

**CITY OF OLIVE HILL, KENTUCKY**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2018**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**

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## 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, each major fund, and the aggregate remaining fund information of the City of Olive Hill, Kentucky (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Olive Hill, Kentucky as of June 30, 2018, 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.

## Emphasis of Matter

As described in Note (11) to the financial statements, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, as amended by GASB Statement No. 85, *Omnibus 2017* effective July 1, 2017. Our opinion is not modified with respect to this matter.

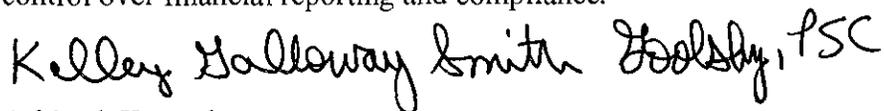
## Other Matters

### *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 and OPEB Liability and the Schedule of Pension and OPEB Contributions on pages 39 through 42 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 11, 2019, 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.



Ashland, Kentucky  
January 11, 2019

**City of Olive Hill, Kentucky  
Management's Discussion and Analysis  
Year Ended June 30, 2018**

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, 2018. 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 \$11,065,696 (net position). Governmental activities' unrestricted net position was negative \$133,993 and is used to meet the Government's ongoing obligations. Business-type activities' unrestricted net position was negative \$229,502.
- The Government's total net position decreased by \$208,568. Net position of governmental activities decreased by \$29,293 and net position of business-type activities decreased by \$179,275.
- At June 30, 2018, the governmental activities had \$2,608,160 in assets and deferred outflows of resources and \$1,133,210 in liabilities and deferred inflows of resources. Business-type activities had \$13,595,399 in assets and deferred outflows of resources and \$4,004,653 in liabilities and deferred inflows of resources.
- The City implemented GASB 75 this year, the source of the OPEB 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 OPEB liabilities was \$722,698, as of June 30, 2017. 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 10-19 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 20-38 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 \$11,065,696 at the close of the most recent fiscal year. The City's net position decreased 1.85% 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>	<u>Business-type Activities</u>	<u>Government- type Activities (As Restated)</u>	<u>Business-type Activities (As Restated)</u>
	2018	2018	2017	2017
Current assets	\$ 620,855	\$ 2,056,222	\$ 594,522	\$ 1,738,138
Capital assets	1,750,678	10,855,714	1,774,359	11,204,950
Total assets	<u>2,371,533</u>	<u>12,911,936</u>	<u>2,368,881</u>	<u>12,943,088</u>
Deferred Outflows	<u>236,627</u>	<u>683,463</u>	<u>122,971</u>	<u>370,190</u>
Current liabilities	149,183	811,057	127,763	810,240
Long-term liabilities	915,350	2,995,234	857,472	2,725,840
Total liabilities	<u>1,064,533</u>	<u>3,806,291</u>	<u>985,235</u>	<u>3,536,080</u>
Deferred Inflows	<u>68,677</u>	<u>198,362</u>	<u>2,374</u>	<u>7,177</u>
Net position:				
Investment in capital assets	1,608,943	9,616,248	1,563,277	9,949,640
Restricted	-	204,000	-	204,000
Unrestricted	(133,993)	(229,502)	(59,034)	(383,619)
Total net position	<u>\$ 1,474,950</u>	<u>\$ 9,590,746</u>	<u>\$ 1,504,243</u>	<u>\$ 9,770,021</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, 2018 and 2017, respectively.

	<u>Government- type Activities</u> 2018	<u>Business-type Activities</u> 2018	<u>Government- type Activities</u> 2017	<u>Business-type Activities</u> 2017
<b>Revenues:</b>				
Charges for services	\$ -	\$ 4,846,550	\$ -	\$ 4,677,903
Tax levies	270,649	-	297,417	-
Occupational licenses	284,389	-	91,123	-
Licenses, fees and permits	7,961	-	8,250	-
Franchise fees	59,345	-	50,245	-
Grants/contributions	151,806	7,650	116,791	35,775
Rental income	85,660	-	85,373	-
Alcohol fees	92,304	-	90,347	-
Coal and mine severance	9,279	-	10,943	-
Interest income	236	1,217	172	801
Miscellaneous	47,141	-	143,981	-
Sanitation residual equity transfer	2,278	(2,278)	11,097	(11,097)
Transfers	-	-	-	-
Total revenues	<u>1,011,048</u>	<u>4,853,139</u>	<u>905,739</u>	<u>4,703,382</u>
<b>Expenses:</b>				
General government	135,812	-	101,198	-
Fire	179,279	-	76,627	-
Police	535,433	-	445,059	-
Highways and streets	71,929	-	90,180	-
Recreation	61,297	-	27,109	-
Community development	-	-	-	-
Library	18,000	-	18,000	-
Senior Center	12,817	-	12,817	-
Interest on debt	25,774	-	21,165	-
Utilities	-	5,032,414	-	4,990,631
Total expenses	<u>1,040,341</u>	<u>5,032,414</u>	<u>792,155</u>	<u>4,990,631</u>
Change in net position	<u>\$ (29,293)</u>	<u>\$ (179,275)</u>	<u>\$ 113,584</u>	<u>\$ (287,249)</u>

**Government-type activity.** Government-type activity net position decreased by \$29,293 or 1.9%.

**Business-type activity.** Business-type activity net position decreased by \$179,275 or 1.8%.

## 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, 2018, amounts to \$12,606,392 (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 0.91% percent, before current depreciation.

