliance with financial and legal requirements. The focus of the City of Taylorsville's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. *Unreserved fund* balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The City of Taylorsville's governmental funds reported combined ending fund balances of \$781,688 of which \$681,353 is unassigned.

The general fund is the primary operating fund of the City. During the year Revenues exceeded Expenditures in the general fund by \$101,236.

Expenses for the year on the FEMA Drainage Project were \$49,716.

The table below illustrates the breakdown of program costs as in compliance with GASB 34:  
 Expenditures by Program-Governmental Activities

<u>Functions/Programs</u>	<u>2015 Expenses</u>	<u>2014 Expenses</u>
Governmental activities:		
Fire	\$ 52,782	\$ 52,504
Street	98,712	151,127
Sanitation	76,921	76,851
General Government	137,676	104,817
Police	441,679	555,105
FEMA Drainage Project	<u>49,716</u>	<u>3,090</u>
Total Governmental	<u>\$ 857,486</u>	<u>\$ 943,494</u>

The Municipal Road Aid Fund had expenditures of \$61,682 for work on the Maple Avenue Project.

The Municipal Road Aid Fund Balance at June 30 is \$88,944.

**Financial Analysis of the Proprietary Funds:**

The City of Taylorsville's only proprietary fund is the Water and Sewer Fund. This fund provides the same information found in the government-wide financial statements but in more detail. Unrestricted net position of the Water and Sewer Fund were (\$349,507) as of June 30, 2015.

**City of Taylorsville, Kentucky**  
**Management and Discussion Analysis**  
**June 30, 2015**

**Budgetary Highlights:**

Differences between the original budget and actual expenditures for all governmental funds are included in this Report.

- Water revenue of \$3,439,510 was \$160,490 under budget for the Year.
- Meter Sets of \$129,585 were \$3,585 over Budget for the Year.
- Sewer Revenue of \$340,409 was \$11,591 under Budget for the Year.
- The KYTC Reimbursement for SR 44 was \$463.
- The KYTC Reimbursement for the Bridge Utility Project was \$390,604.
- The KYTC Reimbursement for the Normandy Road Project was \$85,067.
  
- Louisville Water Purchased of \$1,215,396 was \$90,404 over Budget for the Year.
- Sewer Net Income before Contributions of \$(263,539) was \$42,045 under Budget for the Year.
- Water Net Income before Contributions of \$49,039 was \$172,455 under Budget for the Year.
- Total Net Income before Contributions of \$(214,500) was \$214,500 under Budget for the Year.
- Total Net Income after Contributions of \$261,633 was \$261,633 over Budget for the Year.

**Capital Asset Administration:**

The City of Taylorsville's investment in capital assets includes land, buildings and improvements, equipment, water systems, sewer systems, streets, lighting systems, traffic signals, and other infrastructure. This investment in capital assets as of June 30, 2015, was \$23,382,218 (net of accumulated depreciation). Major capital asset events during the year were:

- Additions of \$ 909,896 to the Water and Sewer fund and \$31,340 to the General fund for a total of \$941,236 in total capital assets.
- Depreciation expense of \$75,006 was charged to governmental activities. \$863,666 was charged to the business-type activities.

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 75,416	\$ 75,416	\$ 371,118	\$ 371,118	\$ 446,534	\$ 446,534
Building and improvements	811,731	839,867	252,492	268,395	1,064,223	1,108,262
Equipment	93,603	109,134	192,948	250,815	286,551	359,949
Water and sewer system	0	0	21,584,910	21,464,910	21,584,910	21,464,910
Total net capital assets	<u>\$ 980,750</u>	<u>\$ 1,024,417</u>	<u>\$ 22,401,468</u>	<u>\$ 22,355,238</u>	<u>\$ 23,382,218</u>	<u>\$ 23,379,655</u>

Additional information on capital assets can be found in Note 4 in the Notes to Financial Statements.

**City of Taylorsville, Kentucky**  
**Management and Discussion Analysis**  
**June 30, 2015**

**Debt Administration:**

The City of Taylorsville had total outstanding bonded debt of \$7,399,647 at June 30, 2015. Following is a comparative statement of outstanding debt:

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Special revenue bonds	\$ 0	\$ 0	\$7,399,647	\$7,591,754	\$7,399,647	\$7,591,754
Compensated absences	4,422	9,747	36,861	37,910	41,283	47,657
<b>Total</b>	<b>\$ 4,422</b>	<b>\$ 9,747</b>	<b>\$7,436,508</b>	<b>\$7,629,664</b>	<b>\$7,440,930</b>	<b>\$7,639,411</b>

During the year, \$192,107 of bonded debt was retired.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Comptroller  
City of Taylorville, Kentucky  
Post Office Box 279  
Taylorsville, KY 40071

**CITY OF TAYLORSVILLE, KENTUCKY**  
**Water and Sewer Enterprise Fund**  
**Water Production Report**

	2015	2014	2013	2012	2011	2010
Gallons Purchased	562,416,230	524,682,000	494,660,000	540,611,000	550,269,000	552,254,000
Gallons Sold	<u>396,439,374</u>	<u>384,262,125</u>	<u>388,179,794</u>	<u>406,910,410</u>	<u>409,962,337</u>	<u>394,649,668</u>
Gallons to Account For	165,976,856	140,419,875	106,480,206	133,700,590	140,306,663	157,604,332
Gallons used by City and Returns to Louisville	53,173,962	61,991,910	26,752,850	32,427,113	17,945,648	37,937,930
Gallons Available For Sale	509,242,268	462,690,090	467,907,150	508,183,887	532,323,352	514,316,070
Gallons Sold	<u>396,439,374</u>	<u>384,262,125</u>	<u>388,179,974</u>	<u>406,910,410</u>	<u>409,962,337</u>	<u>394,649,668</u>
System Loss	112,802,894	78,427,965	79,727,356	101,273,477	122,361,015	119,666,402
% Loss to Gallons Purchased	20.06	14.95	16.12	18.73	22.24	21.67
% Loss to Gallons Available	22.15	16.95	17.04	19.93	22.99	23.27

Number of Connections in Use

City	637	637	598	610	600	595
County	<u>6,402</u>	<u>6,317</u>	<u>6,273</u>	<u>6,183</u>	<u>6,148</u>	<u>6,076</u>
Total	7,039	6,954	6,871	6,793	6,748	6,671

Water Connections by Account Classification

Apartments	51	46	47	44	49	48
Bulk	3	3	3	3	3	3
Commercial	123	121	122	120	115	115
Educations Inst.	15	15	15	15	13	13
Farmstead	51	52	53	53	52	51
Government	30	32	30	29	28	29
Industrial	3	1	1	1	1	1
Miscellaneous	32	35	36	35	34	34
Trailer Park	2	2	2	4	2	2
Residential	<u>6,729</u>	<u>6,647</u>	<u>6,562</u>	<u>6,489</u>	<u>6,451</u>	<u>6,375</u>
Total	7,039	6,954	6,871	6,793	6,748	6,671

