

City of Frankfort
Financial Statements
Ended June 30, 2017

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Independent Auditor's Report

To the Honorable Mayor and City Commissioners
City of Frankfort, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frankfort, Kentucky (the City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, each major fund, and the aggregate remaining fund information of the City of Frankfort, Kentucky as of June 30, 2017, 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.

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 on pages 4 through 8 and pages 48 through 51 in addition to the pension schedules on page 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with 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 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 combining nonmajor fund financial statements on pages 53 through 60 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards on pages 65 and 66 is presented for purposes of additional analysis as required by Title 2, U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards 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 combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2017 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.

Charles T. Mitchell Co.

Charles T. Mitchell Company PLLC
Frankfort, Kentucky
December 15, 2017

**City of Frankfort, Kentucky
Management Discussion and Analysis
Year Ended June 30, 2017**

As management of the City of Frankfort, Kentucky, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Frankfort, Kentucky for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

Government-Wide Statements

The Government—Wide Statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all government's assets and liabilities. All current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government—Wide statements (Statement of Net Position & Statement of Activities) report the City's net position and how they have changed. Net position, the difference between the City's assets and liabilities, is one way to measure the City's financial health or position.

The Government—Wide financial statements of the City are divided into two categories:

Governmental activities – Most of the City's basic services are included here, such as the police, fire, public works, streets, parks, recreation and historic sites, landfill, public transit, golf, planning and building codes, disaster and emergency services and general administration. Property taxes, occupational taxes, charges for services and other charges provide most of the funding.

Business-type activities – The City charges fees to customers to help it cover the costs of sewer services.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has three kinds of Funds –

Governmental Funds – Most of the City's basic services are included in Governmental Funds, which focus on how cash and other financial assets can readily be converted to cash flow in & out, and the balances left at year-end that are available for spending. The Governmental Funds Statements provide a detailed short-term view that helps you determine whether there are more or fewer resources that can be spent in the near future to finance the City's programs.

Proprietary Funds – Services for which the City charges customers fees are generally reported in Proprietary Funds. Proprietary funds like Government -Wide Statements provide both long-term and short-term financial information.

City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Year Ended June 30, 2017
Fund Financial Statements (Continued)

Fiduciary Fund – The City is responsible for ensuring that the assets reported in this fund are used for their intended purpose. These funds are excluded from the City’s government-wide financial statements because the City cannot use these assets to finance its operations. Fiduciary funds are used to account for resources held for the benefit of parties outside the government.

Financial Highlights

The Total Net Position of the City of Frankfort, Kentucky at the close of fiscal year 2017 was \$99,592,645.

The Total Unrestricted (Deficit) Net Position at the end of fiscal year 2017 was (\$16,427,442). This was caused mainly due to the unfunded liability of CERS.

The Total Long-Term Debt of the Governmental Activities is discussed in other parts of this letter.

The actual revenues of the General Fund of the City were approximately \$1,100,000 more than budgeted revenues. Expenditures were approximately \$2,700,000 less than budgeted amounts.

Financial Overview

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Capital Assets	\$ 49,675,385	\$ 50,496,331	\$ 74,589,802	\$ 69,575,173	\$ 124,265,187	\$ 120,071,504
Other Assets	31,167,743	30,169,724	28,774,414	30,612,870	59,942,157	60,782,594
Total Assets	<u>80,843,128</u>	<u>80,666,055</u>	<u>103,364,216</u>	<u>100,188,043</u>	<u>184,207,344</u>	<u>180,854,098</u>
Deferred Outflows of Resources	<u>10,400,315</u>	<u>7,274,565</u>	<u>-</u>	<u>-</u>	<u>\$ 10,400,315</u>	<u>7,274,565</u>
Long-term Liabilities	48,905,775	45,621,189	34,600,480	32,908,818	83,506,255	78,530,007
Other Liabilities	<u>7,823,914</u>	<u>7,501,265</u>	<u>3,167,466</u>	<u>2,943,717</u>	<u>10,991,380</u>	<u>10,444,982</u>
Total Liabilities	<u>56,729,689</u>	<u>53,122,454</u>	<u>37,767,946</u>	<u>35,852,535</u>	<u>94,497,635</u>	<u>88,974,989</u>
Deferred Inflows of Resources	<u>517,379</u>	<u>2,353,304</u>	<u>-</u>	<u>-</u>	<u>\$ 517,379</u>	<u>2,353,304</u>
Invested in Capital Assets, Net of Related Debt	40,327,798	40,429,304	37,820,591	34,559,118	78,148,389	74,988,422
Restricted	10,096,019	9,457,992	6,690,664	6,595,296	16,786,683	16,053,288
Unrestricted	<u>(16,427,442)</u>	<u>(17,422,434)</u>	<u>21,085,015</u>	<u>23,181,094</u>	<u>4,657,573</u>	<u>5,758,660</u>
Total Net Position	<u>\$ 33,996,375</u>	<u>\$ 32,464,862</u>	<u>\$ 65,596,270</u>	<u>\$ 64,335,508</u>	<u>\$ 99,592,645</u>	<u>\$ 96,800,370</u>

City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Year Ended June 30, 2017
Financial Overview (Continued)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Program Revenue						
Charges for Services	\$ 6,968,367	\$ 7,124,443	\$ 12,450,439	\$ 11,552,912	\$ 19,418,806	\$ 18,677,355
Operating Grants & Contributions	-	-	427,630	143,697	427,630	143,697
Capital Grants & Contributions	565,041	28,038	-	-	565,041	28,038
General Revenue						
Taxes						
Property Taxes	3,583,306	3,674,213	-	-	3,583,306	3,674,213
Occupational Taxes	24,625,065	23,975,443	-	-	24,625,065	23,975,443
Interest & Investment Earnings	114,330	104,610	136,061	150,050	250,391	254,660
Gain(Loss) on Sale of Capital Assets	356,820	16,010	-	-	356,820	16,010
Transfers	482,250	325,000	(405,250)	(325,000)	77,000	-
Total Revenues	<u>36,695,179</u>	<u>35,247,757</u>	<u>12,608,880</u>	<u>11,521,659</u>	<u>49,304,059</u>	<u>46,769,416</u>
Expenditures						
General Government	2,396,552	1,575,378			2,396,552	1,575,378
Finance	532,837	574,591			532,837	574,591
Insurance	3,103,323	3,221,628			3,103,323	3,221,628
Public Safety	15,760,805	18,359,069			15,760,805	18,359,069
Public Works	8,629,724	8,583,076			8,629,724	8,583,076
Parks & Recreation	3,409,159	2,548,009			3,409,159	2,548,009
Planning & Building Codes	988,929	836,122			988,929	836,122
Special Projects	26,807	16,711			26,807	16,711
Interest on Long-Term Debt	315,530	316,760			315,530	316,760
Sewer	-	-	11,348,118	9,789,039	11,348,118	9,789,039
Total Expenditures	<u>35,163,666</u>	<u>36,031,344</u>	<u>11,348,118</u>	<u>9,789,039</u>	<u>46,511,784</u>	<u>45,820,383</u>
Change in Net Position	1,531,513	(783,587)	1,260,762	1,732,620	2,792,275	949,033
Net Position Beginning	<u>32,464,862</u>	<u>33,248,449</u>	<u>64,335,508</u>	<u>62,602,888</u>	<u>96,800,370</u>	<u>95,851,337</u>
Net Position Ending	<u>\$ 33,996,375</u>	<u>\$ 32,464,862</u>	<u>\$ 65,596,270</u>	<u>\$ 64,335,508</u>	<u>\$ 99,592,645</u>	<u>\$ 96,800,370</u>

City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Year Ended June 30, 2017
Financial Overview (Continued)

The City has continued to provide a high level and quality of services to the Citizens of Frankfort while maintaining a structurally balanced budget. Additionally, the City’s Sewer division has continued to move forward with consent judgment projects to meet the deadlines established by the State. The Sewer Division will continue to monitor cash flow and funding capabilities to ensure that the projects are properly funded while continuing to keep a strong bond rating.

The City experienced a 5.4% increase in revenues primarily due to the increase in Occupational Taxes receipts, sale of assets and charges for services. Expenditures increased by 1.51% due to an increase in the pension expense related to the unfunded pension liability.

Capital Assets and Debt Administration

Capital Assets

The City had some significant activity in capital assets during the year ended June 30, 2017. Total Net Capital Assets as of year-end were \$124,265,187.

Sewer fund plant and equipment make up the business-type capital assets. The total cost of all depreciable sewer capital assets at June 30, 2017 is \$74,589,802.

At June 30, 2017, there was \$17,380,809 of construction in progress. These construction costs consist primarily of Sewer Consent Projects.

Debt Administration

The governmental activities of the City include two bonds with an estimated yearly debt service of approximately \$1,200,000. The bonds will be paid off in 2041. The lease obligations of the City will be paid off over the next several years. The City’s average annual debt payment for leases is approximately \$120,000 over the next six years.

Business-type activities had \$35.0 million in bonds, notes and capitalized lease obligations outstanding at June 30, 2017 compared to \$35.7 million the previous year.

The following long-term liabilities are currently outstanding and payable:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Bonds Payable	\$ 8,775,984	\$ 23,299,601
Capitalized Lease Obligations	571,603	
KIA Notes Payable		13,469,610
Compensated Absences	6,337,934	769,838
Unfunded Pension Liability	40,599,011	
	<u>\$ 56,284,532</u>	<u>\$ 37,539,049</u>

**City of Frankfort, Kentucky
Management Discussion and Analysis (Continued)
Year Ended June 30, 2017**

Analysis of Individual Funds

The City's Governmental Funds for the year ended June 30, 2017 reflect a combined ending fund balance of \$30,993,342 an increase of \$1,053,468 from the prior year. The increase is due to the increase in occupational tax and management's control of overhead expenditures.

The total fund balance in the General Fund as of June 30, 2017 was \$25,183,428, which represents an increase of \$372,856 over the prior year.

Analysis of Budget

Economic Factors and Next Year's Budget

The City of Frankfort, Kentucky's budget for the year ending June 30, 2018 has decreased approximately \$100,000 from the prior year. The budget is conservative but is adequate to continue delivering quality services to its citizenry.

Contacting the City of Frankfort, Kentucky Financial Management

This financial report is designed to provide citizens, creditors or other users with an overview of the City of Frankfort's finances, fiscal practices and responsibility. If you have questions or need additional information, please contact the City of Frankfort, Kentucky at P.O. Box 697, Frankfort, KY 40602.

