

**CITY OF OLIVE HILL, KENTUCKY**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2016**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**

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**K**elley **G**alloway  
**S**mith **G**oolsby, PSC

Certified Public Accountants and Advisors

1200 Corporate Court • P. O. Box 990 • Ashland, Kentucky 41105

• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590

• Web [www.kgsgcpa.com](http://www.kgsgcpa.com) Member of **Allinial** GLOBAL.

## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and  
City Council  
City of Olive Hill  
Olive Hill, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Olive Hill, Kentucky (the City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### 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, and each major fund of the City of Olive Hill, Kentucky as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, and the Special Revenue Fund – Municipal Road Aid for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 4 through 7, and the Schedule of City's Proportionate Share of the Net Pension Liability and the Schedule of Pension Contributions on pages 32 through 34 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 supplemental 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 January 13, 2017, on our consideration of the City of Olive Hill, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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.

*Kelley Holloway Smith Hooley, PSC*

Ashland, Kentucky  
January 13, 2017

**City of Olive Hill, Kentucky  
Management's Discussion and Analysis  
Year Ended June 30, 2016**

The discussion and analysis of the City of Olive Hill, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2016. This information is presented in conjunction with the audited financial statements that follow this section.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the Government exceeded its liabilities and deferred inflows of resources at the end of the fiscal year by \$11,971,269 (net position). Governmental activities' unrestricted net position was \$(26,414) and is used to meet the Government's ongoing obligations. Business-type activities' unrestricted net position was \$44,542.
- The Government's total net position decreased by \$6,372. Net position of governmental activities decreased by \$32,280 and net position of business-type activities increased by \$25,908.
- At June 30, 2016, the governmental activities had \$2,280,107 in assets and deferred outflows of resources and \$754,856 in liabilities and deferred inflows of resources. Business-type activities had \$13,454,270 in assets and deferred outflows of resources and \$3,008,252 in liabilities and deferred inflows of resources.
- Under GASB 68, the source of the pension liabilities with which the City's employees are covered is the Kentucky County Employee Retirement System. Under this system the City's share of the pension liabilities was \$1,521,681, as of June 30, 2015. The City does not believe these disclosures will have a major impact on their day to day operations or the financial health of the City.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private - sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include public safety, public works, and recreation. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8-9 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The fund financial statements can be found on pages 10-18 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-31 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$11,971,269 at the close of the most recent fiscal year. The City's net position decreased 0.2% percent which is reported as the change in net position in the statement of activities.

### City of Olive Hill, Kentucky's Net Position

	<u>Government- type Activities</u> 2016	<u>Business-type Activities</u> 2016	<u>Government- type Activities</u> 2015	<u>Business-type Activities</u> 2015
Current assets	\$ 382,040	\$ 1,642,465	\$ 356,111	\$ 1,888,675
Capital assets	1,777,373	11,639,172	1,792,548	11,967,528
Total assets	<u>2,159,413</u>	<u>13,281,637</u>	<u>2,148,659</u>	<u>13,856,203</u>
Deferred Outflows	120,694	172,633	47,003	104,981
Current liabilities	85,781	714,063	103,338	1,272,108
Long-term liabilities	662,543	2,284,845	497,771	2,175,988
Total liabilities	<u>748,324</u>	<u>2,998,908</u>	<u>601,109</u>	<u>3,448,096</u>
Deferred Inflows	6,532	9,344	37,022	92,978
Net position:				
Investment in capital assets	1,551,665	10,197,476	1,585,790	10,446,422
Restricted	-	204,000	-	204,000
Unrestricted	(26,414)	44,542	(28,259)	(230,312)
Total net position	<u>\$ 1,525,251</u>	<u>\$ 10,446,018</u>	<u>\$ 1,557,531</u>	<u>\$ 10,420,110</u>

By far the largest portion of the City net position reflects its investment in capital assets (e.g., land, utility plants, buildings, machinery and equipment), less any related debt used to acquire those assets still outstanding. The City uses these capital assets to provide services to citizens and consumers; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate those liabilities.

The following table presents a summary of revenue and expense on a government-wide basis for the fiscal year June 30, 2016 and 2015, respectively.

	<u>Government- type Activities</u> 2016	<u>Business-type Activities</u> 2016	<u>Government- type Activities</u> 2015	<u>Business-type Activities</u> 2015
Revenues:				
Charges for services	\$ -	\$ 4,974,277	\$ -	\$ 4,771,794
Tax levies	240,807	-	257,455	-
Occupational licenses	107,729	-	92,340	-
Licenses, fees and permits	6,600	-	8,550	-
Franchise fees	52,740	-	55,702	-
Grants/contributions	153,007	94,887	492,725	143,696
Rental income	85,315	-	89,213	-
Alcohol fees	83,028	-	51,410	-
Coal and mine severance	11,433	-	11,990	-
Interest income	104	482	127	606
Miscellaneous	71,383	-	29,291	-
Sanitation residual equity transfer	21,793	(21,793)	54,719	(54,719)
Transfers	-	-	-	-
Total revenues	<u>833,939</u>	<u>5,047,853</u>	<u>1,143,522</u>	<u>4,861,377</u>
Expenses:				
General government	87,668	-	47,146	-
Fire	106,826	-	98,878	-
Police	460,324	-	428,504	-
Highways and streets	76,927	-	121,906	-
Recreation	20,232	-	20,953	-
Community development	20,957	-	374,762	-
Library	18,000	-	18,000	-
Senior Center	12,817	-	12,817	-
Interest on debt	62,468	-	37,718	-
Utilities	-	5,021,945	-	5,495,150
Total expenses	<u>866,219</u>	<u>5,021,945</u>	<u>1,160,684</u>	<u>5,495,150</u>
Change in net position	<u>\$ (32,280)</u>	<u>\$ 25,908</u>	<u>\$ (17,162)</u>	<u>\$ (633,773)</u>

**Government-type activity.** Government-type activity net position decreased by \$32,280 or 2.1%.

**Business-type activity.** Business-type activity net position increased by \$25,908 or 0.2%.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the Government's operations in more detail than the government-wide statements by providing information about the Government's most significant funds. Two types of funds are presented in the fund financial statements: governmental funds and proprietary funds.

