

CITY OF CENTRAL CITY  
MUNICIPAL WATER & SEWER SYSTEM  
214 NORTH FIRST STREET  
CENTRAL CITY, KENTUCKY

**Exhibit 1 to Testimony  
of Michael W. McGhee**

AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES  
FOR YEAR-ENDED JUNE 30, 2016  
AND  
INDEPENDENT AUDITOR'S REPORT

**CITY OF CENTRAL CITY, KENTUCKY**  
**MUNICIPAL WATER AND SEWER SYSTEM**

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## GOLDSTON, PATE & COMPANY, CPAS, INC.

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### INDEPENDENT AUDITOR'S REPORT

To the Water Board  
City of Central City, Municipal Water & Sewer System  
Central City, Kentucky

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

We have audited the accompanying financial statements of the business-type activities of the City of Central City, Municipal Water & Sewer System, a component unit of the City of Central City, Kentucky as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Central City, Municipal Water & Sewer System, 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.

#### **Basis for Qualified Opinion**

A substantial portion of the inventory of the System is at various locations. It was not practical to satisfy ourselves with respect to such inventory by physical count. Management has represented main supplies, sewer plant supplies, chemicals and office supplies by estimation.

#### **Qualified Opinion**

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the City of Central City, Municipal Water & Sewer System, as of June 30, 2016, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Management has omitted management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America also require that the budgetary comparison information and pension schedules on pages 16-18 and 19 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2016, on our consideration of the City of Central City, Municipal Water & Sewer System'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 of Central City, Municipal Water & Sewer System's internal control over financial reporting and compliance.



Goldston, Pate & Company, CPAs, Inc.

Central City, Kentucky

October 21, 2016

**CITY OF CENTRAL CITY, KENTUCKY**  
**MUNICIPAL WATER AND SEWER SYSTEM**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

**ASSETS**

<b>Current Assets</b>	
Cash and cash equivalents (Note 2 and Note 3)	\$ 1,545,152
Receivables, net (Note 2)	425,856
Inventory (Note 2)	48,238
Prepaid insurance	30
Total current assets	<u>2,019,276</u>
<b>Restricted Assets</b>	
Restricted cash and cash equivalents (Note 2 and Note 6)	2,371,955
Restricted investments (Note 2 and Note 6)	525,332
Total restricted assets	<u>2,897,287</u>
<b>Noncurrent Assets</b>	
Property, plant & equipment, net (Note 2)	40,782,865
Less: Accumulated depreciation (Note 2)	<u>(12,839,054)</u>
Total noncurrent assets	<u>27,943,811</u>
<b>Total Assets</b>	<u>32,860,374</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Prepaid interest expense	200,100
Bond issuance costs	51,728
Bond discount	20,981
Difference between actual and expected earnings on pension plan (Note 8)	13,072
Changes in pension plan assumptions (Note 8)	147,051
Difference between expected and actual pension plan experience (Note 8)	12,119
Changes in pension plan proportion (Note 8)	15,395
Pension contributions subsequent to measurement date (Note 8)	<u>103,816</u>
<b>Total Deferred Outflows of Resources</b>	<u>564,262</u>

**LIABILITIES**

<b>Current Liabilities</b>	
Accounts payable (Note 2)	107,758
Compensated absences payable (Note 2)	72,907
Accrued payroll	14,188
Meter deposits	150,505
Total current liabilities	<u>345,358</u>
<b>Current Liabilities Payable from Restricted Assets</b>	
Long term debt - current portion - loan (Note 5)	50,000
Long term debt - current portion - bonds (Note 5)	237,500
Total current liabilities payable from restricted assets	<u>287,500</u>
<b>Noncurrent Liabilities</b>	
Net pension liability (Note 8)	<u>1,458,275</u>
<b>Noncurrent Liabilities Payable from Restricted Assets</b>	
Long term debt - loan (less current portion)(Note 5)	6,361,617
Long term debt - bonds (less current portion) (Note 5)	<u>15,770,500</u>
Total noncurrent liabilities	<u>22,132,117</u>
<b>Total Liabilities</b>	<u>24,223,250</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred gain on debt refunding	<u>72,251</u>
<b>Total Deferred Inflows of Resources</b>	<u>72,251</u>

**NET POSITION**

Net investment in capital assets	5,811,694
Restricted (Note 6)	2,609,787
Unrestricted	707,654
<b>Total Net Position</b>	<u>\$ 9,129,135</u>

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

**CITY OF CENTRAL CITY, KENTUCKY**  
**MUNICIPAL WATER AND SEWER SYSTEM**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**Operating Revenues (Schedule I)**

Charges for services	\$ 3,464,242
Miscellaneous revenues	39,036
Total operating revenues	<u>3,503,278</u>