City of Frankfort
Statement of Net Position
June 30, 2017

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Cash Equivalents	\$ 5,389,283	\$ 10,407,830	\$ 15,797,113
Investments	20,819,788	11,672,825	32,492,613
Receivables			
Accounts Receivable	207,340		207,340
Due from Other Government Agencies	69,539		69,539
Accrued Interest	11,138	3,095	14,233
Prepaid Expenses	35,118		35,118
Restricted Assets			
Cash and Cash Equivalents	3,875,507	1,993,179	5,868,686
Investments	745,625	4,691,939	5,437,564
Accrued Interest	14,405	5,546	19,951
Capital Assets			
Nondepreciable Capital Assets, Net	7,021,578	17,836,009	24,857,587
Depreciable Capital Assets, Net	42,653,807	56,753,793	99,407,600
Total Assets	\$ 80,843,128	\$ 103,364,216	\$ 184,207,344
Deferred Outflows of Resources			
Differences Between Projected and Actual Earnings on Pension Plan, Assumptions, and Experience	\$ 6,353,969		\$ 6,353,969
Contributions Subsequent to Measurement Date	4,046,346	-	4,046,346
Total Deferred Outflows of Resources	\$ 10,400,315	-	\$ 10,400,315
Liabilities			
Accounts Payable	\$ 105,195	\$ 196,541	\$ 301,736
Workers Compensation Reserve Liability	283,920	18,123	302,043
Health Care Liability	56,042	14,233	70,275
Compensated Absences	6,337,934	769,838	7,107,772
Capitalized Lease Obligations			
Due Within One Year	100,823		100,823
Due in More Than One Year	470,780		470,780
KIA Loans Payable			
Due Within One Year		363,731	363,731
Due in More Than One Year		13,105,879	13,105,879
Bonds Payable			
Due Within One Year	940,000	1,805,000	2,745,000
Due in More Than One Year	7,835,984	21,494,601	29,330,585
Unfunded Pension Liability	40,599,011	-	40,599,011
Total Liabilities	\$ 56,729,689	\$ 37,767,946	\$ 94,497,635
Deferred Inflows of Resources			
Change in Proportionate Share	\$ 517,379	\$ -	\$ 517,379
Total Deferred Inflows of Resources	\$ 517,379	\$ -	\$ 517,379
Net Position			
Invested in Capital Assets, Net of Related Debt	\$ 40,327,798	\$ 37,820,591	\$ 78,148,389
Restricted	10,096,019	6,690,664	16,786,683
Unrestricted(Deficit)	(16,427,442)	21,085,015	4,657,573
Total Net Position	\$ 33,996,375	\$ 65,596,270	\$ 99,592,645

See accompanying notes.

City of Frankfort
Statement of Activities
For The Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net(Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary Government							
Governmental Activities							
General Government	\$ 2,396,552	\$ 151,849	\$ -	\$ -	\$ (2,244,703)	\$ -	\$ (2,244,703)
Finance	532,837	-	-	2,850	(529,987)	-	(529,987)
Insurance	3,103,323	-	-	-	(3,103,323)	-	(3,103,323)
Public Safety	15,760,805	2,489,873	-	187,519	(13,083,413)	-	(13,083,413)
Public Works	8,629,724	3,060,588	-	369,808	(5,199,328)	-	(5,199,328)
Parks and Recreation	3,409,159	995,912	-	4,864	(2,408,383)	-	(2,408,383)
Planning and Building Codes	988,929	43,247	-	-	(945,682)	-	(945,682)
Special Projects	26,807	226,898	-	-	200,091	-	200,091
Interest on Long Term Debt	315,530	-	-	-	(315,530)	-	(315,530)
Total Governmental Activities	<u>35,163,666</u>	<u>6,968,367</u>	<u>-</u>	<u>565,041</u>	<u>(27,630,258)</u>	<u>-</u>	<u>(27,630,258)</u>
Business-Type Activities							
Sewer	<u>11,348,118</u>	<u>12,450,439</u>	<u>427,630</u>	<u>-</u>	<u>-</u>	<u>1,529,951</u>	<u>1,529,951</u>
Total Business-Type Activities	<u>11,348,118</u>	<u>12,450,439</u>	<u>427,630</u>	<u>-</u>	<u>-</u>	<u>1,529,951</u>	<u>1,529,951</u>
Total Primary Government	<u>\$ 46,511,784</u>	<u>\$ 19,418,806</u>	<u>\$ 427,630</u>	<u>\$ 565,041</u>	<u>(27,630,258)</u>	<u>1,529,951</u>	<u>(26,100,307)</u>
General Revenues							
Taxes							
Property Tax					\$ 3,583,306	\$ -	\$ 3,583,306
Occupational Tax					24,625,065	-	24,625,065
Interest and Investment Earnings					114,330	136,061	250,391
Gain (Loss) on Sale of Assets					<u>356,820</u>	<u>-</u>	<u>356,820</u>
Total General Revenues					<u>28,679,521</u>	<u>136,061</u>	<u>28,815,582</u>
Transfers					<u>482,250</u>	<u>(405,250)</u>	<u>77,000</u>
Total General Revenues & Transfers					<u>29,161,771</u>	<u>(269,189)</u>	<u>28,892,582</u>
Change in Net Position					1,531,513	1,260,762	2,792,275
Net Assets - Beginning					<u>32,464,862</u>	<u>64,335,508</u>	<u>96,800,370</u>
Net Assets - Ending					<u>\$ 33,996,375</u>	<u>\$ 65,596,270</u>	<u>\$ 99,592,645</u>

See accompanying notes.

City of Frankfort
Balance Sheet-Governmental Funds
June 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and Cash Equivalents	\$ 1,909,287	\$ 3,479,996	\$ 5,389,283
Investments	18,559,788	2,260,000	20,819,788
Accounts Receivable	207,340		207,340
Due from Other Governmental Agencies	-	69,539	69,539
Accrued Interest	10,759	379	11,138
Prepaid Expenses	35,118		35,118
Restricted Assets			
Cash and Cash Equivalents	3,875,507		3,875,507
Investments	745,625		745,625
Accrued Interest	14,405	-	14,405
Total Assets	\$ 25,357,829	\$ 5,809,914	\$ 31,167,743
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	105,195	\$ -	\$ 105,195
Health Care Liability	69,206	-	69,206
Total Liabilities	174,401	-	174,401
Fund Balances			
Unassigned Funds	14,883,839	\$ 349,432	\$ 15,233,271
Restricted Funds	4,635,537	5,460,482	10,096,019
Assigned Funds	5,628,934	-	5,628,934
Non-Spendable Funds	35,118	-	35,118
Total Fund Balance	25,183,428	5,809,914	30,993,342
Total Liabilities and Fund Balances	\$ 25,357,829	\$ 5,809,914	\$ 31,167,743

See accompanying notes.

City of Frankfort
 Reconciliation of Governmental Funds Balance Sheet to
 Statement of Net Position
 June 30, 2017

Total Fund Balances- Governmental Funds	\$	30,993,342
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$40,918,839</p>		49,675,385
<p>Certain liabilities are not due and payable in the current period and therefore are not reported in the funds:</p>		
Capitalized Lease Obligations		(571,603)
Workers Compensation Reserve Liability		(283,920)
Health Care Liability		13,164
Accrued Compensated Absences		(6,337,934)
General Obligation Bond Debt		(8,775,984)
Unfunded Pension Liability		(40,599,011)
Differences Between Projected and Actual Earnings on Pension Plan, Assumptions, and Experience		6,353,969
Contributions to the Pension Plan Have Been Deferred in the Statement of Net Position		4,046,346
Investment Earnings on Pension Plan Assets Have Been Deferred in the Statement of Net Position		(517,379)
Net Position for Governmental Activities	\$	33,996,375

See accompanying notes.

City of Frankfort
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 3,583,306	\$ -	\$ 3,583,306
Occupational Receipts	24,625,065	-	24,625,065
Licenses, Permits & Fines	66,076	-	66,076
Contributions	-	6,907	6,907
Fines and Forfeitures	26,050	136,096	162,146
Charges for Services	3,273,219	398,299	3,671,518
Intergovernmental	2,364,403	897,690	3,262,093
Interest Income	113,701	629	114,330
Recycling	30,867	-	30,867
Rental Income	79,989	7,354	87,343
Miscellaneous	33,642	212,816	246,458
Total Revenues	34,196,318	1,659,791	35,856,109
Expenditures			
Current			
General Government	2,737,121	-	2,737,121
Public Safety	15,347,833	417,832	15,765,665
Finance	525,010	-	525,010
Insurance	3,116,487	-	3,116,487
Public Works	6,472,595	1,138,886	7,611,481
Parks and Recreation	3,272,137	145,654	3,417,791
Planning and Building Codes	784,445	-	784,445
Special Projects	-	26,807	26,807
Debt Service			
Principal Ret, Capitalized Lease Obligations	1,425,971	-	1,425,971
Interest and Fiscal Charges	315,530	-	315,530
Total Expenditures	33,997,129	1,729,179	35,726,308
Excess (Deficiency) of Revenues Over Expenditures	199,189	(69,388)	129,801
Other Financing Sources (Uses)			
Bond Principal Proceeds	5,110,000	-	5,110,000
Bond Principal Refunding Payments	(5,025,403)	-	(5,025,403)
Transfers In	482,250	750,000	1,232,250
Transfers Out	(750,000)	-	(750,000)
Proceeds from sales of capital assets	356,820	-	356,820
Total Other Financing Sources (Uses)	173,667	750,000	923,667
Net Change in Fund Balances	372,856	680,612	1,053,468
Fund Balances, Beginning of Year	24,810,572	5,129,302	29,939,874
Fund Balances, End of Year	\$ 25,183,428	\$ 5,809,914	\$ 30,993,342

See accompanying notes.

City of Frankfort
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 June 30, 2017

Net Change in Fund Balances - Total Governmental Funds \$ 1,053,468

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

Governmental funds report capital outlays as expenditures;
 while governmental activities report depreciation expense to allocate
 these expenditures over the life of the assets.

Purchases of Capital Assets	2,474,950
Depreciation Expense	(3,115,588)

The issuance of long term debt (bonds, leases) provides current financial resources
 to governmental funds while capitalized lease obligations payments are expensed
 in the Governmental Funds. These transactions, however, have no effect on net
 position.

Bond Refunding Payments	5,025,403
Capitalized Lease Obligation Principal Payments	579,897
General Obligation Debt Principal Payments	846,074
General Obligation Refunded Proceeds	(5,110,000)
Amortization of Bond Premiums/Discounts	34,975

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.

Pension Expense	(315,356)
Workers Compensation Reserve Liability	197,126
Health Care Liability	13,164
Compensated Absences	(152,600)

Change in Net Position of Governmental Activities \$ 1,531,513

See accompanying notes.

City of Frankfort
Statement of Net Position
Proprietary Funds - Sewer Fund
June 30, 2017

Assets	
Current Assets	
Cash and Cash Equivalents	\$ 10,407,830
Investments	11,672,825
Accrued Interest	3,095
Total Current Assets	<u>22,083,750</u>
Noncurrent Assets	
Restricted Assets	
Cash and Cash Equivalents	1,993,179
Investments	4,691,939
Accrued Interest	5,546
Capital Assets	
Nondepreciable capital assets	17,836,009
Depreciable Capital Assets, Net	56,753,793
Total Noncurrent Assets	<u>81,280,466</u>
Total Assets	<u><u>\$ 103,364,216</u></u>
Liabilities	
Current Liabilities	
Accounts Payable	\$ 196,541
Workers Compensation Reserve Liability	18,123
Health Care Liability	14,233
KIA Loans Payable	363,731
Bonds Payable	1,805,000
Total Current Liabilities	<u>2,397,628</u>
Noncurrent Liabilities	
Bonds Payable	21,494,601
KIA Loans Payable	13,105,879
Accrued Compensated Absences	769,838
Total Noncurrent Liabilities	<u>35,370,318</u>
Total Liabilities	<u>37,767,946</u>
Net Position	
Invested in Capital Assets, Net of Related Debt	37,820,591
Restricted	6,690,664
Unrestricted	21,085,015
Total Net Position	<u><u>\$ 65,596,270</u></u>

See accompanying notes.