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

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash and cash equivalents - unrestricted	\$ 642,676	\$ 1,070,372	\$ 1,713,048
Cash and cash equivalents - restricted	158,391	4,266,043	4,424,434
Receivables	118,984	250,948	369,932
Intergovernmental receivables	2,564	0	2,564
Inventories	0	247,097	247,097
Nondepreciable capital assets	75,416	371,118	446,534
Depreciable capital assets	905,334	22,030,350	22,935,684
<b>Total assets</b>	<b>1,903,365</b>	<b>28,235,928</b>	<b>30,139,293</b>
<b>Liabilities:</b>			
Accounts payable	130,183	118,601	248,784
Accrued expenses	0	19,052	19,052
Accrued wages and benefits	6,925	29,719	36,644
Customer deposits	0	350,000	350,000
Interest payable	0	137,691	137,691
Deferred inflows	54,000	123,000	177,000
Net pension liability	545,000	1,103,000	1,648,000
Long-term liabilities:			
Due within one year	0	198,735	198,735
Due in more than one year	0	7,200,912	7,200,912
Compensated absences	4,422	36,861	41,283
<b>Total liabilities</b>	<b>740,530</b>	<b>9,317,571</b>	<b>10,058,101</b>
<b>Net position:</b>			
Net investment in capital assets	980,750	15,001,821	15,982,571
Restricted	100,335	4,266,043	4,366,378
Unrestricted	81,750	(349,507)	(267,757)
<b>Total net position</b>	<b>\$ 1,162,835</b>	<b>\$ 18,918,357</b>	<b>\$ 20,081,192</b>

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



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

	General Fund	Special Revenue	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Assets:</b>			
Cash and cash equivalents - unrestricted	\$ 642,676	\$ 147,000	\$ 789,676
Cash and cash equivalents - restricted	11,391	0	11,391
Taxes receivable	118,984	0	118,984
Intergovernmental receivable	<u>2,564</u>	<u>0</u>	<u>2,564</u>
Total assets	<u>\$ 775,615</u>	<u>\$ 147,000</u>	<u>\$ 922,615</u>
<b>Liabilities:</b>			
Accounts payable	\$ 72,127	58,056	\$ 130,183
Payoll related liabilities	<u>6,925</u>	<u>0</u>	<u>6,925</u>
Total liabilities	<u>79,052</u>	<u>58,056</u>	<u>137,108</u>
<b>Deferred inflows of resources</b>			
Unavailable revenue	<u>3,819</u>	<u>0</u>	<u>3,819</u>
<b>Fund balances:</b>			
Restricted	11,391	88,944	100,335
Unassigned	<u>681,353</u>	<u>0</u>	<u>681,353</u>
Total fund balances	<u>692,744</u>	<u>88,944</u>	<u>781,688</u>
Total liabilities and fund balances	<u>\$ 775,615</u>	<u>\$ 147,000</u>	<u>\$ 922,615</u>

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

City of Taylorsville, Kentucky  
 Reconciliation of the Balance Sheet of Governmental Funds  
 to the Statement of Net Position  
 June 30, 2015

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

Total governmental fund balances	\$ 781,688
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.	980,750
Some assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds	3,819
Deferred inflows related to pension	(54,000)
Long-term liabilities are not due and payable in the current period and, therefore are not included in the funds.	
Net pension liability	(545,000)
Compensated absences	(4,422)
Net position of governmental activities	<u>\$ 1,162,835</u>

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

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

	General Fund	Special Revenue	Total Governmental Funds
<b>Revenues:</b>			
Taxes - property	\$ 161,774	\$ 0	\$ 161,774
Taxes - insurance premiums	168,269	0	168,269
Taxes - occupational	279,364	0	279,364
Taxes - other	40,704	0	40,704
Franchise fees	62,579	0	62,579
Business and unloading licenses	31,688	0	31,688
ABC license fees	3,167	1	3,168
Charges for services	102,489	0	102,489
Intergovernmental	24,197	18,212	42,409
Interest	1,210	277	1,487
Police miscellaneous income	9,314	0	9,314
Grant proceeds	73,280	0	73,280
Other	687	0	687
<b>Total revenues</b>	<b>958,722</b>	<b>18,490</b>	<b>977,212</b>
<b>Expenditures:</b>			
<b>Current</b>			
General government	187,392	0	187,392
Public safety -police	410,339	0	410,339
Public safety - fire	52,782	0	52,782
Sanitation	76,921	0	76,921
Streets	98,712	61,682	160,394
<b>Capital outlay</b>			
Public safety -police	31,340	0	31,340
<b>Total expenditures</b>	<b>857,486</b>	<b>61,682</b>	<b>919,168</b>
Net change in fund balances	101,236	(43,192)	58,044
Beginning fund balances	591,508	132,136	723,644
Ending fund balances	<u>\$ 692,744</u>	<u>\$ 88,944</u>	<u>\$ 781,688</u>

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

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

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

Net change in fund balances - total governmental funds	\$	58,044
<p>Governmental funds report capital outlays as expenditures.          However, in the statement of activities, the cost of these assets          is allocated over their estimated useful lives and reported as          depreciation expense.</p>		
Capital outlay reported in governmental expenditures		31,340
Depreciation expense reported in the statement of activities		(75,006)
<p>Some revenues reported in the statement of activities are not currently          available and therefore are not reported as revenues in governmental funds</p>		
		(31,751)
<p>Some expenses reported in the statement of activities do not require          the use of current financial resources and therefore are not reported          as expenditures in governmental funds</p>		
		5,323
<p>Governmental funds report pension contributions as expenditures.          However, in the statement of activities, the cost of pension          benefits earned is reported as pension expense</p>		
		(71,990)
Change in net position of governmental activities	<u>\$</u>	<u>(84,040)</u>

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

City of Taylorsville, Kentucky  
Statement of Net Position  
Proprietary Fund  
June 30, 2015

	Utility Fund
Assets:	
Current assets:	
Cash	\$ 5,336,415
Customer receivables	250,948
Inventories	247,097
Due from other funds	0
Total current assets	<u>5,834,460</u>
Noncurrent assets:	
Capital assets not being depreciated, net	371,118
Capital assets being depreciated, net	<u>22,030,350</u>
Total noncurrent assets	<u>22,401,468</u>
Total assets	<u><u>\$ 28,235,928</u></u>
Liabilities:	
Accounts payable	\$ 118,601
Accrued expenses	156,743
Payroll and related expenses	29,719
Customer deposits	350,000
Compensated absences	36,861
Deferred inflows	123,000
Net pension liability	1,103,000
Long-term liabilities:	
Due within one year	198,735
Due in more than one year	<u>7,200,912</u>
Total liabilities	<u>9,317,571</u>
Net position:	
Net investment in capital assets	15,001,821
Restricted for:	
Debt service	288,276
Water/sewer operation	3,977,767
Unrestricted	<u>(349,507)</u>
Total net position	<u>18,918,357</u>
Total liabilities and net position	<u><u>\$ 28,235,928</u></u>

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

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

Operating revenues	
Water revenue	\$ 3,743,328
Sewer revenue	<u>364,409</u>
Total operating revenues	<u>4,107,737</u>
Operating expenses	
Water services	3,034,410
Sewer services	<u>315,024</u>
Total operating expenses	<u>3,349,434</u>
Operating income before depreciation	758,303
Depreciation	<u>863,667</u>
Operating income	<u>(105,364)</u>
Non-operating income (expense)	
Grant revenue	476,133
Interest income	17,018
Other revenue	35,027
Interest expense	<u>(285,577)</u>
Total non-operating income (expense)	<u>242,601</u>
Change in net position	137,237
Prior period adjustment	(1,101,603)
Net position - beginning	<u>19,882,723</u>
Net position - ending	<u>\$ 18,918,357</u>