The main capital asset event during the current fiscal year was the purchase of three police cars, a Chevrolet Suburban for the fire department, the construction of the Rails to Trails – bathroom, and gas pipeline work.

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 \$1,381,201. This is a decrease of \$85,191. 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 \$75,698 less than budgeted primarily due to the net affect of the City budgeting for grant revenue that was not earned and collected during the year, insurance proceeds that were budgeted but were recorded in the prior year, and the increase in the occupational tax as the result of raising the rate from 0.50% to 1.50%. General fund expenditures were \$39,213 less than budgeted due to variances between all line items.
- Special revenue fund - Municipal Road Aid revenues were \$60,893 less than budgeted. Expenditures were \$92,252 less than budgeted.

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

In considering the City budget for the fiscal year 2019, 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 Jerry Callihan, 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, 2018**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 390,147	\$ 811,540	\$ 1,201,687
Accounts receivable:			
Unbilled receivables	-	125,030	125,030
Customers	-	854,088	854,088
Property taxes	52,799	-	52,799
Grants	20,743	-	20,743
Interest	-	153	153
Other	198,110	-	198,110
Allowance for doubtful accounts	(42,908)	(304,640)	(347,548)
Inventory for supplies	1,964	202,357	204,321
Investments - certificates of deposit	-	163,694	163,694
Restricted assets -			
Investments - certificates of deposit	-	204,000	204,000
Nondepreciable capital assets	521,337	10,278	531,615
Depreciable capital assets	3,215,937	21,601,104	24,817,041
Accumulated depreciation	(1,986,596)	(10,755,668)	(12,742,264)
<b>Total assets</b>	<b>2,371,533</b>	<b>12,911,936</b>	<b>15,283,469</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - OPEB related	51,718	149,380	201,098
Deferred outflows - pension related	184,909	534,083	718,992
<b>Total deferred outflows of resources</b>	<b>236,627</b>	<b>683,463</b>	<b>920,090</b>
<b>LIABILITIES</b>			
Accounts payable	30,371	254,044	284,415
Accrued wages	9,702	12,745	22,447
Other accrued liabilities	52,774	41,427	94,201
Current portion of long-term debt	55,180	292,017	347,197
Customer deposits	-	207,159	207,159
Accrued interest payable	1,156	3,665	4,821
Compensated absences, long-term	17,570	32,107	49,677
Net OPEB liability	185,862	536,836	722,698
Net pension liability	625,363	1,478,842	2,104,205
Long-term debt, net of current portion	86,555	947,449	1,034,004
<b>Total liabilities</b>	<b>1,064,533</b>	<b>3,806,291</b>	<b>4,870,824</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows OPEB related	9,731	28,106	37,837
Deferred inflows - pension related	58,946	170,256	229,202
<b>Total deferred inflows of resources</b>	<b>68,677</b>	<b>198,362</b>	<b>267,039</b>
<b>NET POSITION</b>			
Net investment in capital assets	1,608,943	9,616,248	11,225,191
Restricted	-	204,000	204,000
Unrestricted	(133,993)	(229,502)	(363,495)
<b>Total net position</b>	<b>\$ 1,474,950</b>	<b>\$ 9,590,746</b>	<b>\$ 11,065,696</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, 2018

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	\$ 135,812	\$ -	\$ 95,094	\$ -	\$ (40,718)	\$ -	\$ (40,718)
Fire	179,279	-	25,394	-	(153,885)	-	(153,885)
Police	535,433	-	-	-	(535,433)	-	(535,433)
Highways and streets	71,929	-	31,318	-	(40,611)	-	(40,611)
Recreation	61,297	-	-	-	(61,297)	-	(61,297)
Library	18,000	-	-	-	(18,000)	-	(18,000)
Senior center	12,817	-	-	-	(12,817)	-	(12,817)
Interest on debt	25,774	-	-	-	(25,774)	-	(25,774)
<b>Total governmental activities</b>	<b>1,040,341</b>	<b>-</b>	<b>151,806</b>	<b>-</b>	<b>(888,535)</b>	<b>-</b>	<b>(888,535)</b>
<b>Business-Type Activities</b>							
Utility fund	5,032,414	4,846,550	-	7,650	-	(178,214)	(178,214)
<b>Total business-type activities</b>	<b>5,032,414</b>	<b>4,846,550</b>	<b>-</b>	<b>7,650</b>	<b>-</b>	<b>(178,214)</b>	<b>(178,214)</b>
<b>Total primary government</b>	<b>\$ 6,072,755</b>	<b>\$ 4,846,550</b>	<b>\$ 151,806</b>	<b>\$ 7,650</b>	<b>\$ (888,535)</b>	<b>\$ (178,214)</b>	<b>\$ (1,066,749)</b>
<b>General Revenues:</b>							
Property and other local taxes					\$ 270,649	\$ -	\$ 270,649
Occupational licenses					284,389	-	284,389
Franchise fees					59,345	-	59,345
Rent income					85,660	-	85,660
Licenses, fees and permits					7,961	-	7,961
Alcohol fees					92,304	-	92,304
Coal and mine severance					9,279	-	9,279
Other revenues					47,141	-	47,141
Interest income					236	1,217	1,453
Sanitation residual equity transfer					2,278	(2,278)	-
Transfers					-	-	-
<b>Total general revenues and transfers</b>					<b>859,242</b>	<b>(1,061)</b>	<b>858,181</b>
<b>Change in net position</b>					<b>(29,293)</b>	<b>(179,275)</b>	<b>(208,568)</b>
<b>Net position, June 30, 2017, as restated</b>					<b>1,504,243</b>	<b>9,770,021</b>	<b>11,274,264</b>
<b>Net position, June 30, 2018</b>					<b>\$ 1,474,950</b>	<b>\$ 9,590,746</b>	<b>\$ 11,065,696</b>