City of Frankfort
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds - Sewer Fund
For the Year Ended June 30, 2017

Operating Revenues	
User Fees	\$ 10,170,368
Dump Fees	2,127,644
Tap Fees	14,124
Inspection Fees	138,211
Back Billing Revenues	<u>92</u>
Total Operating Revenues	<u>12,450,439</u>
Operating Expenses	
Personnel Services	2,316,232
Employee Benefits	1,052,934
Heat, Light and Power	596,089
Insurance	183,059
Other Contracted Services	686,736
Drug and Lab Supplies	732,855
Shop Supplies	2,088,411
Other Expenses	6,357
Repairs and Maintenance and Other Non-Capitalizable Fixed Assets	(211,892)
Depreciation Expense	<u>2,703,527</u>
Total Operating Expenses	<u>10,154,308</u>
Operating Income/(Loss)	<u>2,296,131</u>
Non-Operating Revenues/(Expenses)	
Grants and Aid	427,630
Interest Expense	(1,181,780)
Bond Discount and Amortization	(12,030)
Investment Income	<u>136,061</u>
Total Non-Operating Revenues/(Expenses)	<u>(630,119)</u>
Net Transfers	<u>(405,250)</u>
Change in Net Position	1,260,762
Net Assets, Beginning of Year	<u>64,335,508</u>
Net Assets, End of Year	<u>\$ 65,596,270</u>

See accompanying notes.

Statement of Cash Flows
Proprietary Funds - Sewer Fund
For the Year Ended June 30, 2017

Cash Flows from Operating Activities	
Receipts from Customers and Users	\$ 12,450,439
Payments to Employees	(2,316,232)
Payments to Suppliers	<u>(4,972,294)</u>
Net Cash Provided by Operating Activities	<u>5,161,913</u>
Cash Flows from Noncapital Financing Activities	
Transfers Out	<u>(405,250)</u>
Net Cash Used in Noncapital Financing Activities	<u>(405,250)</u>
Cash Flows from Capital and Related Financing Activities	
Grants and Aid	415,600
Purchase and Construction of Capital Assets	(7,641,388)
Interest Expense	(1,181,780)
Principal Paid on Bonds	(1,737,970)
Proceeds from KIA Loan	3,848,363
Principal Paid on KIA Loan	<u>(357,237)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(6,654,412)</u>
Cash Flows from Investing Activities	
Investment Income Received	136,061
Purchase of Investments	<u>(10,260)</u>
Net Cash Provided By Investing Activities	<u>125,801</u>
Net (Decrease) in Cash and Cash Equivalents	(1,771,948)
Cash and Cash Equivalents, Beginning of Year	<u>14,172,957</u>
Cash and Cash Equivalents, End of Year	<u>\$ 12,401,009</u>

See accompanying notes.

City of Frankfort
Statement of Cash Flows
Proprietary Funds - Sewer Fund
For the Year Ended June 30, 2017

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating Income	\$ 2,296,131
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense & Amortization	2,703,527
Change in Assets and Liabilities:	
Accounts Payable	88,135
Workers Compensation and Health Care Liability	(17,425)
Accrued Compensated Absences	91,545
Net Cash Provided by Operating Activities	<u>\$ 5,161,913</u>
Cash and Cash Equivalents	
Unrestricted	\$ 10,407,830
Restricted	<u>1,993,179</u>
	<u>\$ 12,401,009</u>

See accompanying notes.

City of Frankfort
Statement of Fiduciary Net Position
June 30, 2017

	Police and Fire Retirement Fund	Agency Funds
Assets		
Cash and Cash Equivalents	\$ 149,181	\$ 692,192
Investments	4,127,139	-
Total Assets	\$ 4,276,320	\$ 692,192
Liabilities		
Due to Other Governments	\$ -	\$ 2,166
Due to Retirement Systems		583,574
Due to Depositors	-	106,452
Total Liabilities	-	\$ 692,192
Net Position		
Held in Trust for Pension Benefits	\$ 4,276,320	

See accompanying notes.

City of Frankfort
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2017

	<u>Police and Fire Retirement Fund</u>
Additions	
Investment Earnings	
Interest and Dividends	\$ 131,385
Decrease in Investments	<u>(90,555)</u>
Total Additions	<u>40,830</u>
Deductions	
Retirement Claims Paid	335,401
Administrative Fees	<u>13,000</u>
Total Deductions	<u>348,401</u>
Change in Net Position	(307,571)
Net Position - Beginning of Year	<u>4,583,891</u>
Net Position - End of Year	<u><u>\$ 4,276,320</u></u>

See accompanying notes.

Note A – Summary of Significant Accounting Policies

The financial statements of the City of Frankfort, Kentucky (the City) have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for government accounting and financial reporting. The City applies all relevant GASB pronouncements. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

Reporting Entity

The City was incorporated in 1786 under the provisions of the Commonwealth of Kentucky. The City operates under a mayor and commission-manager form of government. The governing body consists of the Mayor and four elected commission members. The Mayor is elected to serve a four year term, and commissioners are each elected to serve a two year term. The City Manager administers policies and coordinates the activities of the City. The heads of the various departments, formed to provide various services, are under the direct supervision of the City Manager.

The accompanying financial statements present the City and its component units (traditionally separate reporting entities) for which the City is considered to be financially accountable. The City, (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit or to impose specific financial burden on the City. Additionally, the City is required to consider other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units.

Blended Component Unit

The City has included the financial operations of the City of Frankfort, Kentucky Police and Firefighters' Retirement Fund as a blended component unit. The entity is listed separately as a fiduciary fund. Policemen and Firefighters retired prior to August 1, 1988 participate in this plan. The City does not select the pension board nor does it have the ability to significantly influence operations. However, there would be financial interdependency because the City would be responsible for funding any deficit and any surplus in the fund would be returned to the City.

1. Government -Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the primary government (the City) including its blended component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double accounting of internal activities. These statements distinguish between the governmental and business-type activities of the City.

Note A – Summary of Significant Accounting Policies (Continued)

Governmental activities normally are supported through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses (including depreciation) are those that are clearly identifiable with a specific function. Program revenues are directly associated with the function and include charges for services and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Operating grants include operating-specific and discretionary (either operating or capital) grants while capital grants are capital-specific. Occupational license fees applied to gross wages and net profits, property taxes, interest and investment income and other revenues not properly included in program revenues are reported as general revenues.

2. Fund Financial Statements

The fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

The City has the following major funds:

Governmental Fund Types

A. The General Fund is the primary operating fund of the City. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use.

Proprietary Fund Types

A. The Sewer Fund accounts for revenues received for sewer services for the residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, billing and collection.

Note A – Summary of Significant Accounting Policies (Continued)

Fiduciary Fund Types

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs.

A. Pension Trust Funds are used to report resources that are held in trust for the members and beneficiaries of the Police and Firefighters' Retirement Benefit Plan.

B. Agency Funds are used to report resources held by the City in a purely custodial capacity. Agency funds typically involve the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

3. Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due (matured).

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services. Operating expenses for proprietary funds include the cost of operations and maintenance, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

4. Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition and are stated at cost which approximates fair market value. Legal requirements and the City's policies governing investments are discussed in Note C.

Note A – Summary of Significant Accounting Policies (Continued)

5. Restricted Assets

The City has certain assets that are restricted by terms of federal or state grants and programs, debt service, or other agreements and are segregated on the Government-Wide Statement of Net Position and the Proprietary Fund Statement of Net Position. They include:

- A. Funds restricted in trust accounts for the payment of health and workers compensation claims as needed.
- B. The 2010 Bond Construction account represents proceeds of sewer revenue bond issue that are restricted for the construction and installation of major new sanitary sewer improvements and facilities.
- C. The Sewer's Bond Depreciation and Reserve accounts funds that are required to be held in reserve until all outstanding bonds are retired.

6. Interfund Receivables and Payables

Interfund transactions that would be treated as revenues or expenditures/expenses, if they involved organizations external to the City, are similarly treated when involving funds of the City. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the reimbursed fund. Transfers from funds receiving revenues to funds through which the resources are to be expended and operating subsidies are classified as interfund transfers. Transfers between governmental and proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation.

7. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trend and the periodic aging of accounts receivable. The City's management considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible accounts receivable is required. Major receivable balances for the governmental funds consist of grant and interest receivables. Business-type activities report interest receivables as their major receivables.

8. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied in the month of November and are due and payable at that time. All unpaid taxes levied in the month of November become delinquent January 1 of the following year.

Note A – Summary of Significant Accounting Policies (Continued)

8. Property Taxes (continued)

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Delinquent taxes are at least six months delinquent at June 30 and are not considered collectible.

Property taxes for the fiscal year ended June 30, 2017 were levied on September 30, 2016, on the assessed valuation of property located in the City as of the preceding January 1. The due date and collection periods for property taxes are as follows:

Description	Per KRS 134.020
1. Due date for payment of taxes	Upon receipt
2. 2% discount period	By December 5th
3. Face value amount payment dates	December 6 through January 5th
4. 10% penalty after	January 5th
5. 6% interest per annum after	January 5th

The City’s tax rate applicable to the 2017 fiscal year was \$.209 for Annex and \$.1093 for Old City per \$100 of assessed valuation for real estate.

9. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the assets or materially extend an asset’s life are not capitalized. Depreciation is computed using the straight-line method.

Note A – Summary of Significant Accounting Policies (Continued)

9. Capital Assets (continued)

Capitalization thresholds and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

<u>Asset</u>	<u>Threshold</u>	<u>Years</u>
Buildings & Improvements	\$ 25,000	5-40
Computers & Electronics	1,500	3-10
Machinery & Equipment	1,500	3-10
Vehicles	1,500	3-10
Furniture & Fixtures	1,500	3-10
Infrastructure	25,000	20-100
Inland/Marine	1,500	3-10
Pump Stations	1,500	20

10. Accrued Compensated Absences and Sick Pay

Vacation and sick pay are accrued when incurred in the government-wide financial statements. Any employee whose employment with the City ends in retirement or with the employee giving proper notice and being in good standing shall be compensated for all unused vacation. Liabilities are calculated using the employee’s current rate of pay and the total hours of accumulated leave. In governmental funds, such amounts are not accrued using the modified accrual basis of accounting but are reported as a liability in the government-wide financial statements.

11. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as “other financing sources” while discounts and issuance costs on bond issuances are reported as “other financing uses.”

Note A – Summary of Significant Accounting Policies (Continued)

12. Fund Reserves and Designations

The Board of Commissioners is the City’s highest level of decision-making authority. Commitments of fund balance must be approved by the Commission in an open meeting by formal vote. Per the City’s policy, assigned fund balances are proposed by the City Manager or the Finance Director and approved by the Board of Commissioners and may include the following: (1) vital projects requiring use of current resources in future periods, (2) capital projects, (3) interim funding for operating costs during shortfalls or (4) contractual obligations including compensated absences and amounts encumbered for a specific purpose if the resources are not already reported as restricted. The City has not adopted a policy to govern the order of priority on use of fund balance when restricted or unrestricted amounts are both available. In the current year there are no committed fund balances. Assigned fund balances in the governmental funds consist of the following:

Encumbrances	\$ 1,500,485
Compensated Absences	3,828,449
Sewer Infrastructure	300,000
	<u>\$ 5,628,934</u>

13. Budgetary Information

The City Commission approves, by ordinance, total budget appropriations only. The City manager is authorized to transfer budget amounts between departments within any fund; however, any revisions to the total appropriations of any fund must be approved by the City Commission. Therefore, the level of budgetary responsibility is by total appropriations, however, for report purposes this level has been expanded to a departmental basis.