**Governmental funds.** Most of the Government's basic services are reported in the governmental funds. These statements provide a short-term view of general government operations and how these services are financed as well as the balances left at year end that are available for future spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash.

**Proprietary funds.** The City's proprietary fund provides the same type of information found in government-wide financial statements, but in more detail.

**Enterprise fund.** The Utility Enterprise Fund accounts for operations in a manner similar to a private business enterprise. Operations are accounted for in such a manner as to show net income or loss and the funds are intended to be predominately self supported from user charges.

### **Capital Assets**

The City's investment in capital assets for governmental and business-type activities as of June 30, 2016, amounts to \$13,416,545 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment. The increase in the City's investment in capital assets for the current year was 1.1% percent, before current depreciation.

The main capital asset event during the current fiscal year was the trade in of an existing sanitation truck for a new one and the purchase of radio read meters.

Additional information on the City's capital assets can be found in Note (5) of the financial statements.

### **Debt Administration**

At the end of the current fiscal year, the City had total debt outstanding of \$1,667,404. This is a decrease of \$60,460. Additional information on the City's long-term debt can be found in Note (6) of the financial statements.

### **Budget Comparisons**

- General fund revenues were \$35,864 more than budgeted primarily due to alcohol revenue. General fund expenditures were \$21,801 less than budgeted.
- Special revenue fund - Municipal Road Aid revenues were \$45,633 less than budgeted. Expenditures were \$29,513 less than budgeted.

### **ECONOMIC FACTORS AND NEXT YEAR'S RATES**

In considering the City budget for the fiscal year 2017, the City expects no significant changes, except for additional occupational license fees and alcohol license fees revenues. In addition, utility rates will be re-evaluated due to increased costs.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide citizens, customers, investors, and creditors, with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Kenny Fankell, Mayor or Angela Owens, City Clerk at 225 Roger Patton Dr., Olive Hill, Kentucky 41164 or phone (606) 286-5532.



**CITY OF OLIVE HILL, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 248,372	\$ 499,767	\$ 748,139
Accounts receivable:			
Unbilled receivables	-	136,569	136,569
Customers	-	682,254	682,254
Property taxes	50,770	-	50,770
Grants	-	-	-
Interest	-	153	153
Other	127,137	-	127,137
Allowance for doubtful accounts	(46,916)	(283,634)	(330,550)
Inventory for supplies	2,677	239,916	242,593
Investments - certificates of deposit	-	163,440	163,440
Restricted assets -			
Investments - certificates of deposit	-	204,000	204,000
Nondepreciable capital assets	521,337	10,278	531,615
Depreciable capital assets	3,018,668	21,417,975	24,436,643
Accumulated depreciation	(1,762,632)	(9,789,081)	(11,551,713)
<b>Total assets</b>	<b>2,159,413</b>	<b>13,281,637</b>	<b>15,441,050</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - pension related	120,694	172,633	293,327
<b>Total deferred outflows of resources</b>	<b>120,694</b>	<b>172,633</b>	<b>293,327</b>
<b>LIABILITIES</b>			
Accounts payable	17,446	211,165	228,611
Accrued wages	5,391	9,753	15,144
Other accrued liabilities	6,500	47,189	53,689
Current portion of long-term debt	55,288	233,421	288,709
Customer deposits	-	204,919	204,919
Accrued interest payable	1,156	7,616	8,772
Compensated absences, long-term	13,967	33,045	47,012
Net pension liability	478,156	1,043,525	1,521,681
Long-term debt, net of current portion	170,420	1,208,275	1,378,695
<b>Total liabilities</b>	<b>748,324</b>	<b>2,998,908</b>	<b>3,747,232</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred changes in proportionate share of liability	6,532	9,344	15,876
<b>Total deferred inflows of resources</b>	<b>6,532</b>	<b>9,344</b>	<b>15,876</b>
<b>NET POSITION</b>			
Net investment in capital assets	1,551,665	10,197,476	11,749,141
Restricted	-	204,000	204,000
Unrestricted	(26,414)	44,542	18,128
<b>Total net position</b>	<b>\$ 1,525,251</b>	<b>\$ 10,446,018</b>	<b>\$ 11,971,269</b>