**Operating Expenses (Schedule I)**

Water plant operation	787,302
Sewer plant operation	229,331
Water distribution	390,059
Sewer collection	74,217
General & administrative expenses - water	669,278
General & administrative expenses - sewer	453,926
Subtotal	<u>2,604,113</u>
Depreciation	1,130,488
Total operating expenses	<u>3,734,601</u>
Operating loss	<u>(231,323)</u>

**Nonoperating Revenues (Expenses)**

Interest revenue	8,085
Interest expense	(432,255)
Capital grant income	1,015,856
Other governmental support	(64,000)
Insurance proceeds	11,004
Total nonoperating revenue (expenses)	<u>538,690</u>
Income before transfers	307,367

**Transfers Out (Note 9)**

Increase in net position	290,444
Total net position - beginning	8,838,691
Total net position - ending	<u>\$ 9,129,135</u>

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

**CITY OF CENTRAL CITY, KENTUCKY**  
**MUNICIPAL WATER AND SEWER SYSTEM**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

<b>Cash Flows From Operating Activities</b>	
Receipts from customers	\$ 3,467,784
Payments to suppliers	(1,844,653)
Payments to and on behalf of employees	(746,615)
Net cash provided by operating activities	<u>876,516</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Local government support	(16,923)
Net cash used by noncapital financing activities	<u>(16,923)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Purchases of capital assets	(1,507,197)
Interest paid on capital debt	(434,749)
Proceeds from long-term debt	250,000
Bond discount and issuance costs	(72,709)
Principal payments on long-term debt	(274,055)
Insurance proceeds	11,004
Capital grant income	1,015,856
Net cash used for capital and related financing activities	<u>(1,011,850)</u>
<b>Cash Flows from Investing Activities</b>	
Interest received	8,085
Net cash provided by investing activities	<u>8,085</u>
<b>Net decrease in cash and cash equivalents</b>	(144,172)
Balance-beginning of year	4,586,611
Balance-end of year	<u>\$ 4,442,439</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u></b>	
Operating loss	\$ (231,323)
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,130,488
Change in assets and liabilities:	
Receivables, net	(39,585)
Inventories	17,390
Payroll liabilities	94,405
Other payables	13,592
Accounts payable	(108,451)
Net cash provided by operating activities	<u>\$ 876,516</u>
<b><u>Summary of Cash and Cash Equivalents shown on Statement of Net Position</u></b>	
Cash and cash equivalents	\$ 1,545,152
Restricted cash and cash equivalents	2,371,955
Restricted investments	525,332
Total cash and cash equivalents per statement of net position	<u>\$ 4,442,439</u>

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

**CITY OF CENTRAL CITY, KENTUCKY**  
**MUNICIPAL WATER AND SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1: DESCRIPTION OF ENTITY**

The Municipal Water and Sewer System (System), a component unit of the City of Central City, Kentucky, is an enterprise fund, which operates under the guidance of a five member commission appointed by the City Council. The System provides water and sewer services to residents of Central City, Kentucky. The System also provides water to local county water districts.

The System's management prepares separate financial statements from those of the City. Copies of these financial statements may be obtained by contacting the Municipal Water and Sewer System. Copies of the financial statements of the City of Central City, Kentucky may be obtained by contacting the City Administrator's office.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(a) Basis of Presentation and Accounting: The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

All activities of the System are accounted for within a single proprietary (enterprise) fund. Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

(b) Budgetary Accounting: The System adopts annual operating budgets as approved by the City Council prior to July 1 of each year. The current budget details the System's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. All unexpended amounts in the budget lapse at the end of the fiscal year. The City Council has authority to amend the budget during the year, if it becomes necessary.

(c) Cash Equivalents, Deposits and Investments: Cash and cash equivalents, for purposes of the statement of cash flows (page 5), include restricted and unrestricted cash on deposit and investments. The System can invest in the following so long as the term of the investment does not exceed five years: U.S. Government securities, savings accounts and interest bearing time deposits or certificates of deposit. If the funds are held in a bank, the bank must be FDIC insured and the amounts must remain collateralized at all times. The System's investments consist solely of Certificates of Deposit with a maturity of eighteen months or less. All of the investments are restricted as to use.

(d) Restricted Assets: Restricted assets represent cash and investments in certificates of deposit maintained in order to meet future obligations related to debt service and maintenance of the water and sewer plants.



**CITY OF CENTRAL CITY, KENTUCKY**  
**MUNICIPAL WATER AND SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(e) Accounts Receivable: As of each fiscal year ending June 30, there is an amount of accounts receivable for water and sewer that is unbilled from the date of the meter reading until the end of the month. The amount on the Balance Sheet represents current accounts receivable of \$333,000 and unbilled accounts receivable arising from the above mentioned transaction of \$92,856.