Detailed annual budgets are adopted for the general fund and the sewer fund. The annual budget for those funds is prepared in accordance with the basis of accounting utilized by those funds. The City has adopted budgets for its special revenue and capital projects funds. However, these budgets are prepared using only total revenues and total expenditures.

The General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual presents comparisons of legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of resultant entity and timing differences in excess (deficiency) of revenues over (under) expenditures is shown.

Note A – Summary of Significant Accounting Policies (Continued)

Encumbrance accounting is utilized during the year to facilitate effective budgetary control. Encumbrances are treated as budgeted expenditures in the year of incurrence of the commitment to purchase. Budgetary comparisons presented in this report are on this budgetary basis of accounting. Adjustments necessary to convert from budgetary basis to GAAP are provided on the face of the budgetary comparison statements. In governmental funds, encumbrances outstanding at year end are reported as assignments of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Encumbrances do not lapse at the close of the fiscal year but are carried forward as assigned fund balance until liquidated.

14. Pensions

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

15. Deferred Inflows of Resources and Deferred Outflows of Resources

With the implementation of GASB Statements 65 and 68, the Government's Statement of Net Position includes deferred inflows (or deferred outflows) of resources when appropriate. Deferred outflows of resources represent consumption of net position that applies to a future period(s). Deferred inflows of resources represent an acquisition of net position that applies to a future period(s). These amounts will not be recognized as expense or revenue until the applicable period.

Deferred Outflows – include contributions to pension plans made subsequent to the City's measurement date of June 30, 2016 in addition to differences between projected and actual earnings on investments in pension plans.

Deferred Inflows – include differences between projected and actual earnings on investments in pension plans.

16. Use of Estimates

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

Note B – Deposits

The City maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which together with FDIC insurance equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the City and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a depository institution failure, the City’s deposits may not be returned. The City does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2017, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note C – Investments

The City follows state statutes pertaining to investments permitted by law. Governmental investments include assets held by fiscal agents for health care and workers compensation claims which are maintained in trust accounts and subject to different investment criteria than the general assets of the City. The general operating fund investments are in certificates of deposit which are held at cost which approximates fair value.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other than observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of June 30, 2017:

Certificates of Deposit (Level 1 inputs)	\$ 36,775,375
GNMA Bond Funds (Level 1 inputs)	199,416
Money Market Funds (Level 1 inputs)	955,384
	<u>\$ 37,930,175</u>

The City’s Police and Firefighters’ Retirement Fund is not subject to the same investment laws as the City. The City’s Police and Firefighters’ investments are all categorized as either insured or registered. The securities are held by the retirement fund, or by its agent, in the name of the Police and Firefighters’ Retirement Fund.

Note C – Investments (Continued)

The City’s Police and Firefighters’ Retirement Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Fund has the following recurring fair value measurements:

Corporate Bonds (Level 1 inputs)	\$ 1,707,762
US Government Agencies Level 1 inputs)	1,106,634
Equities (Level 1 inputs)	210,162
Fixed Income Funds (Level 1 inputs)	435,669
Municipal Bonds (Level 1 inputs)	<u>666,912</u>
	<u><u>\$ 4,127,139</u></u>

Interest Rate Risk – The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – State law limits the types of investments in which the City may invest its funds. The City’s investment policy specifies that governmental funds will be invested in obligations of the U.S. government and its agencies or certificates of deposit.

Concentration of Credit Risk – The City places no limit on the amount it may invest in any one investment. The City does have a policy whereby no financial institution shall be selected as a depository of City funds if the funds exceed 5% of the institution’s capital and surplus.

Note D – Receivables

Receivables – The primary receivables for the City include \$150,000 for the sale of the Paul Sawyer Public Library building (due from Kentucky State University) and \$57,340 in receivables from federal agencies for various grants.

Note E – Capital Assets

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

	Balance			Balance
	<u>June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2017</u>
Governmental activities:				
Nondepreciable Capital Assets				
Land	\$ 7,021,578	\$ -	\$ -	\$ 7,021,578
Construction in Progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Nondepreciable Capital Assets	<u>7,021,578</u>	<u>-</u>	<u>-</u>	<u>7,021,578</u>
Depreciable Capital Assets				
Buildings and Improvements	24,402,704	5,400	-	24,408,104
Infrastructure	39,106,284	29,218	(314,793)	38,820,709
Inland Marine	4,474,607	26,989	(25,201)	4,476,395
Computers and Electronic Equipment	774,228	-	-	774,228
Machinery and Equipment	762,684	188,703	-	951,387
Furniture and Fixtures	767,778	1,027,672	-	1,795,450
Vehicles	<u>14,105,307</u>	<u>1,196,971</u>	<u>(879,536)</u>	<u>14,422,742</u>
Total Depreciable Capital Assets	<u>84,393,592</u>	<u>2,474,953</u>	<u>(1,219,530)</u>	<u>85,649,015</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(10,496,862)	(682,784)	-	(11,179,646)
Infrastructure	(15,620,683)	(654,797)	204,615	(16,070,865)
Inland Marine	(3,284,740)	(355,865)	25,033	(3,615,572)
Computers and Electronic Equipment	(622,700)	(34,932)	-	(657,632)
Machinery and Equipment	(599,704)	(73,138)	-	(672,842)
Furniture and Fixtures	(642,441)	(278,752)	-	(921,193)
Vehicles	<u>(9,651,709)</u>	<u>(1,035,320)</u>	<u>809,570</u>	<u>(9,877,459)</u>
Total Accumulated Depreciation	<u>(40,918,839)</u>	<u>(3,115,588)</u>	<u>1,039,218</u>	<u>(42,995,209)</u>
Total Depreciable Assets, Net	<u>43,474,753</u>	<u>(640,635)</u>	<u>(180,312)</u>	<u>42,653,806</u>
Total Capital Assets, Net	<u>\$ 50,496,331</u>	<u>\$ (640,635)</u>	<u>\$ (180,312)</u>	<u>\$ 49,675,384</u>

Note E – Capital Assets (Continued)

Capital asset activity for business-type activities for the year ended June 30, 2017 was as follows:

	Balance			Balance
	<u>June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2017</u>
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$ 455,200	\$ -	\$ -	\$ 455,200
Construction in Progress	11,126,082	7,698,376	(1,443,649)	17,380,809
Total Nondepreciable Capital Assets	<u>11,581,282</u>	<u>7,698,376</u>	<u>(1,443,649)</u>	<u>17,836,009</u>
Capital assets, being depreciated:				
Buildings	14,713,284	-	-	14,713,284
Machinery and Equipment	2,134,309	-	-	2,134,309
Furniture and Fixtures	64,111	-	-	64,111
Computers and Electronic Equipment	210,321	-	-	210,321
Inland Marine	718,990	19,782	-	738,772
Vehicles	2,180,793	-	(117,059)	2,063,734
Pump Stations	18,456,265	-	-	18,456,265
Infrastructure	39,694,678	1,443,649	-	41,138,327
Total Depreciable Capital Assets	<u>78,172,751</u>	<u>1,463,431</u>	<u>(117,059)</u>	<u>79,519,123</u>
Less Accumulated Depreciation:				
Buildings	(7,191,267)	(417,214)	-	(7,608,481)
Infrastructure	(4,341,155)	(1,261,836)	-	(5,602,991)
Inland Marine	(575,199)	(52,506)	-	(627,705)
Pump Stations	(5,191,810)	(575,089)	-	(5,766,899)
Computers and Electronic Equipment	(107,816)	(25,757)	-	(133,573)
Machinery and Equipment	(1,226,292)	(164,450)	-	(1,390,742)
Furniture and Fixtures	(45,368)	(11,930)	-	(57,298)
Vehicles	(1,499,953)	(194,746)	117,059	(1,577,640)
Total Accumulated Depreciation	<u>(20,178,860)</u>	<u>(2,703,528)</u>	<u>117,059</u>	<u>(22,765,329)</u>
Total Depreciable Assets, Net	<u>57,993,891</u>	<u>(1,240,097)</u>	<u>-</u>	<u>56,753,794</u>
Total Capital Assets, Net	<u>\$ 69,575,173</u>	<u>\$ 6,458,279</u>	<u>\$ (1,443,649)</u>	<u>\$ 74,589,803</u>

Note E – Capital Assets (Continued)

Depreciation expense was charged to the functions/programs of the primary government as follows:

Governmental activities	Business-Type Activities		
General Government	\$	43,248	Sewer
Public Safety		1,395,131	<u>\$ 2,703,528</u>
Public Works		1,478,098	
Planning & Zoning		3,185	
Parks & Recreation		<u>195,926</u>	
	<u>\$</u>	<u>3,115,588</u>	

Note F – Interfund Receivables, Payables and Transfers

As of June 30, 2017, there are no interfund receivables and payable balances.

During the year ended June 30, 2017, transfers between funds were as follows:

- a. \$75,000 was transferred from the E-911 to the General Fund.
- b. \$405,250 was transferred from the Sewer to the General Fund.
- c. \$500,000 was transferred from the General Fund to the Stormwater Fund.
- d. \$250,000 was transferred from the General Fund to the Transportation Improvements Fund.

Note G – Long-Term Liabilities

The following is a summary of long-term liability activity for the City for the fiscal year ended June 30, 2017 (amounts are:

	Beginning Balance	Additions	Reductions	Premiums Discounts	Ending Balance	Due Within One Year
Governmental Activities:						
Bonds Payable	\$ 9,710,000	\$ 5,110,000	\$ (6,165,000)	\$ 120,985	\$ 8,775,985	\$ 940,000
Leases Payable	477,415	668,085	(573,897)		571,603	100,823
Compensated Absences	<u>6,185,373</u>	<u>229,677</u>	<u>(77,116)</u>	<u>-</u>	<u>6,337,934</u>	<u>-</u>
Total	<u>\$ 16,372,788</u>	<u>\$ 6,007,762</u>	<u>\$ (6,816,013)</u>	<u>\$ 120,985</u>	<u>\$ 15,685,522</u>	<u>\$ 1,040,823</u>
Business Type-Activities:						
Bonds Payable	\$ 25,037,571	\$ -	\$ (1,750,000)	\$ 12,030	\$ 23,299,601	\$ 1,805,000
KIA Payable	9,978,484	3,848,362	(357,237)	-	13,469,610	363,731
Compensated Absences	<u>678,293</u>	<u>100,055</u>	<u>(8,511)</u>	<u>-</u>	<u>769,837</u>	<u>-</u>
Total	<u>\$ 35,694,348</u>	<u>\$ 3,948,417</u>	<u>\$ (2,115,748)</u>	<u>\$ 12,030</u>	<u>\$ 37,539,048</u>	<u>\$ 2,168,731</u>

Note G – Long-Term Liabilities (Continued)

For governmental activities, compensated absences are liquidated by the general fund.