The accompanying notes to financial statements  
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General government	\$ 87,668	\$ -	\$ 11,378	\$ -	\$ (76,290)	\$ -	\$ (76,290)
Fire	106,826	-	28,546	-	(78,280)	-	(78,280)
Police	460,324	-	-	-	(460,324)	-	(460,324)
Highways and streets	76,927	-	31,425	-	(45,502)	-	(45,502)
Community development	20,957	-	81,658	-	60,701	-	60,701
Recreation	20,232	-	-	-	(20,232)	-	(20,232)
Library	18,000	-	-	-	(18,000)	-	(18,000)
Senior center	12,817	-	-	-	(12,817)	-	(12,817)
Interest on debt	62,468	-	-	-	(62,468)	-	(62,468)
Total governmental activities	866,219	-	153,007	-	(713,212)	-	(713,212)
<b>Business-Type Activities</b>							
Utility fund	5,021,945	4,974,277	-	94,887	-	47,219	47,219
Total business-type activities	5,021,945	4,974,277	-	94,887	-	47,219	47,219
Total primary government	\$ 5,888,164	\$ 4,974,277	\$ 153,007	\$ 94,887	\$ (713,212)	\$ 47,219	\$ (665,993)
<b>General Revenues:</b>							
Property and other local taxes					\$ 240,807	\$ -	\$ 240,807
Occupational licenses					107,729	-	107,729
Franchise fees					52,740	-	52,740
Rent income					85,315	-	85,315
Licenses, fees and permits					6,600	-	6,600
Alcohol fees					83,028	-	83,028
Coal and mine severance					11,433	-	11,433
Other revenues					71,383	-	71,383
Interest income					104	482	586
Sanitation residual equity transfer					21,793	(21,793)	-
Transfers					-	-	-
Total general revenues and transfers					680,932	(21,311)	659,621
Change in net position					(32,280)	25,908	(6,372)
Net position, June 30, 2015					1,557,531	10,420,110	11,977,641
Net position, June 30, 2016					\$ 1,525,251	\$ 10,446,018	\$ 11,971,269

The accompanying notes to financial statements  
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

	General	Municipal Road Aid	Total Governmental Funds
<b>Assets</b>			
Cash	\$ 218,858	\$ 29,514	\$ 248,372
Taxes receivable	50,770	-	50,770
Allowance for doubtful accounts	(46,916)	-	(46,916)
Grant receivable	-	-	-
Other receivables	127,137	-	127,137
Inventory for supplies	2,677	-	2,677
<b>Total assets</b>	<b>\$ 352,526</b>	<b>\$ 29,514</b>	<b>\$ 382,040</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 17,446	\$ -	\$ 17,446
Accrued wages	5,391	-	5,391
Accrued interest payable	1,156	-	1,156
Other accrued liabilities	6,500	-	6,500
<b>Total liabilities</b>	<b>30,493</b>	<b>-</b>	<b>30,493</b>
<b>Fund Balances:</b>			
Nonspendable	2,677	-	2,677
Assigned	-	29,514	29,514
Unassigned	319,356	-	319,356
<b>Total fund balances</b>	<b>322,033</b>	<b>29,514</b>	<b>351,547</b>
<b>Total liabilities and fund balances</b>	<b>\$ 352,526</b>	<b>\$ 29,514</b>	<b>\$ 382,040</b>

The accompanying notes to financial statements  
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

Total fund balance - Governmental Funds	\$	351,547
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets of \$3,540,005 net of accumulated depreciation of \$1,762,632 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		1,777,373
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred differences in pension experience		5,203
Deferred changes in pension assumptions		63,138
Deferred pension investment earnings		5,612
Deferred changes in proportionate share of liability		(6,532)
Deferred pension contributions		46,741

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.

Net pension liabilities		(478,156)
Long-term debt		(225,708)
Compensated absences		(13,967)

Net position, end of year - Governmental Activities	\$	<u>1,525,251</u>
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The accompanying notes to financial statement  
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	General	Municipal Road Aid	Total Governmental Funds
<b>Revenues</b>			
Taxes:			
Insurance	\$ 151,086	\$ -	\$ 151,086
Property	89,721	-	89,721
Occupational licenses	107,729	-	107,729
Franchise fees	52,740	-	52,740
Alcohol fees	83,028	-	83,028
Intergovernmental revenue:			
Base court	11,378	-	11,378
KLEPF	20,796	-	20,796
State fire aid	7,750	-	7,750
Grants	81,658	-	81,658
License, fees, & permits	6,600	-	6,600
Municipal road aid	-	31,425	31,425
Coal and mine severance	11,433	-	11,433
Pole rental	24,440	-	24,440
Rent income	60,875	-	60,875
Interest income	104	-	104
Other revenues	71,383	-	71,383
Total revenues	<u>780,721</u>	<u>31,425</u>	<u>812,146</u>
<b>Expenditures</b>			
General government	79,212	-	79,212
Fire	100,907	-	100,907
Police	420,813	-	420,813
Highways and streets	68,283	47,545	115,828
Community development	20,957	-	20,957
Recreation	9,611	-	9,611
Library	18,000	-	18,000
Debt service	6,047	-	6,047
Capital outlay	150,933	-	150,933
Arts and education pass-through	-	-	-
Total expenditures	<u>874,763</u>	<u>47,545</u>	<u>922,308</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(94,042)</u>	<u>(16,120)</u>	<u>(110,162)</u>
<b>Other Financing Sources</b>			
Loan proceeds	129,914	-	129,914
Sanitation residual equity transfer	21,793	-	21,793
Transfers	-	-	-
Total other financing sources	<u>151,707</u>	<u>-</u>	<u>151,707</u>
Net change in fund balances	57,665	(16,120)	41,545
Fund balances, beginning of year	<u>264,368</u>	<u>45,634</u>	<u>310,002</u>
Fund balances, end of year	<u>\$ 322,033</u>	<u>\$ 29,514</u>	<u>\$ 351,547</u>

The accompanying notes to financial statements  
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

Net change in fund balances - Governmental Funds \$ 41,545

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays was less than depreciation expense in the current period.

Capital outlay	126,312	
Depreciation expense	(109,687)	
Gain/loss on disposal of assets	<u>(31,800)</u>	<u>(15,175)</u>

Governmental funds report pension contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.

Pension expense		(41,084)
CERS Contributions		(262)

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and interest consumes current financial resources of governmental funds.