(f) Accounts Payable: As of each fiscal year ending June 30, there are unpaid invoices for services or goods received prior to June 30, but not paid by the System until on or after July 1. The amount on the Balance Sheet represents current accounts payable of \$107,758. Included in this total is accrued sales tax of \$1,327, accrued payroll taxes and withholdings of \$9,719 and \$11,138 of accrued employer pension contributions.

(g) Inventories: Inventories of main supplies, sewer plant supplies, chemicals and office supplies were estimated by management using lower of cost or market. Inventory of grinder pumps was physically counted and priced at lower-of-cost or market by employees of the system.

(h) Capital Assets: Property, plant and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method. The following is a schedule of fixed assets and the range of useful lives used in computing depreciation at June 30, 2016:

<u>Description</u>	<u>Range of Lives</u>	<u>Balance</u>			<u>Balance June 30, 2016</u>
		<u>June 30, 2015</u>	<u>Additions</u>	<u>Disposals</u>	
Land		\$ 37,656	\$ -	\$ -	\$ 37,656
Water Plant	40-50	24,048,351		-	24,048,351
Sewer plant	40-50	8,991,551	243,521		9,235,072
Administrative facilities	40-50	136,154			136,154
Transmission and distribution	40-50	613,495	900,579	64,000	1,450,074
Other structures and improvements	40-50	2,852,986	188,947		3,041,933
Automobiles	03-10	300,610	114,595		415,205
Administrative Equip., Furn., and Fixtures	03-10	1,684,785	4,906		1,689,691
Other general equipment	03-10	674,079	54,650	-	728,729
Total property, plant and equipment		39,339,667	1,507,198	64,000	40,782,865
Accumulated Depreciation		(11,708,566)	(1,130,488)	-	(12,839,054)
Net property, plant and equipment		\$ 27,631,101	\$ 376,710	\$ 64,000.00	\$ 27,943,811

Depreciation expense was \$1,130,488 for year ending June 30, 2016. Maintenance and repairs, which do not extend the value or life of property, plant and equipment, are expensed when incurred.

The System had several capital improvement projects ongoing during the year ended June 30, 2016. During fiscal year 2016, the System expended \$1,149,304 in total on the various sewer improvement and water distribution projects. These projects will begin to be depreciated upon completion.

(i) Claims and judgments: These events and obligations are recorded on the accrual basis when the event occurs and the obligation arises.

**CITY OF CENTRAL CITY, KENTUCKY**  
**MUNICIPAL WATER AND SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(j) Revenues and Rate Structure: Operating revenues consist of income from water and sewer services and are recognized on the accrual basis as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage. Non-operating income is defined in the bond ordinances and includes such items as sale of assets and insurance proceeds.

(k) Special and Extraordinary Items: Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. If such items exist during the reporting period, they are reported separately in the statement of revenues, expenses and changes in net position.

(l) Net Position: Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other net position not included in the above categories. It is the System's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

(m) Compensated Absences: Compensated absences reflected on the balance sheet represent the amount that the system expects to pay in wages within the next year for employee sick leave accrued and employee vacation leave.

**NOTE 3: DEPOSITS AND INVESTMENTS**

Deposits consist of cash in checking or saving accounts and investments, which consists solely of Certificates of Deposit. All funds were held in a federally insured depository. The present method of pledging collateral consists of placing government securities in safekeeping with a corresponding bank, with the safekeeping receipt being issued in the name of the Municipal Water and Sewer System.

The following reconciles deposits and investments to cash and cash equivalents, and investments, as presented in the balance sheet:

Disclosures regarding deposits and investments

Cash on hand	\$ 292
Deposits	3,916,815
Investments	525,332
Total	<u>\$ 4,442,439</u>

Balance sheet and cash flow statement amounts

Cash and cash equivalents:	
Unrestricted	\$ 1,545,152
Restricted	2,897,287
Total cash and cash equivalents	<u>\$ 4,442,439</u>

**CITY OF CENTRAL CITY, KENTUCKY**  
**MUNICIPAL WATER AND SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 3: DEPOSITS AND INVESTMENTS (Continued)**

At June 30, 2016, the reported amount of the System's deposits was \$4,442,147 and the bank balance was \$4,901,186. Of the bank balance \$628,395 was covered by federal depository insurance. Another \$4,091,306 was covered by governmental securities pledged as collateral by the pledging institution held in the System's name. The remaining \$181,485 was uninsured and uncollateralized as of June 30, 2016 subjecting it to custodial credit risk, which is the risk that in the event of a failure the System's deposits may not be returned to it.

**NOTE 4: BONDS, NOTES & INTEREST PAYABLE**

***Revenue Bonds***

On March 29, 2013, the System issued \$14,450,000 United States Department of Agriculture Rural Development Water and Sewer Revenue Bonds, Series 2012A and 2012B for the purpose of funding expansion of the water treatment plant. Interest payments are based on the coupon rate of 2.5%. Principal and interest payments shall continue through maturity in 2052. The outstanding balance as of June 30, 2016 was \$14,257,500.