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

**CITY OF OLIVE HILL, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2018**

	General	Municipal Road Aid	Total Governmental Funds
<b>Assets</b>			
Cash	\$ 298,125	\$ 92,022	\$ 390,147
Taxes receivable	52,799	-	52,799
Allowance for doubtful accounts	(42,908)	-	(42,908)
Grant receivable	20,743	-	20,743
Other receivables	198,110	-	198,110
Inventory for supplies	1,964	-	1,964
<b>Total assets</b>	<b>\$ 528,833</b>	<b>\$ 92,022</b>	<b>\$ 620,855</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 30,371	\$ -	\$ 30,371
Accrued wages	9,702	-	9,702
Accrued interest payable	1,156	-	1,156
Other accrued liabilities	52,774	-	52,774
<b>Total liabilities</b>	<b>94,003</b>	<b>-</b>	<b>94,003</b>
Fund Balances:			
Nonspendable	1,964	-	1,964
Assigned	-	92,022	92,022
Unassigned	432,866	-	432,866
<b>Total fund balances</b>	<b>434,830</b>	<b>92,022</b>	<b>526,852</b>
<b>Total liabilities and fund balances</b>	<b>\$ 528,833</b>	<b>\$ 92,022</b>	<b>\$ 620,855</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, 2018**

Total fund balance - Governmental Funds	\$	526,852
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets of \$3,737,274 net of accumulated depreciation of \$1,986,596 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		1,750,678
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		125,963
Deferred outflows and inflows of resources related to OPEB are applicable to future periods and, therefore, are not reported in the funds.		41,987
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 OPEB liabilities		(185,862)
Net pension liabilities		(625,363)
Long-term debt		(141,735)
Compensated absences		<u>(17,570)</u>
Net position, end of year - Governmental Activities	\$	<u><u>1,474,950</u></u>

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, 2018**

	General	Municipal Road Aid	Total Governmental Funds
<b>Revenues</b>			
Taxes:			
Insurance	\$ 170,863	\$ -	\$ 170,863
Property	99,786	-	99,786
Occupational licenses	284,389	-	284,389
Franchise fees	59,345	-	59,345
Alcohol fees	92,304	-	92,304
Intergovernmental revenue:			
Base court	8,036	-	8,036
KLEPF	25,394	-	25,394
Grants	87,058	-	87,058
License, fees, & permits	7,961	-	7,961
Municipal road aid	-	31,318	31,318
Coal and mine severance	9,279	-	9,279
Pole rental	24,510	-	24,510
Rent income	61,150	-	61,150
Interest income	195	41	236
Other revenues	47,141	-	47,141
Total revenues	<u>977,411</u>	<u>31,359</u>	<u>1,008,770</u>
<b>Expenditures</b>			
General government	105,141	-	105,141
Fire	191,652	-	191,652
Police	523,254	-	523,254
Highways and streets	60,287	-	60,287
Recreation	50,675	-	50,675
Library	18,000	-	18,000
Debt service	25,774	-	25,774
Capital outlay	40,891	-	40,891
Total expenditures	<u>1,015,674</u>	<u>-</u>	<u>1,015,674</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(38,263)</u>	<u>31,359</u>	<u>(6,904)</u>
<b>Other Financing Sources</b>			
Sanitation residual equity transfer	2,278	-	2,278
Transfers	-	-	-
Total other financing sources	<u>2,278</u>	<u>-</u>	<u>2,278</u>
Net change in fund balances	(35,985)	31,359	(4,626)
Fund balances, beginning of year	<u>470,815</u>	<u>60,663</u>	<u>531,478</u>
Fund balances, end of year	<u>\$ 434,830</u>	<u>\$ 92,022</u>	<u>\$ 526,852</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, 2018**

Net change in fund balances - Governmental Funds \$ (4,626)

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	97,391	
Depreciation expense	<u>(121,072)</u>	<u>(23,681)</u>

Governmental funds report CERS 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 or OPEB, and investment experience.

CERS expense - pension		(56,911)
CERS contributions - pension		1,734
CERS expense - OPEB		(9,366)
CERS contributions - OPEB		81

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 payments	69,347	
Change in compensated absences	<u>(5,871)</u>	<u>63,476</u>

Change in net position of Governmental Activities \$ (29,293)