Bond and capital lease proceeds	(129,914)	
Bond and capital lease payments	110,964	
Change in compensated absences	<u>1,646</u>	<u>(17,304)</u>

Change in net position of Governmental Activities \$ (32,280)

The accompanying notes to financial statements  
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2016**

	Business Type Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 499,767
Accounts receivable:	
Unbilled receivables	136,569
Customers	682,254
Interest	153
Allowance for doubtful accounts	(283,634)
Inventory for supplies	239,916
Investments - certificates of deposit	163,440
Restricted assets -	
Investment - certificates of deposit	204,000
Nondepreciable capital assets	10,278
Depreciable capital assets	21,417,975
Accumulated depreciation	(9,789,081)
	<u>13,281,637</u>
Total assets	
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred pension contributions	172,633
Total deferred outflows of resources	<u>172,633</u>
<b>LIABILITIES</b>	
Accounts payable	211,165
Accrued wages	9,753
Other accrued liabilities	47,189
Current portion of long-term debt	233,421
Customer deposits	204,919
Accrued interest payable	7,616
Compensated absences	33,045
Net pension liability	1,043,525
Long-term debt, net of current portion	1,208,275
	<u>2,998,908</u>
Total liabilities	
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred pension investment earnings	9,344
Total deferred inflows of resources	<u>9,344</u>
<b>NET POSITION</b>	
Net investment in capital assets	10,197,476
Restricted	204,000
Unrestricted	44,542
	<u>10,446,018</u>
Total net position	<u>\$ 10,446,018</u>

The accompanying notes to financial statements  
are an integral part of this statement.

CITY OF OLIVE HILL, KENTUCKY  
STATEMENT OF REVENUE, EXPENSES  
AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

	Business Type Activities
<b>OPERATING REVENUES</b>	
Electric	\$ 3,013,791
Water	1,027,952
Gas	406,638
Sewer	297,469
Sanitation	228,427
Total operating revenues	4,974,277
<b>OPERATING EXPENSES</b>	
<b>Electric:</b>	
Electric purchases	2,131,178
Salaries and benefits	309,372
Contractual services	126,942
Depreciation	59,036
Materials and supplies	53,575
Other operating expenses	8,489
	2,688,592
<b>Water:</b>	
Water purchases	6,307
Salaries and benefits	498,147
Contractual services	235,130
Depreciation	243,792
Materials and supplies	127,173
Other operating expenses	29,304
	1,139,853
<b>Gas:</b>	
Gas purchases	118,040
Salaries and benefits	125,396
Contractual services	111,534
Depreciation	43,408
Materials and supplies	28,852
Other operating expenses	28,227
	455,457
<b>Sewer:</b>	
Salaries and benefits	165,533
Contractual services	129,572
Depreciation	124,595
Materials and supplies	56,693
Other operating expenses	6,359
	482,752
<b>Sanitation:</b>	
Salaries and benefits	94,238
Contractual services	73,416
Materials and supplies	13,129
Other operating expenses	25,851
	206,634
Total operating expenses	4,973,288
<b>OPERATING INCOME</b>	989
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest expense	(48,657)
Interest income	482
Capital grant revenues	87,362
Sanitation residual equity transfer	(21,793)
Electric residual equity transfer	-
Total non-operating revenues (expenses)	17,394
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS</b>	18,383
<b>CAPITAL CONTRIBUTIONS (TAP FEES)</b>	7,525
<b>INCREASE IN NET POSITION</b>	25,908
<b>NET POSITION, JUNE 30, 2015</b>	10,420,110
<b>NET POSITION, JUNE 30, 2016</b>	\$ 10,446,018

The accompanying notes to financial statements  
are an integral part of this statement.



**CITY OF OLIVE HILL, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Business Type Activities</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 5,037,667
Cash payments to suppliers for goods and services	(3,896,285)
Cash payments to employees	(1,133,341)
Net cash used for operating activities	<u>8,041</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Transfers to other funds	(21,793)
Net cash used for non-capital financing activities	<u>(21,793)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(142,475)
Capital contributions	7,525
Interest income	482
Capital grant revenues	87,362
Issuance of debt	132,376
Principal paid on long-term debt	(211,786)
Interest paid on long-term debt	(48,657)
Net cash used for capital and related financing activities	<u>(175,173)</u>
Net decrease in cash and cash equivalents	(188,925)
Cash and cash equivalents, June 30, 2015	<u>1,056,132</u>
Cash and cash equivalents, June 30, 2016	<u>\$ 867,207</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 989
Adjustments:	
Depreciation	470,831
Net pension expense	56,868
Changes in assets and liabilities:	
Change in accounts receivable	58,635
Change in inventory	(1,350)
Change in prepaid items	-
Change in accounts payable	(574,386)
Change in accrued wages	(9,507)
Change in other accrued liabilities	(10,778)
Change in compensated absences	11,984
Change in customer deposits	4,755
Net cash provided by operating activities	<u>\$ 8,041</u>