In June 2014, the System issued \$1,950,000 United States Department of Agriculture Rural Development Water and Sewer Revenue Bonds, Series 2014 for the purpose of funding construction of a water tank. Bond principal repayment will not begin until 2017; however, interest payments began in 2015 at a coupon rate of 2.5%. Principal and interest payments shall continue through maturity in 2054.

Assuming no bonds are called prior to maturity, the minimum obligations of the System for each of the next five years, and subsequent years, for debt services (principal and interest) of the 2012A, 2012B and 2014 bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	237,500	400,200	637,700
2018	245,000	394,262	639,262
2019	243,500	388,138	631,638
2020	261,500	382,050	643,550
2021	269,500	375,512	645,012
2022-2026	1,486,500	1,771,925	3,258,425
2027-2031	1,746,500	1,573,563	3,320,063
2032-2036	2,052,000	1,340,462	3,392,462
2037-2041	2,410,000	1,066,638	3,476,638
2042-2046	2,842,500	744,187	3,586,687
2047-2051	3,328,500	365,663	3,694,163
2052-2054	885,000	27,950	912,950
Totals	<u>\$ 16,008,000</u>	<u>\$ 8,830,550</u>	<u>\$ 24,838,550</u>

***KRWFC Loan***

In June 2013, the System borrowed \$895,000, payable over 16 years, from the Kentucky Rural Water Finance Corporation bearing an interest rate between 2.3% and 4.3%. The principal balance on the loan as of June 30, 2016 was \$800,000.

**CITY OF CENTRAL CITY, KENTUCKY**  
**MUNICIPAL WATER AND SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 5: BONDS, NOTES & INTEREST PAYABLE (Continued)**

Assuming no early extinguishment of debt prior to maturity, the minimum obligations of the System for each of the next five years, and subsequent years, for debt service related to these loans are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	50,000	31,575	81,575
2018	50,000	29,675	79,675
2019	50,000	27,525	77,525
2020	55,000	25,268	80,268
2021	55,000	22,902	77,902
2022-2026	320,000	75,275	395,275
2027-2029	<u>220,000</u>	<u>11,405</u>	<u>231,405</u>
Totals	<u>\$ 800,000</u>	<u>\$ 223,625</u>	<u>\$ 1,023,625</u>

***Construction Interim Financing Loan***

In January 2016, the System renewed its construction interim financing agreement with the bank for \$5,595,000, net of reissuance premiums of \$16,617. Bond reissuance premium and discount will be amortized through maturity. Interest is payable semiannually at 1.25%. The loan will mature on February 1, 2018. The System anticipates renewing the loan upon maturity.

**NOTE 6: RESTRICTED ASSETS**

The System considers the following accounts and funds to be restricted for the purpose of funding construction on the water and sewer plants as well as servicing debt requirements.

(a) Revenue Fund: All cash revenues of the System are to be deposited in this fund as received, except those items of revenue deposited directly to the Depreciation Fund as noted in paragraph (d).

(b) Maintenance and Operation Fund: Necessary and reasonable costs of maintaining and operating the System will be paid from this fund. Monthly deposits shall be made to this fund from the Revenue Fund in sums equal to the anticipated expenses of maintaining and operating the System for the next ensuing month and to make up any deficit incurred in the preceding month.

(c) Bond Interest and Redemption Fund: Monies deposited in this fund shall be used, disbursed, and applied, and are irrevocably pledged, solely for the purpose of paying the principal and interest on outstanding bonds. Monthly transfers totaling \$665,000 were made from the Revenue Fund.

(d) Depreciation Fund: Transfers from the Revenue Fund to the Depreciation Fund totaled \$47,424 for 2016. This fund shall be used for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals, or replacements but only upon written recommendation of a consulting engineer. Other deposits to this fund shall consist of connection fees or charges as may be exacted from users of the System, the proceeds of all property damage insurance (except public liability) and the cash proceeds resulting from the sale of any worn out or obsolescent properties.

**CITY OF CENTRAL CITY, KENTUCKY**  
**MUNICIPAL WATER AND SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6: RESTRICTED ASSETS (Continued)**

(e) Improvement Fund: Transfers from the Revenue Fund to the Improvement fund totaled \$47,424 for 2016. Such sums shall be available for the purpose of constructing additions, extensions and improvements (other than capital replacements to be made by recourse to the Depreciation Fund as heretofore provided), which, as certified by a consulting engineer, will enhance or increase the revenue-producing capacity of the System or provide a higher degree of service. Such sums may also be transferred to the Bond Interest and Redemption Fund, Maintenance and Operation Fund, or Depreciation Fund.

(f) Construction Fund: The System established the Construction Fund in order to properly account for the grant and loan income and related expenditures as they relate to the construction of the water and sewer plant. All cash maintained in the Construction Fund checking account are restricted for future construction on the system.