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

City of Taylorsville, Kentucky  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2015

Cash flows from operating activities	
Receipts from customers	\$ 4,212,026
Payments to suppliers and service proviers	(2,216,345)
Payments to employees for salaries and benefits	(877,729)
Payments to general government	<u>(81,289)</u>
Net cash provided by operating activities	<u>1,036,663</u>
Cash flows from capital and related financing activities	
Acquistion of property	(909,897)
Principal payments on bonds	(192,107)
Interest payments on bonds	(285,577)
Cash received from grants	<u>476,133</u>
Net cash provided by operating activities	<u>(911,448)</u>
Cash flows from investing activities	
Other cash receipts	35,027
Cash received from interest income	<u>17,018</u>
Net cash (used) by financing activities	<u>52,045</u>
Net increase in cash and cash equivalents	177,260
Cash and cash equivalents, beginning of year	<u>5,159,155</u>
Cash and cash equivalents, end of year	<u><u>\$ 5,336,415</u></u>

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

**Note 1 - Summary of Significant Accounting Policies**

These financial statements of the City of Taylorsville, Kentucky (the “City”) were prepared in accordance with accounting principles generally accepted in the United States of America for governmental entities (GAAP). The following summary of the more significant policies of the City is presented to assist the reader in interpreting these financial statements and should be viewed as an integral part of this report.

**Reporting Entity**

The City was incorporated January 29, 1829. The City operates under a Mayor-Commission form of government consisting of the mayor and four city commission members. The City’s major operations include fire and police protection, street maintenance, and general administrative services. In addition, the City operates a water and sewer system and provides solid waste collection.

The financial statements of the City include the funds for which the Mayor and Commission are financially accountable. Financial accountability, as defined by Section 2100 of the Government Account Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, was determined based on the City’s ability to significantly influence operations, select the governing body, participate in fiscal management, and the scope of public service. The City has no component units or entities for which the government is considered to be financially accountable.

**Basis of Accounting/Masurement Focus/Financial Statement Presentation**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

*Government-Wide Financial Statements*

The government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental and business-type activities for the City accompanied by a total column.

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets as well as long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in two (2) categories: 1) charges for services, and 2) operating grants and contributions.

Certain eliminations have been made as prescribed as GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except

those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, transactions between governmental and business-type activities have not been eliminated.

The City applies all applicable GASB pronouncements (including all GASB Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the City Applies all applicable FASB Statements and Interpretations issued after November 30<sup>th</sup>, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

#### *Governmental Fund Financial Statements*

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major Governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in balances as presented in these statements to the net assets and changes in net assets presented in the Government-wide financial statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending of “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance revenue sources, which have been treated as susceptible to accrual by the City, are property tax, insurance premium tax, occupational tax, intergovernmental revenues and other taxes. (See Note D) Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Fund Balance Classification: The Governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified Receivables as being Non-spendable.
- Restricted: This classifications includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws of regulations of other governments, of (b) imposed by law through constitutional provisions or enabling legislation. The City has classified certain cash accounts as being restricted because their use is restricted by Kentucky Revised Statutes and/or a City Ordinance. Debt service

resources are to be used for future servicing of the revenue note and are restricted through debt covenants.

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Commission. These amounts cannot be used for any other purpose unless the City Commission removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City did not have any committed resources as of June 30, 2015.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Commission or through the City Commission delegating this responsibility to the City Mayor through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. No funds have been assigned as of June 30, 2015.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

The City Commission establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Commission through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or other purposes).

#### Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are reported as non-operating expenses.

Component Units and Fiduciary Activities

There are no government component units incorporated in the basic government-wide financial statements. A component unit is a legally separate entity that is included in the primary government's financial reporting entity using the criteria of Government Standards Accounting Board Statement No. 14.

There are no fiduciary activities incorporated in the financial statements.

Budgetary Information, Compliance, and Accountability

Annual budgets are adopted on a basis consistent with Section 91 A.030 of Kentucky Revised Statutes (KRS) for the general, enterprise fund, and the special revenue fund. Budgets for all government activities and business-type activities and adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

On or before June 30<sup>th</sup> of each year, the Mayor must present the proposed budget to the City's Commission for review. The Commission holds public hearings and a final budget must be prepared and adopted no later than July 1<sup>st</sup> of the new fiscal year.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations can be made within a City department. The general government function of the General Fund is treated as a department for budgetary purposes and its budget is adopted as the object level. Transfers of appropriations between departments require the approval of the governing Commission. The legal level of budgetary control is the governing Commission. Certain supplemental budgetary appropriations were made during the year, which were not considered material.

Budgeted amounts, as amended, in the financial statements are as adopted by ordinances of the City.

**Encumbrance Accounting**

Encumbrance accounting is a system under which purchase orders, contracts and other commitments for the expenditures of City monies are recorded as a reservation of budget. The City does not use the encumbrance system of accounting to record and track budgeted expenses.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

**Investments**

Kentucky Revised Statutes authorize the City to invest in obligations of the U.S Treasury, agencies, and instrumentalities; commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial paper Record; bankers' acceptances' repurchase agreements; and the state treasurer's investment pool.

### **Accounts Receivable**

Amounts due from private individuals, business, organizations or other government entities which pertain to charges for services rendered by the City departments are reported as receivables.

Receivables are reviewed periodically to establish or update the provisions for uncollectible amounts. These provisions are estimated based on an analysis for the age of the various accounts. The City records the amount of earned but unbilled revenues for the Water and Sewer Utilities System enterprise funds.

### **Interfund Transactions**

Interfund transactions are reflected as loans, services provided, and reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefitting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

Charges for solid waste collection (garbage) are included in the monthly bills sent to customers of the Taylorsville Water Works and Sewer Department. The utility company remits the fees collected from the customers to the city of Taylorsville General Fund. During fiscal year ended June 30, 2015, \$81,289 was collected for solid waste collection and remitted to the Taylorsville General Fund.

### **Inventories**

Interfund within the proprietary fund consists primarily of supplies valued at cost which approximates market. Cost is determined by the first-in, first-out method. The cost of inventories is recorded as an expense when consumed rather than when purchased.

### **Restricted Assets**

The use of certain assets of general governmental funds and business-type proprietary funds is restricted by specific provisions of City ordinances, Kentucky Revised Statutes and bond resolutions. Assets so designated are identified as restricted assets in the balance sheet. When both restricted and unrestricted resources are available for use, the City's policy is to use restricted resources first, then unrestricted resources as they are needed. Restricted assets are classified as non-current if they are for the acquisition or construction of capital assets, for liquidation of long-term debt or other than current operations.

### **Capital Assets**

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair value at the date of donation. In connection with implementation of GASB Statement No. 34, the City established a threshold of \$1,000 for capitalization of depreciable assets.

Major outlays for capital assets and improvements are capitalized as projects as constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized but charged to an expense account in the current year.