The accompanying notes to financial statements  
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>					
Taxes:					
Insurance	\$ 146,000	\$ (8,408)	\$ 137,592	\$ 151,086	\$ 13,494
Property	93,500	2,084	95,584	89,721	(5,863)
Occupational licenses	87,000	21,129	108,129	107,729	(400)
Alcohol revenue	45,000	16,000	61,000	83,028	22,028
Franchise fees	55,000	(4,200)	50,800	52,740	1,940
Intergovernmental revenues:					
Base court	10,000	(1,455)	8,545	11,378	2,833
KLEFPF	21,000	(200)	20,800	20,796	(4)
State fire aid	-	-	-	7,750	7,750
Grants	61,500	2,691	64,191	81,658	17,467
License, fees, & permits	13,000	(6,400)	6,600	6,600	-
Coal and mine severance	5,000	-	5,000	11,433	6,433
Pole rental	24,395	45	24,440	24,440	-
Rent income	60,000	-	60,000	60,875	875
Sanitation fees	240,000	(12,600)	227,400	228,427	1,027
Loans	159,000	(140,328)	18,672	-	(18,672)
Interest income	-	-	-	104	104
Other revenues	56,000	28,531	84,531	71,383	(13,148)
<b>Total revenues</b>	<u>1,076,395</u>	<u>(103,111)</u>	<u>973,284</u>	<u>1,009,148</u>	<u>35,864</u>
<b>Expenditures</b>					
General government	71,000	15,000	86,000	82,092	3,908
Fire	110,875	8,737	119,612	104,074	15,538
Police	405,000	25,000	430,000	420,813	9,187
Highways and streets	61,520	8,480	70,000	68,283	1,717
Library	18,000	-	18,000	18,000	-
Sanitation	230,000	(20,000)	210,000	206,634	3,366
Community development	8,500	-	8,500	20,957	(12,457)
Capital outlay	159,000	(140,328)	18,672	21,019	(2,347)
Recreation	12,500	-	12,500	9,611	2,889
<b>Total expenditures</b>	<u>1,076,395</u>	<u>(103,111)</u>	<u>973,284</u>	<u>951,483</u>	<u>21,801</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,665</u>	<u>57,665</u>
Other Financing Sources					
Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total other financing sources</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,665</u>	<u>57,665</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>264,368</u>	<u>264,368</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 322,033</u>	<u>\$ 322,033</u>
Adjustments to Generally Accepted Accounting Principles -					
Sanitation fees included as Proprietary Fund				(228,427)	
Sanitation expenditures included as Proprietary Fund				206,634	
Sanitation residual equity transfer				21,793	
Capital lease obligation proceeds				129,914	
Capital outlay				(129,914)	
Fund balance, end of year (GAAP basis)				<u>\$ 322,033</u>	

The accompanying notes to financial statements  
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**SPECIAL REVENUE FUND - MUNICIPAL ROAD AID**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>					
Municipal road aid	\$ 81,198	\$ (4,140)	\$ 77,058	\$ 31,425	\$ (45,633)
Other revenues	-	-	-	-	-
Total revenues	<u>81,198</u>	<u>(4,140)</u>	<u>77,058</u>	<u>31,425</u>	<u>(45,633)</u>
<b>Expenditures</b>					
Highways and streets	<u>81,198</u>	<u>(4,140)</u>	<u>77,058</u>	<u>47,545</u>	<u>29,513</u>
Total expenditures	<u>81,198</u>	<u>(4,140)</u>	<u>77,058</u>	<u>47,545</u>	<u>29,513</u>
Deficiency of revenues under expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,120)</u>	<u>(16,120)</u>
Other financing sources (uses)					
Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,120)</u>	<u>(16,120)</u>
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,634</u>	<u>45,634</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 29,514</u></u>	<u><u>\$ 29,514</u></u>

The accompanying notes to financial statements  
are an integral part of this statement.

**CITY OF OLIVE HILL, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Olive Hill (the "City") is a political subdivision of the Commonwealth of Kentucky. It is governed and operated under the Mayor/Council form of government and provides such services as public safety (police and fire), public works (street and sanitation), recreation, and utilities (water, sewer, electric, and gas). The financial statements of the City include those of separately administered organizations that are controlled by or dependent upon the City. Control or dependence is determined on the basis of funding and appointment of the voting majority of the governing board. Based upon these criteria, the City has no component units to be reported in these financial statements.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. The City considers all governmental and proprietary funds to be major funds, due to their belief that all of these funds present financial information which is important to the financial statement users. Thus, individual governmental funds and individual proprietary funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded 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.

Property taxes, franchise taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major Governmental Funds:

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City has one special revenue funds: Municipal Road Aid.

The City reports the following major Proprietary Fund:

**Utility Fund** - The Utility Fund is used to account for gas, water, wastewater (sewer), electric, and garbage services for the City and surrounding communities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City Utility Fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **D. Budget and Budgetary Accounting**

The City follows the procedures established by the Department for Local Government pursuant to Section 91A.050 of the Kentucky Revised Statutes in establishing budgetary data. The budget was amended during the year ended June 30, 2016 subsequent to original adoption.

**Budgetary Basis of Accounting:** The City's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is that the sanitation department is budgeted in the General Fund; however, GAAP requires that it be presented as a proprietary fund. In addition, financed insurance premiums are netted in the budget, since it is a non-cash item when financed.

#### **E. Deposits and Investments**

Investments are stated at amortized cost which approximates fair value. Kentucky Revised Statute 66.480 permits the City to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial banks' certificates of deposit, savings and loan deposits, Commonwealth of Kentucky investment pool and the Kentucky League of Cities investment pool.

**F. Inventories**

Inventories are valued at the lower of cost (first-in, first-out method) or market.

**G. Capital Assets and Depreciation**

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 asset or materially extend an asset's life are not.

All reported capital assets are depreciated with the exception of land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Gas System	40 years
Water and Sewer Systems	40-50 years
Equipment & Vehicles	3-20 years
Buildings and improvements	15-50 years
Street paving	20 years

The City is required by GASB 34 to prospectively report general infrastructure assets in the statement of net position.

**H. Encumbrances**

The City does not use a system of encumbrances in their accounting and reporting methods.

**I. Interfund Transactions**

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers.