The restricted assets as of June 30, 2016 were as follows:

Summary of Restricted Assets

Depreciation Fund (Cash and cash equivalents)	\$ 339,004
Improvement Fund (Cash and cash equivalents)	279,520
Construction Fund (Cash and cash equivalents)	1,751,100
Construction Trust Account (Cash and cash equivalents)	58,481
Bond Interest and Redemption Fund (Cash and cash equivalents)	<u>469,182</u>
Total Assets Restricted by Bond Ordinances	2,897,287
Less: Current Portion of Long-Term Debt	<u>(287,500)</u>
Total Restricted Net Position	<u>\$2,609,787</u>

**NOTE 7: PENDING LITIGATION**

As of June 30, 2016, there were no pending legal actions.

**NOTE 8: PENSION PLAN**

Plan Description

The System participates in the County Employee's Retirement System (CERS), a cost sharing multiple-employer, defined benefit pension plan that covers substantially all regular, full-time members employed in both hazardous and non-hazardous duty position of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living adjustments (COLA) are provided at the discretion of State legislature.

The Board of Trustees of the Kentucky Retirement Systems administers the CERS, as well as various other pension plans. As such, the Kentucky Retirement Systems issues its own financial reports for each of the pension plans it administers. A copy of the financial reports may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601. The latest financial reports available are for the year ending June 30, 2015.

**CITY OF CENTRAL CITY, KENTUCKY**  
**MUNICIPAL WATER AND SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 8: PENSION PLAN (Continued)**

Contributions

For the years ended June 30, 2016 and 2015, grandfathered plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 were required to contribute 6% of wages for non-hazardous job classifications. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the years ended June 30, 2016 and 2015, participating employers contributed 17.06% and 17.67% respectively, of each employee's wages, which is equal to the actuarially determined rate set by the Board. Of these rates, for 2016 the pension plan portion was 12.42% and the insurance fund portion was 4.64%. For 2015 and 2016 the pension plan portion was 12.75% and the insurance fund portion was 4.92%. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The System's payroll for employees covered under CERS for the year ended June 30, 2016, 2015 and 2014 was \$835,863, \$793,926, and \$770,899 respectively resulting in employer contributions to the pension plan of \$142,601, \$100,190, and \$105,724.

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

At June 30, 2016, the System reported a liability of \$1,458,275 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The System's proportion of the net pension liability was based on a projection of the System's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the System's proportion was .033917 percent, which was an increase of 0.0006 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the System recognized pension expense of \$231,668.

At June 30, 2016, the System reported deferred outflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>
Net difference between projected and actual earnings on Plan investments	\$ 13,072
Differences between expected and actual results	12,119
Change in assumptions	147,051
Changes in proportion and differences between employer contributions and proportionate share of contributions	15,395
System contributions subsequent to the measurement date	103,816
Total	<u>\$ 291,453</u>

**CITY OF CENTRAL CITY, KENTUCKY**  
**MUNICIPAL WATER AND SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 8: PENSION PLAN (Continued)**

The \$100,190 of deferred outflows of resources resulting from the System's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources will be recognized in pension expense as follows:

<b>Year ending June 30,</b>	
2017	\$ 66,766
2018	66,766
2019	32,687
2020	21,418

**Actuarial Assumptions**

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

**Discount Rate** – the discount rate used to measure the total pension liability was 7.50%.

**Projected Cash Flows** – the projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

**Long Term Rate of Return** – the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment

**CITY OF CENTRAL CITY, KENTUCKY**  
**MUNICIPAL WATER AND SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 8: PENSION PLAN (Continued)**

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.

Municipal Bond Rate – the discount rate determination does not use a municipal bond rate.

Periods of Projected Benefit Payments – projected future benefit payments for all current plan members were projected through 2117.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
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	2	(.25)
Total	<u>100 %</u>	

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

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

	<b>Discount rate</b>	<b>System's proportionate share of net pension liability</b>
1% decrease	6.50%	\$ 1,861,672
Current discount rate	7.50%	\$ 1,458,275
1% increase	8.50%	\$ 1,112,806



**CITY OF CENTRAL CITY, KENTUCKY**  
**MUNICIPAL WATER AND SEWER SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 8: PENSION PLAN (Continued)**

Payable to CERS

At June 30, 2016, the System reported a payable of \$11,138 for the outstanding amount of contributions due to CERS for the year.

**NOTE 9: RISK MANAGEMENT**

The Municipal Water and Sewer System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the System also carries commercial insurance for a variety of other risks of loss such as workers' compensation and employee health insurance. Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past five fiscal years.