1. Bonds Payable

General obligation and revenue bond issues reported as liabilities in the Statement of Net Position are as follows (amounts shown on Statement of Financial are shown net of premium/discounts):

Governmental Activities	<u>Purpose of Issue</u>	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Amount Outstanding</u>
General Obligation Bonds					
2016 General Obligation Refunding	Refunding Bonds	\$ 5,110,000	2-3%	06/01/22	\$ 4,265,000
2014 General Obligation	Aquatic Center	4,650,000	1%-4%	12/1/2040	<u>4,390,000</u>
Total General Obligation Bonds					<u>\$ 8,655,000</u>
Business-Type Activities	<u>Purpose of Issue</u>	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Amount Outstanding</u>
Revenue Bonds					
2007 Revenue Bonds	Sewer System Improvements	\$ 9,995,000	3.35%-4.00%	12/01/23	\$ 5,345,000
2010 Revenue Bonds	Sewer System Improvements	13,445,000	1.20%-4.55%	12/01/25	\$ 8,935,000
2013 Revenue Bonds	Sewer System Improvements	9,995,000	1.00%-4.50%	06/30/39	<u>\$ 9,125,000</u>
Total Revenue Bonds					<u>\$ 23,405,000</u>

During 2016-2017, the City issued \$5,110,000 General Obligation Refunding Bonds, Series 2016 which refunded Series 2015 at a premium and payable annually in principal installments ranging from \$845,000 to \$900,000 plus interest over 5 years to refund the \$5,190,000 total principal remaining on the 2006 Bonds.

Note G – Long-Term Liabilities (Continued)

2. Capitalized Lease Obligations

Capitalized lease obligations reported as liabilities in the Statement of Net Position are as follows:

Governmental Activities	Purpose of Issue	Original Issue	Interest Rate	Final Maturity	Amount Outstanding
Capitalized Lease Obligations					
	E911 CAD Upgrade	\$ 530,257	0.82%	04/20/21	\$ 292,099
	Emergency Management Sirens	\$ 337,970	3.88%	05/18/25	279,504
Total Capitalized Lease Obligations					<u>\$ 571,603</u>

3. KIA Notes Payable

On December 31, 2009, the City entered into an assistance agreement with the Kentucky Infrastructure Authority (KIA) and received a federally assisted wastewater revolving fund loan of \$800,000 funded by the American Recovery and Reinvestment Act (ARRA). \$416,800 of the loan was forgiven. \$383,200 is being repaid with interest of 3% in semi-annual payments. The balance as of June 30, 2017 is \$274,101. The maturity date is June 30, 2030. The KIA loan is secured on a subordinated basis to the City's 2007 and 2010 sewer revenue bond issues.

On August 1, 2013, the City entered into an assistance agreement with the Kentucky Infrastructure Authority (KIA) and received a federally assisted wastewater revolving fund loan to construct a 10 million gallon equalization basin for the City's sanitary sewer system. The loan will be \$8,000,000 upon completion of the project and will be repaid with interest of 1.75%. The balance is to be repaid over 20 years. The balance as of June 30, 2017 is \$7,491,872.

During 2016-2017, the City received four loans for additional Sewer Department Improvements to which part of the loan was federally funded. The loan balances at June 30, 2017 were \$5,703,636. Amortization of this loan is not available due to the plan for further draws. For disclosure purposes, maturities were estimated based on anticipated completion dates.

Note G – Long-Term Liabilities (Continued)

4. Long-Term Debt Maturities

Debt service requirements (principal and interest) to maturity for the City’s bonds, leases and notes payable are as follows:

Fiscal Year	Governmental Activities			
	General Obligation Bonds		Capitalized Lease Obligations	
	Interest	Principal	Interest	Principal
2018	262,875	940,000	19,514	100,823
2019	245,375	960,000	16,017	103,753
2020	219,150	985,000	12,415	106,771
2021	191,625	1,010,000	8,709	109,882
2022	162,625	1,040,000	5,836	35,474
2023-2027	626,781	740,000	9,034	114,900
2028-2032	486,662	885,000	-	-
2033-2037	291,693	1,075,000	-	-
2038-2042	75,762	1,020,000	-	-
	<u>\$ 2,562,548</u>	<u>\$ 8,655,000</u>	<u>\$ 71,525</u>	<u>\$ 571,603</u>

Fiscal Year	Business-Type Activities			
	Revenue Bonds		KIA Notes Payable	
	Interest	Principal	Interest	Principal
2018	902,220	1,805,000	137,692	363,731
2019	839,686	1,870,000	131,077	370,345
2020	771,547	1,935,000	124,339	377,083
2021	696,580	2,010,000	117,476	383,946
2022	637,182	2,095,000	110,485	390,937
2023-2027	1,976,345	7,830,000	442,919	2,064,197
2028-2032	1,045,287	2,090,000	257,676	2,207,202
2033-2037	562,875	2,570,000	56,788	4,553,787
2037-2039	54,675	1,200,000	-	-
	<u>\$ 7,486,397</u>	<u>\$ 23,405,000</u>	<u>\$ 1,378,452</u>	<u>\$ 10,711,228</u>

Note H – Conduit Debt

In December 2009, the City authorized the Kentucky Economic Development Finance Authority to issue Industrial Revenue Bonds to finance an industrial building project within the City for Goodwill Industries.

The City is not obligated in any manner for repayment of the above debt. Accordingly, the debt is not reported as a liability in the accompanying financial statements.

Note I – Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omission, injuries to employees, and natural disasters for which the City carries commercial insurance. Settled claims, relating to these exposures, have not exceeded insurance coverage in any of the past three years. In addition, the City has effectively managed risk through various employee education and prevention programs through the efforts and cooperation of its risk manager and department heads. All general liability risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Management estimates that the amount of actual or potential claims against the City as of June 30, 2017 will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims.

The City has elected to retain risk related to employees' health insurance and workers' compensation insurance. The City does maintain insurance coverage for health insurance claims in excess of \$75,000 per person per year (with specific exceptions for three participants layered at \$75,000, \$100,000 and \$250,000 separate individual specific deductibles, respectively) with an unlimited maximum per person per lifetime in anticipated claims. Claims expected to be paid using current resources are accrued in the modified accrual statements. Liabilities reported in the proprietary fund and in the government-wide statements include claims that have been incurred but not reported based on historical experience.

The City has elected to retain risk in its workers' compensation and employers' liability coverage and maintains insurance coverage for workers' compensation occurrences in excess of \$500,000 to statutory limits. An occurrence may involve one or more employees. For Employers' Liability, the City maintains coverage in excess of \$550,000 per occurrence to a limit of \$1,000,000. Workers' compensation insurance claims reserve balance has been accrued as a liability in the governmental activities in the Statement of Net Position and the Sewer Fund.

The City pays the HealthSmart TPA (Health Plan) and HealthSmart Casualty Claims (Work Comp) a fee to administer the plans. The City has set up trust funds to use for workers' compensation and health insurance claims as needed. These funds are restricted for use for only those purposes. All claims for health insurance coverage and workers' compensation are paid out of the general fund and the sewer fund. The separate trust accounts are additional assets that have been provided if the general fund and proprietary fund appropriations are not sufficient to cover claims filed. Even though management believes there are sufficient assets to cover any claims filed, there is no guarantee that the assets available are adequate to cover all liabilities.

Note I – Risk Management (Continued)

Changes in the balances of claims liabilities on the accrual basis during the past two years are as follows:

	<u>Health Care</u>	<u>Workers Compensation</u>
Liability at June 30, 2015	\$ 250,000	\$ 256,092
Claims and Changes in Estimates in FY 2016	2,786,033	82,934
Claims Paid in FY 2016	<u>(2,914,399)</u>	<u>(246,692)</u>
Liability at June 30, 2016	121,634	92,334
Claims and Changes in Estimates in FY 2017	2,543,421	550,229
Claims Paid in FY 2017	<u>(2,594,780)</u>	<u>(340,521)</u>
Liability at June 30, 2017	<u>\$ 70,275</u>	<u>\$ 302,042</u>

Note J – Retirement Plans

1. Police and Firefighters’ Retirement Fund

The Police and Firefighters’ Retirement Fund is a single-employer defined benefit plan administered by its own Board of Directors in accordance with KRS 95.851 to KRS 95.884. The Fund was established to provide retirement and disability benefits for retiring, disabled, or deceased personnel and their surviving spouse. On August 1, 1988, the Plan was closed to new entrants and current active duty police and firemen of the City were given the choice of remaining in this plan or transferring into the County Employees Retirement System (CERS).

Summary of Significant Accounting Policies

Basis of Accounting

The preparation of the financial statements of the Police and Firefighters’ Retirement Fund (PFRF) conform to the provisions of GASB Statement No. 68. For purposes of measuring the net pension liability/(asset) deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the PFRF and additions to/deductions from the PFRF fiduciary net position have been determined on the same basis as they are reported by the PFRF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are stated at fair value.

Note J – Retirement Plans (Continued)

Funding Status and Progress

The present value of benefits on the actuarial report dated January 1, 2016 is a measure of the present value of pension benefits estimated to be payable in the future as a result of employee service to date. An actuarial valuation is performed every three years. Significant actuarial assumptions used in determining the estimated benefits with no future cost-of-living adjustments include:

1. Present Value of Benefits - Active Employees	\$ -
2. Present Value of Benefits - Inactive Employees	
a. Retiree's Benefits and Contingent Survivor Benefits	1,782,571
b. Current Beneficiaries	980,202
c. Vested Terminations	-
d. Total - Inactive Employees	2,762,773
3. Present Value of Benefits (1) + (2d)	2,762,773
4. Present Value of Future Annual Service Costs	-
5. Accrued Liabilities	2,762,773
6. Assets	4,577,842
7. Unfunded Accrued Liability (5) - (6)	-
8. Investment Rate of Return	3.00%

Actuarially Determined Contribution Requirements and Contributions Made

The method of valuation employed is the “entry age normal” cost method. Under this method, an annual service cost is established for each employee. This annual service cost is the level annual percent of pay which should have been contributed each year from the date of a member’s employment until his retirement date in order to fully fund his benefits at retirement. The accrued liability represents the sum of money which would have been accumulated had these annual service costs been contributed for each year in the past for each employee currently with the City, and for all retired employees and beneficiaries. The remainder of the liabilities is for future contribution of annual service cost, which is zero for this plan since only inactive members remain in the plan.

Funding Progress

Actuarial Valuation Date <u>Date</u>	Actuarial Value of Assets	Actuarial Accrued Liability		Unfunded AAL	Funding Ratio	UAAL as of Covered Payroll	Percentage of Covered Payroll
January 1, 2010	1,784,402	2,800,356	(1)	1,015,954	63.70%	n/a	n/a
January 1, 2013	5,338,199	2,791,663	(1)	-	191.20%	n/a	n/a
January 1, 2016	4,577,842	2,762,773	(1)	-	165.70%	n/a	n/a

Contributions

The City did not have any required contributions for the year ended June 30, 2017 and for the previous three years.

Note J – Retirement Plans (Continued)

Net Pension Liability

The Government’s net pension liability/(asset) was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability/(asset) was determined by an actuarial valuation as of that date. Additional information as of the latest actuarial valuation is presented in the following table.