### **Impairment Loss**

General Government Activities and Business-type Activities revenues do not include impairment losses due to the elimination of equipment (net of accumulated depreciation) that was no longer of service for City use.

### **Infrastructure**

The City has elected to use the modified approach in accounting for its street network (pavement, drainage, sidewalks, and curbs). The modified approach allows governments to report as expenses in lieu of depreciation, infrastructure expenditures which maintain the asset but do not add to or improve the asset. Additions and improvements to the street network are capitalized. The City uses a pavement rating system to rate street condition and quantifies the results of maintenance efforts.

The condition of street pavement is rated using the Asphalt Institute's *Asphalt Pavement Rating Form*, which bases ratings on a weighted average of thirteen defects found in pavements. The form uses a measurement scale that is based on a condition index rating from zero for failed pavement to 100 for pavement in perfect condition. The condition index is used to classify roads and streets in seven categories: very good (94-100), good (76-93), fair (64-75), poor (41-63), very poor (0-40). It is the City's policy to maintain at least 80% of its street system in good or better condition. The last time the City rated the condition of City Streets was for reporting the financial statements for June 30, 2010 and the year then ended.

### **Operating and Non-operating Revenues and Expenses**

The business-type proprietary fund financial statements distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses are those that result from operating revenues are charges for water and wastewater treatment services of the City's utility system. Operating expenses include the cost of sales and services, administration costs and depreciation expenses.

Non-operating revenues and expenses are all those that do not meet the criteria described previously, and include interest and tax revenues, and debt service expenses.

**Compensated Absences**

It is the policy of the City to permit City employees to accumulate a limited amount of earned but unused leave benefits which will be paid to City employees upon separation from service. Unpaid compensated absences are recorded as a liability when the benefits are earned. The valuation of accrued leave benefits calculated in accordance with GASB Statement No. 16, *Accounting for compensated absences*. The liability is typically liquidated with resources of the same fund that has paid the applicable employee's regular salaries and fringe benefits.

**Net Position - Reserves and Designations**

At June 30, 2015, net position of the primary government consisted of the following:

	Governmental Activities	Business-Type Activities
Net investment in capital assets	\$ 980,750	\$ 15,001,821
Restricted for:		
Debt service	0	288,276
Water/sewer operation	0	3,977,767
Streets and roads	88,944	0
FEMA drainage project	11,391	0
Unrestricted	81,750	(349,507)
Total net position	\$ 1,162,835	\$ 18,918,357

None of the net position is restricted by enabling legislation.

**Use of Estimates**

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

**Property Taxes Receivable, Property Tax Calendar and Provision for Uncollectable Real Property Taxes**

Property tax (real property) rolls are prepared by the Spencer County Property Tax Assessors offices on property assessed as of the preceding January 1. The assessments are determined in accordance with Kentucky Revised Statutes. The due date collection for all taxes exclusive of vehicle taxes are as follows:

Description	Date per KRS 134.015
Due date for payment	Upon receipt
2% Discount	To November 30
Face value payment period	To December 31
Past due date, 10% penalty	January 1
Interest charges	1.0% per month effective January 1

Vehicle taxes are collected by the County Clerk of Spencer County. Vehicle taxes are due in the birth month of the licensee.

**Note 2- Change in Accounting Principles**

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

**Note 3- Deposits and Investments**

The City maintains and controls three (3) cash accounts of the primary government. The cash accounts are as follows:

	<u>Non-restricted</u>	<u>Restricted</u>
General fund checking	\$ 642,476	\$ 0
Highview road account	0	0
FEMA drainage project	0	11,391
Municipal aid checking	0	147,000
	<u>\$ 642,476</u>	<u>\$ 158,391</u>

The City maintains and controls nine (9) cash accounts of the business-type activity. The cash accounts are as follows:

	<u>Non-restricted</u>	<u>Restricted</u>
Water and sewer money market	\$ 367,119	\$ 0
Operation and maintenance checking	702,269	0
Revenue checking	0	3,816
Escrow checking	0	333,100
Water and sewer extension checking	0	3,935
Bond and interest checking	0	288,276
SR44 waterline relocate checking	0	0
SR55 bridge utility relocate checking	0	81
Depreciation money market	0	3,619,121
Customer rebate checking	0	814
Normandy waterline relocate checking	0	0
Meter set and supplemental checking	0	16,900
	<u>1,069,388</u>	<u>4,266,043</u>
Cash on hand	484	0
Petty cash	500	0
	<u>\$ 1,070,372</u>	<u>\$ 4,266,043</u>

The city reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three (3) months or less to be cash equivalents.

*Concentrations of Credit Risk*

The City has reduced its concentration of credit risk by depositing City funds in several federally insured financial institutions. As of June 30, 2015 City funds were deposited in three (3) area financial institutions; Citizens Union Bank 36%, Commonwealth Bank and Trust 58%, and The Peoples Bank 6%.

*Credit Risk*

At June 30, 2015, the carrying value of the City of Taylorsville's deposits was \$6,184,603. The Federal Deposit Insurance Corporation (FDIC) insures the first \$250,000 of the total of deposits in financial institutions. Total deposited funds in excess of the \$250,000 insured by FDIC are covered by securities pledged for the City by Citizens Union Bank, Commonwealth Bank and Trust Company, and The Peoples Bank.

<u>Financial Institution</u>	<u>Deposits</u>	<u>FDIC Insured</u>	<u>Securities Market Value</u>	<u>Surplus</u>
Citizens Union Bank	\$ 2,248,752	\$ 250,000	\$ 2,428,807	\$ 430,055
Commonwealth Bank	\$ 3,568,733	\$ 250,000	\$ 4,243,037	\$ 924,304
The Peoples Bank	\$ 367,118	\$ 250,000	\$ 177,452	\$ 60,334

*Custodial Credit Risk*

Kentucky Revised Statutes (KRS) authorizes municipalities to invest in obligations of the United States of America and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge security obligations of the United States of America government or its agencies.

The Ordinances authorizing the Waterworks and Sewer System revenue bonds require that the City of Taylorsville establish a sinking fund and a depreciation reserve fund.

The sinking fund is funded in an amount not less than the maximum annual requirements for the payment of principal and interest on all revenue bonds. The sinking fund has a balance of \$288,276 as of June 30, 2015 and is considered fully funded.

The depreciation reserve fund is to be funded monthly from the revenue fund until fully funded at \$470,720. The balance in the depreciation reserve as of June 30, 2015 is \$3,619,121 and is considered fully funded.