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, 2018

	Business Type Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 811,540
Accounts receivable:	
Unbilled receivables	125,030
Customers	854,088
Interest	153
Allowance for doubtful accounts	(304,640)
Inventory for supplies	202,357
Investments - certificates of deposit	163,694
Restricted assets -	
Investment - certificates of deposit	204,000
Nondepreciable capital assets	10,278
Depreciable capital assets	21,601,104
Accumulated depreciation	(10,755,668)
	12,911,936
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows - OPEB related	149,380
Deferred outflows - pension related	534,083
Total deferred outflows of resources	683,463
 <b>LIABILITIES</b>	
Accounts payable	254,044
Accrued wages	12,745
Other accrued liabilities	41,427
Current portion of long-term debt	292,017
Customer deposits	207,159
Accrued interest payable	3,665
Compensated absences	32,107
Net OPEB liability	536,836
Net pension liability	1,478,842
Long-term debt, net of current portion	947,449
	3,806,291
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows - OPEB related	28,106
Deferred inflows - pension related	170,256
Total deferred inflows of resources	198,362
 <b>NET POSITION</b>	
Net investment in capital assets	9,616,248
Restricted	204,000
Unrestricted	(229,502)
	\$ 9,590,746

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, 2018**

	Business Type Activities
<b>OPERATING REVENUES</b>	
Electric	\$ 2,803,761
Water	1,023,251
Gas	520,808
Sewer	278,715
Sanitation	220,015
Total operating revenues	4,846,550
<b>OPERATING EXPENSES</b>	
Electric:	
Electric purchases	1,954,202
Salaries and benefits	358,389
Contractual services	103,558
Depreciation	57,569
Materials and supplies	40,916
Other operating expenses	53,813
	2,568,447
Water:	
Water purchases	3,825
Salaries and benefits	535,774
Contractual services	238,618
Depreciation	251,761
Materials and supplies	196,171
Other operating expenses	28,463
	1,254,612
Gas:	
Gas purchases	197,105
Salaries and benefits	155,060
Contractual services	61,353
Depreciation	50,026
Materials and supplies	21,589
Other operating expenses	16,062
	501,195

**CITY OF OLIVE HILL, KENTUCKY  
STATEMENT OF REVENUE, EXPENSES  
AND CHANGES IN NET POSITION (CONCLUDED)  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

Sewer:	
Salaries and benefits	174,473
Contractual services	122,195
Depreciation	121,880
Materials and supplies	37,350
Other operating expenses	5,543
	<u>461,441</u>
Sanitation:	
Salaries and benefits	93,332
Contractual services	78,218
Materials and supplies	18,179
Other operating expenses	28,008
	<u>217,737</u>
Total operating expenses	<u>5,003,432</u>
OPERATING LOSS	<u>(156,882)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(28,982)
Interest income	1,217
Capital grant revenues	-
Sanitation residual equity transfer	(2,278)
Total non-operating revenues (expenses)	<u>(30,043)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(186,925)
CAPITAL CONTRIBUTIONS (TAP FEES)	<u>7,650</u>
DECREASE IN NET POSITION	(179,275)
NET POSITION, JUNE 30, 2017, as restated	<u>9,770,021</u>
NET POSITION, JUNE 30, 2018	<u>\$ 9,590,746</u>

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, 2018**

	Business Type Activities
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 4,744,176
Cash payments to suppliers for goods and services	(3,230,337)
Cash payments to employees	(1,118,844)
Net cash provided by operating activities	394,995
 <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Transfers to other funds	(2,278)
Net cash used for non-capital financing activities	(2,278)
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(132,000)
Capital contributions	7,650
Interest income	1,217
Capital grant revenues	-
Issuance of debt	360,500
Principal paid on long-term debt	(376,344)
Interest paid on long-term debt	(28,982)
Net cash used for capital and related financing activities	(167,959)
Net increase in cash and cash equivalents	224,758
Cash and cash equivalents, June 30, 2017	954,476
Cash and cash equivalents, June 30, 2018	\$ 1,179,234
 <b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (156,882)
Adjustments:	
Depreciation	481,236
Net OPEB adjustment	26,814
Net pension adjustment	174,060
Changes in assets and liabilities:	
Change in accounts receivable	(106,674)
Change in inventory	13,348
Change in prepaid items	-
Change in accounts payable	(37,157)
Change in accrued wages	(89)
Change in other accrued liabilities	(1,360)
Change in compensated absences	(2,601)
Change in customer deposits	4,300
Net cash provided by operating activities	\$ 394,995