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability/ (Asset)</u>
Balances at June 30, 2016	\$ 2,762,773	\$ 4,577,842	\$ (1,815,069)
Net Investment Income		40,400	(40,400)
Pension Liability Adjustment	351,969		
Benefit payments	(351,969)	(329,093)	329,093
Administrative Expenses	<u> -</u>	<u> (12,831)</u>	<u> 12,831</u>
Balances at June 30, 2017	<u>\$ 2,762,773</u>	<u>\$ 4,276,318</u>	<u>\$ (1,513,545)</u>

2. County Employees Retirement System

Plan Description

The City contributes to the Commonwealth of Kentucky's County Employees' Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement System (KRS). CERS is a cost-sharing multiple-employer defined benefit pension plan which covers substantially all regular full-time employees of each county and school board and any additional eligible local agencies electing to participate in the System. At June 30, 2017, there were over 1,400 local government agencies participating in CERS, which provides for retirement, disability and death benefits.

Note J – Retirement Plans (Continued)

Plan Description (continued)

Contributions

Nonhazardous covered employees are required to contribute 5% of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6% of their salary to the plan. The City's contribution rate for nonhazardous employees was 19.18%. Hazardous covered employees are required to contribute 8% of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9% of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The City's contribution rate for hazardous employees was 31.55%. The contribution requirements and the amounts contributed to CERS were \$4,046,346, \$4,871,984, \$5,013,306, \$5,125,452, and \$5,378,427 respectively for the years ended June 30, 2017, 2016, 2015 and 2014 and 2013.

Benefits Provided

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 2, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands.

Note J – Retirement Plans (Continued)

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

The provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, were issued in June 2012. The Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet those criteria.

At June 30, 2017, the City reported a liability of \$40,599,011 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental agencies, actuarially determined. At June 30, 2016, the City’s portion of nonhazardous and hazardous was .29697% and 1.51388%, respectively.

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Resources	Deferred Inflows Of Resources
Net Difference Between Projected and Actual Earnings On Pension Plan Investments, Assumptions & Experience Government Contributions Subsequent to the Measurement Date	6,353,969	\$ 517,379
	4,046,346	
Total	\$ 10,400,315	\$ 517,379

\$6,353,969 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as reductions of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2017	\$ 1,927,054
2018	1,641,225
2019	1,998,555
2020	787,136

Note J – Retirement Plans (Continued)

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for change in the City’s proportionate share of contributions or contributions made subsequent to the measurement date. The net pension liability as of June 30, 2017, is based on the June 30, 2016, actuarial valuation.

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

expense,	Investment rate of return	7.50%, net of pension plan investment including inflation
	Projected salary increases	4.00%, average, including inflation
	Inflation	3.25%

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement. The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, 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 (See chart below). These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Note J – Retirement Plans (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return(Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return(Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	<u>2%</u>	-0.25%
	<u>100%</u>	

The long-term expected rate of return on pension plan investments was established by the KRS Board of Trustees as 7.50% based on a blending of the factors described above. The following presents the net pension liability of the City’s CERS pension plan, calculated using the discount rate of 7.50%, as well as what the CERS’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Nonhazardous	\$ 18,220,967	\$ 14,621,760	\$ 11,536,354
Hazardous	\$ 32,635,058	\$ 25,977,251	\$ 20,485,792
	<u>\$ 50,856,025</u>	<u>\$ 40,599,011</u>	<u>\$ 32,022,146</u>

The City of Frankfort has reported the unfunded liability in governmental activities. No amount has been reported in the business-type activities (sewer).

For the year ended June 30, 2017, the City recognized pension expense in the amount of \$4,046,346.

Detailed information about the pension plan’s fiduciary net position is available in the CERS financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by telephone at (502) 696-8800.

2. Deferred Compensation Plan

The City has a deferred compensation trust plan created in accordance with the Internal Revenue Code Section 457 for its employees who elect to participate. The trust holds the assets for the exclusive benefit of plan participants and their beneficiaries. The City does not match any portion of the contributions.

Note K – Concentrations

Approximately 40% of the revenue generated from the occupational tax is attributable to one entity as of June 30, 2017. Approximately 10% of the revenue generated from the insurance premiums is attributable to one entity as of June 30, 2017.

Note L – Commitments and Contingent Liabilities

Litigation

The City is party to numerous legal proceedings, many of which normally occur in government operations and will not involve any potential liability to the City.

Contingencies

The City participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the City complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2017 may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Commitments

The Commonwealth of Kentucky filed suit against the City of Frankfort, Kentucky for alleged violations of certain provisions of the Clean Water Act, including the provisions applicable to combined sewers and unpermitted sanitary sewer outfalls. The City entered into a Consent Judgment with the Commonwealth. The City agreed to pay a fine of \$50,000 and to undertake substantial repairs to its sewer system to achieve compliance with the Clean Water Act and the applicable federal and state statutes and regulations. The City is proceeding to comply with the Consent Judgment. The improvements will take in excess of 10 years to complete.

The cost to implement the current projects necessary to remain in compliance with the Consent Judgment is anticipated to be \$50-\$70 million.

Note M – Recent GASB Pronouncements

The GASB has issued several reporting standards that will become effective for FY 2018 and later year financial statements.

GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

GASB Statement No. 87, Leases—The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement No. 86, Certain Debt Extinguishment Issues

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

GASB Statement No. 85, Omnibus 2017

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

GASB Statement No. 84, Fiduciary Activities

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

Note M – Recent GASB Pronouncements (continued)

GASB Statement No. 83, Certain Asset Retirement Obligations

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

Note N – The Single Audit Act

The U.S. Office of Management and Budget's Uniform Guidance for Audits of States, Local Governments and Non-Profit Organizations (the Circular) requires non-federal entities that expend \$750,000 or more a year in Federal awards to have an audit performed in accordance with the provisions of the Circular. A separate supplemental report will be issued on active grant programs of the City in accordance with applicable provisions of the Single Audit Act of 1984, P.L. 98-502 and the Single Audit Act Amendments of 1996, P.L. 104-156.

Note O – Subsequent Events

Management has evaluated subsequent events through December 15, 2017, the date the financial statements were available to be issued.

Required Supplementary Information

City of Frankfort
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget-
	Original	Final		Positive (Negative)
Taxes				
Prior Year Taxes	\$ 50,000	\$ 50,000	\$ 53,171	\$ 3,171
Current Year Taxes	3,100,000	3,100,000	3,010,197	(89,803)
Bank Shares	150,000	150,000	213,868	63,868
Franchises, etc.	35,000	35,000	9,020	(25,980)
Pen. Int & Disc	30,000	30,000	25,600	(4,400)
Collection Fee - MVT	25,000	25,000	13,299	(11,701)
Motor Vehicle Tax	300,000	300,000	315,514	15,514
Discount for Taxes	(60,000)	(60,000)	(57,363)	2,637
Total Taxes	<u>3,630,000</u>	<u>3,630,000</u>	<u>3,583,306</u>	<u>(46,694)</u>
Occupational Tax Receipts				
Insurance Company	3,500,000	3,500,000	3,663,777	163,777
1.95% Withholding	18,270,000	18,270,000	18,373,903	103,903
1.95% Business	2,100,000	2,100,000	2,433,323	333,323
Regulatory Fees	50,000	50,000	62,490	12,490
Penalty, Interest, Atty Fees	53,000	53,000	91,572	38,572
Total Occ. Tax Receipts	<u>23,973,000</u>	<u>23,973,000</u>	<u>24,625,065</u>	<u>652,065</u>
Licenses, Permits & Fines				
Electrical Inspections	25,000	25,000	18,226	(6,774)
Parade Permits	1,000	1,000	3,649	2,649
Building Permits	20,000	20,000	25,021	5,021
Housing Inspections	15,000	15,000	19,180	4,180
Total Lic, Permits & Fines	<u>61,000</u>	<u>61,000</u>	<u>66,076</u>	<u>5,076</u>
Parking Violations	<u>15,000</u>	<u>15,000</u>	<u>26,050</u>	<u>11,050</u>
Charges for Services				
Recreation Fee	90,000	90,000	94,157	4,157
Golf Course Receipts	200,000	200,000	181,225	(18,775)
Swimming Pool Receipts	220,000	220,000	274,455	54,455
Swimming Pool Concessions	100,000	100,000	113,021	13,021
Parking Garages	-	-	25,005	25,005
Ball Field Concessions	30,000	30,000	21,740	(8,260)
Golf Cart Rentals	160,000	160,000	171,631	11,631
Garbage Collection Fee	225,000	225,000	114,407	(110,593)
Total Charges for Services	<u>1,025,000</u>	<u>1,025,000</u>	<u>995,641</u>	<u>(29,359)</u>

See Independent Auditor's Report.

City of Frankfort, Kentucky
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget- Positive (Negative)
Intergovernmental				
Base Court Revenue	40,000	40,000	38,681	(1,319)
Plant Board Contributions	214,000	214,000	214,000	-
City and County Projects	600,000	600,000	707,530	107,530
State Participation	195,000	195,000	195,000	-
Grants and Aid	-	349,080	561,668	212,588
Police/Fire Incentive	600,000	600,000	647,524	47,524
Total Intergovernmental	<u>1,649,000</u>	<u>1,998,080</u>	<u>2,364,403</u>	<u>366,323</u>
Ambulance	<u>1,600,000</u>	<u>1,600,000</u>	<u>1,398,820</u>	<u>(201,180)</u>
Interest	<u>80,000</u>	<u>80,000</u>	<u>113,701</u>	<u>33,701</u>
Public Transit				
Public Transit	<u>816,000</u>	<u>816,000</u>	<u>878,758</u>	<u>62,758</u>
Total Public Transit	<u>816,000</u>	<u>816,000</u>	<u>878,758</u>	<u>62,758</u>
Miscellaneous	60,000	60,000	33,642	(26,358)
Surplus Property	50,000	50,000	356,820	306,820
Recycling	70,000	70,000	30,867	(39,133)
Tower Rental	85,000	85,000	73,989	(11,011)
Building Rentals	-	-	6,000	6,000
Sewer Allocation	325,000	325,000	407,250	82,250
E-911 Communications	100,000	100,000	75,000	(25,000)
Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>\$ 33,539,000</u>	<u>\$ 33,888,080</u>	<u>\$ 35,035,388</u>	<u>\$ 1,147,308</u>

See Independent Auditor's Report

City of Frankfort, Kentucky
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts Budgetary Basis	Final Budget
	Original	Final		Positive
				(Negative)
Expenditures:				
General Government				
City Commission	\$ 639,737	\$ 839,736	\$ 764,822	\$ 74,914
City Manager	976,440	1,386,520	1,504,458	(117,938)
IT	412,005	510,005	467,840	42,165
Total General Government	<u>2,028,182</u>	<u>2,736,261</u>	<u>2,737,120</u>	<u>(859)</u>
Finance	<u>498,438</u>	<u>536,438</u>	<u>525,010</u>	<u>11,428</u>
Insurance	<u>3,895,000</u>	<u>3,895,000</u>	<u>3,116,487</u>	<u>778,513</u>
Public Safety				
Disaster & Emergency Mgt	185,229	185,229	218,721	(33,492)
Emergency Medical Serv	3,122,065	3,416,065	3,035,608	380,457
Fire Department	4,737,252	4,737,252	4,984,518	(247,266)
Police Department	5,818,164	5,868,164	5,920,888	(52,724)
Police Traffic	4,672	4,672	5,518	(846)
Communications	1,227,600	1,560,600	1,182,580	378,020
Total Public Safety	<u>15,094,982</u>	<u>15,771,982</u>	<u>15,347,833</u>	<u>424,149</u>
Public Works				
Public Works Director	260,272	230,272	317,333	(87,061)
Street Department	1,548,886	1,958,886	1,379,921	578,965
Garage	459,584	459,584	390,265	69,319
Buildings	673,160	673,160	541,049	132,111
Sanitation	2,005,098	2,005,098	1,615,462	389,636
Floodwall	1,482,482	1,482,482	956,556	525,926
Public Transit	1,295,249	1,295,249	1,272,009	23,240
Total Public Works	<u>7,724,731</u>	<u>8,104,731</u>	<u>6,472,595</u>	<u>1,632,136</u>

See Independent Auditor's Report.