**J. Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds."

**K. Compensated Absences**

The City's accrued liabilities for future compensated absences are recorded to the extent the future leaves (1) relate to rights attributable to employee services already rendered, (2) relate to rights that vest or accumulate, (3) where payment is probable, and (4) where amounts can be reasonably estimated. Amounts that normally would be paid with expendable available financial resources are recorded in the Governmental Fund Financial Statements. Amounts paid or payable within 60 days are deemed to be payable from expendable available financial resources. Liabilities for compensated absences are recorded in full in the Government-wide and Proprietary Fund financial statements.

## **L. Fund Balances**

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by the City itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the City takes the action to remove or change the constraint;
- Assigned fund balance - amounts the City intends to use for a specific purpose (such as encumbrances); intent can be expressed by the City or by an official or body to which the City delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

When restricted, committed, assigned and unassigned resources are available for use, it is the City's policy to use restricted, committed and assigned resources first, then unassigned resources as they are needed.

## **M. Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Proprietary Funds consider all highly liquid investments, such as certificates of deposit (including restricted assets) to be cash equivalents.

## **N. Allowance for Doubtful Accounts**

The allowance for doubtful accounts is estimated using accounts receivable past due more than 60 days.

## **O. Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for uncollectible accounts and the useful lives used to depreciate capital assets. Actual results could differ from estimated amounts.

## **P. Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Activities will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

## **Q. Pension**

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

## **R. New Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"). GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and reduces the GAAP hierarchy to two categories of authoritative GAAP. The adoption of this standard did not have a material effect on the City's financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* ("GASB 75"). GASB 75 replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits ("OPEB"). In addition, GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. GASB 75 will be effective for the City beginning with its year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 82, *Pension Issues* ("GASB 82"). GASB 82 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 that arose during the implementation of GASB Statement No. 68. GASB 82 will be effective for the City beginning with its year ending June 30, 2017.

## **(2) CASH AND CASH EQUIVALENTS AND INVESTMENTS**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's funds on deposit with the banks may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires bank balances to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance.

Under Kentucky Revised Statute 66.480, the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth and its agencies, insured savings and loans, or interest-bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized. In addition, trust funds may invest in uninsured corporate securities. At June 30, 2016, the City had \$1,258,788 in financial institutions, of which \$750,944 was insured, and \$507,844 was collateralized.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's investment policy states that unless matched to a specific cash flow need, the City's funds should not, in general, be invested in securities maturing more than one year from the date of purchase.



Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy is that with the exception of fully insured or fully collateralized investments and demand deposit accounts, no more than 50% of the total investment portfolio shall be invested in a single security type of a single financial institution.

The City's investments at June 30, 2016 are as follows:

<u>Type of Investments</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Business-type activities:				
First National Bank of Grayson:				
Certificate of deposit	\$ 100,000	\$ 100,000	0.20%	8/21/2016
Certificate of deposit	46,093	46,093	0.25	11/16/2016
Certificate of deposit	17,347	17,347	0.20	9/26/2016
	<u>\$ 163,440</u>	<u>\$ 163,440</u>		
Commercial Bank of Grayson:				
Certificate of deposit	204,000	204,000	0.20	6/19/2017
	<u>\$ 367,440</u>	<u>\$ 367,440</u>		

### (3) PROPERTY TAX REVENUES

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the City.

Real property, tangible and public utility property taxes are levied prior to December 31 of each year based upon the assessed value as of January 1. Per KRS 91.487, the lien date for assessed taxes is January 1 of each fiscal year. The City imposes penalties of 2% for January and 6% thereafter.

Real property and tangible property taxes are due and payable by December 31 of each year. Public utility taxes are due and payable within thirty days from the date the bills are mailed. Assessed values are established by State Law at 100% of fair value.

Real property and tangible property taxes are recognized as revenue on the modified accrual basis. Public utility taxes are not accrued at June 30, since assessed amounts are not available until the subsequent fiscal year.

Motor vehicle property taxes are assessed as of January 1 of each year and are collected by the County Clerk and remitted to the City. These taxes are not accrued, as amounts are payable upon the birth dates of the owners of the vehicles.

The 2016 assessed value for real property was \$34,425,200. Assessed value of tangible property was \$5,208,058. The tax rate adopted was \$0.233 per \$100 valuation.

### (4) RESTRICTED ASSETS

#### Reserve for Depreciation

The "Depreciation Fund" is being maintained as required by the 1980 Series bond. These funds are required to be deposited into separate accounts for the purpose of maintaining the water, sewer and gas systems. The amount deposited in these accounts was \$204,000 at June 30, 2016.

(5) CAPITAL ASSETS

A summary of changes in the City's capital assets is as follows:

	June 30, 2015	Increases	Decreases	June 30, 2016
<b><u>Governmental Activities</u></b>				
<b>Capital Assets, Not Depreciated:</b>				
Land	\$ 521,337	\$ -	\$ -	\$ 521,337
<b>Capital Assets, Depreciated:</b>				
Buildings	1,142,383	-	-	1,142,383
Street paving and improvement	212,513	-	-	212,513
Vehicles	935,016	105,293	159,000	881,309
Machinery and equipment	545,519	21,019	-	566,538
Improvements	34,583	-	-	34,583
Pool and park equipment	181,342	-	-	181,342
Totals	<u>3,572,693</u>	<u>126,312</u>	<u>159,000</u>	<u>3,540,005</u>
Less: Accumulated Depreciation	<u>1,780,145</u>	<u>109,687</u>	<u>127,200</u>	<u>1,762,632</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 1,792,548</u>	<u>\$ 16,625</u>	<u>\$ (31,800)</u>	<u>\$ 1,777,373</u>
<b><u>Business-type Activities</u></b>				
<b>Capital Assets, Not Depreciated:</b>				
Land	\$ 10,278	\$ -	\$ -	\$ 10,278
<b>Capital Assets, Depreciated:</b>				
Buildings	147,931	-	-	147,931
Vehicles	707,734	-	-	707,734
Furniture and equipment	324,529	132,376	-	456,905
Operating plant and distribution system	20,014,403	10,099	-	20,024,502
Improvements	80,903	-	-	80,903
Construction in progress	-	-	-	-
Totals	<u>21,285,778</u>	<u>142,475</u>	<u>-</u>	<u>21,428,253</u>
Less: Accumulated Depreciation	<u>9,318,250</u>	<u>470,831</u>	<u>-</u>	<u>9,789,081</u>
<b>Business-type Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 11,967,528</u>	<u>\$ (328,356)</u>	<u>\$ -</u>	<u>\$ 11,639,172</u>