**NOTE 10: TRANSFERS**

Transfers between the funds are eliminated in the financial statements. The following transfers were made during the year:

Transfers In:

Depreciation Fund	\$ 47,424
Bond Interest and Redemption Fund	665,000
Improvement Fund	<u>47,424</u>
Subtotal	<u>759,848</u>

Transfers Out:

Revenue Fund	( 776,771)
Net Transfers	<u><u>\$ ( 16,923)</u></u>

**NOTE 11: MAJOR CUSTOMERS**

Revenues from the two largest customers represent approximately 55% of operating revenues for the current fiscal year. These two customers are water districts in Muhlenberg County providing water to a combined 8,047 individual customers. The Muhlenberg County Water District and the Muhlenberg County Water District #3 are contractually obligated to receive water services from the System until June 30, 2063.

**NOTE 13: RELATED PARTY TRANSACTIONS**

The System leases office space from the City of Central City, Kentucky for \$6,000 per month.

**NOTE 14: SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 21, 2016, the date which financial statements were available to be issued.

**CITY OF CENTRAL CITY, KENTUCKY**  
**MUNICIPAL WATER AND SEWER SYSTEM**  
**SCHEDULE OF BUDGET AND ACTUAL OPERATING REVENUES AND EXPENSES**  
**SCHEDULE I**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>		
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>BUDGETARY</u>	<u>BUDGET</u>	
	<u>BUDGET</u>	<u>BUDGET</u>	<u>BASIS</u>	<u>TO GAAP</u>	<u>GAAP BASIS</u>
				<u>DIFFERENCE</u>	
<b>Operating Revenues</b>					
<b>Charges for Service</b>					
<b>Water</b>					
Domestic	\$ 760,000	\$ 760,000	\$ 749,554	\$ 12,800	\$ 762,354
County District	1,270,000	1,270,000	1,180,411	-	1,180,411
County District #3	714,442	714,442	728,794	-	728,794
Penalties	14,100	14,100	12,875	-	12,875
Allowances	(7,300)	(7,300)	(5,620)	-	(5,620)
Services charges and sales	3,600	3,600	11,509	-	11,509
<b>Total water sales</b>	<b>2,754,842</b>	<b>2,754,842</b>	<b>2,677,523</b>	<b>12,800</b>	<b>2,690,323</b>
<b>Sewer</b>					
Metered sewer charges	600,000	600,000	687,475	22,841	710,316
Penalties	9,900	9,900	10,536	-	10,536
Allowances	(5,200)	(5,200)	(6,624)	-	(6,624)
Services charges and sales	1,600	1,600	2,191	-	2,191
Grinder pump principal	9,500	9,500	1,533	(1,533)	-
Grinder pump sales	10,000	10,000	55,500	2,000	57,500
<b>Total sewer charges</b>	<b>625,800</b>	<b>625,800</b>	<b>750,611</b>	<b>23,308</b>	<b>773,919</b>
<b>Total Charges For Service</b>	<b>3,380,642</b>	<b>3,380,642</b>	<b>3,428,134</b>	<b>36,108</b>	<b>3,464,242</b>
<b>Miscellaneous Revenues</b>					
Miscellaneous-Water	16,500	16,500	4,173	-	4,173
Miscellaneous-Sewer	-	-	34,016	-	34,016
Insurance proceeds	-	-	-	-	-
Bad debts paid	300	300	847	-	847
<b>Total Miscellaneous Revenues</b>	<b>16,800</b>	<b>16,800</b>	<b>39,036</b>	<b>-</b>	<b>39,036</b>
<b>Total Operating Revenues</b>	<b>3,397,442</b>	<b>3,397,442</b>	<b>3,467,170</b>	<b>36,108</b>	<b>3,503,278</b>
<b>Operating Expenses</b>					
<b>Water Plant Operation</b>					
Labor	306,000	306,000	379,679	-	379,679
Supplies	61,000	61,000	53,290	(50)	53,240
Repair & maintenance	14,500	14,500	37,873	(16,608)	21,265
Chemicals	450,000	450,000	324,707	8,411	333,118
<b>Total Water Plant Operation</b>	<b>831,500</b>	<b>831,500</b>	<b>795,549</b>	<b>(8,247)</b>	<b>787,302</b>
<b>Sewer Plant Operation</b>					
Labor	140,000	140,000	131,603	3,566	135,169
Supplies	35,000	35,000	62,496	(1,451)	61,045
Repair & maintenance	30,000	30,000	27,395	4,551	31,946
Gas and Oil	1,500	1,500	1,074	97	1,171
<b>Total Sewer Plant Operation</b>	<b>206,500</b>	<b>206,500</b>	<b>222,568</b>	<b>6,763</b>	<b>229,331</b>
<b>Water Distribution</b>					
Labor - water lines	245,000	245,000	236,107	983	237,090
Repairs & maintenance	8,000	8,000	16,091	(38)	16,053
Equipment maintenance	3,600	3,600	8,268	175	8,443
Parts & supplies	120,000	120,000	107,848	(3,630)	104,218
Gas and Oil	24,000	24,000	17,387	309	17,696
Meters	5,000	5,000	5,276	-	5,276
Miscellaneous expense	11,000	11,000	1,160	123	1,283
<b>Total Water Distribution</b>	<b>416,600</b>	<b>416,600</b>	<b>392,137</b>	<b>(2,078)</b>	<b>390,059</b>
<b>Sewer Collection</b>					
Repairs & maintenance	400	400	27,243	-	27,243
Grinder pumps	36,000	36,000	46,974	-	46,974
<b>Total Sewer Collection</b>	<b>36,400</b>	<b>36,400</b>	<b>74,217</b>	<b>-</b>	<b>74,217</b>