City of Frankfort, Kentucky
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts Budgetary Basis	Final Budget
	Original	Final		Positive
				(Negative)
Parks and Recreation				
Parks and Recreation	1,273,237	1,273,237	1,207,302	65,935
Juniper Hills Golf Course	601,832	621,832	574,451	47,381
Swimming Pools	345,835	345,835	555,027	(209,192)
Riverview Park	194,787	194,787	155,840	38,947
Lakeview Park	46,510	46,510	38,159	8,351
Fort Hill Park	262,832	262,832	185,106	77,726
Forestry	102,925	217,925	123,224	94,701
Sports	334,554	334,554	369,560	(35,006)
Cove Spring	80,954	80,954	63,468	17,486
Total Parks and Recreation	<u>3,243,466</u>	<u>3,378,466</u>	<u>3,272,137</u>	<u>106,329</u>
Planning and Building Codes	<u>915,823</u>	<u>925,823</u>	<u>784,445</u>	<u>141,378</u>
Capital Outlay & Prior Year Exp	<u>1,253,005</u>	<u>1,253,005</u>	-	<u>1,253,005</u>
Total Expenditures	<u>\$ 34,653,627</u>	<u>\$ 36,601,706</u>	<u>\$ 32,255,627</u>	<u>\$ 4,346,079</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,114,627)	(2,713,626)	2,779,761	5,493,387
Adjustments to Conform with Generally Accepted Accounting Principles				
Prior Year Encumbrances			(1,388,359)	
Current Year Encumbrances			1,500,485	
Accounts Payable Adjustments			(2,588,237)	
Workers Compensation & Health Insurance			<u>69,206</u>	
Excess of Revenues Over/(Under) Expenditures (GAAP Governmental Fund Basis)			372,856	
Fund Balances, Beginning of Year			<u>24,810,572</u>	
Fund Balances, End of Year			<u>\$ 25,183,428</u>	

See Independent Auditor's Report.

City of Frankfort, Kentucky
 Schedule of Proportionate Share of Net Pension Liability & Schedule of Contributions
 Year Ended June 30, 2017

Schedule of Proportionate Share of Net Pension Liability

	<u>2016-2017</u>	<u>2015-2016</u>
City of Frankfort's proportion of the net pension liability	1.8101580%	1.8258000%
City of Frankfort's proportionate share of the net pension liability	\$ 40,599,011	\$ 36,573,883
City of Frankfort's covered-employee payroll	\$ 18,214,034	\$ 16,903,522
City of Frankfort's proportionate share of the net pension liability as a percentage of its covered-employee payroll	223%	216%
Plan Fiduciary net position as a percentage of the total pension liability	55.50%	68.49%

Schedule of Contributions

	<u>2016-2017</u>	<u>2015-2016</u>
Contractually required contribution	\$ 4,046,346	\$ 3,849,061
Contribution in relation to the contractually required contribution	<u>\$ (4,046,346)</u>	<u>\$ (3,849,061)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City of Frankfort's covered-employee payroll	\$ 18,214,034	\$ 16,903,522
Contributions as a percentage of covered- employee payroll	22.22%	22.77%

See Independent Auditor's Report.

Supplementary Information

Special Revenue Funds

The Special Revenue Funds account for the proceeds of specific revenue, sources (other than major funds) that are restricted by law, to be expended for specific purposes. Individual funds included in this fund type are as follows:

Municipal Aid Fund – accounts for Municipal Aid and Local Government Economic Assistance funds to be used for street resurfacing and similar projects.

Transportation Improvements – accounts for funds deposited to be used for capital expenditures and other miscellaneous expenses of the Public Transit System not budgeted in the General Fund, or for any other purpose so designated.

E-911 Telephone – accounts for the 911 fees collected and received from the telephone company to be used for E-911 telephone system expenses.

Tourism Center Building – accounts for rent collected from tenants of the Tourism Center Building to be used for expenses related to the building or for other projects so designated.

Asset Forfeiture Fund (U.S. Justice) – accounts for funds received from the federal government for forfeited assets. These funds are to be used for police department activities.

Lost and Found – accounts for funds received for items turned into the police department as lost and found.

Asset Forfeiture Fund (State) – accounts for funds received from the state government for forfeited assets. These funds are to be used for police department activities.

Safe Place – accounts for funds received from Safe Place to be used for Safe Place activities.

Frankfort/Franklin Co. LEPC – accounts for the Frankfort/Franklin Co. LEPC committee.

Capital Projects Funds

Capital Projects Funds are used to account for the purchase or construction of major capital facilities which are not financed by proprietary funds or trust funds.

Fort Hill Park Fund – accounts for accumulated funds used to construct and maintain the Fort Hill Park.

See Independent Auditor's Report.

City of Frankfort, Kentucky
Combining Balance Sheet –
Nonmajor Governmental Funds
June 30, 2017

	Combined Nonmajor Special Revenue Funds	Combined Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and Cash Equivalents	\$ 2,936,744	\$ 543,252	\$ 3,479,996
Investments	2,260,000		2,260,000
Receivables			
Grants	69,539		69,539
Accrued Interest	<u>379</u>	<u>-</u>	<u>379</u>
 Total Assets	 <u>\$ 5,266,662</u>	 <u>\$ 543,252</u>	 <u>\$ 5,809,914</u>
 Liabilities and Fund Balances			
Liabilities			
Accounts Payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
 Fund Balances			
Fund Balance, Unassigned	\$ 349,432	\$ -	\$ 349,432
Fund Balance, Assigned	-	-	-
Fund Balance, Restricted	<u>4,917,230</u>	<u>543,252</u>	<u>5,460,482</u>
Total Fund Balance	<u>5,266,662</u>	<u>543,252</u>	<u>5,809,914</u>
 Total Liabilities and Fund Balance	 <u>\$ 5,266,662</u>	 <u>\$ 543,252</u>	 <u>\$ 5,809,914</u>

See Independent Auditor's Report.

City of Frankfort, Kentucky
 Combining Balance Sheet –
 Nonmajor Special Revenue Funds
 June 30, 2017

	Municipal Aid	Transportation Improvements	E-911	Tourism Building	Asset Forfeiture- U.S. Justice	Lost and Found	Asset Forfeiture -State	Safe Place	Frankfort/ Franklin Co LEPC	Total
Assets										
Cash and Cash Equivalents	\$ 1,057,921	\$ 980,953	\$112,532	\$67,153	\$ 352,056	\$282,279	\$ 74,651	\$ 3,228	\$ 5,971	\$ 2,936,744
Investments	1,500,000	660,000	100,000							2,260,000
Receivables										
Grants		69,539								69,539
Accrued Interest	270	88	21	-	-	-	-	-	-	379
Total Assets	\$ 2,558,191	\$ 1,710,580	\$212,553	\$67,153	\$ 352,056	\$282,279	\$ 74,651	\$ 3,228	\$ 5,971	\$ 5,266,662
Liabilities and Fund Balances										
Liabilities										
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	-	-	-	-	-	-	-	-	-	-
Fund Balances										
Fund Balance, Unassigned	\$	\$		\$67,153	\$	\$282,279	\$	\$	\$	\$ 349,432
Fund Balance, Assigned										-
Fund Balance, Restricted	2,558,191	1,710,580	212,553	-	352,056	-	74,651	3,228	5,971	4,917,230
Total Fund Balances	2,558,191	1,710,580	212,553	67,153	352,056	282,279	74,651	3,228	5,971	5,266,662
Total Liabilities and Fund Balances	\$ 2,558,191	\$ 1,710,580	\$212,553	\$67,153	\$ 352,056	\$282,279	\$ 74,651	\$ 3,228	\$ 5,971	\$ 5,266,662

See Independent Auditor's Report.

City of Frankfort, Kentucky
Combining Statement of Revenues, Expenditures and Changes in Fund Balance –
Nonmajor Governmental Funds
Year Ended June 30, 2017

	Combined Nonmajor Special Revenue Funds	Combined Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenues			
Intergovernmental Revenues	\$ 897,690	\$ -	\$ 897,690
Interest Income	521	108	629
Charges for Services	398,299		398,299
Contributions	6,907		6,907
Fines and Forfeitures	136,096		136,096
Rental Income	7,354	-	7,354
Miscellaneous	90,802	122,014	212,816
	<u>1,537,669</u>	<u>122,122</u>	<u>1,659,791</u>
Total Revenues			
Expenditures			
General Government	-	-	-
Public Works	1,135,153	3,733	1,138,886
Public Safety	417,832		417,832
Special Projects	26,807	-	26,807
Parks and Recreation	-	145,654	145,654
	<u>1,579,792</u>	<u>149,387</u>	<u>1,729,179</u>
Total Expenditures			
Excess(Deficiency) of Revenues over Expenditures	<u>(42,123)</u>	<u>(27,265)</u>	<u>(69,388)</u>
Other Financing Sources/(Uses)			
Bond Principal Proceeds		-	-
Operating Transfers In	250,000	500,000	750,000
Operating Transfers Out	-	-	-
	<u>250,000</u>	<u>500,000</u>	<u>750,000</u>
Total Other Financing Sources/(Uses)			
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing	207,877	472,735	680,612
Fund Balances, Beginning of Year	<u>5,058,785</u>	<u>70,517</u>	<u>5,129,302</u>
Fund Balances, End of Year	<u>\$ 5,266,662</u>	<u>\$ 543,252</u>	<u>\$ 5,809,914</u>

See Independent Auditor's Report.