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

<b>Governmental activities:</b>		
General government		\$ 20,717
Police		8,892
Fire		21,374
Public works		35,266
Senior center		12,817
Park		10,621
		<u>\$ 109,687</u>
<b>Business-type activities:</b>		
Utilities		\$ 470,831
		<u>\$ 470,831</u>

(6) DEBT

The following is a summary of changes in long-term debt (including current portions) of the City for the year ended June 30, 2016:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016
<b><u>Governmental Activities</u></b>				
3.0% Note payable - Due November 30, 2024,				
Fire equipment	\$ 62,063	\$ -	\$ 5,888	\$ 56,175

Non-interest bearing Note payable on Land due March 1, 2018	39,600	-	14,400	25,200
4.0% Capital lease - Due December 19, 2018 Pierce Fire truck	40,207	-	9,567	30,640
2.99% Capital lease - Due November 4, 2020 2016 Kenworth Garbage Truck	-	129,914	16,221	113,693
2.68% Note payable - Due October 25, 2017 2012 Garbage Truck	<u>64,888</u>	<u>-</u>	<u>64,888</u>	<u>-</u>
Total Governmental Activities	<u>\$ 206,758</u>	<u>\$ 129,914</u>	<u>\$ 110,964</u>	<u>\$ 225,708</u>
	Balance			Balance
<b><u>Business-type Activities</u></b>	<u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>
Notes payable	\$ 1,119,106	\$ 132,376	\$ 118,787	\$ 1,132,695
Bonds payable	<u>402,000</u>	<u>-</u>	<u>93,000</u>	<u>309,000</u>
Total Business-type Activities	<u>\$ 1,521,106</u>	<u>\$ 132,376</u>	<u>\$ 211,786</u>	<u>\$ 1,441,696</u>

**Governmental Activities**

The annual requirements to amortize the City's Governmental Activities indebtedness as of June 30, 2016 (including interest payments) are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 55,288	\$ 5,743	\$ 61,031
2018	52,948	4,483	57,431
2019	43,479	3,184	46,663
2020	33,913	1,845	35,758
2021	16,104	982	17,086
2022-2025	23,977	2,510	26,486
	<u>\$ 225,708</u>	<u>\$ 18,747</u>	<u>\$ 244,455</u>

**Business-Type Activities**

The Utility's notes payable at June 30, 2016 consisted of the following:

U.S. Bank, payable in monthly installments of \$825, including interest of 2.25%, final payment due October 2017, unsecured.	\$	12,970
U.S. Bank, payable in monthly installments of \$2,235, including interest of 2.75%, final payment due October 2019, collateralized by a 2015 Ford F550 bucket truck.		85,082
Kentucky Infrastructure Authority, payable in semi-annual Installments with interest of 1.00%, final payment due June 2035, collateralized by service revenues.		422,814
The Commercial Bank of Grayson, payable in monthly installments of \$987, including interest of 2.95%, split 40% electric, and 60% water, final payment due March 2018, collateralized by a 2013 Excavator.		19,227
Republic Bank & Trust Company, payable in semi-annual installments of principal with interest of 3.38%, final payment due December 2025, collateralized by service revenues.		411,757

US Bank, payable in monthly installments of \$2,370, Including interest of 2.85%, final payment due November 2020, collateralized gas meters purchased.	123,230
FIVCO Area Development, payable in monthly installments estimated at \$1,012, including interest at 4.00%, final payment due October 15, 2021, unsecured.	<u>57,616</u>
Total Utility Fund Notes Payable	<u>\$ 1,132,696</u>

The annual requirements to amortize all Proprietary Fund notes payable, excluding revenue bonds payable outstanding as of June 30, 2016, including interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 135,421	\$ 25,589	\$ 161,010
2018	131,943	21,796	153,739
2019	122,375	18,265	140,640
2020	105,676	14,987	120,663
2021	91,442	12,215	103,657
2022-2026	335,561	33,198	368,759
2027-2031	114,487	7,962	122,449
2032-2035	95,791	2,168	97,959
Totals	<u>\$ 1,132,696</u>	<u>\$ 136,180</u>	<u>\$ 1,268,876</u>

The following is a summary of the long-term bond transactions of the City of Olive Hill's business-type activities for the year ended June 30, 2016:

Utility Fund Revenue Bonds

Bonds Payable - June 30, 2015	\$ 402,000
Bonds Issued	-
Bonds Retired	(93,000)
Bonds Payable - June 30, 2016	<u>\$ 309,000</u>

Bonds Payable included in long-term debt in the accompanying financial statements includes the following:

Revenue Bonds:

\$1,900,000 Utilities Revenue Bonds, 1980 series, maturing through February 1, 2019, with interest at 5.0%	<u>\$ 309,000</u>
Total Utility Fund Bonds Payable	<u>\$ 309,000</u>

Pledge of Utility Fund Revenues

Under the terms of the Ordinance, the Series 1980 Bonds are payable from and secured by a first lien pledge of revenues and income derived from the ownership, operation, and use of services of the Utility's system.