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, 2018

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>					
<b>Taxes:</b>					
Insurance	\$ 199,000	\$ -	\$ 199,000	\$ 170,863	\$ (28,137)
Property	92,000	-	92,000	99,786	7,786
Occupational licenses	94,500	90,500	185,000	284,389	99,389
Alcohol revenue	86,000	6,000	92,000	92,304	304
Franchise fees	47,500	-	47,500	59,345	11,845
<b>Intergovernmental revenues:</b>					
Base court	2,800	1,200	4,000	8,036	4,036
KLEFPF	23,000	-	23,000	25,394	2,394
State fire aid	8,500	-	8,500	-	(8,500)
Grants	142,500	17,024	159,524	87,058	(72,466)
License, fees, & permits	8,200	-	8,200	7,961	(239)
Coal and mine severance	-	-	-	9,279	9,279
Pole rental	24,400	-	24,400	24,510	110
Rent income	60,000	-	60,000	61,150	1,150
Sanitation fees	225,000	-	225,000	220,015	(4,985)
Interest income	-	-	-	195	195
Other revenues	30,000	115,000	145,000	47,141	(97,859)
<b>Total revenues</b>	<b>1,043,400</b>	<b>229,724</b>	<b>1,273,124</b>	<b>1,197,426</b>	<b>(75,698)</b>
<b>Expenditures</b>					
General government	85,000	14,024	99,024	105,141	(6,117)
Fire	90,875	113,200	204,075	191,652	12,423
Police	446,000	93,000	539,000	523,254	15,746
Highways and streets	64,125	-	64,125	60,287	3,838
Library	18,000	-	18,000	18,000	-
Sanitation	220,000	-	220,000	217,737	2,263
Community development	8,500	-	8,500	-	8,500
Capital outlay	82,500	-	82,500	40,891	41,609
Debt service	-	-	-	25,774	(25,774)
Recreation	28,400	9,000	37,400	50,675	(13,275)
<b>Total expenditures</b>	<b>1,043,400</b>	<b>229,224</b>	<b>1,272,624</b>	<b>1,233,411</b>	<b>39,213</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>-</b>	<b>500</b>	<b>500</b>	<b>(35,985)</b>	<b>(36,485)</b>
<b>Other Financing Sources</b>					
Transfers	-	-	-	-	-
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>500</b>	<b>500</b>	<b>(35,985)</b>	<b>(36,485)</b>
<b>Fund balance, beginning of year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>470,815</b>	<b>470,815</b>
<b>Fund balance, end of year</b>	<b>\$ -</b>	<b>\$ 500</b>	<b>\$ 500</b>	<b>\$ 434,830</b>	<b>\$ 434,330</b>
<b>Adjustments to Generally Accepted Accounting Principles -</b>					
Sanitation fees included as Proprietary Fund				(220,015)	
Sanitation expenditures included as Proprietary Fund				217,737	
Sanitation residual equity transfer				2,278	
<b>Fund balance, end of year (GAAP basis)</b>				<b>\$ 434,830</b>	

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, 2018**

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>					
Municipal road aid	\$ 92,252	\$ -	\$ 92,252	\$ 31,318	\$ (60,934)
Other revenues	-	-	-	41	41
<b>Total revenues</b>	<u>92,252</u>	<u>-</u>	<u>92,252</u>	<u>31,359</u>	<u>(60,893)</u>
<b>Expenditures</b>					
Highways and streets	92,252	-	92,252	-	92,252
<b>Total expenditures</b>	<u>92,252</u>	<u>-</u>	<u>92,252</u>	<u>-</u>	<u>92,252</u>
Excess of revenues over expenditures	-	-	-	31,359	31,359
<b>Other financing sources (uses)</b>					
Transfers	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-	31,359	31,359
Fund balance, beginning of year	-	-	-	60,663	60,663
<b>Fund balance, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92,022</u>	<u>\$ 92,022</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, 2018**

**(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 fund: 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, 2018 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 and Other Post-Employment Benefits (OPEB)**

For purposes of measuring the net pension and OPEB liability, deferred outflows of resources, and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the pension and OPEB 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. 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. See Note (11) for the effect of this adoption on beginning net position.

In February 2017, the GASB issued Statement No. 84, *Fiduciary Activities* ("GASB 84"). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. Generally, the focus of the criteria relates to (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities. Additionally, GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust, or an equivalent arrangement, that meets specific criteria. Finally, it provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB 84 will be effective for the City beginning with its year ending June 30, 2020. Management is currently evaluating the impact of this Statement on its financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017* ("GASB 85"), which seeks to improve consistency in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB 85 addresses several topics, including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (i.e., pensions and other post-employment benefits (OPEB)).

In particular, this Statement covers:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
- Reporting amounts previously reported as goodwill and "negative" goodwill.
- Classifying real estate held by insurance entities.
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources

- measurement focus.
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

See Note (11) for the effect of this adoption on beginning net position.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* ("GASB 86"), which seeks to (1) improve consistency in accounting and financial reporting for certain debt extinguishments and (2) enhance the decision-usefulness of such information. GASB 86 establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources (i.e., resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the purpose of extinguishing debt. Additionally, it amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an in-substance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, GASB 86 establishes an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired. The adoption of this standard did not have a material effect on the City's financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases* ("GASB 87"), which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB 87 (1) increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; and (2) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Additionally, under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 will be effective for the City beginning with its year ending June 30, 2021 and will be applied retroactively by restating financial statements. Management is currently evaluating the impact of this Statement on its financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* ("GASB 88"), which seeks to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, while providing financial statement users with additional essential information concerning debt. In particular, GASB 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date that the contractual obligation is established, and it clarifies which liabilities governments should include when disclosing information related to debt. Furthermore, this Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including (1) unused lines of credit; (2) assets pledged as collateral for the debt; and (3) terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. GASB 88 will be effective for the City beginning with its year ending

June 30, 2019. Management is currently evaluating the impact of this Statement on its financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* ("GASB 89"), which seeks to (1) enhance the relevance and comparability of information concerning capital assets and the cost of borrowing for a reporting period, and (2) simplify accounting for interest cost incurred during the period of construction. In particular, GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus, and thus, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB 89 will be effective for the City beginning with its year ending June 30, 2021. Management is currently evaluating the impact of this Statement on its financial statements.

**(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, 2018, the City had \$1,676,684 in financial institutions, of which \$750,184 was insured, and \$926,500 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, 2018 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%	8/21/2018
Certificate of deposit	46,277	46,277	0.25	11/16/2018
Certificate of deposit	17,417	17,417	0.20	9/26/2018
	<u>\$ 163,694</u>	<u>\$ 163,694</u>		
Commercial Bank of Grayson:				
Certificate of deposit	204,000	204,000	0.20	6/19/2019
	<u>\$ 367,694</u>	<u>\$ 367,694</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 2018 assessed value for real property was \$36,270,450. Assessed value of tangible property was \$5,671,830. The tax rate adopted was \$0.235 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, 2018.