City of Frankfort, Kentucky
Combining Statement of Revenues, Expenditures and Changes in Fund Balance –
Nonmajor Special Revenue Funds
Year Ended June 30, 2017

	Municipal Aid	Transportation Improvements	E-911	Tourism Building	Asset Forfeiture- U.S. Justice	Lost and Found	Asset Forfeiture- State	Safe Place	Frankfort/ Franklin Co LEPC	Total
Revenues										
Intergovernmental Revenues	\$ 573,150	\$ 324,540	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 897,690
Interest Income	-	-	-	-	381	75	62	3	-	521
Charges for Services	-	-	398,299	-	-	-	-	-	-	398,299
Contributions	-	6,907	-	-	-	-	-	-	-	6,907
Fines and Forfeitures	-	-	-	-	112,774	-	23,322	-	-	136,096
Rental Income	-	-	-	7,354	-	-	-	-	-	7,354
Miscellaneous	-	-	-	-	-	88,675	-	-	2,127	90,802
Total Revenues	573,150	331,447	398,299	7,354	113,155	88,750	23,384	3	2,127	1,537,669
Other Financing Sources										
Surplus Sales	-	-	-	-	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	-	-	-	-	-
Total Other Financing Sources	-	-	-	-	-	-	-	-	-	-
Total Rev & Other Financing Sources	573,150	331,447	398,299	7,354	113,155	88,750	23,384	3	2,127	1,537,669
Expenditures										
General Government	-	-	-	-	-	-	-	-	-	-
Public Works	736,394	398,065	-	621	-	-	-	-	73	1,135,153
Public Safety	-	-	292,181	-	127,254	-	(1,603)	-	-	417,832
Special Projects	-	-	-	-	-	26,807	-	-	-	26,807
Total Expenditures	736,394	398,065	292,181	621	127,254	26,807	(1,603)	-	73	1,579,792
Other Financing Uses										
Operating Transfers (In)/Out	-	(250,000)	-	-	-	-	-	-	-	(250,000)
Total Expenditures and Other Financing Uses	736,394	148,065	292,181	621	127,254	26,807	(1,603)	-	73	1,329,792
Excess of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses	(163,244)	183,382	106,118	6,733	(14,099)	61,943	24,987	3	2,054	207,877
Fund Balances, July 1	2,721,435	1,527,198	106,435	60,420	366,155	220,336	49,664	3,225	3,917	5,058,785
Fund Balances, June 30	\$ 2,558,191	\$ 1,710,580	\$ 212,553	\$ 67,153	\$ 352,056	\$ 282,279	\$ 74,651	\$ 3,228	\$ 5,971	\$ 5,266,662

See Independent Auditor's Report.

City of Frankfort
Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2017

	Fort Hill Park	Stormwater	Bond Construction	Total
Assets				
Cash and Cash Equivalents	\$ 46,877	\$ 496,375	\$ -	\$ 543,252
Accounts Receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 46,877</u>	<u>\$ 496,375</u>	<u>\$ -</u>	<u>\$ 543,252</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ -		\$ -	\$ -
Due to Other Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Fund Balance, Unassigned				-
Fund Balance, Assigned				-
Fund Balance, Restricted	<u>46,877</u>	<u>496,375</u>	<u>-</u>	<u>543,252</u>
Total Fund Balance	<u>46,877</u>	<u>496,375</u>	<u>-</u>	<u>543,252</u>
Total Liabilities and Fund Balance	<u>\$ 46,877</u>	<u>\$ 496,375</u>	<u>\$ -</u>	<u>\$ 543,252</u>

See Independent Auditor's Report

City of Frankfort
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Capital Projects Funds
For the Year Ended June 30, 2017

	Fort Hill Park	Stormwater	Bond Construction	Total
Revenues				
Intergovernmental Revenues	\$	\$	\$	\$ -
Interest Income	-	108	-	108
Rental Income	-			-
Miscellaneous Income	122,014	-	-	122,014
Total Revenues	122,014	108	-	122,122
Expenditures				
Public Safety				-
Public Works		3,733		3,733
Parks and Recreation	145,654	-	-	145,654
Total Expenditures	145,654	3,733	-	149,387
Other Financing Sources/(Uses)				
Bond Principal Proceeds			-	-
Operating Transfers In		500,000	-	500,000
Operating Transfers Out	-	-	-	-
Total Expenditures and Other Financing Sources/(Uses)	-	500,000	-	500,000
Excess of Revenues and Other Financing Sources				
Over/(Under) Expenditures and Other Financing Uses	(23,640)	496,375	-	472,735
Fund Balances, Beginning of Year	70,517	-	-	70,517
Fund Balances, End of Year	<u>\$ 46,877</u>	<u>\$ 496,375</u>	<u>\$ -</u>	<u>\$ 543,252</u>

See Independent Auditor's Report

City of Frankfort, Kentucky
Combining Statement of Changes in Assets and Liabilities –
Agency Funds
Year Ended June 30, 2017

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
<u>TAX COLLECTION FUND</u>				
Assets				
Cash	\$ -	\$ 5,216,743	\$ 5,216,743	\$ -
Liabilities				
Due to Other Taxing Districts	\$ -	5,216,743	5,216,743	\$ -
<u>RETIREMENT REVOLVING FUND</u>				
Assets				
Cash	\$ 371,332	\$ 5,768,103	\$ 5,555,861	\$ 583,574
Liabilities				
Due to Retirement Systems	\$ 371,332	\$ 5,768,103	\$ 5,555,861	\$ 583,574
<u>LETTER OF CREDIT</u>				
Assets				
Cash	\$ 51,418	\$ 102,459	\$ 47,425	\$ 106,452
Liabilities				
Due to Depositors	\$ 51,418	\$ 102,459	\$ 47,425	\$ 106,452
<u>TRANSIENT ROOM TAX</u>				
Assets				
Cash	\$ 2,162	\$ 389,722	\$ 389,718	\$ 2,166
Liabilities				
Due to Other Government Agencies	\$ 2,162	\$ 389,722	\$ 389,718	\$ 2,166
<u>TOTALS - ALL AGENCY FUNDS</u>				
Assets				
Cash	\$ 424,912	\$ 11,477,027	\$ 11,209,747	\$ 692,192
Liabilities				
Due to Other Taxing Districts	\$ -	\$ 5,216,743	\$ 5,216,743	\$ -
Due to Retirement Systems	371,332	5,768,103	5,555,861	583,574
Due to Other Government Agencies	2,162	389,722	389,718	2,166
Due to Depositors	51,418	102,459	47,425	106,452
Total Liabilities	\$ 424,912	\$ 11,477,027	\$ 11,209,747	\$ 692,192

See Independent Auditor's Report.



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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*

To the Honorable Mayor and City Commissioners
City of Frankfort, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Frankfort, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Frankfort, Kentucky's basic financial statements, and have issued our report thereon dated December 15, 2017.

Internal Control Over Financial Reporting

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

Charles T. Mitchell Co.

Charles T. Mitchell Company PLLC
Frankfort, Kentucky
December 15, 2017



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Independent Auditor's Report on Compliance for Each Major Program And on Internal Control Over Compliance Required by the Uniform Guidance

To the Honorable Mayor and City Commissioners
City of Frankfort, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the City of Frankfort, Kentucky's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City of Frankfort, Kentucky's major federal programs for the year ended June 30, 2017. The City of Frankfort, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Frankfort, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Frankfort, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Frankfort, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Frankfort, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the City of Frankfort, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Frankfort, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Frankfort, Kentucky's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Charles T. Mitchell Co.

Charles T. Mitchell Company PLLC
Frankfort, Kentucky
December 15, 2017

City of Frankfort, Kentucky
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements
U.S. DEPARTMENT OF TRANSPORTATION			
Passed Through Kentucky Transportation Cabinet			
Formula Grants for Rural Areas-Operating	20.509	G710629Z	\$ 523,176
Formula Grants for Rural Areas-Administration	20.509	G710629Z	103,998
Formula Grants for Rural Areas-Job Access	20.509	G710629Z	82,608
Formula Grants for Rural Areas-RTAP Training	20.509	R11106635	9,468
Formula Grants for Rural Areas-Capital Grant FY2017	20.509	G01F639Z-5339	113,799
			<u>833,049</u>
Highway Planning and Construction Cluster			
Highway Planning & Construction-Safe Routes to Schools	20.205	PO2-628-11000004552	182,509
Highway Planning & Construction-Transportation Alternatives	20.205	PO2-628-1500002152	40,270
Total Highway Planning and Construction Cluster			<u>222,779</u>
Passed Through Department of Local Government			
2011 Recreational Trails-Juniper Hill	20.219	RTP Program #510-15/160002247	46,000
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>1,101,828</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed Through Kentucky Department for Local Government			
Community Development Block Grant-Disaster Recovery	14.228	CDBG-14-031	428,966
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>428,966</u>
FEDERAL HIGHWAY ADMINISTRATION			
Passed Through Kentucky Office of Highway Safety			
Highway Safety Cluster			
Distracted Driving-DUI Overtime	20.600	PT 16-19	17,134
Distracted Driving-DUI Overtime	20.600	PT 17-18	39,026
TOTAL FEDERAL HIGHWAY ADMINISTRATION			<u>56,160</u>
U.S. DEPARTMENT OF JUSTICE			
Direct Program			
2015 Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-NX-0319	13,737
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>13,737</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

City of Frankfort, Kentucky
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed Through Kentucky Division of Emergency Management			
2015/16 Emergency Management Performance Grants - Emergency			
Management Performance	97.042	PO2 095 17000014471	25,328
Disaster Funding	97.036	FEMA-DR-4217-KY	92,364
Homeland Security	97.067	15-266	8,000
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			125,692
U.S ENVIRONMENTAL PROTECTION AGENCY			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	BF-00D24814	241,398
Capitalization Grants for Clean Water State Revolving Funds	66.458	A14-006	126,268
Capitalization Grants for Clean Water State Revolving Funds	66.458	A15-032	474,169
TOTAL U.S ENVIRONMENTAL PROTECTION AGENCY			841,835
TOTAL			\$ 2,568,218

The amounts received from the Environmental Protection Agency were used in sewer projects and are considered as federal expenditures. Below is the loan activity through the Kentucky Infrastructure Authority that administers the loan programs:

Beginning Balance	\$ 9,978,484
*Loan Proceeds	3,848,363
Payments	(357,237)
Ending Balance	\$ 13,469,610

* A portion of these proceeds are considered federal expenditures and have been included in the accompanying schedule

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City. The City's reporting is defined in Note A to the basic financial statements. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included on the schedule. Because the Schedule presents only a selected portion of the operations of the City of Frankfort, Kentucky, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City of Frankfort, Kentucky.

2. Basis of Presentation and Relationship to Basic Financial Statements

The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance)*

3. The City of Frankfort did not provide federal awards to subrecipients.

The City has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

4. The City received loan proceeds for infrastructure improvements through the Kentucky Infrastructure Authority; a portion these proceeds are considered federal expenditures. The loan balance with the Kentucky Infrastructure Authority at June 30, 2017 is \$13,469,610. The beginning balance at July 1, 2015 was \$9,978,484.

City of Frankfort, Kentucky
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2017

Section I-Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued Unmodified

Internal Control over Financial Reporting

Material weakness(es) identified? Yes No

Significant deficiencies that identified that are not considered to be material weaknesses? Yes No

Noncompliance material to financial statements Yes No

Federal Awards

Internal Control over Major Programs

Material weakness(es) identified? Yes No

Significant deficiencies that identified that are not considered to be material weaknesses? Yes No

Type of Auditor's Report Issued on Compliance Over Major Programs Unmodified

Any Audit Findings Disclosed That Are Required To Be Reported In Accordance With Uniform Guidance Yes No

Identification of Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.509	Formula Grants for Other Than Urbanized Areas
20.205	Highway Planning & Construction Federal-Aid Hwy Pro
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar Threshold Used To Distinguish Between Type A and Type B Programs \$ 750,000

Auditee Qualified As Low-Risk Auditee Yes No

Section II – Financial Statement Findings

None.

Section III – Federal Program Award Findings

None.

City of Frankfort, Kentucky
Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2017

None.