**Note 4- Capital Assets**

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

Governmental Activities:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets not being depreciated:				
Land	\$ 75,416	\$ 0	\$ 0	\$ 75,416
Capital assets being depreciated:				
Buildings and improvements	1,082,209	0	0	1,082,209
Vehicles and equipment	376,598	31,340	0	407,938
Equipment and furniture	108,143	0	0	108,143
Total capital assets being depreciated	1,566,950	31,340	0	1,598,290
Less accumulated depreciation for:				
Buildings and improvements	242,341	28,137	0	270,478
Vehicles and equipment	288,870	40,977	0	329,847
Equipment and furniture	86,738	5,893	0	92,631
Total accumulated depreciation	617,949	75,007	0	692,956
Total capital assets being depreciated, net	949,001	(43,667)	0	905,334
Governmental activities capital assets, net	<u>\$ 1,024,417</u>	<u>\$ (43,667)</u>	<u>\$ 0</u>	<u>\$ 980,750</u>

CITY OF TAYLORSVILLE, KENTUCKY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015

Business-type activities:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets not being depreciated:				
Land	\$ 371,118	\$ 0	\$ 0	\$ 371,118
Capital assets being depreciated:				
Buildings and improvements	634,074	0	0	634,074
Vehicles, water	602,288	0	0	602,288
Vehicles, sewer	53,896	0	0	53,896
Machinery and equipment	417,732	5,783	0	423,515
Louisville line project	3,849,395	0	0	3,849,395
Phase I water distribution system	2,575,753	0	0	2,575,753
Phase II water distribution system	4,158,606	0	0	4,158,606
Phase III water distribution system	3,336,509	0	0	3,336,509
Phase IV water distribution system	576,194	0	0	576,194
Water system	7,183,553	904,113	0	8,087,666
Sewer system	4,981,644	0	0	4,981,644
Waster water upgrade	3,901,744	0	0	3,901,744
Total capital assets being depreciated	<u>32,271,388</u>	<u>909,896</u>	<u>0</u>	<u>33,181,284</u>
Less accumulated depreciation for:				
Buildings and improvements	365,680	15,903	0	381,583
Vehicles, water	427,187	36,020	0	463,207
Vehicles, sewer	40,359	4,659	0	45,018
Machinery and equipment	355,553	22,971	0	378,524
Louisville line project	1,712,812	96,610	0	1,809,422
Phase I water distribution system	676,135	64,394	0	740,529
Phase II water distribution system	745,061	103,965	0	849,026
Phase III water distribution system	420,016	83,413	0	503,429
Phase IV water distribution system	54,811	14,405	0	69,216
Water system	2,977,680	177,052	0	3,154,732
Sewer system	2,271,118	146,731	0	2,417,849
Waster water upgrade	240,856	97,543	0	338,399
Total accumulated depreciation	<u>10,287,268</u>	<u>863,666</u>	<u>0</u>	<u>11,150,934</u>
Total capital assets being depreciated, net	<u>21,984,120</u>	<u>46,230</u>	<u>0</u>	<u>22,030,350</u>
Business-type activities capital assets, net	<u>\$ 22,355,238</u>	<u>\$ 46,230</u>	<u>\$ 0</u>	<u>\$ 22,401,468</u>

During the fiscal year ending June 30, 2015, depreciation expense was charged to the funds as follows:

Governmental activities:

General government	\$ 39,369
Public safety - police	33,219
Streets	<u>2,419</u>
	<u>\$ 75,007</u>

Business-type activities:

Water	\$ 614,733
Sewer	<u>248,933</u>
	<u>\$ 863,666</u>

Depreciation is computed using the straight line method. The estimated service life of each class of capital asset is based upon guidelines established by the Internal Revenue Service.

Donated capital assets are recorded at estimated fair value at the date of donation.

**Note 5 – Receivables**

As of June 30, 2015, the receivables due the City consist of the following:

	Governmental Activities	Business-Type Activities
Property taxes	\$ 3,819	\$ 0
Franchise fees	3,039	0
Insurance tax	21,877	0
Occupational tax	50,961	0
Motor vehicle tax	1,999	0
FEMA	37,287	0
Customer accounts	<u>0</u>	<u>250,948</u>
Receivables	<u>\$ 118,982</u>	<u>\$ 250,948</u>
KLEFPF	\$ 587	\$ 0
HB 413	<u>1,977</u>	<u>0</u>
Intergovernmental receivables	<u>\$ 2,564</u>	<u>\$ 0</u>

The City uses the specific charge-off method to recognize bad debt expense.

**Note 6 - Long Term Debt**

Changes in the City's long-term liabilities for the year ended June 30, 2015 are as follows:

	<u>Balance 7/1/2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2015</u>	<u>Amounts Due Within One Year</u>
Business-type activities:					
Revenue bonds					
Kentucky Infrastructure Authority					
F02-03	\$ 620,754	\$ 0	\$ 62,607	\$ 558,147	\$ 63,235
Rural Development Agency					
Series 1994 A 92-07	490,000	0	15,000	475,000	16,000
Series 1998 91-10	1,514,000	0	34,000	1,480,000	36,000
Series 2001 92-12	590,000	0	12,000	578,000	12,000
Series 2004 91-13	1,511,000	0	25,000	1,486,000	26,500
Series 2008 County	1,288,500	0	17,000	1,271,500	18,000
Series 2008 City	191,000	0	2,500	188,500	2,500
Series 2011 A	845,500	0	15,000	830,500	15,000
Series 2011 B	541,000	0	9,000	532,000	9,500
	<u>\$7,591,754</u>	<u>\$ 0</u>	<u>\$ 192,107</u>	<u>\$7,399,647</u>	<u>\$ 198,735</u>

Business - Type Activities

<p>\$1,241,766 Series 2003 Phase I Water Distribution System Bonds due to Kentucky Infrastructure Authority, semi-annual installments approximate \$35,000 and are due December 1, 2023, interest rate is fixed at 1.000%.</p>	<p>\$ 558,147</p>
<p>\$666,000 Series A 1994 Waterworks and Sewer System Revenue Bonds due to United States Department of Agriculture, Rural Development, annual installments range from \$7,000 to \$37,000 throughout the term of the bond, and are due January 1, mature January 1, 2034, interest rate is fixed at 4.500%.</p>	<p>475,000</p>
<p>\$1,844,000 Series 1998 Waterworks and Sewer System Revenue Bonds due to United States Department of Agriculture, Rural Development, annual installments range from \$19,000 to \$95,000 throughout the term of the bond, and are due January 1, mature January 1, 2039, interest rate is fixed at 4.500%.</p>	<p>1,480,000</p>
<p>\$690,000 Series 2001 Sewer Rehabilitation Bonds due to United States Department of Agriculture, Rural Development, annual installments range from \$7,000 to \$36,000 throughout the term of the bond, and are due January 1, mature January 1, 2041, interest rate is fixed at 4.500%.</p>	<p>578,000</p>
<p>\$1,692,000 Series 2004 phase II Water Distribution System Bonds Due to United States Department of Agriculture, Rural Development, annual installments range from \$16,500 to \$93,500 throughout the term of the bond, and are due January 1, mature January 1, 2043, interest rate is fixed at 4.500%.</p>	<p>1,486,000</p>
<p>\$1,350,000 Series 2008 Phase III Water Distribution System Bonds (in county project)(Formerly Kentucky Rural Water Financing Corporation interim financing), due to United States Department of Agriculture, Rural Development, annual installments range from \$14,500 to \$71,500 throughout the term of bond, and are due beginning January 1, mature January 1, 2048, interest rate is 4.375%.</p>	<p>1,271,500</p>
<p>\$200,000 Series 2008 Phase III Water Distribution System Bonds (in city project)(Formerly Kentucky Rural Water Financing Corporation interim financing), due to United States Department of Agriculture, Rural Development, annual installments range from \$2,000 to \$12,000 throughout the term of the bond, and are due January 1, mature January 1, 2048, interest rate is 4.375%.</p>	<p>188,500</p>
<p>\$860,000 Series 2011 Revenue Bond Series A 92-19, due to United States Department of Agriculture, Rural Development, mature January 1, 2051, interest rate is 2.250% semi annual payments due January 1 and July 1, secured by revenue.</p>	<p>830,500</p>
<p>\$550,000 Series 2011 Revenue Bond Series A 92-21, due to United States Department of Agriculture, Rural Development, mature January 1, 2051, interest rate is 2.250%, semi annual payments due January 1 and July 1, secured by revenue.</p>	<p><u>532,000</u></p>
	<p><u>\$ 7,399,647</u></p>

Depreciation Fund- All of the United States Department of Agriculture and Rural Development bonds loan requirements are in compliance.