**(5) CAPITAL ASSETS**

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

<u>Governmental Activities</u>	June 30, 2017	Increases	Decreases	June 30, 2018
<b>Capital Assets, Not Depreciated:</b>				
Land	\$ 521,337	\$ -	\$ -	\$ 521,337
<b>Capital Assets, Depreciated:</b>				
Buildings	1,142,383	40,891	-	1,183,274
Street paving and improvement	212,513	-	-	212,513
Vehicles	954,161	56,500	-	1,010,661
Machinery and equipment	593,564	-	-	593,564
Improvements	34,583	-	-	34,583
Pool and park equipment	181,342	-	-	181,342
Totals	3,639,883	97,391	-	3,737,274
Less: Accumulated Depreciation	1,865,524	121,072	-	1,986,596
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 1,774,359</u>	<u>\$ (23,681)</u>	<u>\$ -</u>	<u>\$ 1,750,678</u>

**Business-type Activities**

**Capital Assets, Not Depreciated:**

Land	\$ 10,278	\$ -	\$ -	\$ 10,278
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**Capital Assets, Depreciated:**

Buildings	147,931	-	-	147,931
Vehicles	758,863	-	-	758,863
Furniture and equipment	456,905	-	-	456,905
Operating plant and distribution system	20,024,502	132,000	-	20,156,502
Improvements	80,903	-	-	80,903
Construction in progress	-	-	-	-
Totals	21,479,382	132,000	-	21,611,382
Less: Accumulated Depreciation	10,274,432	481,236	-	10,755,668
<b>Business-type Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 11,204,950</u>	<u>\$ (349,236)</u>	<u>\$ -</u>	<u>\$ 10,855,714</u>

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

Governmental activities:	
General government	\$ 20,717
Police	27,466
Fire	17,766
Public works	31,684
Senior center	12,817
Park	10,622
	<u>\$ 121,072</u>
Business-type activities:	
Utilities	\$ 481,236
	<u>\$ 481,236</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, 2018:

<u>Governmental Activities</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>
3.0% Note payable - Due November 30, 2024, Fire equipment	\$ 47,360	\$ -	\$ 9,579	\$ 37,781
Non-interest bearing Note payable on Land due March 1, 2018	10,800	-	10,800	-
4.0% Capital lease - Due December 19, 2018 Pierce Fire truck	20,761	-	10,560	10,201
2.99% Capital lease - Due November 4, 2020 2016 Kenworth Garbage Truck	88,748	-	25,702	63,046
2.45% Note payable - Due November 21, 2020 Two 2017 police cars	43,413	-	12,706	30,707
Total Governmental Activities	<u>\$ 211,082</u>	<u>\$ -</u>	<u>\$ 69,347</u>	<u>\$ 141,735</u>

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018
<b><u>Business-type Activities</u></b>				
Notes payable	\$ 1,044,310	\$ 360,500	\$ 273,344	\$ 1,131,466
Bonds payable	211,000	-	103,000	108,000
Total Business-type Activities	<u>\$ 1,255,310</u>	<u>\$ 360,500</u>	<u>\$ 376,344</u>	<u>\$ 1,239,466</u>

**Governmental Activities**

The annual requirements to amortize the City's Governmental Activities indebtedness as of June 30, 2018 (including interest payments) are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 55,180	\$ 3,828	\$ 59,008
2020	46,274	2,190	48,464
2021	22,387	1,042	23,429
2022	7,031	719	7,750
2023	7,242	508	7,750
2024-2025	3,621	358	3,979
	<u>\$ 141,735</u>	<u>\$ 8,645</u>	<u>\$ 150,380</u>

**Business-Type Activities**

The Utility's notes payable at June 30, 2018 consisted of the following:

The Commercial Bank of Grayson, payable in monthly installments of \$4,769, including interest of 3.75%, final payment due March 2023, unsecured.	\$ 248,619
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.	34,855
Kentucky Infrastructure Authority, payable in semi-annual installments with interest of 1.00%, final payment due June 2035, collateralized by service revenues.	377,628
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.	339,596
US Bank, payable in monthly installments of \$2,370, including interest of 2.85%, final payment due November 2020, collateralized by gas meters purchased.	66,355
US Bank, payable in monthly installments of \$1,120, including interest of 2.45%, final payment due December 2019, collateralized by 2016 Ram 4500 purchased.	27,266
FIVCO Area Development, payable in monthly installments estimated at \$1,012, including interest at 4.00%, final payment due October 15, 2021, unsecured.	<u>37,147</u>
Total Utility Fund Notes Payable	<u>\$ 1,131,466</u>

The annual requirements to amortize all Proprietary Fund notes payable, excluding revenue bonds payable outstanding as of June 30, 2018, including interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 184,017	\$ 27,288	\$ 211,305
2020	169,483	21,837	191,320
2021	139,765	16,913	156,678
2022	119,912	12,827	132,739
2023	108,629	9,079	117,708
2024-2028	248,869	18,523	367,392
2029-2033	116,794	5,655	122,449
2034-2035	43,997	606	44,603
Totals	<u>\$ 1,131,466</u>	<u>\$ 112,728</u>	<u>\$ 1,244,194</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, 2018:

Utility Fund Revenue Bonds

Bonds Payable - June 30, 2017	\$ 211,000
Bonds Issued	-
Bonds Retired	(103,000)
Bonds Payable - June 30, 2018	<u>\$ 108,000</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%	\$ 108,000
Total Utility Fund Bonds Payable	<u>\$ 108,000</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, 2018 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, 2018, including interest payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 108,000	\$ 5,400	\$ 113,400
Totals	<u>\$ 108,000</u>	<u>\$ 5,400</u>	<u>\$ 113,400</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, two allege injury, and one is related to an easement dispute. 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 construction commitments related to pipeline work on the regulator station in the amount of \$128,500 at June 30, 2018.