**CITY OF CENTRAL CITY, KENTUCKY**  
**MUNICIPAL WATER AND SEWER SYSTEM**  
**SCHEDULE OF BUDGET AND ACTUAL OPERATING REVENUES AND EXPENSES**  
**SCHEDULE I**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>		
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>BUDGETARY</u>	<u>BUDGET</u>	
	<u>BUDGET</u>	<u>BUDGET</u>	<u>BASIS</u>	<u>TO GAAP</u>	<u>GAAP BASIS</u>
				<u>DIFFERENCE</u>	
<b>General &amp; Administrative Expenses</b>					
<b>Water</b>					
Office salaries	61,200	61,200	60,603	(1,003)	59,600
Office supplies	15,000	15,000	17,737	(840)	16,897
Office rent	43,200	43,200	43,200	-	43,200
Municipal insurance	66,000	66,000	43,661	(448)	43,213
Workman's Comp. insurance	27,000	27,000	33,637	-	33,637
Health Insurance	45,000	45,000	61,570	(14,395)	47,175
Dental Insurance	1,500	1,500	1,466	-	1,466
Employee paid health & dental	12,000	12,000	-	-	-
Payroll taxes	36,000	36,000	33,771	1,680	35,451
Commission salaries	3,600	3,600	3,600	-	3,600
Bad debts	1,500	1,500	2,291	-	2,291
Building maintenance	6,000	6,000	8,572	-	8,572
Legal & accounting	480	480	416	-	416
Engineering expense	-	-	900	-	900
Utilities	196,200	196,200	206,015	(2,698)	203,317
Pension expense	84,000	84,000	87,680	51,321	139,001
Uniforms	9,000	9,000	8,100	(242)	7,858
Audit expense	8,880	8,880	6,840	-	6,840
Bank Fees	2,880	2,880	4,908	-	4,908
Miscellaneous expense	15,000	15,000	11,674	(738)	10,936
Paving	15,000	15,000	-	-	-
Mortgage Payment	10,800	10,800	-	-	-
Total General & Administrative Expenses - Water	660,240	660,240	636,641	32,637	669,278
<b>Sewer</b>					
Office salaries	40,800	40,800	40,402	(669)	39,733
Office supplies	10,000	10,000	11,948	(560)	11,388
Office rent	28,800	28,800	28,800	-	28,800
Municipal insurance	44,000	44,000	29,107	(298)	28,809
Workman's Comp. insurance	18,000	18,000	22,425	-	22,425
Health Insurance	30,000	30,000	41,046	(9,596)	31,450
Dental Insurance	1,000	1,000	977	-	977
Employee paid health & dental	8,000	8,000	-	-	-
Payroll taxes	24,000	24,000	22,514	1,120	23,634
Commission salaries	2,400	2,400	2,400	-	2,400
Bad debts	2,000	2,000	3,579	-	3,579
Building maintenance	4,000	4,000	5,715	-	5,715
Legal & accounting	320	320	-	-	-
Engineering expense	-	-	600	-	600
Utilities	130,800	130,800	137,344	(1,802)	135,542
Pension expense	56,000	56,000	58,453	34,214	92,667
Grinder pump expense	2,500	2,500	12,299	(6,831)	5,468
Uniforms	6,000	6,000	5,400	(161)	5,239
Audit expense	5,920	5,920	4,560	-	4,560
Bank Fees	1,920	1,920	3,647	-	3,647
Paving	10,000	10,000	-	-	-
Mortgage Payment	7,200	7,200	16,923	(16,923)	-
Miscellaneous expense	10,000	10,000	7,783	(490)	7,293
Total General & Administrative Expenses - Sewer	443,660	443,660	455,922	(1,996)	453,926