Required Depreciation Reserve Fund Balance, June 30, 2015	\$ 470,720
Depreciation Reserve Account Balance	\$3,619,121

In addition to the above from the Revenue Fund, there shall also be deposited in the Depreciation Fund, as received, the proceeds of all property damage insurance (except public liability) maintained in connection with System, and the cash proceeds of any surplus, worn out or obsolescent properties of the System, if the same is sold on order of the City. Any fees that may be levied and collected by the City for the privilege of connecting to the System (excluding initial deposits received in aid of the project, if any) shall be paid, as received, into the Depreciation Fund.

The Depreciation Fund shall be available and may be withdrawn and used by the City, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements, not included in the Annual Budget of Current Expenses, and the cost of constructing additions and improvements to the System which will either enhance its revenue-producing capacity or provide a high degree of service. This Fund shall also be available for transfer to the Bond and Interest Sinking Fund in order to avoid a default in connection with any bonds payable from the Sinking Fund.

Operation and Maintenance Fund- This Fund receives on a monthly basis, the remaining balance in the Revenue Fund after the above transfer has been made. This Fund is used to pay operating expenses. Any funds remaining after meeting these expenses in excess of two (2) months operating expense reserve shall be transferred into the Depreciation Fund.

**Note 7- Risk Management**

The City of Taylorsville is exposed to various risk of loss to torts: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, natural disasters. In order to minimize its loss due to these various risks, the City has insurance with the Kentucky League of Cities Insurance Services for general liability insurance, property insurance and commercial risk insurance for all risk of loss such as worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three (3) years.

General Liability Coverage, L5539-011140

General liability	\$ 2,000,000	per occurrence
Public officials liability	\$ 2,000,000	per occurrence
Law enforcement liability	\$ 2,000,000	per occurrence
Automobile liability	\$ 2,000,000	per occurrence
Automobile physical damage	Actual	per occurrence

Property Coverage, P5539-011090

Building and personal property	\$ 7,337,676	per occurrence
Scheduled equipment	\$ 247,639	per occurrence
Flood	\$ 5,000,000	per occurrence
Flood zones B, C, X only	\$ 50,000,000	per occurrence
Earth movement	\$ 7,585,315	per occurrence

Workers' Compensation Coverage, W5539-011080

Per occurrence	\$ 247,639	
Bodily injury by accident	\$ 4,000,000	each employee
Bodily injury by disease	\$ 4,000,000	each employee

**Note 8- Related Parties Transactions**

In a governmental entity, related parties include members of the governing body (city commissioners, etc.). Board members, administrative officials (mayor, city clerk, etc.), immediate family members of the preceding individuals, and affiliated governmental units that are not included in the financial statements as part of the reporting entity such as water sewer systems. There are no related party transactions to be disclosed.

**Note 9 - Economic Dependency**

The City is not economically dependent on one or more major taxpayers or suppliers.

**Note 10 - Pending Litigation**

The City of Taylorsville is a defendant in various lawsuits in the normal course of business. According to legal counsel, the outcome of the lawsuits is not determinable.

**Note 11 – Retirement Plans**

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

**General information about the County Employees Retirement System Non-Hazardous (“CERS”)**

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

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

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

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

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

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

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

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

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

City's proportionate share of the CERS net pension liability	<u>\$ 1,648,000</u>
	<u>\$ 1,648,000</u>

The City's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the City's proportion was .034012% percent.

For the year ended June 30, 2015, the City recognized pension expense of \$196,387 related to CERS. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 0	\$ 0
Changes of assumptions	0	0
Net difference between projected and actual earnings on pension plan investments	0	177,000
Changes in proportion and differences between Board contributions and proportionate share of contributions	0	0
Board contributions subsequent to the measurement date	<u>229,387</u>	<u>0</u>
	<u>\$ 229,387</u>	<u>\$ 177,000</u>

\$177,000 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	35,400
2017	35,400
2018	35,400
2019	35,400
2020	35,400

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

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

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

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

*Discount rate*—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were

calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
Board's proportionate share of net pension liability	\$ 1,435,355	\$ 1,648,000	\$ 1,860,645

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

**Note 12- Date of Management’s Review**

Subsequent events were evaluated through November 23, 2015 which is the date the financial statements were available to be issued. No subsequent events were identified that required adjustment or disclosure in the financial statements.

City of Taylorsville, Kentucky  
 General Fund  
 Statement of Revenues, Expenditures, and Changes in Fund Balance  
 Budget and Actual (Non-GAAP Budgetary Basis)  
 For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 187,000	\$ 187,000	\$ 202,542	\$ 15,542
Licenses and permits	197,000	197,000	202,849	5,849
Occupational license tax	270,000	270,000	293,700	23,700
Intergovernmental revenues	17,000	17,000	16,737	(263)
Franchise fees	60,000	60,000	62,660	2,660
ABC License Fee	0	0	3,167	3,167
Charges for services	82,000	82,000	81,289	(711)
School resource officer	21,200	21,200	21,200	0
HB 413 court costs	11,000	11,000	8,847	(2,153)
FEMA drainage project	1,000,000	1,000,000	71,459	(928,541)
Other revenue	6,500	6,500	13,032	6,532
<b>Total revenues</b>	<b>1,851,700</b>	<b>1,851,700</b>	<b>977,482</b>	<b>(874,218)</b>
<b>Expenditures</b>				
General government	76,728	145,000	132,350	12,650
Public safety - police	482,211	482,211	441,679	40,532
Public safety - fire	56,000	56,000	52,782	3,218
Public works - streets	154,761	126,000	98,712	27,288
Public works - sanitation	82,000	82,000	76,921	5,079
FEMA Drainage Project	1,000,000	1,000,000	49,716	950,284
<b>Total expenditures</b>	<b>1,851,700</b>	<b>1,891,211</b>	<b>852,160</b>	<b>1,039,051</b>
Net change in fund balance	0	(39,511)	125,322	164,833
Fund balance - beginning	486,764	489,312	489,312	0
Fund balance - ending	\$ 486,764	\$ 449,801	\$ 614,634	\$ 164,833