(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 who contribute 19.18% (14.48% - pension, 4.70% - insurance) of the member's salary. During the year ending June 30, 2018, the City contributed \$135,112 to the CERS pension plan and \$43,844 to the CERS medical insurance plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

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

At June 30, 2018, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30,

2017. An expected total pension liability as of June 30, 2017 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, 2017. At June 30 2017, the City's proportion was 0.035949%.

For the year ended June 30, 2018, the City recognized pension expense of \$229,238. At June 30, 2018, 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	\$ 2,610	\$ 53,414
Changes of assumptions	388,283	-
Net difference between projected and actual earnings on investments	166,651	140,624
Changes in proportion and differences between City contributions and proportionate share of contributions	26,336	35,164
City contributions subsequent to the measurement date	135,112	-
	<u>\$ 718,992</u>	<u>\$ 229,202</u>

At June 20 2018, the City reported deferred outflows of resources for City contributions subsequent to the measurement date of \$135,112. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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>	
2019	\$ 163,511
2020	153,986
2021	64,200
2022	(27,019)
2023	-
	<u>\$ 354,678</u>

*Actuarial Methods and Assumptions:* The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2017. The financial reporting actuarial valuation as of June 30, 2017, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	26 years
Asset Valuation Method	5-year smoothed market
Payroll growth	2.00%
Inflation	2.30%
Salary Increase	3.05%, average

Investment Rate of Return 6.25%, net of pension plan investment expense, including inflation

The following change of assumptions were adopted by the Board of Trustees and reflected in the liability measurement as of June, 2017:

- Decreased the price inflation assumption to 2.30%.
- Decreased the assumed rate of return to 6.25%.
- Decreased the payroll growth assumption to 2.00%.

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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rates of return by the target asset allocation percentage.

The target 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>
US Equity*	17.5%	5.97%
International Equity*	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate*	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real Return*	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash Equivalent	2.0%	1.88%
Total	<u>100.0%</u>	6.56%

*\*Long-Term Expected Real Rates of Return may vary by plans depending on the risk tolerance on the plan.*

*Discount Rate:* The discount rate used to measure the total pension liability was 6.25%. 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 6.25%. 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 6.25%, 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 (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease <u>(5.25%)</u>	Current discount rate <u>(6.25%)</u>	1% Increase <u>(7.25%)</u>
City's proportionate share of the net pension liability	\$ 2,653,858	\$ 2,104,205	\$ 1,644,425

*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, 2018, there was \$23,681 in payables to CERS, which includes pension and OPEB contributions.

**(10) OTHER POSTEMPLOYMENT BENEFIT (“OPEB”) PLANS**

County Employees Retirement System

*Plan description* – The County Employees Retirement System (“CERS”) Insurance Fund was established to provide post-employment healthcare benefits to eligible members and dependents. The CERS Insurance Fund is a cost-sharing, multiple employer defined benefit plan administered by the Kentucky Retirement Systems' (KRS) board of trustees.

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* – CERS health insurance benefits are subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance coverage based on the retired member’s years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member’s health insurance premium.

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

*Contributions* – CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the year ending June 30, 2018, CERS allocated 4.70% of the 19.18% actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1.00% of the contributions by employees hired after September 1, 2008 are allocated to the health insurance plan. During the year ending June 30, 2018, the City contributed \$43,884 to the CERS Insurance Fund. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

*Implicit Subsidy* – The fully-insured premiums KRS pays for the Kentucky Employees’ Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. This implicit subsidy is included in the calculation of the total OPEB liability.

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to CERS Insurance Fund**

At June 30, 2018, the City reported a liability its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation as of June 30, 2016. An expected total OPEB liability as of June 30, 2017 was determined using standard roll-forward techniques. City's proportion of the net OPEB liability was based on contributions to CERS during the fiscal year ended June 30, 2017. At June 30 2017, the City's proportion was 0.035949%.

For the year ended June 30, 2018, the City recognized OPEB expense of \$79,620, including an implicit subsidy of \$4,535. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected actual experience	\$ -	\$ 2,007
Changes of assumptions	157,254	-
Net difference between projected and actual earnings on investments	-	34,154
Changes in proportion and differences between City contributions and proportionate share of contributions	-	1,676
City contributions subsequent to the measurement date	43,844	-
	<u>\$ 201,098</u>	<u>\$ 37,837</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$43,844 resulting from City contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019.

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 OPEB are amortized over the average service life of all members. These will be recognized in OPEB expense as follows:

<u>Year</u>	
2019	\$ 20,547
2020	20,547
2021	20,547
2022	20,547
2023	29,086
Thereafter	8,143
	<u>\$ 119,417</u>

*Actuarial Methods and Assumptions* – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	28 Years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the below tables.