**CITY OF CENTRAL CITY, KENTUCKY**  
**MUNICIPAL WATER AND SEWER SYSTEM**  
**SCHEDULE OF BUDGET AND ACTUAL OPERATING REVENUES AND EXPENSES**  
**SCHEDULE I**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>BUDGETED AMOUNTS</u>			<u>ACTUAL AMOUNTS</u>	
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>BUDGETARY</u>	<u>BUDGET</u>	
	<u>BUDGET</u>	<u>BUDGET</u>	<u>BASIS</u>	<u>TO GAAP</u>	<u>GAAP BASIS</u>
Depreciation			-	1,130,488	1,130,488
Total operating expenses	2,594,900	2,594,900	2,577,034	1,157,567	3,734,601
Total operating income (loss)	802,542	802,542	890,136	(1,121,459)	(231,323)
<b>Nonoperating Revenues (Expenses)</b>					
Interest income	2,300	2,300	7,985	100	8,085
Interest expense			-	(432,255)	(432,255)
Acquisition of equipment	(45,000)	(45,000)	(420,237)	420,237	-
Insurance proceeds			11,004	-	11,004
National Guard expansion project cancellation			-	(64,000)	(64,000)
Capital grant income			-	1,015,856	1,015,856
Total nonoperating revenue (expenses)	(42,700)	(42,700)	(401,248)	939,938	538,690
Income (loss) before transfers	759,842	759,842	488,888	(181,521)	307,367
<b>Transfers In</b>	2,545,000	2,545,000	759,848	-	759,848
<b>Transfers Out</b>	(3,304,842)	(3,304,842)	(759,848)	(16,923)	(776,771)
Increase in Net assets	-	-	488,888	(198,444)	290,444
Total Net Position - Beginning	-	-	8,838,691	-	8,838,691
Total Net Position - Ending	\$ -	\$ -	9,327,579	\$ (198,444)	9,129,135

**Explanation of differences:**

(1) The Municipal Water and Sewer System budgets for income and expenses only to the extent that these are expected to be received or paid, rather than on the accrual basis.	\$ (7,794)
(2) The Municipal Water and Sewer System does not budget for depreciation expense.	(1,130,488)
(3) For budgetary purposes, the Municipal water & Sewer System records capital expenditures as expenses ; capital grants are not included in income; loss on disposal of assets are not included in expenses	1,372,093
(4) For budgetary purposes, the Municipal Water & Sewer System does not record loan payments as expenses	(432,255)
<b>Net Change in Net Assets</b>	<u>\$ (198,444)</u>

**CITY OF CENTRAL CITY, KENTUCKY  
MUNICIPAL WATER AND SEWER SYSTEM  
PENSION RELATED REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE II  
JUNE 30, 2016**

**Schedule of the System's Proportionate Share of the Net Pension Liability  
CERS  
Last 3 Fiscal Years**

Year Ended June 30	System's proportion of the net pension liability	System's proportionate share of the net pension liability (asset)	System's covered employee payroll	System's share of the net pension liability (asset) as a percentage of its covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2014	0.033256%	\$ 1,220,855	\$ 770,899	158.37%	66.80%
2015	0.033319%	\$ 1,081,145	\$ 783,926	137.91%	59.97%
2016	0.033917%	\$ 1,458,275	\$ 835,863	174.46%	—

**Schedule of the System's Contributions  
CERS  
Last 4 Fiscal Years**

Year Ended June 30	Contractually required contribution	Contributions relative to contractually required contribution	Contribution deficiency (excess)	System's covered employee payroll	Contributions as a percentage of covered-employee payroll
2013	\$ 89,332	\$ 89,332	\$ —	\$ 707,858	12.62%
2014	\$ 105,724	\$ 105,724	\$ —	\$ 770,899	13.71%
2015	\$ 100,190	\$ 100,190	\$ —	\$ 783,926	12.78%
2016	\$ 103,816	\$ 103,816	\$ —	\$ 835,863	12.42%

**Notes to Required Supplementary Information  
for the Year Ended June 30, 2016**

Changes of Benefit Terms – the plan had no changes in benefit terms since the previous valuation.

Changes in Assumptions – The plans rate of investment return assumption was changed from 7.75% to 7.5% since the previous valuation. In addition, the inflation rate decreased from 3.5% to 3.25% and the projected salary increase rate decreased from 4.5% to 4.0%.

Required supplementary information for contributions should be presented for a maximum of ten years. As of June 30, 2016, only three years of data concerning the System's proportionate share of net pension liability were readily available. In addition, only four years of data concerning the System's contributions were readily available.



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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 Water Board  
City of Central City, Municipal Water & Sewer System  
Central City, 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 business-type activities of the City of Central City, Municipal Water & Sewer System, a component unit of the City of Central City, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Central City, Municipal Water & Sewer System's basic financial statements, and have issued our report thereon dated October 21, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Central City, Municipal Water & Sewer System'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 Central City, Municipal Water & Sewer System's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Central City, Municipal Water & Sewer System'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 Central City, Municipal Water & Sewer System'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.



Goldston, Pate & Company, CPAs, Inc.

Central City, Kentucky

October 21, 2016