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

City of Taylorsville, Kentucky  
Municipal Road Aid Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Intergovernmental revenues	\$ 20,000	\$ 20,000	\$ 18,212	\$ (1,788)
Other revenue	400	400	277	(123)
Total revenues	<u>20,400</u>	<u>20,400</u>	<u>18,489</u>	<u>(1,911)</u>
Expenditures				
Streets	<u>125,000</u>	<u>125,000</u>	<u>61,681</u>	<u>63,319</u>
Total expenditures	<u>125,000</u>	<u>125,000</u>	<u>61,681</u>	<u>63,319</u>
Net change in fund balance	(104,600)	(104,600)	(43,192)	61,408
Fund balance - beginning	<u>112,831</u>	<u>132,136</u>	<u>132,136</u>	<u>0</u>
Fund balance - ending	<u>\$ 8,231</u>	<u>\$ 27,536</u>	<u>\$ 88,944</u>	<u>\$ 61,408</u>

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

City of Taylorsville, Kentucky  
Water and Sewer Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Charges for services	\$ 4,341,415	\$ 4,341,415	\$ 4,189,025	\$ (152,390)
Project revenue	1,000,000	1,000,000	476,133	(523,867)
Other revenue	0	0	52,045	52,045
Total revenues	<u>5,341,415</u>	<u>5,341,415</u>	<u>4,717,203</u>	<u>(624,212)</u>
Expenditures				
Operating	4,341,415	4,541,415	3,693,859	847,556
Interest expense	0	0	285,577	(285,577)
Project expense	<u>1,000,000</u>	<u>1,000,000</u>	<u>476,133</u>	<u>523,867</u>
Total expenditures	<u>5,341,415</u>	<u>5,541,415</u>	<u>4,455,569</u>	<u>1,085,846</u>
Net change in fund balance	0	(200,000)	261,634	461,634
Fund balance - beginning	<u>19,930,671</u>	<u>19,895,150</u>	<u>19,895,150</u>	<u>0</u>
Fund balance - ending	<u>\$ 19,930,671</u>	<u>\$ 19,695,150</u>	<u>\$ 20,156,784</u>	<u>\$ 461,634</u>

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

**Note A- Budgetary Basis of Accounting**

While the City reports financial position, results of operations, and changes in fund balance in accordance with generally accepted accounting principles (GAAP) accepted in the United States the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The statement of revenues, expenditures, and changes in fund balances - budget (non-GAAP budgetary basis) and actual is presented to provide a meaningful comparison of actual results with the budget.

**Note B- Reconciling Net Change in Fund Balance Budgetary Basis to GAAP Basis**

Net change in fund balance	General Fund	Municipal Road Aid Fund	Water and Sewer Fund
GAAP Basis	\$ 101,236	\$ (43,192)	\$ 137,237
Net adjustment for revenue accruals	18,761	0	0
Net adjustment for expenditure accru:	5,325	0	124,397
Budgetary basis	\$ 125,322	\$ (43,192)	\$ 261,634

**Note C- Information about Infrastructure Assets Reported Using the Modified Approach**

AS allowed by GASB Statement No. 34, *Basic Financial statements- and Management’s Discussion and Analysis- for State and Local Governments*, the City has adopted an alternative method for reporting costs associated with certain infrastructure assets. Under this alternative method, referred to as the “modified approach,” infrastructure assets are not depreciated and maintenance and preservation costs are not expensed. The City capitalized costs related to new construction, major replacements, and improvements that increase the capacity and/or efficiency of infrastructure assets reported under the modified approach.

In order to use the modified approach, the City is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform and document replicable condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets and the condition level established and disclose by the City.
- Document that the infrastructure assets are being preserved approximately at or above the condition level established by the City.

A government that uses the modified approach has to document that it has performed a complete condition assessment of the assets at least ever three years. The City completed a condition assessment of the assets and reported the results of the assessment in the financial statements of June 30, 2010 and for the year then ended. That assessment is reported in these financial statements as of June 30, 2014 and for the year then ended.

**Roads**

The City applies the modified approach to the thirty-three (33) streets and roads that are owned by the City and maintained by the City’s Streets Department. The goal of the City in conjunction with adopting the modified approach is the develop and provide a cost effective pavement maintenance and rehabilitation program that preserves the City’s investment in its road network and enhances public transportation and safety.

**Measurement Safety**

The condition of road pavement is measured using the City Pavement Measurement System. This system uses a measurement scale that considers the condition of the highways and roads as denoted by a Pavement Condition Index (PCI), ranging from 0 to 100. The PCI is used to classify roads into categories.

Category	PCI Rating Range	Description
Very Good	94 – 100	New or nearly new pavement which provides a very smooth ride and is mainly free of distress (no maintenance work needed).
Good	76 – 93	Pavement which provides an adequate ride and exhibits few, if any, visible signs of distress (minor maintenance may be needed).
Fair	64 – 75	Surface defects such as cracking, rutting, and raveling are affecting the ride (major maintenance is likely needed).
Poor	41 – 63	These roadways have deteriorated to such an extent that they are in need of resurfacing and the ride is noticeably rough (structural improvements in addition to major maintenance are likely needed).
Very Poor	0 – 40	Pavement in this category is severely deteriorate and the ride quality is unacceptable (complete road reconstruction is likely needed).

**Established Condition Level**

It is the City’s policy to maintain at least 80% of its roads at or above the “good” condition level, and no more that 10% at a “very poor” condition. Condition assessments are performed by geographic City within the City on approximately one-third of the roads each year, achieving a complete condition assessment at least every three years.

**Assessed Conditions**

During the past five (5) years ended June 30, the City budgeted and spent the amounts to maintain the streets, roads and sidewalks of the City.

<u>Ended June 30</u>	<u>Budget</u>	<u>Expenditure</u>
2011	44,195	42,099
2012	37,285	35,272
2013	33,573	37,851
2014	14,016	18,729
2015	104,210	49,281

City of Taylorsville, Kentucky  
Schedule of General Fund Activity  
For the Year Ended June 30, 2015

	General Government	Fire Department	Police Department	Street Department	Sanitation Department	Total
ABC license fee	\$ 3,167	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,167
Automobile tax - county	14,708	0	0	0	0	14,708
Automobile tax - intercounty	2,249	0	0	0	0	2,249
Bank shares tax	18,071	0	0	0	0	18,071
Business license	23,250	0	0	0	0	23,250
Discount on taxes	(2,565)	0	0	0	0	(2,565)
FEMA drainage project	71,459	0	0	0	0	71,459
Fines, forfeitures, and penalties	685	0	0	0	0	685
Franchise fees	62,660	0	0	0	0	62,660
Grant proceeds	1,821	0	0	0	0	1,821
HB 413 court costs	8,847	0	0	0	0	8,847
Insurance premium tax	171,162	0	0	0	0	171,162
Interest income	1,210	0	0	0	0	1,210
Intergovernmental revenue	0	0	10,825	0	0	10,825
Miscellaneous revenue	686	0	0	0	0	686
Occupational license tax	293,673	0	0	0	0	293,673
Penalties and interest - OLT	26	0	0	0	0	26
Police finger printing	0	0	739	0	0	739
Police overtime reimbursement	0	0	5,912	0	0	5,912
Police seized revenue	0	0	8,445	0	0	8,445
Police warrants reimbursement	0	0	130	0	0	130
Property tax	164,908	0	0	0	0	164,908
Sanitation	0	0	0	0	81,289	81,289
School resource officer program	0	0	21,200	0	0	21,200
Telecommunications tax	4,485	0	0	0	0	4,485
Unloading license	8,438	0	0	0	0	8,438
<b>Total revenues</b>	<b>\$ 848,940</b>	<b>\$ 0</b>	<b>\$ 47,251</b>	<b>\$ 0</b>	<b>\$ 81,289</b>	<b>\$ 977,480</b>