Compliance with Bond Ordinances

The bond ordinances contain significant limitations and restrictions on annual debt reserve requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverage's. Funds held in the various reserves at June 30, 2016 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted cash and cash equivalents.

Sinking Fund Requirements

Sinking Fund requirements are equal to the debt service requirement. The annual requirements to amortize all bonds as of June 30, 2016, including interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 98,000	\$ 15,450	\$ 113,450
2018	103,000	10,550	113,550
2019	108,000	5,400	113,400
Totals	<u>\$ 309,000</u>	<u>\$ 31,400</u>	<u>\$ 340,400</u>

**(7) CONTINGENCIES**

The City is a defendant in various legal actions arising from normal business operations. Two of the lawsuits relate to flood damages and the third alleges injury on property that the City owns. It is anticipated that any liability will be covered by insurance for these three lawsuits.

In addition, the City is a defendant in a class action lawsuit alleging violation of the Kentucky Constitution by applying increases to the electric utility rates without public notice. The City's insurer has filed an action to determine coverage of this claim. The ultimate outcome of this matter cannot be determined at this time.

The City intends to aggressively defend all of the lawsuits; however, an adverse decision in one or more of such matters could have a material adverse effect on the financial position of the City.

The City had no outstanding construction commitments at June 30, 2016,

**(8) RISK MANAGEMENT**

Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**(9) PENSION PLAN**

County Employees Retirement System

*Plan description:* Substantially all full-time classified employees of the City participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

*Benefits provided:* Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

*Contributions:* Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2016, employers were required to contribute 17.06% (12.42% - pension, 4.64% insurance) of the member's salary. During the year ending June 30, 2016, the City contributed \$113,596 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

CERS - Medical Insurance Plan

In addition to the CERS pension benefits described above, recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years - 0%, 4-9 years - 25%, 10-14 years - 50%, 15-19 years - 75% and 20 or more years - 100%.

As of June 30, 2015, the date of the latest actuarial valuation, the plan had 82,969 active plan participants.

Contribution requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed above.

The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2015 was as follows:

	<u>000's omitted</u>
Total medical benefit obligation	\$ 2,907,827
Net position available for benefits at actuarial value	<u>(1,997,456)</u>
Unfunded medical benefit obligation	<u>\$ 910,371</u>

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

At June 30, 2016, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2015. An expected total pension liability as of June 30, 2015 was determined using standard roll-forward techniques. The City's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2015. At June 30 2015, the City's proportion was 0.035392%.

For the year ended June 30, 2016, the City recognized pension expense of \$98,214. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected actual experience	\$ 12,646	\$ -
Changes of assumptions	153,445	-
Net difference between projected and actual earnings on investments	13,641	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	15,876
City contributions subsequent to the measurement date	113,595	-
	<u>\$ 293,327</u>	<u>\$ 15,876</u>

The \$113,596 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

<u>Year</u>		
2017	\$	55,246
2018		55,246
2019		25,921
2020		27,443
		<u>\$ 163,856</u>

*Actuarial Methods and Assumptions:* The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

The following represents the changes in assumptions from the prior valuation to the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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 long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. 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 target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, 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	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	-0.25%
	<u>100.0%</u>	

*Discount Rate:* The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

	<u>1% Decrease (6.50%)</u>	<u>Current discount rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's proportionate share of the net pension liability	\$ 1,942,624	\$ 1,521,681	\$ 1,161,194

*Pension plan fiduciary net position:* Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

*Payables to the pension plan:* At June 30, 2016, there was \$16,051 in payables to CERS.



**REQUIRED SUPPLEMENTAL INFORMATION**

**CITY OF OLIVE HILL, KENTUCKY  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2016**

	Reporting Fiscal Year (Measurement Date)		Reporting Fiscal Year (Measurement Date)	
	2016 (2015)		2015 (2014)	
City's proportion of the net pension liability	0.035392%		0.036007%	
City's proportionate share of the net pension liability	\$ 1,521,681		\$ 1,168,000	
City's covered-employee payroll	\$ 914,622		\$ 860,170	
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	166.373%		135.787%	
Plan fiduciary net position as a percentage of the total pension liability	59.970%		66.800%	

**Note:** Schedule is intended to show information for the last 10 fiscal years.  
Additional years will be displayed as they become available.

**CITY OF OLIVE HILL, KENTUCKY  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
SCHEDULE OF PENSION CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 113,596	\$ 109,672	\$ 113,506
Contributions in relation to the contractually required contribution	<u>113,596</u>	<u>109,672</u>	<u>113,506</u>
Contribution deficiency (excess)	-	-	-
City's covered-employee payroll	\$ 914,622	\$ 860,170	\$ 826,102
City's proportionate share of pension contributions as a percentage of its covered-employee payroll	12.42%	12.75%	13.74%

**Note:** Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**CITY OF OLIVE HILL, KENTUCKY  
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016**

**(1) CHANGES OF ASSUMPTIONS**

CERS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

**(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS**

CERS

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

**(3) CHANGES OF BENEFITS**

There were no changes of benefit terms for CERS.



**K**elley **G**alloway  
**S**mith **G**oolsby, PSC

Certified Public Accountants and Advisors

1200 Corporate Court • P. O. Box 990 • Ashland, Kentucky 41105

• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590

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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**

The Honorable Mayor and  
City Council  
City of Olive Hill  
Olive Hill, 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, and each major fund of the City of Olive Hill, Kentucky (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 13, 2017.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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.

*Kelley Ballouay Smith Goolsby, PSC*

Ashland, Kentucky  
January 13, 2017