The target 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>
US Equity*	17.5%	5.97%
International Equity*	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate*	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real Return*	10.0%	6.13%
Private Equity	0.0%	8.25%
Cash Equivalent	2.0%	1.88%
Total	<u>100.0%</u>	6.56%

*\*Long-Term Expected Real Rates of Return may vary by plans depending on the risk tolerance on the plan.*

*Discount rate* - The discount rate used to measure the total OPEB liability was 5.84%. 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 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The following table presents the City's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.84%, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84%) or 1-percentage-point higher (6.84%) than the current rate:

	1% Decrease <u>(4.84%)</u>	Current discount rate <u>(5.84%)</u>	1% Increase <u>(6.84%)</u>
City's proportionate share of the net OPEB liability	\$ 919,593	\$ 722,698	\$ 558,850

*Sensitivity of the City's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates* – The following presents the City's proportionate share of the collective net OPEB liability, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease <u></u>	Current trend rate <u></u>	1% Increase <u></u>
City's proportionate share of the net OPEB liability	\$ 554,346	\$ 722,698	\$ 910,545

*OPEB plan fiduciary net position:* Detailed information about the OPEB 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 OPEB plan:* At June 30, 2018, there was a total payable to CERS of \$23,681, which includes pension and OPEB contributions.

**(11) CHANGE IN ACCOUNTING PRINCIPLE**

Net position as of June 30, 2017, has been restated as follows for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, as amended by GASB Statement No. 85, *Omnibus 2017*.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net Position as previously reported at June 30, 2017	\$ 1,638,835	\$ 10,158,769	\$ 11,797,604
Prior period adjustment implementation of GASB 75:			
Net OPEB liability (measurement date as of June 30, 2016)	(145,785)	(421,078)	(566,863)
Deferred outflows City contributions made during fiscal year 2017	<u>11,193</u>	<u>32,330</u>	<u>43,523</u>
Total prior period adjustment for GASB 75	<u>(134,592)</u>	<u>(388,748)</u>	<u>(523,340)</u>
Net position as restated, June 30, 2017	<u>\$ 1,504,243</u>	<u>\$ 9,770,021</u>	<u>\$ 11,274,264</u>

**REQUIRED SUPPLEMENTAL INFORMATION**

**CITY OF OLIVE HILL, KENTUCKY  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION AND OPEB LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Reporting Fiscal Year (Measurement Date)</u>			
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
<b>COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:</b>				
City's proportion of the net pension liability	0.035949%	0.037070%	0.035392%	0.036007%
City's proportionate share of the net pension liability	\$ 2,104,205	\$ 1,825,263	\$ 1,521,681	\$ 1,168,000
City's covered-employee payroll	\$ 920,215	\$ 914,622	\$ 860,170	\$ 826,102
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	228.664%	199.565%	176.905%	141.387%
Plan fiduciary net position as a percentage of the total pension liability	53.300%	55.500%	59.970%	66.800%
<b>COUNTY EMPLOYEES RETIREMENT SYSTEM - OPEB:</b>				
City's proportion of the net pension liability	0.035949%			
City's proportionate share of the net pension liability	\$ 722,698			
City's covered-employee payroll	\$ 920,215			
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	78.536%			
Plan fiduciary net position as a percentage of the total pension liability	52.400%			

**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 AND OPEB CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:</b>					
Contractually required contribution	\$135,112	\$ 128,370	\$113,596	\$109,672	\$113,506
Contributions in relation to the contractually required contribution	<u>135,112</u>	<u>128,370</u>	<u>113,596</u>	<u>109,672</u>	<u>113,506</u>
Contribution deficiency (excess)	-	-	-	-	-
City's covered-employee payroll	\$933,094	\$ 920,215	\$914,622	\$860,170	\$826,102
City's proportionate share of pension contributions as a percentage of its covered-employee payroll	14.48%	13.95%	12.42%	12.75%	13.74%
 <b>COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION:</b>					
Contractually required contribution	\$ 43,844	\$ 43,523			
Contributions in relation to the contractually required contribution	<u>43,844</u>	<u>43,523</u>			
Contribution deficiency (excess)	-	-			
City's covered-employee payroll	\$933,094	\$ 920,215			
City's proportionate share of pension contributions as a percentage of its covered-employee payroll	4.70%	4.73%			

**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, 2018**

**(1) CHANGES OF ASSUMPTIONS**

CERS - PENSION

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.

The were no changes made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016.

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%.
- Decreased the assumed rate of return to 6.25%.
- Decreased the payroll growth assumption to 2.00%.

CERS - OPEB

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%.
- Decreased the assumed rate of return to 6.25%.
- Decreased the payroll growth assumption to 2.00%.

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

CERS - PENSION

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	27 years
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%, average
Investment Rate of Return	7.50%

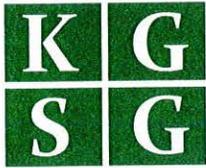
### CERS - OPEB

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal year ended 2018, determined as of July 1, 2015. The following actuarial methods and assumptions were used to determine the contribution rates reported in that schedule:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	28 Years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

### **(3) CHANGES OF BENEFITS**

There were no changes of benefit terms for CERS pension or OPEB.



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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, 2018, 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 11, 2019.

**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 Holloway Smith Hoolby, PSC

Ashland, Kentucky  
January 11, 2019