City of Taylorsville, Kentucky  
Schedule of General Fund Activity (continued)  
For the Year Ended June 30, 2015

	General Government	Fire Department	Police Department	Street Department	Sanitation Department	Total
Advertisements	\$ 0	\$ 0	\$ 1,225	\$ 0	\$ 0	\$ 1,225
Bank charges	342	0	0	0	0	342
Capital outlay	0	0	31,340	0	0	31,340
Contract services	1,440	52,782	3,580	0	0	57,802
Dues and donations	75	0	0	0	0	75
Engineering services	599	0	0	0	0	599
FEMA drainage project	49,716	0	0	0	0	49,716
FICA	1,941	0	12,756	0	0	14,697
Floodwall recertification	12,500	0	0	0	0	12,500
Insurance	809	0	29,444	502	0	30,755
Legal and audit fees	22,852	0	6,755	0	0	29,607
Main street manager	7,000	0	0	0	0	7,000
Medical allowance	18,369	0	0	0	0	18,369
Medical insurance	0	0	38,211	0	0	38,211
Medicare	454	0	2,983	0	0	3,437
Miscellaneous	0	0	1,201	0	0	1,201
Office supplies	1,588	0	5,462	0	0	7,050
Postage	0	0	56	0	0	56
Publication and printing	1,829	0	0	94	0	1,923
Repairs and maintenance	5,264	0	7,656	49,282	0	62,202
Retirement	0	0	42,315	0	0	42,315
Salaries	41,521	0	197,013	0	0	238,534
Salaries, overtime	0	0	12,303	0	0	12,303
Sanitation	0	0	0	0	76,921	76,921
Seminars and travel	2,629	0	510	0	0	3,139
State unemployment insurance	0	0	3,385	0	0	3,385
Supplies	74	0	2,261	719	0	3,054
Tax preparation	4,858	0	0	0	0	4,858
Taxes and licenses	238	0	15	0	0	253
Training expense	0	0	806	0	0	806
Uniforms	0	0	4,505	0	0	4,505
Unsafe structure expense	3,450	0	0	0	0	3,450
Utilities	4,518	0	11,898	48,115	0	64,531
Vehicle expense	0	0	10,152	0	0	10,152
Vehicle fuel	0	0	15,847	0	0	15,847
Total expenditures	<u>182,066</u>	<u>52,782</u>	<u>441,679</u>	<u>98,712</u>	<u>76,921</u>	<u>852,160</u>
Change in fund balance	<u>\$ 666,874</u>	<u>\$ (52,782)</u>	<u>\$ (394,428)</u>	<u>\$ (98,712)</u>	<u>\$ 4,368</u>	<u>\$ 125,320</u>

City of Taylorsville, Kentucky  
Schedule of Municipal Road Aid Fund Activity  
For the Year Ended June 30, 2015

	<u>Municipal Street Activities</u>
Intergovernmental revenue	\$ 18,212
Interest income	<u>277</u>
Total revenue	18,489
Expenditures	<u>61,681</u>
Change in fund balance	<u><u>\$ (43,192)</u></u>

City of Taylorsville, Kentucky  
 Schedule of Water and Sewer Fund Activity  
 For the Year Ended June 30, 2015

	Water Service	Sewer Service	Total
Activation fees	\$ 18,120	\$ 0	\$ 18,120
Customer contibuted capital	0	0	0
Garbage fees	81,289	0	81,289
Grant proceeds	0	0	0
Impact fee	0	24,000	24,000
Interest income	17,018	0	17,018
KYTC 55 bridge utility project	390,604	0	390,604
KYTC normandy project	85,067	0	85,067
KYTC SR44 project	463	0	463
Lease income	31,387	0	31,387
Meter sets	129,585	0	129,585
Miscellaneous revenue	3,639	0	3,639
Penalties	68,734	0	68,734
Redeposits	8,035	0	8,035
Restructuring revenue	0	0	0
Return check revenue	2,950	0	2,950
Returned check fees	(9,063)	0	(9,063)
Sewer revenue	0	340,409	340,409
Surcharge Phase I	47,931	0	47,931
Surcharge Phase II	35,620	0	35,620
Surcharge Phase III	6,240	0	6,240
Turn on and service trips	12,450	0	12,450
Vendors compensation	465	0	465
Water refunds and allowances	(17,250)	0	(17,250)
Water revenue	3,439,510	0	3,439,510
<b>Total revenues</b>	<b>\$ 4,352,794</b>	<b>\$ 364,409</b>	<b>\$ 4,717,203</b>

City of Taylorsville, Kentucky  
Schedule of Water and Sewer Fund Activity (continued)  
For the Year Ended June 30, 2015

	Water Service	Sewer Service	Total
Cost of goods sold	\$ 50,222	\$ 444	\$ 50,666
Advertising	1,692	94	1,786
Bad debts	853	0	853
Bank charges	3,287	0	3,287
Uniforms	7,957	2,415	10,372
Dues and subscriptions	2,421	0	2,421
Education and seminars	1,258	1,259	2,517
Insurance	69,638	14,743	84,381
Legal and audit fees	22,706	968	23,674
Maintenance and repairs	88,490	18,253	106,743
Travel	852	314	1,166
Licenses and permits	602	0	602
Office supplies	17,229	132	17,361
Postage	26,115	0	26,115
Interest expense	206,658	78,919	285,577
Vehicle fuel	28,291	6,438	34,729
Vehicle expenses	11,617	0	11,617
Truck expenses	0	658	658
Depreciation	614,733	248,933	863,666
Consulting	1,715	0	1,715
Removal expenses	8,824	19,103	27,927
Contract labor	6,240	0	6,240
Utilities	130,505	59,075	189,580
Salaries	679,433	98,076	777,509
Medical allowance	6,549	0	6,549
State unemployment	6,658	665	7,323
Medical insurance	225,383	25,206	250,589
Retirement	131,557	18,303	149,860
FICA	42,012	6,175	48,187
Medicare	9,826	1,444	11,270
Salaries, overtime	21,892	5,818	27,710
Engineering services	845	0	845
Chemicals	2,994	0	2,994
Lab fees and inspections	16,051	16,828	32,879
Supplies	14,208	3,006	17,214
Freight	2,187	680	2,867
Louisville water purchased	1,215,396	0	1,215,396
Meter repair	58,836	0	58,836
Relocations cost	1,000	0	1,000
Transfer to general fund - garbage	81,289	0	81,289
Transfer to dispatch	9,600	0	9,600
Total expenses	<u>3,827,621</u>	<u>627,949</u>	<u>4,455,570</u>
Change in fund balance	<u>\$ 525,173</u>	<u>\$ (263,540)</u>	<u>\$ 261,633</u>

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

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

City of Taylorsville, Kentucky  
70 Taylorsville Road  
Taylorsville, KY 40071

To the City Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Taylorsville, Kentucky (the "City"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 23, 2015.

**Internal Control over Financial Reporting**

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

**Maddox & Associates CPAs, Inc.**

Fort Thomas, KY  
November 23, 2015